

AN EVALUATION OF THE EXPENSES ON CORPORATE GOVERNANCE, THROUGH FINANCIAL REPORTING: A REVIEW.

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Abstract

Whatever is incurred by a business for whatever purpose and no matter how good the course of the expenditure is, is borne by the owners of the business. This paper reviews the multiple means by which businesses can incur expenses on accountant, towards ensuring that managers are truly financially accountable. To be able to achieve this, the nature of business accounting practices of internal accountant, internal auditor, statutory auditor and investigative accountant, were brought into context. Their evolution, nature of work and the practitioners in the field were reviewed. The study revealed that, the practices are indeed evolutionary and usually in response to emergent situations and conditions. It was also brought out that the practices are similar and in fact substitutable if well organized. That to date, it is being performed by people of the same educational background and professional calling, so much that it is possible that one individual can serve as any of the four, at the same time for different organizations.

Introduction

Business concerns are entities, in most cases, owned by people who may not be the managers of such entities. Therefore, stewardship becomes a very important issue, as the managers are expected to account to owners. It is not only about accounting for what they have done with what they manage, but also proving to the owners that, as much as possible, they have managed the business in the most beneficial manner to them.

Business is an economic unit. That being it, the only way to report stewardship of a business is in value, which is usually measured in money. It therefore become matter of providing stewardship information of a well managed concern in financial term. The bottom line, for emphasis sake, is that the business is supposed to be managed in a manner that is non-negotiably favorable to the owners.

To ensure that ‘accountability’ is truly, accountability, which should mean that what is being reported, is the truth and truly in favor of owners, modern day business incurred expenses on related and even avoidable items. Today, the services of internal accountant are being engaged, so also is the internal auditor and the external auditor.

Where there are disputes or anticipated disputes, or where there are risks, concerns or allegation of fraud or other illegal or unethical conducts, the service of another type of accountant, known as investigative or forensic accountant are also being engaged. Four different levels of expenses, on one issue, and to the same profession are paid by the business. It should be pointed-out clearly here that this is not to say that the above are the only area companies engage accountants. There are other consultancy services that the study is not interested in. The principal stakeholders of a company are typically its shareholders. The shareholders bear the final burdens and will ends up paying for all costs incurred. This is not necessary. Thus, this

paper examines the multiple means by which businesses incur expenses on financial accountability, its implications and possible ways of reducing those expenses.

Background to the Evaluation

Evolution of the Financial Reporting Practices

-Accounting Practice: According to Oluwakayode and Adeyemi (2006), double entry bookkeeping began in the commercial city state of Medieval Italy and was well developed by the time of the earliest preserved double entry book from, 1340 in Genoa. The Venetian Monk, Luca Pacioli wrote the first published work in 1494. Additional accounting works were published during the 16th century (Wikipedia Free Encyclopedia, 2008). In the word of Meyer (2007), simple accounting was said to be mentioned in the Quran and the Bible and as early as twelfth century AD, an Arab writer, Ibn Taymiyyah was said to have mentioned ‘verification’ and ‘calculation’ in his book ‘Hisba’.

-Auditing Practice: According to Nwakwo (2006), the historical development of auditing was based on the stewardship concept of management, which require the auditor to ensure the proprietors that the stewardship of their companies was affectively and honestly carried out. Of the two types of audit, however, according to Australia Education Research PTY Ltd, (2007), internal audit could be said to be the first to emerge, before 1500AD...‘the only form of auditing was the keeping of separate records by two different scribes’, and this is as it relates to accounting for activities of government. The objective of auditing then was primarily to detect fraud, to minimize the erroneous recording of transactions and to ensure honesty of those responsible for the custody. The industrial revolution of 1750-1850, which was essentially, characterized by passing off management from owners to professional managers led to the “increased demand for auditors, who are engaged to detect not only clerical errors, but also

management fraud”. This nature of work, however, reduced later to mere reporting on the actual financial condition of the concern (Australia Education Research PTY Ltd, 2007).

-Investigative Accounting Practice: According to Joshi (2003), Peloubet coined the term “forensic accounting”, in 1946. According to Crumbley (2001), a form of forensic accounting can be traced back to an 1817 court decision..., also that a “young Scottish accountant issued a circular advertising his expertise in arbitration support in 1824” but he also agreed that Peloubet was probably the first to publish the phrase “forensic accounting”.

Functions of Performed by the Fields

-Accounting Functions: According to Horngren, Sundem, Elliott and Philbrick (2006), Accountants analyze the information needed by the managers and other decision makers and create the accounting system that best meets those needs. In the publication of Eastman Kodak Company, 2008), an accountant is said to be “an individual who perform accounting tasks for individuals or companies”. “Accounting involves the creation of financial records of business transaction’s flows of finance, the process of creation of wealth in an organization and the financial position of a business at a particular moment in time’”. To this end, accounting function could be inferred to include: record keeping, preparation of financial statements, analysis, preparation of income, tax returns, comparison of insurance cost to benefit received (Eastman Kodak Company, 2008). According to Ernest and Young (2008), those functions have developed to be of;

- Planning a system of accounting records and financial documentation appropriate to business.
- Recording transactions in chronological order and in appropriate categories.

- Modifying the accounting procedure of the enterprises to provide reasonable safeguards against error and fraud.
- Reporting to interested parties the result of the financial transactions (usually over a defined period) to show the profit or loss that has been produced and to show the financial position of the enterprises at the end of the period.
- Analyzing and interpreting these results to enable decision to be made relating to the business operation.
- Participating in planning, for the future of the enterprise (Ernest and Young, 2008).

Where financial accounting is concerned with daily recording of financial activities and preparation of final account, according to Lucey (2000) management accounting concerns itself with provision, to managers, of information about costs, forecast future costs and revenues. Where financial accountant tracks asset/debts and income/expense, management accountant tracks manufacturing cost and allocate them to various products (Ernest and Young, 2008).

-Audit Functions: According to Adeniyi (2004), audit is the independent examination and expression of opinion on the financial statement of an enterprises by an appointed auditor.... Adams (2002) put auditing as a process carried out by suitably qualified person during which the accounting record and the financial statement of the enterprises are subjected to examination.... The overall purpose of an audit function, therefore, will be to provide for verification of records, processes or function in a sufficiently independent manner from the institution or subject being audited in order to add to its value and improve its operation.

According to Millichamp (2002) **Internal audit** means an objective assurance function managed within an organization that is responsible for the evaluation and review of the

organization's governance, risk management and control process, including internal controls related to the financial reporting function. This definition recognises two roles for internal audit;

- to provide an independent assurance service to the board, audit committee and management, focusing on reviewing the effectiveness of the governance, risk management and control processes that management has put into place.
- to provide advice to management on governance risks and controls, for example, the controls that will be needed when undertaking new business ventures

According to Olowokere (2003), Internal auditors, therefore, are said to be focused 'on internal control of the organization'. To be able to play the role effectively, According to Olowokere (2003) and Institute of Chartered Accountants of England and Wales (2003), they carry out the following functions in the organization;

- i. They assist in the implementation of new accounting system,
- ii. They assess the adequacy, timeliness and relevance of management information system,
- iii. They perform operational audit, financial audit and organization audit,
- iv. They ensure compliance with organization's policies plans and procedures,

And they also;

- ensure that management is provided with quality information, necessary to perform their function as required of them.
- ensure that management policies are executed and at the right time.
- ensure that internal control system for the organization is well designed and well implemented.
- ensure the safeguard of the organization's (physical) assets.

- carry out investigations and other tasks as may be assigned by the management and/or the audit committee.
- provide training for non-auditing officers in ensuring effective implementation of internal control systems.
- review the internal control system to detect error and lapses with aim to improve, and
- assist the external auditor as may be required (Institute of Chartered Accountants of England and Wales, 2003).

According to Bello (2000), primarily the **external auditor** is expected to form opinion on the financial statement to be laid before members at the annual general meeting. To be able to form his opinion however, other functions of the auditor shall include:

- Proper review of the internal control system in place in the company.
- Examination, to confirm that the company has kept proper accounting records, as required by law.
- Examination to confirm that proper law, standards and regulation are complied with in preparation of financial statements (Olowookere, 2003).

-Investigative Accounting Functions: According to Zysman (2001), forensic accounting is an integration of accounting, auditing, and investigative skills. The persons practicing in this field (i.e. forensic accountants) investigate and document financial fraud and white-collar crimes such as embezzlement and investigate allegations of fraud, estimates losses, damages and assets and analyses complex financial transaction. They provide those services for corporation, attorneys, criminal investigators and the Government (Coenen, 2005). Their engagements are usually

geared towards finding where money went, how it got there, and who was responsible. They are trained to look beyond the numbers and deal with business reality of the situation.

Investigative and forensic accounting engagements” are those that:

- require the application of professional accounting skills, investigative skills, and an investigative mindset; and
- involve disputes or anticipated disputes, or where there are risks, concerns or allegations of fraud or other illegal or unethical conduct (Canadian Institute of Chartered Accountants, 2006).

According to Zysman (2001), forensic accounting encompasses both litigation support and investigative accounting. Litigation support provides assistance of all nature in a matter involving existing or pending litigation. It deals primarily with issues related with the quantification of economic damages, while investigative accounting is associated to the investigation of criminal matters. The investigative accounting aspect is of more concern to us here. Assignment performed by forensic accountants including:

- Criminal investigation, which are usually on behalf of the police with the aim of presenting evidence in a professional and concise manner.
- Shareholders and partnership dispute that involve analysis of numerous year financial record for valuation and qualification of the issue in dispute.
- Personal injury claim, where for example economic losses from motor accident or wrongful dismissal may need to be quantified.
- Business interruption and other type of insurance claim. These assignments involve a detailed review of the policy to investigate coverage issues and the appropriate methods of calculating the loss.
- Business/employee fraud investigations which can involve fraud tracing, asset identification and recovery, forensic intelligence gathering and due diligence review.

- Matrimonial dispute involving the tracing, locating and evaluation of asset.
- Business economic losses, where contract dispute, construction claims, expropriation, product liability claim and trade mark are the issues.
- Professional negligence, to ascertain the bridge and quantify the loss involved, and
- Mediation and arbitration, as a form of alternative dispute resolution (Zysman, 2001).

Qualification for Practice in the Fields

-Accounting: To be an accountant of a company, according to Smith (2007), it is expected that the individual have qualification in accounting or other related fields. There are, in most cases, no hard laws as to what minimum qualification of a company accountant should be. However, big companies from country to country, require that the person for that position should have certification through professional agency or institute and basic college degree in Accounting and Finance.

-Auditing: For internal auditing, what applies to accounting usually applies. According to Nwakwo (2006), internal auditors have been accountants and the majority of those still practicing as internal auditors are still accountants. It is also a job for accountants that are usually engaged in the company. It should be noted, however, that ‘there is no requirement for internal audit to be provided by an organisation’s own employees. The organisation may choose to have the service provided fully from within, may outsource it entirely to an external provider or may consider a mixture of internal and external sourcing’ (The Institute of Internal Auditors, 2002).

External auditing is in most cases regulated by the law. The external auditor is required by law to be an accountant, a professional, member of a recognised institute, usually of the country in question and According to Nwakwo (2006), The Institute of Chartered Accountants of

Nigeria, for practice in Nigeria. People organized into firm of so, duly registered professionals usually carry out the practice.

-Investigative Accounting: According to Crumbley (2006), forensic accounting is an offshoot of the general professional accounting and it is affiliated to professional accounting institutes. For the purpose of practice, individual firms of general accounting practitioners, departmentalizes and train specialist in investigative accounting within their general practice firm. For example, the Canadian Institute of Chartered Accountants established the Alliance for excellence in investigative and forensic accounting in 1998, to oversee investigative accounting activities. Crumbley (2003) also stated that forensic accountant are typically CPA/CAs that specialize in those types of engagements where there is need for such evidence.

Evaluation of the Practices in the Accounting Fields

On the evolvement of the practices, the professional practices, historically, have evolved in turn, one coming after the other and in response to different developing circumstances. It was first accounting for the purpose of collecting record and preparing financial reports. Internal auditing came after, chiefly to detect fraud, to monitoring error and ensure honesty. Industrial revolutions later brought the need for independent external auditors. Their role is primarily to express opinion. The growing spate of fraud and corrupt practice brought investigative accounting to existence, and as the most recent of the four.

The practitioners in the four fields are accountants. Where law does not regulate accounting and internal auditing, statutory audit is. Forensic accounting is also yet regulated. In addition to external audit being, a matter of Law, required to be by an accountant and member of a recognised institute, big companies world wide prefers also to have a professional accountant as their internal accountant. In fact professional accounting, firms are seen to be offering services in

all the areas together usually under different departments. The bottom line here is that all the practices belong to the same profession.

What the practitioner do. The accountant is to collect financial data to be able to present the financial statement, understandable to different users of the statement. To be able to do this, the accountant is expected to be professional. In line with this, he is going to be expected to do his job in a manner that the institute and he are not brought to disrepute. Meaning that what he includes in his report is expected to be what he can defend. It is for these reasons that fraud and error prevention has been included in his functions. The internal auditor can be said to function to ensure that what is expected, professionally, of the accountant is assured. The work, essentially, is on internal control system, accounting system and management information system. They, however, are doing it as service to the management.

The external auditor, although primarily, is expected to express opinion, he does also, what the internal auditor is expected to do, to ensure that what accountant has done is accurate. From review of internal control and accounting system to ensuring those proper records are kept. The investigative accountant is finally needed where what is aimed to be prevented has or is about to happen. Although, as earlier identified, they serve for other purposes, this is the major work done by them to a normal business.

Implication and Effects of the Current Practices

As it were, businesses will have to pay for four possible professional services. This happens if the situation is as bad as having evidence of anticipated or confirmed financial irregularity. This will mean that a lot of money, which may be avoidable, will be spent. Time shall be expended to find out what irregularity has happened, the value of the irregularity and those involved in it. Finally, it is possible that news of irregularity gets to the public.

The above may have secondary effects that includes that other needs, pressing for fund may be denied such funds and ultimately that money available as returns to owner are reduced. If owners do not have, enough return on their investment, their spending, including on further investment, will be reduced.

Time wasted, would have been spent on another productive venture. It should also be noted that sometimes so many decisions will await the outcome of investigation, if one is going on. To that end also, it can be said that the decision making process of the organization would inevitably be slowed down.

The last item borders on the reputation of the business. What Anderson and Erron surfer most on their scandal is what they look like afterwards. The business where fraud is known to be possible will look differently to different stakeholders. Customers, suppliers, debtors and creditors will exercise extra caution if at all they must do business with them. The worst of it all will be the reaction of prospective investors of the company. No body will open his eyes and throw his money where it is not safe.

Recommendations

According to Nwaeke (2005), in addition to measurement, analysis and reporting that is popular of accountants, they audit and investigate, they are involved in tax issues, insolvency, trusteeship, arbitration, general financial matters and financial advice. The meaning of this, therefore, is that the business expends on different levels of accounting practices for the single goal that one or two practice(s) should achieve. To start with, where the accountant has independence and he is honest and really professional about his work, the work of the two types auditors may not be needed. After all, they are all accountants and most of the times almost equally qualified but only working on the same thing as different set of individuals under

different names with the same background knowledge. It should be re-stated that fraud and error prevention has being said to be part of the accountant's jobs. The internal audit only requires complete independence from the managers and direct linkage to the owner to eliminate the external auditors. This is with expectation that they will be professional accountants and member of a recognized institute.

The strongest area of interest is how the external auditor can eliminate internal auditor and forensic/investigative accountants. How can the functions of the two (internal auditor and forensic/investigative accountants) be preformed by them (external auditors), so that only the accountant and the external auditor are the sources of expenditure, instead of four. Two things could be done to achieve these. One is to adopt the continuous audit approach where the external auditor stations audit staff in the client company all the year round. The staff shall collect data continuously and monitor internal control and accounting system of client companies. Second is to adjust the primary objective of external auditing to include fraud prevention and detection, so that they are actually seen as watchdogs for financial irregularities. By these, what is done by internal audit and investigative accountant could well be covered by the external auditor's work. These will leave the organization with only him and the enterprises internal accountant. One important thing about this option is that it is really preventive of irregularity. The mere fact that there is no one actually watching is what makes some irregularities thinkable. If it is now known that there is actually primarily a watch-god in the external auditor, and who may actually be standing anywhere unknown possible master minder, is enough a deterrent of the act.

Concluding Remarks

The study has examined the nature of business accounting practices of internal accounting, internal auditing, statutory auditing and investigative accounting. Within which, their evolution,

nature of work and the practitioners in the field were reviewed. These produced a result that, the practices are indeed evolutionary and usually in response to emergent situations and conditions. It was also brought out that the practices have similar functions and in fact substitutable if well organized.

Based on findings from review, the recommends a policy reversal that emphasis role review towards reducing total expenses by reducing expenses outlet on accountability reporting. Since it is known that the principal stakeholders of a company are, typically, its shareholders; whatever is done well or not done well is finally their burden. The business expends resources of these owners directly and indirectly on one goal 'Accountability' for resources entrusted to directors. The resources are expended around one profession and it is changing form evolutionarily and growing. This is not necessary and should not be allowed to continue. The businesses should save cost, time and its reputation.

Two things are important here, one is that it will benefit the business that these expended sums are reduced and another is that weakening of the strength of the current mechanism need be prevented. This is to ensure that another source of expenditure for financial accountability does not evolve in the future. It is just four possible stages now, let it be reduced or at worst be controlled not to go beyond the current.

If war against good practices is allowed to grow, what is envisage is the need, possibly, in Africa to train the next generation of accountant in witch-crafting, in which case they may be called 'metaphysical accountants' that will use voodoo and charms to look for stolen money. What European, Asian and American version shall be, what cannot be estimated, but something will come up from them too.

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