The Effects of Audit Evidence on the Audit Report of Commercial Banks in Nigeria

Eme Efiong, Bassey E. Bassey, Akum Acha Hadrain*, Asuquo Charlsie, Belin David Golce

Department Of Accounting
Faculty Of Management Sciences
University Of Calabar

*Corresponding author’s email: achahadrain [AT] yahoo.com

ABSTRACT--- Purpose-The research paper evaluates audit evidence effects on the audit report of commercial banks within Nigeria. Design/Methodology- Data for the study were obtained from primary sources (questionnaires). Data was gathered via questionnaires regarding the sufficiency, reliability and relevance of audit evidence in the commercial banks. Findings- The research findings revealed that, audit evidence when looked at holistically have a major influence on audit report of commercial banks in Nigeria. However audit evidence when looked at individually do not have any significant effect on audit report of commercial banks in Nigeria. Recommendations- The researcher then recommends that, study should be carry out on insurance companies and investment firms.

Keywords--- Audit evidence, Auditor report, Audit opinion, Auditing standards.

1. INTRODUCTION

Audit evidence is all information gathered for reviewing the financial transactions of a company, its internal control attempts, and all other factors required for the official recognition of financial statements. The ascertainment of the degree of correspondence between economic events and actions and launched standard measures of communicating the outcome to interested parties through gathering and evaluating evidence is refer to as auditing (American Accounting Association, 1972). The auditor always requires affirmations from management of an entity about their reports before giving assurance about its financial statements. However the auditor is require to get evidence authenticating that the management information report is correct for the affirmations to be trusted and relied upon.

Audit evidence is made up of written, oral and electronic information, it Okays auditors to make a conclusion via reasoning. With these taken into account, auditors can set a starting point from audit evidence that will help them state their views on the financial statement of the audited company in question. The audit working papers should be documented with the audit evidence obtained from financial statements and other supporting documents.

By detecting material deviations and giving details of them to various stakeholders, auditors will demonstrate the impartiality of financial statements with laid down rules and regulations (Lin, Liu, & Wang, 2009). The added assurance of financial information given by auditors, increases the credibility of accounting information and thus increases relevance. Hence, with an audit report of higher level of relevance, investment and credit decisions to commercial banks in Nigeria will be improved. The auditor can give a misleading audit report (whether unqualified, qualified, adverse opinion or a disclaimer of opinion) on commercial banks in Nigeria, if he does not gather enough audit evidence on which to base his opinion.

1.1 Statement of The Problem

Generally, audit evidence establishes a start off juncture where an auditor’s opinion is expressed. It is this audit opinion that determines if an audit report is reliable or not. In the developed and developing world today audit evidence is marred by a number of problems namely; financial statement manipulations as seen in the cases of Enron and WorldCom (Rezaee, 2005), also the case of FlowTex company where receipts of ghost assets and transactions and documents were fabricated by management, which led to the liquidation of these companies. A more recent case is the Libor scandal (Kregal, 2012) where banks manipulated their interest rates to give a public impression that they were more creditworthy than they normally were.
Nigeria has had its own share of these problems. This research therefore seeks to examine the effects of sufficient, reliable and relevance audit evidence on audit report of commercial banks in Nigeria. This is because users especially the investors often complained that after going through the audited financial records of a commercial bank, it often shows the bank is doing well. But after two to three years after investing their money in the bank, it start facing liquidity and going concern problems.

1.2 Research Objectives
The effects of audit evidence on the audit report of commercial banks in Nigeria is the principal objective of this paper. The sub objectives are:
(i) To examine the effect of sufficiency of audit evidence on audit report of commercial banks in Nigeria.
(ii) To determine the influence of audit evidence reliability on audit report of commercial banks in Nigeria.
(iii) To identify the effect of audit evidence relevance on audit report of commercial banks in Nigeria.

1.3 Research Questions
(1) Is there any significant relationship between sufficient audit evidence and the audit report of commercial banks in Nigeria?
(2) Does audit report in commercial banks in Nigeria depend significantly on the reliability of audit evidence?
(3) Do relevance of audit evidence affect audit report of commercial banks in Nigeria?

1.4 Research Hypotheses
The following hypotheses are stated in the null form (H0)

H1: Sufficiency of audit evidence does not significantly affect audit report.
H2: Reliable audit evidence does not positively affect audit report.
H3: Relevance audit evidence does not significantly affect audit report.

2. LITERATURE REVIEW

2.1 Theoretical Framework
Agency theory
It holds that an auditor is hired for the mutual benefits of the third party and the management. Here a company could be seen as a network of indentures. Some sets (employees, debtors, contractors, customers) bring about diverse contributions for a price tag to the company. The supervision of the indentures of these groups and the groups are the aims of the management. It looks for ways to heighten them: lower prices for obtained stocks, higher prices for goods sold, lower loans interest rates, higher price per share and lower employees’ salaries. In these indentures, the agent is the management, she strive to acquire donations from the principal (sponsors, owners, personnel). An external auditor is then hired to examine the company’s financial statements, so as to give interested users of the financial statement added assurance relating the activities of the company in question.

Policeman’s Theory
It holds that the detection, prevention and deterring of fraud is accountable for by the auditor. This was definitely the situation in the 20th century. Although, giving a clean and clear opinion of the financial statements being audited thus providing added assurance to the users is nowadays the center of attention of auditors. Fraud identification, perhaps remains a major issue in the discussion of the responsibilities of auditors, especially when an auditor subsequently discovers fraud in the financial statement. Thus the auditors’ responsibilities of fraud detection will be on an increase.

The Theory Lending Credibility
It posits that management uses the audited financial statements of a company to heighten the stakeholder’s optimism in the management and the company’s activities. Stakeholders frequently compose their appraisal provisionally on the financial statements and for that reason constrained to believe that the financial statements being audited is true and fair with regards to the financially viable state of the firm they are willing to do investment in. However, other theories like the “efficient market theory” holds that the enlightenment that the auditor present on the financial statements and the Lending Credibility theory is only reasonable and not absolute. The stakeholders however expects certain qualities in the audit report to be maintain by the auditor. For the auditors to attain such supposition, professional bodies carried out certain precautions such as IFAC and their outline that is established in ISA 220.

2.2 Conceptual Framework
Auditors report
Adeniyi (2004) the channel by which auditors give their judgment on the true and fair view of the financial statements of a company for the advantage of mainly the shareholders, but likewise other stakeholders as well is known as an audit report. The report of auditors on financial statements must comprise a pure communication of opinion, centered on assessment and review on the evidence gathered and the decision drawn from it in the audit assignment. Investors’ protection lead to several ups and downs in financial reporting, accounting and auditing. By imposing a right of liability
on company managers, investors protection is achieved (Crowther & Jatana, 2005). In principle, auditing plays a role to minimize the residual loss resulting from managers’ resourcefulness and reduce accounting numbers asymmetry information in financial reporting. More precisely, the wanted assurance for investors when trusting on audited financial statements is provided by auditing.

**Sufficient audit evidence and the audit report**

Sufficiency is looking at the quantity audit evidence. The timing and nature of audit procedures is related to the appropriateness of audit evidence. Audit evidence should be ‘sufficient’ and ‘appropriate’ according to the ISA. Appropriateness is attained when the evidence obtained is reliable and relevant. Sufficiently documented audit evidence helps the auditor to issue a report. The opinion of the auditors in his report needs to be supported by the audit evidence and how the auditor arrived at his audit opinion should be shown in the audit file. With regards to this, audit firms in the past (such as Enron scandal) were blamed by regulatory bodies and the public because they didn’t gathered sufficient or appropriate audit evidence to base their audit opinion. When planning audit procedures, auditors must believe that the procedures are sufficient enough to gather the quality audit evidence they need. (Collin Steve, ISA 500) relevance and reliability of audit information are other features an auditor needs to consider vital as audit evidence.

**Relevance of audit evidence and the audit report**

Adeniyi (2004) when reporting and forming an opinion on the financial statement the overall audit objective needs to be considered in relation to the relevance of the audit evidence. Where affirmative validations are used, it is essential to check nonresponses with other reliable evidence of the remaining balance in order to preserve the integrity of the sample. These evidence consist of sales orders of written customer, customer signed delivery notes (Florea, 2010). Nowadays, the auditing profession has come to a joint treaty with the banking industry in many countries on the technique to be use in pursuing verifications. A commonly use form is one with open questions for the bank to complete which is standardize. The proof ought to be reliable since banks normally keep a high degree of internal control over customer history and balances (Florea, 2010).

**Reliability of audit evidence and the audit report**

Abou-Seada and Abdel-Kader (2003), the gathering and evaluation of audit evidence is the core to any audit work. Standards of auditing advocates that in forming a report, auditors should get appropriate evidence enough to brace their opinions. Soltani (2007), the fabric of the audit process is audit evidence. In 2010, International Assurance and Auditing Standards Board [IAASB] modernize audit evidence via two standards (IFAC, 2010). The two principal standards are: ‘Audit Evidence’ ISA 500 and ‘Specific Items and Additional Considerations for Audit Evidence’- ISA 501 (IFAC, 2010). The audit evidence that the auditor gathers and bed their expert judgment on must be attain to the minimum standard anticipated by the auditor is a requirement of ISA 500 (IFAC, 2010a). ISA 501 gives further enlightenment to backing ISA 500 causing auditors to have specimens plus clearly analyzed characteristics for particular transactions and items (IFAC, 2010a). The origin of audit evidence has a key role on reliability as audit evidence quality is conditional on it (Missah, 2008). Goodwin (1999) the auditor recognizes and more acceptably regards the self-sufficient source than the non-self-sufficient source, but the auditor needs to know the origin in order to affirm and rely on the source “Audit evidence derived from an independent source may not be reliable if the source is not known” (IFAC, 2010a: Para. 4).

Some researches in fields of auditing shows the persuasive power of evidence is vital to the determinants of objectivity and competency of its origin (Marris, 2010). However, Rose (2003) advice that the validity of particular information and/or its origin is not practically determine. Janvivin (2001) and ISA 500 (2010a), externally generated evidence must be given higher eloquence by auditors to internally generated evidence. Although, gathering of evidence from external parties may cause the auditors to be powerless. Where deferrals occurs in gathering replies and demand for facts, the auditor will be left with no option but to put their faith on internal bases for which audit evidence will be obtain (Caster & Pincus, 1996). Salterio & Koonce (1997), information obtained from members within the audit team is highly regarded by the auditor than that from the client’s employee.

**2.3 Empirical review.**

AlAngari (2006), brought forward that auditors are to be responsive to impartiality of the origin of proof. Augustine, Chijioke, Lucky, Odeyile and Kinglsey (2013) found out that sufficiency of audit evidence had a negative but insignificant relationship with audit evidence while reliability of audit evidence had a positive coefficient sign but insignificant relationship with audit report. This is so because there is no mathematical formula, neither a specific model in order to evaluate the quality of audit evidences. Audit evidence quality depends upon the professional judgment concerning the audit technical standards, the accounting references and nevertheless upon the auditor’s ethics. Salterio & Koonce, (1997) auditors appraise proof from a fellow colleague in the profession with greater sufficiency, reliability and relevance than that brought forth by the management of a company, judging to the fact that the auditor colleague will be more unbiased than the client’s management. This research therefore seeks to examine the effects of sufficient, reliable and relevance audit evidence on audit report of commercial banks in Nigeria.
3. METHODOLOGY

3.1 Research Design
The survey research design was used because the study made use of primary data. Primary data is information that is collected specifically for the purpose of the research in hand and it is always collected from the field. The survey method of research design was used to elicit information from the respondents through questionnaires. A questionnaire was used for soliciting information about the independent variables (Audit evidence information) and the dependent variable (Audit Report). Questions used in the questionnaires were multiply choice questions (that is questions with answer options to choose from). Likert type questions which refer to a kind of multiple choice question that measures the intensity of the respond which agrees to a statement made. One hundred questionnaires were administered to commercial banks’ branch managers and accountants. The population of the study comprised of all the commercial banks in Nigeria. A sample size of fifteen commercial banks listed on the Nigeria stock market from 2012 to 2015 was considered for this study. Data were obtained from fifteen commercial banks; United Bank of Africa (UBA), Heritage Bank, Union Bank, Zenith Bank, Fidelity Bank, Wema Bank, Diamond Bank, Ecobank, Access Bank, Guaranty Trust Bank, Skye Bank, Stanbic IBTC Bank, Sterling Bank, Unity Bank and Jaiz Bank

3.2 Model Specification
The study specifies a simple regression equation model. The regression model was used to examine the effect of audit evidence on audit report. To examine the relationship that exists between Audit Evidence and Audit Report, a linear equation was used. The two variables involved include Audit Evidence and Audit Report. The regression equation was computed as:

\[
Y = \beta_0 + \beta_1 X + \mu_1 \tag{1}
\]

Where:
- \(Y\) = Audit Report
- \(X\) = Audit Evidence (independent variables)
- \(\beta\) = Coefficient of financial structure
- \(\mu_1\) = Error term

Explicitly, equation 1 can be defined as:

\[
\text{Audit Report} = f(\text{Audit Evidence}) \tag{2}
\]

Representing two variables of the construct, the equation below is formulated.

\[
\text{AUR} = f(\text{Sufficiency; Reliability; relevance}) \tag{3}
\]

The above can be deduced to the model below.

\[
\text{AUR} = \beta_0 + \beta_1 \text{SUF} + \beta_2 \text{RELI} + \beta_3 \text{RELE} + \mu_1 \tag{4}
\]

Therefore, the Regression Equation is:

\[
\text{AUR} = \beta_0 + \beta_1 \text{SUF} + \beta_2 \text{RELI} + \beta_3 \text{RELE} + \mu_1 \tag{5}
\]

Where:
- \(\text{AUR}\) = Audit Report
- \(\text{SUF}\) = Sufficiency
- \(\text{RELI}\) = Reliability
- \(\text{RELE}\) = Relevance

4. DATA PRESENTATION AND ANALYSIS
Hundred (100) questionnaires were given out to respondents but only 70 were returned and usable, and subsequently analyzed. The data were analyzed using the linear regression method with the aid of SPSS 20 because of its versatility. The results obtained from the regression are presented and interpreted below.

<table>
<thead>
<tr>
<th></th>
<th>AUR</th>
<th>SUF</th>
<th>RELIA</th>
<th>RELE</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUR</td>
<td>1.000</td>
<td>0.080</td>
<td>-0.491</td>
<td>0.210</td>
</tr>
<tr>
<td>SUF</td>
<td>0.080</td>
<td>1.000</td>
<td>-0.236</td>
<td>-0.686</td>
</tr>
<tr>
<td>RELIA</td>
<td>-0.491</td>
<td>-0.236</td>
<td>1.000</td>
<td>0.431</td>
</tr>
<tr>
<td>RELE</td>
<td>0.210</td>
<td>-0.686</td>
<td>0.431</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Source: Author’s computations using SPSS 20

The correlation matrix presented in table 1 indicates that audit report has a very strong positive relationship with sufficient audit evidence; it also shows a weak positive relationship with relevance of audit evidence but a negative relationship with reliability of audit evidence.
Table 2: Regression Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t statistics</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-3.435</td>
<td>8.825</td>
<td>-0.389</td>
<td>-0.389</td>
</tr>
<tr>
<td>Sufficiency</td>
<td>1.458</td>
<td>2.493</td>
<td>0.506</td>
<td>0.585</td>
</tr>
<tr>
<td>Reliability</td>
<td>-1.229</td>
<td>1.147</td>
<td>-0.751</td>
<td>-1.072</td>
</tr>
<tr>
<td>Relevance</td>
<td>3.475</td>
<td>3.654</td>
<td>0.885</td>
<td>0.951</td>
</tr>
</tbody>
</table>

R Square  0.702
Adjusted R Square 0.691

Durbin-Watson stat 1.760

Source: SPSS 20

The regression result shows the systematic relationship between Audit Report, and Sufficiency, Reliability, and Relevance of audit evidence. The explanatory power of the model is shown by the coefficient of determinant (R-squared). It is the squared correlation coefficient, it generally forecasts variability and relationship caused by the model. We use the adjusted component of the coefficient of determination to explain this because it explains the degrees of freedom. It is only influenced by variables that causes variability in the dependent variable. The adjusted R-squared value of 0.691 shows that the independent variables, Sufficiency, Reliability, and Relevance of audit evidence explain about 69% of the systematic variations in audit report of the commercial banks studied. Audit report is influenced by several variable including auditors independent, statutory laws, uncertainty of the client business, etc. However, the backbone of the audit exercise is largely influenced by the audit evidence, hence the results obtained from the model. The Durbin Watson statistic of 1.76 drifts around 2 which is the conventional level and shows autocorrelation is absent in the independent variables.

4.1 Hypothesis Testing

Hypothesis 1
- H0: Sufficiency of audit evidence does not significantly affect audit report.
  - The results obtained shows that with a t-statistic of 0.585 and a probability of 0.663, the P-value is higher than the 5% (0.05) significance level threshold, hence we accept the null hypothesis that says, Sufficient of audit evidence does not significantly affect audit report.

Hypothesis 2
- H0: Reliability of audit evidence does not positively affect audit report.
  - With a t-statistic of -1.072 and probability 0.478, the P-value is higher than the 5% (0.05) significance level threshold. We therefore accept the null hypothesis that says reliability of audit evidence does not positively affect audit report.

Hypothesis 3
- H0: Relevance audit evidence does not significantly affect audit report.
  - With a t-statistic of 0.951 with a probability of 0.516, the P-value is higher than the 5% (0.05) significance level threshold. Again we accept the null hypothesis that says Relevance audit evidence does not significantly affect audit report.

4.2 Discussion of Findings

Generally, the audit evidence needed to give an audit opinion are jointly significant. However, individually the audit evidence needed to give an audit opinion in commercial banks as discovered in this study were found not to be significant.

The results obtained shows that sufficient audit evidence has a positive relationship with audit report, although the relationship is not significant. This result is plausible in real life scenario because sufficient audit evidence can be obtain from an unreliable source. This result is consistent with the findings of Salterio and Koonce (1997), information obtained from members within the audit team is highly regarded by the auditor than that from the client’s employee.

The results obtained shows that Reliable Audit Evidence has a negative relationship with audit report, although this relationship is not significant, the audit report of a company is invariably influenced by the reliability of the audit evidence principally because externally generated evidence is considered more reliable to the auditor than internally generated. Rose (2003) advice that the validity of particular information and/or its origin is not practically determine. This phenomenon remains acceptable since it helps to reduce auditors’ liability with its client.

The results also show that there is a positive relationship Audit Evidence Relevance and Audit Report. The relationship was found not to be significant. This is so because nowadays, the auditing profession has come to a conjoint treaty with
the banking industry in many countries on the technique to be use in pursuing verifications. A standardize form is often use with open questions for the bank to complete.

5. CONCLUSION
As seen in the results of this study, audit evidence when looked at holistically have a major influence on audit report of commercial banks in Nigeria. However, when Audit evidence is looked at individually, it doesn’t have any significant effect on audit report of commercial banks in Nigeria. This is so because the auditor needs to gather sufficient, reliable and relevant audit evidence which will aid as a starting point from which he basis his audit opinion and how he arrive at such a conclusion.

5.1 Recommendation for Further Study
This study was only concerned with commercial banks in Nigeria. Thus, the outcome of this study may not be applicable to other sectors such as insurance companies, investment firms, and discount houses in Nigeria. Moreover, the study generally looked at audit evidence without specific attention to audit evidence as it relates to electronic data processing environment. These can be used to develop an additional model to study the relationship between the variables.

6. REFERENCES
- Florea R.,” Contabilitate consolidată și auditul grupurilor de societăți”, Ed. Tehnopress, Iași, 2010