The role of auditors in the context of Nigerian environment

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Abstract: The objective of this study was to provide evidence of the challenges and barriers affecting the role of auditors and auditors*' independence in Nigeria. A number of studies* have been *done on auditor's independence but little attention is given to the pressures faced* by auditors that affect their independence. This study adopts a qualitative method and reports *on the barriers that affect auditor's independence. Based on the interview w*ith 32 staff that are either auditors or have come in contact with auditors during their course of work, this study identifies the ba*rriers that affect auditors' independence*. These barriers include time pressure to complete tasks, management interest, incentives given to auditors by management, bribery and the level of corruption in the society, and the legal framework.

Key words: Nigeria; Auditors Independence; Auditors Threat; Culture; Regulation

1. INTRODUCTION

This paper addresses the barriers arising from auditors' ability to perform their auditing function and its effectiveness on disclosure practices. Recently, auditors perform inadequately in the recent financial crisis of 2008 and several scandals in the 1990s and 2000s have been traced to poor quality audit. Auditors were criticized by the public for failing to detect risks and misstatements in some big companies notably Lehman Brothers and AIG (Chen and Zhang, 2012). For example, the financial crisis of 2008 revealed many accounting problems such as the failure of the audit industry to identify problems in the financial sector. As a result, this was regarded as one of the major reasons for the financial meltdown in 2008. The accounting firm, Ernst and Young representing Lehman Brothers, was aware of the Repo 1051 practice but did not question it, disclose it or expose Lehman's failure to adhere to good management practices, ultimately, leading to the demise of the banking giant, Lehman Brothers on September 15, 2008. Also, in 2008, the PriceWaterhouse Cooper, the AIG's auditor, was also blamed for not issuing a timely disclosure of AIG. The insurance company was involved in the sell of massive amounts of insurance without hedging its investment. These huge sales of credit default swaps were made without putting up initial collateral, a major weakness in risk management and failure in corporate governance practices (Chen and Zhang, 2012).

Furthermore, auditors play a crucial role in corporate governance most especially in expressing an opinion about the truth and fairness of a financial statement (Okike 2004). Therefore, the financial statement has become a prerequisite for determining financial performance if auditors attest that the financial statement is free from material misstatement, this implies that they show a true and fair view of the company. According to Mgbame et al (2012) the audit quality reflects the significance of fairness in enhancing the credibility and quality of financial statements to stakeholders involve in the usage of accounting information. Auditors could give inappropriate audit opinion in situations where independence is threatened. It has been argued that the possibility for auditors to falsely say that a company's financial statement represents their true state of financial performance and position should not be ruled out (Wallace 1992 and Okike 2007).

Pickett (2011) noted that some external auditors, especially partners work in favour of top management, particularly when the chief financial officer (CFO) is responsible for the 'auditors employment prospects, fees and other consulting work' (Pickett 2011). Pickett further argues that most financial statement do not give true picture of company activities especially when an accounting policy is applied to some set of accounts. For example, when dealing with off balance sheet financing, accounting policy are interpreted in a way that will give a reflection of what the directors wants it to be or look like.

This study argues that certain barriers exist which makes it difficult for auditors to apply professional scepticism. These barriers affect auditors' independence and make them work in favour of top management to materially misstate financial statement. This paper aimed to address these problems affecting auditors' independence by identifying the barriers that affect auditors' work in Nigeria. The remainder of this paper organizes as follows. In section 2, we discuss the background and literature on the auditors and their role in corporate governance practices. We present the research design and methodology in section 3. Results are reported in section 4 while section 5 shows the conclusion.

2. LITERATURE REVIEW

The audited financial reports of organisations show their true financial performance and position (Okike 1989; Malaguen et al 2010). Alabede (2012) argued that corporate auditing is one of the ways of providing assurance to investors. Okike (1999) noted that most companies will benefit from corporate auditing irrespective of their size and it gives confidence to investors. Tomasic (1992) states that in order to ensure effective auditing there is the need to clarify the duties of the auditors. This will reduce bias auditing and corporate scandals. One of the reasons for the change in company law is because of financial scandals (Lee 2002).

Generally, the collapse and failures of organizations has been traced to fraudulent financial reporting such as in the case of the 2000s scandals that resulted in a credibility crisis for the auditing profession. For example, it was the fraudulent financial reporting of Arthur Andersen for Enron that led to collapse of the consulting firm and Enron. These scandals led to the interventions by governments and regulators that led to the formulation of Sarbanes-Oxley Acts of 2002 (Knechel et al., 2007).

Furthermore, if the company were to fail or collapse after certain months of being audited, then the auditors would be blamed for not conducting a quality audit (Dopuch 1988). Wherever there is a financial scandal, the question to be asked is 'did the auditors carry out their responsibilities properly?' (Reilly 2006). Auditors should obtain sufficient appropriate audit evidence before reaching a conclusion on a subject matter in order to ensure that the financial statement gives a true and fair view.

It is the auditor's responsibility to report the true and fair state of an organisation's financial statement (Okike 1989, 1999, 2004; Sikka 2009; Malaguen et al 2010), which is in line with Section 359 (1) of the CAMA (1990). Auditors can carry out their duties effectively if they are independent (Peel and O'Donnell 1995). They should apply professional skepticism during their audit (Carmichael 1977). They should also maintain good corporate governance (Ali 1999) and adopt good corporate governance practices (Anandarajah 2001). The Code noted that the audit committee should review any issue that will lead to audit scope limitation or problems encountered by auditors and how management responded to them. This is because quality auditing is part of the objective of good corporate governance (Low 2002). Moreover, there is a positive effect between corporate governance mechanisms and accountability (Dewing and O'Russell 2004). Nevertheless, corporate governance is an important tool investors use to decide whether to invest in a company (McKinsey and Co 2002). Okike (1989, 1994, 1999 and 2007) noted that the audit function is one of the mechanisms that enhance confidence in corporate annual reporting.

Financial misstatements presented to users of information will cause stakeholder to make an incorrect judgement based on the inaccuracy of the financial statement (Okike 1999; Wallace 1992; Owoyemi 1990). In recent times, an external auditor's role includes reporting on the organization's financial statement as a going concern, and detecting and reporting fraud and illegal acts discovered during the course of their assignment (Porter 2009). Despite the role of auditors in reporting on companies' financial statements, most of them have faced a lot of pressure. These pressures according to Okike (1998; 1999; 2004) arise from socio-economic, political and cultural environments where they are located. She noted that the accounting profession must remain abreast of current developments and should be proactive in making changes in the internal and external reporting environment (Okike 1998; 1999; 2004; 2007). This study adds to literature and identifies the barriers that affect auditor's work in Nigeria.

2.1 REGULATORY FRAMEWORK AND COMPANY PERFORMANCE

The privilege of the accountancy profession as a regulator is dependent on the belief that it should maintain independence from what it regulates. For example, the auditing firms should serve the public interest (Sikka and Willmott 1995), an awareness that is frequently repeated by those who speak for the profession (Lickiss 1990; McNeil 1992; Plaistowe 1991, 1992a, 1992b, 1992c; Regulation Review Working Party, 1995).

The United States and United Kingdom capital markets, as well as independent accounting bodies are seen as not only essential, but also as interdependent institutions for regulating the accounting profession (Chua and Poullaos 1993; Sikka and Willmott 1995; Singh and Zammit 2006). Researchers have argued that studying the relationship between the accounting profession and the state is very important in understanding the accounting regulations (Gray 1988). Stock exchange, professional bodies and other institutions in Anglo-American countries are usually self-regulated and do not have interference from the state (Greenspan 1998). Prior researches have claimed that these institutions and professional bodies need the state backing in order to uphold the status quo (Willmott et al 1992; Sikka and Willmott 1995).

Regulators including government bodies, institutions and code of corporate governance are empowered with authority to provide the checks and balances (Banker et al 2010). They rely on controls, compliance and reports from the auditors and accountants who are responsible for certifying the true financial position of the companies. These regulators are required to comply with the ethical norm of accuracy of information and the social norm of transparency of information (Ahn and Choi 2008; Edwards and Wolfe 2007). However, the recent scandal of Arthur Anderson revealed an economic motivation of earning consulting fees rather than ethical and social norm compliance of accuracy and transparency, indicating how management and auditors work to achieve their selfish interests (Nwabueze and Mileski 2008).

The rules and regulation put in place within an environment could influence the role of auditors. Researchers such as Klapper and Love (2003) have suggested a link between corporate governance and the development of a regulatory/legal environment. For instance, Klapper and Love (2003) reported that companies that are located in countries that have weak legal systems will on average have lower governance ratings. They found that good corporate governance was positively correlated with operating performance and market valuation. This implies a positive correlation between company performance and the effectiveness of the regulatory environment. They further argued that the degree of flexibility of firms on their own corporate governance might be smaller in countries that have weak laws. Weak laws create an inherent and control risk at the financial statement level. The quality of audit work will depends on the behaviour of management towards the compliance of regulation when the corporate governance is weak.

Garcia and Liu (1999) tried to provide a link between governance mechanisms and the regulatory environment. They wrote that regulatory environments that support compulsory disclosure of reliable information would enhance investor's confidence and participation. The capacity to encourage trading and investment in the stock exchange will depend on the level of confidence investors have on the regulation.

In a study conducted to analyse the cultural impact on Chinese corporate disclosure, Qu and Leung (2006) suggest that as culture changes, most companies were willing to supply voluntary information in addition to those that were required to be disclosed. Most of the information disclosed relate to employee issues and stakeholder interests. These disclosures according to Thomsen (2004) encourage interactions among stakeholders, employees, and customers while at the same time, shape organisational value.

Ahn and Choi (2008) wrote that when banks strengthen and increase their monitoring roles, there seems to be a decrease in the bank's earning management behaviour. They concluded that the role monitoring plays in banks is very vital in the study of regulatory practices. Steinwand (2000) suggested that companies should have an internal auditor who will report to the board directly. The

reason for having an internal auditor is to provide the board with an independent and objective assessment of the company's operations as well as improving financial and social performance.

Allen and Gale (2000) warned regarding the efficacy of monitoring; they pointed out that board monitoring in most cases is not efficient as a result of the company financing out of retained earnings. Owners will attain more benefit by giving or extending control to the CEO. The CEO should be responsible for control especially when the business is surrounded with greater uncertainty. When control is in the hand of CEOs they could pressurise the auditor to do things in a certain manner when they have something to hide. This create discrepancy between the CEO's interests and the auditors' independence. On the other hand, Jiang et al (2008) concluded that firms with weak control mechanisms are more likely to manage earnings in order to achieve analysts' forecast.

In a study on the Ukrainian stock exchange, Dean and Andreyeva (2001) wrote that the regulatory environment could affect the kind of governance structure that is put in place. The authors identified that the weakness of Ukraine's legal and regulatory environment could support concentrated ownership pattern over diffused ownership structures. Martynova and Renneboog (2008) concluded that bidding from a country with stronger shareholder orientation leads to improvement of target assets than a country with a poor stock record which results in lower target asset. Weak regulatory frameworks have been a major challenge for the nature and scope of work for the auditing profession, with developing countries being the most affected. Accounting fraud and scandals exist due to presence of weak regulation and compliance. Tomlinson (2017) noted that 'where governance architectures are stronger, the role played by professional accountants in tackling corruption is amplified'.

2.2 REGULATORY FRAMEWORK IN NIGERIA

Issues concerning regulatory framework of organizations in Nigeria are laid down by the provisions of company legislation called Companies and Allied Matters Act 1990 (CAMA 1990). The structure of this company legislation can be traced to Nigerian colonial history (Wallace 1992; Ogbechie et al 2009). Nigeria, like most other countries colonised by Britain, inherited at independence, many rules and regulations that were left behind by the colonial master (Wallace 1988). The reason why the Nigerian legal system, accounting and corporate governance practices mirrored the UK pattern was that during the period of colonization, the British introduced their company legislation into the country (Okike 2007).

Nevertheless, as Okike (2007) argued, this mimicking of UK's Companies Act without taken cognisance of culture and management behaviour suggest that the company legislation in Nigeria had failed to address the company law problems that were peculiar to Nigeria's political and socio-cultural environment. It can be argued that the country's rapid economic and commercial developments were not seriously dealt with by the Combined Code (Okike, 2007).

Okike (1994) provided further clues into Nigeria's curious effort to reflect its peculiar socio-economic and political culture in company legislation. Therefore, it can be deduced from the preceding historical discussion that the Nigerian corporate governance system is a reflection of its British tradition (Wallace 1992). Failure of corporate governance to reflect the culture of the society have led to poor audit work and bad management behaviour. These create an atmosphere where top management, CEO and board members, and auditors form a particular behaviour contrary to company policies during decision making, thereby resulting in corporate collapse and scandals (Okike 2007; Sweeney 2008; Mintz 2005). The collapsed of companies around the world have emphasised evidence of poor quality auditing and bias professional scepticism.

2.3 CORPORATE SCANDALS

Accounting fraud perpetuated by top management from Enron, Parmalat, Nigerian Unilever etc are good examples of poor auditor's professional judgement and bias reporting (Morey et al 2008; Edwards and Wolfe 2007). This culture of poor auditing have soared in recent times. For example, three directors of one of the largest supermarket groceries in UK, Tesco Plc, was found wanting of manipulating company earnings to the tune of £263million from February to September 2014 (Butler 2016). These three directors were charged with fraud, false accounting and abused of power on 22 September 2016. If found wanting could spend up to 10 years behind bars. Apart from these three directors in fraud involvement, the auditors were not excluded as well. For instance, when a new team of accountants were called upon to look at Tesco plc activities they found out that the financial statement of one of its Irish operations have not given a true picture of its business activity for many years as a result of poor auditing (Butler 2016).

It was reported in the dailies that Astrazeneca, one of Britain top drugmaker, was involved in bribery allegation for more than a 10 year period, including claims that it organised faked conferences, offer bribes, and falsely recorded incorrect transactions (Tobin 2016). The US SEC noted that the company was able to fake accounts using doctors' names, generated fake invoices and created bogus conferences with payment made to speakers that never existed. Astrazeneca was able to get assistance from local officials in China by giving them tips to avoid paying local fines. Despite these allegations the company noted that they fully cooperated with the regulatory bodies during investigation, but refused to accept nor denied wrong doing (Tobin 2016).

On the other hand, the management of Wells Fargo dismissed 5300 employees for opening fake unauthorised bank accounts in customers' names, using fake ID, without the knowledge of customers (Egan 2016). This opening of fake accounts have been in operation since 2011. During these period, Wells Fargo witnessed increased profit growth, achieved high sales target and improved earnings. This created an environment for rewarding employees who achieved hit sales target through fraudulent means (Egan 2016). The quality of audit's work performed by KPMG on Wells Fargo have been questioned by two US senators: Edward Markey and Elizabeth Warren, and the Public Company Accounting Oversight Board (PCAOB) have requested a review of KPMG's audit on Wells Fargo (Gosling 2017).

A year after PWC took over from EY in 2016 as the auditor for Toshiba, PWC refused to sign off the 2017 account as a result of the 'regulatory sanctions on EY for failing to spot signs of Toshiba's US$1.3bn accounting scandal' (Gosling 2017).

In 2011 Jimmy Ming Miu, an IT systems manager for McKay Shipping, defrauded his employer by submitting fake-inflated invoices for IT suppliers that was never requested nor supplied (Jordan 2015). Miu was able to submit 55 invoices to McKay Shipping worth over $1million from 2000 to 2006. Miu was repatriated back to New Zealand where he faced 55 count charges and was sentenced to thirty nine months imprisonment (Jordan 2015).

Furthermore, Michael Swann an employee of Otago District Health Board, was able to dupe his employer to the tune of almost $17million for a period of more than six years (Jordan 2015). Mr Swann was able to connive with a company called Sonnoford Solutions owned by Kerry Harford to defraud his employer. Similarly, Vicky Lee Kyle, an accounts officer in Hastings, produced fake invoices for payment into her bank account. She was able to get accessed into the company online accounting data base where she changed the payment record to her name. When those fake invoices was approved by management Kyle was able to transfer $600,000 into her bank account for over a six year period (Jordan 2015).

KPMG dismissed six employees, made up of the US head audit practice, four partners and one employee, for receiving advance warning that their engagement will be inspected by PCAOB but was not reported to management (Gosling 2017). An employee of KPMG knew of the inspection because he/she have recently worked with PCAOB and have access to confidential information. This breach of confidential information undermine the integrity of the regulatory process (Gosling 2017).

Hemant Kumar Maharaj defrauded his employer, North Shore City council, to the tune of almost $829,000 over a period of ten years (Jordan 2015). He connived with Suresh Din to submit fake invoices of uncompleted road maintenance work for payment. After the council have paid for the fake invoices Mr Din and Mr Maharaj shared the profit (Jordan 2015).

Senior executives and members of board of directors of the above companies, including auditors and members of audit committees, had failed to live up to the expectation of their fiduciary duties (Dujuan 2009; Becht et al 2003; Tudway and Pascal 2006; Handley-Schachler et al 2007; Dalton and Dalton 2008). Likewise, the need to address the European corporate governance systems was necessitated by the forgery of a letter saying an Italian company – Parmalat – had US$4.9 billion on deposit at Bank of America as well as the embezzlement of the company's funds by senior management staff, when in fact, it did not (Mintz 2005).

The negligence on the part of the board of directors to exercise their duty of care in oversight roles is becoming a serious issue (Marks 2009; Bebchuk and Fried 2006). Enron's board of directors failed to properly scrutinize the firm's incentive compensation plans which encouraged senior management to publicly exaggerate the company's stock thereby enabling employees to include it in their 401(k) retirement plan (Mintz 2005). While basing their facts on the Employee Benefit Research Institute, Smith (2002) and Mintz (2005) noted that about 58 per cent of Enron's assets 401(k) plan was invested in the firm's stock. When the value of the stock decreased from as high as US$90 per share to below 50 cents, about 12,000 Enron employees witnessed losses in their retirement accounts. During the same period, Ken Lay, Enron's former CEO sold about 2.3 million shares for US$123.4 million.

Furthermore, the report from an investigation by the Securities and Exchange Commission and Department of Justice of 20 corporate frauds indicated that US$236 billion was wiped off from the shareholder value between the time the public first learned of the fraud and the reporting date, 3 September 2002 (Mintz 2005). In 2017, Asa Resource Group sacked its CEO and Finance director after discovering that company funds were diverted from Zimbabwe to unrelated organisations in China (Gosling 2017). Furthermore, Shell and Eni were accused of paying bribe to a former Nigerian oil minister Dan Etete to the tune of US$1.3bn for extraction of petroleum resources (Gosling 2017).

Dujuan (2009) noted that most CEOs take advantage of the weaknesses in corporate governance to their personal advantage by misappropriating company's funds. Dujuan examined the inefficient American corporate governance before and during the financial crisis and China's experience. He argued that the main failure of corporate governance was the very ineffective oversight of directors, which failed to curb executives' greed. Dujuan gave an example with Mr. Fuld who was the CEO of Lehman Brothers. Dujuan based his conclusion on the calculations of Equilar, an executive pay research company, noting that from 1993 to 2007 Mr Fuld took about half a billion dollars in compensation. He also noted that Mr Fuld's 2008 earnings were about $45 million, which translates approximately to $17,000 an hour. According to Dujuan, this figure is enough to wipe out a firm. He concluded by saying 'he was delighted to announce that Mr. Fuld is the winner of his annual Michael Eisner Award for corporate capacity and poor corporate governance' (Dujuan 2009).

These issues of corporate scandals were what led to the adoption of the Sarbanes-Oxley Act by the US Congress (Dalton and Dalton 2008). The Act was signed into law in August 2002 by President Bush (Sweeney 2008; Epps and Cereola 2008). The aim of the Act was to respond to corporate failures by strengthening the regulatory corporate governance systems (Mintz 2005; Epps and Cereola 2008). On the contrary, US companies have complained that the cost of complying with the Act, most especially the certification of financial statements by chief executives officials, chief financial officers and internal control assessments exceeded the benefits derived from it. Standard No. 2 of the Public Company Accounting Oversight Board (PCAOB) directs auditors to perform a series of "walkthroughs" of transactions to assess internal control systems. This led to an increase in the average estimated cost incurred during the first-year implementation of the Act by large companies. This amounted to the tone of US$35 million (Mintz 2005; Chhaochharia and Laeven 2008; Dalton and Dalton 2008; Epps and Cereola 2008).

2.4 THE ROLE OF AUDITORS IN NIGERIA

The role of auditors in corporate governance in Nigeria cannot be over emphasised. Auditors examine company's account and produce a report that reflects the true performance of the company. Essentially the various corporate scandals reinforced the need to tighten the role of auditors such as financial reporting and corporate disclosures with the aim of restoring credibility and confidence in the corporate sector. In other words, auditors were given power by Company and Allied Matters Act (CAMA) and Security of Exchange Commission (SEC) to examine accounts and detect misconducts, discrepancies and anomalies in financial statements of companies (Nwuche, 2012). The CAMA of 1990 was the first elaborate regulatory framework that provides the legal framework for corporate governance in Nigeria. CAMA 1990 replaced the Company's Act of 1968 as a result of changes in the social, political and economic environments in Nigeria's post-independence (Okike, 2004).

For good corporate reporting to be achieved, the risk and control measures within the organisation must be put in place and also remain strong. In Nigeria, the code of corporate governance (2011) highlights the need for companies to develop strong internal control measures. These internal control measures put in place by the board for check and balances are preform through the audit committee, who appoints the auditors. The auditors ensure that the financial statements are a true reflection of the financial health and operations of the company (Baysinger and Hoskisson, 1990).

Essentially, the monitoring role of the board enhances good corporate governance practices by enhancing the effectiveness of the audit department in the interest of stakeholders. One of the expectations of the code is for auditors to be independent. According to Chen and Zhang (2012) auditors are able to report the true financial position of company. This is done by removing biasness and ensuring that good governance principles and standards are followed and adopted. This ensures that the legal position is in line with international regulations and also within the framework of acceptable standards and best practices of corporate governance (Fan and Wong, 2005). Therefore it is important to evaluate if the corporate governance is adequate enough to guarantee that auditors play an effective role in auditing company's account and ensuring good financial reporting (Asare et al, 2008).

Nevertheless, the corporate governance legislation in Nigeria has been historically weak (Ahunwan, 2002; Okike, 2007; Adegbite, 2012). For example, the report on the observance on the standards and codes prepared by the World Bank reported that institutional failures regarding regulation, compliance, and enforcement of rules and standards contributed to poor corporate governance in Nigeria (ROSC, 2004. Also, the presence of multiplicity of codes contributed to problems for auditors and corporate practices in Nigerai (Osemeke and Adegbite (2016). Initially the multiplicity of codes was designed to check corporate frauds and malpractices in Nigeria, however, the corporate governance practices in the country are still poor. The recent history of corporate governance regulation in Nigeria stemmed from the lessons learned from the corporate malpractices and near-collapse of the Nigerian banking industry in the 1990s.

Also, the magnitude of the Enron scandal and the global attention on corporate governance led to the formation of the SEC code in 2003 in Nigeria. It was the first code of corporate governance in Nigeria and its introduction improved the corporate governance system (Okike, 2007). However, there were numerous issues and challenges surrounding the implementation and enforcement of the SEC code, 2003, hence leading to the formation of

the CBN code of 2006. The CBN code was issued to address the above-mentioned deficiencies from the SEC code. Also, in 2008, the pension sector witnessed tremendous reforms, attracting the participation of investors into the pension sector and its fund management. The foregoing highlights the challenges and barriers surrounding the nature of auditors' roles and corporate governance regulation in Nigeria. Hence our research inquiry is hinged upon the following research questions:

2.2 Research Question

1) What are the barriers to effective auditing?
2) To what extent are auditors independent from the CEOs and other senior management?
3) Explain what kind of gifts companies give to auditors?
4) Describe the kinds of gift auditors receive from clients, and if they are allowed to receive such gift from client?
5) Describe how good the company's internal control structure is?
6) To what extent did top management really adhere to these internal controls?

3. METHODOLOGY

Part of the data have been used in another study. This research adopts a qualitative approach using interview method. This methodology offered an in-depth and detailed perspective of the auditors practices in Nigeria (Ritchie and Lewis, 2006; Osemeke and Adegbite, 2016). During in-depth interview method there is a conversation between two persons namely the interviewer and interviewee. The interviewer asks questions with the goal of obtaining information that is of importance to the researcher (Creswell, 2003; Ritchie and Lewis, 2006; Saunders et al, 2007). Following the review of the 5 states, thirty-one (31) in-depth interviews were conducted. Generally, the interview method is one of the most important primary data collection methods involving communication (Ghauri and Gronhaug, 2002; Saunders et al, 2007).). In addition, the interviews are based on the perceptions and behavioural role of auditors, factors that encouraged them to undergo auditing and also factors that hinders them. The use of both note-taking and tape recording was employed as suggested by Ghauri and Gronhaug (2002) as very useful techniques in in-depth interviews while being aware of the disadvantages, such as, the respondents not wanting to answer sensitive questions (Ritchie and Lewis, 2006; Saunders et al, 2007). It is necessary to understand the facts relating to the behaviours, views and feelings of the auditors during auditing.

3.1 CODING OF INTERVIEWEES RESPONSE

The data used in this study was part of a doctoral thesis on culture and corporate governance (Osemeke 2013), and have been used in another paper. The data was collected through face to face – semi structured interviews, made up of 32 respondents in five different States in Nigeria. Five states were visited in Nigeria for data collection. These are Abuja, the capital of Nigeria; Lagos, the commercial centre; Delta and Rivers State, were the oil is located and Enugu, due to availability of data. The coding of interviewees from the five (5) states was done to protect the identity of those interviewed as agreed prior to commencement of the exercise as shown in the covering letter sent to them. The codes assigned to the interviewees are related to the departmental position and names of the company sectors. A summary of field interviews is provided on table 1 below.

Table 1: Summaries of Field Interviews

Department/Position	Industry	Degree	Gender	Place of Interview
Policy, Risk &Risk department	Regulator	BSc, MBA	Female	Abuja
Deputy Director, HRM	Regulator	Bsc, MA, PhD	Female	Abuja
Insurance and Surveillance	Regulator	Not specified	Male	Abuja
Audit	Regulator	Bsc, MSC	Female	Abuja
Assistant Director	Regulator	Not specified	Male	Abuja
Policy, Risk &Risk department	Regulator	Bsc, Msc	Male	Abuja
Policy, Risk &Risk department	Regulator	Bsc, Msc, PhD	Male	Abuja
Health & Safety	Petroleum	Bsc	Male	Abuja
Accountant	Manufacturing	Bsc, ACA	Male	Delta
Supervisor, Sales Representative	Telecommunication	BSc	Male	Delta
Regional Manager South East	Telecommunication	Pharmacy	Male	Enugu
Middle Management	Banking	BSc, Pgd	Male	Lagos
Middle Management	Banking	BSc	Female	Lagos
Manager, Call Centre	Telecommunication	BSc	Male	Lagos
Board Member	Education	BSc, Pgd	Male	Lagos
Associate	Big four Auditing	BSc, ACCA	Male	Lagos
HRM	Telecommunication	BSc, Msc	Male	Lagos
Manager, Internal Audit	Insurance	BSc, Msc	Male	Lagos
Manager, Internal Control Unit	Insurance	Bsc, Msc, ACCA	Male	Lagos
Internal Control Group	Banking	Bsc	Male	Lagos
Credit Control	Telecommunication	Bsc, MBA	Male	Lagos
Middle Management	Banking	Bsc	Female	Lagos
Attorney at Law	Legal	LLB	Male	Lagos
Middle Management	Banking	Bsc	Female	Lagos
Partner	Big four Auditing	Bsc, Msc, ACCA	Male	Lagos
Marketing Executive	Insurance	Bsc	Female	Lagos
SBO	Banking	Bsc	Male	Lagos
Partner	Big four Auditing	Bsc, Msc, ACCA	Male	Lagos
CEO, Drilling	Oil and Gas	BSc, MBA	Male	Rivers
Medical Doctor	Hospital	MBB	Male	Rivers
Manager	Petroleum	Not specified	Male	Rivers
Accountant	Oil & Gas	Bsc, ACCA	Male	Rivers

The table above represent the demographic composition of interviewees, including their department, industry, educational qualification, gender and the state where the interview was

conducted. There were 32 respondents made up of 25 males and 7 females. 8 of these respondents were interviewed at Abuja; Lagos State 17; Delta State 2; Rivers State 4, and Enugu State 1. Two of these respondents occupying top management positions did not state their educational qualification.

Respondents were asked to verbally confirm if they received an earlier email message sent to them indicating the confidentiality of their information and willingness to participate in the interview process. The participants were given the right to not answer any question and the right to stop the interview recording if they wished. Before the start of each interview, further information was provided to the respondent, including the researcher's identity, the reason for carrying out the research, what would happen to the information collected, and how the outcome of the research would be disseminated. These explanations, which form part of the ethical consideration, were a welcomed development. Providing this information at the outset incited enthusiasm from the respondent's and increased their willingness to be interviewed.

The respondents were categorised into two groups. The first group represented the auditors that work in the top four auditing firms in Nigeria and the second group were employees, working in different companies, who have come in contact with auditors during their course of work. Of the 32 respondents 3 were auditors and the remaining 29 were managers working in different companies and from various disciplines such as banking, law, human resources management, internal audit, fashion design, and healthcare. Of the 3 auditors, 2 were partners and 1 associate.

The interviews were recorded on a tape recorder and transcribed into a word document. Due to the fact that the sample is made up of two different groups of employees: auditors and non-auditors, two different sets of interview questions was drafted. Non-auditors were asked questions relating to their company, and auditors were asked questions relating to their client's company. For example, all respondents were asked to describe their company's culture and their experience of working with the company. Thereafter, non-auditors were asked to describe their company's internal control structure and if top management adhere to these controls, and the kind of gifts companies give to auditors. Auditors, on the other hand, were asked to describe the kind of gifts they receive from clients, and if they are allowed to receive such gifts from client. The auditors were further asked, based on their experience, to describe how good the client's internal control structure is and if they think client's top management in Nigeria really adhere to these internal controls. Furthermore, non-auditors were asked if they are aware were an auditor have come under pressure in carry out his/her work, and auditors on the other hand, were asked if they have come under pressure in carry out their work.

Some respondents declined to take part in the interview due to tight work schedule. Consent was obtained from respondents for the interview to be tape recorded and when granted this was used throughout the interview. The comment from auditors and non-auditors were compared and contrasted to identify patterns. This process involves coding where themes are identified.

This coding involved breaking down the data into smaller units called themes with labels attached to them with the use of Nvivo software (Miles and Huberman 1994; Langley 1999). The coding of data into themes ensures that the theories are grounded (Glaser and Strauss 1967). Coding involved back and forth movement between themes until all the data was categorised, and then explored and explained (Glaser and Strauss 1967; Silverman 2001). This process of re-organisation involves moving back and forth between the data and theme/concepts (Glaser and Strauss 1967; Silverman 2001). The process was adopted in this

study in developing the themes into categories. The approach to data analysis was firmly grounded within the social science discipline (Van Maanen 1979). This grounded theory approach was adopted to help identify how management behaviour affects auditors work in Nigeria.

4. FINDINGS

4.1 TIME PRESSURE

One of the findings identified is time pressure. Time pressure affects auditors working conditions. Examples of time pressure are: pressure to meet reporting deadlines, pressure to manage their time, pressure to manage information and pressure to manage a report. Okike (1994) noted that with a shift in Nigerian revenue from agriculture to oil resources, there has been an increase in economic activities and rapid development that has led to increase in demand for accounting and audit services. As a result, auditors have increased work pressures. Okike (1994) highlighted that this increased workload has caused chartered accountants to be sought as an employee, management consultant, valuer, auditor and reporting accountant for prospectus. Okike suggests that the accountant is appointed to probe into many areas of personal assets and corporate investigation, making the accountant a 'Jack of all trades' and in most cases 'Master of a few' (Okike 1994). Being a 'Jack of all trades' will create pressure. Some of these pressures could arise when they have limited time to carry out their audit assignment. As one respondent notes:

> *'May be they have a two week period to deliver on a given task that will take more* than say a month. They w*ill be working under pressure' (Big four Auditing firm,* External Auditor, Associate).

Auditors want to ensure that clients provide the necessary documents before embarking on an audit assignment, which will enable them to obtain sufficient appropriate audit evidence. This makes their work easier and reduces work pressure. There are some assignments that require clarifications and explanations. Most of these explanations are to be supported by providing documentary evidence. If the client is not able to provide clear explanations and provide evidence it can put the auditors under pressure especially when there are tight deadlines.

Often, managers adopt due diligence to study a target company they want to acquire. Due diligence involves detailed gathering of data on the target company such as gathering background information of the company, its operating activities, income statement, statement of financial position, and legal situation. This process of gathering information is about fact finding to identify potential risks and how they can be reduced and managed before making investment decision. With due diligence, auditors are expected to review their scope of work to accommodate wider range of sources to obtain sufficient appropriate audit evidence before reaching an audit opinion to determine whether management judgement on the riskiness of the project investment is viable. With tight deadlines, auditors might not be able to have the time to carryout detailed investigation and fact finding on a wide range of sources to ascertain management decision on the investment project. Auditors need considerable amount of time to gather wider range of sources. This will be very unlikely when there is time pressure to meet deadlines. One respondent notes:

> One of the pressures auditors face that I could remember was when they were trying to audit a firm, it got to a point that the account was not balancing and they have a stipulated dead line and I think probably they were very close to the due date, may be three to four days left. (Telecommunication, Manager, Call centre)

Due to this tight deadline the respondent further stress that

> The pressure have to come no matter what. (Telecommunication, Manager, Call centre)

Management behaviour can also contribute towards an auditor working under pressure (Owoyemi 1990; Wallace 1992). The auditor can be under pressure where there are irregularities or unethical practices perpetuated by the client's company and the client is attempting to pressurize, mandate or compel the auditor to 'cushion' or prepare the financial statement in such a way that would be different from the actual or true position. So management to an extent can pressurize auditors to behave in an unethical manner. In most cases the auditors will compromise (Owoyemi 1990), usually to keep their job. Losing their job means that they might find it difficult to meet personal financial responsibilities (Wallace 1992), considering the prevailing economic situation in the country (Okike 1998; 1999; 2004; 2007). It was observed that there are only a few instances where an auditor will maintain an ethical stance when under pressure from management. The International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants specify that the auditors should resign if these pressures will affect their opinion and independence.

Researchers have shown that investors are not satisfied with the performance of auditors in the Nigerian environment (Wallace 1987; Ejimofor 1990; Adesina 1990; Eheigwe 1990, 1991). From the experience of an audit test conducted by CBN on Nigerian banks in 2010 to ascertain the health of the banking sector, an interviewee noted that as a result of the global recession and the recent audit test conducted by CBN on Nigerian Banks, the auditors have faced increased pressure to refine the work they do and act in the interests of the shareholders. The interviewee further noted that they have been doing more audit work compared to the past, in order to deliver on an assignment. This pressure if not carefully managed can affect their job by misrepresenting the financial statement.

Auditors should ensure that in planning their audit engagement, there is enough time available for them to embark on the audit which will enable them to obtain sufficient appropriate audit evidence. Also auditors might not be able visit branches (in situations where the company is located in different places) when enough time is not available. Having enough time-frame means that the audit work can be reviewed by another audit team or person (maybe a partner or senior auditor). This will reduce the risk of errors and promotes a quality audit, thereby ensuring that the information stated in the financial statement is materially free from errors.

4.2 MANAGEMENT INTEREST

Auditors do receive different kinds of threats from management of certain companies (Wallace 1992). Significant among them is a litigation threat. Some top management have personal interest they want to achieve. A number of these companies are 'highly influential, connected or powerful' and are sometimes affiliated with the federal government. This was supported by Ani (1990) when he noted that the council of ICAN did not use the initiative to monitor the implementation of the Assembly's recommendation. If Ani's statement is taken

into consideration, it means that in Nigeria, matters of crucial importance for economic development are manipulated by civil servants and politicians (Gormley 1985). As a result, when auditors are engaged by clients to carryout audit exercise, there are always some adjustments to make in the company books. As observed, there are lots of discussions and negotiations between the auditor and management, of which the management usually has the upper hand. Therefore most times the auditors are under pressure (Okike 2004). To illustrate this further an external auditors interviewed said:

> Some of these big companies have their personal *interest*... some of them are actually affiliated with the federal government. So...when the auditors come in to look at the records they have a little plus or minus adjustment to make in the balances of their books. I have notice a lot of discussions, negotiations and at the end they actually have upper hand. (Big four auditing firm, external auditor, Partner)

Some respondents noted that auditors may be threatened by other instances. These instances could be a situation where some individuals in the organisation will tell the auditors to conduct their work in a certain manner. As observed, they could threaten the auditor in a number of ways to enforce their views. One of the respondents who was an audit partner said that those instances could exist, for example, in some situations where auditors are compelled to change or alter the figures in a given set of accounts. This statement was supported by Wallace (1992) when he noted that some auditors have been threatened or assassinated when they discover massive fraud perpetuated by the clients. Okike (2004) reported instances where auditors have been killed after concluding an audit assignment. For example, she noted that an audit partner of Osindero Oni Lasebikan & Co. was murdered while returning from an assignment in 1984 after discovering massive fraud. Also, Okike noted that the two auditors were murdered in quick succession when they knew or were aware of the details of the fraud that occurred in Guinness (Nigeria) Limited, in 1989.

With these types of threats, auditors find it hard to sue the client when their life is being threatened or at risk. This is because the Nigerian judiciary system is weak in prosecuting the 'big men' (Punch 2012) and the penalty put in place for misdemeanour by CAMA (1990) does not encourage compliance (Okike 2007). In Nigeria, almost every employee on the control trail of a transaction can be bribed, which makes internal controls ineffective (Wallace 1992). Auditors are faced with a difficult task in trying to plan their work to discover massive fraud, knowing full well the consequences of that action in a country where control and protection of life is weak (Wallace 1992).

Okike (2007) noted that in most cases (especially in small and medium sized companies and audit firms), the auditors prepare the same financial statement they audit which is normally not disclosed in the audit report. She argues that this is due to the lack of qualified accountants and pressure on audit fees. This threat to auditor's independence is provision of non-audit services to clients (Alabede 2012; Ojo 2006; Sikka 2009; Coyle 2010; Colbert 2002; Goodwin and Seow 2002). Section 358(2)(c) of CAMA 1990 (now repealed) prevented auditors from providing non-audit services to clients in Nigeria. In this case, the IESBA Code of Ethics for Professional Accountants state that a separate audit team should be used to avoid self-review threat or the .

Disclosure in the audit report for non-audit services does not seem to make much difference (Okike 2007). This is due to auditors not obtaining sufficient appropriate audit evidence before reaching a conclusion on the truth and fairness of the financial statement. Okike

(2007) noted that the reason for not obtaining sufficient appropriate audit evidence is due to a combination of weak accounting culture and pressure exerted by the client due to low audit fees and competition in the audit market. This presence of weak internal monitoring could render auditors powerless in obtaining sufficient appropriate audit evidence (Wallace 1992).

Another threat received by the auditor is familiarity threat. An interviewee noted that familiarity threat and the threat of litigation are the main types of threats received by the auditor. This familiarity threat arises when the auditor becomes more familiar with the company's management thereby resulting in compromise or arm's length transaction. It was discovered that some clients prefer to have an audit team made up of members that share similar cultural values with them or speak similar language. Sikka (2009) noted that this was a problem for Ernst and Young when they violated the code in 2004 by having an unethical relationship with a client in the US.

This familiarity threat led to the CBN introduction of audit rotation for maximum of 10 years. This aligned with the Code of Corporate Governance (2011) which stipulates that external audit firms should not serve engagement for more than ten years and may only be reappointed after seven years of their disengagement. This rotation enables the new auditor to come in to audit the client's account (DeFond et al 2002). The issue is that when auditors stay beyond a certain time limit in an organisation, their objectivity and independence might be affected.

4.3 INCENTIVES

Some companies do appreciate the services of the external auditor, so in return they may want to show some appreciation as a way of saying thank you. Some of these companies do give house utensils, home appliances etc. Most interviewees felt that if a home appliance is given to an external auditor such auditor will always remember their visit to such a company. An interviewee demonstrated by way of example by saying that if a set of cutlery is given to an auditor whenever he/she uses this item the auditors will remember the company.

When asked, an external auditor that was interviewed noted that the collection of gift depends on the circumstances but generally they are not allowed to collect gifts because it is against their company's policy. Usually, there is also a limitation if an auditor decides to collect gifts. The external auditor hinted that if it is a gift worth no more than N6,000 (six thousand naira, equivalent to £24), they are usually not considered expensive by management. The external auditor noted that there are some gifts that they can accept, most of which are narrowed down to products produced by the client. For instance, in a manufacturing industry that produces soap, after the audit they might give the auditors a carton of soap. If it is a banking industry, the auditor may receive items such as diaries, flash (USB) drives, items with the company's logo. These are generally acceptable gifts, and perceived as corporate friendliness because they see the auditor as partners in progress. It could also be seen as a way of promoting their items to auditors and business contacts, and prolonging their relationship. An external auditor that works in one of the big-four auditing firm notes:

> After the audit they might tend to give us things like, may be, a carton of soap, things like that. Maybe in an industry like the banks they can give us their diaries, flash (USB) drive. Things that have their logos and the rest of them. So they are not really a big deal. (Big four auditing firm, external auditor, Associate)

In contrast, some respondents noted that what is most important is whether or not the client is trying to contravene the policy or terms of the audit engagement. But, usually, when a company is trying to hide certain information from the financial statement they may want to influence external auditors with a gift. The essence of the gift is to ensure that the company's books will be reported in a way that will not represent a true and fair view, thereby, resulting in misrepresentation of the financial statement. Some of these gifts may be cars, buildings, land and properties. When auditors collect such gifts from management it could affect the way they do. Some of these top management personnel might have engaged in illegal deals that they do not want the auditors to expose. As a result, they may treat the auditors as 'demi gods' thereby giving different kinds of gifts in order to entice them. In trying to describe the way auditors are treated some respondents noted:

> Sometimes auditors are always treated to be Demi-gods in the Nigerian settings (Regulator, Deputy Director, HRM)

> Because they have a lot of dirty skeletons in their cupboard. Though they *don't want* auditors to expose them so they will rather be treating them as Demi-gods, worshiping them so that the auditors will feel high. (Insurance, Internal Auditor)

The head of an internal audit unit in a communication company that was interviewed noted that there is a limit on what auditors should receive as a gift. The interviewee highlighted that the professional requirement according to the Institute of Internal Auditors (IIA) is that an auditor is not supposed to accept any form of a gift that is not corporate, and therefore the value of any corporate gift must not exceed $10. In the situation where such gift is given to a subordinate auditor, such subordinate should report it to the immediate boss. Hence, the issue of auditors' independence and objectivity will not be affected (Gul et al 2009). The idea is that if an auditor collects a gift from a client there is that tendency for him to compromise on the audit standard. When asked why companies give auditors gift, while most of the respondents agreed that lunch are provided to auditors, they differ on the resultant effect it has on auditors' judgement. A few of the comments from respondents are:

> We always provide breakfast and lunch for the external auditors in my bank on a *daily basis. That's one thing I know that we do.* (Banker, Internal Control)

> But when they are coming to do their audit work they normally arrange lunch to be given to them. (Regulator, Audit)

Detailed investigation of why management provide lunch to external auditors will provide more details on the objectivity of auditors' independence. The reason why management provide lunch to auditors was contradictory. Some of the respondents noted that management sees auditors as part of the team, irrespective of whether or not they are not employed by them. It is the responsible of management to ensure that employees are taken care of including a conducive working environment of carrying out their duties. When management see external auditors as employees they have to make them feel comfortable with the work environment and not necessary to entice them. This could be done through provision of breakfast or lunch. As two respondents said:

> Basically from my own experience I know that the hospitality will not be more than just lunch or breakfast which may not be material to affect the objectivity of *auditor's judgement but that is the best of my knowledge. I don't know if it goes beyond that. If it's beyond that it can be seen as bribe.* (Oil and Gas, Accountant)

The reason the respondents gave was that:

> If someone has been working for you he has to eat. He just has to the strength to eat and feel relax and comfortable to do his work. Is not really trying to buy them over because the provision of lunch is not really a big deal. (Oil and Gas, Accountant)

> So maybe they want them to relax, based on familiarity. (Banker, Internal Control)

Other respondents noted that giving them lunch might be a very good opportunity to influence the objectivity of auditors' judgement. Comments from respondents supporting these claims are:

> They give them warm reception to entertain them. Take them to big hotels in order for them to give the company a good record. That is the essence of trying to do all those things. The auditors will rate their company as the best compared to other companies. (Insurance, Marketing Executives)

> So most times what happens is that if the company you know has one or two things to hide they may want to influence an external auditors with gifts (Telecommunication, HRM)

> Because as an auditor if you collect anything from client there is that tendency that you are likely going to compromise standard because you have already receive something. (Insurance, Internal Auditor)

> May be a times they give them lunch. (Hospital, Medical Doctor)

When probed further to ascertained why they give them lunch the respondent said:

> To cover up loopholes, I think that is why it is given to them (Hospital, Medical Doctor)

Furthermore, as observed, most times auditors ask for money. An interviewee who is an audit partner hinted that generally some clients give them money. The interviewee noted that in most situations apart from money there is nothing else they ask for. If auditors accepts monetary gifts it could act as a barrier to their independence. When asked whether they are given lunch by clients the respondent answered in affirmative, saying 'sometimes they give them lunch'. Why some respondents found nothing wrong in taking lunch, others noted that it is given to them as a way to entice them to cover up loopholes. One respondent said:

> Sometimes some auditors have decided to receive cash in lieu of hotel accommodations and so they discuss with their client to give them cash (money) for accommodation and they can go and stay elsewhere or anywhere they want to, which is not really a hotel accommodation. So they get a certain fixed amount of money from

> the client in lieu of accommodation. (Big four auditing firm, external auditor, Partner)

The same external auditor went further to say that:

> I have not seen a situation where an auditor is bought a house or is bought a car but I am saying it may exist, it may be there, and they all fall under gift items depending on who is giving the auditor the gift and depending on who the auditor is as well. Those kinds of hospitality I will not be surprise if they exist. (Big four auditing firm, external auditor, Partner)

The gifts auditors receive could be to strengthen the relationship between auditors and their clients. It could also create incentives that threaten auditors' objectivity and independence where an auditor fails to issue the going concern statement to companies that filed for bankruptcy (Blacconiere and DeFond 1997; Geiger and Raghunandan 2002) or issue an inappropriate audit opinion (Owoyemi 1990).

This research observed that the issue of most auditors collecting gifts from clients applies to most companies in Nigeria. The results of the gifts auditors collect from clients affect their behaviour and compromise their objectivity when they collude with the client to produce a biased report.

4.4 BRIBERY

One of the key problems in Nigeria is corruption (Okike 2004; Fajana 2008). Auditors are supposed to be 'watchdogs' of society (Porter 1992). Okike (2004) noted that in a society like Nigeria where corruption is prominent, the independence of some of the auditors in the discharge of their duties is questionable. In such environment, the risk of auditors not applying professional scepticism will be high, leading to rise in audit failure (Wallace and Parker 1991; Kimbro 2002). Consequently the effectiveness of audit practices is determined by socio-economic, political and environmental factors (Okike 1994, 1999, 2007). A country that is unstable but fast growing could have accountability issues (Kimbro 2002). This does not imply that Nigeria is the only corrupt country (Wallace and Parker 1991), as there is corruption in most countries including both developing and developed countries (Wallace 1987). Corruption is the major issue affecting internal controls as one respondent notes:

> *'Then of course corruption is very prevalent in our country, Nigeria, and some of* these things actually drill down or also fissile themselves into our corporate governance and more especially corporate governance issues are actually affected *and that is why these internal controls are not really functioning' (Big four auditing* firm, external auditor, Associate)

Researchers have found evidence to support the existence of corporate frauds, lack of experienced management, basic infrastructures, tax evasion, communal and civil unrest, incessant change in government macroeconomic and fiscal policies, among others in Nigeria (Fajana 2008; Okike 2004; 2007; Ujunwa 2012). This portrays the nature of business culture that exists in Nigeria (Ujunwa 2012). There have been instances where government and host communities get involved with affairs of firms. In similar cases, company owners and managers serve their self-interest more than working towards achieving the goals of the firm

and they will try as much as possible to protect their interest by enticing auditors with money. Three respondents noted that:

> But following the Nigerian context, one of the key issue leading to our problems, challenges and under-development in Nigeria is corruption. The average Nigerian is corrupt. Corruption is not only happening in government alone, it happens in private *sectors, even in our homes it happens. So, if you talk of auditor's being entice, it is* possible. Am not saying that I have seen one but even what happens in Nigeria it is very possible because people on a higher pedestal in terms of leadership, they are easily bribe left alone auditors. (INSURANCE, Internal audit)

> Those that give something to external auditor are those that have something to cover up, for example money. Money is a gift. (Banker, Manager)

> Auditors ask for money. I am just telling you the truth. Its money they give them. There is no other thing they ask for. (Hospital, Medical Doctor)

Most of the corrupt practices that have resulted in corporate scandals that made headlines have been attributed to the failure of the auditing professions (Ajibola 1990; Inanga 1985; Wallace 1992). This research observed that corruption is posing a threat to some auditors. Therefore, it will be difficult to argue that auditors are not enticed with gifts. It will also be difficult to convincingly suggest that auditors do not accept bribes, taking into consideration the corruption in the Nigerian environment (Wallace 1987; 1992 and Okike 2004). An interviewee noted that it is possible for auditors to collect bribes in Nigeria because most people on a higher pedestal of leadership (top management) are corrupt and can easily be bribed let alone auditors. There have been instances where some companies have paid cash into relatives of an auditor's account as a way to cover up the corruption activity. Wallace (1992) reported instances where chartered accountants have been involved in collusion, incompetence, negligence and fraud. Most of these transactions are often difficult to trace. They do not have audit trail because invoices are omitted and do not reflect in the financial statement. As a respondent noted:

> Then, if there are other gifts they give to them. There is a way management arranges them which is not very open because you cannot see where it is recorded that gifts are given to auditors or a teller or ticket they use in processing it. (Insurance, Internal Auditor)

Wallace (1987) reported one of the cases where an investor based his opinion on the auditor's report and invested in a company without knowing that the auditors colluded with client's management to inflate the assets of the company. After two years the company was liquidated, the investor lost enormous investment and sued for damages. Okike (2004) noted that this is a challenge facing auditors and the accounting profession. Two respondents noted:

> *'The average Nigerian is corrupt'. (Telecommunication,* Manager, Call centre)

> *'But, genera*lly, when you talk of corruption or things like that, there could be *gratification based on cash. It could even be in form of cars. It's only when, except* may be, they want to hide something then they could resort to giving other gifts. We heard companies that have given them cars as gifts depending on what the company is into and also depending on the strong hold of their financial base i.e. depending on

what their needs and financial based are' (Big four auditing firm, external auditor, Partner)

Section 550 of the IESBA Code of Ethics for Professional Accountants noted that accountants can be induced by gifts, friendship and hospitality (IESBA 2006). The IESBA code stressed that gifts in any form offered to auditors can create threats that undermined the adherence of fundamental principles. The implication of the gifts should be considered. IESBA noted that accepting gifts creates self-interest threats where auditors make attempts to conceal information or influence their decision (IESBA 2006). Intimidation threat are created when auditors accept gifts, this is followed by blackmail to bring the threat to public knowledge. Eventually the reputation of the auditor will be damaged. Auditors should put safeguards in place by not accepting gifts and to report such incidence to a higher member of staff or to those charged with governance (IESBA 2006).

Owoyemi (1990) suggests that it is easy for clients to manipulate their auditors to cooperate with them to produce final accounts that suit the client's purpose rather than report on the true and fair view of the client's financial statement that will benefit users of the information in the accounts. In cases where auditors are found to have falsely misrepresented the financial statement, it might be difficult for management staff or the client to take legal action due to weaknesses in the legal framework. This paper concludes that auditors should be careful about the type of gifts they receive from clients in order not to jeopardise their independence by misrepresenting the financial statements.

4.5 LEGAL FRAMEWORK

Before 1990, there was no standard of auditing and professional code in Nigeria (Okike 1994; 2007). What audit firms used were the generally accepted auditing practices. Okike (1994; 2007) further noted that, in 1989, the Institute of Chartered Accountant of Nigeria (ICAN) set up an Auditing Standards Committee (ASC) and Professional Practice Monitoring Committee (PPMC). The responsibility of PPMC is to monitor and periodically review the work done by its members. Okike (2007) noted that the mechanism ICAN used to effectively monitor and enforce compliance with its auditing guidelines is weak. It has been shown on the evidence from Okike (1998, 1999; ROSC 2004) that big audit firms that audit multinationals tend to comply better with international standards than with smaller audit firms. They argued that big audit firms regularly train their staff and ensure that their procedures reflect international standards to maintain the quality of an audit. Smaller audit firms are often unable to maintain these standards due to limited resources including cost and manpower.

There are punitive measures ICAN uses for disciplining errant members for violating the code of ethics (Okike 2007). For instance, it has an Accountant's Investigating Panel (AIP) and a Disciplinary Tribunal. Despite the punitive measures in place, ROSC (2004) reported that AIP is compliant-driven in its monitoring function rather than proactive. ROSC further reported that AIP is not keen to sue for damages in a court of law or report cases of negligence to ICAN. Regulators are discouraged from seeking legal action to enforce standards due to the length of time it takes to conclude a case in the Nigerian court (ROSC 2004)

The report from ROSC (2004) on reported cases of those that are sued was similar to the result found in this research. This research found that there have been instances where auditors have been sued, although the rate at which they are sued is relatively low. That is

why it is difficult to find an auditor that has been sued. One of the factors that contribute to the low rate of auditors being sued is that the majority of clients settle cases out of court. The reason they settle out of court is that as the case progresses the auditors and the clients could compromise their stance. When they compromise their stance it simply means that the auditor or whoever is behind the case has agreed to some terms. When those terms are agreed, the case is struck out of court and the matter is closed. There have been instances where auditors that were sued have been found guilty and were prosecuted. One of the reasons is when they do not give accurate accounts of records and it amounts to fraud, which is a criminal offence. However, based on the responses from respondents the number of those prosecuted is relatively small.

Despite the fact that Section 368(2) (3) of the CAMA (1990) specifies procedures on how the company or shareholder can sue auditors for negligence in the event of loss or damage, Okike (2007) reported that most cases of litigation against the auditor and audit firms are rarely reported. Nevertheless, ROSC (2004) and Wallace (1987) reported that most auditors prefer to settle cases out of court. Likewise, auditors are not compelled to take out professional indemnity insurance.

Finkle and Shin (2010) and Leshem (2009) argued that one of the reasons people settle out of court is because of the attitude of some lawyers. Their argument was based on the fact that when the plaintiff seeks the advice of an attorney, the plaintiff is provided with information on whether he or she will win the case versus the option of accepting the defendant's settlement offer. They concluded that the attorney in most cases advises the plaintiff to consider and accept settlement out of court even without investigating the case. In this situation the attitude of challenging the auditor through a legal battle will be reduced since the lawyer will advise for settlement out of court.

When the plaintiff does not have the required information about the case, they can accept settlement out of court. Even if the plaintiff has the required information but does not have the resource for legal fees, accepting settlement out of court becomes the only option available (Farmer and Pecorino 2005). Silva et al (2007) noted that accepting bribe depends on the motive of the management. If the management were corrupt they would want to seek the advice of a corruptible auditor that is willing to be influenced and misrepresent the financial statement.

Likewise, Acemoglu and Verdier (2000) observed that when resources are transferred across a number of sources, this creates room for corruption. They further noted that the cost of managing corruption is expensive and top management will want to prevent intervention from those opposed to corruption. As they suggest, one of the ways to ensure they are not opposed is to create rents (loopholes) for bureaucrats that will allow misallocation of resources.

Furthermore, Farmer and Pecorino (2000) and Farmer and Terrell (2001) noted that in some cases the judges adopt non-neutral positions that bias the outcome of the case. Ramseyer and Rasmusen (2001) stated that the crime rate in Japan is high. They noted that personnel officers could penalise Judges for taking neutral positions. Since Judges want to protect their jobs as Ramseyer and Rasmusen (2001) argued, the probability of adopting a neutral stance would be minimal. When people begin to feel that the outcome of their case is already biased, they can accept to settle out of court. Based on the above arguments, this paper concludes that in Nigeria it might be difficult for management to sue or take legal action against auditors for

misrepresenting the financial statement taking into consideration the weaknesses that exist in the legal framework.

4.6 CONFLICT FROM CODES CONCERNING THE AUDIT COMMITTEE AND AUDITORS

The conflict in the codes, Security and Exchange Commission (SEC), Central Bank of Nigeria (CBN) and National Insurance Commission (NAICOM) regarding the person who oversees the function of the internal and external auditors has resulted in impediments to proper functioning of the auditors in Nigeria (Osemeke and Adegbite, 2016). For instance, the CBN code limits the independence role of the audit committee, which shall in addition to overseeing the bank's internal audit function, be involved in monitoring the activities of the external auditors, while the NAICOM code allows the audit committee to recommend the appointment of external auditors to the board and they shall be accountable to the board (Code of Corporate Governance, 2011). Making external auditors accountable to the board not only reduces the degree of accountability required for effective auditing by auditors but also weakens the corporate governance regulation. However, the SEC code recommends an independent reviewer team different from the audit committee and external auditor to handle these functions (Code of Corporate Governance, 2011). In this case, the external reviewer team shall monitor the activities and performance of both the internal and external auditors rather than the audit committee as in the case of the CBN and NAICOM codes.

The SEC and CBN codes also disagree on the reappointments of external auditors. Whilst the SEC code stipulates that reappointment may occur seven years after their contract expires; the CBN code recommends reappointment after a period of ten years (Code of Corporate Governance, 2011). Furthermore, the SEC code (2003) stipulates that the chairman of the audit committee should be a board member, which is in line with PENCOM and NAICOM codes' recommendation, but the SEC code 2011 remains silent on who should be the chairman (Osemeke and Adegbite, 2016).

According to an interview respondent

> *'multiplicity of codes affects the good functioning of our internal auditors because* these numerous codes creates confusion and our auditors sometimes find it difficult to know which one to adhere to as some codes favours audit committee while others do *not'* (Big four auditing firm, external auditor, Associate).

The discussion above suggests that the independence of auditors is crucial to effective auditing and corporate governance because if the independence of the board is compromised, companies can capitalize on it to give misleading financial reports to the public. Hence sending mixed signals to stakeholders particularly managers who might choose which code to comply with or ignore during disclosures (Osemeke and Adegbite, 2016).

The CBN code recommended rotation of Nigerian auditors after 10 years. This finding is in line with an earlier study that fingered culture as an important factor in explaining audit quality in Nigeria (Kida, Saidu, & Urama, 2013). Similarly the ethical behaviours of the Nigerian Auditors was investigated and findings show that the Nigerian Auditors do not adhere to their professional ethics in discharging their duties, do not follow their professional code of practice and are incompetent. They lack independence, accept gratification and bribe and compromise their client information (Oghojafor, Olusoji & Owoyemi, 2012b) researched on influences that can impact on corporate governance.

5. CONCLUSION

This paper discussed the auditors' independence and the role they play in carrying out their work in the Nigerian environment. Auditors are expected to obtain sufficient appropriate audit evidence before reaching a conclusion on the subject matter in order to ensure that the financial statements give a true and fair view. This paper found that auditors find it difficult to obtain such audit evidence as a result of the pressures they face. Some of these pressures include gifts, tight deadline, weak legal framework, bribery and corruption that exist in the environment. This paper also found that in situations where auditors are working under pressure or decide to accept gifts from clients or become too familiar with a client's management, they could issue inappropriate audit opinions.

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