

*Full Length Research Paper*

# **Behavioural constraints on practices of auditing in Nigeria (BCPAN)**

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**This research was conducted to determine the behavioural constraints on practices of auditing (BCPAN) in Nigeria and to proffer strategies for making incidence of auditing (internal and external auditors) more effective. Thirty-seven administrators drawn from some public limited liability companies, private companies and tertiary institutions were quite auspicious. Two research questions were posed and the instruments for data collection were the questionnaire and interview; data were analysed using percentage and chi square. Results of the data analysis showed that administrators feel auditors are always in their firm or establishment to expose them and so they prefer to have a cover up, by bribing them before the commencement of their duty. Auditors were also found to be conniving with corrupt officials to cover their lapses. Based on the findings it was recommended that such strategies as auditors should, as a matter of policy, anonymously assess administrators as at when due, so that those found guilty of serious (BCPAN) could be sanctioned; external auditors should not over stay in any firm/establishment which they are engaged in for over a period of 10 years. Also, administrators should have a positive behaviour towards auditors in Nigeria because they are not fault finders, but are engaged for the well being of the firms in Nigeria.**

**Key words:** Behavioural, auditing, auditors, public companies, private companies, tertiary institutions, Nigeria.

## **INTRODUCTION**

The ancient records of auditing are confined principally to public accounts, but there is clear indication that from an early date it was customary for an audit of the accounts of manors and estates to be performed. The person whose duty it was to make such an examination of accounts became known as the auditor, the word being derived from the Latin 'audire', meaning "to hear". Originally, the accounting parties were required to appear before the auditor who had their accounts. In the same way, no doubt, the evolution of a more perfect system of accounts had a material effect on the practice of auditing, but the audit of business accounts did not become common until the nineteenth century. The enormous increase in trade in that period, which was fostered by the

discovery of steam power and by mechanical inventions, generally led to the formation of numerous joint stock companies, and other corporate undertakings, involving the use of large sums of capital under the management of a few individuals. Under these conditions, the advantages to be obtained from utilizing the services of auditors became apparent to the public generally, and a great increase in the practice of auditing resulted; as the present day forms the most important part of a professional accountant's practice (Walter, 1969).

The Institute of Internal Auditors as contained in the work of Robertson (1996), defined Internal Auditing as "an independent appraisal function within an organization to examine and evaluate its activities as a service to the organization". The appraisal part of the Internal Auditor's function places him/her in a position to ensure that established policies and procedures are complied with viz. An audit, on the other hand, is the independent examination of, and expression of opinion on, the financial

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statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant law and regulation.

As a result of the increase in the level of business activities, both in the public and private sectors, it is now required by status that activities of governmental and corporate business organizations be audited. The beauty of this requirement is to ensure that those entrusted with fund are accountable to it. Auditing therefore ensures that accounts and records of organization show a true and fair view. Auditors do this by thorough examination of the books of accounts of businesses and to confirm whether there is appropriate approval and authorization for every transaction and the errors made. It is in recognition of the importance of auditing in ensuring that all activities of the organization are thoroughly accounted for, that internal audit department is usually created.

Auditing generally is not for the discovery of stolen money but for statutory requirement as to ensure that there is fair and fairness in both public and private sectors of the economy. The Nigerian nation is a conglomerate of many individual's and nationalities, each having its identity before the advent of the colonial masters. Both internal and external auditors are supposed to be the watchdog of society – 'Organizations Financial Well Being'. Some government organizations are not run on financial and commercial principles, yet an Internal Auditor is employed and paid for to police organizational assets (Abadi, 2005).

In many instances, what some Nigerians (auditors and auditees alike) believe is that if auditors are not competent, then the whole audit process is of no value. In Nigeria, as well as the developed countries, Chartered Accountants, (Auditors) are seen as competent but a number of recent events including failures of some banks and some companies' have given rise to doubts in the minds of the business community (private and public sectors). An interesting idea put forward by Abadi (2005), is that competence is constantly being improved but at the same time economics has dictated that the time spent on auditing is constantly being reduced even though modern laws, in accounting systems and structure are steadily becoming more complex. This paper focuses on the way auditees behave towards the auditors and the way the auditors themselves behave towards auditing.

### **Nature of auditing profession**

In the early days of auditing the prime qualification for the position of auditor was reputation. A man known for his integrity and independence of mind would be sought for this honored position, the matter of technical ability being entirely secondary, and consequently his function, in those days, was never confused with that of accountant. However, as accountancy gradually became more com-

plex and concerned with technicalities, auditors found themselves out of their depth and, in turn, became increasingly dependent upon the expertise provided by the accountants until, eventually, the audit function itself became totally dominated by the accountancy profession. It is for this reason the descriptions 'auditing profession' and 'accountancy profession' is today used synonymously. Auditors need not be at the center of this issue because they are leaders as well as role models; it therefore, follows that auditors, invariably being closer to both public and private organizations (sectors) could be of immense help and significant positive/constructive influence as the auditees forge ahead with the challenges/hurdles of total development.

### **Independent nature of the auditor**

According to Millichamp (1990), a vital part of auditing is that the auditor must be independent of the management whose accounts he is auditing. In the case of companies, he must not be connected with either the directors or the shareholders. He (the auditor) must also be independent of government agencies or other groups who have contact with the business. For these reason auditors form themselves into independent firms willing to perform audit for a fee for whoever is able and willing to employ them. Howard (1982), in his view opined that for auditors to be independent of themselves they should not invest either physically or other wise (that is they should not have financial and shares interest) of any kind in the organization he/she is auditing. According to Howard, if an auditor has interest of any kind in the organization 's' he is auditing, there will be no independence of any kind and the Stakeholders or Members of the Board of Directors have to dictate to the auditors what they will do, thereby losing the pride of independence in an auditor.

Abadi (2005) reiterated that for any auditor to be independent of himself, he should be disinterested in anything (financial or otherwise) of the organization he/she is auditing. When this happens it means the auditor has the right to actually carry out investigations as it is required of him in the profession. This is in line with the view of Millichamp (1990), who opined that, an auditor's approach to work in a spirit of independence of mind by "not making loans to its clients nor receiving loans from clients. A similar prohibition is on guarantee of individuals' partners; their spouses and their minor children should also not make loans or guarantee loans to clients nor receive loans or guarantee from clients. It is pertinent to say that for auditors to act independently, they should avoid professional relationships where personal relationship also exists.

Problems can arise with work required by family or by personal friends. Problems can also arise where an auditor has been engaged on the same audit for many years

or has a business relationship with a client. But in Nigerian context the case of auditors differs because they stick to find relations, friends and well wishers when called upon to audit a firm or organization.

### Conflict of interest

This can arise between an auditor and his client. Conflict of interest can arise between a client and another client, and an auditor should not act for both parties if the parties are in dispute. Care should be taken so that the client takes responsibility for the work done and that objectivity in auditing is not impaired (Howard, 1982). The auditor should not prepare the accounting records of public company clients. Howard continued by saying that no one in an auditing firm should take part in the reporting function (that is take part in the audit) if he or she has in the accounting period or in the previous two years been an officer or employee of that company/establishment. In this regard, conflict of interest has an important bearing on independence and hence also on the public perception of members objectivity.

### Honesty

For the successful conduct of an auditor examination, the auditor must be honest, honest both in reporting his findings and in seeking explanations when in doubt or when he has limited understanding of matters relating to his examination. The honesty of the auditor does not end with his telling the truth regarding his findings or honesty to other people. It includes honesty to himself (Osita, 2002). He must be honest in recognizing his shortcomings and never presenting himself as knowing all when in fact he would have benefited from the superior knowledge of his client.

Internal Auditing Guidelines (IAG) 3 specifies honesty (integrity) as one of the basic principles in auditing. Hence, the honesty of the auditor should never be in doubt. The lack of integrity on the part of the auditor will completely defeat the essence of his engagement as it erodes the confidence, which is generally reposed on the auditor by his client and even third parties. In Nigerian context, honesty is hardly seen in the life of the auditors and the auditees. This is because for an auditor to carry out an exercise (Auditing Practice) in a firm or organization, he/she has something in mind to achieve. On the part of the auditees, views like covering up the stealing and paying a huge sum of money to the auditor has taken away honesty. Based on this, the behavioural constraints on the practices of auditing in Nigeria require some changes, which is the concern of this research. The following questions were therefore posed:

1. To what extent does behavioural constraint on practices

of auditing (BCPAN) prevail?

2. To what extent are managers (stakeholders) involved in BCPAN?

The recommendations made at the end of this study will help Nigerians to change their behaviour towards auditors which will in turn lead to effective auditing practice in Nigeria.

### METHODOLOGY

An instrument named BCPAN (Behavioural Constraints on Practices of Auditing in Nigeria) was developed and used to obtain data for the study. The interview method was also employed. The questionnaire was structured on a three-point scale of Large Extent (LE), Small Extent (SE), and No Extent (NE), with all issues relating to behavioural constraints on practices of auditing and the value system of auditing in Nigeria. The study population comprised 50 managers who were part of a get together organized by Public and Private Sectors Directors (PPSD). The public and private managers were actually drawn from the nation's organizations, including tertiary institutions. A record breakdown showed that 17 managers were from public limited liability companies, 28 from private limited companies including banks and auditing firms and 15 from tertiary institutions (both private and government owned). Ultimately, an expeditious random sample of 37 managers was drawn giving 9 managers from public limited liability companies, 16 from private limited companies, including banks and 12 from tertiary institutions, respectively. Percentages were used predominantly to analyze data and Chi-square ( $X^2$ ) non-parametric statistical techniques facilitated the test of hypothetical propositions (HPs).

### PRESENTATION AND INTERPRETATION OF DATA

Highlights of data presentation and interpretation are contained in Tables 1, 2 and 3; while HP statistical test details are in Table 4.

Table 1 shows 26 (70%) managers out of 37 indicated that BCPAN prevails in the three categories of both public and private sectors to a large extent, and they were in the majority.

From Table 2 auditors are not exonerated and alienated from the widespread incidence of behavioural constraints on practices of auditing (BCPAN), as 15 (40%) so affirmed, and they were in the majority.

Table 3 established Managers' involvement in BCPAN to a large extent, as 20 (54) so affirmed, and they were in the majority. The HP statistical results are detailed in Table 4.

Table 4 shows the cardinal inferential statistics at 99% level of confidence and 4 degree of freedom were:

$$X^2 \text{ Cal} = 3.59; X^2 \text{ Tab} (0.01, 4) = 13.28 \\ X^2 \text{ Cal} < X^2 \text{ Tab} (\text{Null HP accepted})$$

This established that there is no significant difference in BCPAN patterns and prevalence in both public and private sectors activities.

**Table 1.** Extent of general prevalence of behavioural constraints on practices of auditing (BCPAN).

Administrators	Large extent	Small extent	No extent	Total
Public Limited Companies	8 (89%)	1 (11%)	(0%)	9 (100%)
Private Limited Companies	10 (63%)	5 (31%)	1 (6%)	16 (100%)
Tertiary Institutions	8 (67%)	2 (16.5%)	2 (16.5)	12 (100%)
Total	26 (70%)	8 (22%)	3 (8%)	37 (100%)

**Table 2.** Extent of auditors involvement in behavioural constraints on practices of auditing (BCPAN).

Administrators	Large extent	Small extent	No extent	Total
Public Limited Companies	6 (67%)	3 (33%)	(0%)	9 (100%)
Private Limited Companies	4 (25%)	5 (31%)	7 (44%)	16 (100%)
Tertiary Institutions	5 (42%)	3 (25%)	4 (33%)	12 (100%)
Total	15 (40%)	11 (30%)	11 (30%)	37 (100%)

**Table 3.** Extent of managers' involvement in behavioural constraints on practices of auditing (BCPAN).

Administrators	Large extent	Small extent	No extent	Total
Public Limited Companies	6 (67%)	2 (22%)	1 (11%)	9 (100%)
Private Limited Companies	8 (50%)	4 (25%)	4 (25%)	16 (100%)
Tertiary Institutions	6 (50%)	2 (17%)	4 (33%)	12 (100%)
Total	20 (54%)	8 (22%)	9 (24%)	37 (100%)

**Table 4.** Chi-square ( $X^2$ ) computation for HP test.

Observed frequencies (O)	Expected frequencies (e)	(O - e)	(O - e) <sup>2</sup>	$\frac{(O - e)^2/e}{(x^2 \text{ cal})}$	$X^2 \text{ Tab}$
8	6.3	1.7	2.89	0.46	13.28
10	11.2	-1.2	1.44	0.13	
8	8.4	-0.4	0.16	0.02	
1	1.9	-0.9	0.81	0.43	
5	3.5	1.5	2.25	0.64	
2	2.6	-0.6	0.36	0.14	
0	0.7	-0.7	0.49	0.70	
1	1.3	-0.3	0.09	0.07	
2	1.0	1.0	1.00	1.00	
37	37	NA	NA	3.59	

## DISCUSSION

A basic philosophical pronouncement in the Nigerian Administrators emphasized the resolve to transform Nigerian administrators (auditors and auditees) into sound and productive managers. With the auditor, the enhancement of cognitive and affective internal audit department is accentuated even as the people get more refined. Their intellect, emotions, attitudes, dispositions and skills are also reshaped and rededicated for the best.

The result, in the final analysis, shows a high quality of character (behaviour), inherent moral and social values and fulfilling culture among the generality of the administrators. Essentially this study has shown that BCPAN is still very much prevalent in Nigerian public limited companies, private limited companies and tertiary Institutions. On how the incidence of BCPAN has impacted on the value system of managers, the data revealed that auditors desire good skills, while professional standards have been lowered and morals dragged to the mud by

administrators. In fact, the latter are no longer proud of their calling to the end that the quality of organization keeps dwindling. It is actually wrecking more havoc in private limited companies, closely followed by tertiary institutions where an external auditor will have to stay in an institution for more than 12 years; and then the Nigerian public limited companies. The trend implies that administrators of both public and private sectors are still dwindling even after the auditors might have given them the best in terms of independence, honesty, and conflict of interest.

Auditors and administrators alike are guilty of BCPAN. It is so bad that, in recent times, many auditors, on the one hand, may not be ready to audit and yet desire to obtain excellent names at all cost. On the other hand, administrators want to live affluent lives like their counterparts in allied sectors of the economy. They want to ride big cars, own/live in magnificent edifices, look attractive with their spouses, and enjoy all the good things of life. Succinctly, many administrators wish to show pride amongst the upper-upper class of society. This situation has made administrators in some cases to place price tag on auditors, particularly for desperate ones (thereby behaving as if they worth nothing). Consequently, some of the indulging administrators hardly regard the auditors while they are performing their duties. They always feel that the auditors have come to expose them and for that, they should be bribed.

## RECOMMENDATIONS

In the light of the research findings, it is very necessary for decisive steps to be taken with every sense of expediency and urgency to eliminate BCPAN. More specifically, auditors should, as a matter of policy, anonymously assess administrators as at when due, so that those found guilty of serious BCPAN could be sanctioned. If such drastic measures are not taken, organizational morals and professional standards, which are already in a mess, may not be redeemed.

Internal Audit Committees (IACs) should be constituted along every organization lines so as to vet all vouchers and contracts. The IAC should be provided with standardized working schemes and model equipment, to

enable them vet the vouchers/contracts and ensure that they have been well treated and are stated truly and fairly. Members of such a committee should be persons drawn from the accounting profession, with tested and proven impeccable character.

External auditors should not over stay in the firm engaging them; a maximum period of 10 years is recommended.

Administrators should have a positive behaviour towards auditors in Nigeria because they are not fault finders but engaged for the well being of the firms.

All hands must be on deck to eradicate the endemic scourge of BCPAN in both public and private sectors, so that in the near future, organizations in Nigeria could reckon with their counterparts in developed nations of the world.

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