

OBSTACLES IN THE IMPLEMENTATION OF COMPUTER AUDITS IN NIGERIAN ORGANIZATIONS

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Abstract

Audit of computerized accounting systems remains a challenging area for many chartered accountants, primarily due to limited technical knowledge and unfamiliarity with digital audit processes. Traditionally reliant on manual sampling and voucher verification, auditors now face heightened risks in the era of globalization and Information and Communication Technology (ICT). The shift from physical "audit trails" to digital recordkeeping, often managed by external service providers, introduces potential threats, including data interference and manipulation via the internet. Using a literature review methodology, this paper examines the challenges associated with auditing computerized accounting systems and proposes practical solutions to mitigate these risks. The study emphasizes the importance of adopting computer audits as a standard practice, highlighting their role in ensuring data integrity, minimizing fraud, and enhancing the reliability of financial records. Organizations are encouraged to integrate computerized auditing into their accounting practices to address emerging audit risks effectively.

Keywords: Computer audits, Audit trail, Fraud, Computerized accounting, ICT risks

Introduction

1.1 The place of Audit in the Accounting Function

Accountants can be broadly divided into two spheres: those in public practice and those who are in private employment. The accountants in public practice offer their services for conducting financial and cost audits, designing of accounting system for a fee and rendering professional services for better management of organizations. The chartered accountant is an invaluable asset to organizations in any of the following economic sectors: government establishments, educational institutions as well as commerce and industries.

The Chartered Accountant is capable of rendering the following services:

(a) Accounting Services

- Setting up a sound accounting system including computerization of manual systems,
- Preparation, maintenance and adequate record keeping of all financial transactions,
- Preparation of annual accounts and report,
- Establishment and operational maintenance of payroll systems, and
- Assisting in the improvement of internal control system.

(b) Management Services

- Analysis and interpretation of accounts and showing areas of weakness, strengths and emphasis,
- Project analysis and appraisals,
- Cash / working capital management,
- Treasury management,
- Designing and maintenance of accounting and management information systems,
- Conducting feasibility studies and preparation of feasibility reports,
- Personnel recruitment and manpower development, and
- Company formation and registration and general advice on company secretarial matters including filing annual returns and allied documents with the registrar of companies.

(c) Taxation Services

- Preparation of tax computations and agreeing tax liabilities with the revenue authorities, and
- Business and personal tax planning

(d) Auditing and Investigation Services

- Auditing for financial statements to comply with statutory requirements, and - Investigation on financial matters. Computer audit falls within the realm of auditing and investigations. According to Olusanya (2001) auditing is an examination and evaluation of the authenticity and therefore the reliability of an organization's business documents and records. It also involves making an enquiry to ascertain that the financial statement on which the auditor is reporting and which have been prepared from those records, represent a true and fair view of the state of affairs at the end of the financial year.

Audit exercises involve the auditor in the random collection of evidence by means of sampling technique. With the use of the scientific method of sampling and the setting of materiality levels, there are many transactions, which are not considered, although their sum total may ultimately be substantial. As has become common knowledge, sampling is not necessarily an effective way to uncover fraud in the whole population since only the few transactions that are tested can be claimed to be free of fraud. Therefore, if the auditor is to adequately satisfy the fraud detection needs of clients, he must go beyond sampling by carrying out more detailed analysis and comparison which would be more consuming as well as costly. It must be known that the user of the financial statement is not interested in the constraints faced by the auditor in the discharge of his duties, but the rewards accruing from the audit. These are some of the problems in the traditional audit.

1.2 Manual V Computer Audits

The major difference between the manual system of audit and the Electronic Data Processing (EDP) audit is that some unparalleled or unique problems exist within a computer environment. The auditor is as a result forced to change traditional audit programme when these problems are evaluated.

The problems, which may exist in an EDP environment, include particularly the following;

- Documentary evidence is often available in manual control procedure but many procedures in a computer system do not give rise to the creation of documents, a fact that leads to what is termed "Audit Trail".

- The complexity of computer system makes it more difficult to understand than manual audit which can be understood in a matter of hours. A computerized system cannot usually be comprehended without expert know-how.

2. Evaluation of Accounting and Auditing Dynamics

The practice of accounting and auditing are constantly changed, not only continuously but rapidly too. Here is an attempt, even if briefly, to discuss the evolutions in accounting and auditing.

2.1 The Traditional Responsibility

The knowledge that an entity's financial statements will be audited deters many people from perpetrating the more obvious types of fraud (Randle, 2003). Detection of fraud is made more difficult with the existence of conclusion between directors and (or) top management. Yet the primary responsibility to prevent fraud rests with the directors who quite often become themselves the looters of the assets in their care. The auditor must in order to avert a charge of possible negligence, adequately plan, perform and evaluate his audit work so as to have reasonable expectation of detecting material misrepresentations in the financial statements, whether caused by fraud, errors or other irregularities.

2.2 The Skill Renewal Process

Given the unpredictable dynamics of the business environment and the trend towards globalization of the profession, the Mandatory Continuing Professional Education (MCPE) programme of the Institute of Chartered Accountants of Nigeria (ICAN) was introduced for all members of the Institute to ensure their technical competence at all times. The programme entails that a member must attend 60 hours of structured learning in two years in line with the recommendation of the International Federation of Accountants (IFAC). This underscores the importance attached to skill renewal which is a necessary ingredient in the process of economic growth and development in the 21st Century (Randle, 2003). Auditors are beneficiaries in this scheme and they are compelled to embrace this all important constant skill renewal which traverses all aspects of their work including computer audit.

2.3 The Anti-Corruption Crusade

The auditors' responsibilities in the 21st century cannot be expected to be primarily that of watchdogs against corruption or law enforcement agents, but their strategic positions in business, coupled with their integrity, objectivity and the determination to protect public interest, make them essential players in the efforts of the society to reduce corruption. The challenge of stemming the tide of corruption faces all accountants including the auditor, who examines the books of accounts of companies. As managers of corporate resources and custodians of financial information upon which depend all rational economic decisions, auditors have enormous role to play in this noble crusade.

2.4 Professional Specializations

The hallmark of professionalism is technical competence. Since accountants are custodians of financial information upon which depends all business decisions, this is compulsory in an effort to promote specialization within the profession and ensure that the technical skills of chartered accountants were constantly updated, various sections and facilities were created in the profession. Within the Institute of Chartered Accountants of Nigeria,

these faculties/ sections exist; Chartered Accountants in Information Technology. The profession is already planning for the 21st century through these faculties, which serve as the bridge between today and the future. Already, there is adequate plan for chartered accountants to specialize in information technology, nay computer audits. A good number of auditors belong to the body of Chartered Information and Systems Audit (CISA). The membership of this body is expected to grow with time to abridge the supply/demand gap for the members. ICAN plans to introduce the

Technology Competence Initiative (TCI), which dwells on the need for professionals to brace up for the digital age. The exams of TCI will be held twice a year and successful candidates will be awarded Chartered Accountants Certificate in Information Technology Practice (CACITP).

3. Innovations in Information Technology

A large number of changes have taken place in the field of Information Technology. The paper again attempts to identify and highlight some of them.

3.1 Internet Accounting and E-Commerce

The world has been watching the growing impact of the Internet on business today. Presently, the Internet is predominantly document oriented as companies use it for E-mail, web publishing of catalogues and other general corporate information. Internet accounting is currently focused on expanding the functionality of accounting applications (Ekeigwe, 1998). **E-commerce is the process of conducting business over the Internet by electronic rather than paper based methods.** The following technological possibilities are also in existence.

a. Electronic Data Interchange (EDI): a standard method of exchanging documents, such as invoices, between companies that may have incompatible hardware and/or software. Electronic form filing and transmission is far quicker than manually completing a form and then posting it.

b. Secure Electronic Transmission (SET): an extension of EDI so that monies can be transferred primarily through credit card payments. Each of these technologies raises risks for firms engaged in using them, and by extension, for their auditors.

3.2 Auditing and Accounting Packages

The computer is now essential equipment for an auditor. The following useful packages are now in use:

- File interrogation packages e.g. to search sales ledger,
- Audit programme generators,
- Checklist generators,
- Spreadsheets for calculations, listings, etc,
- Word processors to generate documents and store audit working papers and reports, - Relational databases,
- Reference information over the internet-all regulations and rules governing auditing and accounting can be searched together with all the world's information on any matter,
- Systems documentation,
- Risk analysis of software,
- Trial balance processors, and

- Time management software.

4. Information Technology and Auditing

What are the gifts of information technology to auditing? Are there any drawback(s)? Again, the paper attempts to identify them as follows:

4.1 The Benefits of Computer Audits

- Files are kept in a more compact form,
- Audit staff adheres to systems designed for optimal auditing,
- Automatic generation of audit plans, programmes schedules and procedures,
- Less time spent on traditional auditing involving people, objects and clients records,
- Instant availability of information on a wide range of audit related subjects,
- Savings due to more efficient working,
- Better compliance with audit firm procedures and IASs,
- The creation of data for audit examination or analytical review that is not readily available from client records,
- Better public relations as clients expect and demand that their auditors are up-to-date and efficient,
- Creation of networks such that on-line supervision becomes possible, and
- Freeing audit personnel to think rather than merely go through procedures.

The Drawbacks of Computer Audit

The following computer audit risks (problems) can be identified;

- **Systems breakdown:** A system breakdown can create going concern problems. Failure of internet service providers or of web-based outsourcing supplier.
- **Confidentiality:** Data, which may be commercially sensitive, may be obtained by hackers or by other means when systems are widely dispersed in and beyond the company. Because companies now put their financial statements on the web, this can pose confidentiality problems to the auditor.
- **Viruses:** Computer viruses can spread very rapidly and can cause systems failure.
- **Integrity:** Data may become corrupted or be unauthorized or duplicated or lost when it is held entirely by electronic means.
- **Health and safety:** Continuous exposure to computer screens may damage employees' health and lead to actions for damages.
- **Competition:** The web is universal provider of information including product information. International business can easily be mediated through the net.
- **Fraud:** The complexity and anonymity of modern I. T. systems make fraud a possibility and its detection more unlikely.
- **Lack of audit trail:** The era of paper work will soon become a thing of a past while paperless offices will soon be the in thing.
- There is lack of appropriate technical skills of audit personnel.

- Investment needs on computer gadgets is high and continuous. Do companies have the means?
- Selling on-line through the internet is a new way of doing business, which has come to stay. This causes unemployment problems.
- **Money laundering:** This is obtaining money illegally is facilitated by I. T. systems.
- Many companies now put their financial statements on the web. This can create far reaching problems to the auditor. Millichamp (2002) sees the problems as follows: o Audited information will not be identified by pages, o Audited and mandate accounts may not be distinguished, o Audited information can easily be changed, and Linked information can be changed (information are linked by means of hyperlinks).

5. The Challenges in Computer Audits and Solutions to the Problems

At this level of globalization and internet, the auditor finds himself carrying out some challenging roles so as to abreast with the emerging developmental processes in technology as has been highlighted. The paper further attempts to discuss the challenges and their solutions as follows:

- (i) On the need for technical expertise in the audit firm on information technology, auditors should pursue and embrace the needed expertise. The solution is to embrace I. T. and task oneself to learn.
- (ii) E-Commerce presents great risk to companies, which engage in it. Some auditors may feel they do not have the necessary skill to tackle them and may play safe by not accepting the audit risks involved and thereby fail to renew their audit engagements. Continuous education and up-to-date audit skill is the answer to this problem. The auditor should obtain the detailed knowledge of the business and especially of the risk facing the client and evaluate the risk of each particular audit.
- (iii) A lot of attention should be given to the going concern problem, which can result from systems breakdown. There should be assurance that the client has some form of business continuity planning in the case of systems failure.

Internal audit function faces enormous challenges in the 21st century and particularly requires attention. Internal audit departments should not only be seen to exist in companies but should be beefed-up with a more technically sound audit staff. The external auditor should liaise with the internal auditor and continuously assess and reassess the internal audit functions.

- (iv) Some sources of the computer system may be outsourced. This can create the question of price, quality and functionality of the system bought. The auditor should examine and assess the control in place in connection with outsourced processing. Computers, their accessories as well as accounting packages should be obtained from the right source.

- (v) The 21st century will witness a different focus on controls. There will be greater attention to the actual execution of the transaction rather than on recording and storage of transaction as has been the case. The Auditor should examine and assess the specific controls in force. Auditing round the computer will be in practical as the understanding and the testing of the computerized controls and using the computer as an audit tool will be necessary.

- (vi) Audit firms will be more involved in advisory or consultancy role in setting up systems for clients engaging in e-commerce. This may give rise to conflict of interest as the auditor will now be playing the dual role

of assessing internal controls on one hand and the application of the control on the other. The auditor should continually evaluate control existing in the client system and make recommendation on their improvements.

The paper summarizes by introducing the American Institute of Certified Public Accountants (A.I.C.P.A) document where it codified its strategies captioned “(CPA) Vision Project: 2011 and Beyond”. The following institutional strategies of the accounting profession are contained in the document.

Core value: The essential and enduring beliefs upheld overtime. Core value enables us to retain our unique character.

Core services: The work auditors perform for a fee or salary. The work of auditor is challenging and elicits premium reward for himself, his employer and client.

Core competencies: A unique combination of human skills, knowledge and technology that provide value and results to user. Combinations of values keep the auditor afloat in computer audits in the years ahead. The fact that professional bodies locally and internationally are not only aware but are actually taking positive steps about the problems confronting the auditor in the area of information technology. The auditor is faced with immense prospect in the 21st century.

Conclusion and Recommendation

The paper has tried to discuss the distinction between manual and computer auditing. It also portrayed, even in details, the various functions of accounting personnel and identified the place of the auditor in the stewardship function. It also went at length to identify the various terminologies common in information technology (I.T) world and discussed the internet, even if briefly.

The paper was also able to observe that auditing is a dynamic discipline, coupled with the obvious fact that computers and the web are changing the face of auditing and catch up with the emerging technologies. These pose challenges on computer audits and it attempted to highlight the challenges as well as the solution to the problems.

In view of the enormous benefits accruable from computer Audits, it is recommended that computer Audits should be adopted by organizations. This is so because the benefits far outweigh the challenges.

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