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The Narrowing Audit Expectation Gap, Fraud Detection Complexities and the Imperative of Forensic Accounting Practice in Nigeria

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Abstract
This study examined the narrowing audit expectation gap and its implication on forensic accounting practice in Nigeria. The study relied on relevant literature and identified widening responsibility of the auditor by the professional audit standards and the Financial Reporting Council of Nigeria (FRCN) Act, 2011 on auditors' responsibility for fraud detection and disclosure as factors contributing to the narrowing audit expectation gap while also positing that this narrowing gap combined with the growing complexity and intractable nature of computer aided corporate frauds and financial crimes, have made traditional investigative skills of the 21st century Nigerian auditors inadequate thus making it imperative for them to 'retool' their skills in forensic accounting. The study recommends a review of the accounting and auditing curricula of educational and professional bodies to incorporate forensic accounting, which should also be offered at post-graduate levels in Nigerian Universities. It also recommends that the Nigerian principal regulatory statute for corporate auditing and financial reporting , CAMA, be reviewed to make for a well articulated and definitive provision on auditors' responsibility for fraud detection that will align with the current position of the international auditing standards.
Keywords: Narrowing audit expectation gap; Forensic accounting practice; Traditional investigative skills; corporate frauds; forensic accounting methodology

1. Introduction

In the ever-expanding investment driven world that is characterized by globalization of trade and business, people and organizations need accurate and reliable financial information to make rational financial decisions. The primary source of financial information for economic decisions is the periodic financial accounting statements that are usually prepared by accountants, approved by organisation's management, audited and reported upon by auditors. Auditors remain the principal regulator many hold solely responsible for fraud detection and disclosure, (Johnson, 2004)

Following the spate of corporate collapse of world class organisations (notably Enron and Pamalat) in the US, the recent global financial crisis that was characterized by bank failures, distresses and foreclosures epidemics that started in the US in late 2006 combined with the incidents of bank failures and distresses in the late 1990's and 2009 in Nigeria, the public, based on their understanding and expectations of the responsibilities of auditors have held them culpable for failing to raise going concern flags to forewarn interested public,(Hoogersvorst , 2009; Bakre, 2009; Gafar 2007). By expert opinion, there is clear market (investing public) expectation that auditors are 'blood hounds' but not just watch dogs-implying that auditors are expected to pick up instances of fraud (Lucy, 2004

The spate of audit failures over the years and the growing recognition by professional audit standards of the need for auditors to intensify efforts at detecting material defalcations and errors if they exist, together with the widening horizon and complexity of 'hard- to- detect' internet and computer aided fraud has brought to the auditors of the 21st century , the serious need to embrace new investigative methods for them to cope with the growing fraud detection and disclosure responsibilities .

This paper relied on relevant literature in the critical examination of the challenges from the narrowing audit expectation gap through incisive discussion and review of the concepts and issues: the concept of fraud, the consequences of undetected fraud, the distinction between traditional auditors, fraud examiners and forensic accountants, the narrowing audit expectation gap, conclusion and recommendations.

2. Concept of Fraud

In its broadest sense, the term fraud can be defined as the deliberate misstatements of facts and or falsification of information with a view to obtaining undue or illegal financial advantage. Fraud is a creation of a misjudgment or maintenance of an existing misjudgment in order to induce somebody into a making a contract (Arzova, 2003). Fraud is most likely to involve deliberate misrepresentation of information that is recorded and reported by an entity. Fraud poses a serious problem from an audit perspective because it is normally accompanied by efforts to cover , falsify or misdirect organisation's records and reports. Fraud can be broadly categorized into two, viz: corporate fraud and personal/employee. Personal fraud which is aimed at facilitating personal use of business resources commonly known as employee fraud and fraudulent financial reporting by management (Bozkurt, 2003).

Corporate fraud is an aspect of fraud that has received considerable attention in the wake of major corporate failures. Management of companies, comprising of the directors and other categories of top management are usually at the centre stage of corporate fraud. Management fraud often manifests in creative accounting and fraudulent financial reporting whose combined effect is to produce false and misleading reports to deceive and cheat its users for personal gains (Gosh, 2010; Sherliza, 2005; ISA, 240). Most corporate frauds are complex in nature and not within easy detection by traditional auditors as they cannot obtain absolute assurance of their detection because of their "use of judgment , sample testing and the fact that evidences available to them are persuasive rather than conclusive in nature" (ISA,2009 p.15).

In modern times, fraud has grown in complexity into what is now popularly known as financial crimes and corruption. Financial crimes and corruption which include such fraudulent acts as embezzlement, bribery, security fraud have become so serious as to emerge on the scale of preference in Nigeria. Unfortunately however, the traditional / statutory auditor has been constrained both by the relevant statutes and their limited investigative skills resulting in their failure to detect most of complex frauds.

3. Consequences of undetected Fraud: Nigerian's perspective.

Financial accounting statements or reports are expected by various users to be reliable and relevant for making informed economic decisions, particularly in the prediction of the future (prospects or failure) of an organization. There has been an upsurge in corporate failure, resulting in colossal financial losses by investors and other users who relied on the deliberately manipulated accounts of the companies, experiences shared by Nigeria as well.

Nigeria has its own fair share of the consequence of window-dressed financial statements that were creatively crafted by accountants to reflect false and exaggerated position of the company's assets in order to deceive unsuspecting investors. From the middle of 1980 up to 1991, the banking and other financial services sector experienced unprecedented boom, characterized by posted superfluous profit and abnormal high returns on investor's funds.

The eventual collapse of these banks are far from being accidental, as it resulted from cracks of mismanagement that was built up over the years, but craftily covered up through creative accounting devices, hence were never reflected in the audited financial reports of the banks. It has been argued that the history of lingering banking crisis in Nigeria poses doubts and questions about the value and purpose of external audits, (Otusanya, and Lauwo, 2010; Neu and Wright 2010). No longer do shareholders, depositors and even regulators have any assurance from unqualified audit opinions; not when "a number of banks either had to face management restructuring or have had to be bailed out by the Central Bank of Nigeria even after receiving clean and unqualified audit reports by their external auditors" (Otusanya and Lauwo 2010:54**).** In Nigeria, misstatement of accounts is routine for many firms (Sonowo, 2007).

4. Traditional versus Forensic Accounting

Traditional auditing has a focus on error identification and prevention (Gray, 2008). Prevention is the result of an effective internal control system. The auditor reviews the effectiveness of the internal control system by sampling transactions and not through a complete review of all transactions. The process can reveal errors, but not all the errors are considered to be of equal importance as some are referred to as material while others are not.

The principal and dominant legal framework for the of audit of all public interest entities in Nigeria lies with the Companies and Allied Matters Act, CAMA, of 2004. CAMA (2004) places on external auditors the responsibility for making report to company members on the accounts examined by them and to specifically report on whether:

Proper accounting records have been kept and proper returns adequate for their audit have been received from branches not received by them. The company balance sheet and its profit and loss account are in agreement with the accounting records and returns. The balance sheet and its profit and loss account give a true and fair view of the state of affairs of the company during the period under review. (Sections 359 and 360)

Section 368 of CAMA (2004) demands that the auditor performs his/her duties with such care and diligence and skill as is reasonably necessary in the particular circumstance and where a company suffers loss or damage, as a result of the auditor's failure to discharge its fiduciary duty and the directors may institute an action for negligence against him in court" (Sec.368) also permits any member (shareholder) to institute action against the auditor on the failure of the directors to institute an action against the auditor.

Forensic accountants and auditors share some goals similar to traditional accountants and auditors. They have different roles, knowledge and skills. Forensic accountant investigations include identification of fraud. This is different from traditional auditors' investigations that are not responsible for identifying fraud. Forensic accounting investigations include litigation services related to a variety of situations including the following: business purchases, valuation of divorce assets, property damage, lost profits due to embezzlement and other illegal acts, tax evasion, and money laundering schemes. (Gray, 2008).

However, unlike financial audit which as illustrated in Table 1 below, aims mainly at uncovering (identifying and preventing) material deviation (errors) in financial data and significant variances from acceptable accounting and auditing standards, forensic accounting looks beyond the transactions and audit trail to focus on substances of the transaction instead with a view to identifying fraud.

Table 1: Differences Between Auditors and Forensic Accountants Regarding Error Identification, Error Prevention and Fraud Identification.

Auditor	**Error Identification X**	**Error Prevention**	**Fraud Identification**
Forensic Accountants			X

Source: Gray(2008):Forensic Accounting and Traditional Auditing compared.

The development of forensic accounting is credited to Maurice E. Peloubet who developed the term forensic accounting in his 1946 essay, "Forensic Accounting: Its Place in Today's Economy." Although, forensic accounting had proven its worth in the late 1940s during the World War II, its formalized procedures were not put in place until the 1980s when major academic studies in the field were published (Rasey, 2009).

Forensic accounting is the specialty area of the accountancy profession which describes engagements that result from actual or anticipated disputes or litigation. "Forensic" means "suitable for use in a court of law," and it is to that standard and potential outcome that forensic accountants generally have to work (Crumbley, Heitger & Smith, 2005).

Forensic Accounting is simply a specialty field in Accounting that deals with the identification of financial fraud, and reports in a way that it would be suitable for use in a court of law. Forensic accounting uses accounting, auditing, and investigative skills to con-duct investigations into theft and fraud. Forensic accountants, also referred to as forensic auditors or investigative auditors, often have to give expert evidence at the eventual trial (Crumbley et al. 2005). Forensic accounting transforms reactive approach of the traditional auditor to a reactive approach during the audit (Fatma, & Ays¸ e Pamukc, 2012).

Forensic accounting has been growing rapidly as a profession in the world and has been accepted as a profession in countries such as Canada, Australia, the USA, and the UK, is beginning to gain the importance that it deserves. Forensic accounting and fraud examination are different but related. Forensic accounting work is done by accountants in anticipation of litigation and can include fraud, valuation, bankruptcy, and a host of other professional services. Fraud examinations can be conducted by either accountants or non-accountant sand refer only to antifraud matters.

5.Audit expectations gap and users of financial information.

Auditors are considered responsible for cases of distress and closure of companies and banking institutions in Nigeria. (Bakre, 2009). The investing public and third parties have attempted at faulting the Auditor's role on four grounds viz: non-detection and disclosure of fraud and irregularities, auditors' poor capacity and competence, inadequate audit techniques and scope and finally auditor's prolonged tenure with client.

Liggio (1974) defines "audit expectation gap" as the difference between the levels of expected performance as perceived by both users of financial statement and the auditor. It is simply the gap in understanding of the role of an auditor/accountant as perceived by the users of the financial statements and the auditor/accountant. The users of financial statement in this regard include shareholders, potential investors, lenders, employees, creditors, customers, banks, government and the general public.

Auditing throughout its long history to relatively recent times had a consistent objective of protecting the owners of the business from fraud and error. The objectives of audit during these are: The detection of fraud and the detection of technical errors. However, as business grew in complexity, the audit cost involved in checking all transactions exceeded the benefit to be derived from such monitoring. Hence from the second half of the twentieth century, the direction of audit work moved away from detection of fraud towards the new goal of determining whether financial statements give a fair picture of financial position, operating result and changes in response to the rising volume of business transactions and the changing needs of the time. Consequently, the focus of audit changed from human behavior to accounting records and the financial statements derived from the records. Unfortunately, while most users of financial statements are not aware of this paradigm shift others are simply unwilling to accept the new audit philosophy, hence, there exists a widening gap between users and auditors expectation of the objective of audit.

6.The Narrowing public expectation gap.

The spate of audit failures of Nigerian public and private corporate entities in the last five decades has led to a paradigm shift in auditing, as it is now tacitly being accepted by professional auditing standards that the auditor has responsibility to perform tests to detect material defalcations and errors if they exist. Auditors continue to hide under the umbrella of the provisions of their respective national statutes that do not specifically place the responsibility of fraud detection on them. Although no specific provision in the Nigerian corporate statute, CAMA, that pointedly places the responsibility of fraud detection on auditors, this corporate statute, nevertheless creates for the auditor, the need for awareness of the possible consequences of legal actions from the directors or shareholders where a company suffers losses or damages on account of the failure of the auditors to discharge their fiduciary duty in the application of reasonable, necessary care and diligence Section 368 (CAMA, 2004). So also is the auditor considered responsible for maintaining professional skepticism throughout the audit considering the potential for management override of controls (management fraud) (ISA, 240). The Nigerian Financial Reporting Council Act has placed on auditors of public interest entities the additional burden of full disclosure in writing to the Chief Executive Officers and the board of the entities, on one hand, and the Council on the other, of material irregularities within 30days of discovery (FRCN, 2011).

There seems over the years to be an enduring consistency in the expectations of the users of financial statement over. Auditors remain the principal regulators many hold solely responsible for fraud detection. With the well known collapse of the US energy giant, Enron, WorldCôm, etc auditors and the auditing profession are put on the spot and placed under sharp scrutiny. Auditor’s performance has come under high beam; their competence and integrity and credibility are in doubt. Expert opinion posits that there is a clear market expectation that “auditors are bloodhounds, not just watchdogs; simply put, the market expect auditors to pick up instances of fraud”, (Lucy, 2004 p.15). The call for stronger forensic skills in those who perform statutory audits has been collaborated by Enyi (2008) who asserts that all normal statutory audits should contain some elements of forensic investigation. The growing public expectation on auditor’s duty to detect fraud accords with the revised standards of the International Auditing and Assurance Standards Board (IAASB), which have expanded the auditor’s duty to detect fraud, (Sikka,1992; AICPA 2002; IFAC 2004; Salehi, 2008). The close-up between public expectation and the international accounting standards, as further strengthened by the demands of the Financial Reporting Council Act (2011) has invariably narrowed down the expectation gap between the users of financial statement and their auditors. This obvious paradigm shift has serious implications on auditors’ responsibility over fraud detection and increases their exposure to the risk of legal actions.

7. Implications of narrowing public expectation gap

The growing public awareness of the responsibility of auditors over the detection of fraud and their increased exposure to the risk of legal actions on account of negligence by those who suffered losses for relying on their work, has posed considerable challenges to the auditors and Nigerian audit practice. Nigerian auditors are now faced as never before of the necessity of deliberately improving their technical capacities through the acquisition of more sophisticated investigative techniques that forensic accounting readily provides, if they are to be relevant to the realities of modern time auditing.

In the US and in other developed countries, in order to facilitate the detection of corporate fraud and associated financial crimes, resort to the deployment of forensic accounting is on the increase with larger accounting firms having specialist forensic accounting departments with specialists in insurance claims or personal injury claims, fraud construction, or royalty audits.(Fatma & Pamukcu, 2011).

In Nigeria, corruption and corporate fraud are endemic, while the upsurge in financial crimes following the advent and revolution in internet and Information Communication Technology, ICT, has reached unprecedented levels. This development in corporate fraud has surpassed the skills of the traditional auditor to cope with, thus making imperative the need for more scientific investigative accounting skills of the forensic accountant for unraveling cleverly devised fraud in ways that could facilitate the prosecution of offenders in court. The resort of the Economic and Financial Crime Commission, EFCC, to the successful use of forensic accounting in the investigation and prosecution of indicted bank executives of some distressed banks in Nigeria underlie the growing relevance of forensic accounting methodology in the fight against corporate fraud and financial crimes. The use of forensic accounting in statutory audit is however, not pervasive on account of the poor technical capacities of Nigerian auditors and accountants in forensic accounting (Izedonmi & Ibadin 2012). This development has strong implications and challenges for the educational and professional training programmes and curricula of tertiary institutions offering accounting courses as they must now update and accommodate more of forensic accounting courses.

8. Conclusion

Auditors remain the principal regulators many hold solely responsible for fraud detection and disclosure. Public expectation on auditor's duty to detect fraud now accords with the revised auditing standards of the International Auditing and Assurance Standards Board (IAASB) and FRCN on auditors responsibility for fraud detection and disclosure. This paradigm shift and the narrowing audit expectations in the face of increasing complexities in internet and computer aided personal, corporate frauds and financial crimes makes the acquisition of adequate skills in forensic accounting by the Nigerian, and indeed auditors in the developing economies imperative.

9 .Recommendations

The auditing curriculum of tertiary institutions and professional bodies responsible for the education and training accountants should be updated and reviewed to incorporate forensic accounting. The present level of attention given to such nagging contemporary issues like environmental studies in the curriculum of Universities should also be accorded studies on fraud, corruption and forensic accounting, in view of their endemic nature Nigeria. Educational institutions in Nigeria should offer post-graduate accounting programmes in forensic accounting, while the professional accounting bodies should fast track the acquisition of forensic accounting techniques through the organisation of series of intensive and compulsory continuing professional education programme for their members in public (audit practice). The Nigerian principal corporate auditing and financial regulatory statute, CAMA, should be reviewed to provide for well articulated and definitive provision on auditors' responsibility for fraud detection that aligns with international auditing standards. Going by the spate of corruption and fraud in Nigeria, forensic accounting should be given full recognition as a distinct profession in Nigeria and in other developing countries of the world were corruption is endemic.

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