

**AUDITING: A PANACEA FOR GROWTH OF PRIVATE SECTOR ORGANIZATIONS
IN NIGERIAN ECONOMY.**

Sani Alfred Ilemona

Department of Accounting and Business Administration
Federal University Kashere, Gombe State. Nigeria

ABSTRACT

The role of auditing in triggering growth of organizations cannot be over-emphasized. Prominent among these roles are the assessment of risks for material misstatement in organization's financial transactions and reports, fraud detection, provision of error and fraud free information acceptable to lending institutions and prevention of misappropriation of organizations assets by employees among others. Unfortunately, most private sector organizations in Nigeria are yet to appreciate these crucial roles by their non- engagement or engagement of unqualified auditors not having the required experience, confidence, competence, tools and resources to discharge their duties. The case is worse with sole proprietorship and partnership organizations where auditing of their financial affairs is not mandatory or required by law. This study therefore is an exploratory review that examined various literature, empirical as well as theoretical studies on the relevance of auditing function in an organization. From the review, it was found that auditing is a veritable tool for promoting organizational growth and expansion yet to be fully embraced by private sector organizations in Nigeria. This is evidenced by cases of (i) fraud (ii) poor management of these organizations and (iii) their inability to access loanable funds from lending institutions both within and outside the country. The combination of the factors above has impaired the growth of these organizations in Nigeria. The paper therefore recommends that engagement of qualified auditors should be made mandatory by law for all private sector organizations operating in Nigeria. Their professional and advisory services will bear much on their growth.

Keyword: Auditing-private sector organizations-Auditors-Mandatory-Growth.

INTRODUCTION

The word audit is derived from the Latin word "audire" meaning to hear(Millichamp,1990). The origin of auditing dates back to the ancient days when the landlords relied upon an overseer (auditors) who listened to the accounts of stewardship given by the tenants (managers). Similarly, in mediaeval Britain an independent auditor was employed by the feudal Barons to ensure that the returns from tenant farmers accurately reflected the revenues received from the estate. There are also records from ancient Egypt and Rome, indicating that auditors were employed to review work done by tax collectors and estate managers (Adeniyi, 2010).

At this period, the emphasis of auditing was very much on detection of fraud and other irregularities in transactions of entities. However, later development between 1st and 2nd world war shifted the emphasis on the informative value of the company's balance sheet (statement of

financial position) and investors and prospective ones became increasingly conscious of the need for credible financial information for decision making. Responsibility for detection of errors and fraud were then regarded as the province of company's management. Auditors reporting duties clearly emphasized a change in audit objective, a way from error and fraud detection to that of giving expert opinion on the quality of information as contained in the profit and loss account (income statement) and statement of financial position of an organization (Millichamp, 1990). Particularly an auditor is to state in his opinion whether the accounts prepared and presented by management give a true and fair view of the company's profitability and the state of affairs in compliance with statutory requirement. This is generally referred to as the primary objective of auditing while fraud and error detection is secondary (Myees, 1964).

In discharging this onerous tasks (Primary objective) an auditor (practioner of auditing profession) has the right to (i) access all the books, records and vouchers of the organization he audits (ii) receive notice, attend and speak at the Annual General Meeting (AGM) of the company he/she audits and (iii) require from the directors all the information and explanations necessary for the purpose of his audit.

Generally, audit arises due to the fact that a business enterprise/ organization need to ensure the correctness of all accounts pertaining to the business as a result of separation between business ownership and management/control (Adeniyi 2010) However, this does not connote that the independent examination of financial statement of an enterprise may not be necessary where there is a fusion of ownership with control in organizations as in the case with partnership and sole proprietorship where auditing of their affairs is not mandatory/ regulatory (Adeniyi 2010).

It is important as a result of separation between business ownership and control to ascertain whether or not the income statement and statement of financial position have been prepared in a way as to show a summary of the flow of transactions for the whole period. It is equally important to ensure the accuracy, efficiency and reliability of all accounting records necessary for early detection and prevention of errors and frauds. Hence auditing is a necessity that fulfills its main and subsidiary objectives critical for growth of all organizations including those entities that are not required by law to have their transactions audited.

Statement of the problem

Organizations all over the world exist to render services to people hence the need for efficient management of these entities for accountability. Efficiency for accountability is the central purpose of auditing in an organization.

Unfortunately, in most private sector organizations in Nigeria, the importance of auditing function is not accorded the desired appreciation. This is evidenced by non-engagement or engagement of "unqualified" and "inexperienced" auditors by these organizations to audit their affairs. These so called auditors engaged by these organizations (especially Sole proprietorship and partnership organisations) do not have the technical competence, experience/exposure, confidence and resources thereby jeopardizing their independence and ability to perform their duties. Worse still is that the appointment of these auditors are normally influenced and promoted by managers of these organizations who are always bent on frustrating and manipulating whatever honest effort the auditor might want to bring to bear in discharging their duties. The manipulation and frustration might be so much to the extent that must if not all the

critical areas where errors, frauds and inefficiencies have occurred or likely to occur are left untouched during an audit. Errors, frauds and managerial inefficiencies are some of the business ills that render an organization unattractive for investment, blur the vision of an entrepreneur and their frequent reoccurrence can ultimately send an entity out of business. These business ills are the issues/challenges facing most business entities indeed private sector organisations in Nigeria. Auditing function properly done by an expert (experienced auditor) can mitigate and eliminate the effects of these ills.

Objectives of the Study

The general objective of the study is to examine the extent to which auditing of financial affairs of private organizations can trigger the growth of these enterprises drawing from existing literature and empirical studies. The specific objectives however include:

1. To examine the major issue/challenges facing private sector organizations in Nigerian economy and how auditing function can be of assistance in ameliorating /reducing these challenges.
2. To explore ways/means of making audit a compulsory exercise for those private organizations especially those that are not required by law to have their financial transactions and accounts audited.

Implications of the Study

A clear understanding of the importance of the role of auditing in propelling growth of businesses is of essence given the gamut of challenges faced by private enterprises in Nigeria. Prominent among these challenges are poor management characterized by inability to produce credible accounts, errors and all forms of fraudulent practice hence their inability to access loanable funds from lending institutions both within and outside the country for growth and expansion. Recognizing the importance of the profession (auditing) and employing the services of the professionals in the field (auditors) by entrepreneurs in Nigeria will greatly improve efficiency in the management of the sector for growth. Certainly the growth of these organizations will continue to be a mirage without the professional and advisory services of these experts.

Literature Review

Conceptual clarification: The following concepts are relevant for clarification in the review.

Auditing: Auditing can be defined as an independent examination of, an expression of opinion on the true and fair of financial position of an enterprise by an appointed auditor (Cook and Winkle, 1980). It is an exercise which enable an auditor to express an opinion whether the financial statement prepared by management give a true and fair view (or equivalent) of the entities' operation at the period end and of its profit and loss (income statement) (Millichamp, 1990). It is an exercise done by an appointed auditor to confirm whether or not the assertion made by management in the financial statement of an enterprise is true or not (Wolf, 1987). It is an ascertainment by an expert (auditor), the financial statements of an enterprise to determine whether or not the statements have been prepared in accordance with applicable reporting framework has been complied with and to express opinion thereon (Sawyer, 1994). Auditing

functions is done by an auditor with the overall essence of determining with reasonable confidence whether the financial statements prepared by managers of an enterprise are free from material misstatement capable of misleading users of such statements (Waldron, 1978).

Private sector organizations: These are entities including self-employed persons or any employer of labour who do not belong to the government or public sector (Jerome, 1999). Oyeranti (2004) viewed private sector organizations as employers of labour that do not belong to the Public sector government. They also refer to all economic institutions, business firms, cooperatives etcetera that are not owned by government (Olayiwola and Busari, 2001). Private sector organizations are described by other names such as capitalism, free enterprises system, voluntary exchange economy, the market system and the profit system (Owoh, 2006). Private ownership of business, freedom of choice, private ownership of property, limited rule of government and Profit motive are key features that characterize the existence of private sector organizations in Nigerian economy (Owoh, 2006).

Growth: Business growth refers to increase in size, profit, assets, output (goods and services) delivered by a firm (Momoh, 2012). It connotes increase in size, productive capacity and ability of an enterprise to produce and deliver goods and services compared from one period of time to another (Faloyinu, 2015). Generally, growth is visible and it is noticed when anything begin to increase (Momoh, 2012).

Empirical Review

In study conducted by Josiah (et al, 2012) on the roles of auditors in fraud detection and investigation in Nigerian industries, the focus was on the role of auditors in fraud detection. It was a survey study that made use of questionnaire and oral interview for data collection. The data were analysed using chi-square. The finding of the study was that errors and fraud in accounts of most of these organizations is as a result of poor management evidenced by weak internal control system. It was recommended that services of qualified and experienced internal and external auditors should be engaged for their professional and advisory services on efficient and effective management of these organizations.

Ezeani (2012) conducted a study on auditing as tool for accountability, efficient and effective school administration. The aim of the study was to find out what school audit is all about and the difference that an audit can make towards accountability especially in school administration. The study employed descriptive research design. It was found that against the misconception that school account especially private ones are not meant, to be audited, that it makes a lot of difference if accounts of schools are audited as it will bear much on accountability and efficiency in the management of the schools. It was therefore recommended that accounts of schools including private ones should be audited.

Onyekwelu (2014) did study on the relevance of external auditing on the growth of banking industry in Nigeria with emphasis on the effect on deposit mobilization. The aim of the study was to appraise the effects of external auditing in the growth of banking business in Nigeria. Data were collected through oral interview and questionnaire. The collected data were analyzed using Chi-square and Z-test. The findings of the study indicated that external auditors contribute significantly to the growth of deposits as their assurance functions and reports is an encouragement to depositors to increase their deposits with banks. The study recommended

engagement of qualified auditors (internal and external) in all organizations for their assurance and advisory services.

Ganiyu and Esau (2016) conducted a study on the role of Auditing Function (AF) in managerial efficiency of organizations. The aim of the study was to examine the role of AF in managerial practice in business entities. Data were collected from randomly selected twenty five (25) companies operating within Lagos metropolis using questionnaire and oral interview. It was found that auditing is an important tool for promoting efficiency through error and fraud prevention leading to credible financial reporting. Employment/ engagement of qualified and experienced auditors was therefore recommended for all organizations.

Theoretical Framework

The study is anchored on Contingency Theory of auditing propounded by Joan Woodward in 1958 as found in (Ganiyu and Esau 2016). The theory postulates that organization's operations and profitability depends on various risk factors. The existence of such factors and their assessment is the major reason why auditing function is necessary. Examples of such factor according to the theory are possible existence of errors, frauds and material misstatement in business financial reports. In assessing the risks, auditors are required to have access to all documents for his examination after which he reports to owner(s) of the business and regulatory authorities. Regardless of audit subject, various factors impact a business final result of operation and the contingency theory takes these factors into account during the audit process (Ganiyu and Esau 2016).

Challenges of private sector organizations in Nigerian Economy

The quest of Nigerian government to diversify her economy from oil to non-oil sources of revenue largely depends on the growth of private sector. Unfortunately, the sector is fraught with so many challenges that has constrained its growth over the years. Prominent among these challenge for which institution of good internal control system and auditing can ameliorate as stated by (Ekwun02016) are (i) Limited access to funds (ii) Poor management and (iii) lack of standard accounting practice and transparency in business transactions.

Understanding the critical importance of funding to Nigerian business owners, various agencies and government in 2017 have set up a number of funds for private sectors organizations to access. The list of such funds are as follows:

- i. Bank of industry (BOI) funds for all categories of entrepreneurs.
- ii. Tony Elumelu Funds: The Foundations has \$100million for African entrepreneurs in various areas of business.
- iii. Grofin Funds: It is a development financier that has committed over \$500million to funding Nigerian micro, small and medium businesses (MSMEs) across the country.
- iv. Lagos State Employment Trust Fund: Lagos state has committed about ₦25billion to SMEs. The fund is to finance micro, medium and small businesses.
- v. Social Intervention Fund of Federal government: A total of ₦6million was allocated under Social Intervention Fund of the 2017 budget to fund private businesses in Nigeria.

- vi. Oxfam Fund: Oxfam is an international confederation of charitable organization focused on the alleviation of global poverty. The organization has committed £100million to high-impact SMEs in Nigeria.
- vii. Loanable funds available in money deposit banks in Nigeria.

These are some of the finds available to finance Private sector organizations in Nigeria. However, one the major criteria/condition for existing businesses to access the funds is production of most recent audited accounts and reports of these organisations (CBN reports, 2016). This is generally lacking as accounts of many of these businesses are either in arrears for many years or they don't prepare the accounts at all (CBN reports, 2016). This collaborate with the observation of Ekwuno (2016) who in an interview conducted among fourteen (14) private organization within Abuja and Nyanya in Nasarawa state confirmed that only two(2) representing only 14.3% could produce evidence of an up-to-date audited account of their enterprise.

Equally management of most of these organizations are characterized by poor practices. Lack of separation of duties between management and ownership, too much duties performed by an individual or few persons, poor delegation of duties among staff and poor internal control system are some of the poor managerial practice that are found in these private organization (Ekwuno, 2016). The ugly consequences of these practice is that errors, frauds and other financial crimes that could have been detected are left uncovered. (Urfan2016) observed that about 96% of fraudulent cases in most organizations in Nigeria are attributable to poor managerial practice.

Closely related to the above challenges is that of lack of standard accounting practice and transparency in business transactions in most of these organizations. The three major statements generated by standard accounting system of an organization are (i) profit and loss account/incomes statement (ii) balance-sheet/statement of financial position and (iii) cash flow statement. These statements are either poorly kept or not kept at all in most private sector organization in Nigeria (Urfan, 2016). Ikeli (2017) observed that most organization in Nigeria cannot correctly access the performance of their business because the vital records for assessment are not properly maintained.

It is sad to note that due to various managerial malpractices, and lack of standard accounting system, most of private sector organization in the country cannot access the needed funds for expansion (CBN reports 2016).The collaborates with Ganiyu and Esau (2016) who discovered that out of twenty five (25) selected private enterprises operating within Lagos metropolis, quite a few of them were able to establish new branches between 2010 and 2016 as indicated in the table below.

Table 1: Selected Private Enterprises In Lagos And Number Of New Branches 2010 – 2016.

Business Type	No	Noof New Branches in each Year							
		2010	2011	2012	2013	2014	2015	2016	TOTAL
Wholesale&Retail Trading	5	-	1	-	-	-	-	-	1

Oil and Gas	5	-	-	-	1	-	-	-	1
Manufacturing	5	2	-	-	-	-	-	-	2
Agro-Allied	5	-	-	1	-	-	-	-	1
Real estate	5	-	-	-	-	-	-	-	0
TOTAL	25	2	1	1	1	0	0	0	5

Source: Ganiyu and Esau 2016.

Using business size in terms of branch network of these enterprises as surrogates for growth, it is seen that only five (5) branches were established by a total number of twenty five (25) enterprises in different endeavours between 2010 and 2016. The expansionary rate of the businesses above is quite low over the years. The scenario as indicated is likely to be a reflection of what is happening throughout the entire country.

Auditing: The Need and its importance in business organizations

Auditing is a panacea that can reduce to the barest minimum some of the challenges inhibiting the growth of private sector organisations in Nigeria especially those earlier mentioned.

Audit and auditing function is a means of evaluating the effectiveness of organization's internal control (Juarez et. al. 2014). Maintaining an effective system of internal control is vital for achieving organisational objectives, obtaining reliable financial reports on the operations, preventing fraud and misappropriation of assets (Cook and Winkle, 1980).

Auditing is a means of assessing the risk of material misstatement in organisational report and its reliability (Onyekwelu, 2014). Reliable financial reports are used for both internal and external purposes. Internally, it is a means of measuring performance and to allocate organisational scarce resources profitably. External reports are used by other stakeholders such as Lending institutions, investors and government for funding and investment decision (Cook and Winkle, 1984).

Equally, reviewing, analysis of organization's operations and maintaining rigorous system of internal controls through auditing process can prevent various forms of fraud and other accounting irregularities (Josiah et al, 2012). Audit professionals assist in the design and modification of internal control system the purpose of which include among other things error and fraud prevention. Frequent reoccurrence of fraudulent cases demean the very existence of an organisation as no investor or lender would be prepared to invest or lend to such an organisation (Ekwuno 2016).

Generally, auditing is a crucial function in an enterprise as it is a means through which enterprise has the ability to state correctly the status of its assets and liabilities (Wolf, 1987). Such an organisation would be rendered dependable in the market place for investment and patronage due to its ability to measure its growth and growth potentials (Ikeli, 2017). In this regard, the advisory service of auditors on the need to keep adequate accounting records for performance evaluation is of significance. Any organization that cannot correctly measure its operational status will lose out in competition. This is particularly relevant to most private organizations in Nigeria that do not keep vital accounting records of their transactions. (Ikeli, 2017).

CONCLUSION

The growth of the private sector organizations operating in Nigeria is of interest to all and sundry. It is seen by many as the engine that propel development of many economies of the world. Doing the needful by owners and managers of these organisations to make the sector rewarding is quite necessary. Auditing and credible reporting of the affairs of these entities is of importance to attract investors, lenders and other stakeholders for growth. Growth of the sector (micro-economic growth) will trigger macro-economic growth such as increased revenue to Government for infrastructural development, employment generation and poverty reduction in the society.

RECOMMENDATIONS

The following recommendation are put forward drawing from literature, theoretical and empirical review on the importance of auditing to organizations and the need for private sector organizations in Nigeria to embrace this vital function.

- (i) Yearly audit of accounts and financial reports of private sector organisation operating in Nigeria economy should be made compulsory including those entities in the sector that have not been auditing their account for the fact that they are not required by law to do so. Examples of such organisation are sole proprietorship and partnership form of business.
- (ii) Strict enforcement and compliance with the above requirement should be implemented by government through appropriate agency and any private business found in default should be promptly sanctioned. This is one of the surest ways of bringing many of these enterprises into Government tax net.

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