Statutory Auditors' Relevance in Corporate Accounting: An Empirical Analysis

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Abstract: *The study appraises the effects of external auditing in the growth of banking business with special emphasis on its relevance to deposit mobilization. Data were collected through oral interviews, library research and the questionnaire. Respondents were chosen through stratified random sampling and data were analysed using the Chi- square and Z-test. Findings of the study indicate that external auditors contribute significantly to the growth of the deposits as their assurance functions and reports encourage the depositors and other stakeholders to grow their deposits in the banking sector. However, any report that is negative usually triggers off panic among depositors. The paper recommends that auditors should maintain a high degree of independence to guarantee quality assurance that can provide the much needed protection of depositors' funds and other stakeholders' interest in the banking sector.*

Keywords: *Auditing Functions, External Auditing, Financial Statements, Investment Decision.*

I. INTRODUCTION

Management of most banks is detached from owners (Principal-Agency Theory). As such the owners or shareholders of most banks are not part of the daily operations of the organizational activities. There are however, other interest groups who depend on the organization to realize their own respective goal. The suppliers, stock brokers, 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 stake holders need confirmation 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.

The Sarbanes Oxley Act was introduced in 2002 following the failure of Enron, scandal which was cleverly hidden from the external auditors of Anderson, leading to colossal losses by the stakeholders, all over the world. However not all the stakeholders expects from the external auditors could be legally enforceable as in the case of Re-Kingston cotton mill of 1896 in which the external auditors were adjusted as watchdog and not blood bound (Millichap, 2008). Thus, auditors are bound or liable within the limits of the statutory requirements contrary to the perception of the stakeholders. The divergence between stakeholder's perceptions of the auditor and the statutory requirement is the expectation gap.

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 advise 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 visa-avis 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 paper seeks to review the roles of external auditing in assisting banks increase their deposits thereby enhancing value creation to stakeholders.

Statement of the Problem

External auditing functions are seen as powerful tool that aid corporate performance and infact existence. The sensitive nature of the banks Nigeria has put more demand on external auditing reports as most depositors look up to the yearly assurance reports affirming and reaffirming the viability or otherwise of the banks. Studies have been carried out on the general role of the external auditing in areas of fraud prevention in the banking industry but few have been conducted on the role of external auditing in encouraging the growth of banking business with specific interest on deposit mobilization.

Objectives of the Study

The primary objective of the study is to examine the roles of external auditors in the growth of banking business with special emphasis on deposit mobilization.

Specifically, the paper will:

a. Ascertain the level of liability of the external auditors to third parties and how his role can influence deposit growth.
b. Examine the degree of responsibility of external auditors as specified in the relevant statutes and how it can affect the quality of financial reports.

Research Hypotheses (Null)

- External auditor's liability to third parties does not influence deposit growth.
- The responsibility of the external auditors does not affect the quality of financial reports.

II. REVIEW OF LITERATURE

The various roles that the external auditor performs towards the realization of the stakeholder interest cannot be over emphasized. In the light of this research work, his duties of forming an opinion as to the true and fair view of an organization based on. Whether adequate accounting records have been kept by the company and appropriate returns for their audit have been received from branches not visited by them. Whether the company's individual accounts are in agreement with the accounting records and returns and whether the auditable part of the directors remuneration report is in agreement with the accounting records and returns. However, if the auditor is of the opinion that adequate accounting records have not been kept or that adequate returns for their audit have not been received from branches not visited by him, or the company's individual accounts are not in agreement with the accounting records and returns, or the auditable part of its directors remuneration report is not in agreement with the accounting records and returns the auditor is expected to state such fact in his reports.

There are avalanche of organizational failures among organizations in the world. The case of Enrons Corporation in 2001 was a shock with its ripple effects across financial markets in the world. The atmosphere of fraud and dishonesty is pervasive and this has taken its role on some audit reports and the subsequent collapse of major world business concerns.

The fall out of the Enron, Corporation was masterminded by the chief financial officer Andre Fastow and other executives who mislead even the audit committee but also pressured their external auditors, Anderson to ignore the issues. The website reports indicated that shareholders cost nearly $11billion when the company's stock experiencing on all time clip of $89 from $90,000 in November 2011. More than 85,000 employees and numerous stakeholders were affected by the fraudulent financial activities.

In banking industry, most banks present for audit only accounts that largely portray their banks healthy, profitable and competitive. These issues have resulted to audit failure in recent times and these have not only affected the share holders and employed alone but other interested persons as the lenders, supplier etc. stakeholders expect the external auditor to discharge their obligations by ensuring that the financial statements of the organizations to which they are engaged show the real position of their financial affairs.

III. RESEARCH METHODOLOGY

Research Design

The study adopted the survey and descriptive approach.

Population/Sample size

The population for the study is made up of 34. This number comprises shareholders, employees, and customers. Shareholders 7, employees 11 and customers 16. For the purpose of this study, the actual population or aggregate is 34 from which a sample is determined using Taro Yamen's formula:

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

Source: Taro Yemen (1964)

Where N=Actual population of 34

n = Sample size

e = Level of significance (tolerable error)

1 = Constance

Factoring in, we have

$$= \frac{34}{1+34\,(0.05)^2}$$

$$= \frac{34}{1+.34 \, x \, 0.005}$$

$$= \frac{34}{1+..0850}$$

$$= \frac{34}{1.0850} = 31.34 = 31$$

Thus, 34 stakeholders represent the sample size for the population. However for each stratum, the sample size was estimated using the burley's proportional allocation techniques.

$$nh = \frac{nNh}{N}$$

$where$

nh = the number of unit allocated to each category of stakeholders
Nh = the number of population in each category of stakeholders
n = the total sample size
N = the actual or total population

Population allocation

$$Shareholders, nh = \frac{7 \times 31}{34} = 6$$

$$Employees = \frac{11 \times 31}{34} = 10$$

$$Customers = \frac{16 \times 31}{34} = 15$$

Summary of the sample size

Shareholders	6
Employees	10
Customers	15

Sources of Data

Data were sourced through the primary and secondary sources.

Tools for Data Analysis

In analyzing the data from the questionnaire administered, both descriptive and parametric analyses were used (Ezejelo, *et al.*, 1990). Descriptive analysis involved the use of simple percentages, cross tabulations of simple percentage, cross tabulations, tables and chats (where applicable). To test hypothesis, the Z- test (two tailed) test technique was used.

IV. PRESENTATION AND ANALYSIS OF DATA

Presentation of Data

The data collected are presented in table 1 below. The responses were analyzed using the simple percentage. A total of thirty one (31) questionnaires were distributed to the respondents. The questionnaires were duly filled, none were wrongly filled or rejected and all responded.

Table1: Respondents on External Auditors and their responsibilities.

Response	Question 7		Question 7		Total	
	Frequency	(%)	Frequency	(%)	Frequency	(%)
Agree	24	77	16	52	40	56
Disagree	7	23	15	48	22	37
Total	31	100	31	100	62	93

Source: Field Survey

From the table above, 24 of the respondents or 77% stated that external auditing is the responsibility of the external auditors. The table further shows 52% of the respondents or 16 of them indicating that external auditors are responsible for the enhancement or creditability of the financial statements on stakeholders. Respondents to question II show that 16 or 52% are of the opinion that external auditors have duty of care and skill as part of their responsibilities.

Respondents on investors' reliance on external auditor's reports

Response	Question 7	Question 7	Total
	Frequency %	Frequency %	Frequency %
Agree	24 77	20 65	44
Disagree	7 23	11 35	18
Total	31 100	31 100	62

Source: Field Survey

An analysis of respondents to question 15 shows that 24 respondents or 77% of the respondents believe that stakeholder have reliance on the report of the auditors and that organizational failure should be attributed to the auditors whose reports the investors relied upon. Only 23% of the respondents believed that auditors are not to be totally held liable in the course of organizational failure.

On the preparation of the financial statements and keeping the books, an analysis of question 16 shows that 20 or 65 of the respondents believed that auditors are saddled with preparation of the financial statement. Only 11 or 35 % of the respondents are of the opinion that it is not the responsibility of the external auditor to prepare financial statement.

Testing of Hypotheses

Table 1 above representing the primary data obtained through questionnaire administered for the assessment of stakeholders' perception on the influence of external auditors on deposit mobilization. As was earlier stated the statistics of Z test was used to test the two hypotheses formulated to answer the research questions as asked to guide the study.

Table2: Analysis of Responses

No	Questionnaire	No of Resp.	Score of Resp.	No of Resp.	Score of Resp.	Total
7	Need for external auditors by corporate entities	24	102	7	20	31
8	External auditors and credibility of financial reports	16	65	15	33	31
10	External auditors and proper returns from branches	28	117	3	8	31
11	External auditors duties of care and skill	16	67	15	43	31
15	External auditors and failure of their client organizations	24	99	7	20	31
16	External auditors and preparation of financial statements	20	72	11	28	31
17	Engagement letters and auditor's responsibilities	28	118	3	9	31
22	Auditor defined functions and their liabilities	28	125	3	9	31

Source: Field Survey

From the table of respondents and their scores above, the mean score and standard deviation are determined as shown below

Table3: Analysis of Responses

	No of resp.	Score of resp.	Mean score	Standard score	No of resp	Mea n scores	Standard deviation.	No of resp	Total of rep.
7	24	102	11.33	1.30	7	20	3.33		31
8	16	65	7.22	9.93	15	33	5.5		31
10	28	117	13.00	4.04	3	8	1.33		31
11	16	67	7.44	7.16	15	43	7.17		31
15	24	99	11.00	0.69	7	20	3.33		31
16	20	72	8.00	5.28	11	28	4.67		31
17	28	118	13.11	4.28	35	9	1.5		31
22	28	125	13.89	5.55	3	9	1.5		31

Source: Researcher's computation

The Z-value calculated is obtained by factoring in the above generated valuable in the format. $Z = \frac{\bar{x}1 - \bar{x}2}{\frac{1}{\sqrt{n_1}} + \frac{1}{\sqrt{n_2}}}$; $where$ $\bar{x}_1$, $\bar{x}_2$ Are the aggregate mean score of the two opinions while n1 and n2 total number of respondents representing the entire sample;

$$\text{thus } Z = \frac{10.62-3.54}{\frac{4.77}{\sqrt{23}} + \frac{4.18}{\sqrt{8}}} == \frac{7.08}{\frac{4.4}{\sqrt{23}} + \frac{4.4.18}{\sqrt{8}}}$$

= 0.92 + 1.48= $\frac{7.08}{2.4}$ = 2.95This is compared with the critical value obtained thus df 2 31-3 =28 i.e. (n-k) where K representing the three sets of stakeholders and n is the sample size of the study. Thus: The critical value of Z at 5% of significant is located from appendix 3 areas under the normal curve and this give $\pm$ 1.96.

Decision Rule: If calculated Z value is greater than the critical value at the 5% level of significance. It means that the resulting value lies outside the acceptance region and as such the resulting hypothesis should be rejected. The importance of the above scenario is that the null hypothesis should be rejected. This means that external auditors are responsible for the performance of corporate organization and investors significantly rely on the report of the external auditors in the course of their investment decision.

This is tested with responses to question 9.12, 13, 1, 20, 21, 24, and 25.

Table3: Response from questionnaire

Deviation Cal Table

Respondent Category	N	x	STD	df	2 – 2 -	D decision
Respondents on Agreement	10.62	4.77				
Respondents on Disagreement	3.54	4.18	2.8	2.95	$\pm$1.96 0.05	Rejection

Source: Researcher's computation

$\sqrt{n_1}$ $\sqrt{n_2}$ Standard deviation of the two sets of respondents, $n_1 n_2$ = total no of respondents representing the entire sample

$$thus\ Zcal = \frac{10.62 - 3.54}{\frac{4.77}{\sqrt{23}} + \frac{4.18}{\sqrt{8}}}$$ = 7.08

$$\frac{4.4}{4.8} + \frac{4.18}{2.83} = 0.92 + 1.48 = \frac{7.08}{2.4}$$

Table4 : Analysis of Respondents

Questionnaire	No. of resp.	Score of resp.	No. of resp.	Score of resp.	Total
Auditors report and investors confidence	7	20	24	102	31
Auditors validation and fraud exposure	3	8	28	117	31
Uses reliance on auditors reports	15	43	16	67	31
Users misperception and aims of financial statement	7	20	24	99	31
Wrong expectation by users of reports	11	28	20	72	31
Corporate failures and wrong expectation by way of compromises	3	9	28	125	31
Fear and cover up of top management wrongs	30	9	28	125	31
Total					

Source: Field Survey

From the above respondents and sources, the mean scores and standard deviation are developed for the calculation of the 2-value.

Questionnaire	No. of resp.	No of resp.	Mean score	Standard deviation	No of resp.	Score of resp.	Mean score	Standard deviation	Total resp.
9	7	30	2.22	0.47	24	102	17	1.3	31
12	15	33	3.67	5.26	16	65	10.83	1.3	31
13	3	8	0.89	7.65	28	117	19.5	1.3	31
19	15	43	4.78	5.67					31
20	7	20	2.22	0.47					31
21	11	28	3.11	2.03					31
24	3	9	1.00	7.07					31
15	3	0	18.89	7.07					31
total									
Agree	64	170	2.36	35.65	184	765	117.5	35.91	24.8
Gate									
Agree	8	21.25	2.36	4.46	23	95.63	14.64	4.49	31
Gate									
Mean	$N1^2$	1X	1X			1X	$1X^2$	8^2	

Researcher's computations 8_1^Y N_2^2

The standard deviation was obtained using the formula

$$Z = \sqrt{\sum \frac{(X-X}{7})^2}$$

$$\frac{\bar{X}_1 - \bar{X}_2}{8_1 \qquad 8_2}$$

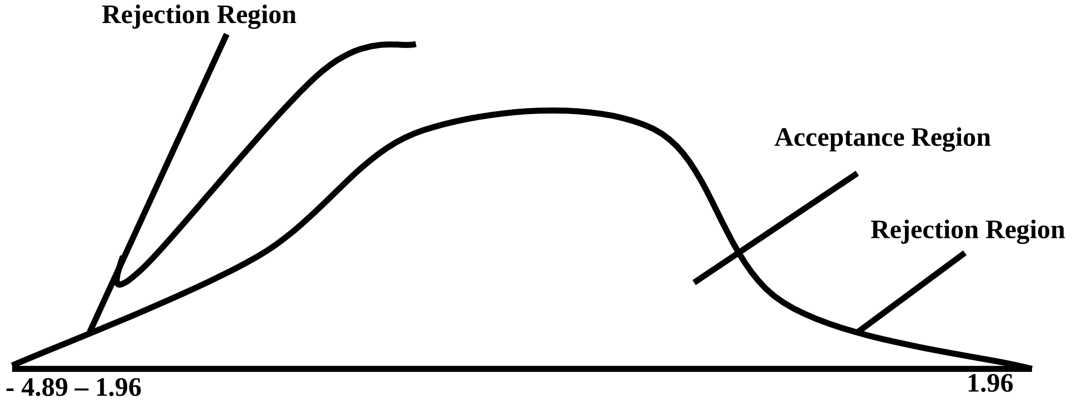
$$Z = 12.33 \frac{4.46}{\frac{2.83}{\sqrt{8}}} + \frac{4.49}{\frac{4.89}{\sqrt{23}}}$$

= Z = 12.33

$$\frac{4.46}{2.83} + \frac{4.49}{4.80}$$

$$= \frac{12.33}{2.52} \; 4.89$$

The calculated value of Z = 4.89, the critical value if Z @ 5% level of significance and 28 degree of freedom (31 - 3) gives $\pm$ 1.96, this is shown in the normal curve below.



The calculated value falls outside the acceptance region on the negative flank. This leads to the rejection of the null hypothesis two and to accept alternative hypothesis that investor significantly rely on the report of the external auditors in the course of their investment decision.

The results are shown below;

Respondent category	**N**	$\bar{x}$	**ST deviation**	**df**	**2-cal**	**2-D table**	**decision**
Respondents on agreement	8	2.36	4.46				
Respondent on disagreement	23	14.69	4.49	2.8	-4.89	± 1.96	0.08 Reg.

Researcher's computations

V. DISCUSSION OF RESULTS

The study was revalued through the use of questionnaire with question tailored towards the assessment of stakeholders' expectations on the external auditors in deposit mobilization.

The two null hypotheses were subjected to statistical test of significance of 95% confidence level and 28 degree of freedom, the test statistics employed was Z-test (two tailed test). In an attempt to test hypothesis one which states the role of external auditors in the growth of deposit mobilization of banks, the result arising from the primary data tested at 95% confidence interval was located outside the acceptance region an indication that the null hypothesis should be accepted. The result shows that the external auditors contribute to the growth of deposit mobilization.

Hypothesis two states the level of liabilities to the third parties gave a positive value a clear indication from the acceptance region. This again leads to the acceptance of the null hypothesis that external auditors are liable to the third parties in the process of making their investment decisions. Auditors have the duty of care and skill and should discharge their responsibility in line with the status relevant to their appointment while the independent auditors seal on the financial statement or organization and their opinion of true and fair view of the accounts, presents a clean bill of report on which the investors anchor their decision. The independent auditors are the eye of the shareholders in typical modern banks where owners are separated from the daily operations of the enterprise.

VI. CONCLUSION

The study has revealed that external auditing provides and enhances the credibility of financial statement upon which depositors and other stakeholders make their decision. Through the quality assurance and reports the various stakeholders hold the external auditors in trust and therefore rely on reports endorsed by them and this has affected positively on the growth of banking business. However, banks that have adverse reports from the auditors have witnessed massive withdrawal of depositors' funds and sometimes outright divestments from investors.

External auditors' role enhances the credibility of financial statement and thereby increase the confidence of existing and would be customers in the banking system, this singular role therefore creates a platform for the increase of deposit generated by the deposit money banks. Reports from external auditors also enhance the integrity attributed to the bank statutorily and other various statutory holders to the business. External auditors are very important based on their quality assurance role that provides the trust that drives deposit mobilization.

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