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Drivers of Audit Failure in Nigeria- Evidence from Cadbury (Nigeria) PLC.

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ABSTRACT
This study is an investigation of audit failure factors in Nigeria's corporate governance firmament. An explanatory case study approach was adopted for the study supplemented by archival data and newspaper reports. An explanation was sought for the findings of the regulatory authority that the auditor in this case was not only negligent and incompetent but also did not demonstrate sufficient Professional skepticism. One of our findings is the fact that the auditors may have stayed for too long on the job and had thus impaired their independence. Provision of non- accounting services to this particular audit client was also fingered as a cause of the audit failure. We recommend mandatory rotation of auditors and prohibition of provision of non- audit services to audit clients among others. One limitation, though, of our study is that it is a single case study and may not be generalised.
KEY WORDS: Audit Failure, Cadbury (Nig.) Plc, Professional Skepticism, Negligence.

1. INTRODUCTION

Audit failure is a global phenomenon and cuts across jurisdictions. Witness the recent collapse of such global companies as Enron and World Com. Earlier in the 1980's and 1990's such global giants as John Mathews Bank(JMB), Bank of Credit and Commerce International (BCCI), Barring Brothers, Nomura Securities, Brex and Long Term Capital Management (LTCM) all failed as a result of fraud related factors(Muraina et al. 2010). In such cases, the cry of the investing public has invariably been "Where were the Auditors?"

Nigeria is not spared either from incidences of audit failure. Take the case of five banks that failed the CBN stress test in 2009, Afri- bank, Fin Bank, Union Bank, intercontinental bank and Oceanic bank. The banks had one thing in common. They were certified distressed by CBN barely few months after their auditors had given them a clean bill of health. Perhaps, the greatest audit failure in Nigeria in recent times is that associated with the Cadbury (Nig.) Plc. accounting scandal which came to the fore in 2006. This scandal has since been euphemistically dubbed Nigeria's Enron equivalent.

Audit failures are costly to investors, the auditors themselves and even the wider society as a whole. Enormous sums of money are lost every year by investors to fraud and corporate collapse. Bakre (2007) reveals that Nigerian investors have lost several billions of dollars as a result of companies that falsified and deliberately overstated their accounts and consequently failed or got into serious trouble. For example at the height of the Cadbury (Nig) Plc. Accounting scandal, its share price pull meted from an all -time high of #65.52 in December 2005 to #8.65 as at october2009. Similarly, the Enron collapse resulted in the crash of the company share price and the attendant loss in stakeholders' wealth. The effects of the recent capital Market collapse in Nigeria in which some banks and their auditors have been blamed for unbridled granting of margin loans and manipulation of share prices of the banks include the following:

Loss of confidence in the Nigerian capital market by investors. Investors and stock brokers lost billions of Naira of their investments virtually overnight. Investors became exposed to the risk of bankruptcy as they had obtained investment and margin loans from the banks and were no longer in a position to repay. Depositors' funds were seriously eroded from loans extended by banks for share speculation and sometimes manipulative purposes.

Credit crunch as banks became wary of extending further credits to the productive sectors of the economy.

Capital flight ensued as foreign investors sought safer climes for their investments.

Market capitalization of the Exchange dropped from an all- time high of #13.5 trillion to a mere #4.6 trillion

About ₦2billion of Pension Assets were lost by pension fund administrators(Osaze 2011)

The loss of investors' trust and confidence in the capital market hurts the economy badly as fresh funds cannot be mustered to drive rapid economic growth and development. The auditors, on the other hand, have had their reputation sullied. Audit clients switch firms that have reputation for low audit quality (Skinner & Srinivasan 2010). What are the factors that cause audit failures in Nigeria? What is the explanation for the prevalence of such factors in Nigeria? What could be done to enhance audit quality and hence stem the adverse impact of audit failures in Nigeria? The above research questions will guard this study. The rest of the paper will proceed as follows; we will review literature on audit failures germane to our case study; this will be followed by sketching of the case study; we will then state our methodology; we will proceed to discuss our findings; we then conclude.

2. Literature Review

Auditing failure is said to occur when management grossly misrepresents their financial statements and auditors, through negligence or incompetence, fail to discover and report misrepresentations to the public(Tackett et al. 2006). It follows that audit failure stem largely from a flawed audit process resulting in audit ineffectiveness.
What constitutes an effective audit has been subject of discussions among researchers. The following characteristics, among others, have been attributed to effective audit:

i. It is judged on its outcome which includes financial statements, other reports and presentations
ii. An effective audit firm and team which has sound procedures understands the company and industry, together with judgment, objectivity and independence of mind
iii. Quality of relationship between the external and internal auditors and the finance team(Bender 2006)

A synthesis of the literature reveals a large number of audit quality or audit effectiveness attributes. These attributes are regarded broadly by extant literature as audit firm and audit team attributes with audit team attributes being regarded as more important. Audit firm experience with the client at the team and firm level is important since it enables audit year in and year out to be planned and conducted with improved efficiency. Industry experience, on the other hand, give knowledge of the risks, opportunities and accounting practices of the client and enables a more effective audit. Compliance with technical and ethical standards presupposes audit staff with the relevant qualifications, knowledge and experience .A highly ethical staff will all things being equal deliver a high quality audit. In a similar vein, an independent auditor or audit team is likely to conduct an audit with an attitude of impartiality, objectivity and due care resulting in higher audit effectiveness. Some other attributes include the need for executives to be involved in an audit since that presupposes more experienced and better qualified personnel which will translate to higher quality audit. The need for periodic freshness to be brought into an audit seems to provide a theoretical basis for audit firm rotation as well as audit partner rotation. One attribute also canvassed is the need for an attitude of professional skepticism in the conduct of an audit (Boon et al. 2008). The absence of these attributes in an audit firm or audit team is likely to drive audit failure
There are few studies on audit quality or failure factors in Nigeria. The results of such studies are mixed. One study on factors likely to influence the independence of the Nigerian auditor and thus colour his objectivity and impartiality found out that size of audit fee is the most influencing factor. The study relied heavily on survey data (Adeyemi & Akinniyi 2011). A similar study on factors that are likely to affect audit quality in Nigeria using both primary and secondary data found out that provision of non- auditing services to an audit client is likely to affect independence of auditor. The study did not find such relationship with mandatory rotation of auditors. This is in sharp contrast with a similar study which discovered that mandatory rotation of auditors in Nigeria is likely to affect audit quality positively (Ebimobowei & Keretu 2011).
A UK perspective study which focused on audit quality factors of transparency, expertise, professionalism and commercialization found out that UK financial Reporting Council (FRC) and the professional bodies themselves have mainly focused on issues which possibly do not pose a threat to the commercial interest of audit firms(Holm & Zaman, 2012). In Nigeria, the auditors have been accused of anti- social behavior deriving from their pursuit of commercial interests(Otusanya et al. 2010). A perception study on the need for ethical reorientation for future auditors reported mixed reactions from respondents. This portends grave danger for ethical soundness of future accountants(Adeyemi & Olamide 2011). Auditor competence as espoused by the possession of professional membership of renowned accounting body has also been adjured to have a negative association with audit failure(Mansouri & Pirayesh 2009). The importance of professional skepticism in audit practice cannot be overemphasized. Professional skepticism refers to an attitude that includes a questioning mind and critical assessment of evidence(Quadackers, 2009)

3. Methodology

A case study approach is adopted in this study. The need for case studies arises out of the desire to understand complex social phenomena. It allows investigators to retain the holistic and meaningful characteristics of real life events A case study seem to be the preferred strategy when "how or why" questions are being posed, when the investigator has little control over events, and when the focus is on contemporary phenomenon within some real life event (Yin 2003). It also allows multiple methods to be to be used in a study. So additionally in this work, archival data, newspaper interviews granted by experts and comments on websites in respect of the matter were copiously used.

4.0 The Case Study and Findings

In October 2006, the board of Cadbury Nigeria PLC notified the world, which would include its stockholders and regulatory bodies of the discovery of "Overstatements" in her accounts, which according to it, has spanned many years. It quickly appointed Price Water House Coopers, an independent accounting firm to investigate the "Overstatements"

Messrs Price Water House Coopers submitted their report to the board of Cadbury PLC, and the sum total was to confirm the charge of fraudulent accounting, categorized as "Overstatements". Also the company in its release stated that the overstatements could be between #13billion and #15billion.

As a result of the cooked accounts, CADBURY SCHWEPPES PLC, the parent company has had to make a provision of 15million Pounds sterling as impairment of the goodwill held in respect of CADBURY NIGERIA, as at 31st December 2006 (Solanke, 2007).

The audit firm of Akintola Williams Delloitte were indicted in part as follows:

i. Inability to uncover the accumulated losses of the company of 13.255 billion Naira for the years 2002 to September 30, 2006 even as the auditor of the company for over 40 years.
ii. Failure to confirm a material credit of 7.7billion Naira allegedly credited to the company's account in 2005
iii. Failure to take action when company management could not satisfactorily explain queries raised by the auditor in its management letters to the company.
iv. Lending its name to a false profit forecast in a rights issue by the company during the period.
v. Lack of professional due diligence when put on enquiry in a transaction involving a disclaimer by a customer of the company.
vi. In ability to demonstrate professional skepticism in spite obvious lapses in internal control documented by the auditors.
vii. General lack of professional skepticism and due diligence by the firm and its partners given their wealth of experience.

Source: SEC REPORT

5.0 Discussions

Aspersion has been cast on long auditor- client relationship in this case as the accounting firm had been beholden to the company for over 40 years providing both auditing and non-auditing services. As noted earlier, empirical studies in Nigeria on auditor tenure and provision of non- auditing services to audit clients have shown mixed results. In this case, it would appear that SEC is voting for mandatory rotation of audit firms in Nigeria as it "bemoans" the fact that for over 40 years AWD had been the auditors of the company. In a similar vein, the report raises the issue of whether big is always beautiful. In extant literature, audit quality is often associated with big firm audit but here we have a case of a big audit firm not being able to discover a monumental fraud of over 13billion Naira perpetrated between 2002 and 2006. The issues of technical competence and negligence in driving the audit process featured prominently in the SEC report. For example, 7.7 billion Naira was credited to the account of Cadbury (Nig) Plc.in 2005 without any attempt by the auditors to confirm from the banks the bank balances of the company. Why would an auditor stumble across a disclaimer of stock certificate allegedly issued by a customer of the company what 700million Naira and still neglect to probe the transaction to the bottom? . The report also raises the issue of failure to exercise professional skepticism given the spate of internal control lapses observed by the auditor. There is also the issue of reluctance by the auditor to qualify his report in the light of the numerous internal control infractions which the company failed to remedy. One wag commenting on the Cadbury scandal and the complicity of the auditors said" there is a list of ethical issues raised in this matter". Another faulted the fee dependence of AWD on Cadbury PLC for acting as their auditors as well as reporting accountants as the independence of the accounting firm could not be guaranteed.

Why should auditors demonstrate incompetence, lack of professional skepticism, negligence and the like in the audit process? According to Afoakwa (2013), the following factors may lead to a compromised audit:

i. Fear of losing a valued employee.
ii. Laxity in the law guiding auditing
iii. Unwillingness of the investing community to hold auditors to account
iv. Some auditors accept bribes and gratifications to look the other way.
v. Others have fingered conflicts of interest (Demski, 2003). Others have alluded to technical incompetence as another factor. The list is endless.

6. Conclusion and Recommendations

The study has established clearly some factors that cause audit failure in Nigeria. These include professional negligence, lack of professional skepticism and lack of due diligence in the audit process. Long audit tenure and provision of non- auditing services to an audit client did not also work in favour of the auditor in this case. We recommend more rigorous quality control measures by the individual audit firms and quality monitoring teams of the professional accounting bodies in Nigeria. A stiffer penalty should be imposed on erring auditors as in other climes. One commentator put it this way "in other climes the audit partner in charge of the audit would have been in jail". The controversy over mandatory rotation of auditors and provision of non- auditing services to audit clients has again been reignited and, based on this case study, should be prohibited. One limitation, though, of this study is that it is a one case study and therefore requires caution in the generalization of its findings.

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