

Incessant Financial Scandals in the Corporate Organizations in Nigeria: Auditors' Culpability

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Abstract

A reliable audit report is imperative in corporate organizations where the retention of public confidence remains of utmost importance. In this regard, the statutory auditors are the essential fulcrum upon which the concepts of objectivity, fairness coupled with independence and integrity of financial reporting rest. This assertion, notwithstanding, it suffices to say that reports from statutory auditors are still challenged. Against this backdrop, this study seeks to investigate the circumstances capable of compromising the integrity and independence of statutory auditors. A descriptive statistical analysis was used to evaluate the users' perception of the audit report in Nigeria. One hundred and fifty questionnaires were administered on one hundred and fifty staff of three selected firms as respondents. The data collected were analyzed using chi-square statistical technique. The result revealed that firm of auditors had been indicted of deliberate falsification and overstating the profit of organisations. The study hereby recommended that greater diligence; professional sensitivity and utmost care should be displayed in the course of audit engagements.

Keywords: Financial Scandals; Auditors' culpability; Corporate Organisation; Auditors' Relationship and Auditors' Report

1. Introduction

Financial scandal is an undesirable occurrence that had threatened the going concern status of many corporate organisations in Nigeria. In spite of frequent development in technology such as computer assisted audit technique, internet, automated accounting system etc, financial scandals in both public and private organisations still top the headlines of Nigerian newspapers on daily basis. (This day, 16th Oct., 2006, Sunday Punch June 26, 2011, page 1)

It is observed that investigating fraud is a specialist task dependent on experience and technical skill. Audit is a quality assurance function. Quality assurance has become more necessary with the expansion of stakeholder and the need to take into consideration their individual need (Mohammed 2008).

There is no doubt that scandal is best prevented, rather than dealt with after the act. In societies marked by division of expert labour, external auditing is promoted as a trust engendering with the capacity to promote a certain kind of social order. Accountants, as auditors, have commented their status and privileges on the basis of claims that their expertise enable them to mediate uncertainty and construct independent, objective, true and fair accounts of corporate affairs are not good indicators of corporate performance because capitalist economies are inherently prone to crises (O'Connor, 1987). Furthermore, the claims of expertise are frequently affected by unexpected corporate collapses, fraud, financial crime and the general crisis of capitalism (Bakre, 2007). Some commentators have attributed this economic crisis to the unethical practise of corporate organisation managers and to the inability of auditors to expose such anti-social practices from previous audit (Broad Street, 2009). Some auditors may have failed to comply with expected standards. If a company fails shortly after being audited, the auditors may be blamed for conducting an infusion audit. (Dopuch, 1988). It must be questioned whether they carried out their duties and obligations with due care and diligence.

In Nigeria, the spate of corporate failure witnessed in the financial sector in early 1990's brought auditors into focus and caused the Nigerian public to question the roles of auditors (Ajibolade, 2008)

Also, an emerging body of literature argues that accounting professionals have increasingly used their expertise to conceal and promote anti-social practices (Bakre, 2007). For example Akintola Williams and Deloitte (AW1) were indicted for facilitating the falsification of accounts of Afribank plc (Main Street Bank PLC) and for deliberately overstating the profits of Cadbury Nigeria PLC. It has reported that between 1990 and 1994, Nigeria lost more than ₦6 billion (\$42.9million) within the banking sector alone. (This Day, 16 October, 2006).

Advanced audit skills are required of professional to cope with the rapidly changing world of globalization and advancement in information technology (Adeyemi, 2008). Adeyemi (2008) further said that Professional Accountants (Auditors) must necessarily be dynamic and creative to enable the profession achieve its objective of steadily advancing the science of accountancy. Against this back drop, this paper seeks to find out why frauds and irregularities are still reported after the performance of the duties of professional Accountants (Auditors).

2. Literature Review

In the recent years, auditors have been accused of being involved in what has been described as harmful and anti-social behaviour purely for the sake of high fees (Christensen, 2006; Bakre, 2007). Michael and Ben (2012) submitted in a write up captioned “United state of American sues big firms over China audit” they said that security regulators took aim at the Chinese affiliates of big global accounting firms after a wave of accounting debacles at publicly traded Chinese firms that led to billions of dollars of shareholders losses.

Traditionally, regulators, investors and financial analyst have relied on corporate financial statement to make senses of bank liabilities, risk and economic exposure, but this has been highly problematic (Arnold and Sikka, 2001). That the credibility of financial statements prepared by the Auditor remains the primary means of informing shareholders and other stakeholders about the financial performance, progress and position of the business (Dabor and Adeyemi, 2009). Bakre (2007) submitted that the key issue in the field of auditing and assurance is to recognise that auditing can be of even greater value, if it looks beyond the traditional financial issues and focuses on areas that matter to a wide range of stakeholders and the public.

(Evbodaghe, 2009, and Sikka, 2009) opined that it seems that auditors face credibility issues, thus, for instance there is widespread public perception that auditors lack independence from company executives and as a result, there is concern about the quality of audits.

The involvement and culpability of accountants and audits in unethical practices and conflicts of interest have long been documented by critical accounting scholar in developed and developing countries (Bakre, 2007; Gyein-Paracini H. and Gendron, 2010) The Nigerian business Community is also plagued with ethical problems associated with business behaviour and corporate scandals involving large companies, such as African petroleum plc, Cadbury Nigeria plc and Unilever plc have been reported (Bakre, 2007).

Enron, the Texas-based energy trading company, caused one of the major scandals which shook up auditing profession. Enron caused a crisis in respect of the confidence placed on auditors and the reliability of financial reporting. Arthur Andersen, Enron’s accountant, was accused of conflict of interest which led to it being accused of professional misconduct and other unethical accounting practices (Mitchell and Sikka, 2002). The quality of audit and the independence of the auditor were questionable because Arthur Andersen received not just audit fees but fees for non-audit services. For example, it earned \$55 million for non-audit services and there were regular exchanges of employee within Enrons from Arthur Andersen, thereby affecting the independence of auditors and causing conflict of interest.

In 2002, Arthur Andersen was also implicated in the collapse of world com, one of the largest telecommunication companies in the U.S .Arthur Andersen, as auditor, was found to have failed in taking proper steps to detect accounting irregularities (Wrong, 2004).

A study by Bakre, (2007) has documented various cases in which accountants and external auditors in collaboration with management and director of companies falsify and deliberately overstate accounts. Investigation into financial report of Afribank (Main street plc) implicated Akintola Williams and Deloitte in facilitating an over statement of the banks account by the management. Other Nigerian cases have also been documented in which a number of professional accounting firms were involved and indicted for anti-social practices in conflict with their professional claims in an attempt to be acting in public interest and it was suggested that the matter needed further investigation (Bakre, 2007). A number of scholars have shown that many accountants particularly members of the Institute of Chartered Accountants of Nigeria have been responsible for the crisis in the banking and manufacturing sectors in Nigeria (Okike, 2004) These studies show that the regulatory framework in Nigeria is weak because member of the professional firms implicated in a number of anti-social practices in Nigeria have not yet been sanctioned.

The paper examined whether the concepts of integrity, objectivity, independence, fairness and quality assurance functions are strictly adhered to by examining the following contending issues and problems:

- i. Are the accounting firms not over dependent on the income from a single practice?
- ii. How long has a single firm served as the statutory auditor of an organisation?
- iii. Whether there are regular training and educational improvement for the members of staff?
- iv. Does accounting firm take time to test the integrity of their staff by giving them some probing questionnaire that can expose certain facts about their characters?
- v. Is the statutory audit of a firm not adversely affecting the independence and integrity of the auditors by the non-audit services?

3. Research Questions.

- i. What are the likely effects of the longstanding relationship between the auditors and its client?
- ii. What are the relationship between good track record of accountants and the best professional practice?
- iii. What are the various effects of political and social relationship between auditors and the clients?
- iv. Can acceptance of high fee result in unethical practices?

- v. What are the roles of auditors in preventing the failures of organisation?
- vi. What are the environmental factors that can affect the integrity and independence of the accountants in the practices?
- vii. What are the likely effects of combining statutory audit with other non-audit services?

4. Research Hypotheses

- i. There is no significant relationship between the serving period of an auditor and his opinion on his client organisation
- ii. There is no significant effect between the good track record of an accounting firm and the best practice.
- iii. There is no significant contribution of political and social affiliation to the task performed by the auditors for his client.
- iv. There is no significant relationship between unethical practices and the fees charged for audit engagement
- v. Auditors have no significant roles to perform in preventing organisations failure.
- vi. There are no significant environmental factors that can affect the integrity and independence of auditors.
- vii. There is no significant adverse effect on combining audit and non-audit services by a firm of auditors.

5. Methods and Materials

The research design used for this study was descriptive research of the survey type.

The population of this study comprised of the senior members of staff of KPMG Professional services, Akintola Williams, Deloitte and Touche, Price water house coopers and Ernst and Young. They are the auditor of the 25 big banks operating in Nigeria after recapitalisation.

Table 1: Auditing firms and their clients (Commercial Banks)

KPMG Professional Services	Akintola Williams Deloitte and touché	Price water house cooper	Ernst & Young
Access Banks, Guarantee trust Bank Wema Bank, Nigeria international Bank, Sterling Bank, Standard chartered	Fidelity Bank Afribank (Main street) First Bank, First inland bank, Union Bank, Unity Bank United Bank of Africa, Spring Bank, Equatorial first Bank	Bank PHB, Diamond Bank, Eco Bank FCMB, IBTC Stanbic, Zenith Bank, Stanbic Bank.	Skye Bank

Source: Extracted from the audited reports of the various banks

In the course of the study, three of the auditing firms selected on which (150) one hundred and fifty copies of questionnaire were distributed to their members of staff as the respondents. Under this study, 50 (fifty) members of staff were randomly selected from each of the audit firm to represent the entire staff of the organisation.

6. Results and Discussion

Research Hypothesis 1: There is no significant relationship between the serving period of an auditor and his opinion on his client organisation.

Response: Strongly Agree 20; Agree 25; Strongly Disagree 72; Disagree 33.

Table 1: Chi-square (χ^2) results

χ^2 Cal	χ^2 Table	Df	Level of significance
44.62	7.81	3	0.05

Source: Authors' Computations

Table 1 above shows that χ^2 calculated is 44.62 and χ^2 table value is 7.81. This result indicates that null hypothesis, H_0 is rejected while alternative hypothesis, H_1 is accepted confirming that there is significant relationship between the serving period of an auditor and his opinion on his client organisation.

Research Hypothesis 2: There is no significant effect between the good track record of an accounting firm and the best practice.

Response: Strongly Agree 15; Agree 22; Strongly Disagree 76; Disagree is 37

Table 2: Chi-square (χ^2) results

χ^2 Cal	χ^2 table	DF	Level of significance
59.45	7.81	3	0.05

Source: Authors' Computation

Table 2 result shows that χ^2 calculated is 59.45 and χ^2 critical value is 7.81 confirming that null hypothesis is rejected. This indicates that there is significant relationship between the track records of an accounting firm and the best practices.

Research Hypothesis 3: There is no significant contribution of political and social affiliation to the task performed by the auditors for his client.

Response: Strongly Agree 40; Agree 30; Strongly Disagree 35; Disagree 45

Table 3: Chi-square (χ^2) results

χ^2 Cal	χ^2 table	DF	Level of significance
3.33	7.81	3	0.05

Source: Authors' Computation

Table 3 above indicates that χ^2 calculated is 3.33 which is less than χ^2 table value of 7.81 confirming that there is no significant contribution of political and social affiliation to the task performed by the auditor for his client.

Research Hypothesis 4: There is no significant relationship between unethical practices and the fees charged for audit engagement

Response: Strongly Agree 10; Agree 15; Strongly Disagree 80; Disagree 45

Table 4: Chi-square (χ^2) results

χ^2 Cal	χ^2 table	DF	Level of significance
63.17	7.81	3	0.05

Source: Authors' Computation

Table 4 above indicates that χ^2 calculated is 63.17 which is greater than χ^2 critical value which confirms that there is significant relationship between unethical practices and the fees charged for audit engagement.

Research Hypothesis 5: Auditors has no significant roles to perform in preventing organisations failure.

Response: Strongly Agree 15; Agree 10; Strongly Disagree 75; Disagree 50

Table 5: Chi-square (χ^2) results

χ^2 Cal	χ^2 table	DF	Level of significance
75.34	7.81	3	0.05

Source: Authors' Computation

Table 5 shows that null hypothesis is not accepted confirming that auditor has significant roles to perform in preventing organisation failure.

Research Hypothesis 6: There is no significant environmental factors that can affect the integrity and independence of auditors.

Response: Strongly Agree 45; Agree 38; Strongly Disagree 37; Disagree 30

Table 6: Chi-square (χ^2) results

χ^2 Cal	χ^2 table	DF	Level of significance
3.07	7.81	3	0.05

Source: Authors' Computation

Table 6 above shows that χ^2 calculated is less than χ^2 table value indicating that null hypothesis is accepted indicating that there is no environmental factor that can affect the integrity and independence of auditors.

Research Hypothesis 7: There is no significant adverse effect on combining audit and non-audit services by a firm of auditors.

Response: Strongly Agree 18; Agree 24; Strongly Disagree 75; Disagree 33

Table 7: Chi-square (χ^2) results

χ^2 Cal	χ^2 table	DF	Level of significance
53.04	7.81	3	0.05

Source: Authors' Computation

Table 7 above confirms that there is significant adverse effect on combining audit and non-audit services by a firm of auditors.

7. Discussions and Findings

In the findings, a critical assessment of the incessant financial scandals in the corporate organisations in Nigeria; Auditors Culpability was made. The study examined the alarming rate at which cases of financial scandals in the corporate organisations in Nigeria are being reported in spite of the unqualified (cleaned) reports rendered by the statutory auditors.

The findings had shown that prolonged service of an audit firm in an organisation can influence his objectivity and independence. This situation often leads to collaboration with the Management of Companies in perpetrating falsifications. This is in agreement with previous researchers. Bakre (2007) who had documented cases in which accountant and external auditors in collaboration with management and directors falsify and deliberately overstate accounts, like the case of Afribank (Main Street PLC) which implicated Akintola Williams and Deloitte.

The findings in the case revealed that there is need for Shareholders to ensure that limited period for change of baton from one firm of auditor and the other is set in order to facilitate good corporate governance in the organisations.

Also, the findings in this study revealed that the track records of audit firms is germane to the best practices and

according to Evbodaghe (2009) and Sikka (2009) they posited that it seems auditors face credibility issues, thus for instance there is widespread public perception that auditors lack independence from company executives. They further said that the involvement and culpability of accountants and auditors in unethical practices are conflicts of interest which have long been documented by critical accounts scholars in developed and developing countries and also (Bakre, 2007 Gyein; Paracini and Gendron, 2010) said the Nigerian business community is also plagued with ethical problems associated with business behaviour and corporate scandals. They further revealed that an unethical practice has a significant relationship with financial scandals.

Furthermore, the study revealed that acceptance of high fees on the negotiation table between the client and auditors before an audit engagement can distort the integrity, independence and objectivity of the auditors. Christensen, (2006), Bakre, (2007) attested to this by submitting that in the recent years, auditors have been accused of being involved in what has been described as harmful and anti-social behaviour purely for the sake of high fees.

The study equally revealed that it is part of the function of the auditors to ensure that the going concern status of the organisation they conduct the audit assignment are maintained like Ajibolade, (2008) opined that the state of corporate failure witnessed in the financial sector in early 1990's brought auditors into focus and caused Nigerian public to question the roles of auditors. Corroborating the submission of Ajiolade (2008), Dopuch (1988) postulated that if a company fails shortly after being audited, the auditors may be blamed for conducting an infusion audit. Also (Wrong, 2004) said in 2002, Arthur Andersen was implicated in the collapse of WorldCom. One of the largest telecommunication companies in US, as auditor Arthur Andersen was found to have failed in taking proper steps to detect irregularities.

The findings also revealed that non-audit services can adversely affect the quality assurance function of an auditor. These was clearly attested to by (Mitchel and Sikka, 2002) when Arthur Andersen received not just audit fees but fees for non-audit services. It earned \$55 million (fifty five million dollars) for non-audit services and other gratifications and thereby affecting the independence of auditors and causing conflict of interest.

The findings in this study indicating significant relationship between serving period of an audit firm and auditors opinion is an indication that has shown that prolong service of a firm of auditors can be a prejudice to the financial report of an organisation. It also shows that appointment of auditors be hinged on good track records. Corporate organisation need to strike a balance between the professional requirements and the fees charge by the firms of auditors. This research work effort is geared towards assessing the incessant financial scandals in the corporate organisations in Nigeria's auditors culpability. The discussion is that accountants in practice had not lived up to the objectives and goals of the profession. Research is an on-going process, it is expected that further efforts would come to extend to the level yet to be covered in this work and also to access the contribution of auditors towards the development of the financial sector in Nigeria. Further research can also target the contributions of auditors towards the financial stability of other African, Asian, or United State of America countries.

8. Conclusion and Recommendations

8.1 Conclusion

Considering the findings of this study, it was concluded that there is significant relationship between the serving period of an audit firm and the opinion of the auditors.

The finding also led the researchers to conclude that good track record of an audit firm to the best practices is significant. The finding revealed that the fee accepted to offer an audit firm by the client can significantly affect their report. It is also revealed that auditors have significant roles to perform in preventing organisation failure. Also the finding revealed that non-audit fees which come as a result of accepting other services apart from the audit engagement in an organisation have a significant adverse effect on the jobs of the auditors.

Reliance on audit report is important in order to develop organisations financially. It allows the stakeholders in organisations to know the true financial muscles of the organisation.

Finally, Auditors report is expected to reveal the objectivity, fairness and integrity of the managers and the management in the preparation of the financial records of corporate organisations.

8.2 Recommendations

The indication from the study points to the fact that the public at large need a reliable audit report and it can only be achieved in an atmosphere where the concept of integrity, objectivity, independence and fairness are not threatened. In spite of the fact that the confidence placed on the job of accountant in the practice is being eroded, much can still be done to ensure that the job of an auditor is performed devoid of compromise.

The companies and allied matters act should stipulate the maximum number of time when a firm of auditors can be re-appointed, maximum of three years after which another firm of auditors will take over. This will reduce unnecessary familiarity between the auditors and the management that can affect the independence opinion of the auditors.

The Federal government of Nigeria should set up an independent body that will be assessing the report and activities of the accountant in practice like National Judicial Commission in the case of legal profession. This body should be empowered to assess and report on the performance of the firm of auditors and grade them and publish it accordingly. This will allow organisations to trace the track records of the audit firms.

The auditors should adhere strictly to the recommendation of their professional bodies that they should not allow their job to be dependent on a single engagement, this will enable them to charge a reasonable fees that will not affect adversely their integrity and independence in the performance of their job.

Since audit job is a quality assurance function, auditors should be aware that their duties and the eventual failure of the company they audit can not be segregated. Audit firm should do all within their capacity that the confidence placed on their job by the public is not jeopardised.

It should be regulated through the companies and allied matter Act that audit and non-audit services be performed by different accounting firms to forestall compromise and collaboration in the job. The independence may be questioned if the firm that assist in the preparation of the account is the same firm that want to report on true and fair view of the financial report of the organisation.

The study recommends that the accounting professionals in Nigeria and other regulators such as the Central Bank of Nigeria, The National Deposit Insurance Corporation and IFRSB should continue to monitor development in both the external and internal reporting environment.

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