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External Audit Process Failures: Unethical Practices and Business Demise

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Abstract

The primary aim of external auditing is for the independent auditor to comply with authoritative ethical standards in checking and verifying the authenticity of already recorded transactions and thereafter expressing an opinion as to whether the published financial statements and reports were made in all material aspects in accordance with ethical and relevant accounting and financial reporting standards and regulations. By reporting and expressing an opinion the independent auditor helps to establish public confidence and credibility over the financial statements and reports, even though such must not be interpreted as assurance regarding the future sustainability of the enterprise or with regard to the economy, efficiency, or effectiveness of management. The external audit specifically relates to the independent examination of the financial statements of an enterprise by an external auditor appointed by the shareholders. Even though the external auditor may perform the same audit procedures as in the case of the internal auditor, unlike the internal auditor, the external auditor does not report to the board and management but to the shareholders. The external audit is, therefore, important for strengthening transparency and accountability to key external stakeholders in the management of all organizations. External audit as a recognized watchdog mechanism is expected to have probing eyes on the financial statements and reports of the company as a measure of promoting corporate governance and enterprise sustainability. All forms of fraud-sheltering and accounts manipulation by external auditors in collusion with top management of individual companies are unethical and undermine the concept of audit independence; and an invitation to business demise. 230 respondents participated in this study conducted through the exploratory research design, and the result showed a strong relationship between audit process failures and business demise. A recommendation of this report is that the board and management should always ensure to implement credible external auditors' recommendations as to measures of reducing cases of inefficiency, fraud, and business demise.

Keywords: Ethical standards; Adelphia scandal; Material misstatements; Financial statements and reporting; Board and management; Independent examination.

1. Introduction

External auditing involves the independent examination of the financial records and statements of an enterprise with the aim of expressing an opinion as regards to whether the information contained in these records and financial statements give a fair and true view and also are in compliance with the appropriate laws, rules and regulations. The auditor expresses opinion after the audit about the organization in the form of an audit report. In carrying out the audit, the auditor is mandated by the code of professional ethics to confirm that management complies with ethical standards in its day-to-day operations. The traditional view of ethics is that of the study of the fundamental norms of human behavior. Ethics seek to establish how man can live a moral life or what moral standards reflect. They refer to standards of correct behavior often established by individuals, professions and organizations and approved by society. Ethics also refer to a set of rules that describe acceptable human conduct in society, and any behaviours contrary to this amounts to unethical behavior or practices. Unethical practices relate to a lack of moral principles or moral myopia. Moral *myopia* refers to the inability to manage ethical issues distinctly, it involves a distortion of moral vision which may lead to moral blindness in dealings with individuals, and organizations that may damage the reputation of an organization, or in extreme cases, lead to business demise. Audit as a review of an organization's past activities and operations, and important to complement the stewardship reporting function which remains crucial because integrity and performance must be considered in relation to statements of past transactions often required for planning and decision making. Establishing the correct status of the enterprise is the sole index for its continued growth and survival. Thus, audit must confirm that management's efficiency is ascertained by some measures of control, to the extent that nothing exists to jeopardize the existence of the enterprise through unethical practices (Roman and Jude, 2010). Business demise has close relationship with both ethical failures and corporate governance failures. The recent ethical and corporate governance failures at MMG in Saudi Arabia, and Toshiba, Japan, suggest poor internal and external control and corporate governance mechanisms that lead to abysmal management performance. They also reflect the problems of chairman chief executive officer duality, which in totality seeks to erode the effectiveness of the board of directors as a corporate governance mechanism for superior organizational performance. In most of the cases like the Mohammed Al-Mojil Group in Saudi Arabia, the chairman/chief executive officer's overbearing involvement in the manipulation of the accounts, facts and figures, including the Initial Public Officer (IPO) of the company led to its *waterloo.* This bad situation makes a good business case for board diversity that can protect minority interests and designed to enhance opportunities for enterprise sustainability. This must go *parri pasu* with audit independence and board independence to check the influence of high level greedy ownership drive which for obvious reasons results into poor quality financial engineering, disclosure and management.

1.1. Historical Perspective of Audit

The historical perspective of auditing is closely tied to prior 1500 when accounting was concerned with governmental and family units. This involved the use of two scribes who kept independent books of the same transactions and designed to prevent defalcations within the treasuries of the ancient rulers. A secondary objective was the assessment of accuracy in financial reporting. During this period, stock inventories were periodically taken to prove the accuracy of the accounting records. The time of the Roman Empire was also primarily concerned with the prevention of fraudulent acts. Subsequent to the collapse of the Roman Empire, auditing developed hand-in-hand with the Italian City States. The Merchants of *Florence*, *Genoa*, and *Venice* used auditors to help in the verification of the accountability of the sailing ship captains returning from the Old World with *riches* bound for the European Continent. Thus, auditing was primarily fraud preventive during this era. Later in the 19th century and as management passed from *owners* to *hired professionals*, the need for external auditing emerged to verify and improve the accuracy of reported amounts and accounts, and also to minimize the possibilities for fraudulent and unethical acts. Consequently, it became necessary to recognize the importance of internal control and its relationship with external audit. Beginning from the early 20th century therefore, the reporting practice of auditors involving the submission of reports of audits was standardized as the independent Auditors' Report, and this led to the development of the testing process. Testing is now the industry standard for performing audits. In performance of their duties, external auditors must at all times act in the interests of primary stakeholders, uphold professional ethics and values, integrity, objectivity, due process, diligence and independence. This conceptual exploration sought to establish the relationship between unethical external audit practices and business demise. In this academic exploration the words *auditor* or *external auditor(s)* were used interchangeably to mean the *statutory auditor* (Eurosai, 2017; Prasad, 2012).

1.2. Objective of the Study

This study was designed to establish the relationship between external audit process failure and business demise.

1.3. Research Questions

To achieve the objective of the study, these research questions were posed:

i. Is planning part of external audit process?
ii. Can greed lead to audit failure?
iii. Is it true that concealment is an abuse of the audit process?
iv. Is dishonest opinion by the external auditor an unethical practice?
v. Can unethical audit practices lead to business demise?

1.4. Audit Problems

Monumental business failures since the 2000s reveal that the contemporary external auditor must learn new ideas to be capable of adapting to emerging new organizational structures and arrangements to succeed. The auditor must more than ever before imbibe a high sense of integrity and accountability so as to overcome the challenges of discontentment, greed, avarice, kleptomania, among other unethical practices that drive audit and business failures. Auditors face moral problems to be highly independent of their clients, and exhibiting the spirit of honesty, transparency, and objectivity. From the *ground breaking* failures of Enron in 2001 and others after that the auditor must now act most ethically in professional conduct, diligence and competence in carrying out the audit duties. With Enron's bankruptcy against the background of serious criminal charges against the defunct Arthur Andersen, the ethical spotlight had since been placed on the need for accurate, competent, and truthful financial reporting by the external auditor. Among other failures of the external auditor as the corporate *ombudsman*, also include; negligence, dishonesty, self-centeredness, fraud-sheltering, concealment, as well as a gaping lack of integrity which make it impossible for the external auditor and the audit firms to perform creditably. Prior to 2001, Enron was one of the six important business organizations contributing in making the US economy at the time, as the largest in the world, with a gross domestic product of more than $9.3trillion in 2000. Enron was a world leader in electricity, natural gas, and communication. Formed in 1985, through the merger of Houston Gas and Inter North of Omaha, Nebraska, it had revenues of $101 billion and asset of $67 billion in 2000. Employing more than 20,000, people, and creating value and opportunity by combining its financial resources, access to physical commodities, and market knowledge to designing innovative solutions to challenging industrial problems, Enron was itself destroyed by external audit and accounting problems in 2001. By this time, its employees had reduced from 20,000 to just 200. In the whole

Enron audit problems, shareholders lost about $11 billion and its share price crashed from $90 to $1 per share. This *breathtaking* external audit scandal prompted the U.S. government to promulgate the Sarbanes – Oxley Act which sought to increase the accountability of audit and accountancy firms to remain clearly unbiased, independent of their clients, and ethical in performing audit duties. The ethical challenge for auditors today is even not only whether most publicly-listed organizations comply with the numerous provisions of the Sarbanes-Oxley Act, but also whether the top management in many organizations and the business community in general are seen as actually possessed of high levels of integrity and sensitivity in the eyes of the general public (Okaro *et al.*, 2013).

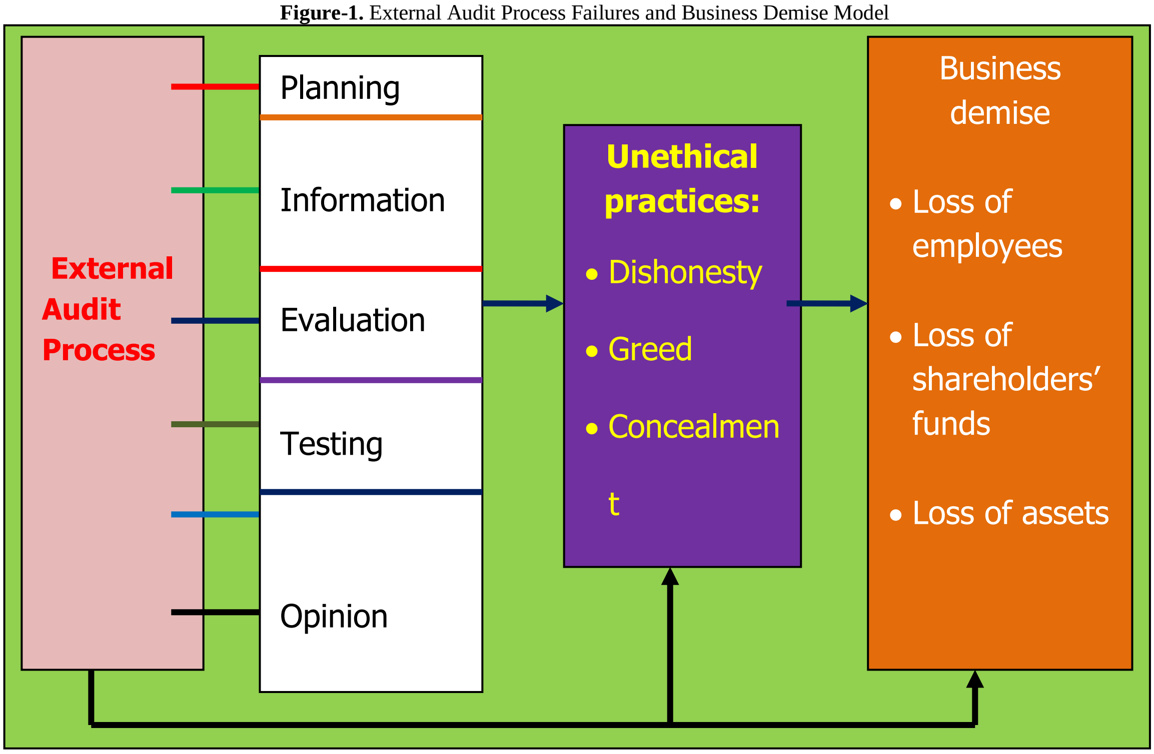
1.5. Cadbury and Banking Audit Problems

Fraud-sheltering was largely responsible for the Cadbury Nigeria Plc. audit and accounting problems and also linked to the demise of Afribank Plc, as well as the shocking Lever Brothers' Nigeria Plc accounting and auditing scandal. Fraud-sheltering by external auditors was also a major unethical practice leading to the failure of many banks in Nigeria from the late 1980s, through 2011. A major challenge of the audit process in recent business history involves unethical practices, and it is safe to say that this has led to the demise of many businesses including audit firms and auditors themselves. Unethical external audit practices were noticeable in the global banking system which eventually coincided with the banking crises. Most of the banks that were consumed at the time of the global banking crises were victims of unethical and perfunctory audit exercises, among other major cases like the Adelphia scandal. The banking system issues were not only due to management failures or economic factors, as most people believe, but included unethical external audit practices around the world. Most banks were engaged in reckless lending and expenditures, insider abuse and manipulation of final accounts to which internal and external auditors turned a *blind eye*. Audit and ethics aim at ensuring conformity with regulations and ethical standards, and to protect the interests of stakeholders. Some of the banks were also engaged in asset stripping, round tripping, using Initial Public Offers (IPOs) as means of swindling the public and customers, in most cases in connivance with external auditors, who would unfortunately issue *unqualified opinion*. This was exacerbated by lack of competent management which resulted to massive bank failures around the world. Notable examples among the cases were the US Savings and Loan crisis in the 1980s and early 1990s, the Japanese banking crisis during the 1990s, and the liquidation by the Central Bank of Nigeria of 25 banks in one day in 1993, in Nigeria, as management of banks' asset portfolio was in bad shape with high levels of nonperforming loans (NPLs). As a result of many cases not unconnected with dubious audit practices and at the height of global external audit blindness, the heads of Arthur Andersen and Enron rolled to their early graves (Agrawal and Cooper, 2017; Akinyomi, 2012; Arens *et al.*, 2017; Yuan *et al.*, 2019; Zerban, 2018a).

1.6. Conceptual Framework

A conceptual framework is the structure of the study and shows the relationship among the principal variables and the problem of the study. It helps in experiential learning and is often expressed in a schematic model. Models help in explaining important issues that would otherwise be buried in an excess of words, and lead to theory building. The model for this work is shown in figure 1. This model showed that external audit process failures manifest in unethical practices and leading to business demise.

Figure-1. External Audit Process Failures and Business Demise Model



The audit process is unique in nature, but varies from place to place, and from time to time. The external audit process begins through planning by obtaining necessary information and evaluating the client and its environment. This is important to enable the auditor to identify inherent risks that may result in material misstatements of the financial statements. There is always the need to identify and assess risks of fraud. Many inherent risks arise because of business risks faced by management. Usually of particular concern to the external auditor are risks of material misstatements due to *fraud*, and understanding of the client's internal control system which is crucial for the external audit exercise. Information is important in preventing or detecting material misstatements in financial statements. Before external auditors' can evaluate the effectiveness of internal control, they need knowledge of how it works: what controls exist, and who performs them. Thus, gaining an understanding of the client's internal control system is a required step in every successful external audit exercise. In the auditing process, it is always important to evaluate the planned control level as well as additional tests that may be necessary. After analyzing the design of internal controls, the auditors must then decide whether the system as designed seems strong enough to prevent or detect and correct material misstatements, because modern auditing relies much on tests of control. Tests of control are usually performed to determine whether key controls have been properly designed and are operating effectively. Subsequently, substantive tests are procedures designed to substantiate the *fairness* of specific financial statement assertions. These tests are determined by the levels of inherent risk and risk control. At this level, auditors must make intensive investigations of accounts balances in areas for which the combination of inherent risk and control risk is high. Often, completion of the substantive tests leads to the completion of the audit exercise by the expression of opinion. An opinion is formed after the external auditors have accumulated sufficient competent evidence to support their opinion. This is usually on the last day of field work which becomes the date on which the last audit procedures are completed at the client's offices. Categorically, an audit opinion may be qualified or unqualified, but the most important element is that the opinion must be done in the most ethical form to reflect the *true* and *fair* view of the affairs of the client (Chen *et al.*, 2011; Defon and Zhang, 2014; Firth *et al.*, 2014).

2. Literature Review

External audit is rather an indispensable part of a regulatory, ethical or control approach whose major aim is to reveal deviations from ethics, accepted standards and violations of the principles of legality, efficiency, effectiveness, and economy of financial management to make it possible to take corrective actions. Auditing process is expected to follow ethical standards of behavior and anything contrary to that amounts to unethical practices that ultimately lead to business demise. A crucial ethical perspective of audit suggests that an important objective of an audit is to provide assurance that an assertion corresponds with some established criteria. This is imperative because ethical behavior is a required minimum for effective organizational sustainability. Ethics and auditing involve conformity, avoiding what is wrong and checking to correct what is wrong and continuing to do what is right. Auditing and ethical behavior relate to the regulatory approach toward business morality, and to align with the Golden Rules (Adeyemi, 2011; Atoyebi and Simon, 2018; Elosiuba and Emma, 2018; Jamal, 2017). The audit paradigm and ethics recognize that the overriding interests of different stakeholders carry different weights and values, but this does not mean that those with a major interest matter more than others. Best audit and ethical practices suggests that all stakeholders are to be treated with equal amount of concern and respect. Auditing, specifically involves the independent examination of the financial statements of a corporation with a view to expressing an opinion and to give a true and fair view and complying with the relevant laws and reporting standards. This means that any view expressed that is contrary to the actual status of the financial statements is tantamount to unethical practices. Management in most large organizations deploys internal control system to minimize the magnitude of unethical practices, and to help in effective internal and external audit processes. Management control through internal control is always strengthened through the support of the Audit Committee (Abdolmohammed *et al.*, 2010; Abdullahi *et al.*, 2010; Iwu-Egwuonwu, 2011; Ke and Zhang, 2019; Ma *et al.*, 2016). A very common feature of unethical practices associated with business demise involves financial statement fraud. This is a deliberate financial misstatement by management to deceive the investing public and creditors with regard to the true financial status of the enterprise. Financial statement fraud also aims at deceiving significant financial statement users. Other areas of unethical practices by both management and external auditors include misappropriation of assets, falsification, alteration, intentional omission of disclosures, reporting of fictitious revenue, as well as capitalization of expenses. For example, in most high level audit and accounting scandals around the world, evidence shows the involvement of external auditors, chief executive officers, and chief financial officers, of individual companies to be within 89-90 percent (Abdu *et al.*, 2010; Ernst and Young, 2003). Business fails in most cases because external auditors instead of serving as watchdogs to enhance corporate governance and enterprise sustainability collude with top management to fleece scarce resources. As watchdogs external auditors are expected to extend probing eyes on important issues to ensure that the reports prepared and presented by management are reasonable and can be seen to be true. This will go a long way in promoting corporate governance culture which is primarily concerned with the way the board of directors runs the affairs of the company. With agency problem and the separation of ownership from management, corporate governance culture automatically becomes the set of processes, customs, policies, laws, and traditions affecting the way an institution are directed, administered and controlled. To build institutional sustainability, corporate governance is also concerned with the identification and reconciliation of conflicts of interest among various significant corporate stakeholders (Al-Faryan, 2020; Al-Shaer and Zaman, 2016; Alhumoudi, 2016; Bhasin, 2013; Haryono and Paninto, 2015; Khondaker and Marc, 2016; Rinaldi, 2019; Todorovic, 2013).

2.1. Internal Control

Internal control is used by management not only to maintain an adequate system of processing accounting information but also to protect the organization against possible financial loss arising from frauds or errors. Most management decisions are based on financial, quantitative and qualitative data obtained from the records of the enterprise, therefore, the immediate goal of internal control is to achieve the completeness, accuracy, and validity of recording of the transactions of the enterprise. A good system of internal control ensures that where errors and frauds take place, they are detected within a very short space of time. Therefore, it is expected that the effect of a good system of internal control is to reduce the incidence of frauds and errors within the system. Internal control represents a management mechanism to ensure that internal operations are in conformity with management's predetermined standards and code of operations. It is a process used by the board, management, and employees of an organization to provide effective assurance regarding the attainment of its goals in terms of reasonable reliability, financial reporting and compliance with applicable laws and regulations. Internal control forms an important integral part of the general management approach for organizational sustainability. It focuses at minimizing unethical acts such as frauds by management and other insiders in the organization. In Nigeria, for example, banks usually employ qualified accountants to perform internal control functions, and they report directly to management through the chief internal auditor (CIA) (Alzeban, 2015).

2.2. Operational Efficiency

Internal control is often most effective where it is directly incorporated with the process which supports top management operations so as to enhance prompt response to changing environmental conditions and overall operational efficiency to reduce frauds, improve ethical standards and organizational effectiveness. As a basic requirement for successful internal control and external audits, it recognizes the necessity for independent verification of performance as measures through which top organizational leadership enhances shared values and providing a culture which emphasizes accountability, transparency, and ethical standards. There are five main categories of common internal control breakdowns, most of which can be directly correlated with the lack of management effectiveness. Therefore, good internal control directs management's attention to these challenges such as lack of adequate management oversight, accountability and failure to develop a strong culture within the organization, inadequate recognition and assessment of certain risk elements, the absence or failure of major control structures and activities, such as lines of authority and separation of duties, approvals, verifications, reconciliations, and reviews of operating performance methods, inadequate internal communication of information between levels of management within the organization, especially in the upward communication of organizational problems, and also inadequate or ineffective internal audit arrangements and monitoring of activities (Adeyemi and Akinniyi, 2011).

2.3. Quality Assurance

A goal of protecting the integrity of the enterprise is for the board and management to assess and enhance the adequacy of internal control system through reviews of the common areas of internal control. In large organizations, internal and formal quality assurance mechanisms cover expenditure, revenue, recording, reporting, and budgeting, as measures to prevent frauds and other unethical practices such as corporate corruption. Activities to strengthen internal control should therefore, include effective measures for timely and regular accounts reconciliation, clearly defined and simple audit standards, training to improve capacity of audit staff and increased authority for internal control system. Modern internal control in organizations is now understood more as a process designed to provide reasonable assurance regarding the attainment of organizational goals in terms of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws, rules, regulations, and policies. Typical internal control activities include reviews of formally recorded transactions to guide against possible frauds and any other unethical practices. Internal control is now almost inseparable from good management because management is responsible for overseeing overall performance using available information and or records, holding others accountable, and for accepting ultimate responsibility for failure of the organization to operate profitably and also providing appropriate incentives for minimizing performance and audit failures. To this extent, effective internal control is key to effective statutory audit (Adeyemi and Olowokere, 2012; Akinyomi, 2012; Nworji *et al.*, 2011; Ogbojafor *et al.*, 2012; Okaro *et al.*, 2013).

2.4. External Audit

External audit relates to the independent examination of the financial statements of an enterprise by an external auditor appointed by the shareholders. Even though the external auditor may perform the same audit procedures as in the case of the internal auditor, but unlike the internal auditor, the external auditor does not report to the board and management but to the shareholders. External audit is important for strengthening transparency and accountability to key external stakeholders in the management of public organizations. It is an important statutory dimension of promoting management responsibility in organizational management. In the light of business and audit failures in recent business history, it is nolonger in doubt that external audit itself could be a source of unethical practices or frauds, where the excessive influence of management over external audit institutions results in understating, overstating, or underreporting of fraudulent or unethical practices and inadequate investigations into serious allegations of malpractices or corporate corruption. Therefore, an external audit can only be meaningful where the quality of audits, corporate or legal mandates, on the scope of such audits, and follow-up on the reports, and recommendations thereto are adhered to for the integrity and reputation of the organization. An external audit specifically, involves a formal, independent examination of the accounting and reporting standards of a public organization. It is usually performed by professional accountants as auditors to lend public confidence and credibility to the financial statements and other management records and reports, and also to identify any weaknesses in the system of internal controls that may require urgent management attention. In many countries, the appointment and engagement of the external auditor as a statutory requirement must be approved by the board of directors and their tenure must also be specified and must therefore change upon expiration. The financial statements audit appears to be the most common type of external audit in public organizations. Financial statements audit and audit of ethics as far as external audit is concerned are related to the important extent that ethical dimensions are crucial in financial audits. One important objective of an audit of financial statements of an enterprise is to obtain reasonable assurance that the financial statements as a whole are free from material misstatements due to frauds or errors, and to express *true and fair view* thereto (Duval, 2016).

2.5. Company and Allied Matters Act (1990)

In Nigeria, the CAMA (1990), as amended, does not give any indication as to what constitutes *true and fair view,* but this statement is important to every audit report. Section 335 (2) of CAMA mandates that the balance sheet and the profit and loss accounts should give *true and fair view,* of the state of affairs of the company as at the end of the year. Therefore, the *true and fair view* requirement relates to those financial statements that are published in a company's annual report and statement of accounts, over which the external auditor expresses an opinion. However, contrary to the requirements of code of ethics, *unqualified opinions* have been proved to lack *integrity*and thereby creating the need for additional type of audit by board and management or regulation. One other type of popular external audit is Special Purpose Audit. For example, a Special Purpose Audit was done in Nigeria in the banking system in 2009, during the banking crisis in Nigeria. This was after almost all the external auditors have expressed *unqualified opinions* in the face of a deteriorating banking system. According to Sanusi (2010) in furtherance of the Central Bank of Nigeria's statutory duty to ensure a sound financial system, a Special Examination of all 24 banks operating in Nigeria was undertaken. Surprisingly, the result showed that there were among other breaches, major failures in corporate governance at banks, lack of investor and consumer protection, inadequate disclosure and transparency about the financial position of banks, critical gaps in regulatory frameworks and regulations, uneven supervision and enforcement, unstructured governance and management process at the Central Bank of Nigeria, and weaknesses in the business environment in the country. As a global practice, the external auditor is usually engaged by the board of directors but ultimately responsible to the shareholders through its Audit Committee. The process of appointing external auditors begins by determining the scope of work by listing the requirements upon which an audit firm can base its proposal. The scope of the audit work, generally must be approved by the full board so as to be legally binding on both parties to the external audit arrangement (Adeyemi and Olamide, 2011; Fareed, 2014; Okorie and Uwaleke, 2010; Schawepker and Good, 2010; Vincent, 2011).

2.6. Audit Committee

Where there is no distinct audit committee on the board, the entire board assumes this important responsibility. Also, whether a separate audit committee is necessary is a function of the ability of the board of directors to act as a unit to perform such duties as required by law. When an audit committee is to be composed, the required or necessary qualifications of committee members must be determined, often the requirements include; financial literacy, or experience in finance, auditing or accounting, and at least one member must be designated as *financial expert.* The concept of *financial expert* refers to someone who has a good understanding of generally accepted accounting principles and financial statements and also has the ability to assess the general application of good principles in connection with the accounting for estimates, accruals, and reserves, and has experience in preparing, auditing, analyzing, or evaluating financial statements. Generally, an audit committee should have three or four members with a three year term, and ideally with one member rotating each year. An audit committee must meet at least four times in a year, or quarterly, and before the Annual General Meeting (AGM) for the full financial year. In Nigeria, for example, Section 359 (3) of the CAMA 1990, as amended, provides that every public company shall establish an audit committee. A major argument for the establishment and independence of the audit committee members in that they should be able to deter management from manipulating financial statements and results. The committee is to comprise of an equal number of directors and representatives of the shareholders of the company subject to a maximum of six members. The committee will examine the auditor's report and make recommendations to the *AGM* as it deems fit.

2.7. Articles of Association

Subject to such other additional functions and powers that the company's Articles of Association may permit, the objectives and functions of the audit committee include to, ascertain whether the accounting and reporting policies of the company are in accordance with statutory or legal requirements and in agreement with ethical practices, review the scope and planning of audit requirements, review the findings on management practices in conjunction with the external auditors reports and responses thereto, make necessary recommendations to the board with regard to the appointment, removal and remuneration of the external auditors, and to carry out investigations into any activities of the organization which may be of concern to the organization. Traditionally, there is often an official document specifying the authority, composition, quorum, terms, reporting, meetings, and responsibilities and purpose of the audit committee, and which must be approved by the board of directors. In addition to reviewing the external auditors' report, the audit committee assists the board of directors in fulfilling its oversight functions for reducing the risk of unreliable financial statements or reporting, ensuring the operational effectiveness and efficiency of the internal control system and the audit process. While the audit committee has responsibilities and powers as provided for in its working documents, it is not the duty of the audit committee to plan or conduct external audits to determine whether financial statements are complete and accurate, and are in accordance with generally accepted accounting, principles. These are the responsibilities of management and the independent auditors. However, the audit committee is obligated to enhance compliance by reviewing and monitoring compliance with laws, regulations and professional ethical standards and finally reporting to the board of directors and shareholders. The audit committee is not expected to be a *rubber stamp* for fraud but a strong weapon to enhance integrity culture and ethics management system.

Table-1. List of 10 Selected Major Accounting and Audit Scandals in Nigeria 2010 - 2021

S/N	Name	Base	Date	Business	Causes
1	Anglo Irish Bank	Ireland	15/1/2009	Banking	The bank could not survive the global financial crisis of 2007-2008 and was forced to be nationalized by the Irish government.
2	Arcandor	Germany	9/6/2009	Retail	Unable to sustain business levels at its brand names Karstadt and KaDewe, Arcandor sought assistance from the German government and thereafter applied for insolvency.
3	Hydro Real Estate	Germany	5/10/2009	Banking	Depfa, one of the subsidiaries of the company had liquidity problems in 2008 during the global financial crisis combined with heavy losses reported by the Hydro Real Estate itself led to a bailout by the Deutsche Bundesbank and subsequently to a total nationalization of the enterprise.
4	Schiecker	Germany	23/1/2012	Retail	Due to continual heavy losses mounting from 2011, this company with about 52,000 employees was forced into insolvency though it continued to operate.
5	Dynegy	USA	6/7/2012	Energy	Consequent upon a series of unsuccessful takeover attempts and as a result of fraud in a subsidiary the company applied for bankruptcy
6	China medical technologies (CMED)	Cayman Island	27/7/2012	Medical Technology	Upon receipt of an anonymous letter investigation by KPMG Hong Kong found that CMED had been under fraudulent activities by management from 2007, when the enterprise came under liquidation, the liquidator found an alleged $355 million insider fraud, involving the CMED founder and a former CFO. They were charged with securities fraud and wire fraud conspiracy for stealing more than $400 million from investors over a seven-year scheme.
7	Banco Espirito Santo (BES)	Portugal	3/8/2014	Banking	A 2013 audit for capital increase performed in May 2014 found severe financial irregularity and a precarious financial situation of BES. Due to huge nonperforming assets (NPAs) BES got its banking license revoked by Portugal's regulators.
8	Dick Smith	Australia	5/1/2016	Retail	On 5 January 2016, the retail business failed and was placed in to receivership. Administrators were appointed by the BODs and creditors were appointed in National Australia Bank (NAB) and HSBC Bank, Australia.
9	Wire card	Germany	June 2020	Banking	EURO 19 billion which obviously did not exist were found missing in a special

					audit. The CEO was arrested, the BODs applied for insolvency and a warrant for the missing COO was issued.
10	Ozymedia	USA	October, 2021	Media, Entertainment	Corrupt and *unethical business practices*, including impersonating executives of *YouTube* in a videoconference seeking a $40 million investment from Goldman Sachs.

3. Research Methodology

The exploratory research design was adopted in this study. Data were collected from primary and secondary sources, including personal interviews, websites, journal articles, newspapers, bulletins, among others. 230 respondents from 10 selected public companies in Nigeria served as the unit of study in obtaining relevant information. The result of the study was presented in figures and tables. The cut-off mean for accepting or rejecting the responses to the research questions was set at 3.00 point (Creswell, 2009).

4. Presentation of Result

Table-2. Frequency and Mean for Responses to Research Question

S/N	**Restatement of Research Questions**	**Scores**					**Row scores**	**Size**	**Mean**	**Decision @ mean 3points**	**Grand mean**
		SA	**A**	**N**	**D**	**SD**					
		5	**4**	**3**	**2**	**1**					
i	Planning is part of external audit process	105	90	2	3	30	927	230	4.03	True	
ii	Greed cannot lead to audit failure	10	20	5	30	165	370	230	1.61	False	
iii	Concealment is an abuse of the audit process	110	85	1	4	30	231	230	4.05	True	
iv	Dishonest opinion is an unethical audit practice	120	70	6	10	56	974	230	4.23	True	
v	Unethical audit process can lead to business demise	150	40	2	8	30	962	230	4.18	True	3.62

5. Discussion

After the grand failures of Enron, Worldcom, and Parmalat, at the beginning of this century, research provides strong empirical evidence that accounting and auditing failures and scandals remain on the increase around the world. The case in Japan involving Toshiba, where the CEO resigned after admitting that Toshiba overstated its profits by approximately $4.1billion between 2012 and 2015, and then the external auditors of Enrst & Young did not complain of the obvious anomalies, is among the root issues of unethical practices and external audit failures. In Sandi Arabia, the founder of Mohammed Al-Mojil Group (MMG) Sheikh Mohammed Hamad Al-Mojil led his company to a cumulative loss of more than 2.79 billion Riyals through manipulation and fraud relating to the MMG Initial Public Offer (IPO). Sheik Mojil, his son Adel Al-Mojil and other principal collaborators in the massive abuse were jailed for fraud. Deloitt & Touche, Bakr Abullar & Co. the Saudi Arabia arm of Deloitte Touche Tohmatsu Ltd. were indicted as the auditors of MMG, who did not report the anomalies in the accounting books of MMG for a very long time. The evidence as in table 1 showed that all the business failures were related to manipulation of the balance sheet by management and external auditors. It would also suggest that in addition to sheer incompetence, top management also lacked the capacity for effective understanding and usage of both financial and accounting ratios. For example, the case of *Wirecard* was the type that management and Board could have prevented through due audit diligence. Unfortunately, however, research evidence is consistent that after the disgrace of Arthur Andersen over the Enron debacle, many other *big* audit firms have learnt nothing to minimize unethical practices and business demise around the world. This gap needs explanation for management. The growing incidence of business failures around the world also present evidence that failed businesses or those at the brink of failure were those not actually concerned with understanding the implications of financial ratio analysis but relying very blindly on the opinion of external auditors. There is also evidence that failed firms not only had a lower cash balance than those that did not fail but they also had a smaller balance in liquid assets. In managerial finance, it is almost a settled argument that the best indicator of business failure is a ratio with profit or cash flow above the line and assets or liabilities below the line. This can be illustrated as (i) $\frac{Cash\ Flow}{Total\ Debt}$ = the best predictor and (ii) $\frac{Profit}{Capital\ Employed}$ = the second best predictor. These would suggest that (iii) $\frac{Current\ Asset}{Current\ Liabiilties}$ is a poor predictor of business failure. Business failure could:

i) Mean legal insolvency or bankruptcy, as in going into liquidation, (ii) technical insolvency, where a company is unable to meet its maturing obligations, and (iii) real insolvency, where the liabilities of the enterprise exceeds its assets. And if this is more than a temporary situation, the company will inevitably go into liquidation. Financial ratios are largely concerned with the efficiency and effectiveness of resource utilization by top management, and also with the financial soundness of the business. This will also suggest to top management whether additional funds could be lent to the company with reasonable safety, and whether the company, without additional funds, would fail, and one method of predicting failure is the use of liquidity ratios, including the current ratio and the quick ratio. Research seems to prove however, that the current ratio and quick ratio, and trends in the variations of these ratios for a company, are poor indicators of eventual business failure. This is because they measure a stock of working capital at one point in time, often, to balance sheet date, while a better measure of potential insolvency must be cash flow, which involves the movement of funds over a period of time. But the tragedy of management today is that these conditions are distorted and manipulated by external auditors thereby leaving top management in the *cold of making decisions based on false balance sheet status.* The analysis in table 2 showed a grand mean score of 3.62 over the cut-off mean score of 3.00. This technically proved that audit process failure explains business demise. This result supports the findings of Zerban (2018b).

6. Implication for Management

The primary objectives of external audit are to enable the auditor to express an opinion on whether or not the company's financial statements fairly reflects its financial condition, and the results of its operations for a given period. The external auditors' report is normally addressed to shareholders, but is used by many other parties, such as regulators, depositors and creditors. The traditional approach to an external audit according to the requirements of generally accepted auditing standards typically includes a review of internal control systems. This assessment is undertaken to determine the nature and extent of substantive analysis, and to undertake a certain amount of detailed testing. The implication for board and management is to always scrutinize external auditor's reports to minimize the risks of business demise.

7. Recommendations

i. Because of evidence in the business literature that external audit can be a source of unethical practice; organizations should design patterns of Special Audits to enhance their sustainability.
ii. There should be legislation in OECD entities banning *failed* auditors who compromised the audit independence from engaging in audit functions in other names or patterns. This is necessary to detoxicate the system of potential business failures.
iii. Organizations should properly equip internal control systems to lay the foundation for quality external audits.
iv. The board of directors that has the right to *hire* and *fire* should be weary of hiring people on the basis of *paper qualifications* alone, without reference to character or integrity. This blunder makes it possible for people who have the *mindset* of committing fraud and only enriching themselves to be *blindly employed* in *many fortune organizations*.
v. Board and management should always ensure to implement credible auditors' recommendations as a measure of reducing cases of inefficiency, frauds, and business demise.

8. Conclusion

The goal of audit involves checking records of transactions that had already taken place and to make a report whether all laid down procedures, regarding them were complied with. The eternal audit is primarily concerned with checking that financial statements and reporting are in compliance with ethical and statutory requirements as to protect the integrity and sustainability of the enterprise. To this extent, the audit committee must at times submit reports to the board and management or shareholders, *attesting*, that the operation of the organization is in accordance with relevant, internal, external, ethical, professional and legal requirements, as well as the general considerations as recognized by the auditing standards. Therefore, an overall goal of the audit process is to promote ethics management and enterprise profitability and sustainability.

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Originality

Though there are cases of business demise associated with audit failures analysis is yet to move towards its genesis. Consequently, this is one of the new works in Nigeria exploring relationships between unethical audit process and business demise. It is expected that researchers will do more work in these areas.

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