Silence of Going-Concern Opinion in Banking Distress
(The Case of the Nigerian Banking Episode of 2009)

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Abstract: This paper aims to stimulate debate on the going-concern silence of Auditors on banks in distress. In 2009, the Central Bank of Nigeria (CBN) took some intervention actions against five banks, including the sacking their managing directors. An examination of the audit opinions on the banks suggests that the auditors were silent on the financial distress of the banks. On the contrary, the reasons adduced by the CBN Governor, in the light of the anatomy of bank financial condition, demonstrate that the banks were in grave financial difficulty. It had to take an event of audit failure defaced by the CBN action for the auditors to begin to report on the going concern uncertainty of the banks. It suggests that the bank auditors do not primarily design audits for the purpose of reporting on going concern uncertainties. Furthermore, it seems that the bank auditors would be more inclined to expressing going concern uncertainty on matters that have already become public.

Key words: Going concern opinion; anatomy, ethical dilemma; knowledge gap; public secrecy.
1. INTRODUCTION
Going concern secrecy (Taussig, 1999) characterizes the refusal of auditors to publicly declare the financial condition of a firm heading for trouble. The silence manifested during the audit failure of the 2008-2009 financial crises (Sikka, 2009), carrying lots of embarrassments (Weil, 2001). It exposes auditors to harsh criticisms (Sikka, 2012; Guénin-Paracini & Gendron, 2010; Mitchell & Sikka, 2007; Mitchell, Sikka, Arnold, Cooper & Willmott, 2001; Cousins, Mitchell, Sikka, Cooper & Arnold, 2000; Dunn, 1999; Cousins, Mitchell & Sikka, 1998; Mitchell, Sikka & Willmott, 1998 and Puxty, Sikka & Willmott, 1994). The failure of auditors to draw the attention of the public to impending corporate failures is frequently regarded as a betrayal of trust (O'connell, 2004) and ends up injecting mistrust into the banking arena.

During the episode of the 2008-2009 global financial crises a lot of banking businesses failed or came to the brink of collapse, including those considered too big to fail. Critics in news media charged that these banks had enjoyed clean opinions of rating agencies and auditors prior to their distress. During episodes of financial debacle, auditors of affected banks are easily dismissed by critics as myopic (Chabrak & Daidj, 2007 and Dietz, 2002). The bank auditors come under the suspicion of having been bought over by fee inducement (Olivier, 2005). Critics of corporate audit failures make a mockery of the role claimed for financial audit as a mechanism to bridge inherent mistrust between managers and owners (Craig & Amernic, 2004; Arnold & Lange, 2004; and Power, 2003). They further dismiss the claim that financial audit plays the social role of making corporate conditions that affect people public (Power, 1997 and Sikka, Wimott & Lowe, 1989), since the distressed financial condition of business entities affect people but are not necessarily made public by an audit. Therefore, going concern silence on failing banking entities would be inconsistent with these roles claimed for audit. Clearly, the absence of public knowledge of the financial condition of weak banking entities makes depositors and the banking public at large vulnerable. Bank audit failure is, therefore, feared to hurt public trust and confidence (Power, 2011) and would hinder the effectiveness of the financial system (Kristine, Hanne & Iris 2009).

Critically, the question of going-concern silence on banking firms in distress has been scantily explored, in spite of the doubt it casts on the relevance of audit. Audit expectation gap would easily be flaunted in defense of going concern audit failure (Teo & Cobbin, 2005). Nonetheless, the possibility of deliberate going-concern silence of auditors on banks in distress should not be ruled out. Accordingly, this study poses the question: Do auditors maintain going concern silence on banks in distress? Answers to the question shall be attempted for the Nigerian banking setting. The study follows the critical accounting methodology.

2. GOING CONCERN SECRECY THEORY
Public secrecy can be seen as an act of keeping general knowledge from the public (Taussig, 1999). What is kept secret could generally be known, but is, nonetheless, not freely shared. The notion of general knowledge does not necessarily imply that everyone in the society knows, but that those who are privy to the general knowledge also know not to know. This is the sense in which auditors may know not to know the grave financial condition of banks in distress when keeping silent on it in audit opinion.
The operation of public secrecy in bank audit opinion carries the notion that auditors are privy to knowing the grave financial condition of a banking entity. Nonetheless, in instances where banks received clean bill of health in the immediate period preceding failure, audit opinion could be deemed to have been silent for failing to reflect what the auditors would have known about the grave financial condition of the banks. A case in point is the intervention action of the Central bank of Nigeria (CBN) in 2009 against five banks by sacking their managing directors, alleging distress. The relevant question is whether the auditors warned the banking public about the distressed condition of the banks during the immediate period preceding the CBN action. Or was the grave financial condition shut up in the womb of silence?

Taussig (1999) illustrated the operation of secrecy using the experience of Colombia during the 1980s. The government was running death squads, using the military. To hide the secrecy, the military would set up check points, purporting to be fighting guerilla attacks. Ironically, the military death squads were the ones carrying out terror attacks that they were pretending to fight against. The military death squads came under the suspicion of the general public. Nonetheless, those who knew the role of the death squads swallowed their words in silence, for the apparent fear that they could be the next victim. This law of silence carries the notions that all who know the truth also know not to know. Taussig (1999) clarifies that secrecy may be necessary in order not to disrupt the normal functioning of the society, especially where the matter involves morally hazardous things. For instance, the fear of jolting the banking system may not allow bank auditors to freely share the distressed financial condition of banks considered too big to fail.

The silence which secrecy imposes would imply that knowledge is not freely shared. Thus, under a culture of secrecy, general knowledge becomes more difficult to articulate. Radcliffe (2008) characterized this sense of secrecy as the labour of the negative to underscore the challenge posed by the need to further articulate what may have been known in order to make it really obvious. The frustration of not easily articulating what may be known is by itself capable of silencing knowledge. Part of the difficulty is woven around collusion of individuals who may be trying to maintain the secret. Collusive tendencies would describe normal societal response to perplexities (Radcliffe, 2008). It implies the complicit role of moral hazard in maintaining the secrecy. In traumatic sociological events concerned parties would chose to rather keep silent than disrupt order in the society (Taussig, 1999 and Foucault, 1980).

Radcliffe (2008) criticized this manner of keeping secret, such as was cited in the case of the auditor of the State of Ohio failing to live up to reporting responsibility on a special audit of the Cleveland City School District (CCSD). On the contrary, public servants have been seen to take the risk of mounting a challenge to defend public interest (Funnell, 2003; Sikka, 2003 and Sikka, 2002). Nevertheless, Funnell (2011) and Broadbent & Laughlin (2003) acknowledge limitations that may be imposed on an auditor to hamper free expression of audit opinion. For example, public policy could bar public sector auditors from freely expressing audit opinion. Nonetheless, Radcliffe (2011) and Sikka, & Willmott, (1995) do not excuse public sector auditors hiding under the cover of public policy to compromise independence and deliberately misrepresent audit opinion. The point is that, in spite of limitations of independence, public sector auditors would normally work within a nuanced reflection of lived political experience (Radcliffe, 2011).
In an atmosphere of secrecy, the aspiration of those who seek to know would be to see its defacement (Taussig, 1999). The term is used to describe the shocking incidence of breaking the silence (Michael, 1999). Defacement is frightful because the unmasking of public secrecy releases substantial negativity, including anger, resentment and violence (Taussig, 1999). In the context of bank financial audit, the defacement of bank going concern secrecy is attainable by noting the distressed condition of the bank in the audit report.

By bank going concern is meant the continuity of a banking firm. In this context, accrual accounting under the historical cost convention is based on the assumption that the banking firm would continue in operation for the foreseeable future, realizing assets and meeting maturing obligations at the amounts recorded. The firm is not expected to curtail significant portion of its business. Accordingly, an incident of banking distress would run contrary to the notion of going concern. It is, therefore, necessary that an audit is approached in a manner that reveals conditions and events of going concern uncertainties for effective disclosure (Krishnagopal & David, 2010; Marshall & Dasaratha, 2006; Baker & Hayes, 2004; Cullinan, 2004; Behn, Pany & Riley, 1999; AICPA, 1988; Campbell & Mutchler, 1988; and Kevin & Brian, 1996). The alternative to going concern assumption is to maintain the account on break-up basis or qualify the audit report for following historical cost convention when going concern is not sustained (Marshall & Raghunandan, 2006; Rohde, 2006; Marshall & Raghunandan, 2002a; Marshall & Raghunandan, 2002b; and Randal & Asokan, 1996). It follows that unqualified audit opinions when there are going concern uncertainties raise ethical questions (ICAEW, 2009; Robert & Jones, 2009; Olivier, 2005; Mathews, 2005; Power, 2003; English, 2003; Cullinan & Sutton, 2002; Moizer, 1997 and Moizer, 1995). The consequent audit failure would raise reputational damages that reduce market reliance and value relevance of accounting and auditing (Douglas & Suraj, 2012; Krishnagopal & David, 2010; Love & Lawson, 2009; Steven, David & Jerry, 2009; Kevin & Brian, 1996; and Cooper & Sherer, 1984).

In this study, we seek to expose the phenomenon of going concern public secrecy in Nigerian banking. Our sample cases are all the five banks that came under the CBN axe in 2009. The distressed banks are Afribank, Finbank, Intercontinental bank, Oceanic bank and Union bank. In that episode, the CBN Governor sacked the managing Directors of the five banks and carried out resolution measures. We shall examine the auditors’ reports on these banks for the periods prior to the CBN intervention for evidence of going concern silence. We follow the critical accounting approach to review public secrecy implications that come to light.

3. ANALYZING GOING-CONCERN SILENCE OF BANK AUDIT REPORTS

3.1 Case 1 Afribank, 2008
The audit of Afribank that preceded the distress episode of 2009 was for the year ended 31st March, 2008. If not silent, the audit report would be reflecting the grave financial condition of the bank that showed up a year later. Accordingly, we examine the audit opinion on the accounts of the bank for possible reflection of threat to going concern. The opinion paragraph of the audit report reads thus:

“... In our opinion, the group and the bank have kept proper accounting records and the financial statements are in agreement with the records in all material respect and give in the
prescribed manner information required by the Companies and Allied Matters Act CAP C20 LF2004 and the Banks and other Financial Institutions Act CAP B3 LFN 2004. The financial statements give a true and fair view of the financial position of Afribank Nigeria Plc as at 31 March, 2008, and of its financial performance and its cash flows for the year then ended in accordance with the Statement of Accounting Standards issued by the Nigerian Accounting Standards Board and relevant International Financial Reporting Standards.”

As the audit opinion indicates, the financial report does not suggest that the bank did not follow the historical cost convention. It follows that the bank was assumed to be a going concern. The auditors believed that the bank kept proper accounting records. No concerns of material misstatement of financial figures and material weaknesses in the internal control system were noted in the report. The report suggests that the bank demonstrated sufficient responsibility in complying with regulatory requirements. Moreover, the auditors believed that the accounts of the bank gave a true and fair view. Clearly, the audit report does not contain any form of qualification, in spite of the grave financial condition alleged by the CBN Governor in 2009 a year later. Except the distress events happened during 2009, it would be safe to infer that the audit opinion was silent on the going concern uncertainties.

3.2 Case 2 Finbank, 2008
The audit of Finbank that preceded the distress episode of 2009 was for the year ended 30th April, 2008. If not silent, the audit report would be reflecting the grave financial condition of the bank that showed up a year later. Accordingly, we examine the audit opinion for possible reflection of the threat to going concern. The opinion paragraph of the audit report reads thus:

“...In line with approval, an amount of N12.7 billion was set aside from the share premium into a reserve account during the year and as at balance sheet date, goodwill of N12.7 billion has been written off directly against this reserve. The write-off of goodwill directly against the special reserve account is not in accordance with the requirement of circular number BSD/DIR/CIR/GEN/V.2/005 issued by the Central Bank of Nigeria on treatment of goodwill and merger expenses and the provision of the Statement of Accounting Standards Number 26 (SAS 26) which requires that goodwill be tested for impairment and that establishment of the amount of impairment be charged to the profit and loss account. Had goodwill been charged to the profit and loss account, the reported profit before tax for the year ended 30th April, 2008 would have been adjusted to a loss of N11.6 billion.

In our opinion, except for the effect on the financial statement of the matter referred to in the preceding paragraph, the group and the bank have kept proper accounting records and the financial statements are in agreement with the records in all material respects and give in the prescribed manner, information required by the Companies and Allied Matters Act CAP C20LPN 2004 and the banks and Financial Institutions Act CAP 83 LPN 2004. The financial statements give a true and fair view of the financial position of First Inland Bank Plc as at 30th April, 2008, and of its financial performance and its cash flows for the year then ended in accordance with the Statement of Accounting Standards issued by the Nigerian Accounting Standards Board ....”
As the opinion disclosed, the bank suffered huge amount of loss that was hidden as write-off to a share premium account. The write-off was a clear depletion of shareholders’ fund to allow a declaration of paper profit. There was, therefore, concern of material misstatement of the reported profit that led to a subject-to qualification. Apart from this qualification, the audit report does not suggest that the bank did not follow the historical cost convention. It follows that the bank was assumed to be a going concern. The auditors believed that the bank kept proper accounting records. No concerns of material weaknesses in the internal control system were reported. The report also suggests that the bank demonstrated sufficient responsibility in complying with regulatory requirements. Moreover, the auditors believed that the accounts of the bank gave a true and fair view. Clearly, the audit report does not allude to the grave financial condition alleged by the CBN Governor in 2009 a year later. Except the distress events happened during 2009, it would be safe to infer that the audit opinion was silent on the going concern uncertainties.

3.3 Case 3 Intercontinental Bank, 2008
The audit of Intercontinental bank that preceded the distress episode of 2009 was for the year ended 29th February, 2008. If not silent, the audit report would be reflecting the grave financial condition of the bank that showed up a year later. Accordingly, we examine the audit opinion for possible reflection of the threat to going concern. The opinion paragraph of the audit report reads thus:

“In our opinion, the accompanying financial statements give a true and fair view of the state of the financial affairs of the group and of the bank at 29 February, 2008 and of the profit and the cash flow of the group and of the bank for the year then ended in accordance with Nigerian Statement of Accounting Standards and the Companies and Allied Matters Act....The Companies and Allied Matters Act and the Banks and Other Financial Institutions Act require that in carrying out our audit we consider and report to you on the following matters. We confirm that: i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. ii) In our opinion, proper books of accounts have been kept by the bank, so far as appears from our examination of those books. iii) The bank’s balance sheet and profit and loss account are in agreement with the books of account. iv) Our examination of loans and advances was carried out in accordance with the prudential guidelines for licensed banks issued by the Central bank of Nigeria; v) Related party transactions and balances are disclosed in Note 33 to the financial statements in accordance with the Central Bank of Nigeria Circular BSD/1/2004; vi) The bank has complied with the requirements of the relevant circulars issued by the Central Bank of Nigeria....”

The audit report does not suggest that the bank did not follow the historical cost convention. It follows that the bank was assumed to be a going concern. The auditors believed that the bank kept proper accounting records. No concerns of material misstatement of financial figures and material weaknesses in the internal control system were reported. The report also suggests that the bank demonstrated sufficient responsibility in complying with regulatory requirements. Moreover, the auditors believed that the accounts of the bank gave a true and fair view. Clearly,
the audit report does not contain any form of qualification, in spite of the grave financial condition alleged by the CBN Governor in 2009 a year later. Except the distress events happened during 2009, it would be safe to infer that the audit opinion was silent on the going concern uncertainties.

3.4 Case 4 Oceanic Bank, 2008
The audit of Oceanic bank that preceded the distress episode of 2009 was for the year ended 31st December, 2008. If not silent, the audit report would be reflecting the grave financial condition of the bank that showed up a year later. Accordingly, we examine the audit opinion for possible reflection of the threat to going concern of the bank. The opinion paragraph of the audit report reads thus:

“.. In our opinion the consolidated financial statements give a true and fair view of the state of the balance sheet of the bank and group as of 31 December 2008 and of their profits and cash flows for the period then ended in accordance with Nigerian Statements of Accounting Standards, the Companies and Allied Matters Act 1990 and the Banks and Other Financial Institutions Act 1999”

The audit report does not suggest a bank that did not follow the historical cost convention. It follows that the bank was assumed to be a going concern. The auditors believed that the bank kept proper accounting records. No concerns of material misstatement of financial figures and material weaknesses in the internal control system were reported. The report suggests that the bank demonstrated sufficient responsibility in complying with regulatory requirements. Moreover, the auditors believed that the accounts of the bank gave a true and fair view. Clearly, the audit report does not contain any form of qualification, in spite of the grave financial condition alleged by the CBN Governor in 2009 a year later. Except the distress events happened during 2009, it would be safe to infer that the audit opinion was silent on the going concern uncertainties.

Comparing the audit report of the bank in 2008 with that of 2009 indicates a sharp contrast. Just after one year of clean bill of health, the audit report of 2009 now includes emphasis on matter that refers to going concern uncertainties. Relevant section of the audit report of 2009 reads thus:

In our opinion, the consolidated financial statements give a true and fair view of the state of financial affairs of the Bank and Group as of 31 December 2009, and of their losses and cash flows for the period then ended in accordance with Nigerian Statements of Accounting Standards, the Companies and Allied Matters Act and the Banks and Other Financial Institutions Act.

Emphasis of matter
Without qualifying our opinion, we draw attention to the following matters. As described in note 43 in the financial statements the Bank and the Group incurred losses before tax amounting to N118 billion and N116 billion respectively for the year ended 31 December 2009 and had negative shareholders’ funds of N126 billion and N116 billion respectively as of that date. These conditions, along with other matters as set forth in note 43 indicate the existence of a material uncertainty which may cast significant doubt about the bank’s ability to continue as a going
concern. However, as indicated in note 43 the bank has received financial support from the Central Bank of Nigeria and has also received a confirmation of continued financial support for a period of at least 12 months from the date of these financial statements.

In the opinion paragraph, bank had suddenly moved from profit in 2008 to a loss of N116 billion. Although the auditors did not qualify the report, the emphasis of matter defaced the grave financial condition of the bank in 2008, which prompted the CBN action. The loss was huge enough to render the bank technically insolvent. Yet the auditors were silent on the negative shareholders’ fund of N116 billion in the prior year (2008). The report in 2009 was belatedly explicit about the going concern uncertainties, thereby breaking the silence on going concern public secrecy that had bedeviled the bank. It would, therefore, be safe to infer that the audit opinion was silent on the going concern uncertainties in 2008. Furthermore, it would be inferred that the going concern report in 2009 was only prompted by the CBN action.

3.5 Union Bank, 2009 Draft report
The annual report of the bank for the year ended 31st March, 2008, which preceded the episode, was not available. However, the draft audit report for the year ended 31st March, 2009 following the CBN action includes emphasis on matter that refers to going concern uncertainties. The opinion paragraph of the audit report of 2009 reads thus:

“..In our opinion, the Group and the Bank have kept proper accounting records and the financial statements are in agreement with the records in all material respects and give in the prescribed manner, information required by the Companies and Allied Matters Act CAP C20 LFN 2004 and the Banks and Other Financial Institutions Act CAP B3 LFN 2004. The financial statements give a true and fair view of the financial position of Union Bank of Nigeria Plc as at 31 March 2009, and of its financial performance and its cash flows for the year then ended in accordance with the Statements of Accounting Standards issued by the Nigerian Accounting Standards Board.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 49 in the financial statements, where subsequent events after the Balance sheet date have resulted in the intervention of the Central Bank of Nigeria in the Management of the Bank to address reported capital inadequacy, liquidity problems and corporate governance issues; and efforts put in place by the newly appointed management of the Bank with the active support of the Central Bank of Nigeria, to redress the noted deficiencies and ensure that the Bank continues as a going concern.

Although the auditors did not qualify the report, the emphasis of matter defaced the grave financial condition of the bank, which had prompted the CBN action. The report was explicit about the going concern uncertainties. This form of auditors’ report clearly broke the silence of going concern public secrecy that the CBN Governor had alleged. The report attributes the intervention of the CBN to events after the balance sheet date. Nonetheless, it does not seem plausible that the corporate governance issues were post balance sheet events. It follows that the reported capital inadequacy and liquidity problems were likely not acute problems that just developed. Except the distress events happened during 2009, it would be safe to infer that the audit opinion was silent on the going concern uncertainties.
The analyses suggest patterns of going concern silence of the auditors when it comes to distressed banking. It took the defacement of the grave financial condition of the banks by the Central Bank of Nigeria for the auditors to begin to reflect the distressed conditions of the banks in subsequent opinions. Indeed, report of the going concern uncertainties of the distressed banks was either absent or was belated in the audit report.

4 IMPLICATIONS FOR THE CBN ACTION
The going concern uncertainties have great implications for the action of the CBN Governor. As the following discussions would show, a lot of the issues raised by the CBN Governor were not mentioned in the audit report. It buttresses the silence that bank auditors display about going concern uncertainties when reporting on the financial condition of banks in distress.

4.1 Toxic Market Presence
The banks emerged from the 2005 consolidation exercise as strong banks with market presence. However, as the banks manifested weakness, the market presence had become toxic and the inter-bank market was not willing to risk exposure to them unsecured. Nonetheless, they had sufficient toxin to destabilize the inter-bank market. In the words of the CBN Governor:

“They ... contributed to the destabilization of the inter-bank market as many of their competitors were unwilling to take unsecured risk on them. Noteworthy that at least three of the banks are systemically important (accounting for more than 5% of assets and deposits in the banking system) and together the five banks account for 39.93% of loans, 29.99% of deposits, and 31.47% of total assets as at May 31, 2009”

In spite of their weakness, the market presence of the banks helped in attracting bail-out attention of the government. Thus, primarily because of these banks, the CBN had to guarantee the inter-bank market following its suspension of the Expanded Discount Window (EDW). The CBN guarantee made it possible for the banks to borrow from the inter-bank market as without the guarantee the banks were already heading for collapse.

The CBN action also implies the need for prompt regulatory intervention when trouble grips a bank with market presence. By the weakness, the market presence of these systemically important banks had become ineffective. Nonetheless, because of their systemic importance the CBN Governor could not risk the banks spreading contagion. Hence, the CBN had to promptly intervene to prevent the unwinding positions of the banks from spelling distress for depositors and creditors and by extension, the otherwise healthy banks. As the CBN Governor put it:

“failure to secure the financial health of these banks will clearly place the system at risk. CBN has a responsibility to protect all depositors and creditors and ensure that no one loses money due to bank failure. The Bank also needs to move decisively to remove principal causes of financial instability and restore confidence in the banking system.”

Accordingly, the Governor exercised his powers under Sections 33 and 35 of the Banks and Other Financial Institutions Act 1991, as amended and removed the Managing Directors and the Executive Directors of the banks. The CBN also doled out N400 billion rescue package of taxpayers’ money to save the banks, since the banks had market presence. Nonetheless, the far-
reaching implications of market presence were not enough to break the silence of the auditors on the going concern uncertainties of the banks.

4.2 Adverse Macro-economic Condition
The post-consolidation banking crisis in Nigeria in 2009 broke at the heel of the global financial crisis that had claimed many banks and affected nations. The CBN Governor acknowledged this in the following words:

“As we are aware, the world economy has been hit by recession following the financial meltdown that started with the sub-prime mortgage crisis in the United States of America and spread to Europe and other parts of the world. This crisis has led to the collapse of many banks and other financial institutions, and even rendered an entire nation bankrupt.”

The economic recession was inhospitable to banking. In this case, adverse macro-economy transmitted through bank exposure to margin loans and the oil sector. In this regard, the CBN Governor remarked thus:

“The total loan portfolio of these banks was N2,801.92 billion. Margin loans amounted to N456.28 billion and exposure to Oil and Gas was N487.02 billion. Aggregate non-performing loans stood at N143 billion representing 40.81%....it is evident that the five banks accounted for a disproportionate component of the total exposure to Capital Markets and Oil and Gas, thus reflecting heavy concentration in high risk areas relative to other banks in the industry.”

The recession implied difficulty for the oil and gas sector to service loans from the banks. In addition, the global situation, by forcing foreign investors to divest on a massive scale, introduced sharp price decline in the stock market. Most of these stocks had been bought by margin loans from banks, encouraged by the capital reform event in 2005. The shares served as collaterals for the margin loans. However, as the prices of the shares fell sharply, these margin loans became toxic. Therefore, banks that had large exposure to margin loans felt the negative impact.

The drop in oil prices further implied reduction in the Nigerian government oil dependent revenue and thereby putting pressure on foreign reserves. It also implied reduction in government deposits that some of these banks depended on in Nigeria and drop in general levels of deposit in the banking industry. It, thereby, stretched stress for the distressed banks that were already burdened with deposit cost disadvantage. This may further explain why the affected banks had to resort to interest premium to attract deposit. Although the CBN Governor believed, in general, that the Nigerian banking system had weathered the storm of the global financial crises, he acknowledged that the resilience shown by the individual banks varied. In his words:

“There are many who have been aware for a while that whereas the system in general is likely to absorb and survive the effects of crisis, the effects vary. A few Nigerian banks, mainly due to huge concentrations in their exposure to certain sectors (Capital Markets and Oil and Gas being the prominent ones), and a general weakness in risk management and corporate governance, have continued to display signs of failure.”
Some may argue that the macro-economic condition was a playing field for which the banks had little control. Nevertheless, a player needed to employ the prudence appropriate to his field. Huge concentration of exposure, weakness in risk management and weakness in corporate governance do not suggest the needed prudence. The CBN Governors’ charge that these banks displayed signs of failure seems plausible. Yet, these macro-economic implications were not reflecting in the going concern silence that the auditors of the distressed banks had maintained.

4.3 Costly deposits

Failure to secure sufficient funds from the normal deposits sources compelled the weak banks to become burdensome to the CBN. These implications were corroborated by the explanation of the CBN Governor thus:

“Since June 4, 2009 when I assumed office as Governor of the CBN, the total amount outstanding at the Expanded Discount Window was N256.571 billion, most of which was owed by the five banks. A review of the activity in the EDW showed that four banks had almost been permanently locked-in as borrowers and were unable to repay their obligations. A fifth bank had been a very frequent borrower when its profile ordinarily should have placed it among the net placers of funds in the market. Whereas the five banks were by no means the only ones to have benefited from the EDW, the persistence and frequency of their demand pointed to a deeper problem.”

By the time the CBN Governor assumed office on June 4, 2009, the banks were already in grave financial condition. This can be gleaned from the periods of the last accounts audited. It was 31st March, 2008 for Afribank, 30th April, 2008 for Finbank, 28th February, 2008 for Intercontinental Bank, 31st December, 2008 for Oceanic Bank and 31st March, 2008 for Union Bank. The periods fall within the range when the CBN Governor assumed office. The Expanded Discount Window (EDW) is where banks accessed accommodation to address temporary liquidity problem. By these dates these banks had been locked in. Permanently locking in of a bank at the discount window is a clear sign of failure to source the more regular deposit funds. A bank does not operate on a permanent basis with temporary fund. Moreover, at this time the banks were unable to repay their obligations. The persistence and frequency of the banks at the discount window demonstrate that the banks were already distressed.

The CBN had to extend credit support to some of these banks in October 2008 following severe liquidity strains. The regulatory body had to further guarantee the inter-bank market before these banks could receive accommodation from those regular liquidity sources. The banks had exploited the free ride provided by the CBN guarantee to become perennial inter-bank net-takers. In addition, they had continued to draw heavily from the EDW or wound down at the EDW from inter-bank net takings. The CBN Governor charged thus:

“The five banks were either perennial net-takers of funds in the inter-bank market or enjoyed liquidity support from the CBN for a long period of time, a clear evidence of illiquidity. In other words, these banks were unable to meet their obligations as they fall due, without resorting to the CBN or the inter-bank market. As a matter of fact, the outstanding balance on the EDW of the five banks amounted to N127.85 billion by end July 2009, representing 89.81% of the total industry exposure to the CBN on its discount window, while their net guaranteed inter-bank
takings stood at N253.30 billion as at August 02, 2009. Their liquidity ratios ranged from 17.65% to 24% as at May 31, 2009. (Regulatory minimum is 25%)”

In spite of the inter-bank guarantee, the banks had nearly ninety percent of industry exposure to CBN. Apparently, the affected banks had not sourced sufficient normal deposits consistent with their lending. Therefore, they had fallen into the grave situation of struggling to maintain flow of deposit and be able to meet maturing obligations to depositors and creditors as they fell due. In spite of the dire implications of the costly deposit structure of the distressed banks, the audit reports of the prior periods remained silent on the going concern uncertainty of the banks.

4.4 Imprudence

Imprudence, including related party loans, unsecured sub-prime loans, poor credit management, poor accounting controls and poor operating decisions, is detrimental to bank health. It reflects corporate governance problems prevalent among weak banks. Following the findings of a special joint audit of CBN and NDIC, the CBN Governor corroborated this implication as he blamed the distress of the five banks on causes including the following:

“Excessively high level of non-performing loans in the five banks, which was attributable to poor corporate governance practices, lax credit administration processes, and the absence or non-adherence to the banks’ credit risk management practices. Thus, the percentage of non-performing loans to total loans ranged from 19% to 48.”

The CBN Governor further hit the nail on the head in the following words:

“...their management has acted in a manner detrimental to the interest of their depositors and creditors”

Imprudence in corporate governance had bedeviled Nigerian banking over the years. Unfortunately, history had again repeated itself. The alleged poor corporate governance practices include lax credit administration processes, and the absence or non-adherence to the banks’ credit risk management practices. These weak practices served as smoke screen for deeper moral hazard problem. True to it, as the CBN followed up with the release of the list of the so called delinquent borrowers of the troubled banks; lo and behold, they were connected parties and their surrogates. The CBN, therefore, adopted a commendable zero tolerance stance. In the words of the CBN Governor:

“The CBN will not waiver in its desire to ensure that public confidence in the Nigerian banking system is maintained through appropriate disclosure and reinvigoration of its policy of zero tolerance on all professional and unethical conduct.... We will not allow any bank to fail. However, we will also ensure that officers of banks and debtors who contribute to bank failures are brought to book to the full extent of the law and that all proceeds of infraction are confiscated where legally feasible.”

The CBN should not waver in its avowed disposition to unleash the full weight of the law on these bad borrowers and their insider cohorts. Corruption must be stamped out of the Nigerian polity if banks are to keep sound. It is even shameful that the attempts by CBN to accommodate
the liquidity strains of these banks through the discount window were unthankfully collaterised by Commercial Papers and Bankers’ Acceptances of doubtful value. The CBN acknowledges this problem and is ready to pull the bull by the horn. In spite of the grave imprudence, the auditors of the distressed banks remained silent on the going concern uncertainties.

4.5 Poor Earnings
Overhead burden weakened the earnings of the troubled banks and the banks had to suffer erosion of capital by operating losses. Although the CBN Governor did not specifically allude to earnings, a close look at his remarks revealed that the profitability of the affected banks had been compromised. When the full effect of imprudence hit home, profitability bled for it. The CBN Governor directed as follows:

“\textit{The five banks will therefore need to make additional provisions of N539.09 billion....The huge provisioning requirements, have led to significant capital impairment.....The CBN requires all banks to make appropriate provisioning for non-performing loans and disclose them}”.

The huge provisioning led to further capital impairment as retained earnings turned negative. Some of the affected banks did report positive profit retention in previous financial statements. Nevertheless, provisions for the anticipated loan losses would reduce the paper profits remarkably. In spite of the poor earnings profile of the distressed banks, the audit report remained silent on the going concern uncertainties.

4.6 Weak Market Power
Deposit cost disadvantage denied market power to the weak banks. The CBN Governor remarked thus:

“A review of the activity in the EDW showed that four banks had almost been permanently locked-in as borrowers and were unable to repay their obligations. A fifth bank had been a very frequent borrower when its profile ordinarily should have placed it among the net placers of funds in the market.”

Permanent borrowing at EDW indicates bank failure in competing for the more regular deposits, implying interest premium on deposit and lack of market power. This habit is itself a signal of distress and is a channel of contagion. The CBN Governor alluded to this in the following words:

“The impact of the situation of these banks was being felt by the market in different negative ways. Because of this strain in their balance sheets, the banks pushed up the interest rate paid to private sector depositors and their competitors had to follow suit.”

Since the five affected banks had market presence the desperate interest premium that they were willing to pay had the tendency to drive overall interest rates upwards as their competitors tried to match them. Interest premium of weak banks with market presence implies lower interest margin, even for the healthy banks and raise the bar in terms of volume of credits needed to break-even. As such, it raises market risk and may lead to trouble in the otherwise healthy banks. In spite of the implications of the weak market power of the distressed banks, the auditors remained silent on the going concern uncertainties.
4.7 Weak Capital Confidence
Post consolidation in 2005, each of the distressed banks could have boasted of adequate capital. Nevertheless, as imprudence infested the banks, their huge capital turned into big bag with holes. The resulting losses eroded their capital. This forced them to rely on overdrawn position with CBN as the liquidity market rejected them. The remarks of the CBN Governor corroborated this implication in the following words:

“Consequently, all the banks are undercapitalized for their current levels of operations and are required to increase their provisions for loan losses, which impacted negatively on their capital. Indeed one is technically insolvent with a capital adequacy ratio of (1.01%). Thus, a minimum capital injection of N204.94 billion will be required in the five banks to meet the minimum capital adequacy ratio of 10%”.

By undercapitalization, the banks were exposed to solvency risk. It implies low solvency confidence and explains why the affected banks were perennial with the EDW. Again, the audit reports were silent on the going concern uncertainties implied in the weak capital confidence projected by the distressed banks.

5. SUMMARY AND CONCLUSION
The analyses clearly demonstrate that audit opinions were silent on the going concern uncertainties of the banks as they headed for trouble. Furthermore, the emphases on matter about the banks in distress were belated, begging the question of why the auditors could not break the silence earlier on. It had to take an event of audit failure defaced by the CBN action for the auditors to begin to report on the going concern uncertainty of the banks. The auditors maintained silence in spite of the grave implications of toxic market presence, adverse macro-economic conditions, costly deposit structure, imprudence, poor earnings, weak market power and weak capital confidence.

Part of the explanation may be found in the nature of a financial audit itself. Under the framework of the audit risk model, the auditor reports on whether or not transactions are materially misstated in the accounts. It follows that where transactions did agree with the records and the records agreed with the reports, the auditor would feel free to issue an unqualified opinion even where going concern threat could be hanging. This is clearly demonstrated in the opinion section which reflected an unqualified report of Oceanic bank of 2009 and Union Bank of 2009, in spite of the going concern uncertainties of the banks. It leads to the conclusion that the bank auditors did not primarily design the audits for the purpose of reporting on going concern uncertainties. Furthermore, it seems that Auditors would be more inclined to expressing going concern uncertainty on matters that have become public. In this case, the CBN defacement action brought the grave financial condition of the bank to light publicly, forcing the auditors to break their silence to the public. Further explanations may be found in the dirty business practices in which auditors have been implicated in mischievously reporting less than they know (Mitchell & Sikka, 2002). By keeping the public in the dark (Dunn, 1999), auditors effectively hold the public to ransom (Cousins, Mitchell & Sikka, 1998).
The findings agree with criticisms that root audit failures in organized cover-up (Mitchell, Sikka, Arnold, Cooper & Willmott, 2001). They also reflect the dark practices of auditors (Cousins, Mitchell, Sikka, Cooper & Arnold, 2000). The practice of going concern secrecy is a hindrance to the fight against money laundering (Mitchell, Sikka & Willmott, 1998). It reflects on the profession’s educational processes that have itself attracted criticisms for compromising its ethical position and not encouraging future accountants to reflect the profession's social obligations in their socializing experiences. (Puxty, Sikka & Willmott, 1994). This had led to calls for the removal of accountancy education from the control of the professional bodies for not demonstrating capability in regulating membership in line with public interest. Indeed, silence of auditors on the going concern uncertainties of distressed banks does not sustain the claims of the accountancy profession to serve the public interest ethically and impartially. Auditors should be made accountable for the ills of their going concern silence (Sikka, 2012).

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