

AUDIT STRATEGY AND FINANCIAL STATEMENTS QUALITY OF COMMERCIAL BANKS IN NIGERIA**Wokeh, Promise Ikechi***Email:promisingfredd@yahoo.com***ABSTRACT**

This study examines the effect of audit strategy on financial statement quality of commercial banks in Nigeria. Expo facto research design with panel data was adopted for this study. A total of twenty-one (21) commercial banks in Nigeria as at 2019 was used as the target population while a sample size sixteen (16) commercial banks was selected. Data for the study was extracted from the published annual report of the selected banks. Multiply regression analysis were used to analyze the data collected. The study revealed that there is no significant relationship between audit strategy and financial statement quality of commercial banks in Nigeria.

Keywords: Audit Strategy, financial statement quality, discretionary accrual.

INTRODUCTION

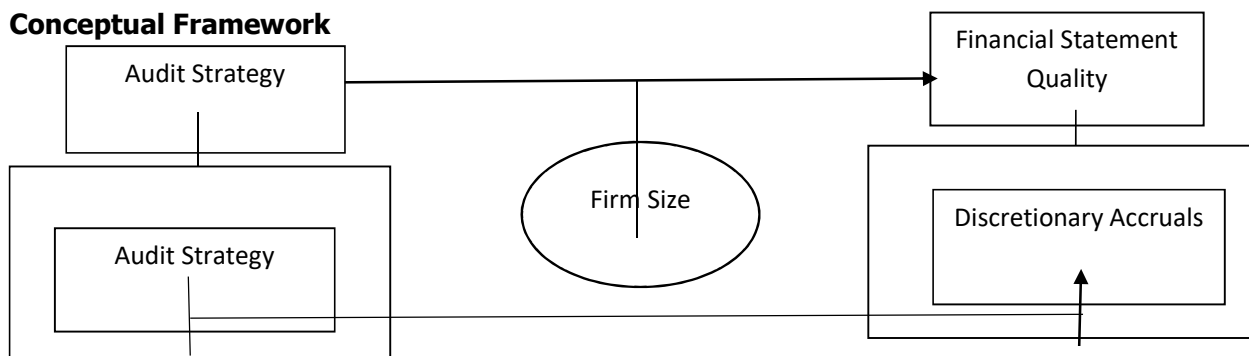
The relevance of financial reporting to an organization cannot be overlook, given that financial reporting is widely used in the process of making economic decisions, it is vital for financial reporting to provide the truthfulness of information. Financial reporting is a multi-party transaction in which the issuers of the financial reports provide users, who use them with the expectation that these will help them enhance their financial decisions. The credibility of financial information in the financial statement is vital to the growth of any economy; also, auditors are expected to be independent and objective in the discharge of their responsibilities (Adelaja, 2009). The potential users of financial reports vary widely and include creditors, suppliers, financial analysts, government authorities and in general, all related to the company parties. The issue of quality in financial reports is of prime concern not only for the final users but for the whole society as it affects economic decisions which may have significant impact. As opined by Umaru (2010), this was verified by the most evident way series of corporate failures (Enron, Parmalat etc.), collapses of financial institutions (Lehman Brothers, Fortis, AIG etc.) and overall, by the economic conditions created by the recent economic recession.

As a response to the need for improvement and convergence of existing financial reporting frameworks of IASB and FASB, IASB issued in 2008 an exposure draft titled "An improved conceptual framework for financial reporting". According to IASB's conceptual framework a key prerequisite for quality in financial reporting is the adherence to the objective and the qualitative characteristics of financial reporting information, (IASB 2008). From review of related literature, relevance, faithful representation, comparability and timeliness has been highlighted as the key qualitative characteristics determining the usefulness of accounting information for making economic decisions. It is in view of the importance of quality financial reporting that the International Federation of Accountants (IFAC) and its audit arm International Auditing and Assurance Standards Board (IAASB), stated that audit services is an assurances service that the financial statements prepared by the managers is true and fair, and free from intentional and unintentional errors and misstatements, and conform to the relevant rules and regulations guiding the preparation and presentation of accounting information (IAASB, 2013). According to IAASB, global financial stability is supported through high quality reporting, which could be achieve through high quality audits that can help foster trust in the quality of reporting.

On the other hand, Audit strategy is directed to the gathering of relevant and reliable audit evidence in order to support the expression of an opinion on the financial statement. These are methods or techniques that auditors use in their audit assignments. Both internal and external audit use audit strategies to conduct their audit activities differently based on the nature of engagement, scope,

nature of client's business, and audit risks. Selecting the right audit strategies is importance. It can help auditor to improve the audit performance in term of efficiency and effectiveness. The right audit strategies could also help auditor to focus on the right areas. Different audit firm might use different audit strategies to perform their audit. However, empirical studies on auditing strategy lacked sufficient information on whether internal audits are effective in organizations by performing their duties independently from management and whether they properly evaluate all activities (Kibel, 2012; Ojong & Ekponta, 2014; Al-Matari, Al-Swidi, & Fadzil, 2014; Charles & Oluoch, 2017). One of the critical roles of auditors is that, they assure confidence to financial statements users about the reported information because as the report of external auditors in corporate financial statement is seen as providing key assurance and protecting the interest of shareholders (Gallegos, 2004). The oversight function of the auditor is placed under scrutiny when a business whose financial statement once showed no indication of any failure suddenly becomes bankrupt. As a follow up to the oversight function, the independence of the auditor in such circumstance would be in doubt. The spate of audit failures in the world has brought a great deal of disappointment to investors and other corporate financial reporting stakeholders. In Nigeria, despite the interventions of the regulatory authorities, the challenges of ensuring credibility in financial statement reporting and auditing are still prevalent. It therefore becomes pertinent to investigate the effect of audit strategy on financial statement quality in Nigeria.

Conceptual Framework



Source: Umaru (2010), Momanyi, & Ngacho (2018).

From the above framework, the objective of the study is

1. Ascertain the impact of audit strategy on financial statement quality of commercial banks in Nigeria.

Research Question

1. What is the impact of audit strategy on financial statement quality of commercial banks in Nigeria?

Research Hypothesis

Ho1: There is no significant relationship between audit strategy and financial statement quality of commercial banks in Nigeria.

Literature Review

Concept of Audit Strategy

Audit strategy is directed to the gathering of relevant and reliable audit evidence in order to support the expression of an opinion on the accounts. Auditing strategy must include financial reporting, operations and compliance with laws and regulations, activities such as preparing, verifying, and communicating the same to various levels of management for decision-making (Whittington & Pany, 2013). The purpose of determining an audit strategy is to enable the auditor familiarize himself with the client's business and organization as well as to obtain a preliminary understanding of the client's

accounting system. This will entail the preliminary identification of those internal controls on which he proposes to rely upon. The auditor should then determine and record his audit strategy before commencing any detailed audit work. In doing so, the auditor will need to identify the optimum balance between, on one hand, relying on internal controls and reducing the level of his substantive tests, and on the other hand, placing little or no reliance on internal controls and seeking audit satisfaction from a higher level of validation procedures. The overall audit strategy should focus on a more efficient and effective audit. This audit strategy is divided into four namely; Substantive Procedures Audit Strategy, Balance Sheet Audit Strategy, System Based Audit Strategy, and Risk-based Audit Strategy.

Concept of Financial Statement Quality

Financial statement quality as defined by Mardiasmo (2009) is a financial statement that is able to present financial information relevant and reliable. Wood and Horner (2010) also defines the quality of financial statements as well as reports present fairly the state of entities and activities and provide useful information to users of financial statements. Brookson (2009) define the quality of the financial statements as reported in accordance accounting standards of financial reporting which shows the financial position and results of operations of an entity at the end of the period.

Also, Sylvester and Famous (2016) see financial statement quality as a report that is complete, unambiguous and no intended to mislead its users in decision making. There is an urgent need for quality of the financial report. The higher the quality of financial reporting, the more significant are the benefits to be gained by investors and users of the financial reports in making informed economic decisions. According to IASB's conceptual framework a key prerequisite for quality in financial reporting is the adherence to the objective and the qualitative characteristics of financial reporting information, (IASB 2008).

Theoretical framework

This study is anchored on the theory of inspired confidence. This theory is explained below.

Theory of inspired confidence:

This theory was developed in the late 1920s by the Dutch Professor Theodore Limperg. The theory addresses both the demand for and the supply of audit services. The demand for audit service is the direct consequence of the participation of outside stakeholders in the company. These stakeholders demand accountability from management, in return for their contribution to the company. Since information provided by management might be biased, a possible difference between the interest of management and stakeholders, an auditor is required to cross-check such information.

Empirical Review

Umaru (2010) carried out a study on the impact of audit firm's attributes on financial reporting quality of quoted building material firms in Nigeria. The study employed correlation research design using a sample of four listed building material firms for the period of ten years (2002-2011). Ordinary Least Square (OLS) multiple regression technique was employed in the analysis of the panel data collected for the study. The study found that audit compensation and audit firm independence have significant positive impact on the financial reporting quality of quoted building material firms in Nigeria at 99% confidence level. The finding suggested that, audit compensation and provision of non-audit services in the quoted building material firms in Nigeria have improved the quality of their financial reporting during the period under review. The study recommends that, policy makers (SEC and FRC) should make policies that would strengthen the auditors' independence in the building material firms in Nigeria.

In the same vein, Momanyi, and Ngacho (2018) carried out an empirical investigation on the impact of auditing strategy on performance of public universities in Kenya. The study adopted descriptive survey research design. The population of the study was 1569 employees in the category of top and

middle level management from twenty-nine chartered public universities by October 2016. The sample size was 407. Descriptive statistical methods were used to analyze data through tables, figures, and charts by the help of statistical package of social science (SPSS) software. Inferential statistical techniques were adopted to test the strength of the relationship among and between the variables and interpret the results. Simple linear regression analysis was used to test the strength of the relationship and level of significance ($r=0.351$, $R^2=0.120$, $F=45.389$, $P<0.05$). The study findings revealed that there is a moderate positive and significant relationship between auditing strategy and organizational performance of public universities in Kenya.

A study by Mbobu and Ntiedo (2016) on operationalizing the Qualitative Characteristics of Financial reporting, the study adopted a survey approach. 120 copies of structured questionnaire were distributed to professional accountants in three major cities in Nigeria. The data generated from the survey was analyzed using tables, percentages, mean and descriptive analysis. The study revealed that the qualitative characteristics of financial reporting can be operationalized if we pay attention to the underneath attributes of these main characteristics, namely; relevance, faithful representation, comparability, verifiability, understandability and timeliness. Also, that, although the adoption of IFRS has greatly impacted the quality of financial reporting, training on IFRS and qualitative characteristic-based study are still scanty.

Abas (2013) carried a study on Internal Controls and Financial Reporting Quality in Privatized Companies in Uganda: A Case of Central Purchasing Company Limited (CPCL) used quantitative correlational cross-section survey and a case study research design to collect data. Stratified and purposive sampling techniques were used to select the respondents. Microsoft Excel and SPSS were used to analyze the data and to present the findings. The study revealed that, the company had average internal controls and most of them were functioning properly. The correlation coefficient of $r=0.914$ indicated that there is a strong positive relationship between internal controls and financial reporting quality.

Study carried out by Cecilia and Nunuy (2017) on the influence of internal control systems and internal audit to financial statement quality of local government. Data was conducted by taking 66 local government unit tools of the 15 districts and city in Indonesia. Data were analyzed using path analysis. The study revealed that internal control system and internal audit partially and simultaneously have positive effect on the quality of financial statements.

METHODOLOGY

This study adopted an expo facto research design with panel data. The population of the study is twenty-one (21) commercial banks in Nigeria as at 2019. Judgmental sampling technique was used in determining the sample size of sixteen (16) commercial banks in Nigeria for a period of 2011-2015. The criteria for selection are; the bank must have been in operation for at least ten years. Secondly, the annual reports of the company with relevant data to the study must be available. Secondary data was collected for this study and multiple regression analysis were used to analyze the data collected and this was computed with the aid of STATA12.

Model specification

The model formulated for this study is stated below:

$$Y = \alpha + \beta_1(X_1) + \beta_2(X_2) + \beta_3(X_3) + \dots + \epsilon$$

Where:

Y= Dependent variable (FSQ= DAC)

X₁= Audit Strategy

X₂= Audit Committee independence

X₃= Firm Size

Therefore, the model is

$$DAC_{it} = \beta_0 + \beta_1 ASTR_{it} + \beta_2 ACIN_{it} + \beta_3 FSZE_{it} + \epsilon_{it} \dots \dots \dots (1)$$

Operational Definition of Variable

Financial statement quality: It is measure as discretionary accruals (DAC) as adopted from the modified-Jones model (1995). This is determined as the difference between total accruals and non-discretionary accruals.

Measurement of financial statement quality.

This study measures the financial statement quality using absolute discretionary accruals which is generally used in accounting research. A higher value of absolute discretionary accrual implies more discretion over reported earnings and therefore lower financial statement quality and vice versa. Discretionary accrual is computed based on Modified Jones Model (1995). Modified Jones Model (1995) is stated thus:

$$\frac{TAC_{i,t}}{TA_{i,t-1}} = \beta_1 \frac{1}{TA_{i,t-1}} + \beta_2 \frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{TA_{i,t-1}} + \beta_3 \frac{GPPE_{i,t}}{TA_{i,t-1}} + \varepsilon_{i,t} \dots\dots\dots(1)$$

Where,

TAC_{i,t} = total accrual for firm i in year t,

TA_{i,t-1} = Total assets for firm i in year t-1

ΔREV_{i,t} = Change in revenue for firm i in year t,

ΔREC_{i,t} = Change in receivables for firm i in year t,

GPPE_{i,t} = Gross property, plants and equipment for firm i in year t,

β₁, β₂, β₃ = regression coefficients,

ε = error term

To compute discretionary accruals (DAC), we calculate Total current accruals as follows:

$$TAC_{i,t} = (\Delta CA_{i,t} - \Delta CLI_{i,t} - \Delta CASH_{i,t} + \Delta STDEBT_{i,t} - DEP_{i,t}) \dots\dots\dots(2)$$

Where,

TAC_{i,t} = total accrual for firm i in year t,

ΔCA_{i,t} = change in current assets for firm i in year t,

ΔCLI_{i,t} = change in current liabilities for firm i in year t,

ΔCASH_{i,t} = change in cash and cash equivalents for firm i in year t,

ΔSTDEBT_{i,t} = change in current portion of non-current liabilities for firm i in year t,

DEP_{i,t} = depreciation and amortization expenses for firm i in year t.

The residuals from Equation 1 is fitted on Equation 2 to obtain non-discretionary accruals. Then the DAC is derived using the following equation:

$$DAC_{i,t} = \frac{TAC_{i,t}}{TA_{i,t-1}} - DAC_{i,t}$$

Firm Size (FSZE): This is measured as the natural logarithm of the total asset.

Test of Hypothesis**Table 1: Summary of Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
dac	79	3.019772	1.031746	1.042216	4.281666
astr	79	3.683544	.4680649	3	4
acin	79	2.911392	.4854254	2	5
fsze	79	17.47616	2.342338	12.95451	27.61562

Source: STATA 12

Note: dac = discretionary accruals; astr = audit strategy, acin = audit committee independence, fsze = firm size.

Table 1 above shows that discretionary accruals and audit strategy has a mean response of 3.02, 3.68 and a standard deviation of 1.031746, 0.4680649 respectively. While audit committee independence and firm size has a mean of 2.91, 17.47 and standard deviation of .4854254, 2.342338 respectively.

Table 2: Regression result of Ho1: $DAC_{it} = \beta_0 + \beta_1 ASTR_{it} + \beta_2 ACIN_{it} + \beta_3 FSZE_{it} + \epsilon_{it} \dots (1)$

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. regress dac astr acin fsze
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Source	SS	df	MS	Number of obs = 79		
Model	1.48163156	3	.493877185	F(3, 75) = 0.45		
Residual	81.5494019	75	1.08732536	Prob > F = 0.7151		
Total	83.0310334	78	1.06450043	R-squared = 0.0178		
				Adj R-squared = -0.0214		
				Root MSE = 1.0427		

	dac	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
	astr	-.0310558	.2531756	-0.12	0.903	-.5354074 .4732958
	acin	-.1870669	.2560107	-0.73	0.467	-.6970663 .3229326
	fsze	.0581292	.0532086	1.09	0.278	-.0478679 .1641262
	_cons	2.662918	1.333127	2.00	0.049	.0071934 5.318642

Source: STATA 12

Table 2 reports the result of regression estimation that test Ho1. The independent variables in the model explain 0.02% of the variation in financial statement quality. Table 3 further shows a negative and highly insignificant relationship between audit strategy and discretionary accrual (p-value = 0.903). It indicates that all other variables held constant, a 1% increase in discretionary accrual will result to a .03% decrease in audit strategy of the commercial banks. Consequently, we accept the hypothesis which means that there is a no significant relationship between audit strategy and financial statement quality of commercial banks in Nigeria.

Discussion of findings and conclusion

From the test of hypothesis, the study revealed that there is no significant relationship between audit strategy and financial statement quality of commercial banks in Nigeria. This study finding is in contrast with findings of Momanyi, and Ngacho (2018) that revealed a moderate positive and significant relationship between auditing strategy and organizational performance. Also, the findings of Umaru (2010) that revealed that audit compensation and audit firm independence have significant positive impact on the financial reporting quality of quoted building material firms in Nigeria. the finding of this study may be as a result that audit strategies auditing firms do not differ since they target the same goal which providing the necessary evidence for the auditor to expression an opinion on the financial statement.

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