VOL. 30 NO. 7
ISSN: 2190-2099
SEPTEMBER, 2023

African Scholar Publications & Research International

African Scholars Journal of Business Dev. and Management Res. (JBDMR-7)

The Roles of Auditors in Managing the Challenges of Creative Accounting in Nigeria

Oladele Olumuyiwa Samuel
Augustine University, Ilara Epe, Lagos State Nigeria.

Abstract
The expansion of auditing services is largely responsible for accounting's continued legitimacy. The difficulty in ascertaining whether auditors are primarily to blame for management's inventive accounting practises has increased. This study thus aims to shed light on the role auditors play in resolving issues brought about by creative accounting in the Lagos state context of Nigeria. A total of 219 individuals' responses were used as the primary data. The purpose of this study was to shed some light on the complexities of cosmetic accounting and how they relate to the responsibilities of auditors in corporate reporting in Nigeria. The study found that if accounting principles and standards were standardised, the need for expert opinion in financial reporting would be reduced. In addition, accounting firms, courts, and other regulatory bodies should take severe measures to stop creative accounting practises and punish individuals culpable. The potential for further research was also explored.

Keywords: Auditing, Creative Accounting, Representation, Accounting Standards, Corporate Reporting

Introduction
Management's obligation for the accuracy and completeness of the representations in the financial statements is strongly related to management's capacity to decide the distribution of significant information. Management is responsible for preparing the financial statements and the accompanying general information report, with the auditor providing suggestions for increasing the statements' accuracy. The auditor may provide a disclaimer, negative opinion, or qualified opinion if management persists on presenting inadequate financial accounts (Abed et al, 2022). Given the close relationship between auditors and management, it's crucial to provide a solid ethical foundation for auditing. The auditor is trying to figure out how to handle the intense scrutiny from upper management. He can envision two possible outcomes here. The first is placing restrictions on certain kinds of client interactions on purpose. Second, by enforcing disciplinary control measures, an auditor may improve his or her network of personal connections, which in turn may protect the public's trust in the auditor's capacity to execute his or her job and reap the financial benefits of his or her chosen profession.

"Creative accounting" or "earnings management" refers to a fraudulent financial reporting tool where management deliberately misrepresents financial result in order to mislead investors and other users of published financial reporting Njoku and Oyewobi (2021). Some of these methods employ 'novel' ways to portray assets, liabilities, and income that raise eyebrows. It has been claimed on many occasions that dubious trustees manipulated pricing, inflated earnings, and falsified accounts, all of which cast doubt on the accuracy of financial reports. The creative accounting is a tool to help the manager to promote and aid the company’s image; however, the manager used that information to support his self-interest (Ajuzie et al 2020). In recent years there are many criticisms to accounting profession that it depends on some accounting techniques which can furnish unreliable and deceptive information to the users of this information, which may also cause collapse for some companies. The practices and techniques of creative accounting have made contributions to the collapse of big companies such as Arther Anderson, Enron, World Com, Parmalat, etc., (Norri, 2015). The falsification of financials has had repercussions beyond monetary loss for the auditing and accounting industry. In light of this, the study's objective is to ascertain whether auditors face a serious threat from creative accounting in Nigeria.

The accounting profession also has rules and regulations it must follow. For instance, those in responsibility of reporting for their firm should refer to the procedures outlined in the relevant accounting standards. Managers, however, use the frameworks' wiggle room to search for ways around the rules. The phenomenon of "creative accounting" Similar practises are referred to by a variety of names, including "big-bath accounting," "earnings management," "income smoothing," and "micro-manipulation."

However, the concept of macro-manipulation is another area of worry noticed by accountants. Academics and professionals in the field of corporate reporting have argued that whatever standards originally emerged from the perspective of regulators have been effectively taken over by those responsible for corporate reporting.

In particular, this study aims to reach professional accountants working for audit firms in Nigeria. To keep things civil, though, we'll limit our discussion to the nearby state of Lagos.

LITERATURE REVIEW

Creative accounting is not a new phenomenon. Creative accounting has been there since the beginning of the industrial revolution, but it wasn't until the 1980s that they truly took off and haven't slowed down since. The term "creative accounting" first used in a 1968 Mel Brooks film. Non-standard methods of maintaining financial records and reporting them are often called "creative accounting" (Jameson, 1998). Such procedures are characterised by extensive compilation and the introduction of new ways of characterising income, assets, or liabilities. Thus, "creative accounting" means coming up with interesting, non-boring financial reports that read like a page out of a novel. Creative bookkeeping has been blamed for certain recent accounting scandals, leading to demands for change that centre on modernising the analysis of capital and factors of production to more properly depict the methods by which value is generated.

"Creative accounting" (Bolkaoui, 2004) modifies financial accounting data by using existing rules and/or ignoring parts or all of them in order to better fit the purposes of the preparers. "Accounting manipulation," "fraudulent reporting," "income smoothing," "earning smoothing," "disclosure management," "window dressing," and "cosmetic accounting" are just some of the phrases that have been used to characterise creative accounting (Charles and Akinola 20202).

Rosner (2003) points out that there is a lot of overlap between accounting manipulation and fraudulent activity when it comes to the selection of operating, financing, and investing activities. He argued that

because these methods are allowed by accounting regulations, they should be disclosed to customers. Both creative accounting, which Bolkaoui (2004) defines as "the process of converting accounting numbers from their actual value towards a desired value," and income smoothing, in which management consciously adjusts the reported income number to hide fluctuations in results from period to period, are possible. In the eyes of the general public, creative accounting is a means through which genuine information is altered to seem fraudulent.

Evaluation, conflicting items, and unexpected occurrences are all a part of the inventive accounting process. This degree of latitude allows for the possibility of dishonesty and exaggeration. Therefore, accountants may use their knowledge of accounting standards to create false financial statements for their clients.

According to the authors' consensus view, creative accounting manifests itself in "window dressing," or the manipulation of financial statements to benefit the company's owners and investors. Authorities frequently see it as dishonest and unhelpful because of the misleading impressions it provides, and it is often used as a fraud method.

One use of creative accounting is to alter profits. The following are some instances of novel approaches to accounting that are discussed by Amat, Blake, and Dowds (1999):

First, a company has some discretion (within the bounds of the rules) in selecting the accounting methods it employs. A company may show itself in any light it pleases by selecting an appropriate accounting approach.

Second, certain accounting entries will always include estimation, interpretation, and projection. It's possible to fudge the books by recording phoney transactions and shifting earnings to other time periods. Strategic scheduling of transactions might be used to create a false impression in the books.

As a result, creative accounting now encompasses a variety of practises with the goals of, among other things, disguising financial risk, circumventing borrowing restrictions, evading shareholder control, inflating profits and deflating losses, distorting key ratios used in market analysis, enhancing management's efficacy and efficiency, and gaining access to funds that would be difficult or impossible to raise without such measures.

Theoretical review

The regulatory Capture Theory

The regulatory capture theory, developed by Posner in 1974, examines the extent to which management exerts influence on regulatory bodies and the rules such bodies create and strive to implement. Capture theory argues that the public interest is not served by regulation since the regulated ultimately come to control or dominate the regulator, despite the fact that this is the declared purpose of regulation. Multiple inferences may be made from the observation that the regulated could influence the regulators. Many stakeholders have argued that there is much leeway in local and international accounting regulations. Even though auditors are permitted to make advantage of the inherent flexibility of accounting standards, they do not have the ability to "force" corporate reporting systems to comply to specific requirements of such standards. This might occur if the relevant accounting standards allow for the chosen accounting policy or practises. Stocks, for instance, may be valued in SAS 4 using either the weighted average or the last-in, first-out (LIFO) method. There is continuous debate about whether or not these newfound rights provide a fertile ground for novel methods to corporate reporting.

The Entity Theory.

The concept of 'Stewardship' or 'accountability' was emphasized by the entity theory (Paton, 1962) when a business is worried about its own survival and discloses financial information to equity holders

to both comply with legal requirements and keep a good relationship with them in case more funding is needed in the future. The idea was first offered by Soujanen in 1954. Business is viewed as a social institution where decisions are made that affect many different groups of people, and thus, corporate managers are held accountable to a broad audience of users to provide high-quality, accurate, and complete financial information that accurately reflects the underlying entity's financial performance.
The auditor's primary role is strengthened by the consideration of rules and laws. When managers in charge of corporate activities are likely to participate in creative accounting, the public is unclear as to whether or not auditors have a duty to dig into the intricacies of financial statement manipulation. But the premise stressed that when expansion or other ambitions need future finance, management should think about how that would affect shareholders. Investors will be less likely to support the company's future financing requests if they consider the financial reports do not fairly portray the company's health.

Empirical review

Charles and Akinola (2020) looked at how auditors' responsibility affected creative accounting practises in Southwest Nigeria. A questionnaire was used to collect data from 66 managers and 66 accountants. The data was analysed using descriptive statistics and One Way Analysis of Variance. According to the findings, the oversight of auditors in Nigeria's private sector had no influence on the incidence of creative accounting. Creative accounting was shown to be connected to the goals of Nigeria's statutory auditors.
Hasen (2019) applies a descriptive approach to the question of whether or not an external auditor can deter management from engaging in creative accounting or other financial statement manipulation. The findings suggest that criteria including objectivity, honesty, verifiability, and ethical norms play a key role in establishing trust in financial reports. The external auditors put in enough time and effort to follow through on the agreed-upon techniques and processes, and they handled the audit with due diligence.
Jarah et al. (2022) investigated the effect of CA on the trustworthiness of financial statements at Islamic banks in Jordan, and if IA may help alleviate this effect. There were 143 auditors altogether in the study, and 100 were chosen at random to participate in the descriptive analysis. Despite CA's negative effects on the credibility of financial statements at Islamic banks in Jordan, the results showed that IA (including independence, objectivity, verifiability, professional care, and impartiality) helped to cushion the blow.
Ajuzie et al. (2020) looked at how creative accounting ethical practises affect the trustworthiness of financial reporting from the standpoint of auditors and academics. To collect the data we need, we will send out a well written survey to a large pool of auditors and accounting professors from several universities. Descriptive and inferential statistics were used to analyse the data and develop conclusions. In the end, it's made clear that investors shouldn't put their faith in financial statements since management is using creative accounting practises. The trustworthiness of financial reports is greatly impacted by statutory auditors who promote forward-thinking accounting methods.
Internal auditing and creative accounting methods in government was been studied by Ogoun and Atagboro (2020) in their research on Nigerian ministries and departments of administration. Using SPSS to analyse data collected through a pre-made questionnaire, the study found that the internal audit function influences the adoption of novel accounting practises by MDAs.
In their study, Lau, K.C., and Ooi, K.W. (2016) examined the causes of and responses to financial reporting fraud in Malaysia. According to the results of this analysis, the most common form of inspired accounting is the recognition of fictitious revenues from the sale of products to made-up customers. One of the key recommendations of the research is that auditors should evaluate the effectiveness of

their analytical and material methods in light of the numerous instances of innovative or dishonest accounting that go undiscovered by auditors.

Mindak et al. (2016) undertook the current research to find out whether the market rewards or punishes companies that falsify their financial statements to meet or exceed analyst predictions and/or previous year's performance. The results suggest that companies that engage in fraudulent accounting techniques to exaggerate their earnings are rewarded by the stock market. Companies that manipulated their profitability (by increasing reserves, for example) to narrowly meet their objectives, in contrast, were not rewarded. The main reason is that most profit goals are based on expert forecasts.

The literature review finds a paucity of studies examining the function of external auditors in monitoring the creative accounting practises of Nigerian enterprises. Effectiveness is hard to quantify since there is no universally accepted definition for the term. The ideal technique to assess an auditor's duty of care is still up for debate, although most studies seem to agree that independence and objectivity are among the most significant aspects. By "objectivity," Collier and Gregory (1999) mean the auditor's attention to detail.

METHODOLOGY

This study aims to investigate how practitioners in the auditing services industry see the contribution of external auditors to the administration of cutting-edge accounting procedures.

This initiative targets every single chartered accounting firm in Lagos state that offers auditing and financial advising services. Lagos, the commercial centre of Nigeria, is where the study takes place. ICAN estimated in 2012 that there were 784 people residing there.

Questionnaires were sent to various levels of auditors, with particular focus on audit senior, audit manager, and audit supervisor positions.

DATA ANALYSIS AND PRESENTATION OF RESULTS

Analysis of Demographic Data.

Although 250 questionnaires were produced, only 219 were returned with replies. We got an 87.6 percent response rate! The majority of respondents are between the ages of 31 and 40. This represents 41.3% (or 89 replies), whereas the 21-30 and 41-50 age categories each contain 59 responses (representing 27.3%), and the 51-60 age group has just 4.56% (10 responses). All of the respondents were legal adults, therefore we can probably trust their opinions. This is the average number of years that consultants have been in the workforce. Of the total population, 28% have spent less than 5 years in the field, while another 28.7% have spent 6-10 years in the field. Only 4.2% (9 individuals) of the sample have been with their firm for 16+ years, whereas 20.3% of the sample (47 people) have been with their employer for 11-15 years. Forty-one employees in Audit (8.9%) have been there for more than 20 years. They are mostly old folks or partners demonstrated the progress that respondents had made in their training or employment. It's obvious that the respondents all have advanced degrees. Forty-two (42) have Master's degrees and 35 (16.1%) have MBAs; 71 (or 32.9%) have professional accounting certification from the Institute of Chartered Accountants of Nigeria (ICAN). Half of the respondents had at least a bachelor's degree (56 people), whereas just 12 people have any kind of advanced degree (LLM, CITN, CFA, CCNA, MCSE, CISSP, CISM, CFE, CISCO, ACCA, CISA, etc.).

Table 4: Respondents of the Auditors to the questions

Variables		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	Total
The auditor owes primary	Freq.	30	89	7	67	26	219
responsibility to uncover all	%	13.9	39.9	3.5	30.8	11.9	100

related party transactions in the financial control and reporting processes of client companies.							
Where management intentionally decides to include errors in the company's books and justifies the failure to correct such errors by arguing materiality, the auditor is responsible generally expected to make adequate disclosure else he is responsible.	Freq.	116	56	8	37	2	219
	%	53.7	24.5	3.8	17.1	0.9	100
It is the auditor's responsibility to look into the details of checking unrealistic assumptions management has adopted in estimating liabilities for items such as returns on sales, loans and advances as well as warranty costs in reversing over-accrual to improve earnings during subsequent periods.	Freq.	6	14	4	106	89	219
	%	2.8	6.3	2.1	49	39.9	100
The provisions of auditing framework should significantly eliminate the possibility of creative accounting.	Freq.	20	16	18	86	79	219
	%	9.3	7.4	8.3	38.4	36.6	100
Flexibilities provided by auditing framework are not likely to be the reasons corporate managers engage in creative accounting in Nigeria.	Freq.	1	11	9	79	119	219
	%	0.7	4.9	2.8	36.4	55.2	100
The auditing framework does not require detailed disclosure in relation to the impact of changes in accounting assumptions for the market to better understand the nature and effects of such changes.	Freq.	3	13	36	119	48	219
	%	1.4	6.3	16.1	55.2	21	100
Accounting regulators have failed to limit managers' ability to use accounting changes	Freq.	9	30	13	94	73	219
	%	4.2	14	6.3	43.4	32.2	100

towards influencing net earnings.	

The results of the first question show that respondents did not agree with the statement's premise. According to the data, 39% of respondents (89 people) disagreed, with 13.9 percent (30 people) strongly disagreeing. A majority of respondents, 116 (53.8%), disagreed with the assertion. According to this evidence, auditors in Nigeria are not required to systematically search for and report on related party transactions that occur anywhere in their clients' financial management or reporting procedures.
The results showed that the majority of people had a different opinion on the second topic. Fifty-three percent of those who participated in the survey (169 persons) either don't agree or strongly disagree with this statement. What else the table showed Thirty-seven poll takers (17.1%) expressed agreement with the statement, while eight (3.8%) expressed uncertainty. Respondents claim that management deliberately makes decisions to include inaccurate information in the company's financial statements and then tries to defend this by saying that the mistakes are not significant.
Based on responses to the third question, 49% of respondents agreed with the statement while 39.9% strongly agreed. In all, there were 192 people involved. Another fourteen (14) respondents (6.3%) were apathetic, while another six (2.8%) were very uninterested. Only four (4) respondents were not yet convinced. The vast majority of respondents agreed that in order to increase future profitability in Nigeria, the auditor should evaluate the validity of management's estimations of liabilities for items like returns on sales, loans, advances, and warranty charges when correcting for over-accrual.
The findings of the fourth question showed that twenty (20) respondents (9.3 percent) strongly disagreed with the statement, while eighty-six (86) respondents agreed and seventy-nine (79) respondents strongly agreed. Only 18% of those who replied were undecided. It's clear that respondents hoped the rules of the auditing framework would be drafted in a manner that would make creative accounting almost impossible.
As can be seen in the chart below, 119 (55.2%) of respondents strongly agreed with the statement in question 5, while 79 (36.4%) agreed with it. As can be seen in the table below, eleven (11) respondents (or 4.9% of the sample) disagreed with the statement, nine (9) were undecided, and just one (1) strongly disagreed. That firm managers in Nigeria don't utilise creative accounting due to the auditing process's latitude is supported by this finding.
Furthermore, the table revealed that 119 respondents agreed with the sixth statement (55.2%) and 48 respondents strongly agreed (21.0%). A further thirty-six (36) individuals, or 16.1%, were on the fence about the whole thing. Thirteen (13) respondents disagreed, with three (3) strongly so. Therefore, respondents said the market didn't require comprehensive disclosure of the effect of changes in accounting assumptions because of the auditing system.
The final tally revealed that 30 people, or 14%, disagreed with the statement, while 9 people, or 4.2%, severely disagreed. The majority (97) expressed agreement or strong agreement, whereas the rest (13) expressed indifference. According to respondents, accounting standards have manifestly failed to limit managers' ability to make accounting changes to alter net profitability.

CONCLUSIONS

The study's focus is on the role of external auditors in monitoring the implementation of creative accounting procedures used by corporate financial reporting management. This study used an empirical methodological tack in its investigation. In order to acquire an accurate picture of how current corporate reporting experts feel about the hypotheses being discussed, they were polled. The thesis is divided into

two parts, the literature review and the survey, from which the research questions are drawn. The thesis is organised around seven (7) research questions and hypotheses derived from the survey.

Based on our observations, it seems that fraudulent accounting practises are widespread across all economic sectors in Nigeria. This is shown by the fact that the surveyed auditors have clients in both the service and real estate industries throughout Nigeria. Based on the study of several expert opinions, it has been concluded that creative accounting is widespread in Nigeria. Some of the companies being audited by these firms may be using these practises for the beneficial purpose of strengthening the accounting system. However, the great majority of these companies have used these practises in an unpleasant manner to attract investors and maintain the market's present level of confidence. This is encouraging. Positive developments include the acceptance of ethically dubious creative accounting by prominent leaders in the area. They also believed there should be adjustments made to the accounting regulations. Many people still have faith that the status quo can be restored on the Nigerian Stock Exchange (NSE), despite the present negative trend, provided regulatory authorities establish a systematic approach to accounting control.

Based on the findings, the following recommendations are made:

Public confidence in accountants would be bolstered significantly if all nations followed the recently proposed global financial reporting standard. An accounting crisis has the potential to severely damage any firm. Restoring people's trust in the accounting profession and the public at large is essential. Accountants should be strengthened so that they can rapidly respond to and punish the most egregious types of abuse and malpractice in the workplace.

Immediate action is required to enhance the quality of financial reporting throughout the globe, and this action is both necessary and appropriate. Authorities need to be stricter in their enforcement of the Code of Corporate Governance. No more will businesses be permitted to engage in questionable bookkeeping or reporting.

Regulatory organisations in Nigeria are required to make estimates and informed guesses about some aspects of financial reporting, such as the treatment of unusual items.

Reference

Abed, Ibtihal A., Nazimah Hussin, Hossam Haddad, Nidal Mahmoud Al-Ramahi, and Mostafa A. Ali. 2022b. The Moderating Impact of the Audit Committee on Creative Accounting Determination and Financial Reporting Quality in Iraqi Commercial Banks. Risks 10: 77.

Ajuzie, E. N. Eyisi, S.A & Iormbagah, J. A. (2020). Impact of Creative Accounting Techniques on Firms Financial Performance Reporting in Nigeria. International Journal of Management Studies and Social Science Research 2(1)

Amat Oriol et al (1999). THE ETHICS OF CREATIVE ACCOUNTING. Economics Working from Department of Economics and Business, Universitat Pompeu Fabra 179-201.

Charles, O. T., & Akinnola, T. M. (2020). Effects Of Auditors' Culpability On Creative Accounting In Southwest Nigeria. Archives of Business Research, 8(3), 191-201. DOI:10.14738/abr.83.7962.

Hasen Mohamed. A. Albeksh (2019). The Role of External Auditor to Reduce the Effects of Creative Accounting on the Reliability of Financial Statements: Insights from Libya. International Journal of Science and Research 8(2).

Jarah, Baker Akram Falah, Mufleh Amin AL Jarrah, Murad Ali Ahmad Al-Zaqeba, and Mefleh Faisal Mefleh Al-Jarrah. 2022. The Role of Internal Audit to Reduce the Effects of Creative Accounting on the Reliability of Financial Statements in the Jordanian Islamic Banks. International Journal of Financial Studies 10: 60. https://doi.org/ 10.3390/ijfs10030060

Lau, K.C. and Ooi, K.W. (2016) A Case Study on Fraudulent Financial Reporting: Evidence from Malaysia. Accounting Research Journal , 2, 4-19 . https://doi.org/10.1108/ARJ-11-2013-0084

Mindak, M. P., Sen, P. K., Stephan, J. (2016), "Beating threshold targets with earnings management", Review of Accounting and Finance, Vol. 15, No. 2, pp. 198-221

Njoku Ikenna and Oyewobi Ifeoluwa (2021). Effect of auditors culpability on creative accounting in Nigeria. International Journal of Accounting Business and Entrepreneurship 1(1).

Norri, M.B. (2015).The challenge of accounts controller for creative accounting techniques.The Journal of Administration and Economics, 96, 189-202.

Ogoun, S. and Atagboro, E. (2020) Internal Audit and Creative Accounting Practices in Ministries, Departments and Agencies (MDAs): An Empirical Analysis. Open Journal of Business and Management , 8, 552-568. https://doi.org/10.4236/ojbm.2020.82034

Rosner, R. (2003). Theories of economic regulation' 5 Bell. Journal of Economics and Management Science, 8(2). http://dx.doi.org/10.2307/3003113.