

## PDF - THE ROLE OF EXTERNAL AUDITOR IN ENSURING EFFECTIVE ACCOUNTABILITY A CASE STUDY OF BETA GLASS PLC, UGHELLI - researchcub.info

### ABSTRACT

Auditors have been variously accused of profiting from violating professional standard and ethical practices. The purpose of the study is to examine the role of external auditors in ensuring effective accountability. The required data for this study were obtained from primary and secondary data sources. While the statistical tools applied in the study were the simple percentages, the study reveals that there are some transaction, interest and relationship that impaired the auditor independence and ethical practices. The independence role does not apply to all services performed by the auditor especially when the client is the major beneficiary as long as no attestation services are being provided for the client. The multiple role of an auditor does to some extent impair his professional independence, and ethical practices. Hence, the credibility of the published financial statement of his client from the conclusion drawn above, we therefore, recommended that a registered public accounting firm that audits company should be prohibited from providing non attest services firm that company. A public accounting firm should not allow personal working on non attest engagement to also work on the audit of the same client.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

The importance of examine of the role of external auditors in ensuring effective accountability cannot be overstated.

In (April 12, 2011) Arens and Leedback defines Auditing as the accumulation and evaluation of evidence about quantifiable information of an economic entity to determine and report on the degree of correspondence between the information and established criteria and auditing should be done by a competent independence person, called an auditor.

An auditor is a person who examines or inquires into a financial statement or books of accounts and its underlying documents to enable him form an opinion as to the truth and fairness of the account presented and whether proper books of account have been presented.

An auditor is required by the companies and Allied Matters Act, 1990. To express an unbiased opinion on the following.

1. The state of the financial affairs of the establishment.
2. The truth and fairness of the financial statement prepared.
3. Whether the financial statement are in agreement with the underlying accounts to be prepared.
4. Whether the provision of the company and Allied Matters Act 1990 have been complied with.

#### 1.2 Statement of the Problem

Auditors' independence is very important to the credibility of the published financial statement. However, in recent times, auditor's independence has been questioned with increasing frequency. In some cases, negative publicity has resulted against the auditors. There have been more reports in the financial press about various illegal payments or fraudulent and unethical activities by auditors. And this has only helped to increased skepticism about the auditor's independence.

In this journal of accounting (2008), leader in his article on auditor independence, expressed an opinion that the auditor cannot be truly or totally independent. He is of the view that the partner of bigger firm are willing to admit privately and off the records that irrespective of the ethical rules as regards the clients companies, this

is not so much a problem that affect independence but rather professional fees from a big client would have impact on their objectivity. This implies that the fear of losing a major audit job if full objectivity is displayed is very real, and auditors firm are in business primarily for profit reasons, notwithstanding ethical rules and guidelines.

Scholars have said that as long as directors of companies influence the choice of company auditors, notwithstanding what company law provisions and ethical guidelines are on independence, auditors can never be truly independent.

The auditor loses his ability to ensure credibility in published financial statement when he is not independent.

The auditor will be tempted to allow his clients financial affairs to be presented in a way which will preserve or enhance the value of the client company in circumstance where an impartial auditor would have disagreed with the true and fair view purported to be presented by the financial statements.

An auditor may find himself in a situation where he can benefit from violating professional standard or loss by refusing to violate the standard and ethical practice. This conflict is common to all professional groups and it is called self-interest versus ethical conflicts. An individual self-interest may be consistent with acting in accordance with his or her ethical belief. If for example the auditor has a direct or indirect financial holding in the audited company, he is in a position to increase their values by omitting relevant facts or misinterpreting certain activities. This can be viewed as internal conflict between the auditors' self-interest and his professional integrity. Other rules of professional conduct issue by I can do not considered an auditor independent, if he has financial interest in the clients business. However, the potential loss of auditor tree may be such greater than course for conflict between professional integrity and self-interest. It is in view to address this problem that prompted the researcher to investigate the role of external auditors in ensuring effective accountability using Beta Glass plc as a survey study.

### 1.3 Objectives of the Study

The objectives of the study are to examine the role of external auditors in ensuring an effective accountability. To achieve this, the study intends to ascertain the following:

To investigate and report on the multiple role of an auditor.

To investigate the report on the role of external auditors in ensuring effective accountability.

To investigate and report on the professional and ethical guidelines of auditing.

To investigate and report on the factor that militates against the auditor from exercising his professional independence and ethical code of conduct.

To investigate and report on the consequence risks involved in exercising the professional independence of auditors and the ethical code of conduct.

To provide the necessary recommendation for the study based on the findings.

### 1.4 Research Question

The following question are raised to address the problems and objectives of the study

What is the multiple role of an auditor?

What are the professional and ethical guidelines of auditing?

What are the factors that may likely influence the auditor from exercising his professional independence and ethical code of conduct?

What are the implication of auditors multiple role on his professional independence and ethical practices?

To what extent can it be said that the multiple role of auditor prevent him from exercising his independence and ethical practice code of conduct?

To what extent can it be said that the auditor personal relationship between the auditing firm and his clients and the financial involvement impair the independence of auditor?

What are the risk consequence of not exercising the professional independence of an auditor and the ethical code of conduct?

What are the objectives of an auditor and how does the auditors professional independence and ethical practices help in the auditor to achieve his objectives?

### 1.5 Significance of the Study

1. This study is expected to benefit a number of people the shareholders are expected to be top in this regards. It is for their sake that the auditors are appointed after all.

The auditor of a company not only has a responsibility to the shareholders but he also has a duty of care to third parties such as creditors and would be investors.

2. The professional auditor is on the line focus this work invaluable. The main goal of the research is to alleviate the threats to the existence of the professional.

3. Accounting bodies would benefit from this study since it would help them to understand better the forces against attaining independence and ethical on the side of the auditor.

4. The government is not left out in this list of these to benefit as it is an audit report that such matters as tax, issue are relied on.

5. Students and other persons would benefit immensely from the study.

6. This study can be a basis for further study on the subject matter.

7. The literature on this study will be an update to the literature on the subject matters.

### 1.6 Scope of the Study

This study is suppose to cover all the auditing practicing firms in Nigeria, but due to time, financial constraint, the study has been limited to Beta Glass plc, Ughelli, Delta State, Nigeria.

It is hoped that the findings from this area covered would be used for generalization

### 1.7 Limitation of the Study

Every research study has certain limitation which fall short of the ideals which the researcher has recognized. Therefore, this study is not an exception; hence the following were the limitation of the study:

Lack of current secondary materials such as textbooks, journals magazines, newspaper etc. which deals on the subject matter. Hence researcher finds it difficult to source for current materials on the subject matter.

Time and financial constraint: another constraint encountered in this study was time and finance needed to cover wider areas. A study of this nature required enough time and money to enable the researcher get in touch or visit all the ageing practicing audit firms in Nigeria.

Nonchalant attitude of respondents: another obstacle encountered by the researcher was the collection of data. From the respondents due to extraneous variable including the negative attitude of some of the respondents in spite of all these obstacles, the research study was successful conducted as reasonable amount of data were collected, which makes the finding of this study reliable.

### 1.8 Definition of Terms

The following terms are defined for the purpose of understanding:

Auditing: this is an examination and evaluation of the authenticity and therefore the reliability of the firm's

business documents and records.

**Audit:** this is a conscientious and objective examination or an inquiry into any statement of account relating to money or money's worth, the underlying document and the physical asset where possible as would enable the auditor to form an opinion as to whether or not the statement of account presents a true and fair view of whether it purports to present and to report accordingly.

**Auditor:** is a person who examines or inquires into a financial statement or books of accounts and its underlying documents to enable him to form an opinion on the correctness and fairness of the accounts presented and whether proper books of account have been presented.

**Financial statement:** the financial statement is the set of statements, usually presented to the shareholders at the annual general meeting. They consist of the profit and loss account, trial balance and the balance sheet.

**Firm:** a firm is a partnership of more than one person, engaged in any trade or vocation. The firm in this study refers to the auditing firm.

**Client:** this is the company whose books of account are being examined by an auditor; the company is referred to as the client to the auditor.

**Independence:** power to act in accordance with the professional ethical and generally accepted standard of reporting without succumbing to pressures.

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