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Drivers of Audit Failure and Fraudulent Financial Reporting: Evidence from Nigerian Distressed Banks

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ABSTRACT

This study examined the drivers of audit failures and fraudulent financial reporting in distressed Nigerian banks. The historical study carried out an analytical review of literature that included previous empirical studies, reports of investigations of the Banks by Financial Regulatory Agencies and content analysis of audited financial statements of the distressed banks. The major findings of this study are that the incidence of audit failure in distressed Nigerian banks were driven by the auditor's ineffectiveness attributable to inadequate regulation, a lenient legal liability system that failed to make auditors liable for audit failure, and corporate corruption whose detection, the auditing standards failed to clearly make the auditor's responsible. Fraudulent financial reporting was considered to have been caused by corporate corruption. The board and management of the banks used fraudulent financial statements to cover-up the negative effects of their corrupt and unethical practices. The policy implication of the findings are that auditing standards and auditors' legal liability framework require a drastic review that would make auditor's responsible for the detection of corporate corruption clearer and their liability for audit failure more automatic.

Keywords: *Audit Failure; Bank distress; Bank failure; Corporate governance; Fraudulent Financial Reporting*

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INTRODUCTION

Audit failure is a well-known global incidence that has been identified with highly rated national and international external audit firms. The corporate world has experienced several incidents of audit failures that led to corporate distresses and in some cases contributed to the eventual failure of firms. Factors that lead to corporate distress and eventual failure usually build up over time but with timely discovery and early intervention, failure of firms could be prevented. However, due to the fraudulent financial statements prepared by the board of directors to cover up the poor state of the firms, together with the favourable/unqualified opinions of the external auditors, the problems of the firm remain unattended to and grow to a point that they become very costly to manage, resulting in distress or outright failure.

Audit failure has very serious socio-economic consequences on investors, the auditors as well as society at large. Financial statements provide the basis for making investment decisions by the investing public, stakeholders and other users of accounting information (Chyan-long, 2018). Individuals, corporate investors and stock brokers who relied on the audited fraudulent financial statements, in making their investment decisions lost out due to the eventual distress or outright failure of the banks. Nigerian investors have lost billions of funds due to the non-disclosure by auditors of fraudulent manipulation and overstatement of earnings in their audited financial statements on which investment decisions were based (Bakr, 2007). The 2011 capital market collapse in Nigeria was traced to some banks that recklessly granted margin loans and manipulated their share prices leading to the loss of confidence in the Nigerian capital market (Okafor, 2013). Auditors had a price to pay for audit failures in the form of declined reputation. Corporate failures in the financial sector brought auditors into sharp focus and caused the public to question the quality and independence of external auditors (Ajibolade, 2008). Auditors that have reputation for low audit quality are known to have been switched by audit clients. (Skinner & Scrivivassan, 2010). Auditors are at the risk of facing potential litigation if their reports continue to fail to provide early warning signals to current and potential investors that may have to rely on them for their investment decisions (Bello, 2011).

Fraudulent activities that includes fraudulent financial reporting and asset misappropriation remain a global problem encountered by corporate bodies across the globe which impairs sound economic view, distort investment decisions, erodes investor's confidence impairs the economic development of any nation. (Zager, Malis & Novak, 2015; Abdul-malik, 2017; Akbar, 2017). The failure of auditors to uncover fraudulent financial statements, in the view of Johnson (2011) remains a cancer on the accounting industry. Sikka, cited in Johnson, (2011:1) notes that the survey on Auditors and audit failure shows that "as many as 70 percent of auditors admit to falsified audit work in the surveys of countries around the world". McDonnell (2013) considers audit failure as striking the very heart of the audit profession and its occurrence, as an admission of failure to perform to the expectations of those relying upon the accounting profession. The failure of auditors in providing enough and relevant information for predicting the likely failure of companies has gained prominence in developed, developing countries and international organisations (Lee, 2016).

While there have been much studies on the occurrence of audit failure in Nigerian banks, not much appear to have been done towards identifying the driving forces behind its occurrence. The need for this study becomes compelling due to the fact that the linkage of audit failures to fraudulent financial reporting that featured in Nigeria banks in the 1980's and late 1990's which pre-dated the Enron-Arthur Anderson saga of 2002, recurred in 2009, implying that this scenario could repeat itself in the future with perhaps greater socio-economic consequences, if the drivers/causes of the incidence remains realistically unaddressed, and unresolved.

The primary objective of this paper is to investigate the factors that drove or were responsible for audit failure the use of fraudulent financial statements by the board of Nigerian banks to cover up of their unethical practices, reasons why they are not detected by auditors, which led to audit failure. This study is of international relevance as the findings could assist other developed and developing countries address the risk of undetected fraudulent financial reporting. The methodology adopted is the analytical review of literature that includes previous empirical studies, reports of investigations of the Nigerian Banks by Financial Regulatory Agencies and content analysis of the audited financial statements of the distressed banks.

The remaining sections of the paper are structured as follows: section 2 covers a literature review on the drivers of audit failure, fraudulent financial reporting as well as an overview of the incidence of audit failures in Nigerian banks; board of Directors, fraudulent financial reporting and bank distress while section 3 covers the conclusion of the paper.

LITERATURE REVIEW

Drivers of Audit failure

Audit failure can be explained as the failure to perform the statutory roles that are expected of the auditor by the client-firm. Generally, the principal role of any audit engagement is to provide a professional opinion on the financial statements and non-financial reports provided by the management of an organisation, and where an audit opinion is proved to be incorrect, it is referred to as Audit failure (Chapple & Mui, 2017) Chapple and Mui also posit that Audit failure has two dimensions: first, that the financial statements contained material errors, and second, that the auditor failed to detect the errors in the course of the audit process.

Five key drivers have been identified by the Financial Reporting Council of the United Kingdom (2008) as contributing to audit quality and invariably audit failure too (as poor audit quality is prelude to audit failure). These are: 1) The culture and ethical tone of the firm's leadership and recognition for quality; 2) Skills and personal qualities of audit partners and staff; such skills include adherence to ethical principles, the application of professional skepticism, supervision and support for audit staff; 3) The effectiveness of the audit process; 4) The reliability and usefulness of audit reporting and 5) Factors that are external and outside the control of the audit firm. The board and management of audit clients appropriately relate to the factor within the reporting/audited entities which are outside the control of auditors.

The study of Asare, Wright, & Zimbelman (2015) showed the elements of the audit process that determine audit failure to include:

1. effectiveness of the assessment of management's incentives to commit fraud;

2. ability to recognize management's opportunities to commit fraud, and
3. auditors' modification of standard audit program to trail fraud cues.

Several other factors have been found in the literature that drive audit failure. These are:

Audit regulations and legal liability system

Lee (2016) considers external audit requirements, insufficient regulations relating to audit independence, and limited liability risks to auditors as very important factors that affect the auditor's role in enhancing accuracy of the audit to forestall audit failure. In particular, any regulation that is not categorical and definitive on the auditor's liability for fraud detection does not encourage the auditor to modify his audit programme for fraud detection.

The study of Burton, Wilks, and Zimbelman (2013) shows that a lenient legal liability system as against a legal system which makes auditors incur an automatic penalty each time an audit failure occurs, or undetected material fraud is later discovered, would make auditors to be more vigilant and diligent in detecting fraud and the audit-client to have less inclination to commit fraud.

Audit fee

Lucy (2016) maintains that low quality audit characterized by low audit fee can facilitate audit failure as it does not have sufficient effect on banks from committing financial statement fraud and recommends that bank audit should be expensive enough to attract auditors with requisite skills and with the required incentive to uncover fraud. High quality audit in his view is a disincentive to banks from engaging in fraudulent financial reporting.

Angelo (1981a) argued that the level of economic bonding between the auditor and the auditee (client) has a tendency to impact on the auditor's independence and that, the extent to which auditors earn client-specific rent(fee) and auditors' independence which is the joint probability that the auditor will discover (competence) and report a misstatement (objectivity and independence). He maintained further that economic bonding between the firm and the auditor could impose limitations on auditor independence and invariably on the quality of their audit. Studies have shown that

companies may reimburse or financially induce auditors to reduce their possibility of detecting financial statement fraud.

De Angelo (1981b) provided a multi-period analysis of the economic relationship between the auditor and the audited and argues that auditors are exposed to two main risks in situations where they earn significant client-specific rent (audit fee) and that there is a certain pressure to compromise independence in order to maintain the continuity of that rent (audit fee) and avoid the threat of switching to another audit firm.

However, Craswell and Francis (2002) reported that the level of economic dependence between the auditor and their client does not affect auditor propensity to issue a qualified audit opinion, except in a setting where public disclosure of audit and non-audit fees is not mandatory.

Corporate corruption and auditing standards

Corporate corruption and unethical practices are illegal and irregular conducts that will always require fraudulent concealment in financial statements by the perpetrators since their knowledge is capable of influencing the judgments of reasonable persons. However, the audit standards lack clarity about the responsibilities of external auditors with respect to the detection of corporate corruption, but rather unjustifiably implied that corruption is not likely to have any impact on the financial statements unlike misappropriation and other financial reporting fraud (Modugu, Ohonba, Izedonmi, 2012; Kassem & Higson, 2016). The non-clarity of auditing standards on the responsibilities of external auditors with respect to corporate corruption could discourage external auditors from developing audit programmes towards the detection of financial statement fraud occasioned by corporate corruption which can lead to audit failure. It is however, the view Kassem & Higson, (2016) that external auditors are likely responsible for detecting material misstatements brought about by corruption that would have a material effect on the financial statements

Auditors skill

Auditors' primary goal is to provide reasonable assurance that the financial statement audited by them are free from material misstatements, and their failure at effectively detecting fraud is largely accounted for by their lack of sensitivity in detecting tell tales signs as well as and red flags of fraud (Chu & Pyke, 2013; Awolowo, 2016).

Auditors unlike fraud specialists, and forensic accountants, by training are not equipped with specialised knowledge of varieties of fraud schemes and strong interviewing skills. The limitation of traditional statutory auditors in specialised fraud detection skill could be predisposal to audit failure. Results of a recent survey by DiGabriele (2011), of accounting educators, auditors and forensic accountants reveal a consensus amongst them that professional audit frame work should be driven by an evolving regulatory and standard setting environment that requires the integration of forensic accounting skills into the auditing process. The result of this survey tallies with the American Institute of Certified Public Accountants (AICPA) as well as the PCAOB emphasis on the need for the integration of forensic accounting procedures in Audits as a means of meeting the requirements of recent standards and regulation on the detection of fraud (AICPA, 2004).

Drivers of Fraudulent Financial Reporting

Fraudulent financial reporting does have significant negative consequences on the audited entity as well as the shareholders and stakeholders that include investors and the development of the capital market (Umoren & Asogwa, 2017). The act of fraud in financial reporting is either referred to as fraudulent financial report (FFR) or financial statement fraud. The FFR as described by the Association of Certified Fraud Examiners (ACFE, 2014) is a deliberate misstatement regarding the reporting of a company's economic condition by misstating or eliminating financial information or disclosure of financial information to obscure the users of financial statements in making decisions.

Fraudulent financial reporting is carried out in many ways by the board and management of companies. It could involve the deliberate distortion of corporate records such as inventory ledgers, or come in the form of falsified transactions that involve sales or purchases orders, or the misapplication of accounting principles (AICPA, 1986). Cooper (2005) list of instances of financial fraud include: alteration, manipulations of falsification of financial records; ii) deliberate omissions and misrepresentation of event or transactions; iii) intentional misapplication of accounting principles, procedures and policies and iv) deliberate omission of disclosures or rendering of inadequate disclosures. Fraudulent financial reporting differs from other causes of misleading financial statements such as unintentional errors (Odia & Ogiedu, 2013).

Many factors have been identified to influence or drive fraudulent financial reporting. The factors include:

Management interest, attitude and ownership

Corporate management is founded on the Agency Theory (Jensen & Meckling,1976) It explains the management of corporations based on a principal-agent relationship, whereby the board and management are expected to manage the firm as agents, on behalf of, and in the interest of the owners/shareholders of the firm, to whom the agents have stewardship responsibility. The principal-agent problem however surfaces when there is divergence of interest and asymmetry of information between the managers/ agents and owners/ shareholders (Jensen & Meckling,1976). When the agent/management maximizes their own wealth at the expense of the principals they cover up their acts with fraudulent financial statements.

Corporate governance

Studies that investigated factors associated with fraudulent financial reporting practices, show that management's predisposition, motive and opportunity to provide incentive for the fraud (Yusof, Khair & Simon,2015). Companies that have greater proportion of founders on the board, CEO duality and weak corporate governance are considered more likely to be involved in fraudulent financial reporting than are other firms (Aprilia, 2017; Sitorus et al., 2017). Weak corporate governance is often characterized by weak internal controls and ineffective audit committee of the board. Evidence from previous studies have shown that weak supervision from audit committees provide opportunities for management to perpetuate financial reporting fraud (Akbar, 2017; Annisya et al 2016).

Studies have shown that the Board structure has a significant influence on financial statement fraud. A high proportion of independent non-executive directors in the board has a significant influence on the level of fraudulent financial reporting fraud (Wilopo, 2004). Evidence from the literature show that the Chief Executive Officer's CEO duality role as chairman and Chief executive has a strong influence on company policy which predisposes the CEO to engage in fraudulent financial reporting (Akbar,2017; Sitrus et. al, 2017)

Performance pressure

Pressure on management to meet certain levels of performance can increase the tendency for fraudulent financial reporting. The study identified the pressure to meet desired level of financial targets and financial stability. This study is a confirmation of Diany & Ratmono's, (2014) research that states that there is a significant influence from pressure to fraudulent financial reporting. The pressure to attain financial stability, which could be liquidity, and other basic financial ratios can lead to fraudulent financial reporting (Apprilia, 2017; Tiffani & Marfuah, 2015; Indarto & Ghozali, 2016).

Overview of incidence of Audit failure in Nigerian Banks

In the late 1980's Nigeria had eighty-nine (89) commercial and investment banks that were doing well, growing in volume and operation and posting as much as 30% of their turnover on the average, as distributable profit. It was to be discovered later, that fuelling this seeming growth, the boom and rapid proliferation were the banks' involvement in high risk, high return lending as well as black market currency trading and above all the external auditors' favourable reports on the financial statements that showed falsely the ever increasing profitability of the banks. The banking boom of the 1990's occurred paradoxically in the era of poor performing economy, insufficiency of professional bank managers with the required depth of banking experience, both at the executive, management and board levels to cope with the complexities of bank management. It was a matter of time before the banking boom ended up as doom for investors and depositors, all in the face of unqualified, favourable auditors' opinion on their audited financial statements which were proved to be untrue (Akhidime, 2009).

Between 2008-2009 five Nigerian banks namely, Afri-bank, Fin Bank, Union Bank, InterContinental Bank and Oceanic bank failed the stress test of the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance (NDIC) and identified as going concern entities. Whereas, while the five banks were having serious going concern challenges of insolvency, insufficient capital and were unethically and fraudulently managed by the directors (CBN, 2009), the bank's audited fraudulent financial statements did not reflect any auditor's qualification or adverse report (Akhidime, 2012) for reasons this paper seeks to unravel.

External Auditors and Audit Failure

Following the findings of CBN-NDIC (2009) special investigation of the fourteen distressed banks, external auditor's performance had come under high beam; their competence and integrity and credibility became doubtful (Onu, 2009). Auditors have been berated for failing to blow the whistle and raise going concern flags when they discovered that some of the banks they audited were becoming over leveraged, insolvent and having going concern challenges. External auditors were blamed for their failure to scrutinize and disclose the loan portfolios of banks to shareholders.

As clearly reflected in Table 1, the very banks that were favorably reported upon and given a clean bill of health through the unqualified audit opinion by their external auditors, going from CBN-NDIC special examination reports were as a matter of fact having serious going concern challenges as they were insolvent, had insufficient capital to sustain their banking operations, while being unethically and fraudulently managed by their boards and chief executives,(CBN,2009; Sanusi, 2009). These unqualified audit reports are considered to have formed one of the bases for the impressive performance ratings, dividend payouts and investors' investment decisions, (Otunsanya and Lauwo, 2010).

Table 1: Auditors and Distressed Banks

Bank	Year end	Auditors	Date of Last Audit Report	Audit Opinion	Audit FEES	
					2007	2008
Afribank	March31, 2008	Akintola Williams	March31, 2008	Unqualified	N50M	N65M
Finbank	April 31, 2008	Akintola Williams	December, 2008	Unqualified	N63M	N67M
Unionbank	Feb. 29, 2008	Akintola Williams	October, 2009	Unqualified	N113M	N118M
InterContinental	Dec. 31, 2008	PriceWaterCoopers	May, 2008	Unqualified	N112M	N208M
Oceanic	December, 31, 2008	PriceWaterCoopers	May, 2009	Unqualified	N100M	N168M

Source:Otunsanya and Lauwo (2010)

The evidence (as in Table 1) shows that the auditors that issued unqualified opinion on the first five banks which the CBN-NDIC special examinations report proved and adjudged insolvent included Akintola Williams Deloitte (AWD), PricewaterhouseCoopers (PwC); and to a lesser

extent KPMG Professional Services. These banks belong to the 'Big 4' international reputable audit firms; while PricewaterhouseCoopers (PwC) and KPMG Professional Services are classified as bank audit specialists, (GOA, 2003). Some of the reasons adduced for the poor audit qualities or failures include fee dependency due to the enormous income from these banks. These factors according to Ekundayo and Atu (2010) could have created bonds between the auditors and the bank management, in exerting pressure on auditors to acquiesce with the management, having compromised their independence.

Evidence shows, for example, that Price Waterhouse Coopers, auditors to distressed Oceanic International Bank Plc and Intercontinental Bank Plc increased their audit fees between 2007 and 2008 by 85% for Intercontinental Bank Plc, and by 68% for Oceanic international bank; while Akintola Williams, Delliotte and Touche increase its fee by 30%. No distinction is made in the published financial statements of auditing and non-auditing fees. The high audit cost incurred by Finland Bank of N63m and N67m in 2007 and 2008 to Akintola Williams, Delliotte and Touche the audit fees of N50m and N65m in 2007 and 2008 to the same auditors had no possible bearing on the financial positions of these distressed banks. The above findings on the high audit cost of the distressed banks align with the separate empirical studies of Akhidime (2012 p.26-127) on audit quality in banks which maintains that "the total fees paid to specialist bank auditors indicated a higher level of economic bonding between the auditors and their clients to the extent that the auditors' independence could be eroded".

Board of Directors, Fraudulent Financial Reporting and Bank Distress in Nigeria

Prior to the major policy shift by the Central Bank of Nigeria (CBN), with respect to increases in minimum paid capital between 1998-1996, Nigerian banks experienced a steady increase in the number of distressed deposit money banks. Distressed banks are banks rated by the CBN as marginal or unsound, (Somoye, 2008). As per Table 2, the marginal and unsound banks increased in number from seventeen (17) in 2001 to twenty-three (23) in 2002 and 2003, and then twenty-six (26) in 2004 thirty. By 2009 the number of marginal and unsound banks rose to 14 (about 41.7% of the post consolidated 24 Banks. Year 2004 is denoted as the pre-consolidation year and 2005 to date as post consolidation period.

Table 2: State of Nigeria banking Industry

CATEGORY	2001	2002	2003	2004	2005	2006	2009
Sound & satisfactory	73	67	67	64	25	15	*14
Marginal	*8	*13	13	*16	-	4	1
Unsound	*9	*10	10	*10	-	5	9
	90	90	87	87	25	25	24

Adapted From: CBN (2006). Statistical Publication

Following the contagion effects of the global financial crises and the consequent crash of the Nigerian stock market, the Nigerian banks began to show signs of serious cracks (Akhidime, 2009). By the time the CBN-NDIC Audit reports on the 24 banks were made public in 2009, it was obvious that Nine of the fourteen banks audited were ‘found to be unsound and in financial distress because of capital inadequacy, reckless and poor credit and risk management, lack of transparency, fraudulent financial reporting and poor corporate governance practices, (Kolapo & Onuba, 2009).

Eight of the chief executive officers and some of the ‘banks’ executive and non-executive directors were sacked and arraigned in court for alleged corrupt, fraudulent, unethical and unwholesome practices (Sanusi, 2009). To keep the nine banks afloat, a credit lifeline of N620billion (about \$3.9billion) had to be injected into the nine insolvent banks by the CBN to avert their imminent collapse (The Nations, 2009). However, none of the auditors of the distressed banks was penalized, except a general indictment that attracted no penalty.

Although views are varied on the factors responsible for bank distress in Nigeria, most analysts believe that the crisis in the banking sector is a clear manifestation of poor corporate governance practices in the financial sectors. Going by the 1995 CBN-NDIC collaborative study of Nigeria Financial services industry Distress study as shown in Table 3 below, board members undue interference accounts for 32%, 29.5%, 50%, and 26.3% distresses in Financial Institutions in general, Commercial Banks, Community Banks and Finance Houses in particular.

Considering the fact that bad credit policy is by itself a fall-out of the combined effects of board interference as shown by the report of the 2009 CBN-NDIC special examination of Nigeria banks that indicted

the chief executive officers/managing directors and executive directors of distressed banks, leading to their being sacked (CBN, 2009; Sanusi, 2009), it follows that the combined contribution of the board members' poor conduct (by way of undue interference and unethical credit and risk management) to the distress of Financial Institutions, Commercial Banks, Community Banks and Finance Houses stood at about, 57.1%, 58.9%, 66.6%, 50% and 66.7% respectively.

Table 3: Analysis of Financial Institutions' Assessment of Factors Responsible for Their Being Severely Distressed (Percentage)

Causes	All Financial Institutions %	Commercial Banks %	Merchant Banks %	Community Banks %	Finance Houses %
Economic Recession	25.0	323.5	-	-	33.3
Political Crisis	17.9	17.6	33.4	50.0	-
Bad Credit Policy	*25.0	*29.4	*33.3	-	*40.4
Undue Interference from Board Members	*32.1	*29.5	*33.3	*50.0	* 26.3
Total	100.0	100.0	100.0	100.0	100.0

Source: A CBN/NDIC Collaborative Study of Distress in Nigeria Financial Services Industry (1995).

The board and management of these banks had abandoned the key elements of good corporate principles of honesty, trust, and integrity, openness, performance orientation, responsibility, and accountability, mutual respect and had become corrupt, inactive and greedy, (Oghojafor, et. al 2010). In the same vein, the banks were accused of having displayed excessively high level of non-performing loans which was attributable to, lax administration processes, non-adherence to the banks' credit risk management practices and poor corporate governance practices (Sanusi,2009).

The inability of the bank directors to effectively supervise top management of these banks and for the fact that most members of the board of these banks were composed of surrogates of the chief executives who were unilaterally nominated by the managing director or the chairman who holds controlling interest in the bank as the suppliers of capital is considered a major contributory factor to the bank's ugly situation.

Poor corporate governance noticeable particularly on the part of the chief executives (Table 5a &b,) and bulk of the executive directors therefore

provided the motivations for fraudulent financial statements to cover up the board’s unethical management practices, including influencing the auditors to express favourable opinions on the false statements thus resulting in audit failure. The contributions of executive directors to the banks’ distress and audit failure confirms several studies that includes, Akhidime (2012) which posits that non-executive directors are more favourably disposed to audit quality than their executive counterparts.

A whopping sum of N235billion (\$1.54 billion) belonging to Oceanic bank Plc, one of the distressed banks, was traced to the bank’s chief executive, leading to the seizure by the Economic and Financial Corruption Council, (EFCC) of 103 properties belonging to her, (Nwankwo and Amaefule, 2009). This chief executive is a family member (wife) of the chairman of the board and majority shareholder of the bank. This and other pieces of evidence at the disposal of the EFCC would have formed the basis for the indictment, dismissal and the prosecution of the chief executives of the distressed banks.

Table 5a: CBN-NDIC (2009): Banks Examination Report on: Marginally Distressed Bank:

	Bank	Inadequacies	Penalty and Indictments
1	Unity Bank Plc.	Insufficient Capital	None

Table 5b: Distressed/ Insolvent Banks

	Bank	Inadequacies	Board & Management Penalty and Indictments
1	Afribank Plc	Illiquidity, Corporate governance challenges	Removal of MD/CEOs& EDs
2	Inter-Continental	” ” ”	” ” ” ” ”
3	Union Bank of Nigeria Plc	” ” ”	” ” ” ” ”
4	Oceanic Bank Intercontinental Bank Plc	” ” ”	” ” ” ” ”
5	Finbank Plc	” ” ”	” ” ” ” ”
6	Bank PHB Plc.	” ” ”	Removal of MD/CEOs& EDs
7	Equitorial Trust Bank Ltd	” ” ”	Removal of MD/CEOs& EDs& One non-executive directors/ Major Shareholder
8	Spring Bank Plc	” ” ”	Removal of MD/CEOs& EDs&Non-executive Directors
9	Wema BankPlc	” ” ”	None

Source: CBN Press Statements/The Nations, (2009)

While the global financial crisis of 2007-2008 was looming, its contagion effects and the rot in the banks were covered up by the directors and executives of Nigerian banks who adopted creative accounting and fraudulent reporting practices, earnings manipulations and gross non-disclosures at unprecedented levels; banks were posting phenomenal high profits and paying out steadily and regularly, high dividends to shareholders and obtaining all types and shades of high performance ratings from institutional performance raters (Akhidime, 2009). Consequently, the shares prices of the banks became the toast of local and foreign investors and the most traded in the stock market.

Legal Frame Work of Auditing and the Financial Reporting Model

The legal framework for the regulation of audit of banks in Nigeria prior to the period (2009) of bank distress includes the Companies and Allied Matters Act (CAMA, 1990) and the Banks and other Financial Institutions Act (BOFA) 1991 and the Central Bank of Nigeria (CBN). Sections 359 and 360 CAMA, (1990) place on external auditors the responsibility for making report to company members on the accounts examined by them and to specifically report on whether (i). proper accounting records have been kept and proper returns adequate for their audit have been received from branches not visited by them (ii). the company balance sheet (now statement of financial position) and its profit and loss (now statement of comprehensive income) are in agreement with the accounting records and returns (iii). the balance sheet (now known as Statement of Financial Position) and its profit and loss account (now known as statement of comprehensive income) give a true and fair view of the state of affairs of the company during the period under review.

The specific responsibility placed on external auditors by CBN Code of corporate governance is that they should render reports on banks risk management practices, internal controls and level of compliance with regulatory directives, (CBN,2006). The CBN also requires banks to submit their audited financial statements to the Central Bank of Nigeria for approval before publication in a national daily newspaper within four months of year-end. Nothing in the Nigerian statutory reporting model refers to fraud incidence or detection of fraud. The import of unqualified

audit report is that the auditors in the course of their audit did not find any negative circumstances or material irregularities that are serious or material enough to justify either a qualified, an adverse report, or the issuance of a disclaimer, nor existed any going- concern challenges. (Adeniji, 2010).

SUMMARY AND CONCLUSION

This study set out to determine the immediate and remote drivers/causes of audit failure and fraudulent financial reporting in Nigerian distressed banks. Review of relevant literature that consisted of relevant previous empirical studies on the variables of the study, various reports of investigations done jointly and separately on the banks by the CBN and NDIC together with the result of the content analysis of the banks' published financial statements formed the bases of the inferences from the study Nigeria.

Evidence from this study shows that auditors whose audits failed with respect to the distressed banks are bank specialist auditors and among the very expensive and highly rated 'Big4' reputable audit firms whose cause of audit failure could not have resulted from lack of adequate skill or low fee. This evidence negates the position of Lucy, (2016) which maintains that when auditors are expensive enough they provide high quality audit to serve as disincentive to fraudulent financial reporting.

Some studies attribute enormous audit fees from client to economic bonding, and the reason for poor audit quality (Ekundayo &Atu,2010; Akhidime, 2012). However, this study conforms to a previous study ies which maintain that the level of economic dependence between the auditor and their clients can only affect the auditor inclination to issue qualified audit opinion only when and where an auditor has responsibility for disclosing audit and non-audit fees (Francis, Craswell and Francis, 2002). The Nigerian auditing framework does not have a provision for the disclosure audit and non-audit fees.

As with previous studies, this study provides evidence of poor attention to corporate corruption as the major cause of audit failure in Nigerian banks. (Kaseem & Higson, 2016) (Lee,2016). The study confirms a previous finding (Asare, Wright, Zimbelman, 2015), on auditor's lack of

compelling incentive to develop audit programmes that would have detected the fraudulent financial statements that lead to audit failure. This perhaps, is as a result of the non-categorical positions taken by the Nigeria's auditing legal framework on the detection of fraud and the responsibility of the auditors for the detection of corporate corruption.

On the drivers of fraudulent financial reporting, this study confirms that poor and weak corporate governance as characterized by weak internal control and lax supervision are factors that drive fraudulent financial reporting (Akbar, 2017). This study confirms that board structure, particularly with the CEO as having a dual role as chairman and chief executive officer predisposes the latter to engage in fraudulent financial reporting

This study also confirms results of previous studies that pressure on management to meet performance targets could lead to fraudulent financial reporting (Diany & Ratmono 2014; Apprilia, 2017; Tiffani & Marfuah, 2015).

Policy Implication of the Study

The implications of the inferences from this study are that auditing standards, auditor's legal liability, and the auditing-framework should be reviewed in such a way as to clearly provide for auditor's responsibility for the detection of corporate corruption and their liability for audit failure more automatic.

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