

COMPLICITY OF AUDITORS IN FINANCIAL STATEMENT FRAUD IN CORPORATE GOVERNANCE

By:

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Abstract

The numerous cases of financial fraud reporting in recent times have precipitated the outcry of most stakeholders in the business environment for the need to critically examine the parties responsible for the preparation of such reports in pursuance of their interest. This paper studied the complicity of Public Company Auditors in Financial Statement fraud. To achieve this objective, the responsibilities and obligation of the Auditor to detect and report financial statement fraud before their perpetration was reviewed. The study revealed that, apart from the numerous financial statement fraud cases committed by other stakeholders in corporate governance, 23 percent of Auditors were involved in financial fraud cases, implying that some auditors are complicit in financial statement fraud. As a result, this phenomenon corroborates the need for International Reporting Agencies such as International Accounting Standard Board (IASB) to develop more creative measures in identifying and reporting fraud.

Keywords: *Complicity, Fraud, Stakeholders, Auditors, Agencies, financial statement.*

1. Introduction

The backlash of financial statement fraud in recent times has attracted a considerable global attention from the business community, academicians, regulators and the accounting profession (Zabihollah, 2012). Over the years, financial statement fraud has caused several market participants ranging from investors, creditors, employers, pensioners, and employees over \$500 billion (Qian, Tong & Wei, 2009). In the United States alone, over 347 public companies were alleged to have reported and presented fraudulent financial statements between the period 1997 and 2008 (Rajan & Nasib, 2012). The Committee of Sponsoring organizations on the Treadway Commission (COSO) in its report on fraudulent financial reporting (2010) revealed cumulative misstatement or misappropriation of nearly \$120 billion across 300 fraud cases with available information (mean of nearly \$400 million per case). This magnitude of fraud perpetrated across various organizations culminated in the bankruptcy of Enron, WorldCom and over 20 US Chinese firms being de-listed from the Stock Exchange market in the US (Rajan & Nasib, 2012).

In their 2012 Fraud Survey, the Association of Certified Fraud Examiners (ACFE) revealed that organizations lose 5% of their revenue to corporate fraud. This translates into a projected annual

fraud loss of a whopping \$3.5 trillion. In fact, the repercussion of fraudulent financial statement is prone to loss of investors' confidence in the credibility of financial reports presented and certified by public auditors. In the US, 43% to 59% of class action securities lawsuits were alleged financial statement abuses between 1996 and 1998 (Colby, 2002). The Chief Financial Officers (CFO) in their weekly forum revealed that 67% of their members had been asked by senior company executives to misrepresent the financial results of their firms, outwardly; 12% actually admitted to the offence by misrepresenting the financial results (Sec, 1998). As a virtue of fact, this phenomenon over the years has casted considerable doubt over the Auditor opinions expressed on financial statements. Considering the serious threats posed to investors' confidence through fraud reporting, this paper aims to assess and evaluate the duties and obligations of Auditors in financial reporting and their probable complicity in financial statement fraud. To accomplish this task, the study is organized into the anatomy of financial statement fraud, perpetrators of fraud reporting, responsibilities of Auditors in detecting and avoiding fraud reporting, presentation and analysis of facts, conclusion and recommendations

2. Financial Reporting system

In their quest to meet reporting requirements, organizations prepare and present financial statements at the end of every financial period to their shareholders and other stakeholders. These statements are prepared in consonance with national laws and generally accepted accounting standards. The International Accounting Standard Board (IASB) is the international accounting organization responsible for drafting and formulation of acceptable standard to be followed in the preparation of financial statements (Mensah, 2012). They also seek to facilitate the convergence of various national accounting laws. As a result, IAS 1 "Presentation of Financial Statements" sets out the guidance for preparation and presentation of financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction (Deloitte, 2011). The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows and the associated explanatory notes (IFRS, 2011). These statements inter alia provide the basis for ascertaining the adequacy of the financial report (Wood, 2008). To ensure the adequacy of information provided, the statement of profit and loss and comprehensive statement is prepared to ascertain the profitability of the firm (Fight, 2005). Whereas the statement of financial position shows the increase or decrease in the assets and financial structure of the firm, the cash flow statement shows the inflow and outflow of cash and cash equivalent (Brigham, 2008).

2.1 Financial reporting systems for companies

The legal framework of a company's reporting system requires that the company's Board of Director through the management prepare the financial statement to show the operational results. The company thereafter, engages an independent public auditor to express its opinion on whether the financial report fairly presents the company's financial position and operational results in

conformity with the necessary legal and accounting standards. To this end, the financial statement is presented to the oversight bodies such as the registrar of companies' and other recognized regulatory bodies. Exhibit 1 illustrates the relationship between the three major groups in the financial reporting system.

3.0 Financial Statement Fraud

It is imperative to note that, investors can only be assured of the adequacy of information provided if the Public Auditor expresses its opinion on the state of the financial statement reported (Deloitte, 2010). This opinion obliges the auditor not only to ensure adherence of the tenets of internal controls policies but also ensure that the financial statements are free from material errors, embezzlement and misrepresentation (Drury, 2008; ICAG, 2009 & Kaplan, 2008). For the purpose of this study, it is significant to distinguish between fraudulent financial reporting and other materially misleading financial statements such as unintentional errors.

According to Colby (2002), financial statement fraud is the deliberate misrepresentation of the financial performance of a firm perpetrated through the intentional misstatement or omission of amounts or disclosure in the financial statement in order to deceive users. It may entail deliberate distortion of corporate records, such as inventory count tags, or falsified transactions, such as fictitious sales or orders, as well as the misapplication of accounting principles (COSO, 1987). Perpetrators of financial statement fraud range from the Board, and employees at any level, from top to middle management to lower-level personnel. KPMG, in their International Report (2007), revealed that 89% of the fraudsters were employees committing fraudulent acts against their own employer, whereas 20% involved complicity with an external fraudster, resulting in the conclusion that in only eleven percent of all profiles the businesses were attacked purely by externals. Members of senior management and board members represent 60% of all fraudsters. Over 25% of profiled fraudsters involve management level employees, bringing the total to over 85% of the profiled fraudsters are at some level of management. This result highlights a risk that every business faces: executives are entrusted with sensitive business information and yet are also often in a position to override internal controls. In 36% of profiles, the fraudster worked for their business for two to five years before committing fraud. In 22% of profiles the fraudulent employees registered more than 10 years of service at the victim's organization. In just 13 percent of profiles the fraudster was with the business for less than 2 years prior to committing fraudulent acts. The internal fraudster most often works in the finance department followed by operations and sales or as well as the CEO.

To boost investors' confidence in the midst of these dubious activities, the auditor's opinion is perceived to depict a high sense of reliance by investors (Yescombe, 2002). For instance, prior to its collapse in late 2001, Enron was perceived by most analysts and investors as a company that could do no wrong. The market considered Enron's management talented and aggressive, and its business model cutting edge and innovative. Investor demand for the Company's stock soared, pushing its stock price from almost \$7 per share in 1990 to over \$83 per share a decade later. This investor confidence was boosted by the opinion expressed by the auditor (Cantanach et al, 2001) however;

the bankruptcy of such companies permeates probing questions on the opinion expressed by Auditors.

3.1 Forms of financial statement fraud

Financial statement fraud can take many different forms, but there are several methods that are the most common. These include fictitious revenues, timing differences, concealed liabilities or expenses, improper disclosure, related party transactions, and improper asset valuations. From an accounting perspective, revenues, profits, or assets are typically overstated, while losses, expenses, or liabilities are typically understated. Overstating revenues, profits, or assets depicts a financially stronger company. Understating losses, expenses, and liabilities depicts an increase in net worth and equity. Understating revenues or overstating expenses is indicative of companies who want to reduce their tax liability. It is evident from known cases that improper revenue recognition, including fictitious revenues and timing differences, accounts for approximately half of all financial statement frauds.

Once financial statement fraud is committed, it is often necessary for it to continue over time. If revenues are accelerated in the current year, they will be lower in the subsequent year. This cycle often leads management to commit the same act the following year.

3.2 Reasons behind financial statement Fraud

In their report, Treadway et al. (1987), found that fraudulent financial reporting usually occurs as the result of certain environmental, institutional, or individual forces and opportunities. These forces and opportunities add pressures and incentives that encourage individuals and companies to engage in fraudulent financial reporting and are present to some degree in all companies. If the right combustible mixture of forces and opportunities is present, fraudulent financial reporting may occur (Sharma, 2004). A frequent incentive for fraudulent financial reporting that improves the company's financial appearance is the desire to obtain a higher price from a stock or debt offering or to meet the expectations of investors. Another incentive may be the desire to postpone dealing with financial difficulties and thus avoid, for example, violating a restrictive debt covenant. Other times the incentive is personal gain: additional compensation, promotion, or escape from penalty for poor performance. The report further established that situational pressures on the company or an individual manager also may lead to fraudulent financial reporting. Examples of these situational pressures include sudden decreases in revenue or market share. A single company or an entire industry can experience these decreases. Unrealistic budget pressures, particularly for short-term results. These pressures occur when headquarters arbitrarily determines profit objectives and budgets without taking actual conditions into account; financial pressure resulting from bonus plans that depend on short-term economic performance. This pressure is particularly acute when the bonus is a significant component of the individual's total compensation. Opportunities for fraudulent financial reporting are present when the fraud is easier to commit and when detection is less likely. Frequently these opportunities arise from the absence of a board of directors or audit committee; weak or nonexistent internal accounting controls; unusual or complex transactions;

accounting estimates requiring significant subjective judgment by company management; ineffective internal audit staffs.

4.0 Victims of Financial statement Fraud

Public investors and prospective investors in the company's equity or debt securities are the main victims of fraudulent financial reporting. But they are not the only ones who suffer immediate and direct harm. The victims also include others who rely on the company's reported financial information. These victims range from banks and other financial institutions that lend funds to the company; depositors and shareholders of such institutions whose assets and investments respectively are jeopardized; suppliers who extend credit; customers who look to the company to perform on its contracts; merger partners who may enter into agreements based on inflated values; underwriters who distribute securities; financial analysts who give investment advice about the issuer and its securities; company's independent public accountants who may find themselves named defendants or the subject of an investigation; attorneys for the issuer, and perhaps for the underwriters; insurance companies that write directors' and officers' liability insurance and then experience large claims. (Ernst & Yong, 2009).

5.0 Role and Responsibilities of Board of Directors

The key objective of a company's board purpose is to ensure its prosperity by collectively directing the company's affairs, whilst meeting the appropriate interests of its shareholders and stakeholders. Directors focus on the affairs of the company and are in a position of trust (Ernst & Yong, 2011). They might abuse their position in order to profit at the expense of their company at the expense of the shareholders of the company (Colley et al, 2003). Consequently, the law imposes a number of duties, burdens and responsibilities upon directors, to prevent abuse. Much of company law can be seen as a balance between allowing directors to manage the company's business so as to make a profit, and preventing them from abusing this freedom. Directors are responsible for ensuring that proper books of account are kept.

5.1 Role of Internal Auditors

Another important part of corporate governance structure within an organization is Internal Audit. The objective of internal auditing according to the Institute of Internal Auditors (1999) is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. An observation of the definition clearly indicates that the objective of internal auditing does not only include involvement in corporate governance but also highlights the importance of evaluating and improving risk management and control. A recent study by Coram et al (2006) revealed that organizations with an internal audit function are more likely than those without such a function to detect fraud within their organizations. Further, organizations that rely solely on outsourcing for their internal audit function are less likely to detect fraud than

those that undertake at least part of their internal audit function themselves. These findings suggest that internal audit adds value through improving the control and monitoring environment within organizations to detect fraud. These results also suggest that keeping the internal audit function within the organization is more effective than completely outsourcing that function. Competent professional internal auditors are highly proficient in techniques used to evaluate internal controls. That proficiency, coupled with their understanding of the indicators of fraud, enables them to assess an organization's fraud risks and advise management of the necessary steps to take when indicators are present (IIA, 2007).

5.2 The Role of the Independent Auditor

By law, limited liability companies' annual financial statements are audited each year by independent auditor's accountants who examine the data for conformity with Generally Accepted Accounting Principles (Corams et al, 2006). Auditors' conduct a systematic examination of a company's accounting books, transaction records and other relevant documents to consider whether the financial statements are fairly presented and free from material misstatements. The auditor prepares a written report containing an opinion on the financial statements (Rezaee, 2002). That opinion is filed with the SEC and is available to investors and other interested parties. The independent audit's overriding goal is to provide investors, capital market participants and policymakers with "reasonable assurance" beyond management's own assertions, that the financial statements can be relied upon for investment decisions and other purposes. In addition to auditing financial statements, auditors often also assess the effectiveness of a company's internal controls over financial reporting. Internal controls are procedures designed by the company's management to address the risk of material errors and misstatements in financial statements. Auditor attestation that the controls are effective can boost investor confidence. Investors' interests also are served when an auditor identifies control weaknesses and management addresses the shortcomings.

A limited liability company's audit teams consist of accountants and other professionals under the leadership of senior Chartered Accountants (CA) employed by an accounting firm. The team is directed by an experienced CA often designated as the "lead engagement partner." CAs are accountants who, in addition to their college degree, have passed the Institute of Chartered Accountants Ghana (ICAG) examination or CPA in the case of the United States and a special examination on ethics, and have relevant work experience.

Independent audits are a core component of the financial system and help give investors, and the capital markets, the confidence to invest in public companies. Although clearly not a guarantee of the performance of such investments (which is affected by many factors), the close scrutiny provided by audits reduces "information risk" the possibility that investment decisions will be based on inaccurate data. Without independent audits, investors would have to rely on management's word that its financial statements are accurate. Many investors would likely be less willing to risk their assets on data that has not withstood independent scrutiny. The auditor follows professional standards in examining the books against established criteria, typically the IFRS and the provisions

of the Companies to determine whether the financial statements provided by management reflect the business's operations and transactions during the time covered by those statements.

The examination of the financial statements includes sales, cash receipts, inventory levels and valuation, outstanding bills, liabilities, payroll and other operating expenses. Auditors will typically visit company offices, production facilities and other locations to learn about the business and verify the existence of physical assets or operations reported in the financial statements. Auditors also may compare the company's experience with industry trends and patterns as they analyze whether the data makes sense. Individual metrics such as margins, inventory levels, uncollected revenues, late payments or debt levels that are out of line with similar companies may be an indicator that something is amiss and that further procedures are required. In designing the audit, the auditor will consider whether certain areas might require special scrutiny because of a company's business model. For example, examining inventory and inventory controls may be particularly important when auditing a manufacturer or a retailer. Similarly, examination of loan documentation is important when auditing a financial institution. In examining internal controls over financial reporting, auditors will seek to ensure that the company has established effective procedures to reduce the chances of errors or fraud.

6.0 Finding Fraud

The preparation of an audit plan helps auditors identify areas of potential vulnerability for misconduct that require added attention, and/or areas where the risk of a financial misstatement might be greater than in other areas. For example, employees who work on commission may be tempted to accelerate the recording of sales to boost their earnings. The auditor might focus extra attention on sales and revenue recognition and examine a relatively larger number of transactions or test transactions around the end of the period for appropriate cut-off procedures by the company (Delloite, 2007). Because the audit's goal under professional standards is "reasonable assurance" not absolute assurance that the financial statements being audited are free of material misstatements, a properly planned and performed audit may not detect a material misstatement resulting from error or fraud. Audits typically involve testing a sampling of data and exercising judgment about audit evidence of what to collect, how much is necessary, the extent and nature of testing, and the best way to gather it. Because auditors do not examine every transaction and event, there is no guarantee that all material misstatements, whether caused by error or fraud, will be detected.

7.0 Auditor's Opinion

Once the audit work is completed, the auditor issues an opinion through the audit report on the financial statements that fall into one of the following four categories:

- "Unqualified" or Clean Audit Opinion:

In this context, "unqualified" means that in the auditor's professional opinion, the financial statements passed muster without any qualifications or exceptions. This is the most common audit outcome. An unqualified opinion means that the auditor has obtained reasonable

assurance that the financial statements are free of material misstatement, and fairly present in all material respects the company's financial position as of the end of the most recent fiscal year and the results of operations and cash flows for the year, in conformity with GAAP/IFRS (Ernst and Yong, 2007).

- Unqualified Opinion with an Explanatory Paragraph:

This type of report is issued when the auditor believes the financial statements are fairly presented in all material respects in conformity with GAAP/IFRS, but additional information should be disclosed. For example, an auditor might note a change in an accounting principle from a previous year, or that there is substantial doubt about the company's ability to continue as a going concern (Ernst and Yong, 2007).

- Qualified" Opinion:

In a qualified opinion, the auditor reports that the financial statements are fairly presented in all material respects in conformity with GAAP, but with one or more specific exceptions which the auditor describes. For example, the auditor might have identified a deviation from GAAP/IFRS that has a material effect on the financial statements.

- Adverse or Disclaimer Opinion:

An adverse opinion is a failing grade that is issued when an auditor believes the financial statements taken as a whole are materially misstated or do not conform to GAAP/IFRS. An adverse opinion typically signals significant problems that will make it difficult for a company to attract investors or access capital (Ernst and Yong, 2009).

8.0 Discussion of the Facts

Although management is primarily responsible for the quality, integrity and reliability of the financial reporting process and fair presentation of financial statements, Auditors provide assurance on financial information and lend more credibility to the published financial statement (Rezaee, 2002). To critically assess Auditors' complicity in financial statement fraud, it is imperative to review the extent of their involvement with the reporting company. The role of external auditors "Chartered Accountants / CPAs" in corporate governance is to detect financial statement fraud and to provide reasonable assurance that audited financial statement are free of material misstatement deliberate misapplication of Accounting principles, falsification, etc.

Recent financial statement fraud by major corporations such as Enron Corp, Waste management, Sunbeam, Rite Aid, Xerox, Knowledgeware, Microstrategy, and Lucent has raised serious concerns about the role of corporate governance including Board of Directors and Audit Committees, the integrity and ethical values of top management teams, the ineffectiveness of audit functions in detecting these financial statement fraud (Rezaee, 2002). The top management teams of these companies, including Chief Executive Officers (CEOs) are being convicted of cooking the books and often to jail terms. The occurrence of financial statement fraud by the aforementioned high

profile companies, have the issue of integrity and reliability of financial reporting processes and have challenged the role of Corporate governance in preventing financial statement fraud (Delloite and Touche, 2007). A series of these crimes are discussed below:

It is imperative to note that prior to the demise of Enron, the Securities Exchange Commission (SEC) estimated that investors will lose US\$100 billion owing to faulty, misleading or fraudulent audits. As far back as 1997, Enron's auditors Arthur Andersen knew that Enron was inflating its income. By 2001, Enron was forced to reveal that its profits had been off by about 20% over a three-year period, ending when Enron filed for bankruptcy on 2 December 2001, and Arthur Andersen was indicted on charges of obstruction of justice for destroying Enron documents (Cooper, 2005). Another catastrophic fall from grace to grass was the WorldCom, whose accounts were audited by Anderson, inflated their profits by nearly \$4 billion through deceptive accounting reporting.

The CFO, also improperly reported expenses as investments in an attempt to add some shine to the company's financial position. In 2005, Bernard Ebbers, the former CEO, was found guilty of fraud and sentenced to 25 years in prison.

Another financial fraud case is the one concerning Sunbeam. According to the SEC, the CEO and other executives employed a range of fraudulent techniques, including recording revenue on contingent sales, accelerating sales from later periods into the present quarter, and using improper 'bill and hold' transactions. These techniques created the illusion of a rapid turnaround, and dramatically boosted the share price, making the company more attractive to potential buyers, and boosting the value of the Company's own shareholding. The SEC launched a civil action in 2001 and the CEO of the company settled by paying a US\$500,000 fine and agreeing that he would never again be an executive of a public company. Sunbeam sought bankruptcy protection in February 2001, citing US\$3.2 billion in debt, some of it linked to the CEOs. The Xerox fraud scandal also labeled one of the "big 4" auditing firms KPMG as a party to this perpetration. This follows an allegation by SEC that KPMG and its partners permitted Xerox to manipulate its accounting practices to close a \$3 billion "gap" between actual operating results and results reported to the investing public. Year after year, the defendants falsely represented to the public that their audits were conducted in accordance with applicable auditing standards and that Xerox's financial reports fairly represented the company's financial condition and were prepared in accordance with GAAP. Former CEO Martin Grass, former CFO Frank Bergonzi and former Vice Chairman Franklin Brown of Rite Aid were charged with conducting a wide-ranging accounting fraud scheme. The complaint alleges that Rite Aid overstated its income in every quarter from May 1997 to May 1999, by massive amounts. When the wrongdoing was ultimately discovered, Rite Aid was forced to restate its pre-tax income by \$2.3 billion and net income by \$1.6 billion, the largest restatement ever recorded.

8.1 Analysis of the Fact

The Security Exchange Commission's report on enforcement actions through its Accounting and Auditing Enforcement Releases (AAERs) were reviewed to ascertain the complicity of Auditors in Financial Statement Fraud. Analyses of 1,240 fraud schemes in 344 financial statements fraud were identified from the year 2000-2006. The table below shows how this fraud schemes were distributed across industries.

Exhibit 1: Financial Statement Fraud

Year	Fin. Statement Fraud	Fraud Schemes
2000	35	98
2001	25	74
2002	58	183
2003	77	215
2004	55	252
2005	50	210
2006	44	208

Source: (Ernst and Yong, 2008)

From 2000 through 2006, the SEC issued 344 financial statement fraud AAERs relating to its registrants. The flow hit its peak in 2003 at 77 releases. In 2002, the U.S. Government dedicated additional funding to the SEC and charged it with increasing its scrutiny of financial statement fraud within public companies. The SEC doubled the number of financial statement fraud AAERs from 2001 to 2002, and issued another 42% more in 2003. The annual rate has since fallen to about 50 AAERs per year.

An identification of 1,240 fraud schemes was revealed in the 344 financial statement fraud AAERs in this study. A single enforcement release often identifies multiple fraud schemes operating at a given time in a company. At the peak level of activity in 2004, AAERs in effect described a fraud scheme for every working day of the year.

The frequencies of common fraud schemes perpetuated are shown below.

Exhibit 2: Common Fraud Schemes

Scheme	Percentage (%)
Revenue Recognition	41
Manipulation of Assets	8
Manipulation of Expenses	11
Manipulation of Liabilities	7
Manipulation of Reserves	7
Improper Disclosure	12
Assets Misappropriation	4
Investment	1
Others	10

Source (Ernst and Yong, 2008)

Revenue recognition fraud schemes are by far the most prevalent, at 41% of the total. Other fraud schemes involving manipulation of various financial statement items account for more than a third of all fraud schemes identified.

A further analysis of the revenue recognition schemes indicates the 'top' 6 fraud schemes, depicted above account for 70% of all revenue recognition schemes identified. Recording fictional revenue is the most common type of revenue-recognition fraud. Next was recognizing inappropriate revenue from swaps, "round-tripping," or barter arrangements. The remaining four subtypes were fairly evenly distributed.

Analysis on the roles of the Board of Directors, Management and Auditors was conducted to determine the extent of the Auditor's complicity in financial statement fraud. The recent report by COSO (2007) revealed that, chairman of boards was an inside director in at least 70 percent of both fraud and no-fraud firms (75 percent of fraud firms and 70 percent of no-fraud firms had an inside director as chairman). The SEC named the CEO and/or CFO for some level of involvement in 89 percent of the fraud cases, up from 83 percent of cases. Within two years of the completion of the SEC's investigation, about 20% of CEOs/CFOs had been indicted and over 60 percent of those indicted were convicted. Financial statement fraud sometimes implicated the external auditor. Auditors were named in the AAERs for 78 of the 342 fraud cases (23 percent) where AAERs named individuals. Auditors were named in the AAERs, about 39 percent of those named were charged with violating the anti-fraud statutes, while the remaining 61 percent were charged with

violating non-fraud provisions including Rule 102(e) of the 1934 Securities Exchange Act. National audit firms were less likely to be named in an SEC enforcement action than were non-national firms, even though national firms audited most of the fraud companies. Virtually all of the fraud firms received an unqualified opinion on the last set of fraudulently misstated financial statements. However, the unqualified audit report of fraud firms was more likely (56%) to contain additional explanatory language than for no-fraud firms (36 percent). All the big four (4) audit firms were named in financial fraud cases. The report further revealed that, fraud went undetected by auditors of all types and sizes. Big Six/Four firms audited 79 percent of the fraud companies during the fraud period (similar for the no-fraud firms at 83 percent)

9.0 Conclusion and Recommendation

The critical dissection of Auditors' complicity in financial statement is very significant in ensuring financial sanity in the corporate world. In the view of the detailed Analysis of Auditors' and management responsibilities coupled with the empirical data analyzed, it is clearly evidenced that almost all the major stakeholders are responsible for ensuring that the principles of corporate governance is strictly adhered to. The actions and inactions of all these stakeholders might culminate into financial statement fraud corroborating their complicity. In view of these revelations confronting corporate organizations, it is clearly evidenced that a weak internal control system might expose the company to financial statement fraud.

This phenomenon corroborates the need for International Reporting Agencies such as International Accounting Standard Committee (IASC) to develop more creative measures in identifying and reporting fraud. There are many other areas of future research from the issues explored in this study. Firstly, the effectiveness and value of internal audit within organizations should be examined further in different ways. Secondly, auditors' responsibilities for fraud detection have clearly been increasing in recent years. There should be more research on ways to improve auditors' abilities in this area.

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