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Fair Value Accounting & Challenges of Audit Practice in Nigeria

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Abstract
Fair value is the amount at which an asset can be bought or sold in a current transaction between willing parties, or transferred to an equivalent party, other than in a liquidation sale. This study evaluated fair value accounting and challenges of audit practice in Nigeria. This study is anchored on inspired confidence theory. The research design used in this study was expost factor design. The study employed structured questionnaire for data collection and the method of data analysis utilized was spearman rank order correlation. The findings of this study showed that fair value accounting poses greater technical challenges for auditors than historical cost accounting. In conclusion, auditors face extensive difficulties in the audit of fair value accounting estimates reported by their clients due to the lack of sufficient reliable information. We therefore recommended among others that The Institute of Chartered Accountants of Nigeria (ICAN) and Financial Reporting Council of Nigeria (FRCN) should improve the scrutiny of external auditors and companies financial reports; auditors should be given adequate training and retraining through the Mandatory Continuous Professional Education Programme (MCPE) of ICAN for them to be abreast on current issues relating to fair value accounting measurements and the regulatory authorities should monitor the performance of specialist involved in the evaluation of companies and their assets, including implementing some procedures to license these individuals and the check on their qualifications and experiences.
Keywords: Fair Value Accounting, Audit Practice, Fair Value Estimates.

INTRODUCTION

The responsibility of an auditor is to express an opinion whether the financial statement of an entity gives a true and fair view and comply with relevant statue (Aguolu (2002), Adeniji (2014; Appah, 2016). According to the International Standards on Auditing and Assurance (ISA 200), Objective and General Principles Governing an Audit of Financial Statements states that the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. This objective of auditing was negatively affected by the global financial crisis. Kulikova, Samitova and Aletkin (2015) are of the opinion that in the accounting literature fair value measurement applicability is one of the most widely debated issues in the world economic crisis. Abdullatif (2016), states that the global financial crisis had negatively impacted on the audit profession. The audit profession's failure to identify emerging failures resulted in significant embarrassment (Hopwood, 2009). The role, value and independence of external auditing were questioned given the fact that many distressed institutions had received unqualified audit opinion (Sikka, 2009). The Association of Chartered Certified Accountants (2011), reports that the conduct of external audit was discussed as a result of the consequences of the global financial crisis. Christensen, Glover and Wood (2012), Dixon and Frolova (2013) and Bratten, Gaynor, McDaniel, Montague and Sierra (2013) noted that the impact of the global financial crisis expanded the issue of auditing fair value estimates. Abdullatif (2016) stated that while the concerns of auditing fair value accounting were found to be important in advanced economies, their impact is likely to be relatively higher in developing economies, due to lack of information, inactivity of markets, and weak corporate governance systems. The fact of that fair value is highly subjective, it is likely to increase concerns in terms of how they are audited and reported in financial statements.

The audit of fair value estimates in financial statements involve the assumptions made by management to develop the estimates and the reasonableness of estimates (Dixon and Frolova, 2013), the effectiveness of internal controls regarding fair value estimates (Martin, Rich and Wilks, 2006), calculation of material misstatements on estimates (Christensen, Glover and Wood, 2012), the level of assurance provided by the audit report in the presence of fair value estimates (Bell and Griffin, 2012). Singh and Doliya (2015) stated that these issues become more critical when fair value estimates are based on were based unobservable inputs that had been entered into estimation models which were developed by the audit client.

The audit of fair value estimates in emerging markets is very few. According to Abdullatif (2016), empirical research focusing on the audit of fair value estimates in developing countries is very rare. Kumarasiri and Fisher (2011) study found that auditors in Sri Lanka perceive that using fair value accounting in financial

reporting is difficult due to inactive markets and the lack of technical knowledge. Abdullatif (2016) study of Jordan found that fair value estimates have been aggressively used by some companies to overvalue their assets, especially in the area of impairment and business combinations. Auditors are faced with extensive pressure from clients to accept questionable fair value estimates in an environment of low demand for high-quality audits, low audit fees, and the fear of losing clients. Okafor and Ogiedu (2012) study of Nigeria found that financial statements prepared under fair value accounting are more relevant than those of historical cost accounting and that auditors' knowledge about fair value accounting is low. They also found that fair value accounting poses greater technical challenges for auditors and that fair value accounting is not appropriate in Nigeria.

The problems of fair value accounting have been widely acknowledged. It has been asserted that fair value accounting in the financial reporting framework poses a challenge for auditors and that reliable auditing of financial reporting is at risk (Johnson, 2007). Ramanna (2008), Ramanna and Watts (2009) also have made suggestions that mark-to-market model based fair values estimates required under certain financial reporting standards are unverifiable. One key challenge of fair value accounting is the lack of knowledge by auditors. Johnson (2007) believes that auditors may not have the training in auditing technique to verify that companies made the right choices. The question that arises at this juncture is what is the level of auditors' awareness of fair value accounting issues in Nigeria and will fair value accounting pose more challenges for auditors in Nigeria? Therefore, it is against this backdrop that this study attempts to make contribution to this area by exploring in detail, through the use of survey research, the auditing of fair value estimates in Nigeria. The rest of the paper is divided as follows: section two deals with the review of related literature; the materials and methods used are explained in section three, followed by presentation of results and discussions in section four, while section five explains the conclusion and recommendations.

LITERATURE REVIEW

The review of related literature in this study is divided into three sub-headings, namely, conceptual, theoretical and empirical framework.

Conceptual Framework

Fair Value Accounting:

Fair value is used in several areas of financial reporting. International Financial Reporting Standard (IFRS) require the use of fair value to record securities held for trading and biological assets, and to record assets at lower values if they are impaired. Fair value is also required by IFRS to initially record the asset and liabilities of an acquiree and the resulting goodwill in a business combination. Also fair value can be used to revalue investment property, intangible assets, and property, plant and equipment. According to Okafor and Ogiedu (2012), fair value is the amount at which an asset can be bought or sold in a current transaction between willing parties, or transferred to an equivalent party, other than in a liquidation sale. On the opposite side of the statement of financial position, the fair value of a liability is the amount at which the liability can be incurred or settled in a current transaction between willing parties, other than in liquidation. IFRS 13 (Fair Value Measurement) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 stated that the measurement of fair value follows a hierarchy where the first priority (Level 1) is to use unadjusted quoted prices for identical assets or liabilities in active markets. The second priority (Level 2) is to use inputs (other than quoted prices) that are observable, directly or indirectly, for the item (asset or liability), and the third priority (Level 3) is to use inputs that are unobservable for the item. Okafor and Ogiedu (2012) breaks down the three levels as discussed below. Level one is for liquid assets with quoted prices. In this level the use of unadjusted quoted prices from an active market for identical assets and liabilities is required to use this level and the entity must have immediate access to the market. Level two is the valuation based on market observables. In this level, fair value is estimated using valuation techniques. The inputs utilized in the valuation technique require the use of inputs that are observable in the market. Level three is a valuation based on non-observable assumptions. In this level, fair value is estimated using a valuation technique just like in level two.

Lefebvre, Simonova and Scarlat (2009) stated that fair value accounting represents the revaluation of unsold assets and liabilities to market prices on regular basis. According to them, it primarily applies to financial assets and liabilities but however, three major groups of non-financial assets – property, plant, investment property and intangible assets - are also subject to fair value measurement. Abdullatif (2016) noted that the concept of value accounting is appealing as it represents what an item owned by the entity is worth if it is sold at the measurement date, rather than its value in the past or the value of an un-owned asset (Whittington, 2015). Fair value is less complicated than other measurement bases that use present values or prices indices. Majercakova and Skoda (2015) stated that fair value accounting is a value that is determined by the market, rather than by the reporting entity.

Auditors and Fair View Accounting Estimates

The International Standard on Auditing (ISA) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures) outlines the general audit procedure to auditing estimates. According to Dixon and Frolova (2013), the procedure for the audit of fair value estimates in ISA 540 starts with determining whether the fair value estimation is permitted, and then knowing how the client's management calculated the estimate. This procedure is followed by responding to identified sources of estimation uncertainty that could lead to the risk of material misstatements. Also, auditors have to examine the reasonableness of fair value accounting estimates and evaluate their related disclosures, and obtain written representations from the client's management on whether they believe that significant assumptions used in making the estimate reasonable. Kumarasin (2011) reported that the audit of fair value assets and liabilities subject to inactive markets constitute special challenges to auditors. Benston (2008) also stated that in some it will be impossible for external auditors to validate the numbers or even challenge management estimate.

Singh and Doliya (2013) stated that auditors are unlikely to face very serious issues with auditing Level 1 fair values, but problems escalate as the reported fair values move down the hierarchy levels. Level 3 valuations face the risks of errors or intentional managerial bias in the selection of an appropriate model and in the assumptions and other inputs used to estimate the fair values. The International Auditing and Assurance Standard Board (2008) listed a number challenges which auditors face when auditing fair value accounting. These challenges include evaluations concerning significant assumptions made by others, the availability and reliability of evidence, the breadth of assets and liabilities that can be measured by fair value and the sophistication of valuation techniques used. Wood, Humphrey, Dowd and Liu (2009) argue that auditors are facing increased risk and pressure under the fair value requirement, especially when valuation models are used by clients to measure complex financial instruments. Bell and Griffin (2012) questioned the appropriateness of auditor's assertion on the fairness of financial statements and that reasonable assurance has been achieved through collecting and testing sufficient appropriate evidence. They argued that it is difficult for the auditor to provide positive assurance in the audit report (that the financial statements present the estimate fairly in accordance with relevant financial reporting framework). They recommended limiting the duties of the auditor in the audit report on fair value estimates to that of providing negative assurance only.

Theoretical Framework

Over the years, a number of theories and models have been formulated through which the present day intellectual discuss on audit practice is derived. This study is based on the theory of inspired confidence developed by Limperg (Hayes, Schilder, Dassen and Wallage; (2009); Akinbuli, 2010; Ogbonna and Appah, 2014). This theory stated that the auditor derives his general function in society from the need for an expert and independent opinion based on that examination. The function is rooted in the confidence that society places on the effectiveness of the audit and in the opinion of the accountant. This confidence is, therefore, a condition for the existence of that function; if the confidence is betrayed, the function, too, is destroyed, since it becomes useless Ogbonna and Appah, 2014). He went on to argue that, there were two circumstances in which the confidence could be betrayed. It could be betrayed if the expectation of society is exaggerated, that is, it exceeds what the auditor is capable of performing. Conversely, it can be betrayed if the auditor under-performs. He recognized that society's needs are not static. They are dynamic and influenced by changing perceptions and changes in the environment. The central area of this theory is related to the social responsibility of the independent auditor and possible mechanisms for ensuring that audits meet society's need. The theory highlights the importance of the social significance of auditing and the implications for how an audit should be performed Ogbonna and Appah, 2014; Appah, 2016). The theory emphasizes the role of the auditor in relationship with the users of financial statements in the sense that the independent auditor acts as a confidential agent for society. The theory is based on the greatest possible level of satisfaction of users of financial statements with regard to the auditor's work. In achieving this objective, the auditors are to perform enough work to meet the expectations they have aroused in society Akinbuli, 2010; Ogbonna and Appah, 2014; Appah, 2016).

Therefore on the basis of the literature, the following research hypothesis was examined in this study: There is no significant influence of fair value accounting on audit practice in Nigeria.

Empirical Framework

There are several empirical studies that examines fair value estimates from a financial reporting perspective, but detailed empirical studies on auditing fair values and problems faced of auditors are relative rare. Alexeyeva and Mejia-Likosova (2016) study of the impact of fair value measurement on audit fees in 24 European countries found a positive relationship between the existence of high uncertainty fair value assets and audit fees. Abdullatif (2016) study of auditing fair value estimates in Jordan using semi-structured interviews found that fair value estimates have been aggressively used by some companies to overvalue their assets, and auditors face extensive pressure from clients to accept questionable fair value estimates in an environment of low demand for high-

quality audits, low audit fees, and the fear of losing clients. Fitzgerald, Wolfe and Smith (2015) study found that it is better for auditors to develop their own accounting estimate for an item before receiving the client's preferred estimate for it. However, they also found that while about ninety percent (90%) of their sample of auditors considered the client's reported accounting estimate unreasonable, about half of them accepted it. Griffin (2014) studied the effects of uncertainty and disclosures on auditors' fair value materiality decisions. His research found that auditors are more likely to tolerate potential misstatements in recognizing fair values in the financial statements when clients provide additional disclosures about these values. He argues that encouraging fair value disclosures may have a negative effect on fair value recognized figures. Glover, Taylor and Wu (2014) study showed that there is a gap between the views of auditors' performance and regualors' expectations with regard to the auditing of fair value measurements, which is caused by lack of verifiable and corroborative evidence, and auditors' reliance on valuation experts due to their limited knowledge and expertise regarding complex valuation inputs, analyses and models. Okafor and Ogiedu (2012) studied the perceptions of fair value accounting in Nigeria using questionnaire survey of a sample of financial auditors and the data were analysed using the Z Score. Their result showed that financial statements prepared under fair value accounting are more relevant than those prepared using historical cost accounting and that fair value accounting poses greater technical challenges for auditors than historical cost accounting. Kumarasiri and Fisher (2011) study of auditing fair value estimates found that auditors in Sri Lanka perceived factors such as inactive markets, complexity and variation in techniques employed in ascertaining fair values, and the lack of technical knowledge as issues affecting fair value implementation in financial reporting.

MATERIALS AND METHODS

This study on fair value accounting and audit practice adopted expost facto research design. The study used both secondary and primary sources of data collection. The secondary sources of data include textbooks, journals, accounting professional pronouncements and magazines. The primary data for the study was generated through administration of structured questionnaires. The target population includes all accounting firms in Nigeria while the accessible population includes accounting firms in Bayelsa, Delta, Rivers and Edo States of Nigeria. One hundred and twenty (120) respondents on the sampled accounting firms in four cities (Port Harcourt, Warri, Yenagoa, and Benin) from the accessible population for the period September 2016 – August, 2017. A sample of thirty (30) accounting firms was reached using purposive sampling technique. The first part of the questionnaire contains questions on organization' and respondents' characteristics. The second part of the questionnaire consist of questions on fair value accounting using five point likert scale consistent with Kumarasin (2011), Okafor and Ogiedu (2016), Abdullatif (2016). The third part of the questionnaire consists of questions on audit challenges related with fair value accounting Kumarasin (2011), Okafor and Ogiedu (2016), Abdullatif (2016). The questionnaire were pre-tested using twenty (20) respondents in four of the accounting firms and a reliability test was done on the data collected using Cronbach Alpha model, to explore the internal consistency of the questionnaire (Krishnaswamy, Sivakumar and Mathirajan, 2015). The result of the reliability test shows that the designed questionnaire is highly reliable at 0.76. A total of eighty four (84) usable questionnaires were completed and returned representing (70% response rate), but seventy two (72) found useable for analysis (60% usage rate). The results obtained from the ratings were analysed using Spearman Rank Order Correlation Coefficient (rs) and Z test to test the hypothesis of the study because the data generated is measured on ordinal scale and the significance of the relationship. Excel software helped us to transform the variables into a format suitable for analysis, after which the Statistical Package for Social Sciences (SPSS) was utilized for data analysis.

RESULTS AND DISCUSSIONS

This section of the study examines the results and discussions obtained from questionnaires administered to respondents from the sampled external auditors in the public practice of sampled audit firms in Nigeria.

Descriptive Analysis

Table 1: Demographic Profile of Respondents

Variable	Characteristics	Frequency	%
Age	21 – 30 years	8	11
	31 – 40 years	42	58
	41 – 50 years	12	17
	51 years and above	10	14
Total		72	100
Gender	Male	58	81
	Female	14	19
Total		72	100
Educational Qualification	First Degree Only	20	28
	Second Degree	08	11
	First Degree with Professional	25	35
	Second Degree with Professional	17	23
	Third Degree with professional	2	3
Total		72	100
Length of Work Experience	0 -5	11	15
	6 – 10	21	29
	11 -15	28	39
	Above 15	12	17
Total		72	100

Source: Field Survey, 2017

Table 1 shows the demographic profile of the respondents. Out of the total respondents, there were 58 males (81%) and 14 females (19%). The educational qualification of the respondents shows that 20 (28%) holds first degree only, 08 (11%) holds second degree, 25 (35%) holds first degree with professional certification of ICAN, 17 (23%) possesses second degree with professional certification of ICAN and 2 (3%) possesses third degree with professional certification of ICAN and ANAN. It is noted that 11 (15%) of the respondents have work experience between 0 – 5 years, 21 (29%) have work experience between 6 – 10 years, 28 (39%) have work experience between 11 – 15 years and 12 (17%) have work experience above 15 years. These statistics suggest that respondents are expected to possess requisite academic and professional qualifications and work experiences to address the questions contained in the research instruments, thus ensuring that the perception provided is typical of external auditors in private audit practice.

Table 2: The Need for Fair Value Accounting

Statements	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Fair value accounting financial statements are more useful to users than historical cost accounting financial statements.	12 17%	38 53%	5 7%	12 17%	5 6%	72 100%
Fair value accounting financial statements are more understandable for users than historical cost accounting financial statements.	25 35%	31 43%	6 8%	8 11%	2 3%	72 100%
Fair value accounting financial statements reduces the information gap between what users expect and what they actually receive.	20 28%	32 44%	8 11%	5 7%	7 10%	72 100%
Fair value accounting financial statements is a better basis for financial reporting than historical cost accounting financial statements.	16 22%	28 39%	9 12%	12 17%	7 10%	72 100%
Fair value accounting financial statements is more informative than historical cost accounting financial statements.	21 29%	28 39%	5 7%	10 14%	8 11%	72 100%
Fair value accounting financial statements provides better assurance than historical cost accounting financial statements.	16 22%	34 47%	7 10%	10 14%	5 7%	72 100%
Fair value accounting financial statements is less complicated than other measurement bases that use present values.	22 31%	20 28%	8 11%	13 18%	9 12%	72 100%
Fair value accounting financial statements is determined by the market rather than by the reporting entity itself.	20 28%	32 44%	8 11%	5 7%	7 10%	72 100%
Total Score	152	243	56	65	50	566

Source: Field Study, 2017.

Table 2 reveals the need for fair value accounting estimates in financial statements. A total score of 152

strongly agree of the need for fair value accounting; 243 of the score agree of the need for fair value accounting; 56 of the score were unsure; 65 of score showed disagree and 50 of the score strongly disagree. This result conforms to the study of Okafor and Ogiedu (2016) of the usefulness of fair value accounting.

Table 3: Auditors and Fair Value Accounting Estimates

Statements	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Auditors need to consider assumptions made by management to develop the estimates and the reasonableness of the estimates.	20 28%	32 44%	8 11%	5 7%	7 10%	72 100%
Auditors need to consider the effectiveness of internal controls regarding fair value estimates	21 29%	28 39%	5 7%	10 14%	8 11%	72 100%
Auditors need to consider the calculation of a material misstatement regarding the estimates.	12 17%	38 53%	5 7%	12 17%	5 6%	72 100%
Auditors need to consider the level of assurance provided by the audit report in the presence of fair value estimates.	16 22%	34 47%	7 10%	10 14%	5 7%	72 100%

Source: Field Survey, 2017

Table 3 shows the auditors and fair value accounting estimates. 20 (28%) of the respondents strongly agree that auditors need to consider assumptions made by management to develop reasonableness of the estimates; 32 (44%) agree to that statement; 8 (11%) are not sure to the statement; 5 (7%) disagree and 7 (10%) strongly disagree (Dixon and Frolova, 2013). 21 (29%) of the respondents strongly agree that auditors need to consider the effectiveness of internal controls regarding fair value estimates; 28 (39%) agree; 5 (7%) not sure; 10 (14) disagree and 8 (11%) strongly disagree to the statement (Martin, Rich and Wilks, 2006). 12 (17%) of the respondents strongly agree that auditors need to consider the calculation of a material misstatement regarding the estimates; 38 (53%) agree; 5 (7%) not sure; 12 (17%) disagree and 5 (6%) strongly disagree (Christensen, Glover and Wood, 2012). 16 (22%) of the respondents strongly agree that auditors need to consider the level of assurance provided by the audit report in the presence of fair value estimates; 34 (47%) agree; 7 (10%) not sure; 10 (14%) disagree and 5 (7%) strongly disagree (Bell and Griffin, 2012).

Table 4: Auditors and Fair Value Accounting Challenges

Statements	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Auditors' biggest challenge is the verifiability of fair value measurement.	25 35%	31 43%	6 8%	8 11%	2 3%	72 100%
Auditors' lack the technical knowledge about fair value accounting.	21 29%	28 39%	5 7%	10 14%	8 11%	72 100%
Fair value accounting measurement ascertainment is more complex than historical cost accounting measurement.	16 22%	34 47%	7 10%	10 14%	5 7%	72 100%
Fair value accounting measurement is a time consuming exercise than historical cost accounting measurement.	12 17%	38 53%	5 7%	12 17%	5 6%	72 100%
Fair value accounting measurement ascertainment techniques differ across different industries.	20 28%	32 44%	8 11%	5 7%	7 10%	72 100%
Fair value accounting assets and liabilities are valued using managerial assumption and mathematical model.	21 29%	28 39%	5 7%	10 14%	8 11%	72 100%
Fair value accounting relevant assets and liabilities are traded on active market.	25 35%	31 43%	6 8%	8 11%	2 3%	72 100%
Fair value accounting measurement opportunities available to auditors are limited.	20 28%	32 44%	8 11%	5 7%	7 10%	72 100%
Fair Value accounting measurements frequently incorporates estimates of future events and conditions.	16 22%	34 47%	7 10%	10 14%	5 7%	72 100%

Source: Field Survey, 2017

Table 4 displays the auditor and challenges of fair value accounting. 25 (35%) strongly agree; 31 (43%) agree; 6 (8%) not sure; 8 (11%) disagree and 2 (3%) strongly disagree that auditors' biggest challenge is the verifiability of fair value measurement. 21 (29%) strongly agree; 28 (39%) agree; 5 (7%) not sure; 10 (14%)

disagree and 8 (11%) strongly disagree that auditors' lack the technical knowledge about fair value accounting. 16 (25%) strongly agree; 34 (47%) agree; 7 (10%) not sure; 10 (14) disagree and 5 (7%) strongly disagree that fair value accounting measurement ascertainment is more complex than historical cost accounting measurement. 12 (17%) strongly agree; 38 (53%) agree; 5 (7%) not sure; 12 (17%) disagree and 5 (6%) strongly disagree that Fair value accounting measurement is a time consuming exercise than historical cost accounting measurement. 20 (28%) strongly agree; 32 (44%) agree; 8 (11%) not sure; 5 (7%) disagree and 7 (10%) strongly disagree that fair value accounting measurement ascertainment techniques differ across different industries. 21 (29%) strongly agree; 28 (39%) agree; 5 (7%) not sure; 10 (14%) disagree and 8 (11%) strongly disagree that Fair value accounting assets and liabilities are valued using managerial assumption and mathematical model. 25 (35%) strongly agree; 31 (43%) agree; 6 (8%) not sure; 8 (11%) disagree and 2 (3%) strongly disagree that fair value accounting relevant assets and liabilities are traded on active market. 20 (28%) strongly agree; 32 (44%) agree; 8 (11%) not sure; 5 (7%) disagree and 7 (10%) strongly disagree that fair value accounting measurement opportunities available to auditors are limited. 16 (25%) strongly agree; 34 (47%) agree; 7 (10%) not sure; 10 (14) disagree and 5 (7%) strongly disagree that fair value accounting measurements frequently incorporates estimates of future events and conditions.

Hypothesis: There is no significant influence of fair value accounting on audit practice in Nigeria.

Table 5: Fair Value Accounting and Challenges of Audit Practice

	Fair Value Accounting (FVA)	**Challenges of Audit practice (CAP)**
Spearman rho **FVA** Correlation Coefficient	1.000	.296**
Sig. (2-tailed)		.000
N	172	172
CAP Correlation Coefficient	.296**	1.000
Sig. (2-tailed)	.000	
N	172	172

** Correlation is significant at the 0.01 level (2-tailed)

Source: Generated by the Author from data collected using SPSS (version 17.0)

Table 5 shows the result of Spearman rank order correlation coefficient on the influence of fair value accounting on audit practice in Nigeria. The table shows the Spearman rank order correlation coefficient for fair value accounting and challenges of audit practice in Nigeria to be 0.296 with p-value of 0.000, implying a statistically significant correlation. This result is consistent with the findings of Kumarasin (2011), Khan, Badrul-Muttakin and Siddiqui (2015), Okafor and Ogiedu (2016), Abdullatif (2016) that fair value accounting poses greater technical challenges for auditors than historical cost accounting.

CONCLUSION AND RECOMMENDATIONS

This study provides evidence that auditors in Nigeria face serious challenge when auditing fair value estimates, the need for fair value accounting and the effect of fair value estimates on audit practice. The results show that financial statement prepared using fair value accounting is more needed than historical cost accounting. This is because fair value accounting statements are more understandable than historical cost accounting because they deal with real values in the market. The study also revealed that fair value accounting poses greater challenge to auditors. The challenges includes lack the technical knowledge about fair value, verifiability of fair value measurement, fair value accounting measurement ascertainment is more complex than historical cost accounting measurement, fair value accounting measurement is a time consuming exercise than historical cost accounting measurement, the techniques used to ascertain fair value ascertainment differ from industry to industry among other reasons. This research empirically substantiated the results of prior studies such as Martin, Rich and Wilks, (2006) Humphrey, Loft and Woods (2009), Kumarasin (2011), Bell and Griffin, (2012), Christensen, Glover and Wood, (2012), Dixon and Frolova, (2013), Okafor and Ogiedu (2016), Abdullatif (2016). The empirical analysis provided a significant relationship between fair value accounting estimates and challenge of audit practice in Nigeria. On the basis of the empirical result, the paper concludes that auditors face extensive difficulties in the auditing fair value accounting estimates reported by their clients due to the lack of sufficient reliable information. Therefore, on the basis of the conclusion, the papers recommends as follows:

1. The Institute of Chartered Accountants of Nigeria (ICAN) and Financial Reporting Council of Nigeria (FRCN) should improve the scrutiny of external auditors and companies reporting.
2. Auditors should be given adequate training and retraining through the Mandatory Continuous Professional Education Programme (MCPE) of ICAN for them to be abreast on current issues relating to fair value accounting measurements.
3. The regulatory authorities should monitor the performance of specialist involved in the evaluation of companies and their assets, including implementing some procedures to license these individuals and

the check on their qualifications and experiences.

4. The regulatory authorities should consider making auditors and reporting entities to use only suitable international valuation models in estimating fair value estimates in financial statements.
5. The International Financial Reporting Standards Board should allow for more optional practices of fair value accounting especially in developing economies where local authorities perceive negative effects of fair value accounting measurements.

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