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Auditor's Independence and Corporate Fraud

Pade Aderibigbe

*Department of Management and Accounting, Obafemi Awolowo University,
Ile-Ife, Nigeria*

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ABSTRACT This paper discusses some aspects of the independence of external auditor and corporate fraud. The author examines the adequacy of auditor's independence and determines whether or not inadequacy of auditor's independence is responsible for corporate fraud. Carty (1991: 60) said: "Fraud has rarely been out of the headlines recently: Guinness, Dunsdale Securities, Nicholas Young and now the daddy of them all, BCCI"; and he continued, "fraud of every kind is on the increase. Over 90% of major fraud cases are dealt with by the Fraud Investigation Group (FIG) of the Crown Prosecution Service. Fraud Investigation Group's work load is approaching 900 fraud cases and increasing". In a descriptive manner, however, the paper examines: (a) qualities required of professional external auditors; (b) auditor's independence - statutory regulations; (c) regulatory bodies such as Institute of Chartered Accountants in England and Wales (ICAEW); Institute of Chartered Accountants of Nigeria (ICAN); American Institute of Certified Public Accountants (AICPA); and Chartered Association of Certified Accountants (CACA), with their ethical guidelines on auditor's independence; and deficiencies in the present practice. A few suggestions are finally put forward which, if accepted, would improve the performance of auditors and make corporate fraudsters to think twice before making any move.

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