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ABSTRACT

The research titled "Effect of external auditing expenditureon the profitability of Nigeria Banks" highlights the relevance of externalauditing in improving performance of Nigerian banks. The cardinal objective ofthis study is to ascertain the effect of external auditing expenditure on theprofitability of Nigerian banks. The study aims at achieving the followingspecific objectives which includes: ascertaining the effect of external auditexpenditures on profit after tax of Nigerian banks and examining the effect ofexternal audit expenditure on return on shareholders' funds of Nigerian banks.The study adopted the ex-post facto research design. The empirical researchused secondary data sourced from First Bank of Nigeria annual reports andstatistical bulletins of the Central Bank Nigeria. The time series for thestudy covered a period of 2002 to 2016. Simple regression model was employedfor the study while the hypotheses formulated were tested using version 20 ofthe Statistical Package for Social Sciences software. The result of the studyshow that external auditing expenditure has negative and non-significant effecton the profit after of commercial banks in Nigeria and external auditingexpenditure has negative and non-significant effect on the return onshareholder funds of commercial banks in Nigeria. This work recommend thatauditors should maintain a degree of independence to guarantee qualityassurance that could provide the much needed protection of depositors finds andother shareholders interest in the bank.. We recommend also that furtherresearch should be carried out on this topic with an enlarged scope capturingmore 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" whichmeans "to hear". In the olden days, whenever the owner of a trade suspected "afoul play" by his store keeper, he sent for certain independent persons toresolve the issue. The person goes to the store keeper and "hears" whatever hehas to say in regards or connection with the accounts in dispute. This personfrom his vast knowledge and simple experience of similar situations would beable to tell, if all the explanations given form any discrepancies in therecord which were adequate and credible. These individuals of integrity arewhom we today call auditors. In societies marked by divisions of expert labour,external auditing is promoted as a trust engendering technology with thecapacity to promote a certain kind of social order (Power, 1999). Accountants,as auditors, have cemented their status and privileges on the basis of claimsthat their expertise enables them to mediate uncertainty and construct independent,objective, true and fair accounts of corporate affairs (Sikka, 2009). It hasbeen argued, however, that such claims are not good indicators of corporateperformance, because capitalist economies are inherently prone to crises(O'Connor, 1987; Sikka, 2009). Furthermore, the claims of expertise arefrequently affected by unexpected corporate collapses, fraud, financial crimeand the general crisis of capitalism (Baker, 2007; Sikka, 2009; Sikka et al ,2009) Since 2007, major Western economies have been experiencing a deepeningbanking and financial crisis arising from subprime lending practices by banks,which in turn has restricted the availability of credit and has led to what hasbeen described as the 'credit crunch' (Sikka et al , 2009). Some commentatorshave attributed this economic crisis to the unethical practices of corporatebank managers and to the inability of auditors to expose such anti-socialpractices from previous audits (Broad Street Journal, 21 October 2009; Sikka,2009). Some auditors may have failed to comply with expected standards. If acompany fails shortly after being audited, the auditors may be blamed forconducting an inferior audit (Dopuch, 1988). Thus, whenever there is afinancial scandal, it must be questioned whether the auditors carried out theirduties and obligations with due care and diligence.

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

As such the owners or share holders of most banks are notpart of the daily operations of the organizational activities look forward tothe realization of their goals.

There are however, other interest groups who depend on theorganization to realize their own respective goal. The suppliers, stockbrokers, lenders, government and so on are all part of the stakeholders, sincethese owners are not involved in the daily operations of the business, they maybe doubtful of what the management may present to them as report of theorganizations performance for the purpose of reliance on the management report,the stakeholders need confirmation report, or assurance by an independent partyknown as the external auditor.

In the light of this, customers need the assurance of theexternal auditors, who are greatly depended upon, since they are expected toadopt 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 thepossibility of its existence.

This is one of the pronouncements in ISA 240 which wasfurther made stronger and actionable by the introduction of the Sarbanes Oxleyof 2002.

There are so many problems which surrounded this, on thestrength of this multiple problems, it is pertinent to have proper examinationof the responsibilities of the external auditors to public and privatecompanies to know the effects of non- compliance by the auditors on thecorporate performance of an organization.

Unarguably, stakeholders look up tothe external auditors as one who has the professional competence and whoseadvise or opinion is held sacrosanct for investment decision.

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

Statutory requirement or engagement letter becomes thespringboard on which the organization success or failure is viewed visa-avisthe auditor's action. More importantly is that the stakeholders especiallydepositors in the banks still look up to the external auditors' reports toassure them of the safety of their deposits and answers other going concernquestions on the banking industry .Because of the perception of thestakeholders on the responsibilities of external auditors in this regard, thisstudy seeks to review the effect of external auditing on the profitability ofNigeria company in assisting banks increase their deposits thereby enhancingvalue creation to stakeholders.

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