Research in Applied Economics
ISSN 1948-5433
2014, Vol. 6, No. 1

Transition to 21st Century Audit: An Imperative for Fraud Detection in Nigeria

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Received: October 15, 2013 Accepted: December 10, 2013 Published: February 26, 2014

doi:10.5296/rae.v6i1.5188 URL: http://dx.doi.org/10.5296/rae.v6i1.5188

Abstract

This paper aims at examining the transition to 21stcentury audit as an imperative for fraud detection in Nigeria. The study adopted the descriptive research design. A total of 800 copies of questionnaire were administered to a cross section of Accountants, Auditors, Regulators and Investors across three major commercial centres in three geo-political zones in Nigeria. 268 questionnaires were successfully collected from Accountants and Auditors while 332 were retrieved from Regulators and Investors respectively. This gave a total of 600 questionnaires (representing 75% success rate) of fully completed and returned questionnaires. This was therefore used in the study. Multiple linear regression was used in testing the formulated hypotheses. Besides this, the paper attempted to showcase the changing face of auditing profession in Nigeria. It advocated for the current needs of the Nigeria investment stakeholders and academics for improvement in providing credible and ethical reporting to meet the challenges of 21st century. Finally, conclusions were drawn.

Keywords: transition, audit, fraud dictation, imperatives, Nigeria

1. Introduction

The audit profession has not been spared in the face of global phenomenal changes. It has to contend with harsh and intemperate coincidence of factors. Changes, traumatic and turbulent have actually swept through the profession. Indeed, for a country where the Federal government revenue has increased from a mere N949.18 billion in 1999 to 11.11 trillion in 2011, about twelve times increase in as many years; and the budgeted expenditure increased from N947.69 billion to N9.77 trillion in the same period, accounting profession would find itself in "transition", as there are bound to be enormous challenges for the profession to remain relevant in such rapidly changing economic environment in Nigeria, the speed and dynamics of these changes have opened up to new reporting methodologies, new skills and new technologies and to business a world without borders. Thus, there exist enormous challenges for the audit profession to rid the environment of all forms of muddled and inadequate information and data systems, lack of transparency and unprecedented corruption in which the country is immersed (Kalu, 2013).

It is clear now that there are no comfortable times for auditors. They have prospered during the boom years of the 1980s when few questions were asked and standards were allowed to slip. However, things have changed with the duties of the auditors globally. It is no longer adequate to allow auditing profession alone to determine how it should be regulated. There are significant public interest issues at stake and the tax payer has had to meet the substantial costs of the failure of auditors to report matters which have clearly come to their attention. It seems that when auditors did not know exactly what was occurring, they preferred to ignore financial impropriety and illegality rather than risk the wrath of their corporate clients (Sikka, Puxty, Cooper and Willmott, 2003).

Anao (1998) seem to provide the change in accounting scenario thus:

> 'It begs the question even to state here that most of us who are deemed to be well-qualified today will not be able to practice the profession at all under the condition which will prevail in the future. There will then probably be no books of accounts as we know them today, but simply diskettes, no journalisation or ledger posting, no debits or credits to accounts but simply listing and tallies; no cheques but electronic transfer or credits; no published annual reports in book form; but simply fixed sheets containing tables and diagrams; probably no annual general meetings but simply video Conferences with shareholders, voting by electronics signals after they shall have read on their video screens the year's report and accounts'.

One seems to agree with Anao in these changes in the light of the recently introduced Central Bank of Nigeria cashless economy which massively encourage electronic transfers. Probably, we may no longer hear of huge sums hidden in water tanks, no more cash stalked in our homes and less of "Ghana must go" which are stuffed with local and foreign currencies and carried about during political primaries by party bigwigs. Also Accountants who helped in these transfers will soon find out that virtually every cash deals has to pass through organised systems. This is why some major accounting firms were castigated for helping to prepare fraudulent and irregular reports in 2009-2012 banking scandals in Nigeria where the then

Chief Executives of the affected banks were accused of irregular financial reporting and corporate governance dysfunctions and living on bubble capital all along giving false impression about their actual state with high debt portfolio that were not disclosed in their financial statements (Sanusi, 2009, cited in Obinor, 2009). Ironically the public were crying foul as many of these financial statements were audited and certified by auditors as true and fair view of the banks dealing without drawing attention to the irregular accounting practices of the Chief Executives and the board. This obviously indicated that these auditors in Nigeria were not successful in detecting material misstatement which related to the said financial statement. The relax of the auditing profession in the face of repeated examples of audit failure over several decades calls for the need for a marriage between firmer, stringent legal provisions and sound ethical values.

However, the new drive in the light of these changes by stakeholders is that auditors should be able to detect fraud in accounts audited by them. The inability to detect these financial statement frauds is an issue of concern for major investment stakeholders who depend so much on the outcome of these accounts for their investment decisions. The need for the detection becomes very important to meet the response created by intense competition, litigation and scrutiny by regulators. When these scandals are perpetrated and undetected, it shamed the auditing profession and completely ridiculed their skill competency and training as to provide the world hope for investment decisions. Thus, Makkawi and Schick (2003) capture the ridicule in thus way:

> What made matters worse and that could give significant
> Accounting implication for accounting profession is that
> The independents auditors either attested to; in case of
> Enron or failed to recognise and or call attention.

In order therefore to address the current needs of Nigerian investors, creditors and academics for improvement in providing credible and ethical reporting to meet the challenges of 21st century. This paper advocates for auditors responsibility in detecting or disclosing irregularities or illegal acts in Nigeria.

1.1 Objectives of the Study

This study is set out to address the following specific objectives:

1. To determine whether existing audit standards are considered adequate by auditors in their regulatory environment.

2. To determine the effect of Nigeria's market driven environment on auditors' professional services and competences.

3. To determine the relationship between auditor's cautiousness, professional scepticism and training and improved audit quality.

1.2 Hypotheses of the Study

The following hypotheses were formulated to guide the study:

H_1: Existing audit standards are not considered adequate by auditors in their regulatory environment.

H_2: Nigeria's market driven environment has no effect on auditors' professional services and competences.

H_3: To determine the relationship between auditor's cautiousness, professional scepticism and training and improved audit quality.

The remainder of this paper is organised in the following manner. Following the introduction is Section 2 which provides the theoretical framework and review of related literature. Section 3 outlines the research design and methodology while section 4 is conclusion and recommendation.

2. Literature Review

2.1 Theoretical Framework

Accounting Profession has become more global based on the harmonization of financial reporting systems across globe. This is facilitated on the seemingly market competition following trade Liberalization under world trade organization (WTO) through multilateral trading system. Advances in Information and Communication Technology (ICT) have changed the manner in which data and information are collected, measured, analysed and disseminated within and between organisations (Atkinson et.al, 1997). In order to cope with the competition and struggles in the market place, it has been argued that organization need to equip themselves with appropriate responses to threats and opportunities and ensure that they meet the challenge of the time (Isa and Foong, 2005). The growing concern among accounting professionals and academics on the inadequacy of the old traditional auditing systems because auditors then see their duties as "watchdog" in meeting the current needs of the firms which has given way to a new drive that implies that corporate accounts once audited by auditors should clearly report any irregularities or illegal acts. There is need for audit services in Nigeria to brace this global trend which is imperative because government based on the profit results of firms audited to seek for their tax revenue, transparency and accountability.

2.2 Changing face of Auditing Profession

Auditing profession in the good old days was noble, few people make the profession, audit quality was held high and audit litigation was minimal. Audit firm in those years created and sustained a culture of positive and constant reinforcement. This was supported by the tone set from management through the policies and procedure they put in place on their wish to strict compliance. The situation was captured in the words of Bob Tricker (2002);

'In those days the accounting profession consisted of relatively small firms... they were respected and well to-do, they were not rich. Neither could they compromise their principles. They would not sign an audit report stating that the clients' accounts showed a true and fair view unless the partner was personally convinced that they did. How different today. The big accounting firms have become vast international and concentrated… they are major business, with products and market shares, business solutions and profit performance as watch words. Partners are judged by fee generation and growth'.

Today the event of the Anderson Saga amply indicates that market place regulates and set the tone of direction for the profession. It has ceased as a profession but a business. In supporting this direction, Osisioma (2004) observed these change in auditing when he quoted Swinson (2002) in these words:

> Accountants are creatures of the markets. We live and die at the whims of market forces that will show no mercy if we do not provide what the market requires. Accountancy firms that audit accounts exist to validate or to attest to the reliability of accounts. If a firm's reputation becomes tainted, then its credibility as a validator will be questioned by the market. In particular, if a firms name becomes associated with disreputable conduct, then the firm's value as a validator will be undermined.

It is obvious that things have gone wrong with the profession to which accountants will quickly address. Wyatt (2004) appears to provide answers to this when he explained that public accounting firms experience a rapid boost in business over the course of time, due to an ever increasing need for professional accounting skills. This led to a major trend in consulting services which require accounting firms to rapidly hire new professionals to keep up. This obviously was one of the shift in culture:

> ...The increasing infusion of personnel not conversant with or even appreciative of the vital importance of delivery of quality accounting and audit services affected the internal firm culture, its top level decisions and behaviour pattern of impressionable staff personnel inexperienced and unprepared professionals were thrown into the workplace without the proper understanding of how ethical principles are integrated into professional accountants responsibilities.

Obviously with these crop of professionals in place, accounting practices will be thrown to the mud where basic accounting policies, rules, principles and standards were not observed and that is why Zhao, Chen, and Hua (2006) in their analysis of the study of American audit failures observed the following inadequacies which caused the failures of accounting firms: flaw of accounting system, flaw of audit model, insufficiency in audit independency Law of enough cautiousness, lack of high audit level, problem of control model and flow of incentive system. In related development, Grabosky (1991) provided additional answers to the failure of auditors to perform satisfactorily. He observed that many audit failures resulted from highly competitive nature of the market for many professional services which may impose time and resource constraints on the auditors which invite or even necessitate the 'cutting of corners' during the course of audit or inspection. Graborky goes on to add that:

> Commercial imperatives may generate pressures on a professional adviser to attract new clients. Not all businesses are financially healthy or efficiently and honestly managed, although principals would like to portray them as such. In some cases,

> there may be a need to take on almost any prospective client, no matter how unsavoury they may be.

Continuing he observed that many conflict of interest problems which had the effect to undermine the effectiveness of auditors in responding to corporate financial failure when he quoted Perth, corporate lawyer thus:

> Auditors have a market drive rather than a watchdog drive. You audit a company as if you are auditing a kindergarten so you can hang onto the job. Liquidators have more of incentives as they know they will be paid.

During the 1980s audit firms took business risk in competing for audit work. Auditors also have a strong relationship with the company they are auditing. Ninety-nine percentage go to waters if threaten with loss of business. It then follows that lots of corporate disorders are contributed by auditors because they are lax due to greed and power. More-so, when corporation keep them by their side and correctly or incorrectly rely on the accounts presented to or from the company.

Beside, many shareholders/managers are so much after what returns to them not minding the way it was achieved, even if it was through irregular manipulation of accounts which may later have disastrous consequences. Summers and Sweeney (1989) appears to accept this when he noted that profitability orientation based on the management desire to stable or increase earning streams to maximise the managers utility and undue procedure which ultimately result in an unethical forms of financial disclosure and reporting.

Ethical judgments and integrity display by accountants in discharging their work is critical in the long run survival of the firm, an attempt to dovetail outside this parameter brings downfall of firms which invariably affects the industry’s reputation. This is made clearer in the work of Dellaportas (2006) when he observed that the correlation becomes somewhat clear between poor ethical judgment professional accountants make, and the lack of proper ethics training in the field.

Ironically, the difference in perception of the responsibilities of auditors and the reality rest squarely in the traditional audit role which was conformance role. Intal and DO (2002) observed that it was originally just meant to find errors in balance sheet accounts and on stemming the growth of fraud associated with the increasing phenomenon of professional managers and absentee owners. But companies began to grow and become more complex, the detection of fraud became increasingly an unrealistic objective even though the public believe it should be the main objective of financial report. A case of Kingston Cotton Mill CO (No 2) (1896)2 Ch 279 at 289, 290, Lopes L.J (2001) observed that auditors: “... He is a watchdog but not a blood hound... If there is anything calculated to excite suspicion, in the absence of anything of that kind, he is only bound to be reasonably cautious and careful…”

2.3 Fraud Detection and Audit Expectation Gap

As the auditing profession transits into the millennium which grinds slowly and steadily, the users of financial statements become more sophisticated and enlightened. The need for a clearer audit function than a mere attestation with regard to auditor responsibility becomes the front-burner. Closer home during last years, there have been a great number of accounting scandals in Nigeria; The Nigerian Central Bank in a swift move reminiscent of the Asian tsunami, on August 14th 2009 took over five major banks in the land because they were accused of loaded down with non-performing loans and their balance sheet were prepared by their auditors to paint a picture of prosperity and buoyancy. Insider deals and manipulation of security market transactions were rife. These banks include Intercontinental, Union, Oceanic, Afribank and Finbank; by 2012, these banks collapsed and were either merged or acquired by other banks. Second is the case of Lever Brothers Plc (now Unilever) in 1998 where stocks were over-valued to run into billions of Naira. The sad case of African Petroleum Plc in 2000 is another shocking audit failure where the company's board concealed indebtedness of over N22 billion and yet not detected in the year's course of audit. Finally, the issues of Cadbury (Nigeria) Plc where Security and Exchange Commission on their investigation discovered a whopping colossal sum of N13 billion which was fraudulently not reported by the management over a period of time, yet the auditors audited their financial statements within the said time (Egbunike, 2011).

Across the globe, a number of audit expectation gap still exists, for example, Salehi and Alley (2008) investigated expectation gap in auditors' responsibility between auditors and bankers in war. They found out that there is significant gap between auditors and bankers in areas of auditors' responsibility to detect fraud and illegal acts and concluded that bankers have reasonableness expectation gap from auditors.

Alleyne and Howard (2005) made a survey between auditors and users around the reasonability of auditor for fraud detection through interviews in Barbados. The result revealed that there is a widen expectation gap between auditors and users for fraud. Petition, the auditor strongly disagreed that they were responsible for uncovering fraud compared to users story view that they should be responsible. Tomasic (2013) in his conclusion these events observed that such larger firms are forced to cut corners and take advantage of the ambiguities which accounts may present, then it is clear that the auditing profession needs to reassess its policies and that if auditors are not prepared to do this, then arguably others should do it for them. This is why Sikka, Puxty, Cooper, and Willmott (2003) argued that in society marketed by numerous social divisions, it is inevitable that the meaning of social practices such audit is contested, this they be examined through the association of audit with detection and reporting of fraud and concluded historically that audit objective are constructed and transformed within social relations of power.

These scandals have inflicted serious damage on the confidence and credibility of auditing profession leading to the collapse of many indigenous banks and firms such as African Continental Bank, cooperative and Commerce Bank, Lions Bank where many depositors funds were eroded. These brought in the call for corporate governance culture and ethical standards by Nigeria investing Stakeholders. In the light of this development, professional bodies and regulators have put in place measures aimed at ensuring the effect of increasing the responsibilities of condition in detecting material fraud and irregularities which have direct material effects on financial statements. Beside this, a number of fraud detection models have been put in place to close the expected gap between perceived audit responsibilities and investors, creditors, regulators and the public. See for example Spathis (2002); Lin, Hwang and Becker (2003); Okike (2004); Okafor (2005): Singleton, Singleton, Bologna and Linquist (2006); Liou (2008); Dabor and Adeyemi (2009); (Igor (2011); Ani and Ugwunta (2012) and Amico and Mafrolla (2013).

However, Fraud Detection is not as easy as it is because there are limitations upon the competency of the auditors to respond to financial fraud. This is captured by Neebes, (1990) when he quoted to the effect that:

> Two inescapable realities constrain the auditors' ability to assume broader responsibilities than those now contained in the Literature to detect and report illegal activities. One, it must be understood that the operation of business today are broad, almost incomprehensible, array of legal requirement imposed at every level of government. Moreover, in circumstances in which publicly held companies are engaged in foreign operations, the fabric of legal requirements becomes even more extensive and uncertain… Two, it should be recognized that auditors, although highly frauds and reliably regarded as experts in financial matters, are often ill-equipped or unable to arrive at legal conclusions concerning whether a specific activity or transaction comports with legal requirements. In this case, auditors rely on legal counsel and other specialists. Even then, sometimes uncertainty associated with the interpretation of applicable laws or regulations or surrounding facts precludes a legal judgment.

Besides these constraints, judges advised auditors to adopt procedures which will enhance the detection of fraud and irregularities. To achieve this, auditors were advised to pay attention to cut-off-procedure and post balance sheet events. (Irish Woolen Co. Ltd vs Tyson and others (1900) 26 Hect. L.R.13); verily correctness of cash balances (Fox & Son vsMorrish Grant & Co (1918) 35 T.L.R 126); pay attention to any unusual alterations in the books (Armitage v Brewer and Knoh (1932) 77 Acct. L.R 28) and make use of third party circularisation (in re-Thomas Gerrand and Son Ltd (1968) Ch 455: (1967)2 All E.R 525).

3. Research Design and Methodology

Field research was conducted to determine the view of Accountants, Auditors, Regulators and Investors towards whether fraud detection should form the main objective of auditors' responsibilities. The study adopted the descriptive design. A total of 800 copies of questionnaire were administered to a cross-section of the stakeholders previously mentioned across three major commercial centres in four towns in the three geo-political zones in Nigeria namely: Lagos, Port Harcourt and Onitsha including Abuja, Nigeria's capital city. These centres were believed to be the hub of industrial and commercial nerve-centres with ever increasing inflow of firms and multi-national corporations. 268 questionnaires were successfully collected from accountants and auditors while 332 were retrieved from the regulators and investors respectively. Thus, a total of 600 questionnaires (representing approximately 75% success rate) were fully completed, returned and was therefore utilized in this study.

3.1 Methods of Data Analysis

A total of 600 copies of questionnaire were analysed for this study and this represent 75 per cent response rate which is quite high and was informed by the method of distribution adopted by the researcher. The first set of analysis is the descriptive statistics (see table 1). The descriptive statistics show that there is a wide gap in the responses of Accountants/Auditors and Regulators/Investors. Questions 1, 3, 6, 7, 8 and 10 have standard deviations greater than one and relative to their mean; while questions 2, 4, 5 and 9 have less than but very close to one, showing variations in the responses (see table 1 below).

Table 1: Descriptive Statistics of Questionnaire

s/n		N	Mean	Std. Deviation
1	Auditors cautiousness and scepticism increase audit quality	600	3.28	1.152
2	Independence ensure audit quality and belief in accounting firm	600	3.71	.863
3	Shift from system-based audit to risk-based audit model influence a moral deficient auditor at the expense of audit quality	600	3.52	1.070
4	Incentives system and reward of audit partners relate to low audit quality	600	3.81	.891
5	Auditors should stick to principle-based accounting in audit accomplishments rather than rule-based which often could be evaded	600	3.61	.873
6	Internal control systems are critical factor in appraising internal operators	600	3.38	1.099
7	Hire of inexperience and ill-equipped professional personnel can lead to audit failures	600	3.53	1.094
8	Accountants should not allow market driven environment to dictate their professional services and competencies	600	3.64	1.022
9	Auditing standards should be clear about auditors' responsibility towards fraud detection	600	3.26	.973
10	Commercial imperatives may generate pressures on professional advisors and give way to shoddy audit	600	3.35	1.097

Source: Field Survey (2013)

3.2 Test of Hypotheses

Multiple linear regression was used to test the formulated hypotheses with the aid of SPSS ver. 20, and the result is shown below. First is the model summary and from this we see that the coefficient of correlation is .251 which is a weak correlation. The R^2 is .063 and this means that only 6.3% of variations in fraud detection are accounted for by the variables. The Durbin Watson (DW) is 1.446 which shows that there is no problem of multicollinearity as the value falls within acceptable range. The ANOVA value of 9.971 is highly statistically significant at .000 showing that the model is a good fit. From this we proceed to explain the coefficients and explain the hypotheses.

Table 2: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.251[a]	.063	.057	1.063	1.446

Source: SPSS ver. 20

Table 3: ANOVA Result

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	45.070	4	11.267	9.971	.000[b]
1	Residual	672.390	595	1.130		
	Total	717.460	599			

Source: SPSS ver. 20

Table 4: Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.320	.231		10.057	.000
Auditors cautiousness and scepticism increase audit quality	.106	.043	.112	2.493	.013
Auditors should stick to principle-based accounting in audit accomplishments rather than rule-based which often could be evaded	.017	.056	.013	.298	.766
Accountants should not allow market driven environment to dictate their professional services and competencies	.057	.047	.053	1.225	.221
Auditing standards should be clear about auditors' responsibility towards fraud detection	.182	.049	.161	3.695	.000

a. Dependent Variable: Hire of inexperience and ill-equipped professional personnel can lead to audit failures

Source: SPSS ver. 20

The question as to whether auditing standards should be clear about auditors' responsibility towards fraud detection has a 'T' value of 3.695 and is significant at .000 hence hypothesis one is rejected in its null form while the alternative is validated.

Hypothesis two that Nigeria's market driven environment has no effect on auditors' professional services and competences is accepted because it has a 'T' value of 1.225 which is not significant.

Finally, hypothesis three which tries to determine the relationship between auditor's cautiousness, professional scepticism and training and improved audit qualities rejected because it has a 'T' value of 2.493 and is statistically significant at .013 which is lower than .05, hence the alternative form of the hypothesis is accepted.

4. Conclusion and Recommendations

The complacency of the auditing Profession in Nigeria in the face of repeated examples of audit failures over several decays of reported fraud, and unprecedented corruption remain pitiable and embarrassing. This is exercabated by our judicial systems which are not helping matters as many of the cases slated for trial take too long a time to conclude. The paper calls on Nigerian accounting profession to align itself with the global drive on auditors to detect. Fraud or illegal acts in accounts once audited. This will ensure a total move for improvement in providing credible and ethical reporting to meet the challenges of 21st century.

Consequent upon this, the paper recommended the following

1. That auditing standard should be clear about auditors responsibility towards fraud detection than mere attestation.

2. Cooperate stakeholders, Accountants and auditors should not allow market driven environment to dictate professional services and competence. Ethical judgments and integrity remain critical to the long- run survival of the firms.

3. Auditors should always exercise cautiousness, professional scepticism and proper training to increase their audit performances and qualitative reports.

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APPENDIX1

Questionnaire

Please tick (√) as appropriate

SA = strongly agree, A = agree, SD = strongly disagree, D = disagree and N = neither

	Questions	**SA**	**A**	**SD**	**D**	**N**
1.	Auditors cautiousness and skepticism increase audit quality					
2.	Independence is the key to ensure audit quality and make public believe accounting firm.					
3.	Can a shift in system-based audit to risk-based audit model influence a moral deficient auditor at the expense of audit quality					
4.	Can incentives system and reward of audit partners relate to low audit quality.					
5.	Auditors should stick adequately to principle-based accounting in audit accomplishments rather than rule-based which often times could be evaded.					
6.	Internal control systems are critical factor in appraising internal operators					
7.	Hire of inexperience and ill-equipped professional personnel can lead to audit failures.					
8.	Accountants should not allow market driven environment to dictate their professional services and competencies.					
9.	Auditing standards should be clear about auditors' responsibility towards fraud detection.					
10.	Commercial Imperatives may generate pressures on professional advisers and give way to shoddy audit.					