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BANK FAILURE AND THE ROLE OF AUDITORS IN NIGERIA

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The incessant rate of failure among Nigerian banks has been of great concern to stakeholders in the country's financial sector. Although the banking sector is very vibrant and dynamic with a lot of innovations that have characterized the sector, the present increasing rate of failure too, is alarming and people have blamed the entire failure on the auditors of the failed banks without actual empirical evidences to back such claims. This paper examined the role of external auditors of banks in Nigeria and observed that the external auditors were not entirely responsible for bank failure. However, we observed a weak audit procedure adopted by some of the auditors of the failed banks. For instance, the auditors who audited the failed banks failed to follow up on the low response rate for debtors circularization. We believe that the 30% response rate constitutes a sufficient warning signal to keep the auditors of the failed banks in red alert to probe further. We are of the opinion that the blame for failure should be apportioned among the auditors, banks management, bank directors and the regulatory bodies.

Introduction

The Banking institutions play a vital role in financial intermediation in any economy. It helps to reallocate excess funds from the surplus areas to the deficit segment thus bringing about rapid economic activities. This is made possible due to its deposit mobilization function. Nigeria began to experience commercial banking presence and relevance in the economic activities of the country in the late 19th century. Up till the early thirties, two expatriate commercial banks monopolized the banking business in Nigeria. These banks were Bank of British West Africa (BBWA) and Barclays Bank DCO.

The indigenous commercial banks came on board between the late twenties and early thirties due to stringent measures adopted by the foreign banks in granting loans and advances to the indigenous businessmen. The indigenous banks that came up included, the Industrial and Commercial Bank in 1929 but was later liquidated in 1930 as a result of both financial and management problems. In March 1930, the Nigerian Mercantile Bank was established and like the first one,

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went into voluntary liquidation in 1931. In February 1933, National Bank of Nigeria was established on a good footing. This marked the first serious attempt by Nigerians to own, operate and control a financial institution. So many other indigenous banks came up thereafter such as the African Continental Bank in 1944, the Nigerian Farmers and Commercial Bank in 1947, the Standard Bank in June 1950, and the Pan Nigeria Bank in February 1951.

Twenty-six (26) indigenous commercial banks were established between 1929 and 1959. However, due to poor management, inexperience and numerous internal control problems, it was not surprising that most of these banks could not withstand intense competition from the expatriate banks. By the end of 1959 massive failure of banks occurred involving 73% of the registered indigenous banks. For instance, in 1954 alone, 15 banks failed due to various reasons which include: absence of banking legislation which resulted in the proliferation of banks and excessive issuance of notes by private banks, monopoly of market opportunities by foreign banks and control of deposit liabilities, inadequate liquidity of the indigenous banks in meeting deposit liabilities, inability of the indigenous banks to hedge against abrupt macroeconomic policy changes, and mismanagement by non-banking professionals who headed the indigenous banks management team., (Ndekwu, 2001: 35).

The period, 1892 to 1952 was characterized as laissez-faire period when banking failure reached crisis stage in pre-independent Nigeria. The period of 1952 to 1986 was regulated. The enactment of the 1952 Banking Ordinance helped to ameliorate and sanitise the banking sector in Nigeria. The banking sector remained stable until the late 1980s when the Babangida administration deregulated the banking sector. The number of commercial banks operating in the country grew steadily from 12 in 1960 to 29 in 1986 and 66 in 1992. During this period, financial distress set in, leading to distress of eight (8) commercial banks in 1989. In 1995 fifty-one (51) banks were said to be distressed which comprised twenty (20) merchant banks and thirty-one (31) commercial banks. In 1998 twenty-two (22) banks were reported to be distressed. Between 1994 to 1995 five banks (three merchant & two commercial banks) were liquidated and in January 1998 twenty-six others (13 commercial and 13 merchant) were also liquidated, (CBN report 1998). Peak Merchant Bank and Savannah Bank have become the latest to be liquidated in year 2003. Three other banks were banned from clearing house. It is like the trend would continue for a long time.

In a study conducted by CBN/NDIC in 1995 several factors such as inadequate capitalization, bad loans, undue interference by board members, insider abuses and fraud were the reasons given for distress in the financial sector of the economy.

In recent time, many people have tried to advance some reasons for bank

failure. Some of these reasons have centered on the negligence or failure of the auditors to exercise due care in the discharge of their legal and imperative duties. For instance Okereke – Onyiuke(2000) claimed that "the number of recent well publicized failure of large companies in the United Kingdom and Banks in Nigeria, all of which had been receiving unqualified audit report on their accounts in the years prior to their collapse points up this failing by the audit profession." This claim does not seem to enjoy any empirical support.

It should be appreciated that there are regulatory framework such as the Banking & other Financial Institution Decree (BOFID), supervisory agencies such as the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC). Of course, the auditors who work to ensure that all forms of financial variability and the operations of Banks are run the way they should. But due to divergent views as to who should be blamed for bank failure, it has become pretty difficult to appropriately situate the blame. This situation therefore suggests that there is a gap in knowledge in this vexed issue of whom and what institutions or individual to be blamed for bank distress in Nigeria.

The present study, therefore, attempts an investigation of the role of auditors in bank failures in Nigeria as well as analyzes the relationship between banking supervisors and external auditors in detecting bank failure. The rest part of this paper is divided into three sections. Section II presents an exploration of related literature on the subject matter. It highlights the role of bank auditors against relevant statutory provisions. Section III discuses the methodology adopted in the study. Section IV discuses and analyzes the result obtained while section V presents the recommendations and conclusion.

Literature Review

What Is Bank Distress?

Bank distress has become a household word in recent times in Nigeria. This situation has given rise to the term being defined in various ways. But it is important to note that distress and failure mean the same thing and they can be used interchangeably. According to Alashi (2001:73) "a bank failure means a complete (or close to complete) loss of the shareholders' fund, combined with a cessation of independent operation or continuance only by virtue of financial assistance from a deposit insurance institution". Ebhodaghe cited in Alashi (2001:73) Supports the above view when he stated:

A bank is in distress when its evaluation depicts poor conditions in all or most earnings resulting from huge operational losses; and weak management as reflected by poor credit quality, inadequate internal control, high rate of fraud and forgeries, high labour turnover of the following factors; gross under capitalization in relation to the level of operation: high level of classified loans and advances; illiquidity reflected in the inability to meet customers' cash withdrawals as they fall due: low

Failure of a bank may arise as a result of both internal and external forces, which the bank may not be able to cope with. In CBN report (1998:128) it was stated that:

Bank Distress has been traced to two broad categories of causes namely, internal and external causes. Internal causes of distress are those factors that are within the control of the operators and include weak management, inadequate capital base, fraudulent and corrupt practices of owners as well as poor management of asset and liabilities, while the external include those factors arising from the socio-political and economic environment in which the institution operates. These include, macroeconomic instability, unconducive political environment, inadequate legal framework as well as delayed resolution action against insolvent institutions.

Bank failure started in Nigeria as early as 1950s when the indigenous banks started springing up in Nigeria indiscriminately without adequate financial strength and the absence of formal regulation to restrict and control the establishment and operations of banks. Almost all the new banks, especially the indigenous banks went into voluntary liquidation as rapidly as they were set up due to poor management, inadequate capital, inexperienced personnel, over-expansion and other structural constraints. This fact was corroborated by (Anafalaje, 2002:2) when he observed that the first time Nigeria experienced bank distress and failure occurred in the 1950s when majority of the indigenous banks failed because of either under capitalization or due to rapid branch expansion or persistent stealing, bad management and inexperienced accounting, among other difficulties.

It is obvious that the problems facing the Nigerian banks even up till now emanates from a lot of interrelated factors and those factors are still operational within the economy and threatening the stability of the Nigerian banking sector.

In a study conducted by CBN/NDIC in 1995 on the " Distress in the Nigerian Financial Services Industry," it was found that distress among Nigerian banks is traceable to a complex set of interrelated problems emanating from a number of factors which include the inhibitive policy environment, capital inadequacy, poor management, widespread incidence of non-performing loans arising mainly from economic downturn, the aftermath of competition, and ownership structure / political interference.

A similar study by Odjegba (2003:2) observed that "bad loans constituted 20 per cent of the causes of bank failure; followed by bad management (18 per cent) and lack of adequate supervision (17 per cent). This usually suggests that bad loans constitute the greatest risk". CBN reports have shown that in 2002, the total loans and advances in the banking sector increased by eight per cent from N752 billion in the first quarter to N806 billion at the end of the second quarter.

Usman (2003) added other factors, which include:

Credit granted to major shareholders and directors of banks, as well as to their related interests. This, according to him accounted for over 80 per cent of the distressed banks' non-performing facilities, especially in the late 1980s and early 1990s. Another dimension of the problem has to do with most bank directors, their spouses, relatives and friends who often feel entitled to special benefits, especially preferential borrowing privileges. This undue connection forces the banks to grant them unlimited access to funds either in their personal capacity or to their related companies which they often fail to pay back.

The CBN has been involved in strenuous efforts to reduce and possibly eradicate this malaise of bank failure. This is done largely from statutory angles. For instance, Banks and Other Financial Institutions Act No. 25 of 1991 requires every director to declare his or her interest in any credit being granted by the bank. This entails declaring interest, secured loan and making sure the loan is performing at all costs. Section 20(2) requires that the total credit exposure of a bank to a single individual (including directors) should not exceed 20 per cent of its shareholder's funds unimpaired by losses. The introduction of universal banking has, however, seen the review of the required single obligor limit to 33 per cent. To what extent bank directors are complying with this provision has remained the big question.

According to Bank and Other Financial Institution decree 1991 (Section 33), a bank shall be deemed distressed where;

a. It is likely to become unable to meet its obligations under this Decree; or
b. It is about to suspend payment to any extent; or
c. It is insolvent; or
d. Where, after an examination under section 32 of the decree or otherwise however, the central bank is satisfied that the bank is in a grave situation as regards the matter referred to in section 32(1) of this decree, the Governor may by order in writing exercise any one or more of the power specified in subsection (2) of this decree.

Bank Audit

Audit as defined by the International Audit Practice Committee is an "independent examination and expression of opinion on the financial statement of a business enterprise by an appointed auditor in conformity with its terms of engagement and in compliance with relevant statutory and professional requirement." Audit requirement in banks and in most commercial enterprises is in two categories usually referred to as internal audit and external audit. Internal audit is an independent appraisal activity for all levels of management. It is a control that measures, assesses, evaluates and tests other control systems, financial and otherwise as a contribution to the effective use of resources within an organization.

This paper concentrates on the role of external auditors because they have the responsibility of reporting to the shareholders of the bank as well as the general public the authenticity of the bank financial statements.

External Audit

Banks' financial statements are subjected to external audit. The external auditors conduct the audit in accordance with applicable ethical and auditing standards, such as independence, objectivity, impartiality, integrity, and professional competence and due care, and adequate planning and supervision. The auditors' opinion lends credibility to the financial statements and promotes confidence in the banking system.

According to NDIC annual report (1994: 84) *an auditor's opinion lends credibility to a*

> *bank's financial statements and thereby assists in promoting confidence in the banking system. As a result, insured banks' external auditor's concern should be mainly on issues that affect the operating results of banks. There is the need for the auditors to be more specific and detailed in their reports on internal audit function, designs and effectiveness of internal controls, organisational structure, policies and procedures that would ensure stability in the banking system.*

Basel Committee's report (2002: 4) highlighted: "the objective of an audit of a bank's financial statements by the external auditor is to express an opinion as to whether the bank's financial statements are prepared in all material respects in accordance with an identified financial reporting framework".

The shareholders rely on the report on the banks before committing their funds to such organisations. Oluwanuga (2003: 7) added that the main reason for external auditor for bank is to sustain or engender investor faith. Through their report the shareholders of the company will be able to ascertain the state of well-being or financial health of the banks.

Audit Report

External auditors' report is supposed to provide an eye view of bank's financial condition by supplementing the practical impossibility of carrying on-site examination regularly as well as provide other independent sources of crosschecking and cross-referencing on licensed banks. But contrary to the envisaged contribution, NDIC report, (1994: 84) expressed that '' contribution of external auditors' report to prudential supervision of banks, are often too general, vague and stereotyped, leaving one to wonder if the reports were not prepared just to meet legal requirement."

According to Ebhodaghe (1997: 257) *Information contained in audit reports appear cosmetic and often protectionist or evasive. Cases abound to prove that some auditors have failed to carry out their statutory functions as they should. For example the audit report of Commerce Bank did not disclose the existence of bad assets that the bank was involved in trading and other non banking activities financed with depositors' funds.*

Furthermore, he noted that it was most revealing to observe that the auditors of some of the closed banks never noticed the problem of the banks until their licenses were revoked. There were transactions, which should arouse the suspicion of auditors but were never noticed. Situation abound where bank directors failed to pay for their shares but instead manipulated the banks' account to create the impression that payment was effected, for instance, with Commerce Bank and the defunct Alpha Merchant Bank.

Duties of Bank's External Auditor

The Companies and Allied Matter Decree (now Act) Bank and Other financial institution Decree and the Nigeria Deposit Insurance Corporation clearly set out the duties expected of external auditors. The laws contain provisions that clearly stipulate that every licensed bank shall appoint annually, an external auditor who shall make a report on the balance sheet and profit and loss account of the bank to the shareholders.

By the provision of CAMD No. 1 of 1990 Section 360 and BOFID of 1991 Section 29 (7) the external auditors are expected to perform the following duties:

1. It shall be the duty of the external auditors, in preparing their report to carry out such investigation as may enable them to form an opinion as to whether;
   a. Proper accounting records have been kept by the bank and proper returns adequate for their audit have been received from branches not visited by them;
   b. The bank balance sheet and (if not consolidated), its profit and loss account are in agreement with the accounting records and returns.
2. If the external auditors are of the opinion that proper accounti ng records have been received from branches not visited by them, of if the balance sheet and (if not consolidated) profit and loss account are not in agreement with the accounting records and returns, the auditor shall state that fact in their report.

3. It shall be the auditors' duty to consider whether the information given in the directors' report for the year for which the accounts are prepared is

consistent with the accounts; and if they are of the opinion that it is not, they shall state the fact in their report.

4. If an auditor appointed under this decree, in the course of his duties as an auditor of a bank is satisfied that:
   a. There has been a contravention of the Decree, or that an offence under any other law has been committed by the bank or any other person;
   b. Losses have been incurred by the bank which substantially reduced its capital funds; or
   c. Any irregularity which jeopardizes the interest of depositors or creditors of the bank, or any other irregularity has occurred; or
   d. He is unable to confirm that the claims of depositors or creditors are covered by the assets of the bank, he shall immediately report the matter to the Central Bank of Nigeria.
5. The external auditor shall forward to the Central Bank of Nigeria, two copies of the domestic reports on the bank's activities not later than three months after the end of the bank's financial year.

The duties of Bank's external auditor as spelt out in section 38 of NDIC decree No. 22 of 1988 are as follows:

1. An auditor of an insured bank should communicate in good faith to the NDIC, any information or opinion on a matter which is relevant to safe and sound banking practice whether or not in response to a request made to the auditor by the corporation.
2. An auditor of an insured bank shall recognize the Corporations' responsibility for the protection of the interest of depositors and shall bring to the notice of the Corporation:
   a. Any extreme situation such as evidence of imminent financial collapse;
   b. Evidence of an occurrence which has led or is likely to lead to a material diminishing of the insured bank's net asset;
   c. Evidence that there has been a significant weakness in the accounting and other records or the internal control system of the insured bank,
   d. Evidence that the management of the insured bank has reported financial information which is misleading in a material particular;
   e. Where he believes that a fraud or other misappropriation had been committed by the directors or the management of the insured bank or has evidence of the intention of director or senior management to commit such fraud or misappropriation; or

f. Where there has been an occurrence which causes the auditor to no longer have confidence in the competence of the director or the senior management to conduct business of the insured bank in a prudent or safe and sound manner so as to protect the interest of the depositors such as acting in an irresponsible or reckless manner in respect of the affairs of the insured bank.

3. Any auditor of an insured bank who acts in contravention of or fails deliberately or negligently to comply with any of the provisions of subsection (2) of this section shall be guilty of an offence and liable on conviction to a fine of not less than N50,000.

The Decrees provide the auditor with right of access at all times to the books, accounts and other records of the bank and he is entitled to require from the directors and officers of the bank such information and explanations as he thinks necessary for the performance of his duties.

The external auditors therefore need to ensure that the published accounts comply with the requirements of the law which emphasizes that: "every balance sheet of licensed bank should give a true and fair view of the state of affairs as at the end of every financial year of the bank and every profit and loss account shall give a true and fair view of the profit and loss of such bank for the financial year."

The external auditors therefore serve as a means of verifying and disclosing the financial condition of the bank. For effective performance of their duties it is important that the auditors should posses attributes such as independence and competence.

Responsibilities of Bank Management

According to Basel (2002: 3) the responsibilities of Bank management includes; Promoting high ethical and professional standards. Putting a system in place that accurately identifies and measures all material risks and adequately monitors and controls these risks; Ensuring adequate internal controls, organizational structures and accounting procedures; Proper evaluation of the quality of assets and their proper recognition and measurement; Adopting a suitable control environment, aimed at meeting the bank's prescribed performance, information and compliance objectives, Testing of compliance and the evaluation of the effectiveness of internal controls by the internal audit function.

The bank management must ensure that those entrusted with banking tasks have sufficient expertise and integrity and that there are experienced staff in key positions, adequate policies, practices and procedures related to the different activities of the bank are established and complied with, such as; ensuring that appropriate management information systems are established, the bank must have appropriate risk management policies and procedures, statutory and regulatory directives, including directives regarding solvency and liquidity, are observed; and the interests not only of the shareholders but also of the depositors and other

creditors are adequately protected.
Management is responsible for preparing financial statements in accordance with the appropriate financial reporting framework and for establishing accounting procedures that provide for the maintenance of documentation sufficient to support the financial statements. Ensuring that the external auditor who examines the reports on the financial statements has complete and unhindered access to, and is provided with, all necessary information that can materially affect them and, the auditor's report on them.

Why Banks need External Auditors
According to section 27 (1) of BOFID, Banks are required to prepare and publish, the balance sheet and profit and loss account, not later than four months after every financial year. Included in this published account is the auditor's report. External auditors ensure that the published accounts comply with the relevant laws and express an independent opinion on the state of affairs of the bank at the end of each financial year. A bank must satisfy this requirement before the Central Bank of Nigeria can approve its account. Auditors give credence and instill confidence in the members of the public who may want to rely on the financial statement. Also, the regulatory authority is reassured of the state of affairs of the bank by the external auditor's opinion on them.

Independence of the external auditor
A bank external auditor is expected to pass independent judgement in the interest of depositors and the banking public. Such independent opinion expressed on any financial statements is heavily relied upon by users of financial statements and make such financial statements to be generally acceptable by all. Therefore auditors must be held accountable for opinions expressed in any financial statements, which are meant for public consumption. Adequate protection has been enshrined in the law to ensure independence of the auditors. 1991 Monetary and Credit policy guidelines stipulate that each bank shall communicate promptly to the Central Bank, the appointment, termination and resignation of the bank's external auditor, stating reasons for such action. Also, according to section 19 of the banking Act of 1969, the appointment of bank external auditor is subjected to the approval of the Federal Minister of Finance and Economic Development, who can also intervene when an auditor is unjustly removed.

To this end, external auditors have to ensure that they do not jeopardize the trust that the public has in them by ensuring that their independence is not compromised for any financial gain, as the regulatory authority, tax office, shareholders, creditors, investors and other users of financial statement will continue to place great reliance on the judgement and opinion expressed by bank external auditors.

Reasons Why the External Auditor Has to Exercise Diligence & Care
In carrying out the audit of a bank's financial statements, the external auditor recognises that banks have certain characteristics that generally distinguish them from most other commercial enterprises, and which the auditor takes into account

in assessing the level of inherent risk.

Basel committee (2002:5) expressed that banks have custody of large amounts of monetary items, including cash and negotiable instruments, whose physical security has to be safeguarded during transfer and while being stored. They also have custody and control of negotiable instruments and other assets that are readily transferable in electronic form. The liquidity characteristics of these items make banks vulnerable to misappropriation and fraud. Banks therefore need to establish formal operating procedures, well defined limits for individual discretion and rigorous systems of internal control.

Banks often engage in transactions that are initiated in one jurisdiction, recorded in a different jurisdiction and managed in yet another jurisdiction, operate with very high leverage (that is, the ratio of capital to total assets is low) which increases banks' vulnerability to adverse economic events and increases the risk of failure, hold asset that can rapidly change in value and whose value is often difficult to determine, generate a significant amount of their funding from short-term deposits (either insured or uninsured). A loss of confidence by depositors in a bank's solvency can therefore quickly result in a liquidity crisis.

The banks have fiduciary duties in respect of the assets they hold that belong to other persons. This may give rise to liabilities for breach of trust. Banks therefore need to establish operating procedures and internal controls designed to ensure that they deal with such assets only in accordance with the terms on which the assets were transferred to the bank, engage in a large volume of transactions whose value may be significant. This necessarily requires complex accounting and internal control systems and widespread use of information technology (IT).

Minimum Audit Standard For Bank's External Auditor

There is a required minimum internal and external audit standard that a bank is obliged to prepare, implement continuously and maintain and which main aim is to prevent emergence of losses and to identify existing losses in a bank by applying quality control of the internal control function in a bank, by evaluating it and by implementing it. A bank is obliged to provide, by combining elements of internal control system, independent audit, and independent external audit systems, efficient functions of banks' system of control where independent audit, internal and external, have to ensure more objective approach and financial reporting accuracy that a bank submits to external beneficiaries, just as factors inducing negatively to business of bank and stability of the banking sector as a whole.

Official Gazette of the Federation of Bosnia and Herzegovina Article 4, 9 and 25 expressed that: the board of the bank is expected to have adequate written program of internal/external audit of the bank, ensure conditions for its implementation, and establish independent internal audit function in the bank. Appoint independent external auditor who will implement the following, at a minimum: Provide advise on accounting standards for the bank, implement audit of all finan-

cial statements and submit the report to the Board containing opinion on whether financial statement are complete, accurate, and real insight of financial condition of the bank in accordance with banking laws and regulations and inform bank's Management and Supervisory Board on illegal activities, irregularities and oversight in managing and operating of the bank or bank's subsidiaries which could result in loss, especially, internal control system efficiency and quality, accounting policies and procedures and record keeping quality, and internal audit program adequacy and internal audit efficiency in the bank.

Importance of Bank Supervision

The key objective of prudential supervision is to maintain stability and confidence in the financial system, by reducing risk of loss to depositors and other creditors. Also, supervision is often directed toward verifying compliance with laws governing banks and their activities.

Banking supervision is based on a system of licensing, which allows supervisors to identify the population to be supervised and to control entry into the banking system. In order to qualify for and retain a banking license, entities must observe certain prudential requirements. In addition to licensing new banks, they also have the authority to review and reject any proposal to transfer significant ownership or a controlling interest in existing bank to other parties.

Bank supervisors have at their disposal recourse to legal power to bring about timely corrective action when a bank fails to meet prudential requirements, when there are violation of laws or regulations, or when depositors are faced with a substantial risk of loss. In extreme circumstances, the supervisor may have the authority to revoke the bank's license.

Supervisors have a clear interest in ensuring high standards of bank auditing. Moreover, an important concern of supervisors is the independence of the external auditor who performs the audit of a bank, particularly when the auditor also provides certain types of non-audit services to the bank.

Effective supervision therefore requires the collection and analysis of information about supervised banks. For example, supervisors collect, review and analyse prudential reports and statistical returns from banks. These include basic financial statements as well as supporting schedules that provide greater detail.

Methodology

In carrying out this study, a total of one hundred and fifty (150) questionnaires were administered amongst field auditors in fifteen (15) auditing firms randomly selected in Lagos metropolis. The auditing firms of the thirty-one (31) failed banks (from 1990 to 1999) were targeted to get the right response from the auditors. The analysis in this paper was based on 100 questionnaires returned out of the 150 administered. That is 66% of total questionnaire administered. A simple percentage was used to analyse the response from the auditors.

Discussion and Analysis of result

Qualification of Auditors

From the result obtained it was observed that 81% of the respondents have professional/academic qualifications that enable them participate in bank audit. 74% have been field auditors for a period of up to five years and above and 64% have special training that enables them to participate in a computerized environment like bank. From this result one can infer that the auditing firms are using qualified and experienced staff to participate in bank audit.

Ethical Issues

On ethical issues, 80% responded that they do not hold any beneficial interest in any of the failed banks, 72% responded that their firms did not receive up to 15% of their recurrent audit fee from any of the failed banks, 90% responded that they hold high technical standards when preparing the audit while 94% responded that they are able to gather relevant, reliable audit evidence sufficient to substantiate an independent opinion.

Going Concern Status

On going concern issues it was surprising to find out that 82% of the respondents did not notice any symptom(s) of failure in the failed banks. This only suggests one of two things, either the audit assignment was not thorough enough or the bank management succeeded in deceiving the auditors by presenting a false financial statement. 80% responded that they reviewed correspondence from third parties while only 40% reviewed management account prepared by the bank accountant. Only 38% of the auditors reviewed post balance sheet event on operation and result obtained.

Audit Procedure and Debtor Circularization

Looking at the audit procedure, 98% of the respondents agreed that the requirement of the Generally Accepted Accounting Practice (GAAP) was interpreted and applied, 90% responded that the audit program was well planned and executed while 80% agreed that adequate evidence was gathered relative to the evaluation of significant management estimates. 95%circularised debtors and only 30% of the circularization returned sufficient feedback from the circularized debtors. This suggests why we have bank's failure. Bad administration of loan and advances is one of the major factors that contributes to banks' failure especially when such loan arises from related party transactions. The failure of the auditor to follow up on debtors that do not respond may be one of the reasons for the eventual failure of the banks.

With the current wave of banks' failure and threat of failure that have engulfed the Nigerian financial sector, the banks' external auditors and the banks' supervisors are expected to work together, each working to ensure safe banking. The CBN & the NDIC require the external auditors to issue a separate report to the

NDIC for which a specific format was developed in accordance with section 38 of the NDIC Decree. 83% of the respondents said their firms do comply and make this report available to the CBN and NDIC, 87% suggest that getting this report connotes extra burden to the auditors hence, the regulatory authorities should find a way of getting such information needed, 75% responded that their firms attends meeting with the regulatory authorities regularly. One can infer that cordial relationship exist between the banks' external auditor and the banks' supervisors but they do have disagreement at times based on matters of principles.

Proper Records

In response to keeping of proper books of account by the audited banks, 70% responded that they were moderately satisfied while the remaining 30% expressed dissatisfaction. 55% agreed that they were moderately satisfied that there is agreement between financial statement prepared by the bank management and the book of account kept by the bank, 30% expressed they were very satisfied while the other 15% expressed dissatisfaction.

Adequacy of Returns and Accessibility to Bank Books.

On adequate return received from branches not visited by the auditor 40% were very satisfied while 52% expressed moderate satisfaction while the remaining 8% expressed dissatisfaction. On accessibility to the bank books 45% were very satisfied while 39% expressed moderate satisfaction.

Factors Responsible for Bank's Failure

On factors responsible for banks' failure 90% considered weak management as a very important factor that contributes to bank failure, while 8% considered it as important factor and 2% is indifferent. 92% considered fraudulent and corrupt practices of bank owners and management as a very important factor that contributes to bank failure. 78% and 87% respectively considered inadequate capital base and inadequate internal control as very important to cause bank's failure. Other factors such as macroeconomic instability, inadequate legal framework, delayed resolution action against insolvent institution, poor management of assets and liabilities of the bank, poor credit quality, poor asset quality and low earnings resulting from huge operational losses are also considered important factors by majority of the respondents.

From the foregoing, it can be asserted that auditors were negligent in their work for failure to follow up on debtors circularization before giving an unqualified audit opinion. But it doesn't mean that auditors should be blamed wholly every time there is a bank failure.

Recommendations

In order to ensure progress and stability in the Nigerian financial sector of the economy all stakeholders must come together to find a lasting solution to bank failure. The bulk of the duties lies with the banks' supervisors and the banks' auditors. The work of the bank supervisor and the bank auditor compliments each other to ensure that banks strictly adhere to rules and regulations as well as accounting guidelines.

i. In order to ensure absolute independence of the auditor, and due to the sensitive role of banks' and the devastating effect of bank failure on the overall economy we suggest that the banks' external auditors should be appointed by the CBN or the NDIC and the renumeration of such appointed auditors should be paid by whosoever appoints them so that there will not be allegiance to the banks' management. This recommendation is coming on the heels of observation by Ebhodaghe (1997: 250) that "some external auditors are known to have failed to make adverse comments on the affairs of an audited bank where these have been observed, and also where the account should have been qualified, for fear of not been reappointed."

ii. The auditors should send competent staff/team to the field to carry out the audit assignment. Such staff should not only hold minimum accounting qualification, competence and exposure but must be well experienced in banking operations to perform the duties assigned to him or her.

iii. The auditors should avoid engaging in any services for their clients other than audit engagement in the same bank. This is to ensure that the independence of the auditor is not compromised.

iv. Auditors should approach bank audit differently from audit of other commercial enterprises, the inherent risk will require more expertise in the banking sector.

v. Bank's management account should be thoroughly analysed by external auditors and should be reviewed regularly perhaps monthly if possible.

vi. Banks' external auditors should not give opinion on the financial statement given until they are able to confirm debtor balances as circularised.

vii. Small audit firms should not audit big banks. The audit firm's size should be commensurate to the size of the bank to match skill and competence.

viii. The auditor should avoid rushing over audit engagement. The auditor should spend maximum number of time to ensure that a thorough audit assignment is performed.

ix. In the area of relationship with banking supervisor, if banks'supervisors are to derive any significant benefits from the work of the external auditors on a continuing basis, supervisors should discuss current areas of supervisory concern with the accounting profession as a whole. This

can be achieved through periodic discussions at the national level between the supervisory authorities and the professional accountancy bodies. Such discussions should cover areas of mutual concern. The supervisors should express their views on the accounting policies and the auditing standards generally and on specific audit procedures in particular. This will certainly help in improving general standard of audit of banks' financial statements.

X. Both banks' supervisors and the accountancy profession have interest in achieving uniformity among banks in their application of appropriate accounting policies. Banking supervisors are often able to exercise a persuasive influence over banks in achieving uniform policies because of their regulatory powers, while external auditors are often better placed to monitor or review the actual application of such policies. A continuing dialogue between supervisory agencies and the profession could therefore significantly contribute towards harmonization of accounting standard for banks at the national level.

Xi. The dialogue between supervisors and professional bodies could include major auditing issues and topical accounting problems, such as the appropriate accounting technique for newly developed instruments, and other aspect of financial innovation and securities. This will help banks to adopt most appropriate accounting policies.

Xii Auditors caught in the web of falsification of a bank financial position should be arraigned together with the bank management before failed bank tribunal.

Xiii Professional bankers with proven integrity and distinct professional competence should head Banks. Being a member of a professional body will impose some check on them.

Xiv Bank audit report should be prepared to express opinion on internal financial control, related party transaction and going concern status of the bank, that is, ability of the bank to continue to be in business. Bank audit report should not be too general on the state of affairs of the bank as we have now.

Xv Bank auditors will have to be more through, when auditing the financial statements of the bank. They cannot afford to carry out bank audit like any other commercial enterprises as their duty is considered as a duty not only to the bank shareholders or depositors but to the general banking public, as any error in one bank has a ripple effect on the whole system and the nation as a whole.

Xvi External auditors should regard the submission of such report as required by the CBN and the NDIC as their own contribution to strengthening Nigeria financial system and maintaining a safe and sound banking in Nigeria.

Conclusion

The issue of stemming the tide of bank distress should not be the exclusive preserve of the external auditor, neither should the blame of failure entirely be heaped on auditors. Several agencies and regulatory bodies are involved. The management and directors of these banks have a lot of roles to play. They are responsible for policy formulation, day-to-day operation, and installation of adequate and up to date internal control system, preparation and presentation of financial statements to the auditors. Auditors are expected to adopt sound audit procedure and modern practice. The audit report should courageously reflect, what the auditors have observed in the clients books of account and operations during the cause of their audit assignment. Slant or 'doctored' audit reporting by the auditors should be avoided: They should be courageous enough to express objective professional opinion on their audit reports; doing otherwise, will affect their image and that of the professional accountancy body they belong to. Similarly, CBN or NDIC should appoint from a list of auditors, which should have in the first instance been carefully screened, and the respective client bank should be made to pay the audit fees and other financial expenses via the CBN or NDIC. This practice will enhance the issue of objectivity and independence. Such experiment should not be jettisioned at all.

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