

PDF - EFFECT OF EXTERNAL AUDITING EXPENDITURE ON THE PROFITABILITY OF NIGERIAN BANKS: A STUDY OF FIRST BANK (2002-2016) - researchcub.info

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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 funds 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 “afoul 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, stockbrokers, 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 advice 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 vis-a-vis 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.

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