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AN ANALYSIS OF EMPIRICAL APPLICABILITY OF AUDITING IN A CLOUD ENVIRONMENT IN NIGERIA

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ABSTRACT: *This study examined an empirical analysis of auditing in a cloud accounting environment in Nigeria: prospects and challenges. The research design used in the study was a survey method. The technique made sure the researcher could describe a sizable population at a specific time by gathering data from the chosen sample at that time. The population of the study consists of the staff of selected audit and accounting companies in Abuja. The staff is made up of two hundred and eighty-seven (287) persons. The sample size of 164 respondents was derived using Cochran statistics. Frequency tables and percentages were adopted to analyze the demographic characteristics of the respondents and leading research questions while the independent sample t-analysis was adopted to test the hypotheses of the study. The major findings of the study are that there are no significant problems with auditing in a cloud accounting environment in Nigeria and there are significant prospects with auditing in a cloud accounting environment in Nigeria. It is therefore the recommendation of the study that for more benefits of cloud computing to be more harnessed, internet services should be adequately provided, and this should be supported by training and retraining of staff in the usage of information systems.*

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INTRODUCTION

The adoption of cloud computing in accounting practices, most especially in Nigeria, is presumed to be highly imperative due to cost-effectiveness as well as efficiency in reporting and delivery of financial data. It also needs to be stressed that data credibility will either directly or indirectly influence the decision-making of creditors and other economic agents in terms of speculations regarding the level of risk and prospect of their investments (Iwuchukwu, Atimati, Ndukwe & Iwuamadi, 2017). In line with this new innovation called cloud computing, many businesses are now equipped with needed resources to deliver cutting-edge services that are easily accessible to their users/customers (Scholastica & Francisca, 2019). It is not an understatement to say that many things have changed in the field of accounting practices in the era of emerging technology. As a matter of fact, using computer application programmes to carry out accounting tasks such as functions of financial reporting is one of the recent breakthroughs in the technological world (Imene & Imhanzenobeone, 2020).

Cloud computing has greatly improved upon the old way of processing accounting which was a purely paper-based process that is time-consuming compared to IT-based models that will carry out the job in an effective and efficient manner without delay. Technology innovation, especially the computer, has succeeded in becoming part of the accounting world and business cycle; in fact, we can see the areas of business that are not computerized in a way that financial information becomes easily accessible with less stress in placing an order for materials required for production (inventory control system). The introduction of cloud computing into accounting systems has considerably assisted most firms to run effectively and efficiently, most especially in terms of resource management. It has also helped some organizations to expand their scope, become more adaptable to environmental changes, and increase their profitability (Kuliya, Zaharaddeen, Kabir & Addulkadir, 2015). Before now, auditing was carried out outside cloud computing technology in Nigeria. However, with the emergence of cloud computing, there is a need to ascertain the challenges or advantages faced by the act of auditing. It is based on the above that this study is aimed at carrying out an empirical analysis of auditing in a cloud accounting environment in Nigeria: prospects and challenges.

As we are moving into a new digital age, the popularity of cloud accounting is rapidly increasing. It is changing the way business organizations are operating as well as managing their financial information. Now, organizations do not need to install and maintain software on individual desktop computers; they can access information from the remote area having the same version of the software (Thomas, 2016). Those who have discovered and learned to love cloud accounting feel as if it has been around forever. Yet, it is a relatively new kid on the block. Despite the fact that the concept of cloud accounting is now a buzzword, the accounting practitioners for all business firms, including small- and medium-sized enterprises in Nigeria, have to face upcoming challenges to face the technological impact-based Internet. It is a totally new concept in Nigeria, but to compete in the global market, we should concentrate more on gaining a competitive advantage like developed countries are enjoying. It is believed that, in this modern age, people of all developed countries are benefiting from the cloud and its various applications in the next decades for official and personal use, while in Nigeria, people are not thinking about the emerging gifts offered by the cloud (George, 2018).

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LITERATURE REVIEW

Review of Concepts

Concept of Auditing

The word "audit" is a very generic word; it essentially means to examine something thoroughly. However, we will be learning about auditing as it relates to accounting and the finance world. So audit means the thorough inspection of the books of accounts of the organization. This involves the examination of vouchers and the verification of various assets of the organization. The person who carries out such an audit is known as the auditor (Klein, 2016). The International Federation of Accountants (2001) has given the following definition of an audit: "Audit is an independent inspection of the financial information of any organization, whether profit-oriented or not profit-oriented, irrespective of its legal form, status or size when such examination is conducted with a view to express an opinion thereof."

Audit Quality

Audit quality is arguable but difficult to understand (Knechel 2013), because an audit process involves the application of testing procedures that could not be experimental by users of the financial statement (Hussainey, 2019). DeAngelo (2011) defines audit quality as the market-assessed joint probability that a given auditor will both (a) discover a gap in the client's accounting systems, and (b) report the gap. The auditor's capacity to detect any error is related to the auditor's competence, and willingness to report the errors is related to the auditor's independence (Shafie, 2019). Hussainey (2019) defined audit quality as the accuracy of information an auditor provided for the investors. Suleiman, Yasin, and Muhamad (2018) posited that there are three main perspectives related to audit quality which add to our understanding of the factors affecting audit quality in practice. First, they identified the multifaceted concept of the term audit quality. Second, that audit quality is affected by both internal factors within the accounting firms and contextual factors affecting the accounting firm operations. Third, earlier researchers adopted an old approach that limited information about the understanding of audit quality.

Cloud Computing

With respect to Nigeria cloud computing policy, cloud computing is termed as computing model developed for ubiquitous conveniences, for accessing on demand and real time network access, pool of configurable and rapidly provisioned computing resources such as networks, servers, storage, applications and services, among others, which are required by FPIs and SMEs to carry out their businesses and operations (National Information Technology Development Agency, 2019). Lending credence to this definition, the National Institute of Standards and Technology (NIST) also describes cloud computing as a model developed to enable convenience while accessing on-demand network access to a shared pool of data services that can be quickly provisioned and released with little management effort. Cloud computing also refers to various technologies put in place to allow easy access to computer hardware and software that are already installed on the computer or elsewhere in the network which is made available to you as a service by another business over the Internet. It was opined that cloud computing is a technology that leverages the internet, in addition to centralized remote servers, to maintain data and applications.

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Consequently, cloud computing is an accounting software that enables users to store files, transfer files, and run applications online. According to NIST, cloud computing is advantageous for both cloud service providers and cloud service users. It is also unique in the history of information technology since cloud computing resources can scale to meet service needs without needing to be compensated for this large size. Users need processing power on the server side to get responsive web-based apps, which calls for minimal requirements for electronic devices (Ehioghiren & Ojeaga, 2022). The availability of computer system resources based on demand, particularly for data storage and processing power, without the user directly managing them continuously, is known as cloud computing. Most often, the term "cloud computing" refers to data centers that are accessible to several users via the Internet. Functions from central servers are frequently spread over many locations by large clouds. Enterprise clouds are only available to one business; public clouds are accessible to different firms; or hybrid clouds combine both of these options.

Cost Effectiveness

Cloud computing has been very effective in reducing the cost of information and the huge capital incurred on investments which are supposed to be expended on keeping records. Protection of capital under this method is by keeping capital and operational expense at barest minimum and this protection can be very important to small- and medium-scale enterprises. Businesses that experience peak periods or fluctuating seasonal personnel may temporarily increase capacities to match their recurring business peaks by using cloud services rather than investing in software or infrastructure that would sit idle during down periods.

Security Effectiveness

Cloud computing is also important because it keeps all financial information secured. According to Haslinda et al. (2017), keeping data on a desktop is insufficient because the system could be infected by a virus, which would result in the loss of all the data saved there. Additionally, there is a possibility that a file could be stolen from a personal or office system, but if all financial information are stored online, there will be no loss even if the desktop and hard drive files are infected with a virus, since it is accessible through the cloud.

Theoretical Framework

This study is anchored on three theories, namely agency theory, stakeholder theory, and legitimacy theory.

Agency Theory

Jensen and Meckling (1976) propounded the agency theory. Agency theory is the principle that explains the nature of the agency relationship as a result of the separation of ownership from the management of a business. The separation of ownership from the management of a company could lead to a possible conflict of interest between the shareholders (principals) and the directors (agents). The principal (shareholders) appoints the agents (management) to take decisions for the running of the business on their behalf. To ensure that the business is being run in the interest of the owners, auditing plays a vital role in reducing information asymmetry by helping to confirm the validity of the financial statements. Information asymmetry relates to the study of decisions in which one party has more or superior information than the other(s). The information asymmetry that exists between the principals and agent, in whom the

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management betrays the fiduciary responsibility to the shareholders, gives the opportunity for conflict which betrays the confidence the principal places in the management. Therefore, auditors are employed by the principals as a third party in order to strengthen this trust by aligning the interests of agents with the principals. Auditors can only strengthen this interest through a complete mechanism of audit quality. Agency theory, therefore, is a practical economic theory of accountability, which helps to explain the usefulness of audit quality.

Stakeholder Theory

Stakeholder theory was the work of Freema Edward (1984). The theory created awareness of the relationship between a company and its many stakeholders. The theory suggests that a company's stakeholders include people like employees, customers, vendors, contractors, and shareholders, including institutions like banks, government bodies, oversight organizations, and the likes. They can be affected by the records of the firm or its failure. The theory states that a company's stakeholders are interdependent and the value created by the company belongs to all of them, which means that the company has an obligation to distribute its profit to all stakeholders. A company's success is measured in the way the company satisfies all the stakeholders and not just shareholders. Therefore, managers have special obligations to ensure that all stakeholders receive a fair return from the stake they hold in the company (Donaldson & Preston, 1995). The auditor is expected to make the audit accountable to all stakeholders in discharging his legal responsibility of expressing an opinion on the financial statements for decision-making. The reliability of the auditor's report to all stakeholders depends on the audit quality exercised by the auditor which invariably impacts the company's performance.

Legitimacy Theory

Legitimacy theory is championed by Suchman (1995) which dominates the auditing and accounting literature. Legitimacy theory has the role of explaining the behavior of organizations in developing and implementing voluntary social and environmental disclosure of information which enables them to fulfill their social contract which is the recognition of their objectives and the survival in a turbulent business environment. The organization's activities are reported in accordance with the expectations of the general society. When an organization fails to respect social and moral values, the organization would be sanctioned by society; these sanctions may even lead to the failure of such an organization. It is expected that the organization justifies its existence through legitimate economic and social actions that benefit the society in which the organization operates. The environmental and economic challenges to the organization mean that the organization must respect the rules, values, and norms of society and voluntarily disclose social and environmental information to prove compliance. Legitimacy theory has a very rich disciplinary background based on management theory, institutional theory, and stakeholder theory. The legitimacy literature suggests that the survival of an organization depends on its legitimating processes and how the ever-constant pressures and challenges are managed. Therefore, the legitimacy theory made it necessary for firms to disclose useful information which is vital to the survival of the business. Useful information provided by the firm helps to enhance the audit quality of the firm. This study is thus anchored on agency theory credited to Jensen and Meckling (1976).

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Empirical Studies

Khan, Abdul and Ntim (2019) explored the impact of board diversity and audit on firm performance in Pakistan. The study looked at board diversity in terms of its nationality and gender as a proxy for audit quality. The study sample comprises listed companies in Pakistan Stock Exchange (PSE) 100 Index. PSE-100 index is selected on the basis of sector representation and highest market capitalization. Data collected span from 2008 to 2017 and quantitative techniques from econometrics on panel data were deployed. The finding suggests that the presence of female board members contributes to firm performance while the number of female board members does not contribute to firm performance.

Ezejiofor and Erhirhie (2018) investigated the effect of audit quality on financial performance: evidence from deposit money banks in Nigeria. Secondary data collected from the annual reports and accounts of quoted Nigerian deposit money banks were used for the study. Regression analysis and coefficient correlation were employed to test the variables of interest. The results of the investigation revealed that audit quality has a significant effect on the financial performance of Nigerian deposit money banks. The study therefore recommends that Nigerian money deposit banks should increase the number of their foreign directors in its management cadre and especially those with the requisite skill, experience, who have integrity to protect.

Ogbodo and Akabuogu (2018) explored the effect of audit quality on the financial performance of selected banks in Nigeria. The study represented audit quality by audit firm size and audit committee independence. The objectives of their study were to examine the effects of audit firm size on company assets and to determine the extent of audit committee independence on profit margin. The sample of study consists of sixteen deposit money banks in Nigeria quoted on the Stock Exchange. The data of the study covered a period of 2008-2017. Regression statistical tool using the Scientific Package for Social Science (SPSS) version 20 was employed for the data analysis. The result reveals that firm size has significant effects on the return of assets of quoted Nigerian banks. Another finding is that Audit Committee Independence has a significant effect on the return of equity (ROE) of quoted Nigerian banks. The study recommended that companies should use the services of audit firms with impeccable records of audit quality and possibly of high reputation.

Abid, Shaique and Anwar (2018) examined whether big four auditors always provide higher audit quality in Pakistan. A sample of secondary data of 183 firms listed on the Karachi Stock Exchange was used covering a period of 2009-2013. The study deployed signed discretionary and performance-adjusted discretionary accruals as proxies for earnings management, and audit firm size (Big 4 vs. Non-Big 4) and audit opinion type (Qualified vs. Unqualified) as measures for audit quality. The finding reveals that there is no significant difference between earning management of firms audited by Big 4 and non Big 4 auditors.

Tyokoso, U-ungwa and Ojonimi (2017) examined the Effect of Audit Quality on Performance of Deposit Money Banks (DMBs) in Nigeria. Secondary data extracted from the annual report and accounts of 8 DMBs were analyzed. Panel multiple regression technique was used in the analysis. The result shows that auditor tenure, which serves as a proxy for audit quality, has a significant effect on Tobin’s Q (Total market value of the firm / total assets value of the firm) of DMBs in Nigeria. Conversely, client importance has a significant negative relationship with Tobin’s Q while audit firm size and auditor specialisation respectively have an insignificant

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positive and negative effect on Tobin's Q of DMBs in Nigeria. The study recommends tenure of three years and above for auditors in order to enhance the performance of the deposit money banks in Nigeria.

Zayol and Kukeng (2017) investigated the effect of auditor Independence on audit quality: a review of literature in Nigeria. The study employed ex post facto research design. Secondary data from journals, textbooks and other internet materials were used. The finding shows that there is a strong relationship between auditor's independence and audit quality. Further findings reveal four threats to auditor independence, which are client importance, non-audit services (NAS), audit tenure, and client's affiliation with firms. The study recommended that more study should be carried out in the four threats in other sectors of the economy, such as manufacturing, transport, media, education, etc.

Motoke and Omwenga (2016) assessed audit quality and financial performances of companies listed in Nairobi Securities Exchange (NSE) violet. The study's objectives were to determine the effect of auditor's independence, audit team and auditor's experience on financial performance. A sample of data was drawn from the nine listed companies in Kenya. The study employed both primary and secondary data. Descriptive statistics using SPSS were adopted. Data was analysed by using multiple linear regression analysis. The findings reveal that audit quality and financial performance are positive and significant, audit size was also positive and significant but audit independence is of lesser impact. The study recommended that management of listed companies should employ the services of one of the big audit firms, and where management cannot reach the firm, they should consider other firms with good characteristics and integrity that is beyond question.

METHODS

Design

The plan and structure of the research design serves as a roadmap for the investigator as they gather, analyze, and interpret data. It is a logical model or argument that enables the researcher to make deductions about the causal relationship between the variables under investigation (Njoku, 2014). The research design used in the study was a survey method. The technique made sure the researcher could describe a sizable population at a specific time by gathering data from the chosen sample at that time. The technique was used because it allowed the researcher to represent the various components of the population under study with the sample that was drawn.

Population of the Study

The population of the study consists of the staff of selected audit and accounting companies in Abuja. The staff is made up of two hundred and eighty-seven (287) persons.

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Sample Size Determination

For this research, the sample size was derived using Cochran's (1963:75) sample size formula. This is given as:

$$n = \frac{n_0}{1 + \frac{(n_0 - 1)}{N}} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(3.1)}$$

where:

n_o = Representative sample for proportions

n = Sample Size

N = Population Size

e = Allowable sampling error taken at 5% = 0.05

p = Proportion of success in the population from pilot survey = 0.50

q = proportion of failure in the population from pilot survey = 0.50

However:

$$n_0 = \frac{Z^2 pq}{e^2} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(3.2)}$$

where; Z^2 is the abscissa of the normal curve (1.96), q is 1-p and e is the allowable sample error (0.05).

Substituting these values into Equation 3.2, we have:

$$n_0 = \frac{Z^2 pq}{e^2} = \frac{(1.96)^2 (0.5)(0.5)}{(0.05)^2} = 385 \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(3.3)}$$

Substituting n_o = 385 from Equation 3.3 into Equation 3.1, we have:

$$n = \frac{385}{1 + \frac{(385 - 1)}{287}}$$

$$n = \frac{385}{1 + 1.3379790941}$$

$$n = \frac{385}{2.3379790941} = 164$$

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Having applied the Cochran sample size derivation statistic, the value derived was one hundred and sixty-four (164); hence, the sample size for this study is one hundred and sixty-four respondents.

Sampling Technique

The researcher in the course of conducting this study used the simple random sampling techniques. Simple random sampling was used as the sampling technique for the reason that the method ensures equal chance of selection among the respondents, but also, the method avoids and minimizes biasness; hence, there is enhanced validity and reliability.

Instrument for Data Collection

For the purpose of this study, primary data was employed. The data was collected with the aid of a questionnaire that is properly drafted using the 5 scale Likert system for questionnaire. The questionnaire was adopted because it has the following advantages, such as, it allows for large number of information to be collected from a large number of people in a short time period, the results of the questionnaire can be quickly and easily quantified by the researcher, can be analyzed scientifically and when the data has been quantified, it can be used to compare and contrast other researches.

Validation of the Instrument

Validity refers to the ability of a scale to measure what it is designed to measure. The validity of measurement was established through content validity which was given to other researchers to ascertain whether the questionnaire item adequately covers the domain of the construct.

Reliability of the Instrument

A reliability test was conducted on the instrument to determine how consistent the responses are. The researcher utilized a test/retest method of reliability testing whereby the questionnaire was administered at two different times to the same group of respondents. The Cronbach Alpha reliability test was utilized to conduct the reliability test. A Cronbach alpha coefficient of 0.78 was derived and was considered acceptable.

Administration of the Instrument

The major instrument for data collection in this study was the questionnaire. The questionnaire covered information on the socio-demographic characteristics of the respondents. The questionnaire was designed to have two sections. Specifically, all questions in Section 'A' were drawn to provide some general and demographic information of the respondents, while the remaining questions in section 'B' were formed and directed to address the research questions. The instrument was designed in a 5-point Likert scale format. The scales ranged from 5 (Strongly Agree) to 1 (Strongly Disagree).

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METHOD OF DATA ANALYSIS

Frequency tables and percentages were adopted to analyse the demographic characteristics of the respondents and leading research questions while the independent sample t analysis was adopted to test the hypotheses of the study.

Software for Data Analysis

The software used in this study is the Statistical Package for Social Sciences (**SPSS**) version 23.

RESULTS AND DISCUSSION

In this part of the research, information generated through the distribution of well-structured questionnaires was analyzed using the tabled frequencies and corresponding percentages of the demographic characteristics of the respondents. The hypotheses of the study were tested using Ordinary Least Squares (OLS) technique with the application of regression analysis. The statistical software employed is the statistical package for social sciences (SPSS). In the course of the study, 164 questionnaires were distributed but 148 were retrieved from the respondents.

Table 1: Gender Distribution of the Respondents

Gender	Frequency	Percentage
Male	89	60
Female	59	40
Total	**148**	**100**

Source: *Field Survey, 2023.*

Table 1 reveals that 60% of the respondents are males while 40% of the respondents are females. This implies that there are more male employees among the respondents than female ones in the selected audit and accounting companies.

Table 2: Age Distribution of the Respondent

Age (In Years)	Frequency	Percentage
18-25	25	17
26-35	29	20
36-45	78	53
46 and above	16	10
Total	**148**	**100**

Source: *Field Survey, 2023.*

It can be clearly seen that Table 2 shows that 25 (17%) are between the ages of 18-25 years of age, 29 (20%) of the respondents are between 26-35 years of age, 53% corresponding to 78 respondents are between 36-45 years and 16 (10%) between the ages of 46 years or above. This implies that a greater number of the respondents are within the 36-45 years age bracket.

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Table 3: Respondent Years of Working Experience

Working Experience	Frequency	Percentage
1-3	11	7
4-6	29	20
6 years and above	108	73
Total	**148**	**100**

Source: *Field Survey, 2023.*

Table 3 statistically shows that only 7% of the respondents (representing two persons) have 1-3 years of working experience, 20% (representing 29 persons) have 4-6 years of working experience while 73% (representing 108 persons) have working experience that is 6 years and above. This information showed that the majority of the respondents have acquired good working experience and therefore should have a good knowledge of the study variables.

Test of Hypotheses

Hypothesis 1

Ho: There are no significant problems with auditing in a cloud accounting environment in Nigeria.

Table 4:
Independent Samples t-test

	Levene's Test for Equality of Variances		t-test for Equality of Means						
								95% Confidence Interval of the Difference	
	F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Equal variances assumed	208.552	.000	3.095	27	.005	.36364	.11751	.12253	.60474
Equal variances not assumed			2.390	10.000	.038	.36364	.15212	.02469	.70258

From Table 4, the independent sample t-test gave an f-value of 208.552 and a t-value of 2.390 and this is significant at .000. Since .000 is less than 0.05, this means that at .05 level of significance, the p-value of .000 is significant. This implies that there are no significant problems with auditing in a cloud accounting environment in Nigeria.

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Hypothesis 2

Ho2: There are no significant prospects with auditing in a cloud accounting environment in Nigeria.

Table 5
Independent Samples t-test

	Levene's Test for Equality of Variances		T-test for Equality of Means						
								95% Confidence Interval of the Difference	
	F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Equal variances assumed	66.336	.000	1.792	43	.080	.35897	.20034	-.04505	.76300
Equal variances not assumed			4.613	38.000	.000	.35897	.07782	.20144	.51651

From Table 5, the independent sample t-test gave an f-value of 66.336 and t-value of 4.613 and this is significant at .000. Since .000 is less than 0.05, this means that at .05 level of significance, the p-value of .000 is significant. This implies that there are significant prospects with auditing in a cloud accounting environment in Nigeria.

IMPLICATIONS, CONCLUSION, AND RECOMMENDATIONS

IMPLICATIONS

The implications of this study clearly show that auditing in a cloud accounting environment has come to stay. The major findings of the study clearly show that there are no significant problems and there are significant prospects in auditing in a cloud accounting environment in Nigeria. This entails that auditors and other accounting practitioners should equip themselves with the skills of cloud technology to remain relevant in the field.

CONCLUSION

Based on the findings of the study, it can be concluded that there are no significant problems in auditing in a cloud accounting environment and there are also corresponding prospects.

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RECOMMENDATIONS

Based on the findings of the study, the following recommendations are suggested:

1. For the benefits of cloud computing to be more harnessed, internet services should be adequately provided and this should be supported by training and retraining of staff in the usage of information systems.

2. There should be consistent research to ensure there is no unforeseen major problem that may blur the prospects of auditing in a cloud accounting environment.

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