THE RELEVANCE OF STATUTORY AUDIT IN NIGERIA

A.O. Unuigbokhai
Department of Accountancy,
Auchi Polytechnic,
Auchi.

and

C.O. Ehimi
Department of Accountancy,
Auchi Polytechnic,
Auchi.

Abstract
This paper examined the relevance statutory audit in Nigeria. This work x-rayed audit defined; role and duty of external auditor; reasons for audit failure; are auditors truly independent; etc. The following recommendations were made: widen legislation to penalize top company management that mislead their auditors and penalize auditors for negligence of duty, strengthening of the mandatory continuing professional education (MCPE) requirements of professional accounting bodies and separation of audit relationship from provision of other services. In conclusion, the spate of audit failures have diminished the relevance of audit if the country. The need for a law to impose stiff penalties on company management intent on deliberately misleading their auditors cannot be overemphasized. Audit committees of public companies in Nigeria must rise to the challenge of strengthening the independence of their auditors.

Keywords: Statutory audit, failure, relevance and Nigeria.

The need for auditing arose when the management of an enterprise was separated from the ownership. The passing of the companies Act in Britain, introduced by Gladstone in 1844 set the scene. The Act required that registered companies should appoint one or more auditors to report on the company's solvency to creditors. The companies Act 1879 made the appointment of auditors compulsory for banking companies and this was finally expected of all companies by the companies Act 1900. The Nigerian Companies and Allied Matters Act (CAMA) 1990 as amended. Section 359(1) states that, the auditors of a company shall make a report to its members on the accounts examined by them and on all group financial statements, copies of which are to be laid before the company in a general meeting during the auditor's tenure of office.
The responsibility of the auditor in examining the financial statements is to enable him express an opinion on the truth and fairness of the financial statements.

External auditing is a statutory requirement for public companies CAMA (1990) section 351 (1) states that, "every company shall at each annual general meeting (AGM) appoint an auditor or auditors to audit the financial statements of the company and to hold office from the conclusion of that, until the conclusion of the next AGM. The fundamental responsibility of the auditor is to scrutinize the accounts and records of business entities, including charities; trusts, professional firms, as well as governmental establishments in such detail as will enable the auditor form an opinion about its accuracy and reliability.

However, in order that the auditor will do his work effectively, he requires a degree of independence necessary for a wholly objective audit (Izedonmi, 2000). Ezejeluer (1996) as cited in Oladipupo (2004) aptly puts it that the general principle is that the auditors must approach his work with an independent outlook and must do nothing which would impair that independence.

Audit Defined

An audit is a careful and unbiased examination of and inquiry into any statement of account relating to money worth, the underlying documents and the physical assets where possible and all other available evidence as will enable the auditor to form an opinion .hereon and to report accordingly (Chukwuemeka & Okoye, 1998).

According to Okaro and Okafor (2009): audit is an examination of the financial statements of enterprise by an independent expert (the auditor) with a view to attesting that such financial statements (in his opinion) show a true and fair view of the state of affairs of that enterprise for the period under review. The contribution of the auditor is to provide credibility to information. This means that the information can be believed and that it can be relied upon by outsiders such as shareholders, creditors, government regulators, customers and other interested third parties. Usually, these third parties use the information to make various economic decisions including, for example, the decision about whether to invest in the organization. Economic decisions are made under conditions of uncertainty as there is always a risk that the decision maker will select the wrong alternative and incur a significant loss. The credibility added to the information by the auditors actually reduces the decision maker's risk. Thus, auditors reduce information risk which is the risk that the financial information used to make a decision is materially misstated. Herein, lays the importance of the audit function. It follows also that audit failures increase information risk and could have disastrous consequences for allocation of scare resources in any economy.
The Role and Duty of External Auditor

Although the rules differ between jurisdiction, usually larger companies, and all publicly quoted companies must have their financial statements independently audited. Note that the auditors do not certify financial statements. That is done by the company's directors. All that an auditor does is to examine the financial statements and records of a company and opines on whether they do indeed show a "time and fair" view (or meet other particular requirement that the auditor is, engaged to opine on).

According to CAMA (1990), it shall be the duties of the company's auditors, in preparing their report; to carry out such investigations as may enable them to form an opinion as to whether:

a. proper accounting records have been kept by the company and proper returns adequate for their audit, have been received from branches not visited by them,

b. the company's balance sheet (now statement of financial position) and (if not consolidated) its profit and loss account (now comprehensive income statement) are in agreement with the accounting records thereon.

The auditor is required to maintain an attitude of professional skepticism recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the audit's past experience with the entity about the honesty and integrity of management and those charged with governance.

The auditor is expected to perform procedures to obtain information that is used to identify and assess the risks of materials misstatement due to fraud, consider whether an identified misstatement may be indicative of fraud and obtain written representations from management relating to fraud.

The auditor should provide guidance if, as a result of a misstatement resulting from fraud or suspected fraud encountered by exceptional circumstances that bring into question the auditor's ability to continue performing the auditing (Asein, 2007). Every auditor of a company shall have a right of access at all times to the company’s book of account and vouchers and entitled to require from the company officers such information and explanation as he thinks necessary for the performance or auditors duties.

Reasons for Audit Failure

Audit failure can occur as a result of the following reasons

i. Ethical failure

ii. Negligence in carrying out the audit process

iii. Environmental and cultural influences

iv. The limitations of the modern audit process itself.
Are Auditors Truly Independent?

Professional independence is one of the fundamental concepts to the accounting profession. This is often an attitude of the mind characterized by integrity and objectivity approach to professional work. The auditor must act with objectivity and impartiality and free from any undue influence which might appear to conflict with his assignment. The report of the external auditors adds credibility to the financial statements of a company and to maintain this credibility however, the auditor must be independent of the management. Any auditor that indicates an involvement or financial interest in the management or the enterprise will reduce the effectiveness of the Investigative independence auditors' opinion. The following are areas in which the auditor has to exercise his independence.

i. Programming independence
ii. Investigative independence
iii. Reporting independence

Oluwanya (2004) was the opinion that Nigerian auditors may not be truly independent since a dissatisfied board will find a way of effecting the removal of the auditors at the annual general meeting, the provision of auditors is not psychologically free as a result of the fact that the distinction CAMA 1990 not withstanding. Ezejulue (2004) argued that the Nigerian auditor is not psychologically free as a result of the fact that the distinction between shareholders and management has become so often blurred that the appointment, remuneration and dismissal of auditors is effectively decided by management who are the very people, the auditors may wish to criticize in the course of their duties.

Onosode (2001) believed that the Nigerian auditor is not truly independent and attributes this to the inability of some auditors to distance themselves from overbearing board or management so as not to incur their wrath and put their appointment at risk.

Relevance of Statutory Audit in Nigeria

Statutory audit does help to assist organizations to improve their internal audit functions by measuring the effectiveness of existing internal audit processes and advising on the development of enhanced internal audit methodologies. It helps the accounts to be regarded an authentic, correct and vehicle as a true and fair indicator or the state of affair of an organization. The rational behind this, is that auditors do not partake in the preparation of an account and his opinion as an independent one, arrived at after an objective examination of all the relevant evidence relating to the financial statement.

Statutory audit assists an economy in assessing the income tax payable by a firm; the tax authority will normally be more willing to accept the profit and loss revealed by
financial accounts certified by an independent auditor. In the absence of such certified financial statement, the firm may have a difficult time convincing the tax authority that the accounts are correct.

Continuing globalization will increase the complexity of principles, regulations, and the culture in which organizations operate. Increasing litigation, legislation and regulations will carry important compliance implications. Ever growing competition will increase the pressure on organizations in order to enhance productivity as a result of the relevance of statutory audit in an economy.

Statutory audit enhances the amount a purchaser is willing to pay for a business will depend among other things, on the earning capacity of the business and the trend over a number of years. This will be revealed in the profit and loss account for the past number of years decided upon, five or ten years for example. Negotiations will be easier if the accounts for these years have been audited and certified by a qualified accountant.

Statutory audit or the financial statements in Nigeria is to provide reasonable assurance that the accounts have been prepared in accordance with the generally accepted accounting principles (GAAP) and are free of any misstatements, errors and discrepancies. It also helps the client to monitor organizational ethic, conducting effective reviews of operational and financial performance, assessing (he quality, economy and efficiency of their operations and suggesting continuous improvement strategies.

Recipe for Credible and Reliable Financial Reporting Process

The recipe that gives credible and reliable financial reporting process are as follows:

i. Integrity
ii. Ethical Conduct
iii. Compliance with Standard
iv. Professional Independence
v. Test of Moral or the person Involved.
vi. Audit Test
vii. Quality Control
viii. Analytical Review
ix. Information Assurance

Statutory Audit Requirement and Drive for Promotion of Good Governance

In view of the recent corporate scandals and increased regulation, the total system or corporate performance, oversight and financial reporting is in the spotlight today.
There is intense public scrutiny of all those in the corporate reporting supply chain including management, analysts, credit rating agencies, external auditors; boards, audit committee, standard sellers and regulators. As a result, the oversight responsibilities vested in those entrusted with day-to-day management of a company's affairs are more complex than ever before.

The Organization for Economic Cooperation and Development (OECD) defined Corporate governance as “… the system by which business corporations are directed and controlled. The corporate governance structure specified the distribution of rights and responsibilities of different participants in the corporation such as the board, managers, shareholders, and other stakeholders and spells out the rules and procedures for making decision on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance … ” (OECD, 1999 as cited in Igbokwe, 2004). Good corporate governance is about having the right controls in place to minimize the risks to a business of not only making the wrong decision but also in the day-to-day running or its operations.

The most statutory audits are conducted for companies and are governed by the rules of the Companies Act 1990, as amended till date referred to as CAMA (1990).

**Analysis of CAMA in Respect to Statutory Requirement**

1. Appointment of Auditors: Section 357 directed on how the auditor(s) should be appointed, which shall be appointed at the annual general meeting and that where no auditor(s) appointed or re-appointed, the director may appoint a person to fill the vacancy.

2. Qualification of Auditors: Section 358 stated that to be qualified as an auditor(s), he must be a member of a body of accountant in Nigeria established from time to time by an act or decree. He shall not be an officer or servant of the company, not a partner or not acting as the company professional advice in a consultancy capacity.

3. Remuneration of Auditors: Section 351 stated that the auditors’ remuneration may be fixed by the directors or the company at the AGM depending who appointed the auditors. The remuneration of the auditors includes sums paid by the company in respect of auditors expenses.

4. Auditor's Removal: Section 362 stated that company away by ordinary resolution remove an auditor before the expiration of his term of office in respective of the agreement entered into with him.
5. Resignation of Auditors: Section 365 stated that an auditor of a company may design his office by depositing a notice in writing to that effect at the company’s registered office and any such notice shall bring to an end the term of his office. This notice shall need to be brought to knowledge of the members or creditors of the company.

6. Auditor’s Rights: Section 363 stated that a company’s auditors shall be entitled to attend any general meeting of the company and to receive all notices of and other communications relating to any AGM which a member of the company is entitled to receive and to be heard at any AGM which they attend on any part of the business of the meeting which concerns them as auditors.

7. Audit Committees: This is a committee of directors, usually without executive responsibility or top-ranking managers, which considers both the external and internal audit plans and activity with specific brief to review internal control arrangements.

The fact that corporate audit failure also manifests in emerging markets such as Nigerian Stock Exchange (NSE) means that the lesson to be learnt from Eron WorldCom saga is not only whether perpetrator of those heinous financial crimes are brought to books but also to serve as deterrent to other who are the owners of businesses in order to ensure accountability and transparency in their companies. To promote good governance, government all over the world, more than ever before now appreciate the need to strengthen the regulatory framework in order to protect million of investors who stake their hard earned income on equities and other financial instrument in anticipation of good returns that could guarantee them a better living, perhaps, after retirement.

Effective good corporate governance in any business enterprise requires that the board of directors, executive management and other personnel operate within a structured framework that provides the board with reasonable assurance that all corporate business objectives will be achieved. Framework helps to facilitate the implementation of best in class, corporate governance framework, effective business controls over operations and the possible the assurance that the board requires through “audit” function (Randle, 1998).

Certainly, the external auditor plays an independent role which might be statutory and his responsibilities are defined by state or terms of references as agreed with the client. However, with the increasing toll of financial reporting failures, corporate governance is fast becoming a major issue and scrutiny of quality of financial reporting and independence of auditors is now top on the agenda for a lot of companies and other
stakeholder. In United States, for example, SL404 or the Sarbanes-Oxley's Act of July, 2002, requires that both corporate management and an independent auditor assess the effectiveness and reliability or controls and procedures the form uses to report its financial results (Lander, 2004).

In a bid for the statutory audit to ensure transparency and accountability in the management of public companies in Nigeria, the capital market apex regulatory body, the Securities and Exchange Commission (SEC) and Corporate (CAC) and corporate affairs Commission (CAC) had in November 2004, launched the "code or corporate governance in Nigeria".

The statutory is part of the continuous effort to balance the interest of the shareholders and the public on the other hand and against those of the board and management on the other, thereby, promoting good governance which brings about transparency and accountability (Onosode, 2001).

Conclusion
Since professional accounting services have implications for the public interest, the audit performance gap occurs when public expectations are reasonable but the auditor’s performance does not fulfill them. This means that there is a shortfall in the audit’s performance. For the statutory audit in Nigeria to be relevant, there need to be an overhauling of the law that governs the auditing of financial statement in the country. The need for the law to impose stiff penalties on company management intent on deliberately misleading their auditors cannot be overemphasize. Audit committees of public companies in Nigeria must rise to the challenges of strengthening the independence of their audit. On their part, auditors must adhere strictly to their professional ethics. It is on this respect that great premium ought to be placed on the sanctity of the profession’s self-regulatory measure of regular rotation of engagement partners to enhance rebuilding the waning confidence of the public in the attestation function of the auditors and ensuring its continued relevance of the statutory audit in today’s complex and dynamic business world.

Recommendation
The following recommendations have been made so as to make statutory audit relevant in Nigeria,

i. Widen legislation to penalize top company management that mislead their auditors and penalize auditors for negligent work.

ii. Appointment or a government oversight body to conduct inspection of all registered accounting firms on a continuous basis.

iii. Separation of audit relationship from provision of other services.

iv. The introduction of mandatory rotation of auditors.
v. Involvement of audit committees, non-executive directors and institutional shareholder in the appointment of external auditors.

vi. Strengthening or the mandatory continuing professional education (MCPE) requirement: Ill' professional accountancy bodies.

References


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