**EFFECT OF EXTERNAL AUDITING EXPENDITURE ON THE**

**PROFITABILITY OF NIGERIAN BANKS: A STUDY OF FIRST BANK (2002-2016)**

**BY**

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**A PROJECT REPORT SUBMITTED TO THE**

**DEPARTMENT OF ACCOUNTING AND FINANCE FACULTY OF MANAGEMENT AND SOCIAL SCIENCES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A BACHELOR OF SCIENCE(B.Sc) DEGREE IN ACCOUNTING GODFREY OKOYE UNIVERSITY, THINKERS CORNER, ENUGU STATE**

**SUPERVISOR: MR AGBO**

**JULY, 2018.**

**DECLARATION**

I, ILOKWASI RACHEAL C with the registration number U14/MSS/ACC/035 am a student in the department of accounting and finance of the faculty of management and social sciences in Godfrey Okoye University. I hereby declare that the research work entitled “the Effect of External Auditing Expenditure on the profitability of Nigerian company” submitted by me in partial fulfillment of the requirement for the award of Bachelor of Science (B.Sc) in Accounting is my original work and has not been submitted either in part or full for any other degree or diploma either in this or any other tertiary institution.

**------------------------------------------ -------------------------**

**ILOKWASI, RACHEAL C DATE**

**CERTIFICATION**

This is to certify that this research work entitled The Effect of External Auditing Expenditure on the Profitability of Nigerian Company is written by Ilokwasi, Racheal C. with the registration Number U14/MSS/ACC/035 and being presented to the Department of Accounting and Finance of Godfrey Okoye University, Enugu has been assessed and approved for oral examination/defense by the Department of Accounting/Finance, Godfrey Okoye University, Enugu.

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**PROF. ONYEMA OCHEOHA DATE**

**MANAGEMENT AND SOCIAL SCIENCES**

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**EXTERNAL EXAMINER DATE**

**DEDICATION**

This project is dedicated to the Almighty God for his love, mercies, power, enablement grace, faithfulness, meekness, temperance and strength in my life.

**ACKNOWLEDGEMENTS**

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**ABSTRACT**

*The research titled “Effect of external auditing expenditure on the profitability of Nigeria Banks” highlights the relevance of external auditing in improving performance of Nigerian banks. The cardinal objective of this study is to ascertain the effect of external auditing expenditure on the profitability of Nigerian banks. The study aims at achieving the following specific objectives which includes: ascertaining the effect of external audit expenditures on profit after tax of Nigerian banks and examining the effect of external audit expenditure on return on shareholders' funds of Nigerian banks. The study adopted the ex-post facto research design. The empirical research used secondary data sourced from First Bank of Nigeria annual reports and statistical bulletins of the Central Bank Nigeria. The time series for the study covered a period of 2002 to 2016. Simple regression model was employed for the study while the hypotheses formulated were tested using version 20 of the Statistical Package for Social Sciences software. The result of the study show that external auditing expenditure has negative and non-significant effect on the profit after of commercial banks in Nigeria and external auditing expenditure has negative and non-significant effect on the return on shareholder funds of commercial banks in Nigeria. This work recommend that auditors should maintain a degree of independence to guarantee quality assurance that could provide the much needed protection of depositors finds and other shareholders interest in the bank.. We recommend also that further research should be carried out on this topic with an enlarged scope capturing more than one commercial bank in Nigeria.*

**CHAPTER ONE**

**INTRODUCTION**

**1.1 Background of the Study**

The word “audit” is derived from a Latin word “audire” which means “to hear”. In the olden days, whenever the owner of a trade suspected “a foul play” by his store keeper, he sent for certain independent persons to resolve the issue. The person goes to the store keeper and “hears” whatever he has to say in regards or connection with the accounts in dispute. This person from his vast knowledge and simple experience of similar situations would be able to tell, if all the explanations given form any discrepancies in the record which were adequate and credible. These individuals of integrity are whom we today call auditors. In societies marked by divisions of expert labour, external auditing is promoted as a trust engendering technology with the capacity to promote a certain kind of social order (Power, 1999). Accountants, as auditors, have cemented their status and privileges on the basis of claims that their expertise enables them to mediate uncertainty and construct independent, objective, true and fair accounts of corporate affairs (Sikka, 2009). It has been argued, however, that such claims are not good indicators of corporate performance, because capitalist economies are inherently prone to crises (O’Connor, 1987; Sikka, 2009). Furthermore, the claims of expertise are frequently affected by unexpected corporate collapses, fraud, financial crime and the general crisis of capitalism (Baker, 2007; Sikka, 2009; Sikka et al , 2009) Since 2007, major Western economies have been experiencing a deepening banking and financial crisis arising from subprime lending practices by banks, which in turn has restricted the availability of credit and has led to what has been described as the ‘credit crunch’ (Sikka et al , 2009). Some commentators have attributed this economic crisis to the unethical practices of corporate bank managers and to the inability of auditors to expose such anti-social practices from previous audits (Broad Street Journal, 21 October 2009; Sikka, 2009). Some auditors may have failed to comply with expected standards. If a company fails shortly after being audited, the auditors may be blamed for conducting an inferior audit (Dopuch, 1988). Thus, whenever there is a financial scandal, it must be questioned whether the auditors carried out their duties and obligations with due care and diligence.

Merkling (1976) in Omokhudu & Omoye (2012) define the agency relationship as a contract under which one party (the principal) engages another party (the agent) to perform some services on their behalf with the principal delegating decision making authority to the agent.

As such the owners or share holders of most banks are not part of the daily operations of the organizational activities look forward to the realization of their goals.

There are however, other interest groups who depend on the organization to realize their own respective goal. The suppliers, stock brokers, lenders, government and so on are all part of the stakeholders, since these owners are not involved in the daily operations of the business, they may be doubtful of what the management may present to them as report of the organizations performance for the purpose of reliance on the management report, the stakeholders need confirmation report, or assurance by an independent party known as the external auditor.

In the light of this, customers need the assurance of the external auditors, who are greatly depended upon, since they are expected to adopt the attitude of professional skepticism.

This suggests that even though the auditors are not mainly, finding out fraud in the financial report, they should recognize the possibility of its existence.

This is one of the pronouncements in ISA 240 which was further made stronger and actionable by the introduction of the Sarbanes Oxley of 2002.

There are so many problems which surrounded this, on the strength of this multiple problems, it is pertinent to have proper examination of the responsibilities of the external auditors to public and private companies to know the effects of non- compliance by the auditors on the corporate performance of an organization. Unarguably, stakeholders look up to the external auditors as one who has the professional competence and whose advise or opinion is held sacrosanct for investment decision.

Though the duties of the auditor of the public companies are expressly stated, it is pertinent that an agreement letter which states the duties to be performed be given to auditor of banks;

Statutory requirement or engagement letter becomes the springboard on which the organization success or failure is viewed visa-avis the auditor’s action. More importantly is that the stakeholders especially depositors in the banks still look up to the external auditors' reports to assure them of the safety of their deposits and answers other going concern questions on the banking industry .Because of the perception of the stakeholders on the responsibilities of external auditors in this regard, this study seeks to review the effect of external auditing on the profitability of Nigeria company in assisting banks increase their deposits thereby enhancing value creation to stakeholders.

**1.2 Statement of the Problem**

External audit functions are seen as powerful tool that could aid corporate performance. The sensitive nature of banks especially in Nigeria has put more demand on external audit reports as most depositors look up to the yearly assurance reports affirming and reaffirming the viability or otherwise of the banks. In the early 1990's Nigeria experienced the collapse of almost 80% of her first generation banks like the Cooperative and Commerce bank(CCB), African Continental Bank (ACB), Orient Bank and a host of others (Onyekwelu &Ugwuanyi, 2014). Reports have it that a good number of depositors lost their deposits, other forms of investments in the banks and even lives. Again, between 2008 - 2009, the Central Bank of Nigeria in a bid to save the banking public floated the Asset Management Company of Nigeria (AMCON) to rescue about five banks in Nigeria which were declared weak whose assets and depositors' funds were in the negative balance. Undoubtedly, these banks had external auditors who had conducted annual auditing on their accounts and certified the banks as being healthy. It appears that only few studies have been carried out on the effect of external expenditure on the profitability of banks especially in Nigeria. There is therefore the necessity for closing this literature gap; hence, the rationale for this study.

**1.3 Objectives of the Study**

The cardinal objective of this work is to find out the effect of external expenditure on the profitability of Nigeria Company.

The specific objectives of this study are as follows

* To ascertain the effect of external audit expenditure on profit after tax of First Bank of Nigeria plc.
* To examine the effect of external audit expenditure on return on shareholders' funds on deposit growth of First Bank of Nigeria plc.
  1. **Research Questions:**

This study is guided by the following research question

* What is the effect of external audit expenditure on profit after tax of First Bank of Nigeria plc?
* What is the effect of external audit expenditure on return on shareholders' funds on deposit growth of First Bank of Nigeria plc?
  1. **Research Hypotheses** :

The following hypothesis will be tested during the study:

H01: External audit expenditure does not have significant effect on profit after tax of First Bank of Nigeria plc. .

HA: External audit expenditure has significant effect on profit after tax of First Bank of Nigeria plc.

H02: External audit expenditure has negative effect on Return on shareholders' funds on deposit growth of First Bank of Nigeria plc.

HA: External audit expenditure has positive effect on Return on shareholders' funds on deposit growth of First Bank of Nigeria plc.

**1.6 Significance of the study**

Audits can improve a company’s efficiency and profitability by helping the management better understand their own working and financial systems. The management, as well as shareholders, suppliers and financer, is also assured of risks in their organization and effective system is put in place to handle them.

It also helps to uncover inaccuracies and discrepancies within an organization’s records which may be indications of weak financial organization or even internal fraud, although fraud detection is not the main purpose of an audit.

Other researchers, who will also want to work on the same or similar topic, might need a base from which to start their work.

**1.7 Scope of the study:**

The scope of the study centered on the effect of external auditing expenditure on the profitability of First Bank of Nigeria plc. The geographical area of the study is South East Nigeria. The study is restricted to commercial banks precisely First of bank of Nigeria plc (2002-2016).

**1.8 Limitations of the study**

In carrying out a research of this nature, it is not uncommon to encounter a number of constraints in the course of completion of this study. Some of the limitations of the study include;

***Financial constraint***: The huge cost involved in carrying out a complete study is too much and cannot be affordable by the student.

***Time constraint***: The time required for this research work was not enough. This is because the research was done at the same time a serious academic work was going on in school.

***Attitude of respondents***: Some of the respondents refuse to answer the questions asked to them while some refuse out rightly to grant interview. This poses limitation to the completion of the work.

***Data gathering restriction***: The difficulty of gathering data was compounded by the reluctance on the part of the respondents to divulge relevant and important information relating to the study, just like information which were available on the internet were mostly restricted to registered members.

The researcher’s inability to hold talk with all the auditors and bank managers whom she tended to have interviewed on issue relating to banks with regards to the roles of external auditors. The refusal of some university libraries and polytechnic libraries to conduct a library research on the above topic. Lastly, our ill-equipped library, which provided little or no information on this topic, is worth mentioning.

**1.9 Definition of Terms**

**1. Auditing**: ‘The independent examination of the financial examination of the financial statements of an organization with a view to expressing an opinion as to whether these statements give a true and fair view and comply with the relevant statutes and the international financial Reporting Standards”.

**2. Auditor:** This is a person appointed to examine the accuracy of the accounts and records of a business organization and to report on the financial aspect at a particular time.

**3. Audit report:** This is a statement issued by the auditor of an enterprise at the end of an audit assignment, in which the auditor expresses his opinion on the financial statement prepared by the directors of an enterprise.

**4. Bankruptcy:** This is a situation where an unincorporated business i.e. sole proprietorship and partnership has been legally declared as not being able to meet its short term obligation as at when due.

**5. Financial report:** This is a statement that shows the summarized business transactions and the financial position of an organization for the period under consideration.

**6. GAAP:** General accepted accounting principle.

***7.* Stewardship accounting**: Stewardship accounting is the process whereby managers of a business, account or report to the owners on the state of affairs of the business.

**8. Audit evidence:** Are all the relevant and reliable data or information obtained and recorded by the auditor in arriving at conclusion of the Audit work bases is independent opinion on financial statement.

**9. Verification:** This means establishing the existence, ownership, valuation, and presentation of assets and liabilities at the balance sheet date.

**10. Fraud:** Fraud is referred to those acts, which include the use of deception to obtain an illegal or unjust financial advantage and is also all international his statements in or omission of accounts or disclosure from an entity’s accounting records of financial statements.

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

This chapter reviews related literature under the following:

* Conceptual framework
* Theoretical framework
* Empirical review
* Summary of literature

**2.1 Conceptual framework**:

**Concept of External Auditing**

External auditing which is the function of statutory auditors is the process of reviewing the accounting and financial books of a company by a certified public accounting firms (Inyiama, 2010).

This task is performed quarterly and annually, consistent with the reporting cycle for public investment. Companies professional accountants performs this function to enhance the credibility of information about a subject matter which conforms in all materials respects with suitable criteria (law) Millichamp & Taylor (2008).

External auditing function is carried out by an external auditor who is approved by the shareholders of the organization and for whose interest the (external auditor) represents. This follows that the external auditors' reports are key to ensuring the performance of public investments in banks as the quality assurance reports attracts deposit while a negative report could trigger off a panic withdrawal of deposits (Inyiama, 2012).

An audit is a systematic and independent examination of books, accounts, statutory records, documents and vouchers of an organization to ascertain how far the financial statements as well as non-financial disclosures present a true and fair view of the concern. It also attempts to ensure that the books of accounts are properly maintained by the concern as required by law. Auditing

has become such a ubiquitous phenomenon in the corporate and the public sector that academics started identifying an "Audit Society" (Power 1999).

**The Concept of Audit Risk**

Audit risk as: “the risk that auditors may give an inappropriate opinion on financial statements” (Porter, Simon, & Hatherly, 2003). They identified two forms, they are: the risk that the auditor may express a qualified opinion (say something is amiss) on financial statements that are not materially misstated; and the risk that the auditor may express an unqualified (‘clean’) opinion on financial statements that are materially misstated”. The International Auditing and Assurance Standards Board (IAASB) Glossary of Terms defines audit risk as ‘the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. IAASB further states that Audit risk is a function of material misstatement and detection risk’. Also, (Zhou & Liu, 2006) in the Study of American Audit Failure defined Audit risk is the risk that the auditor may unknowingly fail to appropriate his or her opinion on financial statements that are materiality misstated.

Audit risk arises when auditors have legal liability due to an issue of a “clean” audit report on financial statements which are materially misstated; therefore users of the financial statements are misled and suffer great loss as a consequence. Zhao & Liu, (2006) suggest that it is impossible to get absolute assurance of accuracy of the financial statements, because auditors cannot guarantee the complete absence of material errors and irregularities. They only need to express an opinion on financial statements rather than certifying the truth and fairness on them.

Audit risk is fundamental to the audit process because auditors cannot and do not attempt to check all transactions. It would be impossible to check all of these transactions, and no one would be prepared to pay for the auditors to do so, hence the importance of the risk based approach toward auditing. Traditionally, auditors have used a risk-based approach in order to minimize the chance of giving an inappropriate audit opinion, and audits conducted in accordance with International Standards on Auditing (ISAs) must follow the risk based approach, which should also help to ensure that audit work is carried out efficiently, using the most effective tests based on the audit risk assessment. ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, gives extensive guidance to auditors about audit risk assessment. However, Zhang (2009), in a study, found that a properly done audit does not guarantee that serious distortions of the financial statement have not occurred.

The International Standards on Auditing ISA 400 classifies audit risk into Inherent, Control and Detection risks. It defines Inherent risk as the susceptibility of an account balance or class of transactions to misstatement that could be material, individually or when aggregated with misstatements in other balances, assuming that there were no related internal controls. On the other hand, Control risk corresponds to the risk that a misstatement that could occur in an account balance or class of transactions and that could be material individually or when aggregated with misstatements in other balances or classes, will not be prevented or detected and corrected on a timely basis by the accounting and internal control systems'. Both inherent and control risks are directly related to the controls in place in an organization. However, the type of risk that is directly related to audit is known as detection risk. ISA defines the risk as the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements. The interrelatedness of the various types of risk is usually presented using the audit risk model. This is not materially different from the definition of Porter, Simon, & Hatherly, (2003) who viewed detection risk as the risk that the auditor will fail to detect a material misstatement which is present.

**The Concept of Audit Failure**

According to Porter, Simon, and Hatherly, (2003), audit quality can be viewed as a theoretical continuum ranging from low to high audit quality, while audit failures occur on the lower end of the quality continuum. Audit failure occurs when there is a serious distortion of the financial statements which is not reflected in the audit report, and the auditor has made a serious error in the conduct of the audit (Arens, Elder and Beasley, 2008). Zhou & Liu, (2006), in the Study of American Audit Failure defined audit failure means that Certified Public Accountant (CPA) provides error audit opinion for unfaithful financial statements because he or she doesn’t conform to audit standard.

A properly done audit does not guarantee serious distortions have not occurred, but a properly done audit makes serious distortions unlikely. Thus, audit failure cannot occur unless there is serious auditors’ error or misjudgment (Tackett, & Wolf, 2004). Poor audit planning and audit quality may lead to audit failure where the auditors fail to exercise professional skepticism and material misstatements occasioned by creative accounting practices go unnoticed. According to Zhang Guan-Jun (2009), an attitude of professional skepticism means the auditor makes an assessment, with a questioning mind, of the validity of audit evidence obtained and is alert to audit evidence that contradicts or brings into question the reliability of documents and information obtained from management and those charged with governance. Auditors are often liable when they are presented with information indicating a problem that they fail to recognize. Furthermore, Wang and Liu (2004) add that audit quality is influenced by two determinants: the competency of collecting audit evidence and efforts made in achieving it; and auditor independence, among which the latter is affected by pressures of litigation and requirements of Auditee Company (client). Pressures of litigation derive from the potential losses once audit fails, and requirements from client’s company may make auditors conceal truth to financial statement users. Audit quality is inverse of audit failure, the higher the failure rate, the lower the audit quality (Lei, 2009). Outright audit failures are difficult to determine with certainty but can be obtained from some sources such as auditor litigation and business failures, investigations by Securities and Exchange Commission (SEC), and earnings restatements (Francis, 2004).

**Audit Failure**

According to Zhou and Liu (2006), in the Study of American Audit Failure, audit failure means that Certified Public Accountant (CPA) or a certified auditor provides inappropriate audit opinion for unfaithful financial statements because he or she doesn’t conform to audit standard. A properly done audit does not guarantee serious distortions have not occurred, but a properly done audit makes serious distortions unlikely. Thus, audit failure cannot occur unless there is serious auditors’ error or misjudgment (Tackett & Wolf, 2004). Poor audit planning and audit quality may lead to audit failure where the auditors fail to exercise professional skepticism and material misstatements occasioned by creative accounting practices go unnoticed.

**Causes of Audit Failure**

Audit firms (especially large firms) have reviewed the causes of audit failure and concluded that the failure does not generally come from auditor’s failure in detection of accounting data recording or error processing” (Porter Simon, & Hatherly, 2003). On the contrary, it tends to result from the matters associated with how the business is managed. Lemon, Tatum and Turley (2000) stated that factors such as the business environment, governance issues and the nature of managerial control will ultimately have significance for the financial statements – their accuracy, issues of fraud and going concern. They also add that effective auditing requires greater attention to be paid to understanding the risks of the business. Audit failure is inevitable as a result of Chartered Accountants’ negligence or fraud. A recent study shows that nearly 50% audit litigation is associated with business failure, and this is borne out by the fact of Enron (in the US) and other recent domestic fabrication cases of listed companies, but this does not certainly mean all business failures are audit failures, rather, business failures are more possible of audit problems. Independent Auditors, perform financial statement audit to gain reasonable assurance that financial statements are free of material errors or misstatements. Failed financial statement audits arise when auditor fails to detect or detects but fails to report misstatements.

Misstatements can be either errors (unintentional) or frauds (intentional). The most dangerous fraud is management fraud, intentional fraudulent financial reporting by management also known as creative accounting. Comparing with the incentives of deliberate fraudulent financial reporting by management, ethical considerations relating to an auditor’s failure to report a misstatement are obvious too. Auditors may have committed serious errors in the conduct of an audit. The nature of auditor s’ error has only four systematic causes as presented by Tackett & Wolf, (2004):

1. The auditor can blunder by misapplying or misinterpreting accounting standards, and such a blunder is unintentional that can be caused by fatigue or human error.
2. The auditor can be inappropriately influenced by having a direct or indirect financial interest with the client. For instance, an auditor who is in consulting engagements for an audit client may be reluctant to insist on accounting adjustments due to the fear of losing the client to its competitors. In addition, when an auditor is not performing any consulting service in an audit client, he is still reluctant to stand up to the client on accounting issues for fear of being fired.
3. Auditor may perpetrate fraud by intentionally issuing a more favorable report than is warranted, especially at the time when he accepts a bribe or bows to client pressure.
4. The auditor can be unduly influenced because of having some personal relationship with the client beyond what is expected in a normal audit between independent parties. These views were also supported by Wang & Liu, (2004).

In summary, the nature of this auditor error has four systematic causes. First, the auditor can blunder by misapplying or misinterpreting GAAS. Such a blunder is unintentional and could be caused by fatigue or human error. Second, the auditor can commit fraud by knowingly issuing a more favorable audit report than is warranted. This may occur when the auditor accepts a bribe or bows to client pressure or threats. Third, the auditor can be unduly influenced by having a direct or indirect financial interest in the client. Fourth, the auditor can be unduly influenced because of having some personal relationship with the client beyond what is expected in a normal audit between independent parties.

Moreover, Sundi, Chen & Hua (2006) considered that there were six reasons which led to audit failure. The first was lack of sound legal system; the second was that the circulation of marketing economy was not standard; the third was short of independence; the fourth was that accounting firm and Certified Public Accountants (CPA), in the United States, were lack of professional ethics; the fifth was that CPA didn’t have sufficient professional cautiousness and occupation concerns; the sixth was that quality system was not strict. Shizhong & Chen (2002) thought the familiar reasons included that internal control was not valid, the staffs overstep internal control, CPA and company embezzled together, CPA were lack of independence and they can’t keep sufficient professional care and professional skepticism.

After analysis of audit failure cases of Waste Management Inc., Yan (2003) considered that the reasons of audit failure in Arthur Andersen were mainly about that: (1) CPA couldn’t carry out audit procedure strictly; (2) Professional judgments were error; (3) Audit report with a qualified opinion was replaced by management letter; (4) There was short of enough independence. Zhang (2009) thought that if deliberate embezzlement contributed to most of audit failure, it was no doubt that it was full of deceitful in the whole audit occupation. However, the reverse was true. However, Yan (2003) thought the reason for most audit failures was the imperfection of occupation and person, lack of enough understanding of management business, short of appropriate audit procedure, internal management problems in accounting firms and so on.

**Firms’ profitability**

Profitability is the ability of a company or an individual to earn profit from its business activities and make adequate returns to the investors, the higher the profit ratio per Naira sales made the better (Nwude, 2004).The term ‘profitability’ and ‘return’ are taken to mean the same thing, and is seen as referring to the relationship between the profit and the value of the net assets/capital used to generate that profit. The measurement of profit is probably the most important function of financial accounting. Profit represents the difference between revenues and expenses. The profit and loss account reports for a specific period of time, the items that comprise the total revenue and expenses and the resulting net profit or profit for the accounting period (Glautier & Underdown, 2001).

Firms’ profitability has also been argued to have an influence on the quality of financial reporting. Alsaeed (2006) argued that a profitable firm may feel proud of its achievements and therefore would wish to disclose more information to the public in order to promote positive impressions of its performance. However, even though a study by Haniffa & Cooke (2002) did find a significant positive relationship between return on equity (ROE) with voluntary disclosure, a study by Alsaeed (2006) on the other hand, had found insignificant relationships. Besides that, the level of profit has also been argued to have an influence on the manipulation of accounting accruals because managers may manage earnings to increase their bonus rewards. However, Rahman & Ali (2006) did not find any significant relationships between the level of net income and discretionary accruals. This inconsistency and insignificance in the results is probably due to the use of current profitability, instead of changes in profits.

Company profitability was company's ability to generate net income from the activity undertaken in an accounting period. Profitability can become an important consideration for investors in their investment decisions. With a bid to get the high profits, was expected to attract investors in investing. Many leaders use financial performance as basis for company's performance. Companies that can get huge profits can be said to be successful, or have a good financial performance. Profitability was the end result of a number policy and decision management (Brigham & Gapenski, 2006).

Company profitability was a company's ability to generate net income from the activities carried out in an accounting period. Profitability was the ability of company to generate profits. Profit becomes basis of dividend distribution, whether cash dividends or stock dividends. Hermi (2004) revealed the profit was obtained from difference between the incoming treasures (revenue and profit) and outlay (expenses and losses). Profit of company can be held (retained earnings) and can be divided (as cash dividends). Higher net profit increases the return on investment in form of dividend income to investors.

Profitability is company's ability to generate profit. Higher profitability can increase company’s stock price. According to Moeljadi (2014), high profitability shows company's prospects were good that investors will respond positively and will increase firms’ value. Higher dividend payments demonstrate the better prospects of company so that investors would be interested to buy stock and market company performance will increase. The pecking order hypothesis firms tend to use internally generated funds first and then resort to external financing. We expect a negative relationship between profitability and firm value. We measure profitability (PF) as the ratio of net income after taxes divided by total sales.

**Duties, Responsibilities and Role of External Auditors**:

A company’s auditor is expected to carry out activities as will enable him form an opinion as to:

a. Whether adequate accounting records have been kept by the company and return adequate for performing the audit have been received from branches not visited by the auditor.

b. Whether the company’s individual account are in agreement with the accounting records and returns.

c. Whether the company’s director remuneration report is in agreement with the accounting records and returns (Millichamp & Taylor, 2008).

If the auditor fails to obtain all the information and explanation which to the best of his knowledge and belief are necessary for the purpose of his audit, he shall state facts in his reports. The above are part of the requirement for the auditor to exercise reasonable care and skill in the performance of his job but the exact extent of the skill and care required of him have not been defined (Aguolu, 1998). Many decided cases have been put forward to show when auditors are liable in the light of their responsibilities, but even such cases have not provided a perfect guide. This is so because of the carrying circumstance and periods when the cases were decided.

For the shareholders and other stakeholders to believe in the financial statements, it is imperative to appoint independent expert to audit the financial statements (Coyle, 2010), hence the role of external auditors in corporate governance. Through the role of external auditor, the shareholders monitor and control the management and this helps to enhance transparency in a company (Solomon, 2010).

Basically, the statutory role of the external auditors is to issue audit report of his opinion on financial statements. In UK, the functions and duties relating to this role are specified in details under sections 495-498 of the Companies Act 2006. Section 495 provides that external auditor must prepare report on all annual accounts during his tenure as the auditor and present to the shareholders. Such report is to:

i. identify the annual accounts audited and the financial report framework used in the preparation of the financial statements.

ii. Describe the scope of the audit, auditing standards used in conducting the audit.

Furthermore, the auditor must state in his report whether in his opinion the audited annual accounts give a true and fair views pertaining the following (Alabede, 2012):

i. the statement of financial position (balance sheet) which provides information about the state of affairs of the company as at end of the accounting year.

ii. the statement of profit or loss and other comprehensive income (the income statement) which provides information about the operating performance of the company for the accounting year.

iii. For a group account, the information in consolidated statement of financial position (consolidated balance sheet) and consolidated statement of profit or loss and other comprehensive income (consolidated income statement) relating to state of affairs as at the end of the accounting period and the performance for the accounting period.

Similarly, the auditor must state whether in his opinion the accounts have been properly prepared as prescribed in the relevant financial reporting framework and in line with requirements of Companies Act 2006 and ISA. In addition, the auditor must state the type of opinion he gives in the report of a company that is whether it is qualified or unqualified opinion or emphasis on matter which he wishes to draw attention of the shareholders .

**Objectives of an Audit**

From the definition of audit, its primary objective does not include the preparation of financial statements. This is indicated in 334 of the companies and Allied matters Acts of 1990. Thus, auditing does not include detection of errors or fraud. According to Aguolu, (1998), the primary objective of an auditor is to examine the financial statements prepared by the officers of the company and to report to intended party or shareholders as to: Whether the financial statements show a true and fair view and comply with relevant status and if proper records have been kept, whether the financial statements agree with the records of the Companies and Allied Matters Act of 1990 regards the above as the primary objective of an audit while all others may be regarded as secondary objective of the audit. The foregoing indicates that the detection of errors and frauds do not form part of the primary objects of an audit even though their detection where they exist in financial statement being audited is of major benefit. In this regard, an audit therefore provides a great moral check on the management and staff of an organization against the commission of fraud and errors.

**Ways external auditing can influence the growth of deposit mobilization in banks:**

The external auditor is the eye or watch dog for the shareholders in corporate setting. The external auditor’s report is the platform on which the shareholders, creditors, debtors, etc. anchor their minds. This dependency according to the ICAN (2009) has risen because of the fact that owners and management of business are often different people such owners (shareholders) would require more confidence in the report of managers (Directors). The reason for the above is predicted on the increasing volume of growth in internet reporting and use of world wide web in addition to this are environmental reporting on corporate social responsibility and corporate governance.

**Stakeholders Primary Interest:**

Stakeholders are expanded to include not only the shareholders but also employees, supplier’s regulators, governments and government agencies, financial analysts, core investors. The primary interest of the stakeholders is not primarily in compliance but in the performance of the organization. Recent development showed that much emphasis was placed over regulation and this preoccupied governance issues to the detriments of strategy and building business. In an attempt to comply with the enormous regulatory requirements, organization resorted to fraudulent financial reporting in the form of misrepresentation or omission of events/transactions in the financial statement. Intentional misapplication of accounting principles and manipulation of falsification or alternative of accounting records/support documents (ICAN PACK ,2009).

All this involves window dressing or creative accounting indulged by the management to create a picture of an organization which is different from the reality. According to Millichamp and Taylor (2008) such activities expose an organization to the risk of loss prior to global financial crisis regulatory disclosure overload was fraught with the practice of concealing important information from users of the financial statements with a concernment effect of less usefulness and too complex for the average readers to understand.

**The External Auditor and Deposit Money Bank:**

The various roles that the external auditor performs towards the realization of the stakeholder interest cannot be over emphasized. In the light of this research work, his duties of forming an opinion as to the true fair view of an organization based on.

1. Whether adequate accounting records have been kept by the company and appropriate returns for their audit have been received from branches not visited by them.

2. Whether the company’s individual’s accounts are in agreement with the accounting records and returns and whether the audited part of the company directors remuneration report is in agreement with the accounting records and returns. Millichamp & Taylor (2008), where the auditor obtained clear evidence of the presence of the above requirement and their agreement with the records, issues unqualified report by stating that the financial statement are freely forms material misstatement and issues a true and fair view in his report. However, if the auditor is of the opinion that

* Adequate accounting records have not been kept or that adequate returns for their audit have not been received from branches not visited by him.
* The company’s individual’s accounts are not in agreement with the accounting records and returns.
* Or the auditable part of its director’s remuneration report is not in agreement with the accounting records and returns the auditors is expected to state such fact in his reports.

**Defining Auditor's Liability:**

According to Osita (1998) in Onyekwelu & Ugwuanyi (2014) the external auditor by virtue of his expert knowledge is the shareholders, investors and other stakeholders take their decision. It is true that auditor’s report is a mere opinion but that does not exclude him of blame should failure arise in the course of the organization’s activities. This is stemmed from the fact that he is expected to do his work honestly, and carefully. Having examined the branches not visited ensures the reliance of the financial statement to all statutory requirements etc. The auditor thereby form his opinion any liability or performance gap (Okafor, 2009), may arise either, under common law, under statute (civil liability) and criminal liability.

**Civil Liability:**

This relates to liability under common law and under statute (Aguolu, 1998). The common law liability is predicated on the fact that though an auditor performs only an attest function based on the account prepared by the directors; he is expected to do that by exercising reasonable duty of care. Accounts presented to the auditor for examination and subsequent attestation could be fraught with errors and fraud. The auditor is required to exhibit skepticism in the conducts of the audit assignment while carrying out an audit assignment. He samples, the level of which can be adjusted in the light of the anticipated risk involved. Much as sampling in viewed to the cost effective (Olorede, 2004), auditors must be careful given.

**Criminal Liability:**

This arises where an auditors is aware of a material false published and allowed to published misleading statement or makes a forecast which he knew is misleading with a view to include someone to enter into an agreement. This is spelt out in section 360(2) of CAMA 1990.

**Financial statement quality:**

Financial statement quality is an indispensable component of the infrastructure needed to develop a mature capital market and a viable banking sector. Thus accountants and auditors play a key role in ensuring adequate internal controls in business organizations (such as banks) and ensuring the reliability of the financial information reported in company financial statements (Okike, 2009, Evbodaghe, 2009). For example, the Companies and Allied Matters Act 1990 (CAMA 1990) imposes a legal duty on chartered accountants as external auditors to examine financial statements not only to determine whether they represent a true and fair view of the state of affairs of the entity and are free of any material misstatements, but also to ascertain whether they conform to the Generally Accepted Accounting Principles (GAAP), other relevant legislation and standards, and whether there are errors, misstatements or fraud in the accounts (Okike, 1998; Okike, 2004; Guardian, 30 August 2009).

In addition, CAMA 1990 provides that public companies should have an audit committee comprised of an equal number of directors and representatives of the shareholders of the company (subject to a maximum number of six members). Members of the audit committee are not entitled to remuneration and they are subject to annual re-election. The audit committee is also expected to be independent and to be able to understand basic financial statements. Although such audit committees ought on behalf of the other members of the company (i.e. the shareholders) to make valuable contributions to the efficient running of the company, in practice members of audit committees are often weak and can be compromised because of fringe benefits, executive remuneration and rewards from directors.

There are no state guaranteed monopolies for engineers, scientists, mathematicians, computer experts and other wealth creators, but audit work is reserved for accountants belonging to a handful of accountancy trade associations (Mitchell and Sikka, 2002). In Nigeria, there are two main professional accountancy bodies: the Institute of Chartered Accountants of See ss.359(3),(4) Companies and Allied Matters Act (CAMA) 1990 Cap 20 laws of the Federation of Nigeria 2004.

Both bodies are in essence self-regulating and both memberships have elected Governing Council members. In common with accountancy practice in other jurisdictions, there is no separate statutory regulator of the audit profession. Auditing has been a real boom for accountancy firms in Nigeria, where there are nearly 700,000 registered companies plus hospitals, universities, local authorities, pension funds, schools, trade unions, housing associations and charities which all need to have their books audited by an accountant (Adegite, 2009). Not surprisingly, accountancy is an attractive career. Nigeria has approximately 40,000 qualified accountants. Thus, ICAN has produced 27,000 chartered accountants since inception (Adegite, 2009), while ANAN has 13,000 registered members (ANAN Membership Register ).

‘Every bank shall appoint annually a person approved by the bank [an ‘approved auditor’] whose duties shall be to make to the shareholders a report upon the annual balance sheet and profit and loss account of the bank and such report shall contain a statement as to the matters and other information as may be prescribed, from time to time, by the bank’ In the 1980s, a mixture of local and international firms provided accounting services in Nigeria. Thus, for example, Arthur Andersen, Coopers and Lybrand, Peat Marwick and Price Waterhouse had offices in Nigeria. In terms of the banking industry, international auditing firms conducted 65 per cent of the audits, with Peat Marwick being the auditor of record for Nigeria’s three largest banks (Nue et al, 2010). In terms of the banks that would ultimately fail, international auditing firms provided the audits in 63 per cent of the cases, suggesting there was little difference in audit quality between international and local firms (Nue et al, 2010).

**Auditors responsibilities and their duties as regards the going concern concept**

The auditors have a duty to express an opinion on the true, fairness and compliance with the status of the account in forming his opinion.

According to the international auditing practice committee (IAPC) the auditors‟ duty would lie in examining the entities financial statements to assess whether its ability to continue as a going concern is in anyway impaired if such conditions are present and report on them accordingly.

In conclusion, an auditor has a primary duty to express an opinion on the truth and fairness of financial statements as well as whether as presented by management, the going concern basis is appropriate or not.

**Procedures Adopted By Auditors In A Going Concern Audit**

The financial statement deemed to have prepared on the going concern basis by the directors of the company can be audited by carrying out the following steps;

* Assess the adequacy of the length of time into the future that the director has projected.
* Assess the system or other means identified by the director as warning of future risks and uncertainties.
* Assess the key assumption underlying the budget forecast, cash flow forecast and other information used by the directors.
* Assess the directors plan for resolving any matter given as concern (if any) about the appropriateness of the going concern basis, such plans should be realistic and capable of resolving the doubts and the directors should have firms intention to put their into effect.
* Examine all appropriate evidence.
* Examine management account and other report of recent activities.
* Review any obligation, undertaking or guarantees arranged in the other entities for giving or receiving support. Other entities might be lenders, suppliers, customer etc.
* Survey the existence, adequacy and terms of borrowing facilities and suppliers credits.

**Auditors Role in Ensuring the Going Concern Concept**

The independence auditor has contributed in no small measure in ensuring the going concern of firms, even if there is no professional statue which makes it compulsory for him (auditor) to do that worldwide. According to Archinbong (1996) in Okpala (2012) auditors have contributed so much to the survival of many firms even if he (auditor) is considered to be watch dog which cannot bite. In the course of assessing the auditor he wrote that: “in the course of their professional duties, auditors have contributed to the growth and survival of companies but not to the expected level. There are still numerous cause of imprudent accounts, inconsistent application of accounting policies and case of improper disclosures of accounts”.

Okpala, (2012) citing Willingham (1989) believes that “auditors” inability to give going concern warning increase the chance that the auditor will have to defend the quality of the audit in court. In addition, an imminent business failure may have an effect on the appropriateness of the presentation of financial statement.

**The Problems Frustrating Effective Role of External Auditor**

*Auditor Independence*

The faith of the stakeholders in the auditor’s report is rooted in the fact that auditor is free from the influence of management that is independence of management. Independence of the auditor is central to audit. The report of auditor who is not seen to be independent may be regarded as unreliable and lacking credibility. Auditor’s independence may be threatened by factors such as deriving significant financial interest from a client, provision of non-audit services to a client, having close relationship with a client and intimidation (IFAC, 2010). In recent times, it was reported that the greatest threat to the auditor’s independence is the provision of non- audit services to clients (Coyle, 2010). Auditors may compromise their independence because they derived substantially part of their income from non-audit services (Fearnley *et al.,* 2005). Evidence has shown that the large firms derived great part of their income from non-audit services. The problem with provision of non-audit services is that it divides the focus of the auditor and creates unnecessary compromise. Another area of independence, which no much is talk about, is appointment of external auditor, which in theory is done by the shareholders from recommendation of the directors. In reality, the management does the appointment and auditor may do anything to favour his employer (Solomon, 2010).

*Ethical Value and Morality*

The conducts of audit require someone with strong ethical value and it is for this reason that accountancy bodies issue ethical code to their members. The ethical code is made up values and principles, which guide auditors in their professional conduct (Calota, 2008). The fundamental principles of the ethical code are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour (IFAC, 2010). The first problem with the ethical code issued by profession bodies is implementation. Auditors do not follow the tenet of the code in their professional conduct. For instance, in 2002, PWC violated the code regarding audit independence. Similarly, EY breached the code in 2004 by entering into unethical relationship with its client in US (Sikka, 2009).

The second problem with the code is that it focuses only on ethical or unethical action of the auditors not whether the action is right or wrong (Talha & Shalka, 2003). The code is based on ethical theory of deontology, which is rule oriented and concerns about the action, rather than consequence of an action that is why auditor who observed that something is wrong in a company would not disclose it because principle of confidentiality forbids him from disclosing information of his client to third party (Talha & Shalka, 2003). This suggests that the code hinders the principle of utilitarianism (Cooley, 2003), that is doing what is right and acceptable to majority.

*Public Expectation Gap*

Public expectation gap pertaining auditor’s role is a serious concern to the accountancy profession worldwide (Salehi *et al.,* 2009). Though the gap has always been there, it became wider following the alleged role of some auditors in corporate scandal in recent times.

The main issue in the gap is that the public views the role of auditor to include detection and prevention of fraud while auditors maintain that it is incidental role. However, under this controversy, the role theory provides better explanation of what responsibility is all about. This theory posits that human behaviour is guided by expectation of both the individual and other people. This suggests that the auditors’ role should be guided by expectation of the public since it is a social position they are occupying for the interest of the public.

Adeyemi & Uadiale (2011) argued that unless auditors’ role conforms to expectation, audit profession might risk social action of enforcement or penalty for nonconformity.

*Cartel in Audit Market*

The big four firms dominate the global audit market. In the US market, these firms between 2002 and 2006 audited 98% of large companies (Ronen, 2010) and in UK market, the 97% of companies listed in FTSE were audited by them in 2010 (FRC, 2010a). The concentration of the global and UK audit market in the four firms has implication for the accountancy profession. First, such concentration may not allow for quality audit because the resources of these firms are limited. The study of Francis *et al.* (2011) indicated that concentration of audit market in the big four is detrimental to audit quality.

Furthermore, the concentration will cause disincentive to setting up audit firm and existing firms will be leaving the market. This will lead to short of human capital in the market in the long run. In UK, House of Lord’s Economic Affairs Committee on “Auditors: Market Concentration and Their Role” noted the problem that small audit firms opportunity to grow is limited by the big four (Chamber, 2011).

**Profile of First Bank of Nigeria plc**

The Bank traces its history back to 1894 and the [Bank of British West Africa](http://en.wikipedia.org/wiki/Bank_of_British_West_Africa). The bank originally served the British shipping and trading agencies in Nigeria. The founder, [Alfred Lewis Jones](http://en.wikipedia.org/wiki/Alfred_Lewis_Jones), was a shipping magnate who originally had a monopoly on importing [silver](http://en.wikipedia.org/wiki/Silver) currency into West Africa through his [Elder Dempster](http://en.wikipedia.org/wiki/Elder_Dempster) shipping company. According to its founder, without a bank, economies were reduced to using barter and a wide variety of mediums of exchange, leading to unsound practices. A bank could provide a secure home for deposits and also a uniform medium of exchange. The bank primarily financed foreign trade, but did little lending to indigenous Nigerians, who had little to offer as collateral for loans.

### Post-Independence

### In 1957, Bank of British West Africa changed its name to Bank of West Africa (BWA). After Nigeria's independence in 1960, the bank began to extend more credit to indigenous Nigerians. At the same time, citizens began to trust British banks since there was an 'independent' financial control mechanism and more citizens began to patronize the new Bank of West Africa.

In 1965, [Standard Bank](http://en.wikipedia.org/wiki/Standard_Bank_(historic)) acquired Bank of West Africa and changed its acquisition's name to Standard Bank of West Africa. In 1969, Standard Bank of West Africa incorporated its Nigerian operations under the name Standard Bank of Nigeria. In 1971, Standard Bank of Nigeria listed its shares on the [Nigerian Stock Exchange](http://en.wikipedia.org/wiki/Nigerian_Stock_Exchange) and placed 13% of its share capital with Nigerian investors. After the end of the [Nigerian civil war](http://en.wikipedia.org/wiki/Nigerian_civil_war), Nigeria's military government sought to increase local control of the retail-banking sector. In response, now [Standard Chartered Bank](http://en.wikipedia.org/wiki/Standard_Chartered_Bank) reduced its stake in Standard Bank Nigeria to 38%. Once it had lost majority control, Standard Chartered wished to signal that it was no longer responsible for the bank and the bank changed its name to First Bank of Nigeria in 1979. By then, the bank had re-organized and had more Nigerian directors than ever.

In 1982 First Bank opened a branch in [London](http://en.wikipedia.org/wiki/London), that in 2002 it converted to a subsidiary, FBN Bank (UK). Its most recent international expansion was the opening in 2004 of a representative office in [Johannesburg](http://en.wikipedia.org/wiki/Johannesburg), [South Africa](http://en.wikipedia.org/wiki/South_Africa). In 2005 it acquired MBC International Bank Ltd. and FBN (Merchant Bankers) Ltd. [Paribas](http://en.wikipedia.org/wiki/Paribas) and a group of Nigerian investors had founded MBC in 1982 as a merchant bank; it had become a commercial bank in 2002.

In June 2009, Stephen Olabisi Onasanya was appointed Group Managing Director (CEO), replacing [Sanusi Lamido Sanusi](http://en.wikipedia.org/wiki/Sanusi_Lamido_Sanusi), who had been appointed governor of the [Central Bank of Nigeria](http://en.wikipedia.org/wiki/Central_Bank_of_Nigeria). Onasanya was formerly Executive Director of Banking Operations and Service.

**2.2 Theoretical review**

**Agency Theory**

The agency theory is propounded by Jensen & Meckling (1976). The theory upon which the study rests is the Agency Theory. The Agency Theory is based on the relationship between the principal (owners) and the agent (managers). The separation of ownership from management in modern corporations provides the context for the function of the Agency Theory. Modern organizations have widely dispersed ownership in the form of shareholders, who are not normally involved in the management of their companies. In these instances, an agent is appointed to manage the daily operations of the company. This distinction between ownership and control creates the potential for conflicts of interest s between agents and principal which result in costs associated with resolving these conflicts (Jensen Meckling, 1976 & Eisenhardt, 1989).

The most important basis of Agency Theory is that the managers are usually motivated by their own personal gains and work to exploit their own personal interests rather than considering shareholders ‟ interests and maximizing shareholder value. For example, managers may be attracted to buying lavish offices, company cars and other extravagant items, since the cost is borne by the owners. Thus, the key predicament indicated by Agency Theory is ensuring that managers pursue the interests of shareholders and not only their own interests. Eisenhardt (1989) explains that agency problems commence when “the goals of the principal and agent conflict, and it is difficult and costly for the principal to verify what the agent is actually doing”.

Controversy occurs because principals are unable to monitor the performance of agents (Jensen Meckling 1976).

At its simplest ,Agency Theory is the recognition that the inclination of agents, in this case, the directors or managers of the business, is to act rather more in their own interests than those of their employers and the shareholders. The Institute of Chartered Accountants in England and Wales, in November 2006(as cited in Millichamp & Taylor, 2008:1) put it this way:

In principle the agency model assumes that no agents are Trust worthy and if they can make themselves richer at the expense of their principals they will. The poor principal, so the argument goes, has no alternative but to compensate the agent well for their endeavors so that they will not be tempted to go into business for themselves using the principal’s assets to do so.

Watts & Zimmerman (1978) presented evidence that auditing has not been developed as a result of governmental requirements, but rather for purposes of reducing the agency costs and conflicts of interest among parties to the firm. According to Agency Theory, the agent (management) fulfils certain obligations for the principal (shareholders) by virtue of the terms of the economic contract. The primary means of monitoring managers of a firm is by an audit of the financial statements by an independent monitor (audit firm). In order for this monitoring mechanism to be successful, several components of the audit must be in place. First, the monitor must be independent of the agent, meaning that the auditors must not have any conflicts of interest with the managers. Second, the standards for conducting the audit must provide reasonable certainty of detecting misstatements or fraud. Finally, the agent’s accounting practices and financial disclosures must be relevant and reliable (Culpan & Trussel, 2005).

Based on this framework, auditing dilutes the adverse effects of the separation of ownership and control (Jensen & Meckling, (1976). However, some of the main features of the audit environment, such as competition and regulations, interfere in the role of separation of ownership and control. Competition from the marketplace limits the rents an audit firm receives from its private information. Yet, the market also provides the audit firm with alternative sources of demand that increase its threats of resignation. Regulations create the requirement for the purchase of a minimum quantity of auditing, as suggested by Generally Accepted Auditing Standards (GAAS) that prescribe minimum audit procedures (Antle & Demski, 1991). Therefore, competition and regulation may interact in determining the relationship between an audit firm and its role in diluting the adverse effects of the separation of ownership and control.

**Descriptive Approach Theory**

This study was anchored on descriptive approach theory. Theory developed using the descriptive approaches are basically concerned with what auditors do. Therefore, descriptive approach shows what accounting bodies do to educate, train and develop accounting professionals in Nigeria. The descriptive approach of the role of accounting professional bodies in education and development of accounting professionals should include independence, objectivity and fairness. Auditors should maintain integrity and objectivity in carrying out their professional responsibility. This principle helps the external auditors to see himself as an independent person and also be objective in his professional duties. The application of this descriptive theory to the present study shows that auditors should have a fraud free administration. The relevance of the descriptive theory to this study is that auditors serve as an instrument in helping to get a successful administration in banks.

**2.3 Empirical framework**

Okpala (2012) carried out a study on auditor’s role in safeguarding the going concern concept in Nigeria as it relates to companies. The important instruments employed in collection of data for this study was questionnaire survey and oral interviews. In gathering the relevant data for this study, two main types of data sources have been exploited. These are primary and secondary data. Sample size = 73 Out of 73 questionnaires 70 was returned i.e. 38 from auditors and 32 from managers. To arrive at an appropriate sample size, using some auditing firms in Lagos, Enugu and Delta State. This approach was adopted not only because it gives a better focus on a true life situation but also allows for an in depth study of the study of the subject matter under consideration. The study found that auditors play a significant role in safeguarding the going concern concept in Nigeria as it relates to companies

Olowookere (2016) carried out a study on determinants of external auditors choice in Nigerian quoted manufacturing companies. The data for this study was sourced from both primary and secondary sources. The primary data was taken from a carefully constructed questionnaire. The questionnaire on the determinants of the choice of auditor used by Oxera (2006) was adopted for the study. Information sought included demographic and social economic characteristics of respondents as they affect the criteria for the choice of external auditors by the quoted manufacturing companies in Nigeria. 500 copies of the questionnaire we’re administered to respondents who were purposively selected shareholders of the quoted manufacturing companies in South Western part of Nigeria. 308 copies of the questionnaire were returned and analyzed. Purposive sampling technique was adopted because it enables the researchers to identify and utilize knowledgeable shareholders in the process of selecting an external auditor. The questionnaire was designed to enable respondents to provide demographic information about themselves. The period for data collection was between March, 2015 to October, 2015. Data collected were analyzed using both descriptive statistics and inferential statistics with the aid of STATA software.

Akpotu & Omesi (2013) carried out a study on External Auditors’ Unethical Behaviour and Corporate Business Failure in Public Owned Organizations in Nigeria. A survey of eighteen (18) companies listed in the Stock Exchange of Nigeria and State Centre for Alternative Investment was carried out through a self administered structured questionnaire (primary data) which was administered on strategically positioned personnel both in top and middle level positions of the firms. Through a correlational analysis the result of the study indicates that external auditor’s unethical behaviour strongly correlates with corporate business failures. It was recommended that in addition to government regulations and penalties for unethical practices, management commitment towards evolving ethical culture must be emphasized.

Ozuomba, Nwadialor & Ifureze (2016) conducted a study on effective audit as a tool for improving institutional governance and accountability. Data were gathered through questionnaire and hypotheses stipulated which basically questioned the existence of auditing departments, the activity of effective governance in the public sector and define the key element needed to maximize the value of the public sector audit provided to all levels of government. To test these hypotheses, Anova’s was employed. The study found out that the internal audit can effectively check fraud and fraudulent activities in the Imo State public sector and a significant number of internal audit departments functioning effectively exist. It is recommended that government should provide an adequately equip staff with electronic data processing and also maintain an environment within which internal auditors can have sufficient freedom to accomplish their task effectively.

Ezeani & Oladele (2012) carried out a study on auditing as a tool for accountability for efficient and effective school administration. This study tries to find out what school audit is all about, the role of audits and the difference that an audit can make towards accountability, especially in school administration. The need for this study also arose to correct a misconception that school account are not meant to be audited and to restore confidence in parents and guidance that money spent on educating the child is not embezzled. This study employed a descriptive design. The researchers found out that lack of: technical competence, independence and inadequate level of resources do directly affect the performance of the school audit. Conclusively, intensive and regular training programmes should be mounted for school accountants and auditors, and there should also be proper delegation of duties.

Okaro, Okafor, Nwanna & Igbinovia, (2017) examined empowering the internal Audit Function for Effective Role in Risk Management. The objective is to study the challenges facing the internal audit function in Microfinance banks and how such challenges can be ameliorated to enable it play a more effective role in risk management. Descriptive statistics of mean and standard deviation were used to analyze the responses. The study observed that lack of access to relevant information constitutes the greatest set back to internal auditors in their role in risk management. Lack of adequate training was also another major impediment. The authors recommend unfettered access to information, constant training and retraining for internal audit staff and demarcation of clear lines of responsibility, and reporting to top management by the internal audit.

Ozuomba, Nwadialor & Ifureze (2016) conducted a study on effective audit as a tool for improving institutional governance and accountability in the public sector. Data were gathered through questionnaire and hypotheses stipulated which basically questioned the existence of auditing departments, the activity of effective governance in the public sector and define the key element needed to maximize the value of the public sector audit provided to all levels of government. To test these hypotheses, Anova’s was employed. The study found out that the internal audit can effectively check fraud and fraudulent activities in the Imo State public sector and a significant number of internal audit departments functioning effectively exist. It is recommended that government should provide an adequately equip staff with electronic data processing and also maintain an environment within which internal auditors can have sufficient freedom to accomplish their task effectively.

**2.4 Summary of Literature Review**

With the upsurge in fraudulent activities in financial accounting in the global economy, external auditing has become an emerging discipline of great importance for academia and real sector; hence, the increasing need for external auditor and investigative accounting in most sector results from the complexities of modern day with large volume of complex data. This makes it difficult to monitor transactions by applying manual audit processes. This in turn makes the control utility of auditing ineffective.

It is upheld that occurrence of fraud and misappropriation of funds in recent time pose a threat to traditional auditing as a branch of accounting profession because of its recurrent nature and this has resulted to the question as to whether the statutory auditing actually play a significant role towards the attainment of accountability and prevention of fraud especially that which was recently witnessed in most of big corporate organizations in Nigeria. Internal audit appears to have shown a lack of concern and reflective attitude towards fraud fighting, thereby failing to offer the public desirable assurance to handle corruption and fraud. Hence, internal auditors are the employees of a company who are appointed by the management to carry out audit of the day-to-day affair of the company as part of the internal control system.

Further, the external auditor is highly regarded in the corporate governance framework because unlike the internal auditor, is appointed by the shareholders. The external auditor is an independent person or firm of auditors appointed according to statutory requirement to investigate the financial statements of an entity and express his opinion in form of report on the true and fair view of such financial statements; they are auditors of an organization which are not under the control of the organization and may not report to objectives set by the organization. Thus extensive studies have been done on effects of external auditing on the profitability of Nigeria Company. However, the existing empirical evidence was mainly based on: auditor’s role in safeguarding the going concern concept in Nigeria as it relates to companies (Okpala, 2012), determinants of external auditors choice in Nigerian quoted manufacturing companies (Olowookere, 2016), External Auditors’ Unethical Behaviour and Corporate Business Failure in Public Owned Organizations in Nigeria (Akpotu & Omesi, 2013) , effective audit as a tool for improving institutional governance and accountability (Ozuomba, Nwadialor & Ifureze, 2016), auditing as a tool for accountability for efficient and effective school administration (Ezeani & Oladele, 2012) , empowering the internal Audit Function for Effective Role in Risk Management (Okaro, Okafor, Nwanna & Igbinovia, 2017), effective audit as a tool for improving institutional governance and accountability in the public sector (Ozuomba, Nwadialor & Ifureze, 2016); Whereas not much empirical investigations had been undertaken in First bank of Nigeria. There is therefore a gap as far as studying and analysis of effects of external auditing on the profitability of Nigeria Company is concerned.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 Research Design**

The type of research design adopted for this study is the ex-post facto research design; this can also be called causal comparatively research. This type of research involves the use of data which already exist and events which has already taken place and manipulation of relevant independent and dependent variables is not possible. The justification for the adoption of this research design lies on the data not being manipulatable.

**3.2 Sources of data**

The data for this research work was basically secondary data. Secondary data is the data which has been collected by individuals or agencies for purposes other than those our particular research study. For the purpose of arriving at dependable and unbiased analysis, secondary data is employed. The secondary data for this study were sourced from First Bank of Nigeria annual reports and statistical bulletins of the CBN.

**3.3 Model of Specification**

According to Cohen (2008) a model is a simplified view of reality designed to enable us describe the essence and interrelationships within the system or phenomenon it depicts. The model of this research work is a simple regression models. Two models would be formulated to answers the research questions. The variable for the study are external audit reports proxy loan & advances via Credit Management (EAR), profit after tax (PAT) and Return on shareholders' funds (RSF).

The coefficients in the model are expected to be in the order of β1, β2> 0

The econometric form of the base model is specified as:

According to Isiwu (2004), Y= f(X)

Hence, Y = βo + β1X

The econometric Equation becomes:

Model 1: PAT = f (EAE)

**=>**PAT = β0+ β1 EAE+ Ut . . . 1

Model 2: RSF = f (EAE)

**=>**RSF = β0+ β1EAE+ Ut . . . 2

Where

EAE =External audit expenditure at time t, (Independent variable) proxy auditor expenses

RSF =Return on shareholders' fundsat time t, (dependent variable)

PAT =Profit after tax at time t, (dependent variable)

β0 = Constant

β1 = Regression coefficients or Coefficients of the independent Variables.

Ut = stochastic error associated with the models.

**3.4 Techniques for Data Analysis**

The researcher employed simple regression model. The coefficient of correlation would be used to ascertain the strength of the relationship between the dependent and independent variables. Hence, the tool adopted for the study is simple regression model. The analysis would be performed using the Statistical Package for Social Sciences (SPSS) Version 20 from 2002 to 2016. Also, the simple regression technique was adopted because of its simplicity as well as minimizes the squares of the residuals.

**3.6 Hypotheses Testing**

**Hypothesis 1**

**H01:** External audit expenditure does not have significant effect on profit after tax of Nigerian banks.

Model 1: PAT = β0+ β1 EAE+ U . . . 3

**Hypothesis 2**

H02: External audit reports have negative effect on Return on shareholders' funds on deposit growth of Nigerian banks.

Model 2: RSF = β0+ β1EAE+ U . . . 4

**3.5 Description of Research Variables**

The variables for the study are described below:

**External auditors’ expenditure:**

These can be contractual expenses or payment made to external auditors for the services they relied to corporate organizations. Audit procedures are designed to evaluate these expenses to make sure they are necessary and in line with internal policies.

**Return on shareholders' funds:**

These are the portion of a company's profit allocated to each outstanding share of [common stock](http://www.investopedia.com/terms/c/commonstock.asp). Return on shareholders' funds serve as an indicator of a company's profitability.

**Profit after tax:**

A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities. Profit after tax (PAT) margin is a financial performance ratio, calculated by dividing net profit after taxes by revenue. A company's after-tax profit margin is important because it tells investors the percentage of money a company actually earns per dollar of revenue. It is the number of sales naira remaining after all operating expenses, interest, depreciation, taxes and preferred stock dividends have been deducted from a firm's total revenue.

**CHAPTER FOUR**

**DATA PRESENTATION AND ANALYSIS**

This chapter presents the data analysis and interpretation using statistical tools. For the purpose of this research work, the researcher used the e-view software in testing the hypotheses. Also, the simple regression technique was adopted because of its simplicity as well as minimizes the squares of the residuals.

**4.1 Data presentation**

**Table 4.1.1** First Bank of Nigeria plc data on PAT, EAE and RSF

|  |  |  |  |
| --- | --- | --- | --- |
| Year (s) | PAT(Nm) | EAE(Nm) | RSF(Nm) |
| 2002 | 4,776 | 437 | 226 |
| 2003 | 11,010 | 506 | 430 |
| 2004 | 11,483 | 231 | 399 |
| 2005 | 13,234 | 514 | 335 |
| 2006 | 17,383 | 1,472 | 333 |
| 2007 | 18,355 | 36 | 178 |
| 2008 | 35,074 | 5,761 | 51 |
| 2009 | 1,275 | 5,182 | 12 |
| 2010 | 32,123 | 8,395 | 89 |
| 2011 | 23,052 | 193 | 57 |
| 2012 | 71,144 | 251 | 230 |
| 2013 | 59,365 | 35 | 182 |
| 2014 | 79,351 | 250 | 243 |
| 2015 | 37 | 415 | 0.11 |
| 2016 | 50,072 | 420 | 153 |

**Source:** Compiled by the researcher from First bank plc, annual report2002-2016

WHERE,

PAT = Profit After Tax

EAE = External Auditors Expenditure

RSF = Return On Shareholders Funds

**FIG. 1:** Showing the Profit after Tax of First Bank of Nigeria from 2002 to 2016.

The report shows that the bank maintains a steady increase from 2002 to 2008. Then a fall in profit after tax in 2009 and it further witness a frustration in their profitability between 2010 and 2016.

**FIG. 2:** Showing the External Audit Expenditure of First Bank of Nigeria from 2002 to 2016

The figure above shows that there was frustration in the bank External Audit Expenditure from 2002 to 2006. Then a drop in 2007 and later increase again in 2008 to 2010 and continue frustrating from 2011 to date.

**FIG. 3:** Showing Returns on Shareholders’ Funds of First Bank of Nigeria from 2002 to 2016. It is observed that from 2002 to 2016 there has been frustration of Returns on Shareholders’ Funds of First Bank of Nigeria.

**4.3 Regression Results, Analysis and Interpretation (see appendices for details)**

|  |  |  |
| --- | --- | --- |
| **Statistic** | **Hypothesis one** | **Hypothesis two** |
| R | .108a | .459a |
| R2 | .012 | .211 |
| AR2 | -.064 | .150 |
| error estimate | 26271.010 | 126.744 |
| sum of square | 105406162.4 | 55892.475 |
| residual sum of squares | 8972157871 | 208831.258 |
| DW | 1.660 | 1.349 |
| C | 30205.620 | 233.450 |
| Coeff. | -1.052 | -.024 |
| P-value | .702b | .085b |

**Hypotheses one**

|  |  |
| --- | --- |
| **Statistic** | **Hypothesis one** |
| R | .108a |
| R2 | .012 |
| AR2 | -.064 |
| error estimate | 26271.010 |
| sum of square | 105406162.4 |
| residual sum of squares | 8972157871 |
| DW | 1.660 |
| C | 30205.620 |
| Coeff. | -1.052 |
| P-value | .702b |

**H01:** External audit expenditure does not have significant effect on profit after tax of Nigerian banks. Model 1: PAT = β0+ β1 EAE+ U

The result of the regression analysis conducted indicates R, the correlation coefficient with the value of 0.108 shows that there is a weak relationship between External audit expenditure (EAE) and profit after tax (PAT) of Nigerian banks. The degree to which the independent variables explain the dependent variables called coefficient of determination which is represented by R2 shows that 1.2% of the variation in EAE can be explained by PAT. Hence, the Adjusted R2 is -6.4%. This show that the independent variables specified in the model can explain only about -6.4% of the variations in the dependent variable. With the linear regression model, the error of estimate is low with a value of about 26271.010. The regression sum of square 105406162.4 is more than the residual sum of squares 8972157871, which indicates that more of the variation in the dependent variable is explained by the model; hence variation explained that the model is not due to chance.

The assumption of auto-correlation is that, the successive values of the random variable (u) are temporary independent; Auto-correlation usually indicated that an important part of the variation of the dependent variable has not been explained. The problems of autocorrelation are usually dictated by Durbin Watson (DW) statistics. The acceptable value for the Durbin Watson Statistic is 2 but it permits a range of 0.2. The Durbin-Watson Statistic is 1.660 and since it falls without the acceptable range, the model is not free from autocorrelation and is not reliable. We conclude that the model shows negative serial autocorrelation. From the regression result above, the constant or intercept is 30205.620. This implies that when all the model parameters are zero, there will still be an effect of 30205.620 on the PAT. This is accounted for by other factors not specified in the model. Based on above information that the estimated regression model is represented as follows: PAT= 30205.620 – 1.052 EAE + *μ*

However, the significance value (p-value) of 0.702 is more than 0.05, the model is not significant. Therefore, the null hypothesis is accepted and the alternative hypothesis is rejected. We therefore conclude that external audit expenditure does not have significant effect on profit after tax of Nigerian banks.

**Hypothesis 2**

|  |  |
| --- | --- |
| **Statistic** | **Hypothesis two** |
| R | .459a |
| R2 | .211 |
| AR2 | .150 |
| error estimate | 126.744 |
| sum of square | 55892.475 |
| residual sum of squares | 208831.258 |
| DW | 1.349 |
| C | 233.450 |
| Coeff. | -.024 |
| P-value | .085b |

H02: External audit expenditure has negative effect on Return on shareholders' funds on deposit growth of Nigerian banks.

Model 2: RSF = β0+ β1EAE+ U

The result of the regression analysis conducted indicates R, the correlation coefficient with the value of 0.459 shows that there is strong relationship between External audit expenditure (EAE) and Return on shareholders' funds (RSF) on deposit growth of Nigerian banks. The degree to which the independent variables explain the dependent variables called coefficient of determination which is represented by R2 shows that 21.1% of the variation in EAE can be explained by RSF. Hence, the Adjusted R2 is 15.0%. This show that the independent variables specified in the model can explain only about 15.0% of the variations in the dependent variable. With the linear regression model, the error of estimate is low with a value of about 126.744. The regression sum of square 55892.475 is more than the residual sum of squares 208831.258, which indicates that more of the variation in the dependent variable is explained by the model; hence variation explained that the model is not due to chance.

The assumption of auto-correlation is that, the successive values of the random variable (u) are temporary independent; Auto-correlation usually indicated that an important part of the variation of the dependent variable has not been explained. The problems of autocorrelation are usually dictated by Durbin Watson (DW) statistics. The acceptable value for the Durbin Watson Statistic is 2 but it permits a range of 0.2. The Durbin-Watson Statistic is 1.349 and since it falls within the acceptable range, the model is free from autocorrelation and is reliable. We conclude that the model shows positive serial autocorrelation. From the regression result above, the constant or intercept is 233.450. This implies that when all the model parameters are zero, there will still be an effect of 233.450 on the RSF. This is accounted for by other factors not specified in the model. Based on above information that the estimated regression model is represented as follows: RSF= 233.450-0.024 EAE + *μ*

However, the significance value (p-value) of 0.085 is less than 0.05, the model is not significant. Therefore, the null hypothesis is accepted and the alternative hypothesis is rejected. We therefore conclude that external audit expenditure have negative effect on Return on shareholders' funds on deposit growth of Nigerian banks.

**CHAPTER FIVE**

**SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

**5.1 Summary of Findings**

This research work is an attempt to study the effect of external auditing on the profitability of Nigeria Company and after critical examination and analysis of the data collected from first bank of Nigeria annual report. The empirical study revealed the following:

1. External audit expenditure has negative and non-significant effect on profit after tax of Nigerian banks. Since the significance value (p-value) of 0.702 > 0.05, the model is not significant.
2. External audit expenditure has negative and non-significant effect on Return on shareholders' funds on Nigerian banks since the significance value (p-value) of 0.085 > 0.05, the model is not significant.

Other findings based on the results of the analysis include that:

1. Auditing has positive effect on the proper accountability of company fund and assets.
2. Natures of the problems of external auditors in auditing Nigeria companies include Auditor Independence ethical value and morality, public expectation gap and cartel in audit market
3. The causes of the problems of external auditors include delay on completion of auditors’ work, lack of sufficient fund to engage experienced and qualified auditors, poor installation and inadequate accounting facilities and litigation environment for audit firms.
4. The effects of such problems on the external auditors are Lose of public confidence, discourages investors, delay financial report and Misled in management decision making.
5. Possible measures taken to overcome the problems include reporting weaknesses in internal control, exercise of right of lien, engaging the services of experienced and qualified auditors and withdrawal membership from auditors that comprise.

Having identified and discussed the finding of the study. They have the far reaching implication as, thus; this implies that the auditor is to ensure strict adherences for ethical rules and guidance. These must be evidence. It may be evaluated on the basis of its persuasiveness, meaning the confidence it offers the auditor in reaching conclusions with respect to audit objectives. If evidence is sufficient, competent, and relevant to the audit objective, then it is persuasive

**5.2 Conclusion**

It has been an interesting experience to research on this problem. We have been able to find out throughout the study that external auditors actually have problems in auditing Nigeria companies. Efforts were also made to discover these problems. The causes and their effects on the works of auditors were also summaries. The study therefore concludes that the role of the external auditing is inevitable for good corporate governance. There is no doubt that the role of the external auditor has brought about improvement in accountability and transparency in corporate governance thereby reducing agency problems. The faith of the shareholders and other stakeholders in the financial statements has been enhanced by the role of the auditor.

**5.3 Recommendations**

The following recommendations are made based on the findings of this research work.

1. Since the external audit is not effective in revealing fraud, the governing statutes should be amended to inculcate interim audit, and forensic audit. Although, this may increase cost on banks, but it will reduce the incidence of fraud drastically, especially, those perpetrated by the management. And the forensic auditors should check for the professional negligence of external auditors.
2. There should be regular external audit to check compliance or deviation. Thus, the laid down policies should be adhered to and staff concerned should be monitored. Lying off such staff after investigation is highly recommendable.
3. That auditor should maintain a high degree of independent to guarantee quality assurance that could provide the much needed protection of depositors’ funds and other shareholders interest in the bank.

**5.4 Suggestion for further research**

In view of the scope covered in this study, the findings of the study, the limitations, the nature of environment and technological advancement, the researcher wishes to suggest the following as areas worthy for further investigation: Computer auditing and investigation as a tool for accountability in the public service in Nigeria and that the role of internal and external auditing on the efficient management of business enterprise. The study therefore suggests that a further study be conducted on external auditing relevance in the growth of banking industry in Nigeria: an emphasis on the effect on deposit mobilization.

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**APPENDIX**

**Model 1 Regression Results**

|  |  |  |  |
| --- | --- | --- | --- |
| **Descriptive Statistics** | | | |
|  | Mean | Std. Deviation | N |
| PAT | 28515.60 | 25463.649 | 15 |
| EAE | 1606.53 | 2608.356 | 15 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Correlations** | | | |
|  | | PAT | EAE |
| Pearson Correlation | PAT | 1.000 | -.108 |
| EAE | -.108 | 1.000 |
| Sig. (1-tailed) | PAT | . | .351 |
| EAE | .351 | . |
| N | PAT | 15 | 15 |
| EAE | 15 | 15 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Model Summaryb** | | | | | | | | | | | | | | | | | |
| Model | | R | R Square | | Adjusted R Square | Std. Error of the Estimate | | | Change Statistics | | | | | | | | Durbin-Watson |
| R Square Change | F Change | | df1 | | df2 | Sig. F Change | |
| 1 | | .108a | .012 | | -.064 | 26271.010 | | | .012 | .153 | | 1 | | 13 | .702 | | 1.660 |
| a. Predictors: (Constant), EAE | | | | | | | | | | | | | | | | | |
| b. Dependent Variable: PAT | | | | | | | | | | | | | | | | | |
| **ANOVAa** | | | | | | | | | | | | | | | |
| Model | | | | Sum of Squares | | | df | Mean Square | | | F | | Sig. | | |
| 1 | Regression | | | 105406162.370 | | | 1 | 105406162.370 | | | .153 | | .702b | | |
| Residual | | | 8972157871.230 | | | 13 | 690165990.095 | | |  | |  | | |
| Total | | | 9077564033.600 | | | 14 |  | | |  | |  | | |
| a. Dependent Variable: PAT | | | | | | | | | | | | | | | |
| b. Predictors: (Constant), EAE | | | | | | | | | | | | | | | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Coefficientsa** | | | | | | | | |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | 95.0% Confidence Interval for B | |
| B | Std. Error | Beta | Lower Bound | Upper Bound |
| 1 | (Constant) | 30205.620 | 8044.399 |  | 3.755 | .002 | 12826.754 | 47584.487 |
| EAE | -1.052 | 2.692 | -.108 | -.391 | .702 | -6.867 | 4.763 |
| a. Dependent Variable: PAT | | | | | | | | |

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| **Residuals Statisticsa** | | | | | |
|  | Minimum | Maximum | Mean | Std. Deviation | N |
| Predicted Value | 21374.36 | 30168.80 | 28515.60 | 2743.904 | 15 |
| Residual | -29732.055 | 49408.371 | .000 | 25315.379 | 15 |
| Std. Predicted Value | -2.603 | .602 | .000 | 1.000 | 15 |
| Std. Residual | -1.132 | 1.881 | .000 | .964 | 15 |
| a. Dependent Variable: PAT | | | | | |

**Model 2 Regression Results**

|  |  |  |  |
| --- | --- | --- | --- |
| **Descriptive Statistics** | | | |
|  | Mean | Std. Deviation | N |
| RSF | 194.53 | 137.509 | 15 |
| EAE | 1606.53 | 2608.356 | 15 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Correlations** | | | |
|  | | RSF | EAE |
| Pearson Correlation | RSF | 1.000 | -.459 |
| EAE | -.459 | 1.000 |
| Sig. (1-tailed) | RSF | . | .042 |
| EAE | .042 | . |
| N | RSF | 15 | 15 |
| EAE | 15 | 15 |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Model Summaryb** | | | | | | | | | | |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | | Durbin-Watson |
| R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .459a | .211 | .150 | 126.744 | .211 | 3.479 | 1 | 13 | .085 | 1.349 |
| a. Predictors: (Constant), EAE | | | | | | | | | | |
| b. Dependent Variable: RSF | | | | | | | | | | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **ANOVAa** | | | | | | | | | | | | | | |
| Model | | | | Sum of Squares | | df | | Mean Square | | | F | | Sig. | |
| 1 | Regression | | | 55892.475 | | 1 | | 55892.475 | | | 3.479 | | .085b | |
| Residual | | | 208831.258 | | 13 | | 16063.943 | | |  | |  | |
| Total | | | 264723.733 | | 14 | |  | | |  | |  | |
| a. Dependent Variable: RSF | | | | | | | | | | | | | | |
| b. Predictors: (Constant), EAE | | | | | | | | | | | | | | |
| **Coefficientsa** | | | | | | | | | | | | | | | |
| Model | | | Unstandardized Coefficients | | | | Standardized Coefficients | | t | Sig. | | 95.0% Confidence Interval for B | | | |
| B | | Std. Error | | Beta | | Lower Bound | | Upper Bound | |
| 1 | | (Constant) | 233.450 | | 38.810 | |  | | 6.015 | .000 | | 149.606 | | 317.294 | |
| EAE | -.024 | | .013 | | -.459 | | -1.865 | .085 | | -.052 | | .004 | |
| a. Dependent Variable: RSF | | | | | | | | | | | | | | | |

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| --- | --- | --- | --- | --- | --- |
| **Residuals Statisticsa** | | | | | |
|  | Minimum | Maximum | Mean | Std. Deviation | N |
| Predicted Value | 30.09 | 232.60 | 194.53 | 63.185 | 15 |
| Residual | -223.397 | 208.807 | .000 | 122.133 | 15 |
| Std. Predicted Value | -2.603 | .602 | .000 | 1.000 | 15 |
| Std. Residual | -1.763 | 1.647 | .000 | .964 | 15 |
| a. Dependent Variable: RSF | | | | | |