
Creative accounting and financial scandals in Nigeria: structures and actors analysis

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Abstract: The critical factor in a number of corporate collapses was the use of creative and manipulative accounting practices to distort reported profitability and indebtedness. As accounting forms a central element of any business success or failure, its role is crucial in understanding such scandals which have cost investors millions of dollars and in other cases, inflicting misery on millions of people. The purpose of this paper is to contribute to the debate about the consequences of creative accounting and its role in causing corporate collapse in Nigeria. Within a socio-political framework, this paper adopts the theories of critical realism to explore the relationship between social agency and the institutional structures that shape social actors. The paper uses publicly available data to show the role of creative accounting and significance of financial scandals in Nigeria. The evidence implicates accounting professionals and corporate managers in creative accounting. The paper also offers some suggestions for reform.

Keywords: creative accounting; scandals; financial; corporate collapse; Nigeria; social actor; institutional structure.

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1 Introduction

Accounting scandals, creative accounting and fraud are perennial (see Jones, 2011e). As accounting forms a central element of any business success or failure, the role of accounting is crucial in understanding such scandals (Jones, 2011e). The recent corporate collapses at the global level and increased number of scandals have created an increased interest in understanding the role of creative accounting across the globe. It has been argued that those scandals range from complex accounting fraud involving off-balance sheet transactions and special entities to more obvious thefts of corporate assets (see Herath and Freeman, 2012). A body of literature has documented the role of creative accounting in perpetuating unethical and corrupt practices through a variety of business vehicles (Briloff, 1981; Tinker, 1985; Bakre, 2007; Jones, 2011e).

The contemporary literature, often from the Western World, offers a variety of competing and overlapping definitions, causes and solutions. For example, the literature identifies creative accounting to be a blessing or a curse (Sen and Inanga, 2006). "The systematic understatement of accounting's significance is reflected in the images of accountants in popular culture.... whose lack of creativity and imagination makes him trustworthy" [Tinker, (1985), p.15]. Tinker (1985) further argued that the great social philosophers have helped us to see accountants in a different light: "Not as harmless bookkeepers, but as arbiters in social conflict, as architects of un-equal exchanges, as instruments of alienation, and as accomplices in the expropriation of life experiences of others" (p.16). As long as there has been accounting, therefore, there have been temptations for individuals creatively to use that information and to indulge in fraud (Jones, 2011e). In general, creative accounting is considered to be a negative activity, in other words something which undermines accountability, transparency, social welfare and quality of life of millions of people (Briloff, 1981; Tinker, 1985; Sikka, 2010; Otusanya and Lauwo, 2010; Jones, 2011e).

Creative accounting practices are not just the prerogative of developed economies. They are also encountered in developing countries (see Sen and Inanga, 2006; Bakre, 2007; Jones, 2011e). Corporate accounting fraud is a serious problem in the Nigerian economy that has cost investors millions of naira. Many of the financial scandals have occurred in highly regulated sectors like banking (Otusanya and Lauwo, 2010; Njoku, 2012). In the last couple of years, Nigeria has experienced several major corporate scandals that have, in varying degrees, involved unethical and illegal practices (Bakre, 2007; Unegbu and Tasle, 2011; Otusanya, 2011a, 2011b). A number of other scandals

have resulted from misleading or inadequate financial disclosures of complex corporate activities (Briloff, 1981; Angahar, 2012; Otusanya et al., forthcoming). It has been argued that at times of crisis, many questions arise about the lack of effectiveness of the control mechanisms and auditing in detecting and preventing these scandals (Tinker, 1985; Otusanya and Lauwo, 2010; Sikka, 2010; Sikka et al., 2009; Kontos et al., 2011; Njoku, 2012). As Kontos et al. (2011) note:

“Despite sophisticated auditing and computer information systems, human minds can find the way to overcome security controls and act on their own.”
(p.211)

Accounting and auditing are crisis-prone technologies. Accountants and finance professionals may be expected to combat unethical practices by enhancing transparency and accountability and by developing techniques for fraud detection. However, an emerging body of literature argues that accounting and finance professionals increasingly use their expertise to conceal and promote unethical accounting practices (Briloff, 1981; Tinker, 1985; Sikka, 2008; Bakre, 2007; Otusanya and Lauwo, 2010; Otusanya, 2011a; Lenz, 2011). Accounting technologies, such as earnings management, accounting for goodwill, related party transactions, capitalisation of interest as well as other intangible assets, direct write-offs from reserves, reclassifying assets in the balance sheet, improper invoicing, and provision for contingencies have also become central to masking unethical financial practices (Briloff, 1981; Tinker, 1985; Beasley et al., 1999; Carnegie and O’Connell, 2011; Chen et al., 2011; Banerjee, 2011; Carrera, 2011; Jones, 2011a, 2011c). Thus, professionals use these technologies and structures to derive private economic gain for themselves and their clients to the detriment of the public interest they claim to be protecting (Tinker, 1985; Bakre, 2007; Sikka, 2008; Lenz, 2011). Despite their claims to be acting in a professional manner, accountants and auditors have been implicated in facilitating creative corporate reporting (Otusanya and Lauwo, 2010). As Briloff (1981) observes:

“These patterns of creative accounting were not contrived by accountants operating in the penumbra of business sector; all of this related to publicly owned corporations required to file reports with SEC. Nor were the companies audited by accountants who function in the interstices of the profession; instead, we find that the books of the reporting corporations were audited by those who are presumed to be the best and the most skilled among us – principally by firms comprising the accounting establishment.” (p.171)

A number of these firms are part of an enterprise culture that persuades many to believe that bending the rules for personal gain is a sign of business acumen. The global scandals have attracted the increasing attention of international organisations and policy-makers and scholars, but comparatively little scholarly attention has focused on the role of structure and actors in facilitating the use of creative accounting (Jones, 2011e; Kontos et al., 2011). A number of other studies have paid attention to exploring the impact of a range of explanatory variables (such as investment, fractionalisation, etc.) on some aspects of creative accounting practices generally (see Jones, 2011e). The literature in this area is diffuse. While there is considerable research on the relatively narrow aspects (causes, effects and consequences) of creative accounting in developing countries (see, for example, Jones, 2011c, 2011d; Sen and Inanga, 2006; Chen et al., 2011), broader accounts of these unethical practices as impediments for sustainable corporate development in developing countries are scarce. Therefore, the role of structures and that

of the actors who have shaped the continuous expansion of creative accounting practices in developing countries, particularly Nigeria, is considered in this paper.

The current research will analyse the reasons why there are many companies with poor corporate reporting and how leadership structures play a role in their reporting. It will identify their causes, discuss their consequences and explore their implications for accounting, regulations and corporate governance. The paper also examines why managers, professional accountants and auditors engage in unethical behaviour such as creative accounting and falsification of accounting documents and how these actions affect sustainable corporate existence and development. This study is exploratory in nature. The paper is based not only on published articles and books, but also on press releases and newspapers reports.

The paper is organised as follows. Section 2 provides a framework for understanding and explaining the interrelations of actors and institutional structures, and the linkages and influences that have shaped creative accounting practices in Nigeria. Section 3 focuses on creative accounting in the private sector generally and considers its causes and consequences. Section 4 provides evidence of the role which managers, professionals and regulators have played in facilitating creative accounting or unethical financial practices in Nigeria. Section 5 provides a summary and discussion and makes proposals for reform.

2 Agency-structure relationships

The socio-political, economic, culture and history of a society is informed by the relationships between social subjects and the social structures within that society. Creative financial practice is generally connected with the activities of actors (such as corporate managers, professional accountants and the auditors) and the enabling institutional structures and norms shaped by the socio-political and economic development which provide both the opportunity and motive for engaging in activities that are regarded as unethical practices (see Mitchel et al., 1998; Bakre, 2007; Otusanya, 2011b). According to Tinker (1985), understanding unethical accounting involves a consideration of the political, social and economic interconnectedness:

“Members of a society are interconnected through their economic and social interdependencies: employees to investors to customers to taxpayers to mothers to welfare recipients to students to insomniacs. Accounting information is not merely a manifestation of this myriad of interdependencies, it is a social scheme for adjudicating these relationships. We are all costs and revenues to each other; everyone is potentially a benefactor and a victim in the accounting nexus of social decisions.” (p.20)

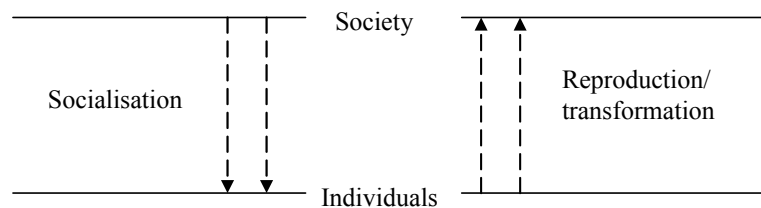
Thus, in order to understand the nature of creative financial practices in both the private and the public sector in Nigeria, it is therefore necessary to explore the role of the actors and the various institutional structures that provide the landscape for such practices to flourish (Otusanya, 2010; Bakre, 2011). This is because accounting and business practices are generated by human activities, so business practices are continuously changing owing to the dynamic nature of human actions. The persistence of unethical financial practices is a social process that involves the reciprocal and repeated interaction of agents and the structural features of social systems by effective communication. Thus, actors are simultaneously enabled and constrained by the structures of society (see Laffin, 1997; Njoku, 2007; Owolabi, 2011). The actors draw upon rules and resources, and the

structures do not develop effects independent of these actors and their institutions. Bhaskar (1989) has argued that human agency does not create society but instead reproduces and transforms it. His transformational model of social activity (see Figure 1) places the emphasis on material continuity which can sustain a genuine concept of change and hence of history¹ which other models² had failed to address (Bhaskar, 1989). As Bhaskar (1998) stated:

“Society is irreducible to people. . . . Social forms are the necessary condition for any intentional act, and the pre-existence of these social forms determines their autonomy as a possible object of scientific inquiry and, more importantly, the casual power of these social forms determines their reality.” (p.25)

For Bhaskar, society is both the ever-present condition (the material cause) and the continually reproduced outcome of humans. Thus, individuals reproduce society and society reproduces them. In other words, the individual exists in society and society exists in the individual (Bhaskar, 1989). Structure do not exist separately from individuals, they are always the medium as well as the outcome of social action. Danermark et al. (2002) noted that agent and structure constitute one another in such a way that the one cannot be separated from the other, they can be conceptualised only in relation to each other. Creative accounting does not occur in a vacuum. There are a number of interested actors. These range from managers, investment analysts, auditors, regulators, shareholders to other users. The corporate environment of the firm and economic climate are also important. This duality of structure and the duality of social actors³ play a crucial role in the transformational model of social activity, for they embody the irreducible unity in deference to the two processes that continually renew humans and society. While social structures cannot be reduced to individuals, the former are prerequisite for any human action – social structures enable actions but they also set limits to what actions are possible. From this line of argument we may form a transformational model of human activity, the foundation of which has been developed by Bhaskar (see Figure 1).

Figure 1 The transformational model of social activity



Source: Bhaskar (1989, p.77)

The above model suggests that society provides the necessary conditions for intentional human activity and that intentional human action is a necessary condition for human activity. For example, creative accounting is a way to influence the accounts. In theory, managers manage the companies which are owned by the shareholders. Therefore, they are stewards and should run the companies for the good of the shareholders. It has been argued that in practice, self-interest may dictate that managers may wish to use the flexibility within the accounting system, provided by creative accounting, to manage the results in certain ways (Jones, 2011e). In other words, society must be regarded as an

ensemble of structures, practices and conventions which individuals reproduce or transform, but which would not exist if individuals did not do so (Bhaskar, 1989). This reproduction of structures, practices and conventions is important in that it brings about the possibility of transformational social activities. The critical realist's view is that there is an opportunity for individuals to impact on society while recognising the impact society has on individuals. Thus, skill, competence and habits are acquired and maintained as a necessary precondition for producing and transforming society through the process of socialisation (Bhaskar, 1979). Agency is linked to social structures by an enduring 'point of contact' which is occupied by individuals. The actors often interact in more complex ways using enabling structures which are both internal and external. Through the interaction of these actors shaped by social structures certain kinds of social behaviour are produced and transformed. In this context, 'structure' means institutional structures, power and politics. Such structures are irreducible to the patterns of event and discourses alike. Critical realism therefore provides a set of perspectives on society and a framework for understanding them. Conceptually, it recognises that there are enduring structures and generative mechanisms underlying and producing observable phenomena and events (Bhaskar, 1989). As Bhaskar (1989) stated:

"Realists argue for an understanding of the relationship between social structures and human agency that is based on a transformational conception of social activity, which avoids both voluntarism and reification. At the same time they advance an understanding of the social as essentially consisting in or depending upon relations." (p.3)

Furthermore, a transformational understanding (see Figure 1) of social practices and the existence of a social structure is a necessary condition for any social actor's activity. Hence, the relationships between the relations that constitute the proper subject matter of sociology may themselves be internally related, and only the category of totality can express this. Society is therefore viewed as a system of relationships and positions, not as a collection of individuals (Bhaskar, 1989). In all countries there are generally institutional mechanisms in place to deal with alleged fraudulent financial practices. Accounting rules and regulations are designed to be flexible enough to deliver a true and fair view. Creative accounting arguably prevents the creation of a true and fair view. It has been argued that technically, auditors should issue a qualified report if they notice anything amiss, yet, in many high-profile corporate collapses there was no warning from the audited companies' pre-collapse accounts of impending problems (Jones, 2011a, 2011d). This presupposes that unethical financial practices continue because there are social/institutional structures that endure which enable or constrain the social actors to engage in these practices. Kontos et al. (2011) have argued that fraud, embezzlement, side payments, insider trading, creative accounting and creative transactions are all evidence of the same human behavioural trait of bypassing a set of rules to advance one's own objective. This behaviour according to them is not confined to certain periods of time, a particular country or to a specific area of activity.

Human nature does not change. The hope and desires of people living in ancient, medieval or modern times remain very similar. As long as there has been accounting, therefore, there have been temptations for individuals creatively to use that information and to indulge in fraud (Jones, 2011b, 2011c). The accounting practice is a key component of society and is considered to be one of the most enduring social structures, as its shape the actions and behaviour of individuals. Within accounting regulatory

structure there are infrastructures that offer shelter to certain kind of transactions. The rules that regulate socio-political relations in a country have a significant impact on the ability of business owners and financial professionals to seek and secure (legally or illegally) external income. Kontos et al. (2011) note that:

“The behaviour of individuals in charge of decision-making or in control of operations has caused multinational companies from different national origins like Barings, Enron, Siemens, Société Générale, Parmalat and Sumitomo Corporation, to mention but few, to either go bankrupt or lose a significant part of their value.” (p.211)

They argued further that despite sophisticated auditing and computer information systems, human minds can find the way to overcome security controls and act on their own. Agency theory suggests that management will be self-serving and where information is asymmetrical, this will be exploited to the detriment of the uninformed owner (Schipper, 1989). Creative accounting may be viewed as technique or form of behaviour whereby management attempts to exploit information or limit its disclosure to maintain its superiority of bargaining power vis-a-vis the owner. There are numbers of interested parties (actors). All of these actors play a key role in creative accounting. The managers set the creative accounting agenda. Company management may adopt methods to dress up financial statements to show improved performance. The effect of creative accounting may defeat the very purpose of presentation of ‘true and fair’ financial statements. This is because users of the statements may be misled into thinking that the company is in a healthy position with regards to profits or cash when, in fact, it is not.

For example, companies adopt accounting procedures that minimise unfavourable economic effects and enhance favourable ones. Therefore, creative accounting is attributed to flexibility provided by the accounting system. However, when the regulatory system is lax, managers and accounting professionals may indulge in manipulation by bending all sorts of regulatory requirements (see Banerjee, 2011). In other words, fraud techniques are employed by key actors to conceal the true and fair financial position and economic performance of the companies. In theory, managers manage the companies which are owned by the shareholders. However, in practice, self-interest may dictate that managers may wish to use the flexibility within the accounting system and enabling structures, provided by creative accounting, to manage the results in certain ways.

Creative accounting schemes can be very complex. In Enron and major corporate collapses, questions have been raised about the role of the professionals and advisors. The literature shows that they actively aided these corporations in return for fees and favourable huge consideration in other business dealings (Sikka, 2008). In effect, there was widespread criticism as to whether corporate advisors were compromising their ethical standards in return for fees. Regulators are keen to control creative accounting. As regulations get more complex, so do the scheme of avoidance. There evolves what can be called a creative accounting arms race. A simple creative accounting technique arises, regulators issue a regulation or standard that can curb this technique. The professionals and financial advisor devises another scheme to get round the new regulation. Other users generally are potentially harmed by creative accounting. These groups generally depend on account to give a fair presentation of the company’s performance. Therefore, creative accounting produces a misleading impression which serves managerial rather than stakeholder interests (Jones, 2011e).

The corporate environment of the company and the economic climate (structures) are also important because they constitute the overall framework within which the company operate. It has been argued that in times of economic downturn, there is increased pressure on the company because of potential pressure on profits. At such times, the management will have increased motivation to increased profits. As a result, there will be increased pressure on managers to adopt creative accounting techniques and where this fails, there may be pressure for management to move over the line from creative accounting to fraud (Jones, 2011c).

3 Review of literature

Several recent high profile corporate collapses have focused attention on the issue of truth, fairness and creativity in financial accounting and reporting across the globe. In Nigeria, a string of high profile collapses in the financial service sector have similarly shaken investor confidence in the degree to which reliance can be placed in their audited and published financial statements. This section therefore examines the extant literature on creative accounting to provide an overview on creative accounting environment, the motivation for indulging in creative accounting and fraud, the methods and evidence of creative accounting and fraud and impression management.

3.1 Conceptualising creative accounting

The concept of creative accounting is usually used to describe the process through which the accounting professionals use their knowledge in order to manipulate the figures included in the annual accounts. It refers to accounting practices that may not follow the letter of the rules of standard accounting practices but certainly deviate from the spirit of those rules. They are characterised by excessive complication and the use of novel ways to characterising income, assets, or liabilities. The conceptualisation of the term 'creative accounting' is intertwined with ideological, moral and cultural perspectives and there are competing views about creative accounting to the point of losing sight of its detrimental effect. A body of literature has attempted to define creative accounting (see Naser, 1993; Griffiths, 1986). The earlier literature tends to associate the term 'creative accounting' with 'game plan' and 'strategies' the company used to promulgate fictions and fantasies for massaging its share prices (Briloff, 1972, 1981; Tinker, 1985; Griffiths, 1986). For example, Briloff (1972) notes that:

"In corporate financial reporting ... the game plan is to show a steadily rising earnings-per-share, thus stimulating investor demand for shares, with consequent rise in their price, and creating a favourable atmosphere for the issuance of new securities in the case additional capital is needed." (pp.13–14)

Griffiths (1986) also asserted that financial statements are drawn up based on the embellished registers, the resulted figures being changed in order to protect the guilty. Creative accounting is presented as a legitimate fraud:

“Every company in the country is fiddling its profits. Every set of published accounts is based on books which have been cooked or completely roasted. The figures which are fed twice a year to the investing public have all been changed in order to protect the guilty. It is the biggest con trick since the Trojan horse.... In fact this deception is all in perfectly good taste. It is totally legitimate. It is creative accounting.” (p.1)

According to Naser (1993), creative accounting is:

- 1 the process through which, due to the existence of some breaches in the rules, accounting figures are manipulated and, taking advantage of the flexibility, they choose those measurement practices allowing the transformation of the synthesis documents from what they are supposed to be into what the managers want
- 2 the process through which the transactions are structured in such a manner that it allows the ‘production’ of the ‘desired accounting result’.

Jameson (1988) noted that accounting process in its essence, requires the operation with different motivations, different ideas. From this diversity arise manipulation, cheating and falsification by some less scrupulous accounting members. Creative accounting has developed geographically both in its practices’ complexity and in its nomenclature. Thus, the term preferred in the USA and most frequent one is that of ‘earnings management’ whereas in Europe they use the phrase ‘creative accounting’. In the literature, creative accounting can still be found under the name of income smoothing, earnings smoothing, cosmetic accounting or accounting cosmetics, financial crafts or accounting crafts. Therefore, creative accounting is at the root of a number of accounting scandals, and many proposals for accounting reform – usually centring on an updated analysis of capital and factors of production that would correctly reflect how value is added.

3.2 Creative accounting in the private sector

Several factors enhance the possibility of accounting manipulations and, in turn, accounting scandals. There are range of possible incentives for creative accounting and fraud.⁴ These ranged from general incentives to market incentives to special circumstances (see Jones, 2011b). The presence of strong motives enhances the possibility of accounting shenanigans. These motives may be generated internally from individual needs or externally via city pressures. Environmental opportunities can also enhance the potential to indulge in creative accounting and fraud, which include, lax rules and regulations, poor supervision (Carcello and Hermanson, 1999), and inappropriate reward and incentive structures (Donoher et al., 2007).

A general overview of studies in international accounting scandals conducted in 2011 by a team of experts across a number of countries⁵ show that incentives for creative accounting in private sector can be divided into four broad areas. These include, cover up bad performance (30 cases), including two of meeting managerial or analysts’ expectations; personal benefits (35 cases), including 12 cases where it was possible to identify improving share price as the main general incentive; five cases of meeting listing requirements; and six other cases (see Table 1).

Table 1 Incentives for creative accounting and fraud

<i>General incentives</i>	<i>Frequency</i>
a Cover up bad performance	30
1 Meet expectations	2
b Personal benefit	35
1 Improved share price	12
c Meet listing requirements	5
d Other	6

Source: Adapted from Jones (2011b, p.471)

Bakre (2007) also documents a number of cases of unethical professional practice through creative accounting which implicates accountants and auditors in falsification and deliberate overstatement of accounts, abuse of insolvency, conflict of interest and other professional misconduct. Jones (2011e) noted further that there are numerous examples of companies apparently attempting to use creative accounting and fraud to cover up poor financial performance across practically all countries.⁶ The rise and fall of Enron provides a truthful illustration of the fact that some companies can use the juridical status of transactions to hide the economic substance representing the base of these transactions. This has made everyone aware of the potentially disastrous results of creative accounting practices.

3.3 *Consequence of creative accounting*

When a company collapses and creative accounting is implicated, then it undermines the reliance which investors and other users can place on the account. As such it serves to undermine the general confidence in financial reporting. As a consequence, investors may be less likely to invest and the economy may suffer as a result. In addition, Carrera (2011) notes that the primary outcome of the alleged fraud was the dramatic consequences for thousands of small investors. It was further observed that the situation was worse than in many other cases because these investors were not backed by deposit insurance.

The social cost of the unethical accounting practices causing 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, in collaboration with finance ministries, across the globe was forced to adopt extraordinary measures to stave off the collapse of the financial institutions and 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 they kept lending. In Germany and France the government 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 make a direct capital injection into the institutions (*The Guardian Newspaper*, 30 August 2009).

While the global recession bites hard on advanced economics, the former CBN governors at the time 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 Newspaper*, 16 October 2008). Less than a year later, Nigerians were awoken to the reality that the banks are not so stable after all in Nigeria (*The Guardian Newspaper*, 21 August 2009). To avert the collapse of these 24 banks, CBN injected N620 billion (\$4.13 billion) into nine banks⁷ (*Nigerian Tribune*, 8 December 2009; *ThisDay Newspaper*, 12 December 2009). 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 owing to unethical accounting practices (Bakre, 2007).

3.4 Research methods

Before considering cases involving corporate scandals, fraud and the role of creative accounting by Nigerian banks, it should be noted that there are considerable difficulties involved in collecting data on corporate scandals and fraud or fraudulent practices because they are carried out secretly away from prying eyes and it is extremely unusual for fraudulent corporate organisations and its executives to be willing to disclose details of their practices. This paper recognises that it is only possible to discuss evidence which is available in the public domain, in other words material that can be gathered from court cases, investigatory reports and whistle-blower accounts of fraudulent financial practices by corporate executives. For this reason, this paper does not pretend to offer any comprehensive analysis, but instead provides evidence from some episodes that have been brought to public attention by the regulators and the court. It does so in order to show how accounting technology has been implicated in corporate scandals, fraud and fraudulent practices perpetrated in Nigeria with the focus being on the banking sector.

The data for the cases was obtained from archival documents from the media, documents published by the regulators, law reports of court judgements and other documentary sources, in order to provide evidence of corporate scandals and the role of actors and institutional structures in the Nigerian banking sector.

4 Creative accounting and scandals in the Nigerian banking sector

Creative accounting and fraud has also become a feature of market economies where chief executive officers (CEOs) are under pressure to deliver ever rising profits during their short-term tenure. It has been argued that the actors involved in creative accounting practices are not limited to private companies but that the company's director and CEOs, auditors and regulators have also been implicated in a number of these practices (Briloff, 1976, 1981; Tinker, 1985; Bakre, 2007; Otusanya and Lauwo, 2010). Investigations into the recent banking crisis in Nigeria showed that fraud and forgeries in the banks included unethical practices, granting of unauthorised loans, posting of fictitious credits, fraudulent transfers or withdrawal, outright money theft (*The Punch Newspapers*, 2 February 2009).

A number of reasons were adduced for the poor state of the banking operations, including poor liquidity, poor earning and gross inability to meet payment and maturity obligation of depositors and creditors, bad management, inadequate working capital, lack of trained manpower and poor accounting system (*Newswatch Newspaper*, 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 and later to 24 through the voluntary merger of two. The Central Bank of Nigeria (CBN) implemented an expansive financial strategy the target of which was to break Nigeria into the global big league and serve the need of a growing economy with the vision to be among the 20 biggest economies by 2020 (*Tell Newspapers*, 31 August 2009).

Financial institutions may embark upon creative accounting, despite the sophistication of shareholders and bondholders and their ability to react adversely to such behaviour and strong regulatory environment. Creative accounting and failure in the banking sector have been documented in a number of literatures (Bakre, 2007; Sikka et al., 2009; Norton, 2011; Jones, 2011b; Gwilliam and Jackson, 2011). Evidence has shown that financial institutions engaged in creative accounting conceal the true state of the organisation earnings. This encompasses the traditional attempt by management to hide substantial losses or the extent of fraud. In addition, accounts may be manipulated to suggest that assets available in the balance sheet for collateral for future lenders to the bank are of greater value or greater liquidity than is the case. Through this practice, the banks were able to over-leverage their balance sheet. Borrowing heavily from lenders on the assurance that it has sufficient asset strength should lenders later need to call in their loans, liquidation of collateral will more than suffice to meet their claims.

The CBN affirmed that the management of these banks had clearly acted in a manner 'detrimental to interest of their depositor and creditors' (*Tell Newspapers*, 31 August 2009; *The Guardian Newspaper*, 30 August 2009). The five banks examined in this paper were said to be responsible for 39.9% of loans in the banking industry. Oceanic Bank Plc., had the highest non-performing loan of N278.2 billion as at May 2009; Intercontinental Bank, N201.9 billion; Afribank, N141.9 billion; Union Bank, N73.6 billion and Finbank, had N42.4 billion (*ThisDay Newspaper*, 27 August 2009; *Newswatch Newspaper*, 24 August 2009). The audit shows that, the five banks had a total of loan portfolio of N2.8 trillion, with margin loans granted for investment in the capital market contributing N456.3 billion. Loan exposure to the oil and gas sector was N487 billion. Aggregate non-performing loans stood at N1.14 trillion, representing 40.81% of the total loans (see Table 2) (*The News Newspapers*, 7 September 2009; *Tell Newspapers*, 31 August 2009).

Table 2 Non-performing debt of the five troubled banks

S/N	Name of bank	Amount of loan (N)
1	Oceanic Bank Plc.	278.2 billion
2	Intercontinental Bank Plc.	210.9 billion
3	Afribank Plc.	141.9 billion
4	Union Bank Plc.	73.6 billion
5	FinBank Plc.	42.5 billion
Total		747.0 billion

Source: Extracted from *Newswatch Newspaper*, 24 August 2009, *ThisDay Newspaper*, 27 August 2009

There are several causes for the Nigerian banking crisis but the most important and arguably the role of off-balance sheet activities by banks and inadequate risk evaluation of assets and loans which ultimately turned out to be highly volatile. Creative accounting

played a major part in facilitating or making possible unethical practices. 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 operation. 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, namely BankPHB, Equitorial Trust Bank, Spring Bank and Wema Bank (*Nigerian Tribune*, 8 December 2009; *ThisDay Newspaper*, 12 December 2009). According to *Tell Newspapers*:

‘The bubble book-keeping, poor corporate governance and intense rivalry among the big banks present CBN governor the ideal opportunity to execute an alleged game plan to reconfigure the ownership of the ‘megabanks’.’ p.32

This 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 lax corporate governance, which had rendered the institutions undercapitalised (*Nigerian Tribune*, 17 August 2009; *ThisDay Newspaper*, 12 December 2009). The next subsection examines the role of the bank executives in the corporate scandals in the banking sector.

4.1 The role of bank executives

Banks receive money deposits from the public for safe-keeping and withdrawal as depositors wish. Banks also give out loans to businesses and individual customers on conditions that include payment of interests, in addition to the amount borrowed (capital), and surrendering of property (collateral) whose value commensurate with the amount borrowed. The borrowers are also required to ‘service’ their loan as long as the loan subsists and to periodically pay up the interest or fractions of it as they become due.

It was observed by the CBN that some of the banks in the country were showing liquidity strain as far back as October 2008 due to extensive use of the Expanded Discount Window (EDW) which extend credit facilities to banks on the basis of collateral in the form of commercial paper and bankers’ acceptance which were ‘sometimes of doubtful value’ (*Tell Newspapers*, 31 August 2009). In 2009, the joint inspectors from the CBN and the Nigerian Deposit Insurance Corporation (NDIC), were sent to examine the books of some banks in which they discovered or rather confirmed a ‘can of worms’. Ten banks were among the first set of banks audited and five⁸ of them were cleared and the other five⁹ were found wanting and consequently the executive directors were sacked and replaced with new ones appointed by the CBN. Out of the 14 banks examined in the second set, nine¹⁰ of them were found to have adequate capital and liquidity to support the level of current operations and future growth (*ThisDay Newspaper*, 3 October 2009).

Four of the banks including Wema Bank – three of which had their MD/CEO sacked¹¹ – were found to be in grave situation and were directed to get capital injection as long term loan and liquidity support. Unity Bank was adjudged to have sufficient capital but not to be in grave situation because it has a healthy liquidity position and the bank was given till June 2010 to recapitalise (*ThisDay Newspaper*, 3 October 2009). In addition a number of executive directors were removed and the CBN injected N200 billion as liquidity support and long term loan for the four banks adjudged to be in grave situation (*The Tribune Newspapers*, 3 October 2009). The bank executives were alleged

to have violated virtually all the rules guiding the granting of loans and its recovery. It was reported that:

“Loans were alleged to have been granted without adequate collaterals; loans, including those given out to themselves and their friends, were not serviced and they become ‘bad loans’; reports submitted to the Central Bank were ‘cooked, that is, ‘faked’; bank executives were becoming stupendously rich as individuals while the banks they managed were becoming bankrupt or ‘failed’, they were laundering money and using their friends as ‘fronts’ to collect loans from their own banks; they were spending the banks’ money recklessly and illegally; some of them could not immediately explain huge withdrawals and transfers of funds from their banks and appeared to have made attempts to disguise the original sources of such funds.” (*The Guardian Newspaper*, 17 September 2009)

A review of five of these banks revealed the active involvement of bank CEOs in the use of creative accounting schemes to conceal their unethical practices. In 2009, Erastus Bankole Akingbola, the 59-year-old former Executive Vice-Chairman and Chief Executive Officer of Intercontinental Bank Plc. was alleged to have run the bank almost aground and chalked up non-performing loans of N210.9 billion. He was removed as the CEO because the bank showed excessive liquidity stress with persistent use of the ‘EDW’ and has been carrying on its business in a manner detrimental to the interest of its depositors and creditors (*The News Newspapers*, 14 September 2009). Through the special examination of the bank records, the CBN governor alleged that:

“Intercontinental Bank Plc., showed signs symptomatic of a troubled bank with its inability to meet its maturing obligations without persistent recourse to the ‘Expanded Discount Window’ of the Central Bank of Nigeria and is in dire need of capital...the bank was contravening the BOFIA, ‘especially with respect to maintenance of minimum capital adequacy and liquidity ratios, treatment and use of commercial papers, and keeping of books of accounts which reflect a true and fair view of the financial position of the bank. Worse still, Sanusi emphasised, the bank had insufficient assets to cover its liabilities.” [*The News Newspapers*, (14 September 2009), p.21]

Further investigations by the Economic and Financial Crimes Commission (EFCC), revealed that despite the dwindling fortune of Intercontinental Bank, its board was approving holiday allowance of \$10,000 each to non-executive directors, contrary to CBN Code of Corporate Governance for banks in Nigeria which limit the executive directors to sitting allowances. The Commission also accused the board of spending over N85 million in 2009 to conduct feasibility studies on the opening of new branches outside the country (*The News Newspapers*, 14 September 2009).

Former Managing Director of FinBank Plc., Okey Nwosu was accused of failing to take all reasonable steps to ensure the correctness of FinBank monthly bank return to the CBN between October 2008 and May 2009. He was also accused of failing to give true and fair view of the state of the affairs of the bank to CBN by incorrectly importing N47.6 billion of commercial papers under the EDW in FinBank’s statement of assets and liabilities¹² (*ThisDay Newspaper*, 1 September 2009; *The Sun Newspapers*, 3 December 2009). Okey Nwosu was accused of perpetuating about N17 billion share scam and granting over N9.3 billion reckless loan. It was alleged that Nwosu used some companies to purchase about 612,558,934 units of FinBank’s share at about N6.1 billion with the aim of raising the price of FinBank’s share at the stock market with intent to induce others to buy the shares of the bank (*The Sun Newspapers*, 3 December 2009). Nwosu

was also indicted to have laundered N33.2 billion and he also conspired with three other directors to launder N24.3 billion by withdrawing the money from the bank's account illegally. They were also alleged to have made a purchase of 2,033,168,880 units in several transactions of FinBank's shares purchased in the name of front companies¹³ (*The Sun Newspapers*, 3 December 2009).

Bartholomew Ebong, a former CEO of Union Bank, was alleged to have granted loans of over N150 billion to several companies without collateral (*ThisDay Newspaper*, 1 September 2009). He and others were indicted for recklessly granting credit facilities worth more than N80 billion between 2007 and 2008 without adequate security; failing to take all reasonable steps to ensure the accuracy of monthly bank returns to the Central Bank; and conspiring with the stockbrokers Peter Ololo and Falcon Securities Ltd. between 2007 and 2009 to manipulate by fraudulent means the market price of Union Bank shares.

Sebastian Adigwe, the former Group Managing Director and Chief Executive of Afribank, was accused of granting loans of approximately N91 billion to Falcon Securities Ltd., Rehobet Assets Ltd., Kolvey Company Ltd. and many other companies without adequate collateral. It was further reported that Adigwe failed to keep proper accounts and commercial papers as contingent liability of his bank and also failed to take reasonable steps to ensure the accuracy of the bank's monthly returns to CBN from October 2008 and May 2009 (*ThisDay Newspaper*, 1 September 2009).

Cecilia Ibru, former MD and CEO of Oceanic Bank International, was charged with a number of offences including money laundering and fraudulent conversion of depositors' funds for her own private gain. Evidence shows that she moved £1.7 billion to the UK in one transaction, and the sum was subsequently transferred into other foreign accounts. All the documents she presented to the CBN and other regulatory agencies were 'cooked' (*The Sun Newspapers*, 30 August 2009). Cecilia Ibru was also indicted of using companies to launder funds (e.g., Cloudy Heights Enifor, Prisky Gold, Bliss Bloss, Velvox and Circular Global) which she used to acquire over 275 million shares in First Bank Nigeria Plc for N275,795,139. Further evidence revealed that she was actively involved in inside trading using her companies to acquire: over 64 million shares in Union Bank of Nigeria valued at N64, 218,000; 93 million shares in the United Bank for Africa for N93,750,000; and shares in Oceanic Bank for N1,076,220,421 (*The Sun Newspapers*, 30 August 2009).

In many of the bank scandals there are also apparent fraud and falsified statements. In a number of cases, there are also examples of inflated profits, management embezzlement, and bribery and corruption. In other cases, the scandals involved creative accounting rather than fraud.

4.2 Failure of internal control

It is interesting to note why the practices occurred and, in particular, whether a failure of internal controls played any part. These internal controls can vary from company to company. They may include, inter alia, an effective board of directors, the presence of independent non-executive directors, supervisory boards, or internal control controls. In a number of cases, banks apparently use creative accounting and fraud to cover up poor financial performance.

It was also reported that Akingbola, former Executive Vice-Chairman and Chief Executive Officer of Intercontinental Bank Plc. was appointed as member of the bank's

audit committee which has the tendency of undermining the committee's independence, since one of the major responsibilities was to check the excesses of the Managing Director. The trouble bank chief was alleged to have granted loans to corporate customers who were believed to lack audited financial statements and Memorandum and Articles of Associations.¹⁴ In many instances, collateral values were less than the values of credit granted (*The News Newspapers*, 14 September 2009).

Some records were allegedly doctored to portray an impression that certain non-performing loans granted in 2007 were only recently granted in 2009. The records reflected 2009, instead of 2007 original dates. Moreover, of the N26.78 billion worth of insider credits, N20 billion was non-performing. In order to mislead the regulatory authorities, the bank's management deliberately repackaged some non-performing credit. This amounted to rendition of false returns. Auditors also discovered hidden N87.61 billion non-performing loan facilities, contrary to s. 28(1) of the Banks and Other Financial Institutions Act (BOFIA) (*The News Newspapers*, 14 September 2009). As a consequence, Akingbola was indicted for conspiracy to grant unsecured credit facilities, conspiracy to manipulate share prices, reckless consideration of credit facilities without adequate security and failure to present monthly statement of account to the CBN. The role of the audit committee appeared compromised, the role of the CEO and chair was held by the same man and there was a failure by some institutional investors to appreciate what was happening.

Ebong, the former Group Managing Director of Union Bank Plc, and directors of the bank and its subsidiary (Union Trustees Ltd) were also alleged to have been involved in manipulating the share price of the bank. The Managing Director of Falcon Securities Ltd, Peter Ololo and other members of the company's board, were also charged for using N30.477 billion credit obtained from two foreign financial institutions in order to artificially raise Union Bank's share price in anticipation of a future public offer.

It was found that Bartholomew Ebong (former Group Managing Director/CEO, Union Bank Plc), Samuel Ayininuola (former Executive Director, Risk Management and Compliance), Henry Onyemem (former Managing Director, Union Trustees), Peter Ololo (Managing Director, Falcon) and others had devised a scheme whereby Falcon actively traded in Union Bank shares with the intent to cause an increase in the share price and thereby violated Section 105 of the ISA 2007, which prohibits activities that may create a false or misleading appearance of active trading in Union Bank shares, as well as the market and price of Union Bank's shares. The supervisory board failed to exercise due diligence. In Oceanic Bank, the approval limit for loans was N1 billion, but evidence shows that Cecilia Ibru, CEO of Oceanic Bank International, unilaterally approved loans of N3 billion and above without recourse to the bank's Board. This demonstrates that there was a failure of supervisory boards and internal audit control. There was lack of paper trail of loan securities and lack of control over the classification of loans.

4.3 Failure of external auditors

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).

The review of the banking crisis shows a clear evidence of a failure of external auditing. 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 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 Newspapers*, 19 August 2009). In 2007, the 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 (*The Sun Newspapers*, 22 August 2009).

As part of the statutory requirements of the Companies and Allied Matters Act 1990 (CAMA 1990) and the 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 cash flows 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 Newspaper*, 18 August 2009).

Table 3 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 or any scandals.

However, just some few months later the regulators declared these banks to be distressed. The list of banks in Table 3 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 3 Auditors and distressed banks

<i>Bank</i>	<i>Year end</i>	<i>Auditor</i>	<i>Date of last audit report</i>	<i>Audit opinion</i>
Afribank	31/3/2008	AWD	Mar. 2008	Unqualified
Finbank	31/4/2008	AWD & AI	Dec. 2008	Unqualified
Union Bank	31/3/2009	AWD & BTN	Oct. 2009	Unqualified
Intercontinental	29/2/2008	PwC	May 2008	Unqualified
Oceanic Bank	31/12/ 2008	PwC	May 2009	Unqualified

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 shows the financial institutions which failed the 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 were 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 CBNs 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 Newspapers*, 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 CBN had declared the bank unhealthy with N278.2 billion (\$2.2 billion) non-performing loans representing 37% of the total non-performing loans of the first five distress banks which was put at N747 billion (\$5.98 billion) (*ThisDay Newspaper* 25 August 2009; *NewsWatch Newspaper*, 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) nonperforming loans, and yet the CBN report showed that the bank had N210.9 billion (\$1.69 billion) in

non-performing loans representing 28% of the total bad loans (*This Day Newspaper*, 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.

4.4 The role of the regulators

One of the functions of the CBN is to supervise and discipline the banks to ensure that they keep the rules of banking operations. It does this directly through its functionaries and indirectly through agents and agencies it appoints. In addition, banks are required to submit periodic reports to the CBN. The CBN, acting on behalf of the government, has to protect depositors' money and shareholders' investment in the banks by ensuring compliance with banking laws. To do this the CBN has to ensure that banks do not indulge in practices that result in 'unrepayable' or 'bad' or 'toxic' loans and to ensure that proper books of accounts are maintained showing the true and fair view of their operations from time to time.

The EFCC has primary responsibility for enforcing the financial crimes provisions of its Act while the Securities and Exchange Commission (SEC) and the CBN generally enforces the accounting (books and records and internal controls) provisions. Both institutions have authority to seek permanent injunctions against present and future violations as demonstrated above. In the process of constructing the new regulatory web, the accounting and auditing practice was enlisted to provide the necessary assurance of fairness in the conduct of banks business.

Evidence during this period shows that the banks were near collapse and this have terrible consequences for depositors, shareholders, investors and indeed the economy. As a consequence, the CBN stepped in, removed the banks' executives, their boards and their management and appoint new ones; inject huge sums of public fund into the failing banks and took steps to recover the 'bad' loans. The scandal led to question concerning the regulation of these banks and deficiencies in the control mechanisms.

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, 2008). Audit opinions are akin to a financial mirage (Sikka, 2008). 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. Lack of due professional diligence of the auditors led to the reported scandals by the CBN. Despite the reported failure of the external audit industry, there was no action against individual auditing firms such as fining them or disqualifying individual chartered accountants for their involvement.

5 Summary and conclusions

This paper has sought to stimulate debate on contemporary use of accounting to creatively manipulate corporate performance and the role of regulators and external auditors in the recent banking crisis in Nigeria. It has been argued that the deepening banking crisis poses questions about the role of accounting technology, internal control systems 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, have had to be bailed out by the CBN even after receiving clean audit reports by their external auditors or outright takeover by the government. The incentives for creative accounting were most often to cover up bad performance, often to maintain the company's share price and meet market expectations and also for personal benefit. Evidence suggests that there were a variety of motives that appeared to drive actors' actions.

The paper has shown how highly influential CEOs in the Nigerian banking industry have been involved in high profile corporate executive scandals and financial irregularity. The paper adopted the agency and structure analysis to examine the role of actors and the structural elements to understand the socio-political and economic environment in which such persons (actors) conduct their daily lives. Their actions are enhanced or constrained on daily basis by the institutional structures embedded within the Nigerian society. Evidence shows that in the corporate world, whether in Nigeria or elsewhere, considerable emphasis is placed on the importance of financial success often with less regard being paid to the importance of using socially acceptable means for achieving such success. This runs through the various cases examined in this paper.

A financial statement is supposed to reflect a company's true financial position and to enable shareholders and creditors to ascertain a company's financial position at any given time. The evidence in this paper has shown that a number of CEOs in the banking sector were engaged in manipulating their books by colluding with other banks to artificially inflate the financial position of the bank and thereby increase share prices. Practices, such as converting non-performing loans into commercial papers and bank acceptances and creating inaccurate balance sheets for the purpose of hiding losses, were rife and these were achieved through the use of creative accounting schemes.

It has been shown how complex financial instruments and funding arrangements can be used to manipulate the apparent strength of balance sheets when ratings agencies, investors and even management itself fail adequately to evaluate risks or stress test trading or portfolio investment strategies. Finance theory suggests that leverage or borrowing against a healthy balance sheet is a sustainable and often wise business practice, but when this becomes over-leveraging or raising capital against overvalued or potentially highly volatile assets, the foundation stones of a funding crisis are put in place.

It is also observed that the main feature of financial scandals was the role that some powerful individuals played in them. In a number of cases, there are charismatic individuals who managed to persuade the business community that all was well when actually it was not. In the cases examined in this study and some other studies, there have been a series of successive accounting scandals. Bank managers and CEOs have been motivated to indulge in creative accounting or fraud for variety of reasons. A number of very charismatic individuals and CEOs have been implicated in unethical accounting practices – including misappropriation of assets, embezzlement and fictitious

transactions. In a few cases, the indicted CEOs, especially, Cecilia Ibru, were found guilty and the court sentenced her to six months' imprisonment on each of the charges, totalling 18 months. In his judgement, Justice Dan Abutu also ordered that the former bank chief forfeit 199 assets and funds worth over N199 billion (*The News Newspapers*, 9 October 2010). Other CEOs are at different stages of court trial for unethical practice, money laundering and falsification of their banks annual reports.

This paper provides evidence on the inadequacy of audit reports to disclose non-performing loans and the mismanagement of banking assets. Such evidence has helped to 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. It has been argued that for any accounting scandals to occur, there must be some failure of either internal control or external auditor. Evidence has shown that these failures are often difficult to identify though, through the secrecy of companies and defensiveness of auditors. In addition, external auditor was usually notable by its absence. In a number of cases, there was a signal failure to provide qualified accounts or indeed, any warning at all of the troubled banks.

A series of governance reforms most typically follows each round of major corporate failures. Such reforms embrace financial reporting and auditing reforms which are intended to ensure that the errors, misjudgements and negligence of the past are not repeated in the future. To avoid creative accounting, and in particular fraud, it is necessary to have a good corporate governance. Four elements of corporate governance are particularly important; strong internal controls, the separation of the posts of chief executives and chairman, the existence of audit committee and the presence of independent directors.

To minimise unethical accounting practices by corporations and professional accountants there is a need to educate company executives, policy-makers and the public about the human costs of creative accounting, scandals 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 these officials were perpetrating and misappropriating investors funds?'

It has therefore been suggested that *ex-post facto* financial audits are 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. Therefore, the Central Bank of Nigeria, NDIC and equivalent regulators should develop their own dedicated teams of auditors and examiners to conduct continuous audits of all the major financial institutions. This should go beyond the narrow market concerns about profits to address questions about their business models, viability, social accountability and their capacity to cause financial deficits.

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Notes

- 1 According to Gramsci, history is the will of man who acts on nature in order to change the World, to effect his goals, to satisfy his needs; or it is a continuous struggle of individuals and groups to change that which exists at any given moment [Femia, (1987), p.64, p.99].
- 2 Such as the models of Weber, Durkheim, Berger and Luckman.
- 3 This was established through the dialectical structure of Bhaskar's transformation model of social activity (see Figure 1).
- 4 It is often difficult to distinguish methods of fraud from methods of creative accounting, so the two sets of methods should be taken in conjunction with each other.
- 5 These countries include; Australia, China, Germany, Greece, India, Italy, Japan, the Netherlands, Spain, Sweden, the UK and the USA.
- 6 In this study, 58 major accounting scandals were detailed across 12 countries.
- 7 Afribank, Finbank, Intercontinental Bank, Oceanic Bank and Union Bank, BankPHB, Equitorial Trust Bank, Spring Bank and Wema Bank) to stimulate the liquidity of these banks (*Nigerian Tribune*, 8 December 2009; *ThisDay Newspaper*, 12 December 2009).
- 8 These banks are Diamond Bank, First Bank, United Bank for Africa, Guaranty Trust Bank and Sterling Bank.
- 9 These are Intercontinental Bank, Oceanic Bank, Union Bank, Finbank and Afribank
- 10 They include Access Bank Plc., Citibank Nigeria Limited, Ecobank Nigeria Plc., Fidelity Bank Plc., First City Monument Bank Plc., Skye Bank Plc., Stanbic IBTC Bank Plc., Standard Chartered Bank Limited and Zenith Bank Plc. (*ThisDay Newspaper*, 3 October 2009).
- 11 Bank PHB, Equitorial Trust Bank Plc., and Springbank Plc. (*ThisDay Newspaper*, 3 October 2009).
- 12 These are contrary and punishable under s.28 (3) and s.50 of the BOFIA, CAP B3, Law of Nigeria, 2004 (*ThisDay Newspaper*, 1 September 2009).
- 13 Eureka Global Venture Ltd., Coast Lake Nig. Ltd., Scannel Investment Ltd., Ferbond Real Estate Ltd., Tyco Food Processor Ltd., Busch Machine and Tools Ltd., and Omdden Oil and Gas Nig. Ltd., valued at N18,188,083,059.35 through Springboard Trust and Investment Ltd. (*The Sun Newspapers*, 3 December 2009).
- 14 Examples of such companies are Al-Fil Petroleum Company Ltd., Etugo Oil International Ltd., Dansa Oil and Gas Ltd., and DWC Drilling Ltd. (*The News*, 14 September 2009).