

# Under-funding the Supreme Audit Institution Amidst the Rising Unauthorized Extra-budgetary Expenditures in Nigeria: Is Deliberate Under-funding a Fraud-concealing Device?

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## Abstract

The executive (federal government of Nigeria) has recently been accused by the lower legislative house of deliberately underfunding SAI (office of the Auditor-General of the Nigeria federation) in order to conceal fraud. The legislature was reacting to the erratic reduction of SAI's budget from ₦1.9 billion to ₦100 million when illegal extra-budgetary expenditure of about ₦16 trillion occurs annually. This study was therefore, carried out to determine whether the executive can conceal fraud by deliberately underfunding the supreme audit institution. In order to fulfil the study objective and answer the question posed by the study problem, internet sources, journal articles and literature review were used to generate relevant data for the research. The study revealed that deliberate underfunding of SAI to conceal fraud and other emerging fraud concealing devices are additional challenges to the existing ones and that the accusation of the executive (the auditee) of deliberately underfunding SAI to conceal fraud is true only to the extent that SAI's budget and finances are controlled by the executive. The study recommended that financial autonomy, improved executive capacity, use of proactive approaches to eliminate fraud concealing devices will minimize audit challenges ensuring that SAI is not also contributing to the challenges it is currently facing.

**Keywords:** Deliberate underfunding, supreme audit institution, unauthorized extra-budgetary expenditure, fraud-concealing device, the executive and the legislature.

## 1. Introduction

Supreme audit institutions (national agencies that audit government revenue and spending) all over the world are faced with various challenges which have year in year out made it difficult for them to perform their functions effectively especially in the area of fraud detection. 5% of revenue is what a typical organization loses every year as a result of fraud and total fraud loss world-wide is over \$6.3 billion! This comes from 2,410 cases of occupational fraud that were investigated between January 2014 and October 2015 in 144 countries across the world. (2016 Report to the Nations on Occupational Fraud and Abuse from the Association of Certified Fraud Examiners). As the level of fraud is rising by the day, impediments to audit operations are also rising and this is one of the major reasons why Auditor-Generals from 23 African countries met recently at Abuja in Nigeria to discuss issues that will assist them in achieving transparency in public sector accounting (Channelstv.com May 9, 2016).

In a report compiled by Hassan (2015), the Public Accounts Committee Chairman in the Nigeria House of Representatives, Mr. Adeola Solomon-Olamilekan was quoted as saying that the federal government had deliberately under-funded SAI in order to conceal an unauthorized extra-budgetary expenditure of about ₦16 trillion! It becomes a serious issue when an accusation such as this one constitutes a threat on the independence of the supreme audit institution and even more worrisome where the under-funding is deliberately created so that the entity being audited can cover fraud. Hassan further reported that this accusation of under-funding is as a result of the on-going examination of the finances of government and its 601 agencies in the country and it has come at a time when unauthorized extra-budgetary expenditures in Nigeria are rising astronomically every year. According to the law maker, this deliberate under-funding has caused the expenditures of statutory and extra-ministerial departments to be fraudulently excluded from the national budget since this short-changing of SAI made it difficult for the annual routine audit operations to be extended to all the MDAs in Nigeria and from 1999 to date, SAI has not audited up to 30 of the 144 foreign missions in Nigeria, Hassan reported. This sad development has also made it very difficult for Nigerians and the supreme audit institutions to know exactly how much the nation generate and expend annually. Adeola further reported that what is currently declared as Nigeria's annual budget is a far cry from the actual budget which the on-going examination put at over ₦20 trillion!

Studies have recently been carried out severally to examine the challenges faced by supreme audit institutions both in Nigeria and other countries of the world and Van Zyl, Ramkumar and de Renzio (2009) have painstakingly categorized those challenges into institutional, political, technical and communication with the issue of under-funding being addressed under institutional challenges. However, institutional challenges discussed by Van Zyl et al and other researchers did not specifically address this issue of deliberately using under-funding to prevent the supreme audit institutions from uncovering fraud. The current paper is therefore,

intended to fill this gap. Can the executive cover a fraud by deliberately underfunding the supreme audit institution? This question is stemmed from the debatable claim made by a House of Rep member that the federal government of Nigeria deliberately underfunded the Auditor-General of the federation in order to conceal a yearly unauthorized extra-budgetary expenditures of over ₦16 trillion. The purpose of this study is to determine whether the executive can cover fraud by deliberately under-funding the supreme audit institution. Therefore, the argument of the current paper is that, although the executive can cover fraud by deliberately underfunding the supreme audit institution, deliberately underfunding the auditor is not the only device used in concealing fraud.

## 2. Theoretical Framework

The argument of the current study is anchored on the assumption that deliberately under-funding an entity can prevent it from working effectively to achieve its set objectives. Deliberate actions taken to conceal fraud are more often than not stemmed from the pursuance of self-interest which is implicit in this assumption. This research is therefore, supported by the agency theory of 1967, Donald Cressey's Fraud Triangle theory of 1953 and Wolfe and Hermanson Fraud Diamond Theory of 2004.

### 2.1 Agency Theory:

This is one of the corporate governance theories which discloses that individuals pursue their self-interest when they are entrusted with resources and responsibilities. This self-interest and opportunistic behaviour are succumbed to because the principal and his agent have different pursuits and aspirations (Abdullah & Valantine, 2009). Relating this theory to the study shows that Nigerians and Federal government of Nigeria have principal and agent relationship respectively where the resources of the principal (Nigerians) are expected to be managed by the agent (federal government) in accordance with constitutional provisions and financial regulations in the country (principal's terms and conditions). The assumption of this theory is that principal and his agent are unitary entities. The principal does not have any basis for trusting his agent since his interest and information are different from those of his agent. Therefore, constitutional provisions and financial regulations are used by Nigerians (principal) to regulate the actions of the federal government (agent).

Underfunding an entity charged with the responsibility of detecting fraud especially at a time of rising incidence of fraud is highly questionable. It creates room for suspicion especially when the source of the underfunding is the entity that is under the fraud investigation. There is indeed a weakness here since the auditee (federal government) is the one who decides how much that should be given to the auditor (SAI) to perform its audit functions. This underfunding is therefore, capable of protecting the financial interest of the auditee if it is involved in any financial fraud. Where underfunding is capable of obstructing the SAI from uncovering the fraud committed by the auditee, then self-interest has been pursued. However, the direction of the argument of this paper is that deliberate underfunding is not the only device used to cover fraud. If the auditee's manner of releasing funds to the auditor to perform his functions is capable of covering the auditee's fraud, then this manner of fund release constitutes a threat on the independence of the auditor (SAI) and as such self-interest has been pursued by the auditee.

### 2.2 Fraud Triangle Theory:

This theory explains why people commit fraud. Three factors are responsible for the commission of fraud and other immoral acts (Manurung & Hadian, 2013). These are pressure (emotional force or financial), opportunity (carrying out a plan without being discovered) and rationalization (personal justification of a dishonest act). Unethical acts thrive when organisations don't minimize or check the influence of the 3 factors already mentioned (Brumel Group, 2015). Pursuance of self-interest is also present in all the 3 factors of the fraud triangle theory. This theory is related to the study to the extent that the deliberate underfunding of SAI was carried out by an auditee who has a financial interest or financial connection to protect i.e. if covering the fraud through the underfunding of the auditor-General Office will save his face from the financial crime he or she has committed. Using a fraudulent device to cover a fraud is fraudulent. This is an unethical behaviour which can be instigated by political, economic and financial factors (pressure). Factors which can cause the federal government of Nigeria to display this unethical behaviour are usually political, economic and financial. Under the guise of trying to streamline the budget of SAI (opportunity), it can commit this immoral act and then use unrealistic budget cut to justify its actions (rationalization).

### 2.3 Fraud Diamond Theory:

Abdullahi, Mansor and Nuhu (2015), disclosed that the fraud diamond theory was first presented by Wolfe and Hermanson in the CPA Journal of December, 2004. This theory is an extension of the fraud triangle theory. It has simply been extended to include a fourth element known as capability. Pressure, opportunity and rationalization can lead a person to fraud but, it is the fourth element, 'capability' that will make all the other three elements to cause a person to commit the fraud. Abdullahi et al further contended that the interrelatedness

of the elements of the fraud diamond theory (FDT) is to the extent that fraud cannot be committed unless all the four elements are present. This theory is relevant to the current study because the federal government or the auditee that has been accused of deliberately underfunding the SAI has the capability of carrying out the act it has been accused of. This capability is present because SAI's budget and finances are directly detected and controlled by the federal government. Capability as an element also contains another sub-element called position/function which can be used by the federal government to deliberately underfund the supreme audit institutions.

Deliberately underfunding the supreme audit institutions to enable the coverage of fraud is therefore, a function of self-interest, pressure, opportunity, rationalization and capability. The aforementioned theories therefore, support the fact that deliberately underfunding the auditor at a time of rising fraud is a deliberate act and this also constitutes fraud. It is like trying to use one fraud to cover another fraud. The basis of the argument in this research paper is that pursuance of self-interest is present in deliberate underfunding (a fraud-covering device) and other fraud-covering devices which are potentially responsible for the inability of the supreme audit institution to uncover the annual unauthorized extra-budgetary expenditures of about ₦16 trillion. Therefore, all the devices usually used by public servants and politicians to cover their frauds are stemmed from the pursuance of self-interest and this self-interest is implicit in the agency, fraud triangle and fraud diamond theories already explained. Past literatures and the argument of the current paper support all the aforementioned theories. The empirical review will show how the auditees and their cohorts including even the auditor have consciously and unconsciously been responsible for most of the impediments of the audit functions.

### 3 Empirical Review of Literature

Factors which generally constitute impediments to the audit functions will first be reviewed. This will then be followed by those factors which usually make the auditor fail to uncover fraud since the auditor's inability to uncover fraud is equally an impediment of the audit functions. The aforementioned approach will be adopted because the alleged accusation of the executive deliberately underfunding SAI to conceal fraud (the subject-matter of the current research) is an impediment to audit functions. The researcher will eventually use this empirical review to reveal a gap in the existing research.

Recent studies have categorized the challenges faced by the supreme audit institutions into institutional, technical, political and communication. In their study of the challenges faced by SAIs in developing countries, Van Zyl, Ramkumar and de Renzio (2009) asserted that SAI lacked the capacity to perform their functions and went further to comment on the 2001 World Bank Report which states that SAIs lacked funds, staff, skills and mandate to perform effectively. According to Van Zyl et al, Open Budget Index (OBI) of 2006 reported that SAIs in 29 out of 59 countries were underfunded while audit reports were not annually released in 30 out of 59 countries (institutional challenges). Van Zyl et al further asserted that SAIs cannot effectively monitor e-transactions and have been excluded from public financial management reforms (technical challenges) while 2006 OBI report showed that in 16 out of 59 countries, the executive could single-handedly remove the head of SAI without consulting the parliament and 13 of these countries faced serious legal limitations on what SAI may be permitted to audit while in 21 of these countries, budgets of SAIs are determined by the executive (political challenges). Poor communication exists between SAIs and parliaments, civil society organizations, the press and the general public. Parliament seldom communicate the contents of audit report. Following up and the means of doing so are usually lacking and contents of the report are usually technical for people outside the accounting profession to understand. All the above findings were reported by Van zyl et al (communication challenge). Two studies were carried out to support Van Zyl et al's institutional, technical and political challenges.

Poor funding, changes in technology and political influence have also impeded the smooth functioning of the supreme audit institutions in some African countries. Wang and Rakner (2005) studied the accountability function of supreme audit institutions in Malawi, Uganda and Tanzania and they discovered that funding scale was not adequate in these three African countries and this affected the capacity of SAI to carry out its audit functions effectively. SAIs' work-load increased without a corresponding increase in SAIs' budgets and the resources given to SAIs are determined by the executive (the auditee). In all the three countries surveyed by Wang and Rakner, SAIs' capacities were adversely affected due to lack of qualified auditors and lack of training and operational weaknesses were noticed since basic facilities like computers, offices, operational vehicles and travel were lacking. These findings of Wang and Rakner were supported by a survey research carried out by Foster and O'Connor (2004) where combined experience was used to identify 15 barriers to performance audit. These performance audit barriers are: inadequate formal education, insufficient funding, absence of affordable training, irrelevance of city byelaws to performance auditing, immature governance, absence of training in performance auditing, immature performance reporting, inability to understand internal auditing, lack of guidance on performance auditing, lack of sufficient framework for performance auditing, incompetent internal audit staff, non-inclusion of responsibility for performance audit in internal audit charter, lack of access to information and insufficient independence for the internal auditor. Political challenges seem to have dominated

the list of factors that impede the proper functioning of the supreme audit institutions as this empirical review will subsequently show. Political challenges highlighted in the studies conducted by Van Zyl et al and Wang and Rakner respectively have also been supported by six studies carried out in 2005, 2011, 2014, 2015 and 2016 respectively on the impediments of audit functions.

The supreme audit institutions in developing countries frequently face political challenges and this has seriously impaired their independence. A degree of inherent tension exists in the relationship between the Finance Ministry and supreme audit institution. This situation is a normal one because the supreme audit institution needs to be independent of the executive (i.e. the auditee). But, where SAI depends on Ministry of Finance (an arm of the executive) on its budget preparation and finance, then its independence will be undermined ('How to note', 2005). 'How to note' further discloses that the transparency of the accountability process will be greatly achieved where SAI has a cordial relationship with the legislature. Independence of SAI will therefore be undermined where SAI cannot impose sanctions but, to rely on the legislature for the implementation of its recommendations or where the relationship between SAI and parliament is not cordial. This is supported by the study carried out by Okaro and Okafor (2011) which revealed that challenges or impediments faced by public sector audit are the lack of adequate independence by the supreme audit institutions and unsatisfactory performance by Public Accounts Committee (PAC). Constitutional provisions in Nigeria do not allow the supreme audit institution to have executive power and as a result, its mandate as a watchdog cannot be fulfilled. It was for this reason that Murumba (2014) carried out his study on sustainable economic development and security and in that study, it was revealed that public sector audit in Nigeria lack adequate statutory provisions some of which are inactive and this seriously affect audit practice as demonstrated by the operators.

Lack of independence according to Onoja and Haruna (2015) is one of the major reasons why internal audit units of Nigeria's local government councils cannot perform their task of preventing fraud. Onoja and Haruna's study was supported by the study conducted by Ijeoma and Nwifo (2015) which revealed that the supreme audit institution of Nigeria could not operate effectively due to the following constraints: inaction to audit queries, non-functional public accounts committee, constitutional limitation of the Auditor-General's functions, light punitive sanctions on codified offences, reliance of the Auditor-General on the Executive, late submission of the Auditor-General report and the absence of a prosecuting authority. Finally, Ng'eni (2016) in his study, examines the role of auditing in Tanzania's local government authorities and emphasizes how independence is crucial for the Controller and Auditor-General in order to disentangle itself from any undue influence of the executive and other parties. This, Onoja and Haruna say will enable the Controller and Auditor-General to contribute successfully to the attainment of financial accountability. Two studies have also been recently carried out to show how the performance of SAI has been technically challenged.

The findings of Van Zyl et al, Wang and Rakner and those of Foster and O'Connor on technical challenges are also supported by two recent studies conducted to show how the functions of SAI have been challenged technically. Okaro and Okafor (2011) discovered that the accounting environment within which SAI operates is poor and the use of technology is also poor. These findings were supported by Eze (2016) in his analysis of changes and challenges of auditing in 21<sup>st</sup> century Nigeria which revealed that auditing practice in Nigeria is challenged by the following environmental elements: changes in information technology, changes in orientation and ethical values, changes in performance audit (environmental audit), changes in political process, increased audit work-load, increase in fraud sophistication, accounting and auditing standards (IPSAS IFRS, IAS and ISA) and the impact of International Organization of Supreme Audit Institutions (INTOSAI). Eze's study further revealed that in addition to the limited knowledge and shallow-mindedness of most auditors, they are also challenged by the fear of being killed and other threats to life. The most pervasive of all the challenges faced by the supreme audit institutions is conflicts of interest. This is because the auditor and other regulators always find themselves in circumstances where their own self-interests will conflict with the interests of the organizations they are duty bound to protect.

When conflicts of interest is succumbed to, the independence of the auditor will be impaired. Conflicts of interest therefore, constitutes a threat to the auditor's independence and is one of the major causes of audit failure and the high level of fraud in both the private and public sectors. Moore, Tetlock, Tanlu and Bazerman (2004) assert that incentives are given to accounting firms so that negative audit opinions are not expressed or made against those who hire (managers) and pay their audit fees. Moore et al further assert that physicians oftentimes compromise the best interest of their patients by referring them to clinics and pharmacies which they have ownership and that manufacturers of biomedical and pharmaceutical give free product samples, free meals and free travels to physicians in order to influence the drugs they prescribe. Politicians, special interest groups and lobbyists also succumbed to this conflicts of interest when they pursue their own self-interests at the expense of the interest of those they represent, Moore et al reported. It is also pertinent to know why auditors fail to uncover fraud as this knowledge will enable us to re-emphasize the already identified challenges and will also unearth those challenges which have not yet been highlighted in this empirical review.



The failure of an auditor to uncover fraud constitutes yet another impediment to the audit functions. As an attempt to address this inability of the auditor to uncover fraud, Chacko (2014) opines that auditors fail to uncover fraud because of the following reasons: their tools are obsolete, their tests can easily be predicted by the target entity, they rely on weak internal control and wrong sample, they limit the audit tests to large value items, they depend more on fraudulent and inexperienced staff, they allow themselves to be discouraged by the entity being audited, inability of audit committee to guide auditors, management and fraudsters use social engineering technique to divert auditors' attention and top management is fraudulent and corrupt.

Past studies attributed the poor performance of SAI to institutional challenges, technical challenges, political challenges, communication challenges, conflicts of interests and the inability to know why auditor fails to uncover fraud. Nine out of the 12 studies specifically used in the empirical review attributed the cause of the poor audit performance to political challenges while conflicts of interest was seen as the most pervasive of all the challenges faced by SAI. This researcher has however, not seen any study that specifically addressed the issue of the executive (auditee) deliberately underfunding SAI to cover fraud and the issue of other devices deliberately employed to cover fraud. The current paper is simply looking at fraud-concealing devices (another impediment of SAI's functions) which previous studies did not specifically researched on.

#### **4 Method of Data Collection**

The study employed the desk research approach. The data collected for the research therefore constituted only secondary data. This permitted the use of journal articles, newspaper articles, online journals, online magazines and literature review.

#### **5 Has Federal Government of Nigeria deliberately under-funded SAI to cover fraud?**

The federal government of Nigeria has been accused of deliberately underfunding the supreme audit institution in order to cover a budget-related fraud it has committed through MDAs and corrupt office holders. Hassan (2015) reported that a PAC Chairman and House of Representatives Member, Mr. Adeola Solomon-Olamilekan, disclosed that the Auditor-General of the Federation (AGF) could not reach most of the 601 MDAs and 144 foreign missions because its budget was erratically reduced from ₦1.9 billion to ₦100 million. This erratic budget cut according to him gave most MDAs the opportunity to hide their annual budgets, actual revenue and expenditures from the AGF and the legislature. It was further revealed by the House of Rep member during the ongoing examination of MDAs' finances that from 1999 to date the supreme audit institution (SAI) has not audited up to 30 out of the 144 foreign missions in Nigeria. This inexplicable federal government budget cut is therefore, claimed to have been deliberate since it is done at a time when many statutory and extra-ministerial departments (arm of the federal government) are busy hiding their annual budgets and actual revenues and expenditures. This sad development consequently made an annual expenditure of about ₦16 trillion not to pass through the normal legislative process of appropriation. This fraudulent or unauthorized expenditure was discovered when the PAC Chairman, Mr. Adeola and his fellow House members recently carried out their long neglected oversight functions.

The exclusion of these hidden budgets from the legislative process of appropriation makes it difficult for Nigerians to know the exact annual national budget figure of the country. Adeola therefore, concluded that the annual national expenditure budgets of ₦4.6 trillion (2014) and ₦4.3 trillion (2015) usually reported to Nigerians are grossly at variance with the actual yearly expenditure budget which is over ₦20 trillion! Even the 2016 national expenditure budget of ₦6.06 trillion is also a far cry to this ₦20 trillion. This accusation of deliberate underfunding to cover fraud is true to the extent that the federal government has control over the finances of the office of the Auditor-General of the federation of Nigeria.

It is a constitutionally established fact that the federal government has full and direct control over the budget of the Auditor-General's office and the budget as we know it has a very strong impact on the functions of the supreme audit institution. Van Zyl, Ramkumar and de Renzio (2009) have this to say about political challenges which SAIs have to face: *"Control over SAI budgets gives the executive the ability not only to influence directly what gets audited and reported, but, also the power to indirectly control the scope of SAI's work. A SAI's budget determines the number and level of salaries that can be paid, the number of audit that can be conducted and the extent to which audit reports can be distributed and communicated. In this way control over finances gives the government unhealthy control over the ability of SAIs to audit their agencies and ministries."* Empirical evidence therefore, suggests that the federal government can cover its fraud by deliberately underfunding the supreme audit institution. Other devices can however, be used to cover fraud as will be subsequently disclosed.

#### **6 Other Fraud-Covering Devices**

Adequate funding can no doubt facilitate the work of the supreme audit institutions in uncovering fraud but, it is only one of the several means of detecting them. It is not as if the federal government of Nigeria did not release

any fund at all. It only reduced SAI's budget from ₦1.9 billion to ₦100m. This suggests that the action of federal government was in compliance with sound public financial management practice. Besides, the House of Rep member failed to disclose why SAI's budget was reduced to ₦100m and he also failed to report whether his claim was supported by SAI. Although SAI is a watchdog, it is also subject to scrutiny. The activities of the regulator should also be regulated to make room for checks and balances. It is therefore, not sufficient to make a blanket assertion that the reduction of SAI budget from ₦1.9 billion to ₦100 was done deliberately by federal government to cover fraud. The budget of any private or public institution can be revised to reflect a realistic financial requirements to make room for proper expenditure control. Besides, budget revision is done directly by the budget office which forwards same to federal government for approval. However, there is a possibility for the federal government to deliberately under-fund the audit operations of SAI if the later works against its interests and if the two are not relating cordially.

The federal government in these circumstances has the capability to underfund SAI since it controls and direct the finances of SAI. Deliberate underfunding is therefore, not the only device used in covering fraud. Ken Brown of the Wall Street Journal has this to say: *"Nearly \$2 billion in revenue disappears at Xerox Corp. More than \$3.8 billion in expenses are wiped out at WorldCom Inc. and \$1.2 billion in shareholders' equity is vaporized at Enron Corp. A reasonable person might ask to know how the accountants missed such massive financial time bombs"* Fraud in both the private and public sectors can be covered using various devices like intimidation, wrong use of client confidentiality, blackmail, use of a secondary fraud to cover a primary fraud, fraudulent omission and inclusion of items in the budget, deliberate and inexplicable abandonment of fraud-related cases and deliberate use of the weaknesses in existing systems to encourage and commit fraud.

**6.1 Intimidation:** Work-place intimidation can be used to prevent the supreme audit institutions from uncovering fraud. In addition to SAI being deliberately under-funded to prevent it from uncovering fraud, the internal auditors of government MDAs who are oftentimes seen as whistle blowers can be intimidated by top MDA officials and even fellow audit colleagues who are either directly or indirectly connected with the fraud. An increasing number of South African Internal Auditors had faced intimidation because of their work in detecting fraud and other unethical behaviours. A poll carried out in 2012 during a National conference organized by the Institute of Internal Auditors of South Africa revealed that over 70% of those who attended that conference had experienced workplace intimidation (Institute of Internal Auditors of South Africa's White Paper, 2014). Intimidation according to the institute's white paper, can take the form of job harassment (staff demotion and suspension, injurious reassignment of staff, frequent monitoring of the audit staff, appraisal of the audit staff performance negatively, unjustifiable disciplinary actions and implementing decisions that work against the promotion, pay and benefits of the audit staff who is only carrying out his legitimate duty of exposing wrongdoing in the establishment).

The South African Institute of Internal Auditors' white paper further categorized intimidation into unemployment (termination from employment; blacklisting from other jobs), ostracism (unnecessary criticism by co-workers; unnecessary avoidance by colleagues) and threat to security (Civil, administrative and criminal cases; death threats to a whistle-blower and his or her family and immediate relatives; revocation of security clearance). Auditors in the private and public sectors find it extremely difficult to perform their duties objectively, independently and in compliance with professional standards because of the unscrupulous and bullying individuals they sometimes come up against. Therefore, the decision of the members of SAI to expose serious wrongdoing can be very costly to the auditors, their families and friends, the white paper reported. Intimidation therefore, gives rise to circumstances that might impair the independence of the auditor. Intimidation threat according to EC Recommendation on Statutory Auditor's Independence in the EU. (2014) is the likelihood that the auditor may be intimidated by a personality that is domineering or the intimidation can come from any actual and feared pressures or from a client or a person who has a relationship with the client or any other party. The concomitant rise in the intimidation of the 'guardians of governance' according to the Institute of Directors, Southern Africa (2015) {IoDSA}, made eight professional bodies in South Africa to meet in May 2014 and launched an anti-corruption initiative tagged 'The Anti-intimidation and Ethical Practices Forum (AEPF). The extent to which intimidation has made SAI not to reach most of the MDAs in Nigeria or report their illegal budgets, revenues and expenditures should therefore be examined.

**6.2 Client Confidentiality:** When an auditor is obligated to maintain the confidentiality of his client, he or she may not be allowed to take further action on a fraud that has been uncovered and formally reported to even an audit committee. In a situation such as this one, the auditor in the case of a financial statement fraud will allow the client who has admitted to having committed the fraud, to adjust the financial statement without taking further action. Snyder (2011) reported that even though an attempt to commit fraud is a fact that might be relevant to investigators or regulators, the adjustments which the client has been permitted to make on the financial statement will remove any material misstatements and the only option left for the auditor at this stage is

to issue an unqualified opinion. Snyder further asserted that auditors' professional obligations have impaired their ethical behaviour and asked whether the accounting profession has created this kind of situation. The effects of clients' confidentiality on the members of the supreme audit institutions should also be verified. It is indeed unethical not to report a fraud after the auditee has admitted that he or she committed it. Client confidentiality has therefore, been wrongly used to cover fraud.

*6.3 Blackmail:* This can be used to prevent a regulator from carrying out his oversight functions or regulatory duties. The President of the Nigerian Senate, Senator Bukola Saraki recently said that no amount of blackmail will stop the Senate from probing or investigating the Treasury Single Account fraud of ₦25 billion (November 17 Vanguard, 2015). This was in reaction to a newspaper article which accused the Senate of trying to frustrate the Buhari anti-corruption campaign simply because the Senate raised an alarm over an alleged payment ₦25 billion to REMITA, an e-collection firm as a fee for transferring monies to TSA in one day i.e. the fee for this transfer is one percent of all monies transferred to TSA per day. The Senate see this accusation as false and as blackmail to stop the TSA probe which it vowed cannot stop them from carrying out their legitimate duties as representatives of the people of Nigeria.

*6.4 Use of a secondary fraud to cover a primary fraud:* After primary frauds have been committed, secondary frauds are usually used to cover them. This is like using one fraud to cover another. For instance, illegal bribes (primary frauds) which have been paid by an organization are usually hidden somewhere in the financial statement. One way of recording this illegal payment is to deliberately or criminally include it in a category of normal business expenditure. Four relevant cases where financial statement frauds were used to cover illegal bribes have been reported by Zack (2015) as follows: A US based company Avon product Inc. paid \$8 million in bribes between 2004 and 2008 to Chinese government officials and classified the bribes in its financial statements as separate meals and entertainment expenses (\$1.65m), products to Chinese government officials and gifts and tickets to the China Open Tennis Tournament (\$400,000), travel for Chinese officials (\$1,328,000) and bribes to vendors and consultants to pay government officials (\$1.5m). A second company and subsidiary of the Goodyear tire & company paid \$1.4m in bribes between 2007 and 2011 to Angolan government officials and classified the bribes in the income statement as freight charges.

Another company which is an affiliate of Bio Rad Laboratories Inc. paid \$2.2m in bribes between 2005 and 2009 to Vietnamese government officials (the bribes were not directly paid by Bio Rad). But, the bribes were classified by Bio Rad as commissions, advertising fees and training fees. Finally, bribes of \$231,000 were paid between 2005 and 2011 by four Chinese affiliates of Bruker Corporation and all the affiliates provided travel for Chinese officials while Bruker consequently made profits of over \$1.7m and fraudulently classified the bribes in its financial statements as legitimate business and marketing expenses. Zack further asserted that the reason why organizations bribe officials is to conceal the underlying crime and the coverage of this primary crime is done by intentionally misrepresenting the financial statement which amount to committing a secondary crime. Similarly, one fraud is used to cover another fraud during the conversion of operating expenses to capital expenditure (primary fraud) and further depreciating this fake capital expenditure in order to reduce the periodic operating expenses (secondary fraud). This device is oftentimes used to justify an earning which has never been realized by the organization since it has the effect of reducing the operating expenses that will be charged to profit and loss account periodically. For example, WorldCom, a telecommunication company plotted to boost earnings by fraudulently converting operating expenses of \$3.8 billion to capital expenditure. The company took this action in order to depreciate the capital expenditure and spread it over many years instead of charging the whole of it to a single period profit and loss account. Unfortunately, this plot was uncovered by an internal auditor of the company (Brown, 2002). Illegal extra-budgetary expenditures became a common problem because the budget was fraudulently used to commit fraud. Genuine items in the budget were removed and replaced with fake ones. Influential politicians in Nigeria have also used the budget to loot the nation's treasury. These financial crimes were concealed in the budgets which have long history of abuse in Nigeria.

*6.5 Fraudulent omission and inclusion of items in the nation's budget:* In Nigeria, illegal extra-budgetary expenditures were concealed by the inclusion of items which are not measurable or executable and the replacement of genuine items in the budget with fake ones. According to Ebhomele (2016), an analysis of the 2014 budget by Bukola Saraki a former Governor and now the current Nigeria Senate President, showed that the Institute for Peace and Conflict Resolution was allowed to spend ₦9m for an unquantified, unmeasured and misleading item like 'building democracy as an instrument of peace'. Some members of the lower legislative house have recently been accused of padding the 2016 Nigeria national budget meaning that the budget was fraudulently modified after it had been passed by the appropriation committee of the house. Furthermore, Adegoke (2016) quoted the Special Adviser to President Buhari on Media and Publicity as saying that the ₦60 billion worth Lagos to Calabar Road Construction project originally included in the 2016 budget was

fraudulently removed without the total budget being altered.

*6.6 Deliberate and inexplicable abandonment of fraud-related cases in Nigeria:* In Nigeria, fraud cases are oftentimes swept under the carpet. Cover-ups and lack of political will are responsible for the frequent abandonment of fraud related cases in Nigeria. Fraud cases which have been deliberately abandoned in Nigeria according to Tukur (2016) are: the famous \$180 million Halliburton bribery case where Nigerian officials were bribed by a foreign consortium of companies to win the Nigerian Liquefied Natural Gas Plant Contract and the monumental Kerosene Subsidy Scam. Other abandoned fraud cases which Tukur further disclosed are: ₦195 billion pension fund fraud involving Maina and 31 others, ₦32.8 billion police pension fund fraud involving Esai Dangabar and 4 others, ₦225 million armoured car scandal involving former Nigerian Aviation Minister, Stella Oduah, Missing ₦20 billion oil money involving the Nigeria National Petroleum Corporation (NNPC), \$15 million private Jet/Arms Scandal involving Nigeria and a South African firm and the allegation of \$620,000 bribe involving Farouk Lawan who was caught on tape collecting the money from one Femi Otedola. The missing ₦20 billion was the amount NNPC spent without a legislative approval (illegal extra-budgetary expenditure). The legislature gave the then coordinating Minister of the Economy and Minister of Finance, Ngozi Okonjo-Iweala seven days to submit full report on forensic audit investigation of the alleged missing money and this matter had since been swept under the carpet.

*6.7 Deliberate use of the inherent weaknesses in the system to impair the independence of SAIs*

The Nigerian constitution does not give the SAI the power to sanction government officials while the implementation of audit reports are left in the hands of politicians. The power of the audit report as an instrument for sanctioning corrupt officials is therefore, weakened. The auditor-general remuneration is not a first charge to the consolidated revenue fund and the budget and funding of his office are in the hands of the executive (Ijeoma and Nwifo, 2015). Past and successive governments in Nigeria have deliberately refused to remove the aforementioned constitutional limitations and as a result, the independence of the auditor-General has been threaten. Financial autonomy has been advocated for SAI at various fora. These frequent demands for autonomy seem to be falling on deaf ears. This problem of lack of autonomy for SAI has persisted because past and present executives have benefited from it. MDA officials and political office holders have deliberately used these limitations to cover their wrongdoings or unethical behaviours.

## **7. Contribution to knowledge**

Deliberate underfunding of SAIs to conceal fraud (a gap in previous governance researches) has also revealed other fraud concealing devices. The alleged attempt by the executive to use deliberate underfunding to conceal fraud has also facilitated the assemblage of other fraud concealing devices. Every fraud concealing device also poses a challenge to the auditor. The current study has therefore, added to the existing knowledge of factors that impede the audit functions.

## **8. Summary of Findings and Conclusion**

The existing literature revealed that SAIs are faced with institutional challenges, technical challenges, political challenges, communication challenges, conflicts of interest and the auditors' inability to know why frauds cannot be uncovered. The reduction of SAI's budget from ₦1.9bn to ₦100m in the thick of rising unauthorized extra-budgetary expenditures has been reported. This unilateral act of the executive at a time of the rising budget related fraud is regarded by the lower legislative house as an attempt to conceal fraud. The current research has used this unfortunate development to reveal additional challenges which are: deliberate underfunding of SAI to conceal fraud and the existence of other fraud concealing devices. The accusation of the executive (the auditee) of underfunding SAI to conceal fraud is true only to the extent that SAI's budget and finances are controlled by the executive.

## **9. Recommendations and Direction for Future Research**

The reason why present and past governments have persistently refused to remove those constitutional provisions that limit the work of SAI should be investigated.

Constitutional provisions which impair SAI's independence should be removed to enhance its financial autonomy and improve its executive capacity. This will put deliberate underfunding of SAI and other fraud concealing devices in proper check.

The pervasiveness of conflicts of interest which has substantially impaired SAI's independence can be minimized when the interests of those we are duty bound to protect are allowed to prevail over our own self-interest.

How SAI manages the meagre funds given to it to perform its functions should be routinely verified. SAI's activities should also be regulated by an independent body. By this way, we will be able to know the



extent of SAI's contribution to the impediments or challenges currently affecting the audit functions. Even where SAI is adequately funded, improper management of SAI's operational and other funds can also impede its proper functioning. There is therefore, the need to examine how SAI manages the funds given to it to tackle all its challenges. This inward looking approach is therefore necessary to achieve checks and balances in the accountability process.

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