

## THE IMPERATIVE OF LANGUAGE AND COMMUNICATION IN THE AUDIT AND INVESTIGATION REPORTS OF PUBLIC ENTERPRISES IN NIGERIA

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### Abstract

The need for effective use of Language in the audit and investigation reports of public enterprises cannot be overemphasized. Language is the vehicle for communication and communication is the sharing of ideas for the mutual benefits of the communicators. In the communication of audit reports which have been investigated, two lines of arguments exist: one is that the auditor owes it as duty to be careful and hence should be liable to third parties who rely on his report to their detriment while the other is that he is only liable to his employer i.e. the company and not to other third parties who may subsequently gain access to his reports. The paper concludes with recommendations on how the audit reports of public enterprises can be investigated and effectively communicated to the company as well as third parties to avoid embarrassment and litigation.

It is instructive to note that there exists two fundamental aspects of an audit. One has to do with establishment of facts concerning the audit and the other is on how material facts can be fairly and fearlessly reported to members of the company. An audit report is the means by which the auditors of a company express their opinion on the truth and fairness of a company's financial statements for the principal benefit of the shareholders as well as the benefit of other users. Statute has consistently recognized that it is of vital importance that certain mandatory statements must appear in the report.

Such mandatory statements must be effectively communicated to first the company as well as users as to whether they present a true and fair view of the financial states of affairs, and as to whether the statutory audit guidelines have been met by the auditors who prepared the reports. This is as a result of the fact that with the increased number of investors over the years, there has been a correlative increase in the need to know the financial status of a company, and the only means of achieving that is by taking a look at the financial statement of an organization of which the auditor's report forms part. *The standard of reasonable care, skill and competence expected of the auditor in this twenty-first century Is much higher than ever before*, notes Jessah, (2007: 66). This is why there is need for effective communication of the above information to the company and general public. The above is necessary in order for the auditor who is a professional chargeable of negligence liability to strive not to be liable for negligence of duty, as required by statute.

While auditors should not be expected to practice their profession and discharge their duties free from responsibilities, it would be unfair and unreasonable to expect their duty of care to be unlimited. In the line of discharge of duty, how can the auditors effectively communicate the audit reports of public enterprises to both the company and third parties as not to be liable for negligence of duty as required of them by statute? This is the million naira question answered herein.

### **Duties and Requirements of the Auditor as a Professional**

There are certain types of activities that are regarded as professions like, medicine, law, engineering, Architecture and Theology while others are not hence the word "profession" cannot be given a generally accepted definition. Auditing is widely regarded as a profession, (Pay 1994). According to Company Alliance Matter Act 2004 section 358; for one to qualify to practice the auditing profession, especially with reference to a company, one must be a member of a body of accountants. This is because for the annual reports of a limited liability company to gain credibility, their truth and fairness have to be confirmed by an independent trained accountant (Moizer,1985). For all professions to be successful, they need the confidence of the public. According to Pay (1994), lack of integrity or careless work on the part of any auditor reflects on the auditing profession as a whole. Effective communication after certification of audit reports by auditors is very necessary in order to assure the various users of such reports that the reports conform to accepted standards in terms of the principles followed and the ethical valuation of the data put to use by the Auditor (Anao, 1989).

Millichamp, (2002) stated that the above standards of professional conduct must be followed whether or not the standards are written in the rules and auditors must try as much as possible to refrain from misconduct which includes any act of omission which is likely to bring discredit on himself as an auditor, his professional body or the auditing profession as a whole - the modern auditor has to work harder and learn more than his predecessors. This includes the use of computers, thorough knowledge of all the accounting and auditing standards and also accept that his work will at times generate public controversy (Sharer 1985). Thus, granted that auditing has been recognized as a profession the

price for this recognition is quite high as seen from the above. It could even result in law suits if public controversies get out of control. This makes auditing a complex process resulting in inevitable mistakes no matter how careful auditors may be they may still end up finding themselves as defendants in litigation (Pany, 1994).

From the above, extreme care must be taken since law suits can be very damaging to the reputation of a professional and the potential liability of auditors to persons who might be injured as a result of improper professional practice greatly exceeds that of physicians, lawyers, etc. If an auditor is negligent in expressing an opinion on financial statements, literally millions of investors may sustain losses. This is the reason to avoid a large potential of injured party. Those who relied on an auditor's report which lack proper investigation of financial statements as to whether they present a true and fair view before reporting there on can sue for negligence of duty by the auditors for relying on such misleading reports. This is paramount in the case of financial injury suffered by third party.

### **Communication of the Auditor's Statements of Companies Report on Financial**

The auditor's report on financial statements of companies should and must be effectively communicated to the company and the general public represented as third party. Auditor's report on financial statements should contain a clear expression of opinion, based on review and assessment of the conclusion drawn from evidence obtained in the course of the audit. All information given in an auditor's report must be consistent with the financial statement records of accounts. This is to say, that the auditor's report should be placed before the financial statements. Even the Directors' responsibilities statement should be placed before the auditor's report for a fair favourable and accurate comparison. This is in fair judgment to the audit report

The Statement of Accounting Standard (SAS) in making an important statement about the nature of the assurance provided by an audit report, states.

"The view given in financial statements is derived from a combination of facts and judgment and consequently cannot be characterized as either "absolute" or "correct". When reporting on the financial statements of public enterprises, therefore, auditors are expected to provide a level of assurance which is reasonable in that context but, equally, cannot be absolute. Consequently, it is important that the reader of financial statement is made aware of the context in which the auditors' report is given (Adeniji, 2004). The auditor's report should describe the audit as including an examination, on a test basis, evidence to support the financial statements, amounts and disclosures, assessing the accounting principles used in the preparation of the financial statements, and evaluating the overall financial statement presentation. The report should include a statement by the auditor that the audit provides a reasonable basis of opinion.

Section 359 of Company Alliance Matter Act requires an auditor to make a report on the financial statements of companies and lay copies of such reports before such companies, after a careful examination of the account by the auditors. When an auditor gives or communicates a report, it could be an unqualified opinion report, a qualified opinion report or a disclaimer of opinion report. In giving the report, the auditors are expected to form an opinion by stating the basis of their opinion as conforming to the basic elements of an auditor's report. The opinion formed by the auditor in his official professional capacity must be in accordance with the requirements of the (CAMA, 2004). The auditor should give an appropriate title to the audit report so as not to be misleading to users. The title should include a statement that they are independent auditors, so as to differentiate the auditors' report from reports

issued by others. In the auditor's report, the basic elements should include:

1. Title
2. Addresses
3. Opening/introductory paragraph
4. Scope paragraph
5. Opinion paragraph
6. Data at report (i.e. details of the report)
7. Auditor's address and
8. Auditor's signature

A measure of uniformity in the form and content of the auditor's report is desirable because it helps to promote the reader's understanding and to identify unusual circumstances when they occur. In some cases the auditor gives either a qualified opinion or an adverse opinion. Whichever the case may be, auditors must not fail to report inherent and fundamental uncertainties when they occur. This they can achieve knowing their powers and duties as required by CAMA, (2004) (Section 360). Despite the auditors' powers in respect of discharge of their duties, provision is made in CAMA (2004) (Section 362) on how they can be removed if the need arises. This is to avoid being "power drunk" or taking unusual advantage of clients and third parties in the exercise of their powers.

### **Language and Communication**

Language has been defined variously by linguists. According to Trager (1947), "language is a system of arbitrary vocal symbols by means of which members of a society interact in terms of their total culture".

From the foregoing, it is clear that language is the vehicle of expression and communication. "It is the dynamics of culture and also one of the cohesive features of any society", as Balogun, Ikupa and Onyechere, 2003 have noted.

Language is very important in our daily lives because it enables us to

communicate our ideas, feelings and thoughts. With the aid of language we pass information across to others; we educate, entertain and direct others etc.

Communication according to Balogun, Ikupa and Onyechere, (2008) is, “the giving, receiving and acting of understandable information between two or more parties”.

Communication is very vital in our daily lives because it is the bedrock of relationships: our jobs, business, social and family lives are all predicated on communication. There is no human activity from which communication is excluded. In the main, communication helps us to:

1. Pass information to one another
2. Educate one another
3. Entertain one another
4. Worship God and interact with others
5. Maintain social links and family ties
6. Bridge the gap between government and the people
7. Maintain diplomatic ties around the world
8. Transact businesses and forecast investment trend
9. Administer companies, organisations and communities
10. Build goodwill and maintain relationships
11. Select suitable materials and human resources for administrative and technical machineries of government, business organizations and other establishments.
12. Settle disputes, adjudicate, arbitrate and maintain social cohesion and economic report.

From the foregoing, it is clear that communication and language are inseparable.

They are Siamese twins joined together by a single heart and brain. Although, communication can be carried out through many devices (verbal and non verbal) language remains the most effective and commonly used device and most suited for communicating abstract and long complex messages. It is through verbal communication that human beings are able to have a clear notion of themselves as human beings, to create and transmit the whole range of concepts values and skills that constitute civilization, to carry the past with themselves, understand the present and project meaningfully into the future. It is hard to overemphasize the value of language in communication. It is harder too to overstate the value of language in thinking which in any case the first stage is in the cycle of communication. As Balogun, Ikupa and Onyechere (2007, 21) have noted, "Language is tied to the very process of thought". Talking out and "writing out" are both ways fundamentally, of "thinking out" and "thinking out" a basic stage in the communication process is impossible without language".

### **The Concept of Noise and Interference in Communication**

Noise refers to anything that detracts from the effectiveness of communication. It is a technical term, which embraces all hindrances or obstacles to successful communication. Communicators believe that at every stage of communication there is noise. The phenomenon of noise manifests at the following levels:

- (i) **Physical Noise:** This refers to environmental noise pollution that can emanate from engines, children playing, neighbours playing loud music, etc. This detracts from the effectiveness of communication hence we should communicate in a conducive environment.

- (ii) **Psychological Noise:** This occurs when one of the parties to a given communication encounter is not in the right frame of mind. Anxiety, worry, anger, hunger, sadness, conflict etc are states of the mind that could make communication ineffective if not impossible. This is why it is advisable to begin communication when both parties are in their best frame of minds,
- (iii) **Physiological Noise:** This refers to noise associated with ill-health. One who is sick cannot communicate effectively. Anyone with auditory or renal defect will be handicapped in oral and written communication respectively. The remedy to physiological noise is to ensure that both the source and receiver are in excellent health before initiating a communication encounter. One can also change channel to be compatible with the receiver. For example you can write instead of speak and vice versa,
- (iv) **Graphological Noise:** This is noise resulting from bad handwriting, careless punctuation and wording of utterances and code-mixing and code-switching where the languages are mutually unintelligible to both parties.
- (iv) **Linguistic Noise:** This occurs when the encoder is guilty of ambiguity, poetic license, grandiloquence and illegible calligraphy. We can also extend this to the concept of interference since English is our second language.
- often arise when a communicator applies erroneously the rules he has learnt in his first language of communication to his second language of communication known as the target language. It is a negative transfer of linguistic rules. Interference occurs at all levels of linguistic organization which are: graphological, phonological, morphological, syntactic and lexico-semantic.
- (i) **Graphological Interference:** This refers to mistake resulting from misuse of the orthography of one language for another not as a deliberate stylistic device but because of incompetence in the target language or thoughtlessness on the part of the communicator. Illegible calligraphy also constitutes graphological interference.
- (ii) **Phonological Interference:** This occurs during speech communication. Faulty speech habits like regional accents, wrong pronunciation and faulty stress and intonation patterns of interviewees (company's employees interviewed by an auditor) can mislead the auditor and impact negatively on his work, if he lacks the knowledge of phonetics, phonology and interference. With Yoruba speakers of English for example, it is not uncommon to hear "fission" for "vision" while Hausa speaker's will say "pipe" when they mean "five" and most Nigerians will use "tank" for "thank".
- (iii) **Syntactic Interference:** Interference at this level has to do with the structure of the write up or utterance. That is the arrangement of words in sentences. For example, Nigerian speakers will say please, "separate the fight" rather than "stop the fight". "Look at that upstairs on your right" instead of "look at that storey building on your right".

By interference, on the other hand, it's mean the infelicities in the speeches and writings of bilinguals as a result of their exposure to more than one language. Balogun, Ikupa and Onyechere (2007, 22) explain that interference implies the mistakes/errors that

(iv) **Lexico-Semantic Interference:** This has to do with our perception of meaning. Certain words and expressions that we use do not have the same meaning for the native speakers of English as they do for us. For example, the expression "I am coming" is a direct transliteration of the Nigerian languages "Mon bo" "Anamabia", "me va dhe", "me cha" which means "I will be back soon", into English. To the native speaker however, this ought to be, "just a moment", "A minute, please" or "I will be back in a jiffy".

All the above forms of noise and interference should be eliminated from the communication of audit and investigation reports of public enterprises. It is not enough to audit and investigate the financial statements of companies. The result of such work must be communicated to the shareholders. This is where some measure of dexterity and skill in language use and communication come to play.

The wrong choice of words and communication breakdown or miscommunication can spell doom for an auditor's work and he would be held liable for any loss resulting therefrom. This can lead to queries, loss of job, and litigation among others.

### **The Audit Report as a Means of Communication**

As already discussed above, the audit report could convey a great deal of information to the reader of financial statements but an unqualified audit report may not appear to give a great deal of information. The report as is known says a lot, however, by implication. The real problem here is that, unfortunately, most users do not know that this is what an unqualified audit report tells them. The difference however between the actual and the public perception is part of what can be referred to as "*expectation gap*". The question of how we can make the

meaning of an unqualified audit report clear to users gives rise to why the Auditing Practices Board (APB) came up with a new audit report Statement of Accounting Standard. The APB made it clear that the new audit report is to be seen as a step towards closing the '*expectation gap*' which was defined in an earlier consultative paper as "*the difference between the apparent public's perceptions of the responsibilities of auditors on the one hand (and hence the assurance that their involvement provides) and the legal and professional reality on the other*".

The APB stressed that the above definition is not definitive and that the expectation gap is not a "static phenomenon". However, the Board has addressed specific issues, which include the misunderstanding as to the type and extent of work undertaken by auditors including about the level of assurance provided by auditors and the nature of audited financial statements among other issues.

The following points are to be noted in the communication of an audit report.

1. The standard unqualified report should be learned by heart by the auditors.
2. The purpose of the new requirements of Statement of Auditing Standards 600 is to aid communication between the auditors and the readers of the financial statements by tackling the expectation gap. The expectation gap exists because the public including the investment community generally are unclear about the role of the auditor. Many people think that the auditor prepares the accounts and/or deals with tax and/or keeps the books but few realize precisely the restricted role the auditor actually plays. Essentially people expect more from an auditor than his actual role can supply, hence the expectation gap. The new and

expanded reports may help people to have a clearer view of what the auditor does and is responsible for.

3. Also the Auditor must not sign a report until the board has approved the accounts, and the auditor has received all documents that are required to be considered by him/her and that all procedures necessary to form an opinion have been completed.
4. The company Act 2004 also requires the inclusion in the auditors' report of an opinion on *true and fair view* and proper preparation in accordance with the Act. A sample unqualified report must not be left out.
5. Sometimes an audit may be joint. When this happens, ICAN in its *Rules of Professional conduct for members (2000, 49)* recommends that: a member whose firm is nominated as a joint auditor should communicate with all existing auditors and be guided by similar principles to those set out in relation to nomination as an auditor. Where it is proposed that a joint audit appointment becomes a sole appointment, the surviving auditor should communicate formally with the other joint auditors as though for a new appointment.

#### **Auditors Liability for Negligence in Relation To Audit Reports on Statement of Accounts**

(CAMA 2004 section 368 sub sections 1-3) clearly state the liability of auditors for negligence in the discharge of their professional duties.

A company's auditor is expected in the performance of his duties to exercise all such care, diligence and skill as is responsibly

necessary in each particular circumstance, (CAMA 2004 section 367 subsections 1).

In a situation where a company suffers loss or damage as a result of the failure of its auditor to discharge the fiduciary duties imposed on him by subsection (1) of this section, the auditor shall be liable for negligence and the directors may institute an action for negligence against him in the court. (CAMA 2004 Section 368 subsection 2).

In the case of directors' failure to institute action against the auditor under subsection (2) above, any member may do so after the expiration of thirty days notice to the company of his intention to institute such action. (CAMA 2004 section 368 sub-section 3).

From the above, it could be seen that a lot of attention has been focused, in recent time, on the auditor's liability for negligence. This is as a result of the fact that injured parties believe the losses sustained by them could have been prevented if the auditors concerned had not been negligent in their duties hence such plaintiffs are highly compensated. (Osborn, 1983) defined "*negligence as a tort actionable at the suit of the person suffering damage in consequence of the defendants' breach of duty to take care of refrain from injuring him*". The success of an action in negligence against an auditor must prove the auditor as owing a duty of care to the action (Gray & Mason 1989). Such duties are primarily owed to shareholders of the companies and subsequently third parties to whom the auditors act as auditors.

In the discharge of his duties however, the auditor should strive as much as possible to reduce or minimize the possibility of negligence and if possible totally avoid being negligent. This can be achieved by ensuring that the financial statements they are reporting on in the financial reports are prepared in

accordance with the auditing guidelines and the statutory requirements controlling the preparation of such accounts. They, auditors should also ensure that such accounts already prepared by directors present a true and fair view as required by statute and in accordance with the CAMA.

### **Conclusion**

Several attempts have been made by different writers to communicate audit reports of public enterprises to third parties over the years. This paper however highlights the need for the effective communication of audit reports by taking into cognizance the standard of professional care, skill and competence required by law (CAMA). It highlights the duties and requirements of auditors as professionals, the need for the use of effective language in the communication of audit reports and the financial statements of companies. The audit report as a means of communication, the auditors liability to third parties with regard to the financial statements they are reporting on and how the auditor can minimize his liability to third party by exercising a high degree of reasonableness requires of one in his official capacity as auditor.

It stressed further on how auditors can entirely overcome negligence so as to avoid litigation by third parties. This they can achieve by ensuring that the already prepared financial statements of companies to whom they act as auditors by the directors of such companies have met the laid down standard on preparations of such accounts and as required by statute (CAMA 2004).

It is positively hoped that the observations and recommendations made in this paper would go a long way towards making auditors more sensitive to their colleagues, the profession, and the public and most importantly to themselves as professional auditors.

### **Recommendations**

To avoid embarrassment, litigation and guilt of negligence by auditors in the discharge of their duties in communicating audit reports of public enterprises, the researchers recommend as follows:

1. Auditors should completely avoid being negligent in their duties by conforming to the rules and regulations of the auditing standards as required by statute. This includes the specification of duties and scope of operation in their engagement letter, the extent to which risk is to be undertaken, excluding those not undertaken, definition of auditors responsibilities as separate from clients responsibilities and specification of any limitation to their audit work.
2. The engagement letter and the report should state the purpose for which the report has been prepared and that the client or third party may not use or rely on it if for any other purpose except that specified, and advising the client in the engagement letter of the need to obtain permission to use the name of the auditor at the same time withholding permission in appropriate cases.
3. The authorized recipients of such audit reports as prepared by the auditors should be identified by the auditors in the report and in the engagement letter. Limitation excluding liability to third party should be specified by a disclaimer in the report.
4. The Auditor can also define the scope of professional competence to include any matters within the auditors' competence (Millichamp 2002).
5. As Ola (2002) has also suggested and the researchers agree with him, an audit

- committee made up of shareholders of public and private companies, institutions and government parastatals who are not involved in the management of the company, with the responsibility of appointing auditors and fixing their remuneration to ensure merit, avoid corruption and guarantee the independence of the auditors should be set up.
6. The auditors should be careful in their choice of words and expressions. Auditors should not write over readers' heads or their own. In other words they should employ only words and expressions that they are absolutely sure of their meanings.
7. Auditors should avoid ambiguity resulting from careless wording of utterances, reckless punctuation, grandiloquence, circumlocution and superfluity or otherwise.
8. Audit report should be concrete. The auditor should avoid generalizations and be specific. He should use vivid verbs, concrete nouns and specific adjectives. Vague and general expressions can spell doom for an audit report and hence embarrass the auditor and make him liable.
9. The auditor should double check the facts he gets from the employees of the company whose accounts he is investigating to ensure correctness. For an audit report to present a true and fair view of the state of affairs of an establishment over a period of time all facts upon which it is based must be impeccable.
10. The auditor should ensure that he is in the right frame of mind when writing his report. He should avoid psychological and environmental disturbances when preparing his reports.
11. Finally, the auditor must learn to edit and proofread his report. He must revise his work paying particular attention to every sentence in each paragraph, every word in each sentence and every letter in each word. Proofreading is to set types what editing is to the draft. The auditor must revise both the handwritten work (editing) as well as the typed work (proofreading). There are usually two types of errors during proofreading: errors not spotted during editing and errors made by the secretary, typist or computer operator. All these must be completely wiped out before submission of the audit report.

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