International Journal of Advanced Research in
Public Policy, Social Development and Enterprise Studies | IJARPPSDES
ISSN Print: 2536-6548 | ISSN Online: 2536-6556

August, 2018

Vol. 3, No. 2

The Impact of Audited Financial Statements on Commercial Banks in Anambra State

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Abstract

This study aims at assessing the quality of audited financial statements of commercial bank in Nigeria, with a view to assessing the independence of an auditor and the level of compliance to audit guidelines and how those guidelines affect the quality of audited financial statements in commercial Banks in Nigeria. The study employs both primary and secondary sources of data. Two research questions and hypotheses were formulated for the study. Correlation and causal comparative design with a population of 20 Commercial Banks out of which five were selected using a purposive sampling technique. Data collected from reports and accounts of selected Banks were analysed using SPSS 20 (t-test and spearman's correlation).The findings are that quality audited financial statement has a significant effect on the performance and profitability of commercial banks. The study concludes that consistency and reliability can be absolutely achieved if external auditors are auditing financial statements of commercial banks based purely on the established auditing standards and guidelines. The study recommends that audit committees of commercial Banks should be more strict in their investigations and should initiate actions against erring auditors.

Keywords:
Investigation, Audited financial statement, Commercial banks

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http://internationalpolicybrief.org/journals/international-scientific-research-consortium-journals/intl-jrnl-of-adv-research-in-public-policy-social-dev-and-enterprise-studies-vol3-no2-august-2018

Background to the Study

Financial statements are formal records of the financial activities of Commercial Banks or entity. Financial statement provides an overview of a business or an entity's financial condition in both short and long term. All the relevant financial information's of a business enterprise or an entity are presented in a structured manner or form easy to understand, (Grewal, 2008). When people refer to audit quality they focus on the credibility of the audited financial statements within the reporting regime in which they have been prepared. Duff (2004) asserts that firms need to attract high quality individual with the necessary technical and interpersonal skills to improve audit quality. The purpose of an audit is to provide assurance on financial statements. Audit quality is the probability that financial statements contain no material misstatements. In academic research (e.g. Elifsen and Willekens, 2008), audit quality is often related to the competence and independence of auditors being able to detect material misstatements and being prepared to issue appropriate audit reports to reflect their findings.

Neither a user of audited financial statements nor an academic researcher can tell whether a specific audit report accurately reflects the presence or absence of material misstatements. Even when misstatements that were not reported by an auditor subsequently come to light, that does not represent conclusive evidence of a failure in audit quality, since audits are not intended to provide absolute assurance. Institute of chartered accountants in England and Wales (2002) a*udit Quality* publication explained that at its heart, [audit quality] is about delivering an appropriate professional opinion supported by the necessary evidence and objective judgments.' One way of making the concept real is to try to establish clear expectations of what auditors need to do to support an appropriate professional opinion on an entity set of financial statements. Investment decisions are based partly on reported financial statement information.

Issues related to quality of audited financial statement continue to be a major interest to accounting researchers, practitioners and policy makers. Meanwhile, the International Federation of Accountant (IFAC) commissioned the Task Force on Rebuilding Public Confidence in Financial Reporting (Credibility Task Force) in October 2002 to look at ways of restoring the credibility of financial reporting.

Statement of the Problem

Strident complaints about dishonest and deceptive audited financial statements are now rampant. This was exposed after unforeseen distress in the financial system like in some commercial banks. Many of these were blamed on misleading audited financial statements published by some commercial banks and some companies. In the current study the researcher shall explore the various qualities that make audited financial statements acceptable in the Nigerian commercial banking industry.

Aim and Objectives of the Study

The aim of this paper is to examine the level of compliance with auditing guidelines by the auditors and how it affect the quality of audited financial statements of Commercial banks.

The specific objectives of the study are:

1. To examine whether quality audited financial statements influence performance of the Commercial banks.
2. To ascertain the level of compliance with auditing guidelines and how it affect the quality of audited financial statements of Commercial banks.

Research Hypotheses

For the purpose of this study, the following null hypotheses were formulated;

Ho1: Quality audited Financial Statement has no significant influence on the performance of the Commercial banks

Ho2: Compliance with auditing guidelines has no positive and significant effect on the quality of audited financial statement of Commercial banks.

Review of Related Literature

Audit quality is defined as the probability that an auditor will both discover and truthfully report material errors, misrepresentation, or omissions in the client's material financial statement (DeAngelo, 1981).

Audit quality is obtained by a process of identifying and administering the activities needed to achieve the quality objectives of audit work. All various audit guidelines need to be understood and the benefits that can be realized once audit quality is made a priority. But based on behavioural perspectives and auditor quality, audit quality is not primarily about auditing standards but about the quality of people, their training and ethical standards Accounting Principles Board (APB). The FRC argues that the skills, personal qualities of audit partners and staff, and the training given to audit personnel are important factors that determine auditor's quality. Research in business ethics has shown that personality type is directly related to individuals' ethical orientation Technical Quality that consists of: Reputation (e.g. Carey &Simnett, 2006; Baotham, 2009), Experience (e.g. Carcelloet al1992), Capability (e.g. Baotham et al, 2009) and Independence (e.g. Bobbi Daniels et al, 2005; Baotham, 2009).

Financial statements constitute the principal means of communicating economic information to individuals and institutions residing outside the reporting enterprise, financial statement is the primary means of communicating the financial information of an organization to the external users.

Four (4) general purposes of financial statements are: income statement, statement of changes in equity, statements of cash flows and balance sheet. The Institute of Chartered

Accountants of India defines audit as an independent examination of an entity whether profit oriented or not and irrespective of its size or legal form, when such examination is conducted with a view to expressing an opinion thereon. Auditing is a detailed examination of a company's financial statement and the documents that support the information presented in those statements.

Denigi (2004) "auditing is described as the independent examination and expression of an opinion on the financial statements of an enterprise by an appointed auditor in pursuance of their appointment and in compliance with any relevant statutory obligation." Financial Statements are the principal vehicles by which business enterprises communicate information about the economic resources of business or an Institutions and changes in these economic resources they constitute a report on managerial performance attesting to managerial success or failure and flash working signals of impending difficulties. A firm communicates financial information to users through financial statements and annual reports. Financial statements contain summarized information of the firm's financial affairs organized systematically. They are the means to present the firm's financial situation to the users.

Users of Information in Financial Statements

Aroh and Nzewi (2016). There are two categories of users of information in Financial Statement. Some users have direct financial stake in an entity while others do not have.Also the information need of the users are for different purposes.

Users with direct financial stake or internal users of financial statements are:

a. Owner or equity holders for evaluating performance and return.
b. Management: for evaluating financial performance and financial position of the entity
c. Workers/Employees: For negotiation of workers' salaries and welfare packages
d. Creditors and Lenders: Includes short-term and long term providers of funds for assessment of the entities liquidity and ability to make repayment.

Users without financial stake or external users of financial statement are:

a. Financial Analysts: for consultancy and advisory services to clients.
b. Government and Relevant Tax Authorities –for determination of tax payable by the entity and employees of the entity.
c. Potential investors –for evaluation of entity's earnings performance and inherent risks.
d. International Organizations like World Bank, IMF, UNDP, etc. for assessment of performance and determination of extent of funding or acceptance of funding.
e. Regulators like, CBN, Stock Exchange, Corporate Affairs Commission- for assessment of compliance to extant rules.
f. Communities- for evaluating entity's corporate social responsibilities.

g. State/ National Assembly – for oversight functions and legislation on privatization and commercialization.

Theoretical Framework

Grewal (2008), "The term financial statements used in accounting refers, at least to two statements (i) Income Statement and (ii) Statement of financial position" To him, these statements are prepared at the end of a given period of time for a business concern. The Statement of financial position exhibits the assets, liabilities and capital of the business on a particular date. The Income statement shows the result of operations i.e profit or loss during a given period.

Gbede (2008), Financial Statements include "the income statement, the Statement of financial position, the cash flow statement, Value Added Statements etc. He opines that the income statement (Profit & Loss Account) and the position statement (Balance Sheet). Are the basic instruments of an accounting system to communicate financial information to users? Really for the purpose of this research work, financial statements are basically classified into two: Income Statement and the Statement of financial position. The accountant's role is to ensure that the information provided is useful for making decisions. For external users, the accountant achieves this by providing a general – financial statement that complies with statute and is reliable. For internal users this is done interfacing with the user and establishing exactly what financial information is relevant to the decision that is to be made (Bary and Jamie, 2005).

Relevant Theories on Financial Statement or Financial Reporting

The Entity Theory

The business firm is considered to have a separate existence, to the extent of having a personality of its own. The entity theory based on the equation that Assets are equal to Equity plus liabilities suggests that the valuation of the rights of the creditors can be determined independently of other valuations if the firm is solvent, while the rights of the stockholders are measured by the valuation of assets originally invested plus the valuation of reinvested earnings and subsequent revaluations rights of the stockholders to receive dividends and share in net assets upon liquidation are, however, rights as equity holders, rather than as owners of specific assets. The liabilities are specific obligations of the firm, and the assets represent the rights of the firm to receive specific goods and services or other benefits (Hendriksen, 1982).

The Enterprise Theory

According to the enterprise theory, accounting may be thought of as a social theory of accounting, that is, the firm is considered to be a social institution operated for the benefit of many interested groups. From an accounting point of view this would mean that the responsibilities of proper reporting would not only extend to stockholders and creditor, but also too many other groups and the general public. This concept of the firm is, according to Hendrikson (1982), most applicable to the large modern corporation that has been obliged to consider the effect of its actions on various groups and on society as a whole.

The Proprietary Theory

In the proprietary theory the proprietor or owner is at the center of interest. In the balance sheet format this is stated as follows: 'Assets minus liabilities are equal to proprietorship's. The assets are assumed to be owned by the proprietor, and liabilities are the proprietor's obligations. Revenues are increases in proprietorship and expenses are decreases. The net income accrues directly to the owners; that is, it represents an increase in the wealth of the proprietors. The proprietorship is considered to be the net value of the business to the owners. It is a wealth concept (Hendriksen, 1982).

The Residual Equity Theory

In the residual equity theory, changes in asset valuation, changes in income and in retained earnings, and changes in interest of other equity holders are all reflected in the residual equity of the common stockholders. The specific equities include the claims of creditors and the equities of preferred stockholders. The balance sheet equations become as follows: Assets minus specific equities are equal to Residual equity'. The equity of the common stockholders in the balance sheet should be presented separately from the equities of preferred stockholders and other specific equity holders.

Hendriksen (1982), the residual equity of view is a concept somewhere between the proprietary theory and the entity theory. The objective of the residual equity approach is to provide better information to common stockholders for making investment decisions. In a going-concern situation, the current value of common stock is dependent primarily upon the expectation of future dividends. Future dividends are dependent upon expectations of total receipts less specific contractual obligations, payments to specific equity holders, and requirements for reinvestment. Since financial statement are not generally, prepared on the basis of possible liquidation, the information provided regarding the residual equity should be useful in predicting possible future dividends to common stockholders including liquidation dividends (Hendriksen, 1982).

Contingency Theory

Contingency theory has become prominent in both organization theory and management accounting. It has also been suggested that the contingency approach is implicit in accounting policy making. The contingency framework is extended to corporate reporting and it is argued that this may provide a means of explaining and predicting such systems.

The contingent variables are conceptualizes as falling into four classes which consist of:

i. Societal variables;
ii. The environment of the enterprise;
iii. Organizational attributes; and
iv. User characteristics and others sources of information. These are shown to be associated with particular attributes of corporate reporting system.

Audit Quality and Audit Quality Control

Since the *Audit Quality Forum* was established in 2004, one of its key aims has been to promote confidence in financial reporting. The statutory audit can reinforce confidence because auditors are expected to provide an external, objective opinion on the preparation and presentation of financial statements. Auditors need to be independent in the opinions they express, while the work they have to do to form their opinions is highly dependent on, and rooted in, the real world and may become particularly challenging in some national environments.

In recent years audit practitioners, standard setters and regulators have taken significant steps to enhance confidence in the quality of financial statement Initiatives have sought to promote consistency across countries in terms of what auditors should do and what financial statement users should expect from audit. An audit firm should be dedicated to the pursuit of the highest quality in all its operations. Quality control should not be in respect of each particular engagement only, but must also a culture in the entire firm.

Quality control policies and procedures should be documented and communicated to the firm's personnel. The international Audit and Assurance Standard Board (IAASB), a standing committee of IFAC, issued in February 2004 its first International Standard on Quality Control (ISQC) which provides guidance specifically on quality control for audit firms.

Methodology

Research Design

The research design selected for this study is mix design: qualitative and quantitative research in form of a structured questionnaire and interview.in order to determine whether there is a significant effect on the quality of audited financial statement on commercial banks in Anambra State. The data collection for this research work was derived from both primary and secondary sources. The secondary sources were obtained from published literatures such as text books, internet, journals and publications and Annual report of five (5) commercial banks in Anambra State. The selected 5 banks were First Bank, Zenith Bank, Union Bank, United Bank for Africa and Access Bank, all publicly quoted companies in Nigeria. Data were presented in a tabular form.

Population and Selection of Sample Size

The population of this study consist of all the Commercial Banks in Nigeria. However, for the purposes of accessibility, the population was restricted only to the formal sector of Commercial Banks in Anambra State. The accessible population of this study comprises of 125 staffs from 5 selected commercial banks in Anambra state.

Construction of the Questionnaire

A comprehensive 115 questionnaire was constructed and distributed while 10 respondents were interviewed after reviewing the related literature and the knowledge and insight of the factors affecting Commercial Banks obtained. The aim of designing questionnaire is to meet the research objectives and to provide answers to the research questions. 5 questionnaire were unduly filled correctly with the returning rate of 120 as the sampling size. Different levels of responses such as strongly agree, agree, strongly disagree, disagree and no opinion statements were designed. The study focused on the quality of audited financial statements and their impact on Commercial Banks in Anambra State.

Formula for mean

Mean $(\bar{x}) = \frac{\Sigma FX}{.}$

Where $\sum$ = Summation

F = Frequency

X = Nominal value of option

N = Number of respondent

$$\frac{X}{N} = \frac{5+4+3+2+1}{5} =$$

Therefore level of acceptance is 3.00

While, Strongly agree = (5) Agree = (4) Strongly disagree = (3) Disagree = (2) No option =

Findings and Recommendations

Findings

Table 1: Therefore level of acceptance is 3.00

While, Strongly agree = (5) Agree = (4) Strongly disagree = (3) Disagree = (2) No option =

Findings and Recommendations

Findings

Table 1: Quality of audited Financial Statement has no significant influence on the performance of the Commercial Banks in Anambra State.

Description	Frequency	FX
Strongly Agree	60	300
Agree	40	160
Strongly Disagree	10	30
Disagree	5	10
No opinion	5	10
Total	120	510
Mean		4.25

Table 2: Compliance to auditing guidelines has no positive and significant effect on the quality of audited financial statements

Description	Frequency	FX
Strongly Agree	70	350
Agree	40	160
Strongly Disagree	7	21
Disagree	2	4
No opinion	1	1
Total	120	536
Mean		4.46

From the analysis, it shows that quality audited Financial Statement has Significant influence on the performance/growth on the Commercial Banks in Anambra State with a mean level of 4.25. From the second analysis, it shows that compliance to auditing guidelines has a positive effect and significantly affect the quality of audited financial statement with a mean level of 4.46.

Recommendations

The study recommends as follows:

1. Auditors of commercial Banks should strictly adhere the ethics of their profession in carrying out their audit assignments.
2. Audit committees should also be more active in their role with regard to audited financial statements.
3. The relevant regulatory bodies should enforce compliance by auditors to all relevant reporting standards by the auditors.

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