

Bridging Audit Expectation Gap in Nigerian Deposit Money Banks through the Application of Forensic Audit Techniques

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Abstract

There is a gap between the expectations of end users of audited financial statements of deposit money banks and the quality of audit reports produced by statutory auditors. This study evaluated the application of forensic audit techniques as an effective strategy for bridging this expectation gap. Survey research design was employed; questionnaires were distributed to 4 different groups of respondents residing in Abuja namely: staff of Federal Inland Revenue Service, potential investors in selected deposit money banks' shares, shareholders of the selected deposit money banks and representatives of corporate customers of the selected deposit money banks with head-office in Abuja. Guaranty Trust Bank Plc, Zenith Bank Plc, First Bank of Nigeria Plc, Union Bank of Nigeria Plc and Diamond Bank Plc were selected for this study in Abuja, Nigeria. Judgmental sampling technique was used to determine a sample size of 80 from the aggregate population. Analysis of Variance (ANOVA) was used in analyzing the data collected. The results from all the hypotheses tested confirmed that the inclusion of forensic audit techniques (investigative, financial, regulatory and value for money) as integral part of the statutory audit process can significantly reduce the expectation gap between the quality of statutory audit reports and end users' expectations of deposit money banks audited financial statements.

Keywords: Audit expectation gap; Forensic audit; Statutory audit; Fraud prevention.



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1. Introduction

The word forensic means 'suitable in the court of law'. Therefore, any process that is forensic in nature is not only sound but can also stand the test of integrity as the penalty for presenting false information before the law court (perjury) is jail sentence. In simple terms, forensic audit is the conduct of investigations with the aim of discovering the culprits behind a fraudulent action. The primary objective of forensic audit is to ascertain if business value has been reflected on the financial statements and to escalate fraudulent activities discovered in the course of the audit (Vasudevan, 2004). According to Vasudevan (2004), the components of forensic audit include value for money audit (VFM), regulatory audit, financial audit and investigative audit.

Audit expectation gap is the difference in the views of statutory auditors and end users of statutory audit reports as regards the information the audit reports should contain, while forensic audit techniques are the tools used by forensic auditors during their audit process. The conventional statutory auditors of deposit money banks approach audit with the perception of expressing an opinion as to whether the books of account agree with the financial statements prepared by management, this obviously is inadequate to meet the expectations of end users (expectation gap) who expect the auditors' reports to serve as assurance that all that needed to be known about the operations of deposit money banks have been disclosed.

Forensic audit on the other hand goes further to examine the books of account for evidence of any possible fraud as well as the inspection of internal control system to detect weaknesses that could encourage the perpetration of fraud. Previous studies had focused on audit expectation gap as a challenge without necessarily proffering solutions to the problem, furthermore, very few authors had written on the topic in Nigeria without sufficiently addressing how forensic audit techniques can be used in bridging audit expectation gap. This study aimed at recommending an upgrade through the introduction of forensic audit techniques into the statutory audit process in order to reduce significantly, the audit expectation gap between statutory audit reports and end users' expectations.

The specific objectives of this study were to: (i) determine whether forensic audit techniques can significantly promote the level of reliance placed by tax authorities on audited financial statements of deposit money banks in computing tax liabilities.(ii) establish whether forensic audit techniques can significantly increase the level of reliance placed on audited financial statements of deposit money banks by potential investors in deposit money banks' shares (iii) ascertain whether forensic audit techniques can significantly improve the degree of reliability placed on audited financial statements of deposit money banks by shareholders in taking decisions on their shareholding. (iv) prove whether forensic audit techniques can significantly enhance the level of reliability placed on audited financial statements of deposit money banks by corporate customers in taking business decisions. (v) ascertain if the inclusion of forensic audit techniques as integral part of the statutory audit process can significantly

bridge the expectation gap between the quality of statutory audit reports and end users' expectations of deposit money banks audited financial statements.

2. Review of Related Literature

2.1. Conceptual Review

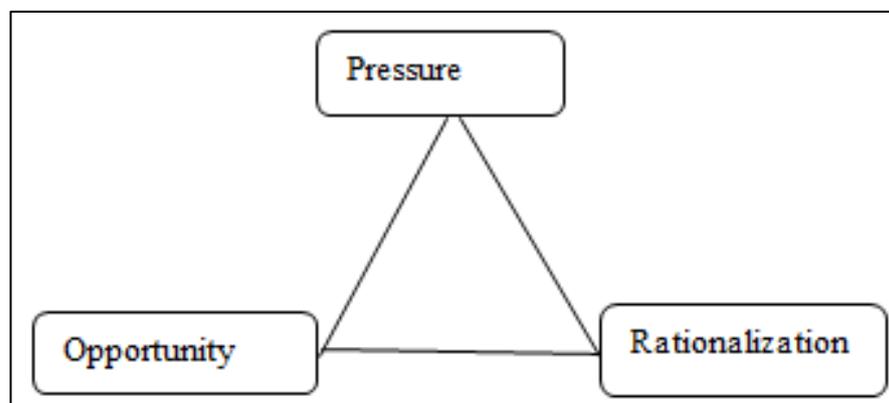
According to Low (1980), the extent of auditors' detection and disclosure responsibilities concerning errors, irregularities and illegal acts as perceived by auditors and non-auditors are in divergent directions, when investigated, it was found that both groups differed significantly in their perceptions of the extent of auditors' detection and disclosure responsibilities and that expectation gap existed between the two groups. Humprey (1993) examined the expectation gap by ascertaining the perceptions of individuals of audit expectations issues through the use of questionnaire survey comprising a series of mini cases, the respondents included chartered accountants in public practice, corporate finance directors, investments analysts, bank lending officers and financial journalists.

There is always a gap between the expectations of end users of the audit reports of deposit money banks and what the auditors believe are their duties. A major reason for this disagreement in opinion is the protection clause provided by the statutory audit process which gives the impression that the primary function of the statutory auditor is not to detect fraud and errors but to express an opinion as to whether the books of accounts agree with the financial statements prepared by management, the detection of fraud and errors are perceived as secondary functions of statutory auditors. Meanwhile, end users of Audit reports of deposit money banks would ordinarily see the auditors' report as an assurance that all that needed to be known about the accounts audited have been disclosed in the report. An end user therefore becomes disappointed if the auditor is unable to disclose material facts about the accounts audited. Various school of thoughts have made attempts in the time past to put forward suggestions on how this gap could be bridged but rather than the gap getting narrower, the reverse has been the case.

2.2. Theoretical Review

The idea of Cressey (1953) about fraudulent activities is that people always commit fraud for a reason, he was bothered about a frequently asked question, why do people commit fraud? This prompted him to embark on a research and his focus was to find out why people decide to breach the trust others have in them. The research took him five months and he was able to interview 250 criminals within this period and their character met two conditions (i) people tend to initially accept the responsibility of being trustworthy in good faith (ii) situations often make them change their minds. He was able to identify three factors that make people commit fraud which are (i) pressure (ii) opportunity and (iii) rationalization. These three factors are represented in a diagram below:

2.3. Fraud Triangle Theory



Source: Cressey (1953)

Pressure to meet a pressing financial obligation if not properly managed could lead to fraud, a man who earns very little and has a long list of obligations to meet may be coerced to mortgage his integrity in order to make extra income to meet his needs. Opportunity comes second in Cressey's list of likely causes of fraud under the fraud triangle theory. Fraudulent minds always look for loopholes in the system to perpetuate their fraudulent activities without being noticed.

Realization ranks third in Cressey's list of likely causes of fraud under the fraud triangle theory. This refers to every frantic effort made by a criminal to justify his unethical conduct. Every criminal has a conscience that always prick him or her when a wrongful act is committed, therefore, for a fraud to be committed unhindered, a fraudster would need to first of all be able to rationalize his actions before embarking on a fraudulent activity, a man would not get involved in a fraud if he cannot justify his actions.

2.4. Empirical Review

Recent empirical studies in the field of accounting has pointed accusing figures to accountants in Nigeria mainly members of the Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN) as being responsible for the crisis in the banking sector (Okike, 2004). These studies show that the

regulatory framework in Nigeria is weak because members of audit firms implicated in a number of anti-social practices in Nigeria were hardly sanctioned (Okike, 2004).

Otusanya and Lauwo (2010), argued that the deposit monetization of audit whereby auditors depend on directors for their fees may result in auditors being unable to maintain a sufficient distance and unable to deliver independent audits. Auditors may also develop strategies that maximize audit profits, possibly by performing less stringent audit by developing strategies which increases private profits but reduce quality. The public is convinced to believe that auditors collect relevant and reliable evidence in order to form their opinion but the reality is that in their pursuit of profits, auditors do not always bother with such facts.

A former Central Bank Governor, Malam Sanusi Lamido delivered a lecture titled “the Nigerian Banking Industry: what went wrong and the way forward” at a convocation ceremony of Bayero University Kano on Friday 26th February, 2010 where he made some remarks, “Nigerian banks did not fail, they were destroyed and brought to their knees by acts committed by identifiable people, do not say government money has been stolen but rather name the thief and in keeping with this tradition, we did not say that our banks had failed but we named the human beings (management of the banks) that stole money in the name of borrowing, the gamblers that took depositors money to speculate at the stock market and manipulated share prices, the billionaires and captains of industry whose wealth actually was money belonging to the poor which they borrowed and refused to pay back”. These comments by this great figure in the financial industry actually suggests that auditors cannot be exonerated from the collapse of these banks as most of them (the banks) got unqualified audit reports that certified huge profits in billions of naira shortly before their collapse.

Mallam Sanusi Lamido actually handled the situation with an iron hand, most of the banks’ executives involved in these financial scandals were jailed as a result of their recklessness in the management of depositors’ funds. It is envisaged that if the audit profession is to survive at the long run, remedies are desperately needed to restore the image of the auditing profession as a credible, independent, objective professional evaluator of financial transactions and reports.

Porter (1993), argues that expectations could only be regarded as reasonable if these expectations are compatible with the auditors’ role in the society and are cost beneficial for auditors to perform. The findings of the interview show that unreasonable expectations are due to a combination of factors such as users misunderstanding and being unaware of the duties and responsibilities of auditors, the misinterpretation of the objective of audit and exaggerated expectations on the part of users of auditors’ report. It was found that unreasonable expectations are more pronounced among the general public than among financially competent and highly educated management, particularly in the accounting field. The auditors among the interviewees were of the opinion that the public generally assumes that the auditors are accountants, policemen and all round financial safety experts who are supposed to protect their investment interest.

In Nigeria, it has been noted that weak moral standards on the part of some auditors may have accounted for some audit failures in the financial sector of the economy. Okafor (2009), lamented that lack of whistle blowing culture in Nigeria by auditors may be as a result of fear of unknown consequences that may result in loss of the audit engagement or threat to life.

3. Methodology

The focus here was the use of appropriate statistical tools to assess the extent to which the introduction of forensic audit techniques can assist in bridging the audit expectation gap between deposit money banks’ audit reports and end users’ expectations. To achieve this objective, samples were drawn from the general public which was narrowed down to 4 specific groups namely: (i) Staff of Federal Inland Revenue Service in Abuja. (ii) Potential investors in deposit money banks’ shares resident in Abuja. (iii) Shareholders of deposit money banks in Abuja (iv) Corporate customers with head-office in Abuja. Questionnaires were used to gather the opinions of respondents.

Survey research design was employed in achieving our aim. This suits our purpose and is appropriate for this study as it is advantageous where a small sample is derived from a large population, respondents were chosen from Abuja, Federal Capital Territory, Nigeria. There were 30 closed questions answered by respondents. Judgmental sampling technique was used to draw 20 respondents from each of the four groups of users identified for this study, bringing the aggregate sample size to 80

3.1. Model Development

Models are employed to simplify most of the concepts being dealt with in carrying out a research. They describe the conceptual structure closely enough to give a better understanding of a phenomenon. Qualitative model was used to simplify the techniques of bridging audit expectation gap in Nigerian deposit money banks. Georgine (2001) used a qualitative model in her study on Analysis of Entrepreneurial Environment and Enterprise Development in Hungary published in the Journal of Small Business Management Volume 29 Issue 1 pages 103 -109. Okafor (2008) adapted the qualitative model of Georgine Fogel in her study on Assessing Environmental Conditions for Entrepreneurship in Nigeria published in the Journal of Banking, Finance and Development volume 2 number 2 pages 4-59

Below was the qualitative model developed for bridging audit expectation gap in Nigerian deposit money banks:

$$BAEGDMB = \Sigma(IA + FA + VMA + RA)$$

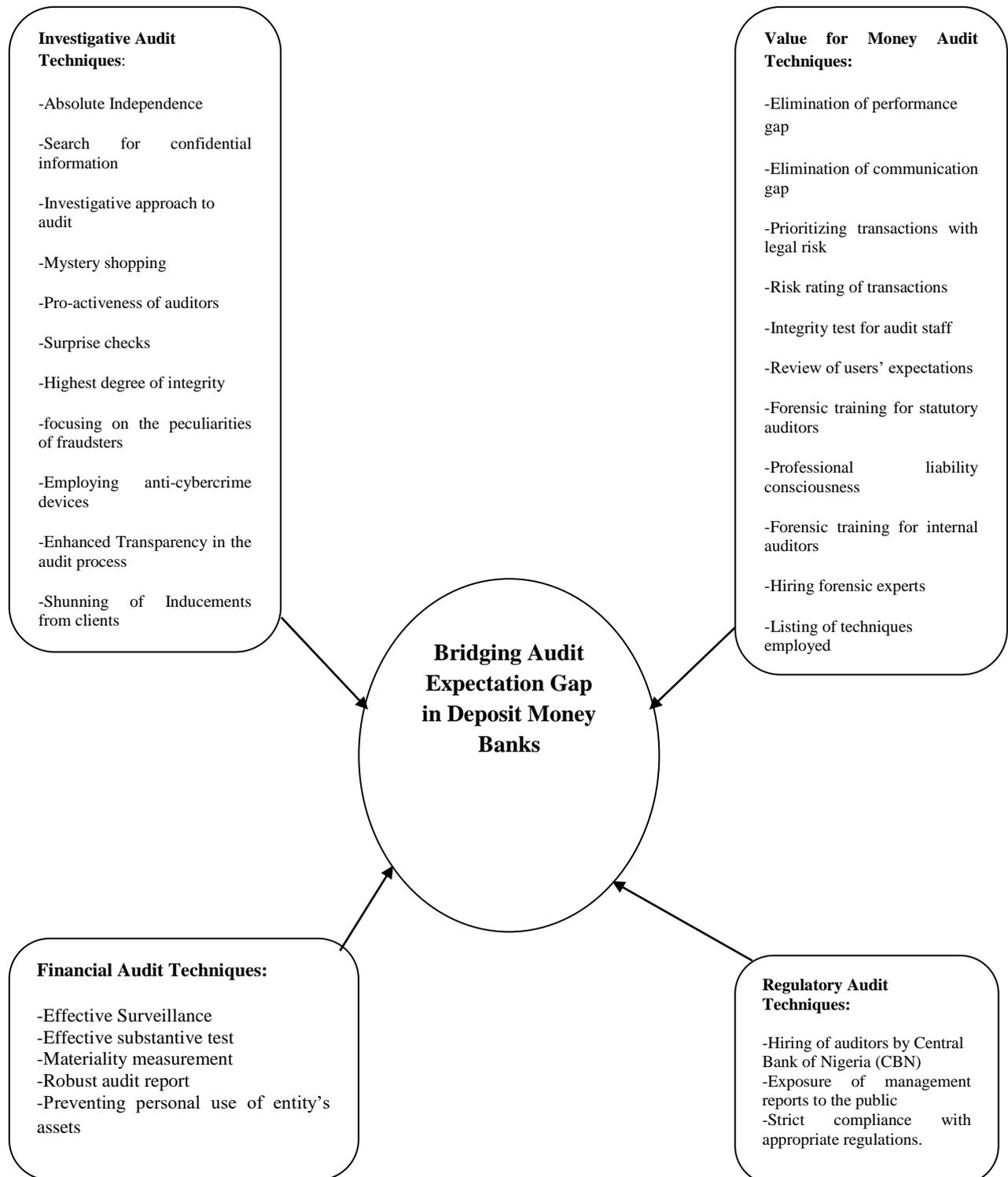
Bridging Audit Expectation Gap in Deposit Money Banks (BAEGDMB) required input from a combination of Investigative Audit, Financial Audit, Value for Money Audit and Regulatory Audit (IA, FA, VMA, RA) to produce the desired output. Bridging Audit Expectation Gap in Deposit money Banks (BAEGDMB) was the dependent

variable in this study while Investigative Audit, Financial Audit, Value for Money Audit and Regulatory Audit (IA, FA, VMA, RA) were the independent variables. The dependent variable relies on the independent variables to produce results, therefore, the level of successful application of the independent variables will determine the success level of the dependent variable.

The diagram below depicted the qualitative model above for bridging audit expectation gap in Nigerian deposit money banks through the application of forensic audit techniques. The main independent variables and their sub variables were represented.

The arrows pointing at the dependent variable indicated that the independent variables affect the dependent variable.

Figure 3.1. Diagrammatic Representation of the Model



Source: Developed by Iriemi (2018), garnered from Model on bridging audit expectation gap in Nigerian deposit money banks

4. Data Presentation and Analysis

Questionnaire Administration Table

Sections of Questionnaire	Total Questionnaires Administered	Total Valid Questionnaires Completed and Returned	Total Invalid Questionnaires Completed and Returned	Questionnaires not returned
Staff of Federal Inland Revenue Service in Abuja	20	16	0	4
Potential investors of deposit money banks' shares	20	14	2	4
Shareholders of deposit money banks	20	15	1	4
Representatives of corporate customers with head-office in Abuja	20	17	0	3
Total	80	62	3	15
%	100%	77.50%	3.75%	18.75%

Source: Survey Data

From the table above, 77.50% of respondents duly completed and returned the questionnaires while 3.75% of the questionnaires were found to be invalid and 18.75% of the questionnaires were not returned.

4.1. Test of Hypotheses

The hypotheses were tested with Analysis of Variance (ANOVA) given by the formula

$$f = \sqrt{\frac{\sum_{i=1}^k p_i * (\mu_i - \mu)^2}{\sigma^2}}$$

where $p_i = n_i / N$,
 n_i = number of observations in group i
 N = total number of observations
 μ_i = mean of group i
 μ = grand mean
 σ^2 = error variance within groups

Ho₁

This was stated as “forensic audit techniques (investigative, financial, regulatory and value for money) cannot significantly promote the level of reliance placed by tax authorities on audited financial statements of deposit money banks in computing tax liabilities”. This was tested with ANOVA

(Summary of Data for Hypothesis 1)

	1	2	Total
N	5	5	10
$\Sigma\chi$	16	16	32
Mean	3.2	3.2	3.2
$\Sigma\chi^2$	60	52	112
Std. Dev.	0	0.4472	0.5164

(Result Details for Hypothesis 1)

Source	SS	df	MS	
Between-treatments	1.6	1	1.6	$f=16$
Within-treatments	0.8	8	0.1	$p\text{-value}=0.01613$
Total	0.596	9		

f -ratio is 16, the result is significant at $p\text{-value}<0.05$

Source: Survey Data

4.1.1. Result

Since f -ratio of 16 is significant at $p\text{-value} < 0.05$, the null hypothesis stated as “forensic audit techniques (investigative, financial, regulatory and value for money) cannot significantly promote the level of reliance placed by tax authorities on audited financial statements of deposit money banks in computing tax liabilities” stands rejected.

Ho₂

This was stated as “forensic audit techniques (investigative, financial, regulatory and value for money) cannot significantly increase the level of reliance placed on audited financial statements of deposit money banks by potential investors in deposit money banks’ shares” This was tested with the use of ANOVA.

(Summary of Data for Hypothesis 2)

	1	2	Total
N	5	5	10
$\Sigma\chi$	14	14	28
Mean	2.8	2.8	2.8
$\Sigma\chi^2$	66	42	108
Std. Dev.	0	0.8367	0.8433

(Result Details for Hypothesis 2)

Source	SS	df	MS	
Between-treatments	3.6	1	3.6	$f=10.28571$
Within-treatments	2.8	8	0.35	$p\text{-value}=0.032678$
Total	6.4	9		

f -ratio is 10.28571, the result is significant at $p\text{-value}<0.05$

Source: Survey Data

4.1.2. Result

Since f -ratio of 10.28571 is significant at $p\text{-value} < 0.05$, the null hypothesis stated as “forensic audit techniques (investigative, financial, regulatory and value for money) cannot significantly increase the level of reliance placed on audited financial statements of deposit money banks by potential investors in deposit money banks’ shares” stands rejected.

Ho₃

This was stated as “forensic audit techniques (investigative, financial, regulatory and value for money) cannot significantly improve the degree of reliability placed on audited financial statements of deposit money banks by shareholders in taking decisions on their shareholding.” This was tested with the use of ANOVA.

(Summary of Data for Hypothesis 3)

	1	2	Total
N	5	5	10
$\Sigma\chi$	15	15	30
Mean	3	3	3
$\Sigma\chi^2$	58	47	105
Std. Dev.	0	0.7071	0.7071

(Result Details for Hypothesis 3)

Source	SS	df	MS	
Between-treatments	2.5	1	2.5	$f=10$
Within-treatments	2	8	0.25	$p\text{-value}=0.034109$
Total	4.5	9		

f -ratio is 10, the result is significant at $p\text{-value}<0.05$

Source: Survey Data

4.1.3. Result

Since f -ratio of 10 is significant at $p\text{-value} < 0.05$, the null hypothesis stated as “forensic audit techniques (investigative, financial, regulatory and value for money) cannot significantly improve the degree of reliability placed on audited financial statements of deposit money banks by shareholders in taking decisions on their shareholding.” stands rejected.

Ho₄

This was stated as “forensic audit techniques (investigative, financial, regulatory and value for money) cannot significantly improve the degree of reliability placed on audited financial statements of deposit money banks by corporate customers in taking business decisions.” ANOVA was used in testing this hypothesis.

(Summary of Data for Hypothesis 4)

	1	2	Total
N	5	5	10
$\Sigma\chi$	17	17	34
Mean	3.4	3.4	3.4
$\Sigma\chi^2$	64	58.5	122.5
Std. Dev.	0	0.4183	0.4216

(Result Details for Hypothesis 4)

Source	SS	df	MS	
Between-treatments	0.9	1	0.9	$f=10.28571$
Within-treatments	0.7	8	0.0875	$p\text{-value} =0.032678$
Total	1.6	9		

f -ratio is 10.28571, the result is significant at $p\text{-value}<0.05$

Source: Survey Data

4.1.4. Result

Since f -ratio of 10.28571 is significant at $p\text{-value} < 0.05$, the null hypothesis stated as “forensic audit techniques (investigative, financial, regulatory and value for money) cannot significantly improve the degree of reliability placed on audited financial statements of deposit money banks by corporate customers in taking business decisions.” stands rejected.

H₀₅

This was stated as “the inclusion of forensic audit techniques (investigative, financial, regulatory and value for money) as integral part of the statutory audit process cannot significantly reduce the expectation gap between the quality of statutory audit reports and end users’ expectations of deposit money banks audited financial statements.” ANOVA was used in testing this hypothesis.

(Summary of Data for Hypothesis 5)

	1	2	Total
N	5	5	10
$\Sigma\chi$	62	62	124
Mean	12.4	12.4	12.4
$\Sigma\chi^2$	822	786	1608
Std. Dev.	0	2.0736	2.3476

(Result Details for Hypothesis 5)

Source	SS	df	MS	
Between-treatments	32.4	1	32.4	$f=15.06977$
Within-treatments	17.2	8	2.15	$p\text{-value} =0.004662$
Total	49.6	9		

f -ratio is 15.06977, the result is significant at $p\text{-value}<0.05$

Source: Survey Data

4.1.5. Result

Since f -ratio of 15.06977 is significant at $p\text{-value} < 0.05$, the null hypothesis stated as “the inclusion of forensic audit techniques (investigative, financial, regulatory and value for money) as integral part of the statutory audit process cannot significantly reduce the expectation gap between the quality of statutory audit reports and end users’ expectations of deposit money banks audited financial statements.” stands rejected.

5. Conclusion

The following conclusions were reached by the researcher on this study:

- Stakeholders (Government, Regulatory bodies, Professional bodies, Audit firms and Management of Banks) need to be proactive in finding ways of introducing forensic audit techniques as tools for bridging audit expectation gaps between end users and the quality of audit reports produced for deposit money banks in Nigeria.
- Adequate awareness on the proper application of forensic audit techniques should be created among auditors
- A shift from the conventional way of auditing is needed to bridge the audit gaps between users’ expectations and the output from audit reports.

- d) Statutory auditors need to always update their knowledge base by attending courses overseas to enable them meet up with the current challenges of the profession
- e) There is the need for statutory auditors to equally take up professional indemnity insurance to settle claims under “negligence”, should they occur.
- f) Statutory auditors should try to bridge the expectation gap between the profession and the end users of statutory audit report by sponsoring awareness campaigns of the shift from the normal pattern of auditing to a more sophisticated one that can match the needs of these users.
- g) There is need for more sensitization from the Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN) being the regulatory bodies for statutory auditors to the general public on the basic usefulness of statutory audit reports.

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