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THE APPRAISAL OF PUBLIC COMPANIES IN NIGERIA (A SURVEY OF CAUSES OF INACCURATE FINANCIAL REPORTING BY SELECTED BANKS IN NIGERIA)

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***Abstract**: This paper analysis critically appraises the causes of inaccurate financial reporting in the banking sector. The purpose of the paper is to ascertain among other things the causes of high report of inaccurate financial reporting in the banking system and analyzing the effect of the saga on public confidence on published financial report. The paper covers only commercial banks which are licensed by the Central Bank. The result of the findings indicates that: The independence and competency of the external auditors and the audit committee does not play any significant role in enhancing financial reporting credibility. Inaccurate financial reporting is caused by ineffective corporate governance and poor accounting and internal control system.*

***Keywords:** Appraisal, Public, Companies. Nigeria*

1.0 Introduction

Public companies are required to communicate economic measurements of all information's about the resources and performances of the reporting entity useful to those having reasonable right to such information. The financial reports enable users to assess the liquidity, profitability and viability of a company. There is no doubt that the practices of accounting and auditing in Nigeria required major stake up, if the long-term of corporate organization is of any importance to shareholders. In recent time, there has been renewal interests in the issues of financial reporting published for users of financial statement. The issue relating to financial reporting should be traced back to 1975 with the advent of what was then known as "Corporate Report". The spate of accounting frauds in the stock market has placed more responsibility on auditors of quoted companies to show better sense of responsibility to curtail corporate fraud (Ndi Okereke Onyuike, 2001). Though auditors depend on the directors reports as basis of their auditing, they need to conduct discrete verification of their reports.

The issue of corporate financial reporting has become a global concern particularly in recent time due to the reported cases of corporate failures arising from improper and false financial reporting in companies which hitherto had enjoyed good reputation due to the track record of great success in their line business (Ekwerike 2007). Some established cases of corporate frauds and to collapse of notable companies includes: Enron, Rank Zerox, Worldcom and formulate. Authur Anderson was the auditor of Enron that helped it to cook its books (Musa Al-Faki, 2007). Some of the principal officers of these companies were persecuted, convicted and sentenced to various jail terms.Local examples of frauds and collapsed companies include:

i)The failure of Nigeria Banks in the early 1990's
ii) The case of Lever Brothers Plc. (Now Unilever) in 1998.
iii) The Case of African Petroleum Plc. in year 2000

iv) The case of Cadbury Nigeria Plc.'s over Statement in the current and prior year's Statement. It is as a result of these cases of reported corporate frauds and the recent sack of Chief Executive Officer's (CEOs) of some in Nigeria Commercial Bank in Nigeria by the Central Bank of Nigeria (CBN) Governor, Dr Sanusi Lamido Sanusi prompted the researcher to investigate the causes of inaccurate financial reporting by public companies in Nigeria.

OBJECTIVES OF THE STUDY

The objective of this paper is to examine, evaluate, appraise and report on the causes of inaccurate financial statement by public companies. Basically, the main objective of the study includes;

1. To determine the level of confidence which the user of financial report have on such reports.
2. To examine the causes of inaccurate financial reporting by public companies in Nigeria.
3. To examine whether there is independence and competence of external auditor and an audit committee that will review and consider financial statement.
4. To determine if there is compliance of financial statement with CAMA and other statutory and regulatory requirements.

SIGNIFICANCE OF THE STUDY

The result of the study will be useful to the followings:

1. **Users of Financial Report**

It will help users of such report to know the level of reliance to place on such reports in taking financial decisions.

2. Future Research

Future researchers will find the research work a good reference material and guide their study of related or similar problems.

3. Investors/Shareholders

This research work will enlighten them on the type of financial report issued by companies in Nigeria.

4. Contributes to Knowledge

The study is capable of increasing the knowledge of both researcher and readers of the work.

2.0 Brief review of related literatures

Concept of Financial Reporting and Financial Statement of Public Companies

Okezie (2004: 826) argues that financial reporting relates to external report published for users of financial statement. The issues relating to financial reporting should be traced back to 1975 with the relevant or advent of what was then known in England and Corporate reports. Ekwerike (2007; 116), the objective of Corporate report is to communicate economic measurements of information about the resources and performance of the reporting entity useful to those having reasonable rights to such information (ASC). This will help to serve useful information to various users in order to improve their financial decision. Financial statement enables users to access the liquidity, profitability and viability of a company. The balance sheet show the assets and liabilities and proprietors' interest at a point in time (SAS 2). Whether the financial statement presents a true and fair view of the state of affairs of the company is a task that calls for through examinations of whether they are prepared in accordance with acceptable accounting principles appropriate to the particular company qualitative characteristics of financial information and above all reflects the economic position of the company. Financial reporting is a crucial element necessary for the corporate governance to function effectively. It provides an instant link in enabling providers of finance to monitor directors.

The ICAN study pack as quoted by Osondu (2005: 72) that in order to enhance the integrity of financial reporting, company is required to put in place a structure of reviewing authorization procedures designed to ensure the truthful and factual presentation of the company's financial position. The composition of the audit committees should include equal number of the independence Directors and representative of the shareholders to a maximum of six (6), according to Section 359 (4) of CAMA. For proper discharge of duties, all members of audit committee should be literate in financial matters and have a good understanding of the industry in which the company operates. It is expected that at least one member should have financial expertise and education qualification of a recognized professional accounting body.

Ekwerike (1999:2) states that publishing the financial report of companies as required by Securities and Exchange Commission (SEC) serves the following purposes:

i. To meet the regulation requirement of the corporate affairs and SEC as already stated.
ii. To inform the shareholders on the progress and position of their business.
iii. To feed other stakeholders such as lenders, suppliers, customers and employees with information about the progress and position of the company. This is expedient because of the benefits conferred by limited liability status which such companies enjoy.

Publicity of the financial statement of companies enhance stakeholder's confidence in the company. The company is expected to include information such as whether the company's auditors have made reports on the accounts and the nature of the report that needs publish the report.

Publication of companies account on the pages of newspaper is in itself advertisement for the company and its services or product companies usually publish abridged financial statement comprising balance sheet and or profit and loss account relating to a period of year of the company. Financial reports contains the following:

I .Accounting policies.
ii. Balance sheet
iii Profit and loss account
iv .Cash flow statement
v .Notes of the account
vi. Value added statement
vii .Five years financial summary.

Ekwerike (2007: 120) Elements of financial statement are assets, liabilities, equity, gains and losses, contribution from and distribution to owners. Some framework includes comprehensive income, revenue and expenditures.

Eras of Banking in Nigeria

The history and growth of the present day banking system according to Nwezeaku N.C. (2007) can be classified into seven different areas as follows

Table 1.1 Eras of Banking in Nigeria

S/N	Eras	Period
1.	Era of unrestricted banking	1892 - 1952
2.	Era of Bank failure (pre-Central banking)	1953 - 1959
3.	Era of Consolidation	1960 - 1969
4.	Era of Indigenization	1970 - 1980
5.	Era of expansion and competition	1981 - 1992
6.	Era of Distress	1993 - 2005
7.	Era of merger, recapitalization and consolidation	2005 to Date

❖ **GLOBAL ISSUES OF INACCURATE FINANCIAL REPORTING**

Ekwerike (2009: 94) states that the issue of corporate financial reporting has been a global concern particularly in recent time due to the reported cases of corporate failures arising from improper and false financial reporting in companies which hitherto had enjoyed good reputation due to the track record of great success in their line of business.

What do Enron, Worldcom, Adephia, Ahold and Paramlat are in common? These are recent scandals, where senior executive intentionally presented inaccurate financial information and make incorrect statements to the capital markets. Accounting frauds and errors differs based on the intent of those producing financial information. For example, if reserves are unintentionally misstated and mis-representated to the market, this is considered as accounting errors and not accounting frauds. On the other hand, if there is intent to mislead, involving the use of deception to obtain unjust or illegal advantages, then this is qualified as accounting fraud.

BPP (2000: 87) as quoted by Okezie and Osondu (2009: 129 - 130) identified that the most significant scandal in America in recent years has been the Enron Scandal, when one of the country's biggest companies filed for bankruptcy. The scandal also resulted in the disappearance of Authur Anderson, one of the big five accountancy firms who led audited Enron's accounts. the main reasons why Enron collapsed was over expansion in energy markets ,eventually too much reliance onderivatives trading which eventually went wrong, breaches of U.S. federal law, and misleading and dishonest behaviour, however enquires into the scandal exposed a number of weaknesses in the company's governance, which include:

Lack of the Transparency in the Accounts

This particularly relates to certain investment vehicles that were kept off balance sheet. Various other methods of inflating revenues, offloading debt, messaging quarterly figure and avoiding taxes were employed.

Inadequate Scrutiny by the External Auditors

Author Anderson failed to sport or failed to question dubious accounting treatments. Since Anderson's Consultancy arm did a lot of work for Enron, there was allegation of conflict of interest.

Information Asymmetry

That is the agency problem of the directors/managers knowing more than the investors. The investors included Enron's employees.

Many had their personal wealth toes up in Enron shares, which ended up being north less. They were actively discouraged from selling them. Many of Enron's directors, however, sold the share when they began to fall, potentially profiting from them. It is alleged that the chief financial officer, Andrew Fastow, concealed the gains he made from his involvement with afflicted companies.

CASES OF INACCURATE FINANCIAL REPORTING IN NIGERIA

Some public limited companies in Nigeria involved in corporate frauds, cooking its books which led to the collapse of those companies. Some of the top officials of these companies were persecuted, convicted and sentenced to various jail terms. Some of those notable companies that were involved in frauds and collapsed include the following: The case of Lever Brothers Plc. (now Unilever in 1998) where over-valuation of stock running into billions of naira was discovered.

The case of African Petroleum Plc. which the Companies Board concealed indebtedness to the tune of about ₦22 billion in its year 2000 offer for sale.

Chevron Plc (2003)

In Nigeria, it was reported that federal government sued Chevron over breach of accounting standards, over non-compliance with accounting standards in its financial report for the year ended, December 31st 2003. The case is the first of its kind since the NASB Act Amended which employers the Board to enforce compliance with Accounting Standards of Corporate Bodies in the presentation of their accounting reports.

The six count change against the Chevron MD, Mr. Frederick Nelson, Price Water House Coopers and FirmsManaging Partners, Mr. Ken Igbokwe includes as follows:

- Comprising to commit a felony to non-compliance with NASB Act in the preparation of Chevron's account for the year ended December 31st, 2003.
- Failure to disclose other earnings by distinguishing between interest incomes, income from investments and other sources.
- Failure to disclose the basis for determines the book value of property, plant and equipment in the said financial statement.
- Obstructing the NASB by their failure, refused or neglecting to attend meetings schedules on September 19th and 29th 2006, by the inspector of the NASB to ascertain whether the provision of the Act or any regulation made there under are being complied with.
- The auditing firm and its managing partners were also accused of giving favourable certification to a misleading financial statement contrary to Section 2(1) of the NASB Act No. 22 of 2003.
- Willfully refusing to reinstate the said misleading financial statement with 60 days of the notice of that effect.

Cadbury Nigeria Plc (2006)

Cadbury Schweppes, controlling stakeholders, (50.02%) in Cadbury Nigeria said in December that it had discovered a significant and deliberate overstatement of Cadbury Nigeria result, which had existed over a number of years. Some of the shareholders went to court over this accounting scandals that gripped the confectionery giant in 2006.

The Nigerian Chief Executive, Mr. Burnim Oni and the Finance Director, Ayo Akadiri was relieved of position. Report on the findings of the independent investigation, Price Walter House Cooper's which was appointed by theBoard (Cadbury Plc) to investigate the details of overstatement in the wake of the accounts or financial scam, showed that cadbury Nigeria Plc overstate its accounts to the tune of several billions of Naira over the years. Perhaps, it is necessary to state the techniques or ingredients used by Cadbury Plc in its book-keeping. These include:

- Manipulating sales figures to imaginary projections.
- Engaging in fraudulent use of buy backs to window dress the company's profit and loss account.
- Over production of goods which lead to hiring of seven (7) warehouses to ease congestion at the factory.
- Cost deferrals.
- The use of false supplier certificates to support non-existent stock balances.
- Failure to provide for bad debts, obsolete stocks, redundant spare parts and accursed customer discount.

The Central Bank of Nigeria (CBN) that year (2009) sacked with immediate effect the Managing Director/Chief Executives and Executive Directors of five banks namely:

- Afri-Bank Plc - Mr. Sebastine Adigwe
- Fin Bank Plc - Mr. Okey Nwosu

- Intercontinental Bank Plc. -Dr. Erastus Akingbola
- Oceanic Bank Plc - Dr. (Mrs) Cecilia Iburu and
- Union Bank Plc -Dr. Bath Gbony

CBN Governor, Mallam Lamido Sanusi said the bank's officials were removed due to high level of non-performing. Loans in the five banks which were attributed to poor corporate governance practices, tax credit administration process and the absence or non-adherence to the bank's credit risk management practices. Special examination was conducted by a joint team of CBN and NDIC official. The major findings on the five banks stated above include:

- Excessively high level of non-performing loans in the banks which was attributed to poor corporate governance practices. Thus the percentage of non-performing loans to total loans ranged from 19% to 48%. The five banks will therefore need to make additional provision of ₦539.09 billion.
- The total loan portfolio of these five banks was ₦2, 801.92 billion. Margin loans amounted to ₦456.28 billion and exposure to oil and gas was ₦487.02 billion. Aggregate non-performing loan stood at ₦1.143 billion respectively representing 40.81%.
- The huge provisioning requirements have led to significant capital impairment consequently: all the banks are undercapitalized for their current level of operations and are required to increase their provisions for loan losses, which impacted negatively on their capital. Indeed one is technically insolvent with a capital Adequate Ratio of (1.10%). Thus, a minimum capital indiction of ₦204.94 billion will be required in the five banks to meet the minimum capital adequacy ratio of 10%.

Given the extent of the asset quality problem leading to liquidity stresses, and the variety of stress points on the banks' balance sheets, failure to act to secure the financial health of these banks will clearly place the system at risk. The Central Bank has a responsibility to act to protest all depositors and creditors and ensure that no losses money due to bank failure. The bank also needs to move decisively to remove this principle cause of financial instability and restore confidence in the banking system.

3.0 METHODOLOGY

SAMPLE SIZE AND SAMPLING TECHNIQUES

Sample size are used in a study that involves large population to enable the researcher adequately manipulate the immense population so as to avoid common errors in calculating large numbers, and to reduce the cost of production or producing questionnaires that will reach the entire population and time involved. There is 595 staff in the three branches which forms the population of this study in the different management cadre.

To determine the sample size of this study, the researcher employed the statistical formula by Yaro Yamini (1964) which states that:

$$n = \frac{N}{1 + N(e)^2}$$

where

n	=	sample size
N	=	population of the study
1	=	Constant
e	=	margin of error

In this study, the margin of errors was 5% or 0.05 which was chosen by the researcher.

Hence, sample size is determined thus:

$$n = \frac{595}{1 + 595\,(0.05)^2}$$

$$n = \frac{595}{1 + 595\,(0.0025)^2}$$

$$n = \frac{595}{1 + 4875}$$

$$n = \frac{595}{2.4875}$$

Sample size n = 239

4.0 Results and Discussion

The data presented in this chapter are primary data obtained from the field through the administration of structured questionnaire and oral interviews on the selected or sampled respondents. A total of 239 questionnaires dealing on appraisal of causes of inaccurate financial reporting by public companies in Nigeria were administered on the sample respondent. All of them were properly filled and returned for analysis, showing an encouraging rate of response on the research topic.

The statement of hypothesis was tested for validity or otherwise using the chi-square (X5) test techniques.

An attempt was made by the researcher in presenting the responses of the respondents and answers to research questions using tables and simple percentage.

Question 1

Can you say that external auditor and the audit committee of banks in Nigeria play a significant role in enhancing integrity of financial reporting?

Table 4.1.1

Responses	Frequency	Percentage
Yes	106	44%
No	133	56%
Total	**239**	**100%**

Table 4.1.2

Responses	Frequency	Percentage
Yes	118	49%
No	121	51%
Total	**239**	**100%**

Question 3

Inaccurate financial reporting is caused by corporate governance failures of banks in Nigeria?

Table 4.1.3

Responses	Frequency	Percentage
Yes	140	59%
No	90	41%
Total	**239**	**100%**
Total	**239**	**100%**

Effective	90	38%
Not Effective	118	49%
Total	**239**	**100%**

2 ANALYSIS OF DATA

From the data presented in tables 4.1.1 - 4.1.15, the researcher adopted simple percentage as the benchmark for his data analysis.

Table 4.1.1 shows that 106 respondents representing 44% answered that external auditors and the audit committee of banks in Nigeria plays a significant role in enhancing integrity on financial reporting, while 133 respondents representing 56% answered that they does not play any significant role from the analysis, it can be deduced that "They do not play significant role in enhancing integrity on financing reporting".

Table 4.1.2 shows that 118 respondents representing 49% and 121 respondents representing 51% of the total population that answered "Yes" and "No" respectively that external auditors report and the audit committee review add value to the credibility of financial reports of banks in Nigeria. this extracts that "They did not add value to financial reports".

Table 4.1.3 shows that 140 respondents representing 59% and 99 respondents representing 41% answered "Yes" and "No" respectively that inaccurate financial reporting is caused by the corporate governance failures of banks in Nigeria. This indicates that a corporate governance failure of banks in Nigeria is the cause of inaccurate financial reporting.

Table 4.1.4 show that 180 respondents representing 75% and 59 respondents representing 25% answered "Yes" and "No" respectively that inaccurate financial reporting in recent times by public companies are caused by lack of sound corporate governance practice. It can be deduced that the former respondent are correct.

Table 4.1.5 shows that 90 respondents representing 38% answered that financial statement of banks in Nigeria are accurate while 149 respondent representing 62% said that theyare not accurate. "This implies that financial statements of banks are not accurate".

Table 4.1.6 shows that 31 respondents representing 13% answered that corporate governance practices of banks in Nigeria are "very effective", 90 respondents representing 38% answered that they are effective, while 118 respondents representing 49% answered that they are "Not effective". From the analysis above, it can be extracted that corporate governance is not effective in Nigerian banks.

Table 4.1.7 shows that 99 respondent representing 41% and 140 respondent representing 59% answered "Yes" and "No", respectively that financial reports published by banks in Nigeria are reliable.

Table 4.1.8 shows that 102 respondents representing 43% answered that those external auditors of banks are independent in carrying out their duties, while 137 respondent representing 57% and they are not. The above analysis implied that external auditors are not independent in carrying out their duties.

Table 4.1.9 shows that 103 respondents representing 43% answered that management of banks in Nigeria perform their over sight function of stewardship accounting, while 136 respondent representing 27% said that they don't perform over sight function. From the analysis the later are accurate.

Table 4.1.10 shows that 21 respondents representing 9% answered that the public confidence on audited published financial statement of banks in Nigeria are "Very strong" 53 respondents representing 22% answered that they are"strong", while 165 respondents representing 69% answered that they are "not strong". The analysis indicates that the public confidence on audited published financial statements of banks in Nigeria is not strong.

Table 4.1.11 shows that 155 respondents representing 65% and 84 respondents representing 35% answered "Yes" and "No" respectively that financial statement published by banks in Nigeria comply with statutory and other requirement. The above indicates that the former is right.

Table 4.1.12 show that 30 respondents representing 12% answered that inaccurate financial reporting is/are caused by "Corporate governance failure, and 9 respondents representing 4% answered that inaccurate financial reporting is/are caused by answered "pressure on management" while 200 respondents representing 84% answered "all of the above". For this analysis, it can be deduced that inaccurate financial reporting is/are caused by both corporate governance failure and pressure in management.

Table 4.1.13 shows that the whole respondent (239) representing 100% answered that sound corporate governance should be encouraged in the management of banks.

Table 4.1.14 shows that 131 respondents representing 55% and 108 respondents representing 45% answered "Yes" and "No" respectively that financial statement of companies in Nigeria serves the information needs of the users of such statement. From the above, it can be deduced that the former are right.

Table 4.1.15 shows that 54 respondents representing 23% and 185 respondents representing 77% "Yes" and "No" that the problem of inaccurate financial report is peculiar to Nigeria. The above analysis indicates that the problem of inaccurate financial reporting is not peculiar to Nigeria.

5.3 CONCLUSION

The researcher has attempted to highlight critically the causes of inaccurate financial reporting in the banking sector in Nigeria.

However, based on the findings from the data collected (Primary and secondary), the researcher came to the following conclusions.

That there is ineffective corporate governance and poor accounting and internal control system in public companies especially banks in Nigeria. That there is a high case of inaccurate financial reporting which has been reported in different sector of the economy.

The researcher therefore concludes that the high cases of inaccurate financial reporting are caused by ineffective corporate governance, poor accounting and internal control system and audit failure.

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