

The Role of Auditors in the Nigerian Banking Crisis

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Abstract

In market societies people routinely have to transact with faceless corporations about whom they have little personal knowledge. In such societies external auditing and auditors are promoted as a trust engendering technology and watchdog with the capacity to promote a particular kind of social order. Investors and depositors in a number of banks and companies in Nigeria have lost several billions of Naira due to the anti-social practices of accountants and auditors, which has resulted in the distress of a number of banks and companies. The purpose of this paper is to stimulate debate about contemporary auditing and the role of accountants and auditing firms in causing the collapse of banks. The paper locates the role of auditors within the broader dynamics of professionalism and the pursuit of profits to argue that major accountancy firms are becoming more and more willing to increase their profits by indulging in anti-social practices that show scant regard for social norms and even legal rules and regulations. Contrary to their claims to be protecting the public interest, accountants and auditors may be partly responsible for cases of distress and the collapse of banks in Nigeria, as they failed to qualify their reports when there were indications of financial difficulties in the banks. There is also evidence to show that auditors have collected large sums in audit and non-audit fees. Such events raise questions about the value of company audits, auditor independence and the quality of audit work. This paper argues that the basic auditing model is flawed since it makes auditors financially dependent on companies. The conventional approach to 'audit quality' is also inadequate as it pays little attention to the organisational pursuit of profits and the social context of auditing. The paper encourages reflection on contemporary practices and on the role of accountants and auditing firms in corporate collapse, and offers some suggestions for reform.

Keywords: Accounting Firms, Accountants, Auditors, Banking Crisis, Professional Misconduct, Banks.

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I. Introduction

In societies marked by divisions of expert labour, external auditing is promoted as a trust engendering technology with the capacity to promote a certain kind of social order (Power, 1999). Accountants, as auditors, have cemented their status and privileges on the basis of claims that their expertise enables them to mediate uncertainty and construct independent, objective, true and fair accounts of corporate affairs (Sikka, 2009). It has been argued, however, that such claims are not good indicators of corporate performance, because capitalist economies are inherently prone to crises (O'Connor, 1987; Sikka, 2009). Furthermore, the claims of expertise are frequently affected by unexpected corporate collapses, fraud, financial crime and the general crisis of capitalism (Baker, 2007; Sikka, 2009; Sikka *et al*, 2009)

Since 2007, major Western economies have been experiencing a deepening banking and financial crisis arising from subprime lending practices by banks, which in turn has restricted the availability of credit and has led to what has been described as the 'credit crunch' (Sikka *et al*, 2009). Some commentators have attributed this economic crisis to the unethical practices of corporate bank managers and to the inability of auditors to expose such anti-social practices from previous audits (*Broad Street Journal*, 21 October 2009; Sikka, 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 inferior audit (Dopuch, 1988). Thus, whenever there is a financial scandal, it must be questioned whether the auditors carried out their duties and obligations with due care and diligence.

In Nigeria the spate of corporate failures witnessed in the financial sector in the early 1990s brought auditors into sharp focus and caused the Nigerian public to question the role of accountants and auditors (Okike, 2004; Bakre, 2007; Ajibolade, 2008). Furthermore, the investigations launched by the regulators and other stakeholders into the cases of distress and disclosure revealed that accountants and auditors were implicated (NDIC, 1995). With

the recent banking crisis in Nigeria members of the auditing profession in Nigeria are once again in the limelight, as the banking crisis and the revelation of unethical practices by bank executives and board members has raised many questions about the ethical standards of the accounting profession and about the integrity of financial reports issued by professional accountants (*ThisDay*, 9 December 2009). The question has been raised as a result of the failure on the part of accountants and auditors to alert regulators when they have discovered fraud and other irregularities in company records (Bakre, 2007; Ajibolade, 2008; Okike, 2009; Neu *et al*, 2010).

In respect of the banking crisis, attention has focused on the role of accountants and auditors who have been involved. Accountants and auditors may be expected to report financial irregularities in company accounts by enhancing transparency and accountability and by developing techniques for fraud detection. However, an emerging body of literature argues that accounting professionals have increasingly used their expertise to conceal and promote anti-social practices (Sikka, 2008a; US Senate Permanent Sub-Committee on Investigations, 2005; Bakre 2007). For example, Akintola Williams and Deloitte (AWD) was indicted for facilitating the falsification of the accounts of Afribank Plc and for deliberately overstating the profits of Cadbury Nigeria Plc. It has been reported that between 1990 and 1994 the Nigerian economy lost more than N6 billion (\$42.9 million) to fraud within the banking sector alone (Bakre, 2007).

The social cost of the banking crisis is difficult to estimate, but huge amounts of public money are being used to bail out distressed banks (Sikka, 2009). In 2008, almost every Reserve Bank across the globe, in collaboration with finance ministries, was forced to adopt extraordinary measures to stave off the collapse of the financial institutions and to restore confidence in the banking system. Some countries, such as the UK, took direct stakes in their banks as a temporary measure in order to ensure that they kept lending. The German and French governments offered to guarantee inter-bank deposits to achieve the same purpose, while the US government rolled out the Emergency Economic Stabilisation Act authorising the US Treasury

Department to spend up to \$700 billion to purchase distressed assets from sick banks and to make a direct capital injection into those institutions (*The Guardian*, 30 August 2009).

While the global recession was biting hard on advanced economies, the governors of the Central Bank of Nigeria (CBN) had stated that 'what the rest of the world is now trying to do as the bailout option was what Nigeria did about four years ago, through a pro-active initiative, the result of which we are celebrating today' (*ThisDay*, 16 October 2008). Less than a year later, however, Nigerians were awoken to the reality that the Nigerian banks were not so stable after all (*The Guardian*, 21 August 2009). The audit conducted by the CBN into the activities of the 24 registered banks in 2009 revealed that they were experiencing huge financial difficulties in their operations. As a consequence, in August 2009, CBN injected N420 billion (\$2.8 billion) into the first five banks (Afribank, Finbank, Intercontinental Bank, Oceanic Bank and Union Bank) which had failed the CBN audit. Two months later, an additional N200 billion (\$1.33 billion) was injected to stimulate the liquidity of four other banks (BankPHB, Equitorial Trust Bank, Spring Bank and Wema Bank) (*Nigerian Tribune*, 8 December 2009; *ThisDay*, 12 December 2009). This injection of money was done in order to stabilise the banks and to ensure that they remained going concerns after their former managers had been sacked for reckless lending and for lax corporate governance which had rendered the institutions undercapitalised (*Nigerian Tribune*, 17 August 2009; *ThisDay*, 12 December 2009).

Although the global financial and banking crises have attracted the attention of policy-makers (TI, 2009) and scholars (Njanike *et al*, 2009; Sikka, 2009; Sikka *et al*, 2009), comparatively little scholarly attention has focussed on the role of auditing firms in facilitating the mismanagement of bank assets, liabilities and depositors' funds in developing countries. This paper therefore provides evidence on the inadequacy of audit reports for disclosing non-performing loans and the mismanagement of banking assets. Such evidence can help understand the auditing practices which have been adopted, but which are in direct conflict with the express claims of auditors and

accountants to be acting in an ethical and socially responsible way. This paper contributes to the on-going debate on the usefulness of auditing and the need for accounting professionals to ensure that they continue to play a leading role in providing credibility to published financial statements and in maintaining the confidence of depositors in banks and investors in the capital market.

The paper is organised as follows. Part II examines the literature on the role of auditing in corporate collapse, particularly in respect of banking failures. Part III considers the theoretical framework of professionalism and the pursuit of profits. It is argued that, despite the regulatory framework governing the professional activities of auditors and accountants, the pursuit of profits and systemic pressure to increase corporate performance have been prioritised. Part IV describes the auditing environment in Nigeria in order to provide an understanding of the socio-political and economic contexts within which such accounting and auditing practices are embedded. Part V provides empirical evidence on the role of auditors in bank failures and the recent banking crisis in Nigeria by way of case-studies. Part VI concludes the paper by providing a summary and discussion of the issues raised and offers suggestions for reform.

II. A Review of the Literature

This section examines the literature on the role of accountants and auditors in anti-social practices, a role which seems to deviate from their primary role as external watchdogs of shareholder wealth and as protectors of the public interest. In recent years accountants 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).

Traditionally, regulators, investors and financial analysts have relied upon corporate financial statements to make sense of bank liabilities, risk and economic exposure, but this has been highly problematic (Stiglitz, 2003; Arnold and Sikka, 2001). The credibility of financial statements prepared by directors of limited liability companies and audited by external auditors remains the primary means of informing shareholders and other stakeholders

about the financial performance, progress and position of the business (Tahinakis and Nicolaou, 2004; Okike, 2004; Bakre, 2007; Sikka *et al*, 2009; Dabor and Adeyemi, 2009; Evbodaghe, 2009). 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 traditional financial issues and focuses on areas that matter to a wide range of stakeholders and the public (Sikka, 2009; Evbodaghe, 2009). It has been argued, however, that audit methodology which was appropriate for the industrial age may not be sufficiently broad enough for the information technology age when assets are intangible, commerce is electronic, markets are global and the pace of change is ever-accelerating (Sikka, 2009; Sikka *et al*, 2009; Asein, 2009). It also seems that auditors face credibility issues. Thus, for instance, there is a widespread public perception that auditors lack independence from company executives and, as a result, there are concerns about the quality of audits (Evbodaghe, 2009; Sikka *et al*, 2009; Sikka, 2009).

The involvement and culpability of accountants and auditors in unethical practices and conflicts of interest have long been documented by critical accounting scholars in developed and developing countries (García-Benau and Humphrey, 1992; McHugh and Stamp, 1992; Sikka and Willmott, 1995; Cousins *et al*, 2000; Mitchell *et al*, 2001; Bakre, 2007; Sikka, 2009; Sikka *et al*, 2009; Gyénin-Paracini and Gendron, 2010). Recent time have witnessed the collapse of a number of corporate giants, such as Enron, WorldCom, Arthur Andersen in the USA and BCCI in the UK. The Nigerian business community is also plagued with ethical problems associated with business collapse (Bakre, 2007). Unethical business behaviour and corporate scandals involving large companies, such as African Petroleum Plc, Cadbury Nigeria Plc and Lever Brothers Plc, have been reported (Bakre, 2007; Ajibolade, 2008).

Enron, the Texas-based energy trading company, caused one of the major scandals which shook up the auditing profession. Enron caused a crisis in respect of the confidence placed in auditors and the reliability of financial reporting. Arthur Andersen, Enron's accountant, was accused of a conflict of

interest which led to it being accused of professional misconduct and other unethical accounting practices (Mitchell and Sikka, 2002). The quality of the audit and the independence of the auditors 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 employees within Enron from Arthur Andersen, thereby affecting the independence of the auditors and causing a conflict of interest. In 2002 Arthur Andersen was also implicated in the collapse of WorldCom, one of the biggest telecommunications companies in the US. Arthur Andersen, as auditor, was found to have failed to have taken proper steps to detect accounting irregularities (Wong, 2004).

The investigations of the Home Bank failure in Canada in 1916 by the Royal Commission revealed that the bank was probably insolvent at the time of the complaints to the minister of finance, and that the statement issued by the management and attested to by the auditor did not reflect the true financial position of the bank (Lew and Richardson, 1992). On 25 March 1985, due to capital inadequacy, Canadian Commercial Bank (CCB) was bailed-out with \$255 million of new capital from the Canadian Federal Government (Neu and Wright, 1992). As a consequence, the report of the Royal Commission chaired by Judge Estey was particularly critical of the role of auditors and of the Inspector General (Neu and Wright, 1992; Lew and Richardson, 1992). After the investigations, the Commission concluded (quoting from Neu and Wright, 1992) that:

'The bank's auditors, Peat Marwick Mitchell and Co. and Clarkson Gordon, take some of the rap for not being more forceful in presenting their opinions about the problems that they saw at the bank. Their decision to issue an unqualified opinion on the financial statements presented to shareholders is also questionable'. (p. 652.)

Similarly, the investigations into the collapse of BCCI implicated the external auditor, PricewaterhouseCoopers (PwC), who acted as both private consultant and tax advisor to the bank's management in order to enhance its own private profits (Arnold and Sikka, 2001; Mitchell *et al*, 2001). The auditing of BCCI provided evidence which showed that the auditor, PwC, had

compromised its independence by accepting loans and financial benefits from BCCI's management (Arnold and Sikka, 2001). Barings Bank collapsed in 1995 as a result unauthorised transactions in excess of £800m by the rogue trader Nick Leeson (*Accountancy Age*, 29 April 2002). The liquidator of Barings, KPMG, blamed the former auditors, Coopers and Lybrand and Deloitte and Touche, for negligently failing to detect the losses caused by Nick Leeson in Singapore (*Accountancy Age*, 8 May 2002). As a result, in 2002 Coopers and Lybrand and Gareth Maldwyn Davies, a Coopers and Lybrand partner, were fined £250,000 and £25,000 respectively for their role in the collapse of Barings Bank (*Accountancy Age*, 29 April 2002).

On 25 August 1991, the world's financial institution auditor, KPMG Peat Marwick, was fired by a governmental agency for the audit of Fokus Bank (the third largest bank in Norway). The reason given by the head of the Governmental Bank Insurance Fund, Tormod Hermansen, was that KPMG had gone beyond its auditing remit by providing Fokus Bank with advice (Ruud, 1992). Thus, it was reported that KPMG had charged Fokus Bank NOK 4.4 million for examining the 1990 financial report, of which only one-third of the fee (NOK 1.4 million) related to audit services while the remaining two-thirds was payment for advisory services. It has been claimed that the advisory services assisted Fokus Bank in its decision-making, and thereby threatened the independence of the auditor (Ruud, 1992).

A number of recent studies have questioned the value of company audits, auditor independence, the quality of audit work, economic incentives for good audits and the knowledge base of auditors (Sikka, 2009; Sikka *et al*, 2009). These studies have argued that the issuance of audit reports is subject to organisational and regulatory politics, that fee dependency impairs claims of independence and has the capacity to silence auditors, and that the intensification of financial capitalism poses questions about the knowledge base of auditors (Sikka, 2009; Sikka *et al*, 2009). A study by Sikka (2009) has shown that distressed financial enterprises in the UK, USA, Germany, Iceland, The Netherlands, France and Switzerland have received unqualified audit opinions on their financial statements published immediately prior to the public

declaration of their financial difficulties; and that these opinions were provided by the big four accounting firms, namely PricewaterhouseCoopers, Deloitte and Touche, Ernst & Young, and KPMG.

A number of studies have documented the role of accountants and auditors in unethical practices and other professional misconduct in the public service and in the corporate sector in Nigeria (Adeyemi, 2004; Bakre, 2007; Ajibolade, 2008). A study by Bakre (2007) has documented various cases in which accountants and external auditors in collaboration with the management and directors of companies falsified and deliberately overstated company accounts. Investigations into the financial report of Afribank implicated Akintola Williams & Deloitte in facilitating an overstatement of the bank's account by the management (Bakre, 2007). Other Nigerian cases have also been documented in which a number of professional accounting firms were involved in, and indicted for, anti-social practices in conflict with their professional claims to be acting in the public interest; and it was suggested that the matter needed further investigation (Bakre, 2007).

The causes of audit failure have been attributed to poor audit reporting resulting from sloppy accounting, inadequate regulation, crony capitalism, multiple regulations, and economic and political factors influencing the incentives of managers and auditors (Dabor and Adeyemi, 2009; Sikka 2009). It has also been stated that, where there is a separation of ownership from the control of a business, there is a tendency for managers of companies to engage in fraudulent financial reporting in order to maximise their own personal welfare to the detriment of the interests of the users of financial statements, the investing public and bank depositors (Sikka *et al*, 2009; Dabor and Adeyemi, 2009). Bank failures have also been associated with endogenous forces, lack of scruple, lack of knowledge and information, poor judgement, speculation, greed and fraud. In Nigeria the bank failures of the Abacha era were attributed to an inadequate capital base, the fraudulent self-serving and corrupt practices of the owners and managers, the meddlesome interference of board members in the day-to-day running of the institutions and to regulatory laxity (*ThisDay*, 18 August 2009).

The recent banking crisis in Nigeria has shown the role that regulatory laxity, greed and avarice have played in the management of banks. It has been claimed that towards the end of former CBN Governor Soludo's era at the Apex Bank that the regulator got too close to some banks for comfort and that 'the damage that did to credibility was enormous because at a point it became difficult to ascertain what was happening between the banks and the CBN' (*ThisDay*, 18 August 2009).

A number of scholars have shown that many accountants, particularly members of the Institute of Chartered Accountants of Nigeria (ICAN), have been responsible for the crisis in the banking and manufacturing sectors in Nigeria (Okike, 2004; Bakre, 2007). These studies show that the regulatory framework in Nigeria is weak, because members of the professional firms implicated in a number of anti-social practices in Nigeria have not yet been sanctioned (Okike, 2004; Bakre, 2007). The studies have suggested that the accounting profession in Nigeria and other regulators (such as the Central Bank of Nigeria, the National Deposit Insurance Corporation, and the Nigerian Accounting Standards Board) must continue to monitor developments in both the external and internal reporting environments.

III. Professionalism and the Pursuit of Profits

Traditionally, the literature on the professions draws attention to the processes by which professionals (such as accountants, bankers and lawyers) have mobilised claims of ethical codes, higher education, the command of knowledge and claims to be serving the public interest in order to cement their own social power. Claims to professionalism include the existence of ethical codes whereby it is claimed that professionals possess theoretical and practical knowledge and exercise high levels of skill, technical conduct and social responsibility. Appeals to such idealised self-images help to solicit trust and legitimise professional power and responsibility (Sikka, and Hampton, 2005). In other words, such claims are used to advance professional social, economic and political interests and to secure control of

markets and niches (Millerson, 1964; Willmott, 1986; Macdonald, 1995; Grey, 1998; Morris and Empson, 1998; Leicht and Fennell, 2001).

It has been argued that professional monopoly and professional claims are dependent upon state recognition, in other words upon charter status (Cooper *et al*, 1988; Uche, 2002; Okike, 2004; Bakre, 2007). State recognition by way of charter status enables accountancy professional bodies to be self-regulated and for accounting firms to have control over the auditing of public companies (see Bakre, 2007). The two professional bodies in Nigeria, the Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN), enjoy guaranteed charter status and the self-regulation of accountancy¹. In order to continue to enjoy the support of the Nigerian state through their charter status, self-regulation and the support of their clients, ICAN and ANAN have claimed to be committed to promoting the highest standards of competence, practice and ethical conduct amongst members (Bakre, 2007). However, it has been argued (*e.g.* by Willmott, 1986) that professional associations are primarily political bodies whose main purpose is to advance the interests of their members. Thus, their professional claims allow professional associations (such as accountancy) to justify any charter status and monopoly power that they have received from the state (Bakre, 2007). Such claims are essential for professional groups to continue to diffuse any crisis the profession may face in society (Neu and Wright, 1992; Bakre, 2007). Bakre (2007) has argued that the extent to which the accountancy professional bodies, accountants and auditors rely on their charter status and monopoly power from the state to pursue their own personal interests in the name of protecting the public interest depends on the socio-political and cultural environments within which the accountants and auditors operate.

Such an exclusive privilege over the auditing market provides a substantial economic and financial benefit to members of the accounting profession (Okike, 2004). In return, however, the public have a right to expect benefits in

¹ This is by virtue of Act of Parliament No. 15 of the 1965 for ICAN and Act No. 70 of 1993 for ANAN.

the form of improved financial reporting and the assurance of a stable banking sector and capital market (Okike, 2004). A number of scholars have argued that, although certain occupational groups, particularly accountants, have professed themselves to be promoting the common good, they have not in fact subordinated their own interests to the common good (Shaw, 1946; Willmott, 1986; Bakre, 2007). Bakre (2007) has argued that 'the operating activities of the two recognised professional bodies in Nigeria, ICAN and ANAN, have been to protect the interests of their members against the general claims of protecting the Nigerian public interest' (p. 283). Uche (2002) has argued that 'their works almost always stress the technical qualities of accounting while underplaying the social and political formation of its practices and standards' (p. 472).

The situation may sometimes become more complex and even compounded by the contradictory position in which professional accountants who claim to be protecting the public interest find themselves. However, the right to improved financial reporting cannot be assumed in a society that is highly infested with corruption and anti-social financial practices. This is because, in a corrupt society, the quality of accounting systems and of accounting data generated may be doubtful and so may the reliability of information presented in audited financial statements (Uche, 2002; Okike, 2004; Bakre 2008). Therefore in a society like Nigeria, where corruption, a lack of checks and balances and a lack of a national integrity system is endemic and almost institutionalised, the independence of some auditors in discharging their statutory duties may be in doubt (Okike, 2004; Bakre, 2007). In a corrupt environment, Wallace and Parker (1991) posit that the risk of audit failure is high and that auditors may not be able to rely on formalised audit procedures but may be forced to employ more flexible and less formalised audit mechanisms.

Furthermore, it has been argued that, as auditors in market societies are remunerated by the client company rather than by an independent body, this inevitably makes them dependent upon directors for their fees and profits (Sikka, *et al*, 2009). It has been argued that auditing firms may legitimise their

status by appealing to 'professionalism', but in common with other capitalist enterprises they seek to increase profits and market niches (Mitchell and Sikka, 2002; Sikka and Hampton, 2005). The internationalisation of professional services shaped by intense competition and the pressure to increase earnings and accumulate wealth has continued to create opportunities for professionals and the process has been driven by both economic and financial gain. Hanlon (1994) stated that:

'In respect of professionals in the private sector the emphasis is very firmly placed on them being commercial and on performing services to customers, rather than on them being public spirited on behalf of either the public or the state'. (p. 150.)

Thus, professional accounting organisations prioritise private profit and encourage competitive individualism with an emphasis on retaining the client, pleasing the customer and promoting business virtues that increase profits (Grey, 1998; Leicht and Fennell, 2001; Gunz and Gunz, 2006; Suddaby, Cooper and Greenwood, 2007). It has been argued that auditing firms have used their control of auditing markets to colonise adjacent markets in order to sell consultancy services to auditing clients. It has also been argued that the profit motive informs the dynamics of accounting firms (Sikka *et al*, 2009). Generally, the auditing model positions auditors as the guardians at the gate, watching over firms with the public interest in mind, but it has been argued by Sikka *et al* (2009) that 'the success of both corporate watchdog and protector of public interest is measured by revenues, profits and market shares rather than by pursuit of any broader social goals' (p. 139). Mitchell and Sikka (2002) have argued that the entrepreneurial environment in which accountants operate has not been accompanied by morally upright behaviour:

'The expansion of the entrepreneurial accountancy firm has not been accompanied by moral constraints that require consideration of the social consequences of their organisational practices. In such an environment, numerous practices are considered to be acceptable as long as they generate private profits'. (p. 10.)

The commercialisation of audits whereby auditors are dependent upon directors for their fees may result in auditors being unable to maintain a

sufficient 'distance' and unable to deliver independent audits. Auditors may also develop strategies that maximise audit profits, possibly by performing less stringent audits or by developing strategies which increases private profits but reduce quality (Sikka *et al*, 2009). The public is persuaded to believe that auditors collect relevant and reliable evidence in order to form their opinion. The reality is that in their pursuit of profits, auditors do not always bother with such niceties (Mitchell and Sikka, 2002). This is because audit assignments are based on tight budgets and idealised procedures which limit audit verifications and examination of records to specific items.

The quality of audits is dependent not only on the technical skills of audit teams, but also on the organisational values and labour processes embedded within audit firms. Thus, some firms may impose tight time constraints on audit staff even though such constraints play a major part in audit failures and in the incompleteness of audit work. As a result, audit staff may carry out unprofessional practices such as accepting doubtful audit evidence, failing to test the required number of items in a sample, or falsifying audit working papers in order to give the impression that the work had been done (Mitchell and Sikka, 2002). As the audit review process cannot completely reperform the audit, irregular audit practices rarely come to light before the completion of an auditing assignment. In this audit environment of tight time constraints, competition and the pursuit of higher profits, auditing firms seek ways of achieving efficiency. A common practice is to use checklists for controlling, planning and recording an audit. Such devices standardise audits and make the process much more mechanical and predictable. It has been claimed, however, that this 'checklist mentality' encourages irregular practices because it is subjective and discretionary (see Mitchell and Sikka, 2002).

It has been argued that the environment in which auditors operate will usually determine the extent to which they can successfully discharge their role as society watchdogs (Okike, 2004; Bakre, 2007). The auditing environment in Nigeria is considered next.

IV. The Socio-Political and Economic Contexts of Auditing in Nigeria

In order to understand the general environment in which auditors and accountants operate in Nigeria, it is necessary to consider the social-political and economic contexts in which auditors work. Nigeria is located in West Africa in the Eastern corner of the Gulf of Guinea, an arm of the Atlantic Ocean (Sklar, 2004; Uzoigwe, 2004). It is the second largest country in Africa (Uzoigwe, 2004). It has a population of about 145 million (*US Senate Subcommittee on Investigations, 2010*)². Nigeria has grown from three regions at independence to a federation of 36 states and a Federal Capital Territory.

Since its independence in 1960 Nigeria has been ruled mainly by military regimes with some democratic interludes. Nigeria has witnessed frequent violent changes in the attempt by various parties to control the apparatus of the state (Uche, 2002). Thus, stable and accountable democratic institutions have never really been established. In addition, Nigeria has suffered a long history of gross mismanagement of its economy and of corruption at all levels of government (Okike, 2004; Bakre, 2008). Accountability in all facets of the economy is an essential ingredient for the economic development of any nation. Achieving adequate accountability in Nigeria has, however, been a major problem which successive governments have had to contend with because of widespread corruption and anti-social practices in almost all spheres of public and private endeavours (Okike, 2004). It has been argued that, despite successive governments claiming to have implemented various economic and political programmes to curb anti-social practices, Nigeria continues to be enmeshed in huge financial criminal practices (Bakre, 2008).

² In 2006 Nigeria's population stood at 140,003,542, according to Samu'ila Danko Makama, Chairman of the National Population Commission (NPC). This was an increase of about 20 million on the 1991 census figure of 120 million (*ThisDay*, 30 December, 2006). The distribution among the six geopolitical zones were: North West 35.79 million; North Central 20.27 million; North East 18.97 million; South West 27.58 million; South South 21.01 million; and South East 16.38 million (*Nigeria World*, 11 January 2007).

Financial statement quality is an indispensable component of the infrastructure needed to develop a mature capital market and a viable banking sector. Thus accountants and auditors play a key role in ensuring adequate internal controls in business organisations (such as banks) and ensuring the reliability of the financial information reported in company financial statements (Okike, 2009, Evbodaghe, 2009). For example, the Companies and Allied Matters Act 1990 (CAMA 1990) imposes a legal duty on chartered accountants as external auditors to examine financial statements not only to determine whether they represent a true and fair view of the state of affairs of the entity and are free of any material misstatements, but also to ascertain whether they conform to the Generally Accepted Accounting Principles (GAAP), other relevant legislation and standards, and whether there are errors, misstatements or fraud in the accounts (Okike, 1998; Okike, 2004; *Guardian*, 30 August 2009).

In addition, CAMA 1990 provides that public companies should have an audit committee comprised of an equal number of directors and representatives of the shareholders of the company (subject to a maximum number of six members)³. Members of the audit committee are not entitled to remuneration and they are subject to annual re-election. The audit committee is also expected to be independent and to be able to understand basic financial statements. Although such audit committees ought on behalf of the other members of the company (*i.e.* the shareholders) to make valuable contributions to the efficient running of the company, in practice members of audit committees are often weak and can be compromised because of fringe benefits, executive remuneration and rewards from directors.

There are no state guaranteed monopolies for engineers, scientists, mathematicians, computer experts and other wealth creators, but audit work is reserved for accountants belonging to a handful of accountancy trade associations (Mitchell and Sikka, 2002). In Nigeria, there are two main professional accountancy bodies: the Institute of Chartered Accountants of

³ See ss.359(3),(4) Companies and Allied Matters Act (CAMA) 1990 Cap 20 laws of the Federation of Nigeria 2004.

Nigeria (ICAN); and the Association of National Accountants of Nigeria (ANAN) (Uche, 2002; Okike, 2004; Bakre, 2007; Iyoha and Oyerinde, 2010). The Federal Parliament Act No. 15 of 1965 gave ICAN charter status and a monopoly to regulate the accountancy profession in Nigeria and to make regulations governing disciplinary actions against erring members (see ICAN Act 1965; Uche, 2002; Okike 2004; Bakre, 2007; Adegite, 2009). Both bodies are in essence self-regulating and both memberships have elected Governing Council members. In common with accountancy practice in other jurisdictions, there is no separate statutory regulator of the audit profession.

Auditing has been a real boom for accountancy firms in Nigeria, where there are nearly 700,000 registered companies plus hospitals, universities, local authorities, pension funds, schools, trade unions, housing associations and charities which all need to have their books audited by an accountant (Adegite, 2009). Not surprisingly, accountancy is an attractive career. Nigeria has approximately 40,000 qualified accountants⁴. Thus, ICAN has produced 27,000 chartered accountants since inception (Adegite, 2009), while ANAN has 13,000 registered members (*ANAN Membership Register*).

It has been argued that ICAN'S inability to maintain its state-granted chartered status and monopoly, especially its inability to control the behaviour of its erring members, led to the recognition of ANAN in order to provide more competition in the accountancy profession (Uche, 2002; Bakre, 2007). As a result, the ICAN Act 1965 and the ANAN Act 1993 gave ICAN and ANAN statutory powers to control and regulate the accountancy market, to determine the future direction of the profession and, most importantly, to control the behaviour of their respective members (Uche, 2002; Okike, 2004; Bakre, 2007). Thus, for instance, in order to be admitted as a member of the accountancy profession, a person must pass ICAN's examinations and complete the practical training prescribed (s.8(1)(a) ICAN Act 1965). Similarly, with ANAN, a prospective accountant must have a university degree in

⁴ ICAN members dominate accounting and auditing services in the private sector, while ANAN members are mostly employed in the public sector.

accountancy or its equivalent and must thereafter attend the College of Accountancy for one year (Uche, 2002).

Under the provisions of the ICAN Act 1965 the accounting and auditing profession is required to provide the necessary assurance of 'fairness in the conduct of banking businesses'. In addition, section 29(1) of the Banks and Other Financial Institutions Act 1991 (BOFIA 1991) provides that banks must annually appoint an 'approved auditor':

'Every bank shall appoint annually a person approved by the bank . . . [an 'approved auditor'] whose duties shall be to make to the shareholders a report upon the annual balance sheet and profit and loss account of the bank and such report shall contain a statement as to the matters and other information as may be prescribed, from time to time, by the bank'

In the 1980s, a mixture of local and international firms provided accounting services in Nigeria. Thus, for example, Arthur Andersen, Coopers and Lybrand, Peat Marwick and PriceWaterhouse had offices in Nigeria. In terms of the banking industry, international auditing firms conducted 65 per cent of the audits, with Peat Marwick being the auditor of record for Nigeria's three largest banks (Nue *et al*, 2010). In terms of the banks that would ultimately fail, international auditing firms provided the audits in 63 per cent of the cases, suggesting there was little difference in audit quality between international and local firms (Nue *et al*, 2010).

The following section outlines the research method deployed in this paper to discuss the role of professionals in unethical practices.

Research Methods

To understand the role and involvement of accountancy firms and external auditors in the banking crisis in Nigeria, this paper relies primarily on archival records which include press reports, regulator and government reports on the banking crisis, annual reports, evidence of falsification of accounts and evidence on the role of auditors. This evidence is used to compile case-studies. Although this evidence may be incomplete and somewhat biased, it

nevertheless provides evidence of anti-social financial practices. There are considerable problems in collecting data because unethical behaviour is masked with secrecy and because it is extremely rare for participants or auditors to volunteer details of their practice. For this reason it is only possible in this paper to refer to publicly available evidence which provides only a glimpse of the bigger underlying problems. Information on ethical practices by regulators who have conducted investigations on the activities of the banks may, however, shed light on the role of auditors in company collapse and in the recent banking crisis in Nigeria.

Although a comprehensive investigation and critique of the politics and problems of auditing in Nigeria is beyond the scope of this paper because of the reasons given above, the paper nonetheless seeks to explore some basic practices which are deeply embedded in current auditing practices. These relate to the appropriateness of the basic auditing model, the quality of audits and the variability of financial statements. An analysis of documentary reports is particularly useful in this respect in that it not only serves to highlight the role and value of audit practices, but also helps to frame and contextualise the active role of professionals and auditors in facilitating unethical practices in Nigeria.

The following section provides evidence on the role and involvement of accountants and auditors in banking failure in Nigeria

V. Some Evidence

Although professional accountants and accounting firms claim to act in the public interest, they have been implicated in various acts of professional misconduct and in falsification and deliberate financial engineering in Nigeria (*ThisDay*, 16 October 2006; *The Punch*, 14 December 2006; Bakre, 2007). The 'big four' accounting forms in Nigeria are KPMG, Ernst and Young, PricewaterhouseCoopers, and Akintola Williams and Deloitte. These four accounting firms have been implicated in falsification and financial engineering scandals in Nigeria. Paradoxically, this suggests that the way in which professional firms conduct their audit has financial implications for the

financial sector and the capital market in Nigeria which has not been under public scrutiny in recent years. The cases below provide evidence on the role of auditors in corporate scandals in Nigeria.

CASE 1: Akintola Williams Deloitte and Afribank Plc and Cadbury Plc

Akintola Williams Deloitte (AWD), one of the big four accounting firms in Nigeria, was external auditor to Afribank Plc and Cadbury Plc. AWD has about 40 partners and audits the accounts and serves as reporting accountants to many big companies in the capital market (SEC Administrative Proceedings Committee, 2008). In 2006 AWD was in two different cases accused of account falsification and financial engineering during its audit of two companies, Afribank Plc and Cadbury Nigeria Plc.

In the case of Afribank Plc, AWD was exposed by the former Managing Director of Afribank Plc who alleged that the accounts of the company had been manipulated by the Afribank board and the external auditor AWD (*ThisDay*, 16 October 2006). However, AWD denied their involvement in any unethical practices:

'In our thirty years of existence, this is the first time someone would accuse us of modifying our report. We apply the rule 100 per cent, we do not bend the rules at all. Our firm has a world renowned in-house audit approach system called Deloitte audit that ensures our audits are carried out in full compliance with all applicable audit and accounting standards both local and international'. (ThisDay, 16 October 2006.)

At the completion of the audit exercise by the external auditor, AWD, the draft accounts for the period under review showed that Afribank had recorded gross earnings of N16 billion, a before tax loss of N6.3 billion and an after tax loss of N6.9 billion, total assets of N127.5 billion, and the shareholders' fund dropping to N17.85 billion compared with the 2005 amount of N21.4 billion (*ThisDay*, 16 October 2006). According to the former Managing Director, the main reason for the wide difference between the management figures and the audited figures was simply as a result of huge non-performance risk assets in the previous year, which the bank had been carrying erroneously as performance risk assets. This account manipulation occurred with the

knowledge of the Board of Directors and on the professional advice of the external auditors, AWD (*ThisDay*, 16 October 2006).

Despite evidence of irregularities and unethical practices in the accounts of Afribank Plc, the Chief Executive of AWD claimed that its audit report on the Bank's accounts was a 'true, fair and accurate' representation of its financial position for the year under review. He also claimed that the Central Bank of Nigeria (CBN) had certified the audit as being satisfactory (*ThisDay*, 16 October 2006).

While the auditor, AWD, claimed that the CBN had given the audit a clean bill of health, the CBN, due to public demand, sent its examiners to re-investigate the accounting books of Afribank Plc. The Nigerian Stock Exchange and the House Committee also launched separate investigations into the alleged financial malpractice by the Bank's directors and its auditor. The Board, management and external auditors of the Bank were asked to confirm to the Committee whether the recently published account had taken into account all material facts, such as Director-related loans and full provisions for bad loans. Despite the scale of the alleged irregularities and unethical practices perpetrated by the Board of Afribank in collaboration with the company's auditor, AWD continued to claim that their audit represented an accurate representation of the Bank's financial position.

However, while the case was being investigated by the regulators (the CBN, and the Nigerian Stock Exchange) and the House of Representatives Committee on the capital market, AWD was implicated in another falsification of accounts involving Cadbury Nigeria Plc, a subsidiary of Cadbury Schweppes Overseas Limited, a group which owns a number of confectionary and soft drink brands in 200 countries worldwide. The falsification of the company's accounts was perpetrated by AWD in collaboration with the Managing Director/CEO and the Finance Director who was a chartered accountant and a Fellow of the Institute of Chartered Accountants of Nigeria (ICAN) (*The Punch*, 20 November 2006; *ThisDay*, 13 December 2006).

The investigations by the Administrative Proceedings Committee (APC) of the Nigerian Security and Exchange Commission (the SEC) confirmed that N13,255 billion (\$106 million) was the accumulated overstatement for the years 2002 to September 2006 and that AWD had audited the published accounts for those years as well as carrying out an interim audit for the period ended September 2006. APC reported that:

'In 2005 N7.7 billion (\$61.6 million) was credited to the company's account without bankers' confirmation and supporting note in the 2005 audited account that AWD did not receive confirmation from any of the banks. The materiality of the amount is significant enough to have put AWD on enquiry.' (SEC Administrative Proceedings Committee, 2008.)

In addition, AWD had sent management letters on the company's 2001-2005 accounts, but it had failed or refused to note the lapses in the accounts when no satisfactory response was given by the company's management (SEC Administrative Proceedings Committee, 2008). Furthermore, AWD, as external auditor and a party to the issue, signed, consented to and authorised the issuance of an untrue financial statement in the rights circular and failed to exercise the due diligence and professionalism they claimed in the discharge of their duties in the rights offer of N5 billion (\$40 million) unsecured zero Coupon Irredeemable Convertible loan stock. Although auditors normally rely on documents presented to them by their clients in order to do their work, they are required to probe further when put on inquiry as shown in the stock certificate of N700 million (\$5.6 million), allegedly issued by JOF Limited but disclaimed in writing by the alleged issuer, but which was large enough to make AWD seek further confirmation, but which it failed to do (SEC Administrative Proceedings Committee, 2008). The Administrative Proceedings Committee of the Nigerian Security and Exchange Commission (2008) further noted that:

'Professional scepticism generally requires that an auditor should not believe documents presented by client on till it sees evidence that they are genuine. In Cadbury case, AWD did not probe further or doubt documents presented by the company in spite of internal control weakness detected and revealed in its management letters.' (SEC Administrative Proceedings Committee, 2008.)

It has been argued that AWD, and in particular the partners who had handled the company's account, did not carry out their assignment with the high level of professionalism and diligence which they professed to exercise (Bakre, 2007).

After investigation by the Security and Exchange Commission (the SEC), the Managing Director/CEO and the Finance Director of Cadbury Nigeria Plc were banned, while the Head of Internal Audit and the Senior Financial Accountant/Head of Accounts of Cadbury Nigeria Plc, who were all professional accountants and AWD, were suspended from operating in the Nigerian capital market because of their role in the scandal (*Vanguard*, 3 April 2008; *Business Day*, 9 April 2008). The *SEC Report* stated that:

'They were the masterminds of the financial malpractice perpetrated through the falsification of sales figures, over-statement of profits/assets and false suppliers of certificates to manipulate its financial records/report'. (Vanguard, 3 April 2008; Business Day, 9 April 2008.)

The role of accountants in the Afribank Plc and Cadbury Nigeria Plc cases was shaped by an organisational culture which prioritised high profits and in which accountancy firms put the best interests of their clients above their own professional code of practice. As a result, Akintola Williams Deloitte (AWD) was ordered to pay a fine of N20 million for its failure to handle the accounts of the company with due professional diligence. Although AWD was strongly reprimanded and warned to desist from engaging in acts that might affect the investing public's confidence in the capital market, the penalty seemed light compared with the damage such anti-social practices have on Nigerian society. The Administrative Proceedings Committee (APC) of the SEC stated that:

'AWD did not probe further or doubt documents presented by the Company in spite of the internal control lapses detected and revealed in its management letters. That AWD and in particular, the partners that handled the Company's account, did not carry out their assignment with the high level of professionalism and diligence expected of a reputable accounting firm of its calibre'. (Vanguard, 3 April 2008; Business Day, 2008.)

On account of the above unprofessional misconduct of AWD as auditor, stock market consultant and tax manager, AWD was also implicated in tax-related advisory matters as such falsified accounts are used for tax returns. However, AWD denied the various allegations claiming that:

*'Overall, we are a firm that is known for high integrity and ethical values and cannot be accused of suppression of financial information'.
(ThisDay, 16 October 2006.)*

Despite AWD's claims of 'high integrity and ethical values', AWD formally resigned as auditors to Cadbury Plc before the completion of the SEC investigations, which AWD purported to be in the interest of the shareholders and in the spirit of the highest standards of corporate governance. The resignation did not allude, however, to any complicity on the part of AWD as the investigations had shown.

A number of accountants and auditing firms have been implicated in the crisis in banking and manufacturing companies in Nigeria (Bakre, 2007). Thus, it has been argued that, despite unqualified audit reports, a number of companies still collapse, thereby raising the spectre of unethical behaviour on the part of professional accountants. The recent pronouncement by the Central Bank of Nigeria (CBN) on the state of Nigerian banks has been a cause of concern for regulators, depositors and shareholders. The role played by accounting firms in the recent banking crisis in Nigeria is examined in the following case.

Case 2: The Big Four and the Recent Banking Crisis

Regulators and investors have traditionally relied upon corporate financial statements to make sense of bank liabilities, risk and economic exposure, but this has been highly problematic (Stiglitz, 2003). In the process of constructing a regulatory environment, accountants and the auditing profession were enlisted to provide the necessary assurance of 'fairness in the conduct of banking business' (Nue *et al*, 2010). However, despite the enlistment of auditors as corporate watchdogs, Nigeria has witnessed a number of bank failures since independence in 1960. The spate of banking distress

experienced in the 1980s prompted the introduction of the regulatory framework for the Nigerian banking industry. In 1995 another bout of distress occurred in the banking industry when 57 commercial and merchant banks went into distress in the first three months of that year. Their illiquidity was put at N47.9 billion (\$383.2 million), constituting 24.6 per cent of the total deposits in the banking sub-sector at that time, and out of the reach of their depositors (*Newswatch*, 24 August 2009).

As a consequence of inadequacies, the liquidity problems often experienced by banks in Nigeria led to the raising of the minimum capital base of banks to N25 billion (\$167 million) in 2004. The re-capitalisation led to there being 25 banks in 2006, a considerable reduction from the 89 which existed in 2004. Nigerian banks saw explosive balance sheet growth in the wake of consolidation four years ago, and they went on massive capital raising sprees which increased their capacity to lend to companies and to individuals. Risk management, however, did not keep pace (*Nigerian Tribune*, 17 August 2009).

The evidence shows that, out of the 25 big banks operating in Nigeria after re-capitalisation, three international accounting firms have been the major auditors of the banks (see Table 1) showing the intense competition among them. The audit monopoly has provided them with stability of income and a springboard for selling other services. Their income runs into hundreds of millions, and yet audit stakeholders have no way of checking the efficiency and standards of audit work. Cousins *et al* (1998) have drawn attention to this lack of accountability:

'In the absence of a 'duty of care' to individual stakeholders and public accountability, the auditing industry does not have a strong economic incentive to improve the quality of audits. If by hook or by crook a company survives, no external party knows that audits were botched. . . . The auditing industry is pre-occupied with fees and client appeasement'. (p. 9.)

Cousins *et al* (1998) argue that auditing firms are concerned only with mechanical compliance with auditing standards rather than with audit quality; and that the whole emphasis is on covering up deficiencies.

Table 1 Banks Audited by the Big Four Accounting Firms

KPMG Professional Services	Akintola Williams Deloitte & Touche	PriceWaterhouse Coopers	Ernst &Young
Access Bank	Afribank	BankPHB	Skye Bank
Guaranty Trust Bank	Fidelity Bank	Diamond Bank	
Wema Bank	First Bank	EcoBank	
Nigerian Int. Bank	First Inland Bank	FCMB	
Sterling Bank	Union Bank	IBTC Stanbic	
Standard Chartered	Unity Bank	Intercontinental Bank	
	United Bank of Africa	Oceanic Bank	
	Equitorial Trust Bank	Zenith Bank	
	Spring Bank	Stanbic Bank	

SOURCE: Extracted from the *Audited Reports* of the various banks.

Table 1 shows that KPMG Professional Services audited six banks, Akintola Williams Deloitte and PricewaterhouseCoopers nine banks, and Ernst and Young one bank since the post-consolidation period. There has been discontent with the development and quality of audits produced by the big accounting firms, and it has been stated that 'the crash of financial institutions in the Western countries has shown that foreign auditors are no better than their local counterparts' (*The Guardian*, 9 August 2009).

The attention of stakeholders has focused on auditors worldwide because of the belief that an auditor's unqualified report signifies that a company is healthy. Before the CBN announced its findings on the state of affairs of the

banks and their activities in the Expanded Discount Window (EDW), the external auditors to these banks were unable to properly scrutinise and bring into the public domain the true state of these reports including their loan portfolio which CBN put at N2.8 trillion (\$18.67 billion) (*Business Day*, 19 August 2009). In 2007, the Nigerian Deposit Insurance Corporation (NDIC) annual report showed signs of insolvency amongst Nigerian banks which indicated that four banks were sound, 17 were satisfactory, two were marginal and one was unsound (*NDIC Annual Report*, 2007), and yet the audit report of these banks had shown that they were sound (*Daily Sun*, 22 August 2009).

As part of the statutory requirements of the Companies and Allied Matters Act 1990 (CAMA 1990) and the Banks and Other Financial Institutions Act 1991 (BOFIA 1991), external auditors of quoted companies are required to state that their financial statements of companies give a true and fair view of the state of the companies' financial affairs (in this case the troubled banks) and that their profits and cashflows are in accordance with CAMA 1990 and BOFIA 1991 and the Nigerian Statement of Accounting Standards. In contrast, however, accounting has become a new exercise in creative fiction, with the result that banks are including many unreported non-performing interests in their statements of their financial position. As a consequence, the Deputy Chairman of the House of Representatives Committee on Drugs, Narcotics and Financial Crimes has challenged the regulatory framework governing the relevant institutions charged with the responsibility of auditing and supervising the commercial banks (*ThisDay*, 18 August 2009).

Table 2 below shows that the distressed banks received unqualified audit reports on their financial statements published immediately prior to the regulatory pronouncement of their financial difficulties. The evidence shows that audit opinions as contained in the banks' annual reports were provided by the 'big four' accounting firms in Nigeria: Akintola Williams Deloitte (AWD); PricewaterhouseCoopers (PwC); KPMG Professional Services; and Ernst & Young (E&Y). Despite the deepening financial crisis in Nigeria in 2009, auditors did not express any reservations about the value of non-performing loans or of any scenarios under which a company might not be able to honour

its obligations. However, just some few months later the regulators declared these banks to be distressed. The list of banks in Table 2 is useful for highlighting a number of issues. Thus, for instance, the Nigerian auditing standards require auditors to consider an 'entity's ability to continue in operational existence for the foreseeable future', which 'necessitates consideration of both the current and the possible future circumstances of the business and the environment in which it operates' (*Nigerian Auditing Standards, 2003*). How the auditors constructed the audits to satisfy themselves that the banks below were going concerns is open to conjecture, because the financial difficulties of many banks became publicly evident only months after they had received unqualified audit reports.

Table 2 Auditors and Distressed Banks

Bank	Year end	Auditor	Date of last Audit report	Audit Opinion	Auditor's Remuneration (N'millions)	
					2008	2007
Afribank	31/3/2008	AWD	Mar. 2008	Unqualified	N/A	N/A
Finbank	31/4/2008	AWD & AI	Dec. 2008	Unqualified	67	63
Union Bank	31/3/2009	AWD & BTN	Oct. 2009	Unqualified	118	113
Intercontinental	29/2/2008	PwC	May 2008	Unqualified	208	112
Oceanic Bank	31/12/ 2008	PwC	May 2009	Unqualified	168	100

Source: Extracted from the *Annual Reports* of the various banks.

The nature of the recent banking crisis in Nigeria, which has resulted in concerns being voiced about the apparent lack of independence or technical incompetence of the auditors involved, has cast doubt on the functional capacity of audit technologies. Table 2 above shows the financial institutions which failed the Central Bank of Nigeria (CBN) audit in 2009, even though they had all received unqualified audit reports in the previous accounting year. For example, Oceanic Bank International Plc received an unqualified audit opinion on its annual accounts on 31 December 2008, followed by a 'clean bill of health' in respect of its annual accounts on 28 May 2009. The external

auditor of Oceanic Bank International Plc, one of the banks which was bailed out, was reported to have asserted that:

'We have audited the accompanying consolidated financial statements of Oceanic Bank International Plc 'the bank' and its subsidiaries (together 'the group') which comprises of the consolidated cash balance sheet as at 31 December 2008 and the consolidated profit and loss account and consolidated cash flow statements for the period ended and a statement of significant accounting policies and other explanatory notes. . . . In our opinion, the financial statement gives a true and fair view of the state of the financial affairs of the banks and group as at 31 December 2008 and of their profits and cash flows for the period ended in accordance with the Nigerian Statement of Accounting Standards, the Companies and Allied Matters Act 1990 and the Banks and Other Financial Institutions Act 1991.' (Annual Report, 2008, p. 31.)

The CBN's findings on Oceanic Bank International Plc appear to give a contrary view and raise questions on the credibility of the auditors especially on the disclosure of debt exposure (*Business Day*, 15 October 2009). Oceanic Bank's annual report for the 2008 financial year shows that it had N5 billion (\$40 million) non-performing loans in 2007 and N36 billion (\$288 million) in 2008 (*Annual Report, 2008*, p. 53). However, by 14 August 2009, just three months later, the Central Bank of Nigeria had declared the bank unhealthy with N278.2 billion (\$2.2 billion) non-performing loans representing 37 per cent of the total non-performing loans of the first five distress banks which was put at N747 billion (\$5.98 billion) (*ThisDay* 25 August 2009; *Newswatch*, 24 August 2009). This was against the bank's 2008 figures for non-performing loans which stood at N36 billion (\$288 million) (*Annual Report, 2008*, p. 53). In the case of Intercontinental Bank Plc, PwC did not qualify the audited report of the bank as at 14 May 2008 with about N16.6 billion (132.8 million) non-performing loans, and yet the CBN report showed that the bank had N210.9 billion (\$1.69 billion) in non-performing loans representing 28 per cent of the total bad loans (*This Day*, 25 August 2009).

The length of time it takes an external audit team to verify the complex operating activities of a bank with its networks of branches and to produce a statement of a bank's financial position is in stark contrast to the length of time it has taken regulators to investigate and determine the financial inadequacies

of the banks concerned. Such a comparison of the time taken and the depth of work involved questions the level of assurance which is provided by standard audit investigations and also the source of evidence on which audit opinions are based. This suggests that an auditor's assessment of the truth and fairness of a bank's set of financial statements is influenced by assurances from the corporate manager.

The increased commercialisation of the accounting profession and of the big four accounting firms and their emphasis on non-audit work has clear implications for auditor independence. Company auditors, the private 'police force' of capitalism, make millions of Naira in fees from company audits; and company audits are used to obtain easy access to senior management and to sell a variety of consultancy services. The fear of diversification of audit firms into other services areas compromises their independence and may result in the audit being sold as a 'lost leader' in the hope of selling the more profitable management consultancy services, with subsequent implications for audit quality. The Nigerian Economic and Financial Crimes Commission (EFCC) Chairman, Farida Waziri, alleged that the auditors conspired with the managing directors of the erring banks to defraud those banks. She stated that:

'During our investigations, we found that all the erring bank chief executives were given a clean bill to operate by both the external and the internal auditors who are paid to do so. It was gathered that these auditors connived with the chief executives to cook the books and cover the tracks while the frauds were being perpetrated.' (Saturday Tribune, 22 August 2009; ThisDay, 22 August 2009.)

Table 2 above also shows that the auditors received a considerable income from their audit clients. Fee dependency and career advancement exert pressure on auditors to acquiesce with management, which can create a conflict of interest. PwC received N112 million (\$896,000) (in 2007) and N208 million (\$1,66 million) (in 2008) in audit fees from Intercontinental Bank Plc (*Annual Report, 2008*, p. 82). During 2007, PwC collected N100 million (\$800,000) and N168.4 million (\$1.35 million) in 2008 from Oceanic Bank International Plc. In 2009 PwC had a global gross revenue of \$26.2 billion with

the Middle East and Africa, including Nigeria, contributing \$704 million (*PwC Global Annual Review, 2009*, p. 43). The scale of fees raises questions about auditor independence. This suggests that auditors are too close to companies and that they 'cannot bite the hand that feeds them'. How can one group of commercial entrepreneurs audit another group of commercial entrepreneurs? According to Sikka (2009) that model is broken and cannot work.

In the case of Afribank Plc, Union Bank Plc and Finbank Plc, their accounts were audited by Akintola Williams Deloitte (AWD), another giant accounting firm, with a global revenue of nearly \$26.1 billion in 2009, with auditing contributing \$11.9 billion and Europe, the Middle East and Africa, including Nigeria, contributing \$10.2 billion (*Corporate Responsibility Report, 2009*, p. 35). It was reported in Union Bank Plc's annual report that the joint auditors, AWD and Baker Tilly Nigeria, received N146 million (\$1.17 million) in 2009, N118 million (\$944,000) in 2008, and N113 million (\$904,000) in 2007 as fees for audit and accountancy services from Union Bank Plc. On April 2009, AWD gave the accounts a clean bill of health, but barely six months later the bank was declared distressed.

The contemporary auditing model makes auditors dependent on companies and their directors for fees and profits. As a result, auditors may become too subservient to directors and even 'bend the rules' in order to accommodate directors (Sikka, 2008a). Audit opinions are akin to a financial mirage (Sikka, 2008).⁵ It has been argued that the basic audit model is faulty (Sikka, 2009; Sikka *et al*, 2009). Private sector auditors cannot be independent of the companies they audit. The auditing model in practice is further complicated by the fact that auditors are permitted to sell other accountancy services to their audit clients. This increases auditor fee dependency upon companies and can impair their perceived and actual independence.

⁵ Available online at <http://www.guardian.co.uk/commentisfree/2008/sep/18/marketturmoil.economics/print> accessed on 3 December 2009.

Concerns about auditing practices have been raised by a number of commentators. The shareholders, the majority of whom were investors in the affected banks, blamed the external auditors as well as the audit committees of the banks for negligence and compromise in carrying out their responsibilities (*Guardian*, 30 August 2009). One commentator said that the subjective nature of accounting and the tight relationship between accounting firms and their clients means that even the most honest and meticulous of auditors can unintentionally distort the numbers in ways that mask a company's true financial status, thereby misleading investors, regulators, and sometimes management (*The Sun*, 1 September 2009). Patrick Gaye, an accountant, has drawn attention to the lack of auditor independence in that they were unwilling to expose the 'shortcomings' of the banks to the regulators:

'There was no way the auditors especially the external auditors could have done what is expected of them because, the external auditors in particular, are just like contractors who dance to the tune of their hirers. Auditors are on a retainership and for the banks to retain them on the job, they would not want to rock the boat through exposing the banks' shortcomings to the regulators'. (Guardian, 30 August 2009.)

It has been argued that, as a matter of law, external auditors are appointed by and are required to submit their reports to the shareholders during the Annual General Meeting (AGM), but that in practice the management of companies engage the services of the auditors which is ratified formally at the AGM by the shareholders who have little or no power at all to influence such appointment (*Guardian*, 28 August 2009). The biggest challenge that accountants in Nigeria face is that of satisfying public expectations that they will maintain high professional standards, ethical conduct and professional integrity.

Auditors have been indicted for the crisis in the banking sector in Nigeria. There have been considerable concerns about audit quality, especially when companies experience unforeseen financial difficulties or collapse soon after receiving unqualified audit reports (Mitchell *et al*, 1992; Sikka, 2009, Sikka *et al*, 2009). What counts as 'quality' in auditing is inevitably the outcome of

power, politics and social relations (Power, 2003). However, the dominant view is that 'quality' or objectivity is constructed by using appropriate auditing techniques and having a good set of working papers to demonstrate professional judgement (Mitchell and Sikka, 2002). It has been argued that this worldview is deeply embedded within institutions and in a variety of auditing standards which require auditors to evaluate internal controls, conduct analytical reviews and to assess whether a bank is a going concern (Sikka *et al*, 2009). For example, PwC in its *2009 Global Annual Review* drew attention, *inter alia*, to the breadth of its global network and the depth of its expertise:

'Around the world, our clients rely on PwC to help them explore opportunities and deal with complex business challenges. We work closely with our clients to deliver sustainable solutions, tapping into the breadth of our global network and our in-depth industry expertise'. (p. 46.)

Such professional market strategies lay claim to knowledge bases, equate quality with compliance with techniques and rules, and portray auditors as experts who can mediate uncertainty and construct an objective state of business affairs (Sikka *et al*, 2009). The evidence demonstrates, however, that the bodies which monitor their activities and supposedly uphold their professional standards are often not subject to any form of external scrutiny. The capitalist environment in which the accountants operate arguably allows auditors to engage in unethical related activities in order to boost profits.

Regulators pay little attention to the social and organisational context of auditing. Little connection is made between the profit motive of accounting firms and how accountants are socialised in serving their clients (Grey, 1998; Leicht and Fennell, 2001; Gunz and Gunz, 2006; Suddaby, Cooper and Greenwood, 2007). Company audits, in common with other products and services, are manufactured within a social and organisational setting which naturalises worldviews and values, and which also have unanticipated outcomes (Sikka, *et al*, 2009). Individuals are subjected to performance appraisals, and their promotion and financial rewards often depend on their contribution to profits. Firms can increase profits by charging higher fees, but

in a competitive market clients may be able to resist such a move. As a consequence, accounting firms may use more junior auditors or change the mix of junior and senior staff to reduce costs. Femi Dinah, a partner of a Lagos-based chartered accounting firm and who defended the role of auditors in the recent banking crisis, observed that:

'It is not the job of the accountants to go deep into the papers. The law places the onus of preparing the account on the directors of the company. What the auditors are doing is to ascertain that the account is well prepared and that all the necessary checks and balances are there and that all the regulations that should have been followed are followed. If they see anything that is not proper in the account, it is their duty to point it out. You cannot really blame the accountant because some management hide things from the auditors.' (Daily Independence, 28 September 2009.)

It has been argued that the implication of accountants and auditors in professional misconduct in corporate Nigeria requires the professional accountancy bodies to exercise their statutory obligations and investigate and sanction their erring members (Bakre, 2007). However, the evidence presented in this paper supports the view of Bakre (2007) that the power and the privileges of self-regulation delegated to the professional bodies by the Nigerian government have been used to shield their members from any form of public scrutiny. Samuel Nzekwe, a former National President of the Association of National Accountants of Nigeria (ANAN), has argued, however, that the current banking sector crisis in Nigeria has exposed ICAN, as its members were involved in various misdemeanours on the part of the banks (*Nigerian Tribune*, 14 December 2009). Nzekwe argued that, although the second Vice-President of the Institute of Chartered Accountants of Nigeria (ICAN), Doyin, had claimed that ICAN had done all it could to discipline its erring members (as its disciplinary tribunal had the status of a federal court), this was misleading as ICAN was not capable of doing so (*Nigerian Tribune*, 14 December 2009). According to Nzekwe, as none of the auditors who were implicated were prosecuted the need for new rules to curb 'the excesses' of bank officials and external auditors appeared to be unnecessary:

'None of the auditors that falsified the various accounts had been prosecuted, stating that calls for new rules to curb the excesses of the

banks' officials and external auditors were unnecessary, as the prudential guidelines had always been there'. (Nigerian Tribune, 14 December 2009.)

Despite mass media reports and public outcry about alleged misbehaviour on the part of audit firms and members of ICAN in relation to the distressed banks, the accounting firms, AWD, PwC and KPMG, have maintained a questionable silence. In common with other jurisdictions, company directors can be held personally liable for publishing false and misleading accounts, but the same rule does not apply to auditors. Since the banking crisis, a number of bank executives and non-executive directors in Nigeria have been arrested and arraigned in court for their anti-social financial practices. What the regulator, the Economic and Financial Crimes Commission, simply did, however, was to invite the indicted auditing firm for a hearing but without imposing any penalties for its unethical practices.

VI. Summary and Discussion

This paper has sought to stimulate debate on contemporary auditing and the role of accountants and external auditors in the recent banking crisis in Nigeria. It has been argued that the deepening banking crisis poses questions about the purpose and value of external audits. Shareholders, depositors and even regulators do not seem to have been assured by unqualified audit opinions; and a number of banks have either had to face management restructuring or have had to be bailed out by the Central Bank of Nigeria even after receiving clean audit reports by their external auditors. The evidence shows that auditors lack their acclaimed expertise to conduct an independent and objective reporting of corporate affairs.

An inquiry into the activities and involvement of accountants and external auditors in the falsification of company accounts in the recent banking crisis in Nigeria would help to draw public attention to the unethical practices of professionals and the shortcomings of current practices in Nigeria. Although audit reports are the public and visible evidence of an audit, little is known about the processes and organisational values associated with their production (Sikka, 2009). Such processes involve the management of labour,

economic incentives and the image of clients, the public and regulators. It has been argued in the literature (for example, by Halon (1994)) that audit staffs are inculcated to appease clients and to neglect wider social interests. As has been argued in this paper, in the pursuit of profit accountancy firms exert time and budget constraints and place pressure on audit personnel with the result that some have responded by adopting irregular practices and have even resorted to the practice of falsifying audit reports (Bakre, 2007).

Although it is common practice for companies and their directors to select and remunerate auditors, it has been argued that such an audit model is fundamentally flawed and cannot deliver an independent or searching audit (Sikka *et al*, 2009). The flaws are further compounded by permitting auditors to have a direct economic interest in corporate transactions through the sale of accounting services. There is evidence to show that the commercialisation of professional firms enables them to act as a 'watchdog' on profits and, on occasions, appease and even collude with directors (Bakre, 2007; Sikka *et al*, 2009). Their professional independence is indeed compromised because auditors are dependent on executive directors for their nomination, appointment and the determination of their fees, and, as a consequence, they cannot easily go against the interests of executive directors. To strengthen corporate reporting and auditing there should be corporate democracy in that stakeholders should have the power to determine who should be the auditor and how the auditor is to be remunerated. Further reforms could include imposing personal accountability for wrongdoing on all executive directors and finance directors of companies, and barring accounting firms involved in anti-social financial practices from auditing and conducting other accounting-related assignments and services.

Although appeals to professional ethics and claims to be 'serving the public' may camouflage the capitalist nature of accountancy firms, they too are under systemic pressure to increase profits which are often realised by the adoption of predatory practices. This situation therefore questions the reliance on accountants and auditors, watchdogs and trust-engendering technology. Unethical practices are also present in the external auditing arena, a jurisdiction traditionally considered to be informed by professional codes of ethics (Bakre, 2007; Sikka, 2008a). In order to cement their

legitimacy as professionals known for their 'integrity and ethical values', a number of codes of ethics have been issued by the professional bodies which they claim promote the highest standards of competence, practice and good conduct. This paper argues, however, that firms do not seem to have been constrained by any notion of ethics or morality. The evidence shows that, despite acclaimed codes of ethics and claims to be promoting and protecting the public interest, there have been many reported cases of professional misconduct by accountants and auditors, and, as a result, such 'professionals' have adopted a compromising stance (see Bakre, 2007). The resignation of AWD as external auditors of Cadbury Nigeria Plc may imply that AWD did accept the charges of collusion with the management, even though it claimed that it had resigned to protect the best interest of shareholders and for reasons of corporate governance.

The involvement of accountancy firms in anti-social practices in Nigeria has not been exposed or sanctioned by their professional bodies but by regulators (in the case of the recent banking crisis) and by whistleblowers (in the case of Afribank and Cadbury Nigeria Plc). Professionals have been implicated in unethical practices, but their role in such practices has rarely been investigated. Although section 368 of the Companies and Allied Matters Act 1990 creates civil liability for negligent auditors, liability is yet to be imposed. It has been argued that the compromising stance of the self-regulatory professional bodies in sanctioning their erring members has been further facilitated by the non-interference attitude which has usually been adopted by the Nigerian government (Bakre, 2007). The Nigerian accounting professional bodies should ensure that they enforce and maintain their acclaimed duty to see that their members exercise due diligence and act in a morally and ethically upright manner and in the best interests of their clients and of the Nigerian public as a whole.

This paper observes that professionals are under systemic pressure to increase profits. Without breaking the link between profits and professional rewards and personal penalties for erring professionals, there is little chance of professionals behaving responsibly. The professional bodies in Nigeria owe their clients and the general public, especially depositors, the moral and ethical duties which they claim to be exercising as the 'watchdogs' of their

members and in controlling the behaviour of their erring members. It is therefore suggested that the activities of erring professionals should be investigated by independent regulatory institutions in order to document their involvement in anti-social financial practices and for them to be sanctioned appropriately.

Ex-post facto financial audits are often too late and cannot alert financial regulators to any problems. It is therefore necessary to ensure that audits of major companies, at least banks and financial institutions, are carried out directly by regulators. The Central Bank of Nigeria, the Nigerian Deposit Insurance Corporation and other regulators should therefore establish their own dedicated teams of auditors to conduct continuous audits of all the major financial institutions. This should go beyond narrow market concerns about profits and should address questions about the financial institutions' business models, viability, social accountability and their capacity to cause financial deficits. Audit by regulators has the advantage of independence and can address regulatory issues. However, accounting firms and companies who are used to 'softer' audits would no doubt fight tooth and nail to retain their privileges, but indulging accounting firms and paying out billions of Naira to rescue banks cannot, and should not, continue.

To combat unethical practices by accountants and professional firms there is a need to educate company executives, policy-makers and the public about the human costs of anti-social and unprofessional practices, as they deprive ordinary Nigerian citizens of their human and social rights. Nigerian citizens suffer when banks and financial institutions collapse, causing depositors and investors to lose their investments. Many of the directors and senior officials of the distressed banks are still facing trial for their unethical behaviour, but the question is 'Where were the auditors when those officials were perpetrating and misappropriating investors funds?' The accounting profession in Nigeria must therefore continue to monitor development in the external and internal reporting environments through its audit, investigations and forensic accounting faculty and respond adequately (see Asein, 2009).

The accounting and business literature does not alert readers to the fact that some professionals are engaged in anti-social financial practices to the detriment of society as a whole. The accounting and business literature

should therefore describe what is happening in practice. This would help develop new vocabularies and new policies to highlight and to bring to public attention the predatory nature of capitalism and the anti-social practices of some professionals working in the financial world.

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