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Auditing Down Turn, Value Decline and Failures: Catalyst for Forensic Examination Development in Nigeria

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ABSTRACT: This study investigated audit failures, flaws and fictions, an impetus for the rapid growth of forensic examination in Nigeria. This study employed content analysis and indept literature review as methodology. Auditing is the examinant of the true state of a company and reporting to shareholders and the publics the true and faire state of the entity. However, most times audit processes are associated with failures, flaws and fictions due to compromise of auditors in mis-presenting the true state of the corporations in Nigeria. This has resulted into most corporate scandals in Nigeria. Again, most corporations in Nigeria are linked with fraudulent activities and embezzlement of corporate funds. These scenarios gave rise to the rapid growth of forensic examinations in Nigeria. Forensic examination discovers abuses, misrepresentation and fraud with the combine skills of accounting, criminology and forensic computing which is operationalised with litigation in court of law. Forensic examination is growing in a way which complement traditional auditing limitations and aim to mitigate fraudulent activities in Nigeria's workplaces.

KEYWORD: Auditing Down Turn, Value Decline and Failures: Catalyst for Forensic Examination Development in Nigeria

1. INTRODUCTION

The effective management of public and private institutions should incorporate good corporate governance and ethics. It is expected that the leadership of the organization should manage the workplace with accountability and the right values and ethics (Brown & Caylor, 2006). Thus, in order to ensure that employees and the leadership of the organization are guided by the corporate ethics in the discharge of their duties and responsibilities at work, there should be periodic examination of the conduct of all the activities of departments and functions at work in terms accounting with due process (Bhattacharya, 2008).

It is imperative for both internal auditing and external examination of the workplace to be operationalized. The internal audit department in the organization should ensure that proper operational procedure and accounting for the entire organization is periodically carried out for the entire organization is periodically carried out (Collier & Zamam, 2005). This should be complemented periodically with the help of external auditors with full disclosures of all the financial transactions and operations of the organization. The external audit team should be independent in their judgment and examinations, without bias and give fair and honest reporting of the true state of the organization (Broadley, 2006). The external auditor or audit team should make full disclosure of the current state of the organization, unearth fraud and insider dealings in the workplace.

Effective corporate governance is based upon strong working relationships among four groups which are management, the board, external auditors and internal auditors (Guxholli, Karapici & Gjinopulli, 2012; Ogoun & Owota, 2020). The prevalence of fraud and excessive earings in the workplace calls for management, the board, internal audit team and external auditors to effectively manage the corporations, make honest financial statement about the true state of the organization. Audit of the organization should be comprehensively carried out in the entire organization. This will help good corporate reporting. The reporting of the company's books to the public

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should follow the x-ray of all financial and non-financial transactions of the organization (Ogoun & Perelayefa, 2020). Therefore, auditing of the workplace by the auditors is highly laudable.

Auditing is the activities carried on by the auditor when he/the audit team verifies the data of the company or the accounting data. The auditor access the accuracy and objective reliability of financial or accounting statement and report his findings to all the company stakeholders. If it is a limited liability company, the audit report is disclosed to the owners of the organization. If the company is a public limited liability company, the report is made public (Omoye & Aronmwan, 2013). Again, auditing essentially, operate in two dimensions; first, auditors provide objective assessment on the appropriateness of the company's governance structure and the operating effectiveness of specific governance activities. Secondly, auditing act as instrument for change, advisory or promoting improvement to improve the company's corporate governance structure and practices (Guxholli, Karapici & Gjinopuli, 2012).

In the workplace, management and the board establish and monitor organization's wide system for effective governance. In this case, internal auditors can support and enhance these actions. Moreso, auditors should remain independent, they many however, participate in the establishment of corporate governance processes. By providing assurance on the company's risk management, control and governance processes, auditing becomes key backbone for effective company's governance. Importantly auditing failure, flaws and fictions occurs when there is less ethical disposition on the part of the auditors which makes them vulnerable tor reporting flaws in the audit process as they scramble to avoid any potential incentive (Goddymkpa, 2020). Hence, audit failures and flaws manifest when the auditor or audit team has poor audit approach, negligence and lack of competence, lack of professional questioning behavior, attitude, connivance with management or client, remuneration dependence on the clients, prolonged tenures for auditors, external auditors demonstrating as internal auditors to clients or management (Schacker, 2000).

Importantly, auditing failures, flaws and fiction also manifest in scenarios such as disregard to accounting standards, rendition of management advisory services. These failures which permeate both public and private sectors governance have misdirected corporate reporting and accountability of entities. Therefore, to be very objective in accurate auditing, forensic auditing and examinations comes in to close these gaps associated with the traditional auditing failures, flaws and fictions facing institutions in Nigeria (Bender, 2006). Importantly, the call for the rapid growth of forensic accounting in Nigeria stems from the pitfalls of the traditional auditing at the instance of both internal and external auditors (Grey, 2011).

Forensic examination in Nigeria is the rapid response to manage the disadvantages associated with traditional auditing failures, flaws and fictions which has compromised independent reporting of an entity. Forensic auditing is a construct which is focused on the identification, interpretation and communication of the evidence of underlying strategic economic and reporting events (Smith & Crumbley, 2009). Thus, forensic examination is not single event based like a fraud examination and forensic audit is not employed to render an audit opinion. The auditors legal liabilities for not discovering their client fraudulent financial actions and conducts crops up forensic auditing and examination. It is the ability to comprehensively discover all financial transactions of the company by integrating accounting, criminology and computer forensic investigations in order to present the true and fair state of the company (Grey, 2011; Smith & Crumbley, 2009). It also incorporate litigation for fraud manifestations.

2. THE CONCEPT OF AUDITING FAILURES, FLAWS AND FICTIONS

Auditing generally is the examination of all transaction of an organization and reporting objectively the true state of the entity. Independently reporting the organization to ensure that the company adhere to the corporate governance and ethics, ethical financial reporting etc (Bender, 2006). However, auditing failures, flaws and fictions arises when there is less ethical disposition on the part of the auditors which makes them vulnerable to reporting flaws in the audit process as they scramble to avoid any potential incentives from their clients (Goddymkpa, 2020). Thus, audit failures and flaws manifest when the auditor or audit team has poor audit approach, negligence and lack of competence, lack of professional questioning behavior, attitude, connivance with clients, payment, reward and remuneration dependence on clients, prolonged tenure for auditors et (Schauer, 2000).

Furthermore, auditing failures, flaws and fiction also manifest in scenarios such as disregard to accounting standards, rendition of management advisory services. These failures which permeates both public and private sectors governance have misdirected corporate reporting and accountability of entities (Arrunada, 2005). Therefore, to be very objective in reporting an organization, the auditors should be professional in their conduct, unearth all dealings and transactions of the workplace without compromise. Auditing has changed significantly in recent years and these changes cropped up challenges usually faced by organizations in weighing the cost and benefits of regulations. Organizations should therefore look for ways to mitigate audit failures in Nigeria. Most companies periodically change their auditors to avoid potential failure of auditing and audit failures (Okoye, Okaro & Okafor, 2015).

Generally, financial statements auditors are laudable instrument in corporate governance and ethics system. Most times failures, flaws and fictions are experienced on their part either due to compromises or lack of failure to discover some of the dealings and transactions that have taken place in the workplace. Therefore, independence in reporting the true state of the company is lacking due to compromise or lacking in professional conduct (Skinner & Srinivasan, 2010). Thus, most time auditors results shows over state statement of a company that has actually gave down in order to sustain confidence of the shareholders and potential; investors (Owolabi & Dada, 2011).

Again, most auditors convince with their client by collecting bribes to present untrue state of the financial position of the company. This is done to boost investors confidence and drive the market price and value of the company, such scenarios are evident in most industries and sectors in Nigeria (Okoye, Okaro & Okafor, 2015). Thus, in extreme cases, auditors convince with their client to cook the financial statement which is a criminal offence against the unsuspecting shareholders and the potential investors/publics. This situation in prevalent in most African nations, including Nigeria where corporate fraud and scandals are prevalent in most industries and sectors, example, the case of Cadbury plc where fraudulent reporting plummeted the share price, dealing the market value of the company as a result of massive divestment (Okoye, Okaro & Okafor, 2015; Okaro &Okafor, 2013).

Importantly, auditing failures, flaws and fiction is not limited to an industry or a nation, it is a worldwide problem. Global brands like Euron and World.com in the 1980s and 1990 were involved in corporate scandals and misleading reporting backed by their auditors by overcasting financial statements and accounts. This failure of auditing and companies not making full disclosure of their state, thus, disregarding corporate governance rules and ethics, crops up forensic auditing were financial/accounting inputs, criminology and forensic computing, combine with litigation activities are operationalize to drive the true state of corporations (Okaro & Okafor, 2013).

3. THE CONCEPT OF FORENSIC EXAMINATION

Traditional auditing in the corporate or public governance space is associated with limitations on the part of the auditor, management of the organization and the board. Most times, audit examinations fails to represent the true and fair state of the workplace as presented by auditors (Adeyemi & Akiniyi, 2011). This scenario crops up the emergence of forensic auditing and examination in corporate reporting. Forensic examination in Nigeria is the rapid response to manage the disadvantages associated with traditional auditing failures, flaws and fictions which has compromised independent reporting of an entity. Forensic auditing is a concept which is focused on the identification, interpretation and communication of the evidence of underlying strategic economic and reporting events (Smith & Crumbley, 2009).

Forensic examination is not a single event based like a fraud examination and forensic audit is not employed to render an audit opinion. The auditor’s legal liabilities for not discovering their client fraudulent financial actions and conducts crop up forensic auditing and examination. It is the ability to comprehensively discover all financial transactions of the company by integrating accounting, criminology and computer forensic investigation. Such a mix will drive the true and fair state of the company (Grey, 2011; Smith & Crumbley, 2009). Again, forensic examination also incorporate the mix of litigation for fraud manifestation such that fraudulent activities in the companies operational activities are revealed and litigation cases being pursued. This will forestall future insider abuses.

Forensic auditing and examination is the responsibility for identifying fraud and misrepresentation and usually tested in a competent court of law. It is the employment of accounting skills, knowledge and competences to investigate fraud, embezzlement and other infractions/irregularities hidden as financial transactions (Florida National University, 2020). Thus, forensic auditing investigations are employed in legal proceedings as well as used for compliance efforts and prevention of financial crimes in the work organization (Florida National University, 2020). Forensic examination has laudable advantages as it helps in identifying fraud and corporate misrepresentation, its employment by an organization will discover the true state of a company and forestall potential future crimes of the workplace.

4. AUDITING FAILURES, FLAWS AND FICTIONS: IMPETUS FOR THE RAPID GROWTH OF FORENSIC EXAMINATIONS IN NIGERIA

Traditional auditing and examination carried out by an independent auditor is associated with disadvantages such as lack of competence on the part of the auditor to truly come up with the true and fair state of the company, misrepresentation of financial statement and accounts due to compromises on the part of the auditors who are remunerated by their clients (Bender, 2006). In extreme cases, auditors convince with their clients to wide cases of fraud and embezzlement and over cast the value of the company. Such scenarios are against corporate governances rules and ethics. Thus, the audit failures and flaws also encompass less ethical disposition on the part of the auditors and comprises are seen to cook financial statement to drive unsuspecting shareholders and potential investors (Goddymkpa, 2020).

Importantly, due to the evolving limitations inherent in traditional auditing/auditors, forensic examination comes in to corrects these anomaly and to mitigate corporate malpractices and fraudulent activities (Gray, 2008). Hence, comparatively forensic auditing and examination is about identifying these frauds and misrepresentations in corporate reporting and it usually integrated the skills, knowledge and competences of accounting, criminology, forensic computing which are backed with litigation to prevent fraud and criminality in the corporate space (Gray, 2008; Florida National University, 2020). Thus, forensic examination identifies symptoms of fraud and corporate infractions and prescribe ways of mitigating future occurrences. Forensic examination is now prevalent worldwide including Nigeria. Corporations are encouraged to employ forensic accounting/audit to complement the inadequacies of internal and external audits examinations and processes.

5. DISCUSSION OF FINDINGS

This study investigated audit failures, flaws and fiction, an impetus for the rapid growth of forensic examination in Nigeria. From the conceptual and empirical literature evidences which revealed that auditing in Nigeria is associated with several limitations ranging from misrepresentation, collaboration to falsify results with clients, the vulnerability of auditors to receive bribes and undue influence of the client on auditors since they are rewarded by their principles. Again, auditors most times tries to cover fraud and embezzlement committed by employees and managers. This situations have made objective corporate reporting to be less achieved.

Forensic examination in Nigeria is growing due to the evolving factors of auditors' compromise and the fraudulent activities that are ongoing in corporations or workplaces. Forensic examination/audit comes in the discover fraudulent and misrepresented financial statements of corporations using the mix of knowledge capabilities of accounting, criminology and forensic computing. In most instances, it is operationalized with limitations in competent court of law. Thus, the importance of forensic examination to complement the limitations of traditional auditing/auditors misconduct cannot be over emphasized.

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6. CONCLUSION

This study investigated the auditing failures, flaws and fictions, an impetus for the rapid growth of forensic examinations in Nigeria. From the conceptual and empirical literature reviews, we conclude that, the growing pace of forensic examination in Nigeria is due to the fraudulent and misrepresentation of corporate reporting compromises and abuses of auditors in falsifying the true state of the entity. The import of forensic examination helps Nigerian institutions to discover fraudulent reporting and insider abuses by management and employees so that corporate governance rules and ethics will be obeyed going forward.

7. RECOMMENDATIONS

The following recommendations are made;

a. For the avoidance of audit failures, flaws and fictions in Nigeria's public and private institutions, auditors and audit operations should be independent. This will result into objective reporting of the true and fair state of the organization to investors and the publics.
b. Forensic examination and audit should be incorporated into the company wide auditing space. This will complement the limitations inherent in traditional auditing in prevalent in Nigerian corporations
c. Corporate governance and ethics orientations should be given to all stakeholders of the firm; the employees, management and board of directors.
d. Corporations in Nigeria both public and private should simultaneously employ the services of both traditional auditors and forensic auditors. This will strike a balance and mitigate fraud and embezzlement of corporate funds by employees and management
e. Organizations in Nigeria should separate ownership from management and institute robust corporate governance and ethics in the workplace. This will forestall fraudulent activities in the work organization
f. Management and board of the organization should avoid the elongation of tenure of auditors. Short tenures should be defined for auditors; this will help mitigate compromise and insider abuses in the workplace.

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