Global Advanced Research Journal of Management and Business Studies Vol. 1(x) pp. 051-060, March, 2012
Available online http://garj.org/garjmbs/index.htm
Copyright © 2012 Global Advanced Research Journals

Full Length Research Paper

An evaluation of the regulatory framework for the prevention of misstatement of financial statements in Nigeria

DR PAUL AONDONA ANGAHAR

Senior Lecturer / Deputy Dean, Department of Accounting, *Faculty of Management Sciences, Benue State University, Makurdi. Nigeria.*
E-MAIL-angahar63@yahoo.co.uk: Tel: +234-706-801-0515

Accepted 20 February, 2012

The paper seeks to describe the operations of the regulatory framework for the prevention of financial statement misstatement/manipulation in Nigeria, which is provided by the Securities and Exchange Commission (SEC) and to assess the extent of its effectiveness in preventing misstatement/manipulation of financial statements in financial reporting in Nigeria. The Descriptive method was employed for the study; data were collected through interviews and documentary evidence. Using descriptive statistics consisting of frequencies, a measure of central tendency, visual representations made up of the bar chart, pie chart, and time series plot, the data were analyzed. The findings of the study indicated that the SEC is effective to the extent of detecting a mean of 25 cases of financial statements misstatement/manipulation annually for the study period 2003 to 2010 and thus prevented or deterred them. The regulatory agency has however been reluctant in applying the full force of the law in the enforcement of accounting rules.

Keywords: Regulatory framework, Accounting rules, Misstatement, Manipulation, Financial Statements, Enforcement.

INTRODUCTION

The image of the accounting profession has been badly eroded in recent times. The profession has been smothered by massive financial reporting scandals resulting from manipulation of financial statement numbers with the active collusion of auditors in a manner that clearly vitiates the notion of the independent auditor. Confidence in publicly available financial information has been weakened globally (Sulton 2002a).

Today, the institutions responsible for financial reporting in our capital markets are reeling from the fall out of financial reporting scandals of colossal proportions. Reports on the collapse of Enron, the bankruptcy of WorldCom, and a growing list of failures have laid bare the massive manipulation of financial reporting by management, inexplicable breakdown in the independent audit process, astonishing revelation of holes in the financial reporting standards, (Sulton 2002 b).

This exact scenario that played out in the collapse of Enron- the United States giant energy company, which resulted in the demise of the accounting firm Arthur Andersen has followed other companies such as WorldCom, Adelphia, Global Crossing, Qwest, Tyco, Xerox, Martha Stewart, Health South, Royal Ahold, Parmalat, the mutual funds among others, (Copeland Jr, 2005).

Optimistic accounting results in an illusively prosperous public image and consequently inappropriate decision-making by investors and creditors. Once the real situation is disclosed, the company will have to face the situation of insolvency and the shareholders and creditors will suffer unaffordable disaster, such situation had been repeatedly proven by many corporations' collapses internationally and was responsible for the collapse of HIH Insurance, Ansett Airlines and One Tel network in Australia (Jiang, 2006).

In Nigeria, there are also reported cases of manipulation of financial statements. Cadbury Nigeria Plc's board of directors had suspected excess declaration of profits in the financial statements of the company. These financial statements had been attested to by the company's auditors -Akintola Williams Deloitte (AWD) who had expressed an unqualified opinion stating that the financial statements gave a true and fair view of the company's state of affairs. Another independent auditor Price Water House Coopers was engaged to investigate the books and it found out that the financial statements of Cadbury Nigeria Plc were fraudently inflated by about fifteen billion Naira (N15 billion) in the past few years. This led to the resignation of Akintola Williams Deloitte as the auditors of Cadbury Nigeria Plc (Onu, 2007a).

Mr. Patrick Akinkuoto, former managing director of Afri Bank Plc, alleged another case of manipulating financial statements. He alleged the cooking of the books of the bank by the directors and the external auditors. The draft accounts had indicated a loss of ₦6.9 billion while the audited report posted an after-tax profit of ₦2.94 billion, (Onu 2007b).

Ighomwenghian (2007:C2) reported that, The Nigerian Stock Exchange (NSE) announced full suspension of trading in the shares of Lagos-based metal containers and crown corks manufacturer Nampak Nigeria Plc. This means that beginning from that day, shares of the company would no longer be traded just as the name is removed from the daily official list of the NSE until the suspension lifted. The decision followed the discovery of fraud and overstatement in the company's latest financial accounts. While the reports of manipulation of financial statements in Nigeria have not yet led to any reported collapse of any company, it is a negative trend that ought to be checked.

Problem Statement

The massive financial reporting scandals resulting from manipulation of financial statements with the collusion of auditors is indicative that the regulatory frameworks in place for the prevention of misstatement of financial statements in Nigeria are not operating effectively. In Nigeria, the effectiveness of these regulatory frameworks to the best of the researcher's knowledge has not been evaluated. This is a problem because it is this regulatory framework that can provide an efficacious cure to the malady of fraudulent financial statements misstatement.

Objectives of the study

This research is a study of the regulatory frameworks for the prevention of financial statements misstatement. The study has described the operational modalities employed by the regulatory framework in ensuring effective compliance enforcement in Nigeria. This regulatory framework put in place by the Securities and Exchange Commission (SEC) has been described and evaluated by ascertaining their effectiveness in preventing misstatement/manipulation of financial statements.

The specific objectives of the research are presented seriatim:

Identify and describe the regulatory framework for the prevention of financial statement misstatement in Nigeria.

Evaluate the extent to which the regulatory framework is effective in preventing misstatement/manipulations of financial statements in Nigeria.

The rest of the paper is organized and presented around the following related themes:

Conceptual considerations

Methodology

Securities and Exchange Commission's regulatory framework

Data analysis and discussion of results

Conclusion

Conceptual Considerations

Financial statement manipulation refers to skillful but unfair application of accounting techniques and principles in order to achieve a desired result in the financial statements, the consequence of which is an unfair presentation of a financial statement that does not fairly reflect the affairs of the entity. Financial statement misstatement on the other hand is an unfair presentation of a financial statement resulting from either financial statement manipulation or an error (Angahar 2011:15).

Malford and Comiskey (1996) have defined earnings management as the active manipulation of accounting results for the purpose of creating an altered impression of business performance.

The erosion of the credibility of financial reporting is not very a recent phenomenon, it had been acknowledged by the FASB, in their attempt toward developing a conceptual framework for financial reporting. The board had criticized the following situations: Two or more methods of accounting are accepted for the same facts; less conservative accounting methods being used rather than earlier, more conservative methods; Reserves are artificially used to smooth fluctuations in earning; Financial statements fail to warn of impending liquidity crunches; Deferrals are followed by "big-bath" write offs; Unadjusted optimism exists in estimates of recoverability. Off balance sheet financing (that is disclosure in the notes to the financial statements) is common, unwarranted assertion of immateriality has been used to justify nondisclosure of unfavorable information or departures from standards; form is relevant over substance (Riahi-Belkaoui, 2000:125).

Most (1977: 3) in tracing the historical development of financial reporting stated that The laissez-faire era of accounting that prevailed during the industrial revolution resulted in the provision of misleading financial statement information, which ignited the stock market crash of 1929. As an aftermath of this crash, there were wide scale criticisms of the financial reporting practices and investor confidence in financial reporting was largely eroded. There were internal and external pressures on the accounting profession to reform and establish uniform accounting standards.

In an attempt to restore investor confidence, the United States Congress passed the securities Act of 1933 and the Securities Exchange Act of 1934. The 1933 Act set forth accounting and disclosure requirements for initial offerings of securities, while the 1934 Act applies to the secondary market and prescribed periodic reporting requirements for companies whose securities are publicly traded on either organized stock exchanges or over-the counter markets. The 1934 Act created the Securities and Exchange Commission (SEC) in the United States of America(USA) a federal regulatory agency that was to administer the Securities Act of 1933, the Securities Exchange Act of 1934 and other Federal Acts (spice laid et al. 2001: 9, Chasten et al. 1995: 14, Riahi-Belkaoui 2007:7).

The USA Securities Act of 1933, the Securities Exchange Act of 1934 and the creation of the Securities and Exchange Commission (SEC) contributed a lot in the development financial accounting and reporting in the United States, especially in area of regulation. SEC has the authority to set and enforce standards for financial reporting though it has delegated this responsibility to the accounting profession via the Financial Accounting Standards Board (FASB), it still retains the authority for standard setting and where it disagrees with a particular promulgated standard, it can force a change in the standard (Spiceland et al., 2001: 9).

A Regulatory Framework for accounting rules and standards is the institutional and administrative arrangements that have the legal authority to make accounting rules and standards, monitor and ensure compliance with these rules and standards(Angahar 2011:14).

In Nigeria, the Securities and Exchange Commission (SEC) provide the regulatory framework for the enforcement of accounting rules. The mandate of SEC as specified by Section 8(a) of the Investment and Securities Act, I999 covers all companies carrying out investment and securities business in Nigeria. Consequently, in order to ensure investor protection, SEC is supposed to give due attention to all registered companies and prevent the misstatement/manipulation of their financial statements through the inspection of their books and analyses of their financial statements. SEC deals only with cases of Financial Statements misstatement/manipulations, while the Nigerian Accounting Standards Board (NASB) deals the enforcement of accounting standards.

Marston and Shrives (1996), have asserted that with absent and inadequate enforcement, even the best accounting standard or rule will be inconsequential. If nobody takes action when rules are breached, these rules remain no more than mere requirements on paper. In some environments, firms behave towards mandatory requirement as if they were voluntary.

Catanach Jr. and Rhoades-Catanch (2005a) have studied the dramatic collapse of Enron Corporation following a series of disclosures of accounting improprieties that had led many to question the soundness of current accounting and financial reporting standards. They attempted to find out whether in Enron's reported financial statements and related note disclosures, there were signs that could have alerted an astute investor or analyst to be suspicious of Enron's reported results. They searched for answers to questions such as how did the company hide debt, inflate profits, and support a stock price that over valued the firm. Did Enron incorrectly apply existing standards or did these rules permit the accounting gimmickry that allowed Enron to obscure its true position? They examined Enron's financial performance during the 10 years prior to its declaration of bankruptcy and the analysis revealed increasing variability of key performance measures from 1997 to 2000, using metrics developed by Beneish (1997) to measure the likelihood of earnings management they found a high probability of earning manipulation in Enron's financial statements for several years preceding its bankruptcy. Their investigation suggests that considerable evidence existed which should have lead analysts, sophisticated investors and regulators to question Enron's financial results and soaring stock price. Financial analysts use a variety of models and techniques to evaluate operational performance, in business entities the DuPont system of financial analysis is one such technique. It relies primarily on three ratios namely asset turnover, profit margin, and leverage to help an analyst see how a firm's decision and activities over the course of an accounting period interact to produce the return on equity .When the DuPont system was applied on Enron's reported financial data from 1991 to 2000, it gave an insight into the company's troubled operations. There was a disparity between Enron's operating performance and its stock price valuation, yet the investors and regulators took no notice.

Catanach Jr and Rhoades-catanch (2005b) have stated that in 1987, the Treadway Commission provided specific guidelines for assessing the risk of fraudulent financial reporting. The Commission noted three primary influences on financial reporting: Performance pressures, oversight issues, and changing structural conditions. Enron displayed troubling symptoms in all three categories. Enron financial reporting treatment of several transactions failed to comply with existing accounting standards. The cumulative impact of these financial statements from 1997 to 2000 indicated that Enron overstated reported net income in total by 1.577 Billion dollars. It overstated reported stockholders equity in total by 2.585 billion dollars. Although Enron declared bankruptcy prior to year-end 2001, reports indicated that its quarterly reports for 2001, overstated net income and shareholders equity by 545 million dollars and 828 million dollars respectively. They concluded that Enron had violated existing accounting standards and SEC regulations. Thus, the accounting standards were not at fault in Enron's saga. It was rather the failure to comply with existing accounting standards.

The collapse of Enron has implications for the functioning of business and capital markets far beyond financial reporting standards and accountants responsibilities, it raises questions regarding the oversight responsibilities of Enron's board of directors, the financial advisers in structuring Specific Purpose Entity (SPE), the banks and other lenders that provided off-balance sheet financing, the brokers, analyst and other investment advisers that ignored the warning signs of trouble apparent in Enron's financial reports. Recent congressional investigations indicated that Citigroup Inc, J.P Morgan Chase, and Co and federal regulators all share blame in facilitating Enron's financial manipulation. The failure of Enron initially attributed to accounting and reporting inadequacies, continuous to raise broader issues of corporate governance and regulation (Catanach Jr. and Rhoades-Catanach 2005c).

Catanach Jr. and Rhoades-Catanach's study is very revealing; it points out that despite Enron's attempt at earnings management, its financial statements when subjected to analysis indicates that the company was already in financial trouble. The signals were there for an analyst or the regulators to discern that not all was well. The implication is that regulators who were suppose to monitor and ensure compliance with standards and check fraudulent financial reporting did not do their job properly. The extent, to which the regulatory frameworks are proactive in trying to ensure compliance, will go a long way in checking fraudulent financial reporting. This paper attempts to gauge the effectiveness of regulators in the Nigerian environment. The study is therefore an attempt to prevent financial reporting failures in Nigeria by assessing the regulatory frameworks for the prevention of misstatement of financial statements in Nigeria.

METHODOLOGY

The study was an ex-post facto research using the descriptive method. An ex-post factor research relies on Secondary data because the events and facts have already occurred and not subject to manipulability.

In gathering data for the research study, primary and secondary data were collected through interviews and documentary evidence, respectively.

Descriptive statistics were employed to present, process and analyze the data collected, assisted in many respects by the statistical package for social sciences (SPSS). The relevant descriptive statistics employed which included frequency tabulations, measures of central location and graphical display of underlying data are briefly described here below:

Frequency tabulation

A frequency table that displayed the number and percentages of cases of misstatement and/ or manipulation of financial statements that were detected by the Securities and Exchange Commission from 2003 to 2010 was developed from the data collected. The same table also provided information on the cumulative frequencies and percentage frequencies. The cumulative frequencies over the years were indeed additions of the respective cases from one year to the other and the percentage frequency distribution was arrived at by dividing each year's frequency by the total frequency and multiplying the result by 100.

Measure of central location

In order to organize and make the data collected on the number of cases of misstatement/manipulation of financial statements meaningful, the mean as a measure of central tendency was utilized as a tool for summarizing the underlying data .The mean was employed to measure the average number of cases of financial statements misstatement/ manipulation detected by SEC from 2003 to 2010. The mean represented the average number of cases of financial statements misstatement/manipulation that SEC had been able to detect and consequently prevented. It thus gave a measure of the extent to which SEC has been effective in preventing misstatement/manipulation of financial statements.

Visual representation

In addition to the frequency tabulations described in the preceding, the same underlying data was graphically displayed in the form of a bar chart, a pie chart, and a time series plot, which are explained seriatim underneath:

Bar chart

The purpose of the chart was to visually show the differences in the number of cases of misstatement/manipulation of financial statements detected by SEC yearly.

Pie chart

was also drawn indicating the percentages of cases of financial statement misstatement and or manipulations detected by SEC over the years 2003 to 2010

Time series plot

A two-dimensional line-graph indicating the time period in years on the horizontal axis (x) and the number of cases of financial statement misstatement/ manipulation detected on the vertical axis (y) is plotted in order to help visually interpret how these cases have changed over time.

Securities and Exchange Commission's regulatory framework

SEC deals with cases of Financial Statements misstatement/manipulations and it is the duty of the Financial Standards and Corporate Governance Department of SEC to undertake a review of quarterly and annual financial statements of companies. It is through this regular review of financial statements and the use of financial analysis tools that the Securities and Exchange Commission may detect cases of financial statements manipulations.

Based upon the powers of SEC emanating from the Investment and Securities Act (ISA) 1999, SEC requires every company operating in the Nigeria to submit its quarterly accounts, management accounts and audited annual accounts to the Commission. When the annual accounts of a company are submitted to SEC, the Financial Standards and Corporate Governance Department analyzes them. The officer assigned the duties of analyzing the financial statement of a particular company is referred to as the analyst. The analyst compares the company's previous year's position with that of the current year. This comparison is possible because there is a file for each company that submits its annual accounts where the company's records are maintained. Computerized files are also maintained for companies and they contain information about the company including financial ratios of the company that are computed each year by the analyst.

In reviewing the financial statements of the company, the analyst is required to ascertain the following:
Significant changes in expenses and income.
Any significant variation in accounting policies.
Any desired changes in capital base.
Comparison of operational performance with operational projections.
Compliance with the terms of approval of previous security offers (if any).
Compliance with SEC's directives on the submission of the previous year(s) accounts.
Any other material observations.

The analyst will review the accounts, ascertain the above, and calculate the firm's financial ratios and make his observations. If the observations can easily be explained or justified from the company's past records, or from the accounts or from other documentations of the company that are available to SEC, no further enquiries are made.

If the observation cannot easily be explained and depending on their gravity, the Director of the Financial Standards and Corporate Governance Department may direct that the company be requested to respond to the observations raised or that, the company's chief executive officer or his representative is invited for an interview.

Where the observations of the analysts are not satisfactorily responded to by the company, the Director, Financial Standards and Corporate Governance may make a report to the chief executive of SEC, who may then refer the matter to the Administrative Proceedings Committee (APC) of SEC. The indicted company is required explain why sanctions should not be imposed on them for violating the provisions of the ISA 1999, SEC rules, and regulations, the code of conduct for capital market operators and code of corporate governance in Nigeria. The APC will arrange several sittings depending on the extent of its deliberations and it will take far-reaching decisions, which may be one, several, or all of the following:

Where the accounts are found to be unreliable and misleading, the company will be directed to restate the accounts.

The company will pay penalties in terms of fines.

The company may be asked to make a public statement about the matter so that its shareholders will be informed.

The individuals involved in the production of the misleading accounts will be sanctioned.

SEC may also institute an investigation where a case of financial statement manipulation has been brought to its attention either through a report by any regulatory body such as the NASB, Central Bank of Nigeria (CBN) and so on, or even through a news media report or a specific complaint made by any individual.

Table 1. Number of cases of manipulation/misstatement of financial statements detected by SEC

Year	Number of companies
2003	12
2004	21
2005	26
2006	18
2007	37
2008	22
2009	42
2010	23
TOTAL	**201**

SOURCE: Financial Standards and Corporate Governance Department of the SEC

Sanctions imposed by SEC when cases of manipulation / misstatement of financial statements are discovered.

SEC Rules and Regulations 2000 (as amended) which derive from the powers conferred on SEC by ISA 1999, has stipulated that when the APC of SEC finds a company guilty of false financial reporting or misstatement of financial statements, SEC can apply the following sanctions:

The company found guilty of false financial reporting shall pay a fine of one hundred thousand naira (N100, 000) only in the first instance and a further fine of five thousand naira (N5, 000) only per day covering the entire period when the false financial statements were published up to the day the company was found guilty or as the Commission may deem fit.

Sanctions may also be imposed by the Commission on any officers, managers or directors of the company that were involved in the false financial reporting by their suspension from operating in capital market, suspension from being employed in the capital market or holding any directorship position in any Nigerian company or as the Commission may deem fit.

Any accountancy firm that connives with the company or conceals the false financial reporting shall be sanctioned and a penalty of a fine as the Commission deems fit will be imposed on the company and/or its registration with the Commission cancelled.

Any persons involved in the production of the misleading financial reports may further be referred to the Economic and Financial Crimes Commission (EFCC) for investigation and prosecution.

Information obtained from the Financial Standards and Corporate Governance Department of SEC during the course of interviews indicates that the character of sanctions or penalties imposed by SEC on the erring companies in connection with false financial reporting or misstatement of financial reports has consisted basically so far of only imposition of fines.

Data analysis and discussion of results

The data presented in Table 1 above displays the number of companies that had cases of misstatement/manipulation of financial statements from 2003 to 2010.

The data presented in Table 1 were analyzed using a frequency distribution table, a measure of central location and visual representations consisting of a bar chart, a pie chart, and a time series plot below:

Frequency

Below is a frequency table indicating the yearly frequencies of cases of financial statements misstatements/manipulations detected by SEC from 2003 to 2010.

Based on the data in Table 1, the above frequency table was constructed which displays the yearly frequency of cases of misstatement/manipulation of financial statements detected by SEC. Table 2 indicates that the total cumulative frequency of cases of misstatement/manipulation of financial statements detected by SEC amounted to 201. Between 2003 and 2005, the percentage frequency was on the increase. It decreased in 2006 and increased in 2007 and in 2008, it again decreased. The percentage frequency was again on the increase in 2009 but it again decreased in 2010. The frequency of the number of cases does not generally follow any pattern, in the sense that the frequencies increased in one year and declined in the other.

The inference that can be drawn from this is that since the number of cases of financial statements misstatements/manipulations detected by SEC was few, the regulatory agency has not made the desired impact in making companies to be more careful in financial reporting, and consequently the numbers of cases of

Table 2. Frequency of Misstatement/Manipulation of Financial Statements Detected by SEC

Year	Frequency	Percent	Cumulative Percent	Cumulative Frequency
2003	12	6.0	6.0	12
2004	21	10.4	16.4	33
2005	26	12.9	29.4	59
2006	18	9.0	38.3	77
2007	37	18.4	56.7	114
2008	22	10.9	67.7	136
2009	42	20.9	88.6	178
2010	23	11.4	100	201
Total	201	100		

Source: Field Data

Table 3. Calculation of the Mean with Respect to Cases of Misstatement/Manipulation of Financial Statements Detected by SEC.

Mean	25.13
Std. Error of Mean	3.487

Source. Field Data

misstatement/manipulation detected do increase and decrease.

The next tool employed for analysis of the data in Table 1 is the mean, which is a measure of central location.

Measure of central location

The table below displays the calculation of the mean of the cases of misstatement/manipulation of financial statements detected by SEC. This mean is based on the data in Table 1 above.

Table 3 outlines the important attributes of the data. It indicates that the mean for the number of cases of financial statements misstatement/manipulation detected by SEC is 25.13 or approximately 25.

The mean calculated and presented on Table 3 has been derived from the data on Table 1. It indicates that for the period 2003 to 2010, the SEC was able to detect an average of 25 cases of misstatement/manipulation of financial statements by companies in Nigeria.

The standard error of the mean is 3.487 or approximately 4. The standard error is the estimated standard deviation of the mean. This indicates the variation or spread in the data, in other words, the mean of 25 cases above has a possible deviation of either plus or minus 4.

The result of a mean of 25 indicates that the SEC was able to detect an average of 25 cases of misstatement of financial statement by companies in Nigeria. For these cases of detected, sanctions were applied via the imposition of fines and the companies made to take corrective actions, thus preventing/deterring false financial reporting by companies in Nigeria. The next tools of analyses employed are visual representations made up of a bar chart, a pie chart, and a time series plot.

Bar chart

Below is the bar chart that gives a visual display of the frequency of the number of cases of financial statements misstatement/manipulations detected by SEC.

The bar chart in Figure 1 above is constructed from the data on Table 1. It indicates that the number of cases of financial statement misstatement /manipulation detected by SEC does not follow any particular pattern. The number of cases increased and decreased from one year to the other.

Pie chart

Below is the pie chart that gives a visual display of the frequency of the number of cases of misstatement/manipulation of financial statements detected by SEC.

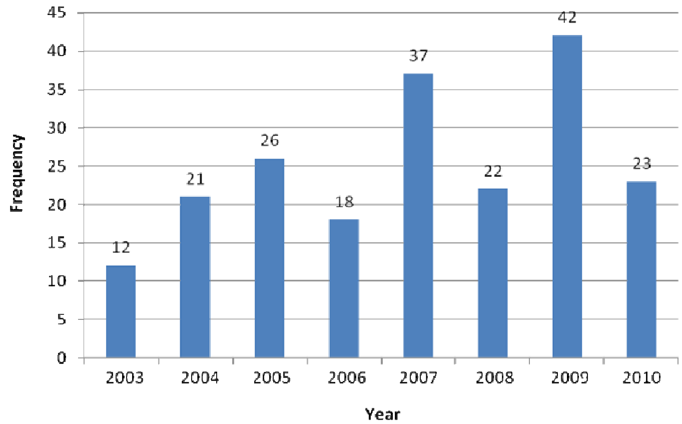

Figure 1. Number of Cases of Misstatement/Manipulation of Financial Statements Detected by SEC, 2003-2010

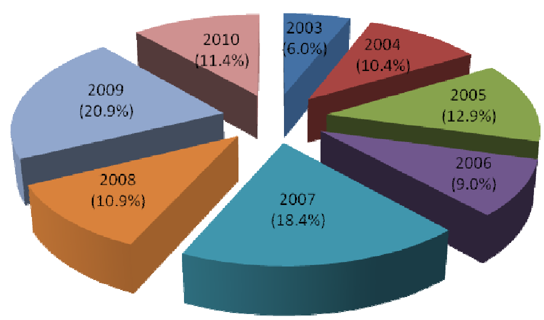

Figure 2. Number of Cases of Misstatemet/Manipulation of Financial Statements Detected by SEC, 2003-2010

The pie chart in figures 2 is based on the data in Table 1. It shows that the number of cases of misstatement/manipulation of financial statements detected by SEC does not follow any particular pattern or sequence, in the sense that the numbers are irregular, as they increased and decreased from year on year.

Time series plot

Below is a time series plot of the number of cases of misstatement/manipulation of financial statements detected by SEC from 2003 to 2010.

The time series plot in Figure 3 above is based on the data in Table 1 and it shows that the number of cases of misstatement/manipulation of financial statements detected by SEC does not follow any particular pattern or sequence. Specifically the number of cases detected is irregular, as they increased and decreased from year to year. For example, while between 2003 and 2005 they were on the increase, the numbers decreased in 2006 and increased again in 2007. The number of cases of misstatement/manipulation of financial statements decreased in 2008, increased in 2009, and decreased in 2010.

The results obtained from the analyses in Tables 1 and 2 and Figures 1, 2 and 3 are summarised underneath:

The SEC was able to detect during the study period an average of 25 cases of financial statements misstatement/manipulation by companies in Nigeria annually.

For those cases detected, sanctions were imposed mainly via the imposition of fines and the companies were forced to take corrective actions, thus preventing/deterring the misstatements/manipulations.

The number of cases of misrepresentation or fraudulent financial reporting detected by SEC was rather low.

The number of cases of financial statement misstatements/manipulations detected by SEC is irregular and follows a zig-zag pattern. The numbers

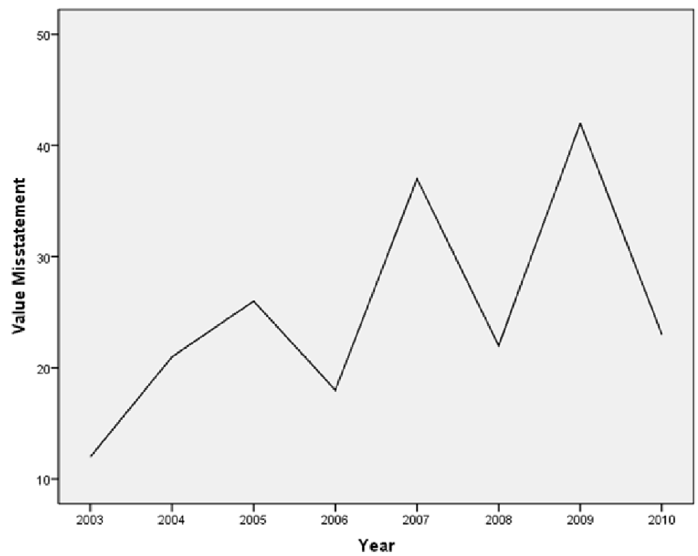

Figure 3. Number of Cases of Misstatement/Manipulation of Financial Statements Detected by SEC

increase and decrease from one year to the other.

The result emanating from the analyses of data led to the inference that SEC was able to detect some cases of misstatement/manipulation of financial statements and it was effective to the extent of having detected a mean of 25 cases of misstatement / manipulation of financial statements annually. In other words, SEC was effective in detecting an average of 25 cases of financial statements misstatement/manipulation annually in Nigeria and consequently prevented them.

However, a key inference from the analyses in Table 2 and Figures 1, 2 and 3 is that the number of cases of financial statement misstatements/manipulations detected by SEC follows a yoyo pattern, meaning that the trend is zig-zag in form. On a general note, it may be concluded from the tenor of the results that the SEC as an regulatory frameworks responsible for preventing misstatements/manipulation of financial statements in Nigeria has, to a certain extent, been living up to its responsibilities in enforcing accounting rules to the extent that it could detect some cases of misstatements/manipulation of financial statements. SEC having detected an annual mean of 25 cases of financial statements misstatement/manipulation during the study period is an indication of the extent and capacity of the regulatory institution to prevent misstatements/manipulation of financial statements annually in Nigeria.

The inference was made earlier regarding the number of cases of financial statement misstatements/manipulations detected by SEC as being irregular and not following any discernable pattern. This may be as a result of the fact that since the number of cases of financial statements misstatements/manipulations detected by SEC was rather few, it has not had the desired effect of constraining the companies to be more careful in financial reporting and consequently the numbers of cases follow this observed yoyo trend. As pointed out by Marston and Shrives (1996), with absent and inadequate enforcement, even the best accounting standard or rule will be inconsequential. If nobody takes action when rules are breached, these rules remain no more than mere requirements on paper. In some environments, firms behave towards mandatory requirement as if they were voluntary. It is likely that if the number of cases of misstatement/manipulation of financial statements detected by SEC were higher, it would have had the desired effect of making firms to sit up and be more careful in order to avoid the punitive sanctions that would be meted out on them and consequently there would have been a declining trend in the number of cases detected.

The implication of this is that SEC has to be proactive in checking fraudulent financial reporting. In lending support to this position, Catanach, and Rhoades-Catanach (2005) state that, the extent to which the regulatory agencies are proactive in trying to ensure compliance with rules will go a long way in checking fraudulent financial reporting.

CONCLUSION

The regulatory frameworks for the prevention of financial statements misstatement/manipulation provided by SEC, consists of its operations through its Financial Standards and Corporate Governance Department. SEC had detected some cases of misstatement/manipulation of financial statements and it was effective to the extent of having detected a mean of 25 cases of financial statement misstatement/ manipulation in Nigeria annually for the study period thus prevented /deterred them. The regulatory agency has been reluctant in applying the full force of the law in the enforcement of accounting rules in Nigeria.

REFERENCES

Angahar PA (2011). An Evaluation of Regulatory Frameworks for Enforcement of Accounting Standards in Nigeria. A Ph.D (Accounting and Finance) thesis submitted to the Postgraduate School, Benue State University, Makurdi.

Beneish M (1997) “Detecting GAAP Violation: Implications for Assessing Earnings Management among Firms with Extreme performance” in Catchnach Jr A.H. and Catanach, R. Enron: A Financial Reporting Failure? *Villanova Law Review*. 48(4): 1057.

Catchnach Jr, AH, Catanach R, Enron (2003). A Financial Reporting Failure? *Villanova Law Review*. 48(4): 1059.

Chasteen LG, Flaherty RE, Connor MC (1995). *Intermediate Accounting. (5th ed.)*. New York: McGraw Hill Inc.

Copeland Jr JE (2005). “Ethics as an Imperative”. *Accounting Horizons.* 19(1): 35, 39.

Federal Government of Nigeria (1999). Investment and Securities Act, I999. Lagos: Federal Government Press.

Hope O (2002). “Disclosure Practices, Enforcement of Accounting Standards and Analysts Forecast Accuracy: An International Study” *Journal of Accounting Research* Conference, 2002.

Ighomwenghian K (2008, February 7). Account falsification. NSE Suspends Trading in Nampak Shares. *Daily Independent*. P.C. 2.

Jiang C (2006). “Optimism Vs Big Bath Accounting- A Regulatory Dilemma in Chinese Financial Reporting Practices.” *Working Paper Series. Social Science Research Network. University of New England.* New England Business School.

Jiang C (2006). “Optimism Vs Big Bath Accounting- A Regulatory Dilemma in Chinese Financial Reporting Practices.” *Working Paper Series. Social Science Research Network. University of New England.* New England Business School.

Kothari SP (2000). “The Role of Financial Reporting in Reducing Financial Risk in the Market” in Rosengren E.S. and Jordan J.S. (eds), Building an infrastructure for financial stability. Federal Reserve Bank of Boston Conference Series No 44, June 2000:89-112.

Malford C, Comiskey E (2002). “The Financial Numbers Games: Detecting Creative Accounting Practices” In Catanach Jr. A.H. and Catanach, R. Enron: A Financial Reporting Failure? *Villanova Law Review*. 48(4): 1059.

Marston C, Shrives P (1996). "A Review of Empirical Research into Financial Disclosure." Working paper, University of North Umbria at Newcastle.

Most KS (1977). *Accounting Theory*. Columbus Ohio: Grid Inc.

Onu E (2007, March 4). “Akintola Williams Deloitte: Battling Confidence Crisis”. *Daily Independent*. P C1.

Riahi-Belkaoui (2000). *Accounting Theory.* London: Thomson Learning.

Securities and Exchange Commission (2000). SEC Rules and Regulations. Retrieved September 20th 2011from www.sec.gov.ng.

Spiceland JD, Sepe JF, Tomassini LA (2001). *Intermediate Accounting.* Boston M.A: Irwin-McGraw Hill.

Sulton MH (2002). “Financial Reporting at a Cross Roads”. *Accounting Horizons*. 16(4): 319-320, 325.