AUDITOR-FIRM CONFLICT: THEORETICAL CONCEPTS APPLICATION AND ANALYSIS OF THE POWER DYNAMICS INVOLVED

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ABSTRACT

This study undertakes a theoretical analysis of the auditor-firm conflict situation. It relied on the review of literature methodology and focused mainly on the auditor's appointment, firm economic pressure, management bargaining power, auditor's fear of losing a firm, firm's management economic power over the auditor, auditor's personal attributes and moral reasoning, auditor's tenure, audit fees, audit market competitiveness, non-audit services, audit firm size, and the firm's financial condition. The Goldman and Barlev model, exchange, and dependency theories provided the basis to explain the likely power positions in the auditor-firm relationship. Employing the deductive analysis, the study indicated the presence of an asymmetry power structure where the auditor and firm can have low and high-power positions. On this basis, the study proffered resolution measures that include the imposition of reputational and litigation costs; strengthening of audit committees; the need for regulations on the auditor's appointment and remuneration; impose disciplinary measures on firms and auditors, and ensure strong enforcement of standards. These measures are capable of curtailing the auditor's and firm actions in reducing violation of auditing standards; improve the auditor's independence, reduce the firm's pressure on the auditor, and bring about

Keywords

Auditor Independence, Conflict of Interest in the Firm, Dependency Theory, Firm, Goldman and Barlev Model, Interpersonal Exchange Theory, and Power Positions

the balance of power positions. The paper has implications for understanding the auditor-firm conflict situation and provides opportunities for strengthening audit policy and audit standards development.

1. Introduction

Accounting research on the concepts underlining the auditor-firm conflict and the power dynamics at play is an increasingly topical area. While the auditor-firm conflict has remained a great concern, the effect on the auditor's real or perceived independence and autonomy in performing the audit task has continued to attract debates among practitioners, scholars, and experts in accounting. Meanwhile, audit service in the form of an audit report is critical not only to investors' confidence but also to market stability which underscores the significance of financial reporting as an important regulatory requirement that quoted and unquoted firms are expected to comply with. As it is, firms act as the appointer of auditors; receive the audit report while they bargain the terms, conditions, fees, and scope of the audit on behalf of other stakeholders. This engagement brings the auditor and firm into a relationship that can seldom be equal because of the social interactions involved which indeed reflects the power asymmetry situation (Kyriake, 2020). The power play is an inevitable occurrence in any social relationship that provides the parties involved with access to valuable materials (i.e. food, money) or social resources (i.e. knowledge, information, and decision-making opportunities (Fiske, 2010; Keltner, Gruenfeld & Anderson, 2003) that can be used to one's own advantage. While it provides the capability for one to achieve personal goals it also influences other parties' outcomes through the administration of punishments and rewards. Apart from influencing others, it can also be used to modify attitudes and behaviours of others (Sturm & Antonakis, 2015).

The exercise of power inherent in a social relation can create conflict between and among the parties involved; the case of the auditor-firm conflict situation is not an exception. Generally, conflict in a relationship is largely influenced by the forces of power at play that tend to direct the parties' willingness to search for information about each other (Fiske, 1993; Fiske & Depret,1996). While it encourages questioning directed at other partners, it also seeks information to test one's beliefs and assumptions (Pruitt & Lewis, 1975). It avails parties in a relationship the opportunity to explore and exercise power to achieve individual interests. Thus, the auditor–firm conflict situation is not an uncommon phenomenon; it arises when disagreement occurs between the auditor and the firm management which can be due to attempts made by the firm to influence the auditor's performance in a manner to obtain a specified audit report. Such an influence may act as a pressure on the auditor to take inappropriate actions which can be in violation of the generally accepted auditing standards and professional ethical considerations (Donald & Kenneth, 1976) in providing such an audit report. This may be against the general notion that an auditor is supposed to be independent and is required to comply fully with the professional ethics and the generally accepted auditing standards in carrying out the audit assignment. The presence of power asymmetry in the firm-auditor relationship can be viewed in many dimensions, especially in the appointment of the auditor and audit fees payment, wherefore should conflict arise the auditor's may not muster the ability to withstand the firm's threat. This concern resonates with practitioners, regulators, and academics which have continued to attract debates and attention in the literature. It is not surprising, therefore, that the literature, records a plethora of factors that are responsible for the auditor-firm conflict. For instance, many of such include the audit item under dispute (Wright & Wright, 1997); the client and auditor's relative power (Knapp, 1985); the auditor moral reasoning (Windsor & Ashkanasy, 1995), and the probability of litigation (Goodwin & Trotman, 1995). Other notable instances

include the auditor's incentive to compromise independence in terms of non-audit fees (Reynolds et al, 2004; Ashbaugh, Lafond & Mayhew, 2003); total audit fees and non-audit fee ranking (Frankel, Johnson & Nelson, 2002; Francis & Ke, 2003; Siddiqui, Turley & Zaman, 2008).
However, in the accounting research, studies have opined that auditors, who increasingly interact with the firm, maintain positions of low-power when it comes to auditor–firm interaction (Mellisa, Christine, & Gregory, 2023). Therefore, whether the auditor possesses the powers to maintain audit independence as prescribed in the audit professional standards in a conflict situation has been a recurring question requiring answers. However, researches that focus on application of the theoretical concepts in analyzing the power dynamics in the auditor and firm conflict dynamics are relatively scarce in the literature. This may have been responsible for the limited theoretical and practical knowledge of the auditor and firm power positions in the audit relationship. In recognition of this gap, this study is poised to shed light on the power relations between the auditor and firm based on some theoretical concepts such as the auditor's appointment, the firm economic pressure and bargaining power over the auditor, the auditor's personal attributes, moral reasoning, tenure, audit fees, audit market competitiveness, non-audit services and to provide resolution methods to address the asymmetrical power positions. The study's motivation is based on the scarcity of studies that addresses the theoretical analysis of the power dynamics in the auditor-firm conflict situation coupled with the general belief that the auditing profession relies so much on the independence principle to guarantee objectivity of the auditor devoid of any influence from the firm's management. The study is different from earlier studies as it extends the theoretical literature on the auditor-firm conflict situation and attempts to provide a deeper analysis of the power structure of the auditor and the firm. The study contributes to the literature in the areas of expanding the existing literature on the auditor-firm conflict; providing a synthesis of analysis and contextualizing

the power structure in the auditor-firm relationship. It proffered policies and practices aimed at reducing the occurrences of conflicts that have regulatory and practical implications.

The remainder of the paper is structured as follows: The next section is the theoretical perspective followed by the underpinning theories. The following section dwells on the methodology applied and the next to it is the literature review which dwells on the concepts linked to the auditor-firm conflict and analysis of the possible power positions of the auditor and firm. Section four focuses on the resolution measures to the auditor-firm conflict while section five presents the conclusion of the paper.

2: Review of Related Literature/Theoretical Framework

2.1: Theoretical Perspective

An auditor's role according to regulators and researchers is based on the professional perspective which maintains that the auditor is appointed to serve the users of financial statement interest by verifying the information overtly disclosed in the financial statements and determining whether material misstatements exist or not. While audit standards strongly emphasize that the auditor's work should consider the interest of users in terms of deciding on the materiality level the regulators emphasize the user perspective in developing the standards. Users of financial statements, however, expect different quality outcomes from audit exercises about those of the regulator (Limei, Emma-Riikka, & Tobias, 2022). Auditors have interests that are expected to align with those of the firm's stakeholder groups through education (Li, Qi, Tian, & Zhang 2017), training (Che, Langli, & Svanström 2018), regulation (DeFond and Zhang 2014; DeFond and Lennox 2011) and oversight (Westermann, Cohen, & Trompeter 2019; Krishnan, Krishnan & Song, 2017). Professional views insist that auditing should be internalised by the auditor which can shape his or her professional identity and form his or her personal work priorities. Apart from having good knowledge of the standards, the auditor may desire to receive high audit fees or strive to satisfy the firm's management's interest instead of the shareholders, Which in some ways may affect not only the auditor-firm relationship but the auditor's independence that may alter the power relations with the firm.

2.2: Underpinning Theories

2.2.1: The Field Theory of Power

The field theory of power was developed by Wartenberg (1990). The author defined power by relating it to ongoing human relationships and interactions occurring within a dynamic social context. The theory recognizes the existence of power which can be exercised in all aspects of human social life. To the author, there is positive and negative power, and there is a difference between the positive power, which is power to the people, and the negative power over, which is power over the people. Power over the people refers to the power exercised by an individual over another individual or group by way of constraining circumstances within which the weaker party will act. Wartenberg (1990) argued that the mere presence of a powerful group or individual alters the social sphere of another individual or group. The dominant party acts in a manner to constrain the circumstances of the subordinate by force, coercion, or influence, which invariably limits the subordinate’s behaviour. In the power equation, the dominant party needs to expend much energy and effort to constrain the subordinate’s actions. Whether power is positional, personal, or contextual, it influences the direction of a conflict (Kyriaki, 2020). Thus, the study is anchored on the field theory of power because, in the auditor-firm relation, the firm is viewed as the dominant party that has power over the auditor to act or make decisions in a constrained audit environment.

2.2.2: The Goldman and Barlev Model.

The Goldman and Barlev (1974) model recognizes the position of power in a social relationship. It argues that attempts to influence the auditor to take certain actions that may not be in conformity with professional standards and compliance with the general auditing standards can only be successful due to the existence of an asymmetrical power relationship that favours the firm in a conflict situation. The power of the auditor, as a professional about the firm, is best characterized by cell 4 in the matrix shown in Figure 1 below. The auditor is classified in cell 4 because it is believed that he or she provides an audit service that is beneficial to the stakeholders of the firm rather than to the firm that pays the audit fees. In addition, the external auditor's audit responsibility is seen as a routine service which involved. As such under any situations where the auditor performs highly routine audit service that primarily benefits non-paying stakeholders of the firm, the auditor is in a low-power relationship with the firm. The matrix below represented as Figure 1, indicates that if the auditor performs a higher proportion of non-routine services, he or she is likely to wield more power over the firm. Again, the higher the proportion of non-audit services that the auditor renders directly to the firm, which it pays for, the more the firm finds these services important to it and the greater the auditor's power.

Figure 1: Power Wielded by Auditors Vis-a-Vis Paying Firm

	Problem solved	
Beneficiary	Non-routine services	Routine Services
Paying firm	(1) Highest	(2) Medium
Other Stakeholders	(3) Low	(4) Lowest

Source; Donald and Kenneth, 1976.

According to the model, the auditor's movement from cell 4 to cell 1, would cause his or her powers to increase as such can withstand the firm's influence to pressure him or her into violating professional ethics and generally auditing standards. The model asserts that a firm has power over the auditor but fails to provide the nature of the power. The model was chosen purely because it presents not only a better understanding of the underlying causes of the conflict between the auditor and firm but also refers to the power relations between the parties.

2.2.3: Interpersonal Exchange Theory

The interpersonal exchange theory was developed by Tibaut and Kelly (1957). The theory's key assumptions revolve around the concept of power which enables parties in a relationship to engage in exchange. Power according to Cartwright and Zander (1968) is the capability of one party to influence the behaviour or attitude of the other party. It can arise from various sources which are grouped into two broad categories, namely structural (positional) and personal power. Structural or positional power results due to people's status and position in an organization and is used to ensure compliance of individuals and team members to achieve predetermined outcomes and common goals. It consists of legitimate power, coercive power, and reward powers. Personal power is used to win the hearts and minds of people to get things done as expected; which inspires people to rise to greater heights, and set the bars high for creditable performance. It consists of expert power and referent power (French & Raven, 1959). The levers of power in an interaction can bring about an unequal relationship which in most cases creates a situation of power asymmetry where power holders can act asymmetrically to enforce their will and determine the process as well as the outcome in a conflict situation (Kyriaki,2020). As such, in an auditor-firm conflict situation, the firm has the power or ability to influence the final audit report. The auditor equally has power conceptualized in his or her independence. This is the auditor's ability to withstand the firm's attempts to influence him or her. It is the expert power derived from having unique in-depth information, expertise, and firm in a relationship that is based on the exchange of services. This underscores the very importance of inter-personal exchange theory which takes into account the rewards mediated by the firm and auditor for services rendered.

2.2.4: Dependency Theory

The dependency model is yet another important theory that provides an understanding and explanations of the auditor–firm conflict. Emerson (1962) described the model as involving two-party relationships where the power of one party rests implicitly in the other party's dependency on the first party. The greater the dependency of one party on the reward and /or punishment, which the second party can mediate, the greater the power of the party to gain compliance of the other party. Reward power is derived from a person's ability to reward others for doing what is needed to be done while coercive power is the ability to punish others for not complying with rules and regulations or for not complying with what needs to be done (French & Raven, 1959). Power in a dyadic relationship is a function of the dependency of one party on the other. As such, an alleged asymmetrical power structure exists between the auditor and the firm. This can be analyzed using the dependency patterns between them.

Emerson (1962) described the auditor–firm relationship using a pair of equations shown below.

Pfa= Daf..1

Paf= Dfa..2

Equation 1, infers that the power (P) of the firm (f) over the auditor (a) is equal or equivalent to the dependency (D) of the auditor (a) on the firm (f).

Equation 2, shows that the power (P) of the auditor over the firm (f) is equal or equivalent to the dependency (D) of the firm (f) on the auditor (a).

Dependency is a function of the value placed on the rewards offered by one party to the other and the availability of these rewards in relationships. In the auditor-firm relationship, power imbalance seems to be present and this is due to the patterns of dependencies that exist between the auditor and firm. Besides the difference in power, all kinds of power have a common dependency characteristic (Kyriaki, 2020). Regardless of the type of power involved dependency allows for power play. Thus, the greater the dependency of a party on the rewards and /or punishment that a second party can mediate, the greater would be the power of the second party to enforce compliance with his or her wishes. Whereas when a person is less dependent on the other person, he or she becomes more powerful, and where he is more dependent on another, the more powerless he becomes (Emerson, 1962). Dependency exists in the relationship between the auditor and firm, and is influenced by the available rewards which account for the level of powers that can be exercised either by the auditor or the firm. This explains the importance of the dependency theory in explaining the power positions the auditor or firm can exercise when conflict arises.

3. Methodology

This study is a purely theoretical paper and it relied on the review of literature methodology on several concepts responsible for the auditor-firm conflict in the literature. This includes appointment of the auditor, economic pressure from the firm's management, management bargaining power, the auditor's fear of losing a firm, the firm's management economic power over the auditor, the auditor's personal attributes and moral reasoning, auditor's tenure, audit fees, audit market competitiveness, non-audit services, audit firm size, and the firm's financial condition. The knowledge of the relevant theories was applied to the concepts reviewed to explain the concept of power relation in terms of the exchange of services and dependency between the auditor and the firm. In the analysis, it also considers the rewards, significance, and value perception of the firm concerning services mediated between the firm and auditor. Thereafter, the deductive reasoning was adopted to analyze the likely power positions of the auditor and firm should a conflict arise.

4. Results and Discussion

Understanding the auditor-firm conflict is primarily based on the auditor's independence concept. The auditor's independence is impacted when the auditor shows reluctance to disclose fundamental breaches found during the audit process (Norziana & Nur'Atiqah 2020). Threats to audit quality make auditors struggle to fulfil their professional responsibilities and in the process ingratiate themselves to the firm. Such audit quality-threatening behavior of the firm is in the form of avoidance and ghost-ticking. This suggests that there is an ongoing power disparity between the auditor and the firm, which can impair the auditor's operational independence (Mellisa, Christine, & Gregory, 2023). As it is, the firm possesses both coercive and reward powers while the auditor has expert power. However, the presence of attractive alternatives to both parties determines the degree of dependence on each other which determines the power positions that can either threaten or strengthen the auditor's independence (Kyriaki, 2020). Thus, the auditor and firm power positions in the audit relationship are analysed and discussed contextually thereon.

4.1.1: Appointment of Auditors

The appointment of auditors by a firm is based on situations. This situational power of the firm's management gives it an overriding edge and power over the auditor in their audit relationship. The firm has legal power to appoint auditors, it also has the responsibility to negotiate the auditor's conditions of employment (Goldman & Barlev 1974). There are power relationships in terms of the client management controlling the conditions of employment of the auditor (Goldman and Barlev,1974). In shadow negotiation of the employment conditions, auditors appear to give the firm's management the upper hand by not applying moves and asserting themselves (McCracken, Salterio & Gibbins, 2008). Given that the auditor employment depends largely on the firm managemen t(Goldman & Barlev 1974), there is an emotional attachment of the auditor to this relation which confers dominant power on the firm in the audit relationship (Wartenberg 1990) (Goldman & Barlev 1974). With the power to appoint the auditor resides with the firm, it is very likely for the auditor to depend on the firm and more likely to concede to the firm since the asymmetry power structure tends to favour the firm. Thus, the perceived reward of appointment mediated by the firm to the auditor provides the firm with a high power position and puts the auditor in a low power position. Should there be any threat from the firm, either to withhold or terminate the auditor's appointment this can constrain the auditor to accept the firm's pressure for fear of losing the appointment. This is most likely to happen especially when the auditor's clientele base is low, and he or her firm is relatively new in the audit market and have low firm referrals from clients.

4.1.2: Firm Economic Pressure

Economic pressure on the auditor from the firm generates conflict which provides a basis to understand the asymmetric power positions. Where there are power differentials, the dominant party applies economic pressure which gives only limited options for the subordinate to make decisions or act (Wartenberg, 1990). A firm desirous to have a good audit report to access credit facilities from a financial institution or bank can mount pressure on an auditor to give such a desired report. But when the auditor decides to uphold independence to give a true audit opinion on the firm's financial statements, the firm may withhold all necessary information and provision of facilities that can frustrate the auditor's audit assignment. The auditor at this point would be at the mercy of the firm because he or she lacks the crucial source of power as such would be vulnerable to economic pressure if applied by the firm to concede to its demands for a desired audit opinion or risk being replaced (Goldman & Barlev,1974). The asymmetrical power play in the auditor-firm relationship favours the firm more than the auditor. This places the firm in a high-power position capable of influencing the auditor's actions for a favourable audit report. This would occur especially when the auditor depends sufficiently on the firm for financial sustenance. However, when the firm places significant value and reward on the auditor's expertise which it cannot find in any other auditor, it makes the auditor more influential and by so doing places the auditor in a high-power position to be able to resist pressure from the firm.

4.1.3: Management Bargaining Power

The management bargaining power of the firm provides it with more powers over the auditor. The firm's economic bargaining power is controlled by its management which can be an inhibition to the auditor's independence (Goldman & Barlev,1974; Wartenberg, 1990). It can be enforced by applying pressure in the form of a threat to switch auditors or reduction of audit and non-audit services of the auditor. Threats of this nature generate a power asymmetry structure that empowers the firm over the auditor. The firm's urgency or pressure on the auditor to do its bidding for a favourable audit report can threatens the auditor's independence and generate a sort of low-quality beliefs whereby the auditor would probably consider both the long-term and short-term consequences that may have a positive effect on his or her revenue profile. Such would likely lead the auditor to breach the auditing standards and professional ethics by being receptive to the firm's pressures through communication and negotiation of the audit engagement (Salterio, 2012). This may occur especially when the auditor does not have an alternative of getting a new firm but depends on the firm for survival economically. This places the firm in a high power position which compels the auditor to satisfy its demand while trying to fulfil the audit regulatory requirements for third parties. In this context, the presence of an asymmetry power structure usually favours the firm, since the auditor's employment by the firm is through a regulatory structure which must be satisfied (Goldman & Barlev, 1974; Knapp, 1985).

4.1.4: Management Economic Power over the Auditor

Power differential in a social and contractual relationship places a party in a dominant position over others. It benefits one party in one respect and also harms the party in another aspect (Wartenberg 1990). Despite the auditor's training, knowledge, and expertise and being highly paid professionals, his or her perceived independence, integrity, and self-determination depend largely upon the prevailing circumstances in the relationship with the firm. The firm being the employer of the auditor possesses economic power over the auditor because it is responsible not only for the auditor's appointment but also for the payment of the audit fees. The economic survival of the auditor is dependent on how much audit services he or she can mediate. Without such mediation, the auditor is economically powerless which places the firm in a dominant power position to be coercive and significantly influence the auditor to accept its demand or request even though such threatens his or her independence as an auditor. The failure of auditors in not reporting the true financial state of a firm to satisfy the regulatory requirements exemplifies the firm economic power over the auditor. Where the auditor accepts the economic power of the firm as the status quo, any threat from the firm either for replacement or reduction in audit fees may be difficult to resist by the auditor. Therefore, the auditor's dependence level on the firm's economic power places the firm in a high power position and the auditor in a low power position. This nature of dependency relationship makes the auditor lack the ability or power to withstand the firm's threat. The firm's economic power gives it more powers over the auditor's independent judgment and decisions (Wartenberg,1990, McCracken et al, 2008).

4.1.5: Auditor's Attributes and Moral Reasoning

An auditor's personal attributes and moral reasoning are sensitive to his or her independence in providing an unbiased audit opinion. Audit opinion is expected to be devoid of emotions but objective in verifying the firm's financial statement as a regulatory oversight role in financial reporting (Mautz & Sharaf 1961). Where an auditor is economically dependent on the very firm because of rewards, this may be injurious to the auditor's independence if he or she is required to provide independent verification of the financial information in the public interest. The higher the degree of economic dependence of the auditor on the firm, the more the likelihood for the auditor to undermine strong personal attributes and moral reasoning and breach the professional conduct and judgment including auditing standards. This may result to obscurity on the honesty of a firm's financial reports considered fundamental to the overall well-being of the firm. Given the dependency of the auditor in such a circumstance, he or she is more likely to demonstrate lesser or lower moral reasoning to accommodate the firm's demands to ensure retainership of the audit job. This would invariably place the auditor in a lower power position and the firm in a dominant power position capable of influencing the auditor to do its bidding. In the auditor-firm relationship, moral intensity tends to make the firm have power over the auditor which poses an enormous challenge to the auditor's independence (Wartenberg (1990).

4.1.6. Audit Tenure

Auditor tenure can create conflict in the auditor-firm relationship particularly when the engagement period is very long. A longer auditor tenure with the firm may make the auditor to be complacent and less rigorous in performing the audit function just to maintain a good relationship with the firm. A long audit tenure is found to be a potential risk that can impair the independence of the auditor (Abu Bakar & Ahmad, 2009; Yip & Pang (2017; Al-Ajmi & Saudagaran (2011; Al-Khoury, Ali, Al-Sharif, Hanania, Al-Malki, & Jallad, 2015). This does not only make the auditor relate closely with the firm but may cause him or her to lose skepticism by relying on the firm accounting practices even though characterized by inadequacies. Maintaining a longer audit relationship with the firm may cause the auditor to show lesser audit effort, professional rigor, and competence to verify the firm's true financial position. This can be very injurious to the auditor's responsibility to the public interest. Preserving the auditor's continuous engagement increases his or her level of dependence on the firm, which tends to make the firm intervene in the auditor's professional judgment which can jeopardize the independence criterion (Norziana & Nur'Atiqah, 2020). It impairs the auditor's independence when the audit firm is not only small in size but depends largely on the firm for rewards (Sawan & Hamuda, 2014). It creates some degree of bias in the audit reports which can negatively affect the audit performance (Ouyang & Wan, 2013; Yip & Pang, 2017). This places the auditor in a low power position should any threat emanate from the firm

4.1.7: Audit Fees

Auditor's fee is an important concept in understanding the power positions in the conflict of interest in the auditor-firm relationship. As a cornerstone, it assists auditors in getting more referrals from other firms and can impair the auditor's independence and professional ethics. An auditor that provides quality audit services to a firm may become greedy and request higher audit fee payment otherwise the audit services may be withheld. The behavior of this nature breaches the independence notion the auditor is expected to uphold in the profession. (Norziana & Nur'Atiqah, 2020). Audit fees are associated with a higher risk of the auditor losing the attribute of independence (Abu Bakar & Ahmad, 2009; Al-Ajmi & Saudagaran, 2011; Al-Khoury et al.

(2015). Higher audit fee payments by the firm may be used as bait to induce the auditor to readily comply with the firm's wishes or demands. An auditor that depends largely on a firm for a huge chunk of revenue, would likely breach professional audit independence in the provision of objective and fair judgment of the firm's financial position, which can reduce the probability of reporting any potential misconduct or breach of regulations by the firm (Holland & Lane, 2012). This places the auditor in a low power position which makes it difficult for him or her to resist the firm and may comply with the firm's demand if such pressures exist. Higher audit fees are not associated with auditors independence (Craswell, Stokes & Laughton, 2002). Higher audit fee tends to improve the auditor's independence and audit quality (Tobi, Osasere & Emmanuel, 2016; Dart, 2011). Where the dependence levels of the parties are equilibrating or in favor of the auditor, this may likely put the auditor in a strong power position to resist or withstand pressure from the firm. However, when the firm places high value on the auditor's services which another audit firm can rarely provide to the firm, the auditor may be in a high-power position due to his or her professional skills, competence, and knowledge in the delivery of quality audit services.

4.1.8: Audit Market Competitiveness

In a competitive audit market, the auditor is expected to offer competitive audit services perceived by the firm to be comparable and of a high professional standard which may exceed the firm current and future expectations to remain in the market. The auditor can employ either differentiation or cost strategy for the enhancement of market share (Kato, Semba, & Frendy, 2016). Competition amongst auditors might create a conflict of interest whether to continue providing excellent audit services based on capability or serve more firms with no consideration of quality but more concerned with profit orientation. Without putting to bear the audit capabilities and expertise threatens the auditor's independence attribute, which can send signals of a poor audit quality. A highly competitive audit market improves the independence of the auditor (Yip & Pang, 2017). However, audit market competitiveness impairs significantly the auditor's independence (Abu Bakar & Ahmad, 2009; Al-Ajmi & Saudagaran, 2011; Francis, Michas, & Seavey, 2013). A competitive market scenario would increase the auditor's economic dependence on the firm which can induce the auditor to undermine the independence attribute and give a favorable audit opinion to maintain the firm (Reynolds & Francis, 2001). This would likely decrease the firm's dependence on a particular auditor and put it in a high-power position. The firm's threat of replacement would make the auditor very willing to compromise and endanger his or her perceived independence. By this, the auditor would be in a low-power position to put up resistance against the firm inappropriate actions. Lowballing tactics would be the order of the day, as the auditor would have no choice but to accept unprofitable firms due to the competitive nature of the audit market. The intensity of the audit market competitiveness condition exacerbates pressure on the auditor to compromise independence to retain the firm and receive pay-off for subsequent years (Quick & Schmidt, 2018). Audit market competitiveness also strengthens the auditor's perceived independence (Gul, 1989) concerning the auditor's competence, knowledge, and skill which can create a favourable public image for retainership. A highly disciplined auditor with high expectations about the firm's compliance with accounting guidelines would not hesitate to express dissatisfaction with the firm if it fails to meet accounting standards compliance expectations in the preparation of the financial statements. As such, any threat from the firm may not affect the auditor's power position as he or she would believe that the exchange of services is fair and the degree of dependence is less. He or she would be in a high-power position to withstand threats from the firm and damn the consequences of losing the firm rather than breach professional ethics and auditing standards to satisfy the whims of the firm.

4.1.9: Non-Audit Services

Non-audit service provision is one of the most controversial issues (Gul, 1989) that can generate conflict of interest in the auditor-firm relationship. It raises questions about investors' perceptions concerning activity and accountability of the auditor's performance including independence (Dart, 2011). Questions may arise that relate to the sudden failure of firms, including disclosure of questionable payments to auditors for non-audit services rendered and whether such is legal or illegal. The self-review becomes more pertinent as the auditor provides audit services alongside non-audit services and by so doing acting in an adversarial situation can lead to compromise of the auditor's independence criterion. Studies that suggest that non-audit service hurts auditors' independence include Quick and Warming-Rasmussen (2005), Beattie, Fearnley, and Brandt (1999); Shockley (1981); Quick and Warming-Rasmussen (2015); Ahadiat (2011); Campa and Donnelly, (2016). Other studies that report that non-audit service positively impacts perceived independence include Gul (1989; Kinney, Palmrose, and Scholz (2004). Furthermore, some other studies that report no evidence or inconclusive results include: DeFond, Raghunandan, and Subramanyam (2002; Knapp (1985); Sobrinho and Bortolon (2016); Krishnan, Sami, and Zhang (2005); Schmidt (2012). The provision of non-audit service strengthens the economic bond between the auditor and the firm and can increase the auditor’s financial reliance on the firm. This puts the auditor in a low power position to resist the demands or pressure of the firm but places the firm in a dominant power position to use coercive power to influence the auditor's acquiescence to its demand even when it amounts to breaching or undermining auditing standards and independence criterion. This forces the auditor to compromise which affects not only the audit relationship but also the non-audit relationship especially when the auditor has the fear of losing potential revenue (Lim & Tan, 2008; Alleyne & Devonish., 2006). But when a firm places huge value on the performance of non-audit services by an auditor, it increases the power of the auditor why the dependency of the firm increases. This may put the auditor in a high-power position and can withstand threats that may come from the firm.

4.1.10. Resolution Measures

The auditor-firm conflict and the asymmetric power relation resulting between the parties are well documented. However, it is important to provide countermeasures to the firm's threat and improvement of the auditor's power base to ensure the maintenance of audit independence and objectivity in the conduct of the audit. Some of the counterbalance measures include reputation concerns and litigation exposure; strengthening of audit committees; control over the appointment and remuneration of auditors; firms and auditors' effective discipline, and strong enforcement of standards. Firms must be aware of the reputational costs and litigation costs associated with the threat to coerce or threaten the auditor. Regulatory bodies such as the Securities and Exchange Commission should establish strong regulations that impose huge fines and levies that may be higher than the benefits to be derived by the firm for demanding an audit report even when it involves breaches and violation of accounting practices and auditing standards by the auditor. In addition, where firms engage in inappropriate behavior that is inimical to the financial reporting of their operations, the SEC should also assume responsibility to prosecute and secure the convictions of firms. In the case of auditors, they should also be concerned with reputational and litigation exposure for breaching the professional code and standards which can erode the significant role of the audit professional in financial reporting. In this regard, the auditing profession can discipline an erring member by withdrawing of practicing license, or imposition of severe fines with huge costs that may be higher than the benefits the auditor may obtain for issuing a falsified and deceptive audit report.

Although the audit committee is a regulatory requirement already, efforts should be made through amendment of the regulation to empower the audit committee to be responsible for the appointment of auditors and bargaining of the audit fees. This measure would be helpful to minimize threats from the firm and strengthen the auditor's independence and objectivity. Auditor’s rotation by restricting the auditor's number of years to be with a firm, say four years consecutively should be strengthened. This would decrease the economic bond that exists between the auditor and the firm and cause a possible reduction in the impairment of the auditor's independence thereby reducing incidences of conflict. The audit profession guidelines which stress that a newly appointed auditor to a firm should consult with the outgoing auditor to get relevant information about the previous audit work on the firm's financial results should be strongly emphasized. It would allow the new auditor to have firsthand knowledge about the firm and employ a fresh perspective on the firm's financial reporting which can encourage the revelation of irregularities that may be associated with the previous audit performance. This tends to help reduce the probable negative effects associated with longer audit tenure especially when the previous auditor's work shows a lack of audit rigor, the auditor's complacency level, and high reliance on the firm's accounting practices and integrity.

An auditor's retention for an explicit period is suggested because it would help prevent the substitution of an auditor and provide protection against the firm's pressures to diminish the firm's opinion shopping opportunities and enhance the auditor’s independence. The idea of joint audits where two or more auditors share the performance of a firm and jointly sign the audit report gives them the ability to resist the firm's pressure while increasing the chances of the joint auditors providing impartial audit opinion that would improve the perception of the auditor's independence. It enables audit fees to be shared by the joint auditors thereby reducing the economic bond that may exist between a single auditor and the firm. Stronger audit regulations that restrict the auditor from providing audit services, as well as non-audit services to the firm, should be adopted. The adoption of stricter auditing standards would likely increase the quality of the audit, guarantee the auditor's independence, and place him or her in a high-power position to withstand threats of any kind that the firm may want to evoke to get a particular audit opinion.

5. Conclusion and Recommendation

This paper theoretically examines the concepts that underline the auditor–firm conflict using the review of literature methodology. It contextualizes the conflict situation based on the concepts which are: appointment of the auditor, economic pressure from the firm's management, management bargaining power, auditor's fear of losing a firm, firm's management economic power over the auditor, auditor's personal attributes and moral reasoning, auditor's tenure, audit fees, audit market competitiveness, non-audit services, audit firm size, and the firm's financial condition. It thereafter applied a theoretical background from the Goldman and Barlev model, interpersonal exchange theory, and dependency theory. The Goldman and Barlev model posits that the auditor generally will be in a low power position acknowledging the presence of asymmetrical power structure in favour of the firm. The interpersonal exchange theory stresses that exchange is based on the perceived value, importance, and significance parties in a relationship attach to services rendered and received. The dependency theory argues that power position in a relationship arises based on the degree of dependency of one party on the other. The background of these theories provided the theoretical basis to evaluate each of the concepts that contextualized probable conflict situations between the auditor and firm which necessitated the application of deductive reasoning to highlight the presence of asymmetrical power structure which provided the yardstick to analyze the power position of the auditor and firm. As a way of providing a solution, the study identified resolution measures that can be helpful in the reduction if not eliminating incidences that may threaten the auditor's independence and by extension impact the power relations between the auditor and the firm. These resolution measures are likely to alter the existing asymmetrical power structure and bring about a balance of power position that may help reduce or minimize incidences of auditor-firm conflict that has severe consequences on the auditor's independence. As such, these may not only strengthen the auditor-firm relationships but encourage quality financial reporting that would satisfy the financial regulatory requirement intendment of meeting the varied users of audited financial statements. While the study presented a theoretical analysis of the power positions of the auditor and firm based on several concepts that underlie the auditor-firm conflict situation, it proposes that empirical studies should be undertaken to either validate or invalidate the presence of asymmetry power structure and the likely power positions of the auditor and firm.

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