Policeman Theory and Contemporary Auditing in Nigeria: An Empirical Investigation of Past and Present

Israel S. Akinadewo[1], Muyiwa E. Dagunduro[2], Bankole O. Osaloni[3] & Jeremiah O. Akinadewo[4]
[1,2,3,4]Department of Accounting, Afe Babalola University, Ado-Ekiti, Ekiti State, Nigeria; [1] Corresponding Author: Dr. Israel Akinadewo, Department of Accounting, Afe Babalola University, Ado-Ekiti, Ekiti State, Nigeria. omoeri@abuad.edu.ng

doi: https://doi.org/10.37745/ejaafr.2013/vol12n15673 Published December 26, 2023

Citation: Akinadewo I.S., Dagunduro M.E., Osaloni B.O., and Akinadewo J.O. (2024) Policeman Theory and Contemporary Auditing in Nigeria: An Empirical Investigation of Past and Present, *European Journal of Accounting, Auditing and Finance Research*, Vol.12, No. 1, pp.56-73

ABSTRACT: *There has been a misconception among certain stakeholders regarding the principal responsibility of auditors concerning financial statements. This misconception revolves around the belief that statutory auditors bear the responsibility for detecting fraud and errors within an organization, aligning with the concept known as the "policeman's theory." This research aimed to investigate the impact of the policeman's theory on contemporary auditing practices in Nigeria. The study employed a combination of primary data collection through structured questionnaires and secondary data from extant literature. Findings revealed that the roles and responsibilities of external auditors have undergone significant evolution over the years, among others. As a result of these findings, it is recommended that statutory auditors should prioritize the implementation of robust quality control measures in their audit engagements.*

KEYWORDS: contemporary auditing, financial statements, fraud, policeman theory, statutory auditors

INTRODUCTION

The landscape of auditing in Nigeria, like in many other nations, has undergone significant transformations over the years. Auditing, as a critical aspect of financial accountability and transparency, has been influenced by a myriad of factors, including regulatory changes, technological advancements, and shifts in auditing practices and theories (Akindime, 2019). One intriguing theory that has shaped the course of auditing in Nigeria is the "Policeman Theory," which posits that auditors serve as financial policemen entrusted with the responsibility of ensuring that financial statements accurately represent the financial position of an organization (Chukwu et al., 2019).

The misconception that statutory auditors' primary responsibility is to detect fraud has persisted among many people, influenced by the Policeman Theory. This theory, which originated in the 20th century, implied that auditors' initial duty was to actively search for, discover, and prevent fraudulent activities during audits (Olaoye, 2019). However, in the late 20th century, the auditing profession in Britain distanced itself from the notion that auditors were primarily responsible for fraud detection. Instead, they emphasized the auditor's role in confirming the accuracy and fairness of financial statements. This shift in focus meant that auditors, who were not involved in the day-to-day operations of the business, were no longer seen as fraud detectors (Owolabi & Olagunju, 2020).

This change in auditing objectives, influenced by the Policeman Theory, aimed to protect auditors from legal liabilities when conducting their professional duties. It also led to dissatisfaction among stakeholders such as shareholders, investors, and creditors who expected auditors to play a more proactive role in fraud detection (Omodero & Okafor, 2020). To clarify the primary responsibility of financial auditors, International Standards on Auditing (ISA 240) stipulate that auditors are primarily responsible for expressing an independent opinion on the accuracy, truthfulness, and fairness of financial statements, not for detecting financial fraud or errors. Instead, the responsibility for preventing and detecting fraud rests with an organization's management and governance through the establishment of effective internal control systems (IFAC, 2009).

While auditors' primary responsibility has shifted away from actively detecting fraud, there remains an expectation that they maintain professional skepticism and be alert to the possibility of material misstatements due to fraud. This perspective reflects the evolving nature of auditors' responsibilities in the context of fraud, acknowledging that while they are not the primary fraud detectors, they still play a role in identifying material misstatements resulting from fraudulent activities (Salehi, 2011). However, in the contemporary auditing landscape, characterized by increased complexity in business transactions, globalization, and the advent of cutting-edge technologies, the relevance and applicability of the Policeman Theory have been subject to debate. Auditors are now expected not only to act as financial watchdogs but also as strategic business advisors, adding value beyond the traditional scope of their roles (Owolabi et al., 2016).

This empirical investigation aims to explore the evolution of auditing practices in Nigeria, examining how the Policeman Theory has influenced past and present auditing approaches. We seek to assess whether this theory continues to hold sway in shaping the mindset and practices of auditors or if contemporary challenges have led to a reevaluation of their roles and responsibilities. Furthermore, this study will scrutinize the impact of recent regulatory changes and technological innovations on auditing in Nigeria. Through a comprehensive analysis of historical records, interviews with seasoned auditors, and a survey of practicing auditors in Nigeria, we endeavor to provide valuable insights into the dynamic interplay between auditing theories, practices, and the Nigerian business environment. Ultimately, this research aims to contribute to the ongoing discourse on the role of auditors in promoting financial transparency, accountability, and sustainable economic growth and to inform policy, practice, and education in the field of auditing, both in Nigeria and beyond. As we navigate the intricate intersection of theory and practice in auditing, we anticipate that this investigation will contribute to a richer understanding of the evolution of auditing in Nigeria and its ongoing relevance in ensuring financial integrity and accountability.

LITERATURE REVIEW

The respective variables, the theoretical underpinning the study and empirical studies were reviewed.

Concepts Clarification

The concepts of this study were critically examined and evaluated.

The developmental roles of auditors

Since its inception, the role of auditors has undergone various transformations. Hayes et al. (1999) historical review of auditors' responsibilities in detecting and reporting fraud over centuries highlighted the evolving nature of the auditing paradigm. In the earlier phases, particularly pre-1920s, the primary objective of an audit was to uncover fraud. However, as businesses grew in size and transaction volume, it became impractical for auditors to examine every transaction. By the 1930s, the primary aim of an audit had shifted towards the verification of accounts (De Vries, 2009). During this period, the auditing profession began asserting that the duty of fraud detection rested with management. Auditors emphasized that management should also implement effective internal control systems to prevent fraud within their organizations.

In the 1960s, public dissatisfaction arose as auditors increasingly declined responsibilities related to fraud detection. Auditors faced criticism for their inability to uncover fraud, which led to questions about the usefulness of audits. Nevertheless, auditors continued to downplay their role in fraud detection, maintaining that this duty primarily fell on management. The advancement of technology in the 1980s introduced greater complexity and a surge in fraud incidents, posing significant challenges for businesses. Hayes et al. (1999) noted that while some legal cases determined that auditors had a duty to detect fraud in specific circumstances, the courts aimed to set reasonable limits on auditors' responsibilities.

In contrast, Chukwu et al. (2019) argued that auditing standards were overhauled after the Enron scandal to emphasize auditors' responsibilities in fraud detection. They pointed to standards like ISA 315 "Understanding the Entity and its Environment and Assessing the Risk of Material Misstatement" and ISA 240 "The Auditor's Responsibilities to Consider Fraud of Financial

Statement (Revised)" as evidence (IFAC, 2019). ISA 315 now requires auditors to evaluate an entity's risk management framework's effectiveness in preventing misstatements, including those resulting from fraud. This evaluation was not previously mandatory, except when auditors chose to rely on the framework to reduce the extent of their audit investigation. The role of auditors has evolved over time, with shifting emphases on fraud detection, verification of accounts, and the importance of internal control systems, influenced by changes in business complexity and technology. Recent auditing standards have sought to reemphasize auditors' responsibilities in detecting fraud, especially in light of significant corporate scandals (Agyei et al., 2013; Chandler et al., 1993).

Discovering fraud

Discovering fraud refers to the process of identifying instances of fraudulent activities or financial misconduct within an organization. It involves the detection and recognition of deliberate actions, misrepresentations, or manipulations of financial information with the intent to deceive or gain an unfair advantage (Adeyemi & Uadiale, 2011). Discovering fraud typically involves a thorough examination of financial records, transactions, and other relevant data to uncover irregularities or inconsistencies that may indicate fraudulent behavior. This process may be carried out by various parties, including internal and external auditors, forensic accountants, investigators, or regulatory authorities. Once fraud is discovered, appropriate actions can be taken, such as reporting the findings, conducting further investigations, and implementing measures to prevent and address similar incidents in the future. The discovery of fraud is a critical component of maintaining financial integrity and transparency within organizations (Agyei et al., 2013).

Searching for fraud

Searching for fraud refers to the proactive efforts and investigative activities undertaken to identify and detect instances of fraudulent activities within an organization or a financial system. It involves a systematic and comprehensive examination of financial records, transactions, and related data to uncover signs or evidence of fraudulent behavior (Issahaku & Muntari, 2015). When searching for fraud, individuals or entities, such as auditors, forensic accountants, or investigators, may employ various techniques and methodologies, including data analysis, forensic accounting procedures, interviews, and the review of documents and records. The goal is to identify irregularities, anomalies, or patterns that may suggest fraudulent activities, such as embezzlement, financial statement fraud, bribery, or other forms of financial misconduct (Limperg, 1932). Once potential signs of fraud are detected during the search, further investigations and audits may be conducted to gather more evidence and determine the extent of the fraudulent activities. The ultimate objective of searching for fraud is to uncover and address fraudulent behavior, prevent future occurrences, and ensure the integrity of financial reporting and transactions (Ojo, 2006).

Prevention of fraud

Prevention of fraud refers to the proactive measures and strategies implemented by individuals, organizations, or institutions to deter and minimize the occurrence of fraudulent activities (Tjeng, 2021). The goal of fraud prevention is to create a secure and controlled environment that reduces the opportunities for fraudulent behavior and discourages potential wrongdoers. Establishing robust internal control systems, policies, and procedures that safeguard assets, ensure accurate financial reporting, and detect irregularities or unauthorized transactions. Separating key financial responsibilities among different individuals or departments to minimize the risk of collusion and unauthorized access (Owolabi et al., 2016).

Limiting access to sensitive financial information, systems, and assets to authorized personnel only through authentication methods and secure access controls. Providing training and education to employees about fraud risks and ethical behavior. Establishing confidential reporting mechanisms, such as hotlines or anonymous reporting systems, to encourage individuals to report suspected fraud without fear of retaliation. Conducting thorough background checks on employees, vendors, and partners to identify potential risks or red flags. Implementing robust data security measures to protect sensitive information from unauthorized access or data breaches. Conducting regular assessments to identify vulnerabilities and areas of fraud risk within an organization. Employing audits, forensic examinations, and ongoing monitoring to detect and prevent fraudulent activities (Omodero & Okafor, 2020; Owolabi & Olagunju, 2020).

Reporting of fraud

Reporting of fraud refers to the act of informing the appropriate authorities, organizations, or individuals about suspected or confirmed fraudulent activities or misconduct. Reporting is a crucial step in addressing and addressing fraud, as it allows for the investigation, mitigation, and potential prosecution of individuals or entities involved in fraudulent behavior (Adeyemi & Uadiale, 2011). Reporting helps identify and bring to light fraudulent activities that may otherwise go unnoticed. It allows individuals to raise concerns or suspicions about unusual or unethical behavior. Once fraud is reported, authorities or internal investigative teams can conduct inquiries and gather evidence to determine the extent and nature of the fraudulent activities (Issahaku & Muntari, 2015). Reporting can trigger measures to prevent further fraud, such as strengthening internal controls, tightening security, or revising policies and procedures. It holds individuals or entities responsible for their fraudulent actions, potentially resulting in legal consequences, disciplinary actions, or restitution for victims (Agyei et al., 2013).

Knowing that fraud will be reported and investigated serves as a deterrent to potential wrongdoers, discouraging them from engaging in fraudulent behavior. Employees, contractors, or stakeholders report fraud to their organization's internal channels, such as a fraud hotline, ethics hotline, or designated compliance officer. Individuals or organizations may report fraud to external entities, such as law enforcement agencies, regulatory bodies, industry associations, or government agencies responsible for investigating and prosecuting fraud (Akinadewo, 2021). Whistleblowers are individuals who report fraud or misconduct within their organization while maintaining their anonymity. Whistleblower protection laws often exist to shield these individuals from retaliation. Some reporting mechanisms allow individuals to report fraud anonymously, providing a safe way for whistleblowers to come forward without revealing their identities. Reporting fraud is a critical ethical responsibility, as it helps maintain integrity, transparency, and trust in organizations and society as a whole. Timely and accurate reporting of fraud contributes to a safer and more accountable environment for all stakeholders (IFAC, 2019).

Audit engagement process

The audit engagement process refers to the series of activities and procedures carried out by auditors when conducting an audit of an organization's financial statements or other financial information. The audit engagement process is guided by professional standards, such as Generally Accepted Auditing Standards (GAAS) in the United States, and is designed to provide reasonable assurance that the financial statements are free from material misstatements. Auditors begin by planning the audit, which involves understanding the client's business, assessing risks, and determining the scope and objectives of the audit (Chukwu et al., 2019).

Auditors identify and evaluate the risks of material misstatement in the financial statements. This involves assessing internal controls and inherent risks associated with the client's operations. Auditors review the client's internal control systems to determine their effectiveness in preventing and detecting errors and fraud (Omodero & Okafor, 2020). Weaknesses in internal controls may be noted for further evaluation. Auditors perform substantive audit procedures, which include testing transactions, account balances, and disclosures to gather evidence about the accuracy and completeness of the financial statements. Auditors collect audit evidence in various forms, such as documents, records, confirmations, and observations, to support their findings and conclusions (Salehi, 2011).

Detailed records, known as working papers or audit documentation, are maintained to document the audit procedures performed, findings, and conclusions. This documentation serves as a basis for the audit report. Throughout the engagement, auditors communicate with the client's management and personnel to gather information, address questions, and share preliminary findings (Tjeng, 2021). Auditors specifically consider the risk of fraud during the engagement. While their primary responsibility is not to detect fraud, they do assess the risk factors and perform procedures that may detect fraudulent activities, if present. In furtherance of this role, external auditing output also assists organisations to strengthen their internal control, and the later equally supports the process of audit completion (Akinadewo et al., 2023). After completing the audit procedures, auditors prepare an audit report that includes their opinion on the fairness of the financial statements. The report may also include recommendations for improvements in internal controls or accounting practices. Auditors may follow up with the client to ensure that agreed-upon actions in response to audit findings are implemented. The audit work may also be subject to review by senior auditors or quality control personnel (Akhindime, 2019).

Policeman Theory and Implied Responsibilities of Statutory Auditors

Policeman Theory refers to a historical perspective on the role of statutory auditors, suggesting that their primary responsibility is to act as financial watchdogs or policemen, with a focus on detecting and preventing fraud and financial misconduct within an organization (Humphrey et al., 1993). This theory implies that auditors are primarily responsible for identifying and reporting fraudulent activities and errors in financial statements. Implied Responsibilities of Statutory Auditors encompass the duties and expectations associated with the auditing profession beyond their core role of expressing an opinion on the fairness of financial statements (Olaoye, 2019).

These implied responsibilities may include but are not limited to, detecting and preventing fraud, assessing the effectiveness of internal controls, and providing insights and recommendations to improve financial and operational processes within an organization (IFAC, 2019). These responsibilities are not always explicitly defined but are often inferred from auditing standards, regulations, and public expectations. Together, these concepts reflect the historical and evolving perceptions of the role and responsibilities of statutory auditors in ensuring financial transparency and accountability within organizations (Ojo, 2006).

Theoretical Review

This study reviewed the policeman theory and the theory of inspired confidence and underpinned this study.

Policeman Theory

The Policeman Theory, initially proposed by Charles F. Hickson in the early 20th century, suggests that auditors act as vigilant overseers, detecting and deterring financial irregularities, fraud, and misstatements in financial reporting (Hayes et al., 1999). This theory underscores the crucial role auditors play in maintaining the integrity of financial information, which is vital for the functioning of capital markets and the trust of various stakeholders. The Policeman Theory, also known as the "watchdog theory," posits that auditors act as the guardians or policemen of financial systems, entrusted with the responsibility of detecting and preventing financial misconduct, fraud, and errors. This theory underscores the auditor's role as an independent and objective evaluator, ensuring that financial statements present a true and fair view of an organization's financial position. It places auditors in the position of vigilantly overseeing financial operations, acting as a safeguard against financial improprieties (Humphrey et al., 1993).

The Theory of Inspired Confidence

This theory was formulated by Theodore Limperg, a Dutch professor, and it focuses on the dynamics of both the demand for and supply of audit services. According to Limperg, as referenced in a study by Salehi (2011), the need for audit services arises directly from the involvement of external stakeholders in a company. Shareholders, in exchange for their investments, expect transparency and accountability from the company's management. Recognizing that management-provided information can be biased and that there may be conflicting interests between management and external stakeholders, there is a necessity for an audit of this information, as noted by Adeyemi and Uadiale (2011). In terms of the level of audit assurance that auditors should provide, Limperg suggests that auditors should perform their duties in a manner that aligns with the expectations of informed external parties.

Empirical Review

Numerous authors have conducted research on the principal responsibility or role of auditors in historical and contemporary audit engagements. The findings of some of these studies are outlined below, highlighting a gap in the existing literature that this study aims to address. Owolabi and Olagunju (2020) delved into the historical evolution of audit theory and practice, tracing their development from ancient civilizations to the modern era. Their research focused on identifying the way forward for future auditing practices. Through desk research, they found that significant transitions have taken place in audit theories and practices, especially as the business world has embraced digitalization. Consequently, many traditional audit theories have become outdated.

Tjeng and Nopianti (2021) conducted a study that presented empirical evidence and engaged in a discussion regarding the influence of auditors' professional competence on various aspects of information quality within financial statements. This research employed an explanatory approach, and the findings unveiled a notable positive correlation between the technical proficiency of auditors and the quality of information presented in financial reports.

Al-Dhubaibi (2021) in research conducted and the focus was on understanding how auditors perceive their duties and potential legal liabilities when it comes to their failure to detect fraud or significant misstatements and subsequently reporting these findings to the relevant parties. The study suggested that an auditor's perception of their responsibilities would be influenced by the expected risk of litigation, which, in turn, could be associated with their position within the audit firm. Questionnaires were distributed to various types of audit firms, including the Big 4 global audit firms, other international audit firms outside the Big 4, and 189 local audit firms of different sizes registered with the Saudi Organization of Certified Public Accountants. The research outcomes revealed notable disparities in auditors' perceptions of their responsibilities and potential liabilities concerning users of financial statements, primarily driven by their anticipated exposure to litigation risks.

In their study, Gaye and Colley (2020) sought to investigate the presence of an Audit Expectations Gap within the public sector of The Gambia. They aimed to understand this gap from the perspectives of both public auditors and non-auditing professionals, with the objective of identifying its existence and characteristics. Additionally, their research aimed to explore ways to bridge this gap to enhance the credibility of the auditing profession. To gather data, the researchers employed a purposive sampling method, selecting 13 participants for structured interviews. The study's findings indicated that non-auditing professionals held the belief that auditors should be responsible for 'detecting and preventing fraud and corruption' and providing 'assurance on the effectiveness of internal controls.' They had strong expectations that auditors would fulfil these roles faithfully. Furthermore, these non-auditing professionals associated absolute assurance with audit opinions, which contributed to the development of naive or unreasonable expectations, ultimately resulting in the audit expectations gap.

Ogoun and Odogu (2020) conducted a study with the primary aim of qualitatively examining the available literature to determine if the scope and content of audits and auditors' reports align with the information requirements and expectations of financial statement users in the era of anti-corruption efforts. Additionally, their research sought to investigate whether traditional audit reports could provide anti-corruption agencies with the necessary information to combat financial crimes. To achieve these objectives, they delved into the quasi-judicial, credibility, inspired confidence, and policeman theories of auditing. Their analysis of existing literature revealed the existence of an expectation gap, both in terms of assurance and content, between auditors and users of financial statements. Furthermore, the reviewed literature suggested that conventional financial auditing tools and methods, particularly audit sampling, were insufficient for detecting and preventing fraud and errors in the current information age. Additionally, it was found that traditional audit reports fell short in meeting the information requirements of anti-corruption agencies.

In a study conducted by Akhidme (2019), the focus was on investigating the audit expectation gap within the context of integrating forensic accounting practices into financial statement audits as a means to narrow this gap. This research primarily relied on a comprehensive review of pertinent literature related to the expectation gap and the specific areas within financial statement audits where forensic accounting could be seamlessly incorporated to better meet the expectations of financial statement users. One critical aspect examined was the enhancement of auditors' capabilities in detecting fraud. The study's outcomes indicated that a significant contributing factor to the audit expectation gap was the auditors' failure to detect fraud adequately. Akhidme's paper illustrated that by aligning the roles of auditors and forensic accountants, a collaborative synergy could be achieved, resulting in improved fraud detection capabilities among auditors. This collaboration, in turn, had the potential to effectively bridge the expectation gap between end-users of audited financial statements and the auditors.Olaoye et al. (2019) conducted research to assess the impact of statutory auditors' independence on the reliability of financial statements in Nigerian manufacturing companies. They employed a survey research design, collecting data through structured online questionnaires distributed to shareholders of listed manufacturing firms in Nigeria. The gathered data underwent analysis using both descriptive and inferential statistics. The results indicated a positive and significant relationship between the independence of statutory auditors and the reliability of financial statements.

In the study by Owolabi et al. (2016), the authors embarked on a historical exploration of the field of auditing, examining the evolving dynamics of auditors' responsibilities throughout different eras. This research followed an exploratory methodology, which involved a comprehensive review of existing literature. The outcomes of this study revealed that the roles and responsibilities of auditors have undergone substantial changes over time. It became apparent that auditors were not originally intended to serve as guarantors, and it is practically impossible for them to provide complete assurance that the reports prepared and presented by their clients are entirely devoid of fraud or other financial irregularities.

Issahaku and Muntari (2015) conducted a study in Ghana to investigate the existence of an audit expectation gap, as perceived by auditors, bankers, and students of the Institute of Chartered Accountants of Ghana, who are users of financial statements. They administered questionnaires to 135 respondents using random and convenient sampling methods. The findings revealed a substantial expectation gap, particularly concerning auditors' responsibilities in detecting and preventing fraud and errors, the effectiveness of internal control structures within entities, and the discretion exercised by auditors in selecting audit procedures, among other aspects.While several authors have explored the principal responsibilities of auditors in both historical and contemporary audit engagements, a notable gap exists in the existing literature that warrants further investigation. Existing studies have provided valuable insights into the evolution of auditing practices, the impact of auditors' competence on information quality, and the potential benefits of integrating forensic accounting practices into financial statement audits. However, there is a specific research gap related to the evolving role of auditors in addressing the audit expectation gap, especially in the context of modern auditing practices in Nigeria. There is a dearth of studies that specifically address the audit expectation gap within the framework of contemporary auditing in Nigeria. Addressing this research gap would contribute to a more comprehensive understanding of contemporary auditing practices in Nigeria and provide insights into how auditors can effectively meet the expectations of stakeholders in the modern business environment. The research null hypothesis therefore stated as follows:

H_o: There is no significant positive relationship between Policeman theory and contemporary Auditing in Nigeria.

European Journal of Accounting, Auditing and Finance Research
Vol.12, No. 1, pp.56-73, 2024
Print ISSN: 2053-4086(Print),
Online ISSN: 2053-4094(Online)
Website: https://www.eajournals.org/
Publication of the European Centre for Research Training and Development-UK

Conceptual Framework
This study's empirical investigation aims to explore the evolution of auditing practices in Nigeria, examining how the Policeman Theory has influenced past and present auditing approaches.

Policeman Theory:

- **Discovering of Fraud**
- **Searching for Fraud**
- **Prevention of Fraud**
- **Reporting of Fraud**

Contemporary Auditing:

- **Audit Engagement Process**

Figure 1: Contemporary Framework

Source: Authors' Concepts (2023)

METHODOLOGY

This research employed both qualitative and quantitative research approaches. The study gathered primary data by utilizing structured questionnaires and supplemented this with secondary data obtained through a comprehensive review of existing literature. The research focused on a target population of 70 individuals, which was also deemed as the sample size. The selection of respondents for the sample was carried out through purposive sampling, taking into consideration the availability and willingness of potential participants to complete the questionnaires. The geographical scope of the study encompassed the southwestern states of Nigeria. The questionnaire used in the research was carefully crafted to ensure that it solicited dependable and assessable data, employing a 5-point Likert scale for responses. To analyze the collected data, the research employed multiple regression analysis. The questions included in the questionnaire were intentionally simplified to facilitate the collection of precise, reliable, and valid data.

Model specification
The econometric model to unravel the link between policeman theory and contemporary auditing in Nigeria was formulated as stated below:
AEP = Audit Engagement Process = Dependent variable
PMT = Policeman Theory = Independent variable
Meanwhile,
AEP = f(DOF, SFF, POF, ROF) …………………………… (1)
$AEP = \beta_0 + \beta_1 DOF + \beta_2 SFF + \beta_3 POF + \beta_4 ROF + \mu$ ………… (2)
Where, DOF = Discovering Fraud

European Journal of Accounting, Auditing and Finance Research
Vol.12, No. 1, pp.56-73, 2024
Print ISSN: 2053-4086(Print),
Online ISSN: 2053-4094(Online)
Website: https://www.eajournals.org/
Publication of the European Centre for Research Training and Development-UK

SFF = Searching for Fraud
POF = Prevention of Fraud
ROF = Reporting of Fraud
$\beta 0$ = Constant of the equation
$\beta 1, \beta 2, \beta 3, \beta 4$ = Coefficient of the unknown variables
μ = Error term
A-priori expectation = $\beta 1, \beta 2, \beta 3, \beta 4 < 0$

Data Analysis and Discussion
This section discusses the analysed data, including the descriptive and inferential statistics.

Descriptive Statistics
Table 1 presents the descriptive statistics for the variables related to various aspects of the study's objectives and provides insights into the distribution and characteristics of the data. Discovery of Fraud (DOF) has a minimum and maximum statistics of 1 and 3 respectively. Mean Statistics of 1.37 on average, respondents perceive a moderate level of emphasis on the discovery of fraud. A standard Deviation of 0.516 indicates that the responses tend to be somewhat dispersed or vary moderately from the mean. While, Skewness Statistics of 0.868 show that the distribution is moderately skewed to the right, indicating that more respondents tend to rate this aspect higher. Kurtosis Statistics of -0.532 implies that the distribution is platykurtic, which means it is flatter than a normal distribution with thinner tails.

Searching for Fraud (SFF) has minimum and maximum statistics of 1 and 2 respectively. Mean Statistics of 1.49 on average, respondents perceive a moderate level of emphasis on searching for fraud. Standard Deviation of 0.503 implies that the responses tend to have moderate variation from the mean. Skewness Statistics of 0.503 indicate that the distribution is slightly skewed to the right, suggesting that more respondents tend to rate this aspect higher. Kurtosis Statistics of -2.056: The distribution is leptokurtic, indicating it has heavier tails and is more peaked than a normal distribution. Reporting of Fraud (ROF) has minimum and maximum statistics of 1 and 3 respectively. Mean Statistics of 1.56 on average, respondents perceive a moderate to moderately high level of emphasis on reporting fraud. A Standard Deviation of 0.673 shows that the responses have a moderate amount of variation from the mean. Skewness Statistics of 0.813 mean that the distribution is moderately skewed to the right, implying that more respondents tend to rate this aspect higher. Kurtosis Statistics of -0.444 indicate that the distribution is platykurtic, suggesting it is flatter and has thinner tails than a normal distribution.

Prevention of Fraud (POF) has minimum and maximum statistics of 1 and 3 respectively. Mean Statistics of 1.46 on average, respondents perceive a moderate level of emphasis on the prevention of fraud. A Standard Deviation of 0.606 means that the responses have a moderate degree of variation from the mean. Skewness Statistics of 0.971 imply that the distribution is moderately skewed to the right, indicating that more respondents tend to rate this aspect higher. Kurtosis Statistics of -0.026 show that the distribution is relatively close to a normal distribution, as indicated by its near-zero kurtosis.

The audit Engagement Process (AEP) has minimum and maximum statistics of 1 and 5 respectively. Mean Statistics of 1.38 on average, respondents perceive a moderate level of emphasis on the audit engagement process. A Standard Deviation of 0.573 reveals that the responses have a moderate degree of variation from the mean. Skewness Statistics of 1.371 shows that the distribution is moderately skewed to the right, suggesting that more respondents tend to rate this aspect higher. Kurtosis Statistics of 1.809 means that the distribution is leptokurtic, indicating it has heavier tails and is more peaked than a normal distribution. In summary, respondents tend to perceive a moderate emphasis on various aspects related to fraud and the audit engagement process, with some skewness in the distribution indicating that a notable portion of respondents rate these aspects moderately or moderately high. The kurtosis values suggest varying degrees of departure from a normal distribution, with some distributions being flatter, and others more peaked.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
DOF	70	1	3	1.37	.516	.868	.287	-.532	.566
SFF	70	1	2	1.49	.503	.058	.287	-2.056	.566
ROF	70	1	3	1.56	.673	.813	.287	-.444	.566
POF	70	1	3	1.46	.606	.971	.287	-.026	.566
AEP	70	1	5	1.38	.573	1.371	.287	1.809	.566
Valid N (listwise)	70								

Source: Authors' Computation (2023)

DISCUSSION AND IMPLICATIONS OF FINDINGS

The results of the regression analysis presented in Table 2 provide several key statistics: R (0.263), R2 (0.069), adjusted R2 (0.012), and the standard error of estimate (0.46256). The value of R indicates the existence of a relationship between the observed and predicted values of the variables, although this relationship is not particularly strong. Specifically, the policeman theory demonstrates a relatively low relevance to Contemporary Auditing, explaining only 26.3% of the variation. The R2 value signifies the proportion of variation in the dependent variable explained by the model in Table 2, which in this case is 6.9%. This implies that 6.9% of the variation in the dependent variable can be attributed to the factors DOF, SFF, POF, and ROF, while the remaining 73.7% may be influenced by other unaccounted-for variables.

The adjusted R2 value, closely aligned with the R2 value at 1.2%, suggests that the model is suitable for generalization. This is further supported by the significance levels of the components of Policeman Theory (PMT), the independent variable. Upon closer examination, it becomes evident that the individual significance levels for Discovery of Fraud (DOF) (0.136), Searching for Fraud (SFF) (0.087), Prevention of Fraud (POF) (0.591), and Reporting of Fraud (ROF) (0.806) all exceed the acceptable 5% level of significance. Consequently, applying the Policeman Theory to contemporary auditing is likely to result in little to no significant change, as indicated by the p-values of the subcomponents. It is important to note that the Policeman Theory posits that auditors are responsible for searching, discovering, and preventing fraudulent activities.

However, the contemporary role of auditors primarily focuses on providing reasonable assurance and an independent, accurate, and fair view of financial statements. In light of these findings, the null hypothesis should be accepted, aligning with the research conducted by Al-Dhubaibi (2021), Gaye and Colley (2020), Ogoun and Odogu (2020), Owolabi, Jayeoba, and Ajibade (2016) among others which revealed that auditors' responsibilities have evolved over time, and it is not possible for them to completely guarantee the absence of fraud and other financial irregularities. The multiple regression output in Table 4 indicates the coefficients as follows:

AES = 1.368 + 0.100DOF - 0.122SFF + 0.031POF + 0.013ROF.

Table 2: Model Summary

					Change Statistics					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.263[a]	.069	.012	.27451	.069	1.207	4	65	.316	1.915

a. Predictors: (Constant), ROF, SFF, DOF, POF

b. Dependent Variable: AEP

Source: Authors' Computation (2023)

Table 3: Analysis of Variation of the Study Variables (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.364	4	.091	1.207	.316[a]
	Residual	4.898	65	.075		
	Total	5.262	69			

a. Predictors: (Constant), ROF, SFF, DOF, POF

b. Dependent Variable: AEP

Source: Authors' Computation (2023)

Table 4: Coefficients of Variation of the Study Variables

		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
Model		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1	(Constant)	1.368	.140		9.762	.000	1.088	1.648
	DOF	.100	.066	.187	1.510	.136	-.032	.233
	SFF	-.122	.070	-.222	-1.736	.087	-.262	.018
	POF	.031	.058	.069	.539	.591	-.085	.147
	ROF	.013	.051	.031	.247	.806	-.089	.114

a. Dependent Variable: AEP

Source: Authors' Computation (2023)

CONCLUSION AND RECOMMENDATIONS

The regression analysis conducted in this study aimed to investigate the relevance of the Policeman Theory in the context of contemporary auditing in Nigeria. It is important to note that the Policeman Theory posits that auditors are responsible for searching, discovering, and preventing fraudulent activities. However, in contemporary auditing, the primary role of auditors centers on providing reasonable assurance and an independent, accurate, and fair view of financial statements. The study's findings indicate that the Policeman Theory, which historically emphasized auditors' responsibilities in detecting and preventing fraud, has limited relevance in the realm of contemporary auditing in Nigeria. Auditors today primarily focus on providing assurance about the accuracy and fairness of financial statements, and their role has evolved over time. The study aligns with prior research suggesting that auditors cannot guarantee the absence of fraud and other financial irregularities, given the complexities of modern business operations. As such, the null hypothesis should be accepted, emphasizing the shift in auditors' responsibilities.

Based on the study's results, the following recommendations are proposed: Firstly, statutory auditors should prioritize the implementation of robust quality control measures in their audit engagements and auditors should continue to receive training and education that aligns with their contemporary roles, emphasizing the provision of reasonable assurance and adherence to auditing standards. Secondly, accounting firms should implement rigorous quality control measures to ensure that audit engagements are conducted effectively and in accordance with prevailing auditing standards. Thirdly, auditors should maintain clear and transparent communication with stakeholders about the nature and scope of their responsibilities in financial statement audits. Lastly, additional research could explore the evolving roles of auditors in different contexts and regions, providing insights into how auditing practices continue to adapt to changing business landscapes.

Future research endeavors in this area may consider the following: firstly, conduct comparative studies to examine how the evolution of auditors' roles and responsibilities in auditing practices differs across various countries or regions. Secondly, investigate the perceptions and expectations of different stakeholders, such as investors, regulators, and corporate management, regarding auditors' responsibilities in modern auditing. Thirdly, explore the influence of emerging technologies, such as data analytics and artificial intelligence, on the role and relevance of auditors in financial statement audits. Also, to conduct longitudinal studies to track changes in auditing practices and responsibilities over an extended period, shedding light on long-term trends and developments. Finally, analyze the impact of regulatory changes and updates on auditors' roles and their alignment with prevailing auditing standards. By delving deeper into these areas, future studies can contribute to a more comprehensive understanding of the evolving nature of auditing and auditors' responsibilities in today's dynamic business environment.

REFERENCES

Adeyemi, S. B., & Uadiale, O. M. ((2011)). An empirical investigation of the audit expectation gap in Nigeria. *African Journal of Business Management*, 5(19), 7964-7971.

Agyei, A., Kusi-Aye, B., & Owusu-Yeboah, E. (2013). An assessment of audit expectation gap in Ghana. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 3(4), 112-118. http://dx.doi.org/10.6007/IJARAFMS/v3-14/361

Akhindime, A. (2019). Bridging audit expectation gap with the integration of forensic accounting. A review. *Aefunal Journal of Accounting, Business and Finance (FJABAF)*, *5*(2, 365-380.

Akinadewo, I. (2021). Artificial intelligence and accountants' approach to accounting functions. *Journal of Politics & International Affairs*, *9*(1), 601-326.

Akinadewo, I. S., Minesoma, E. C., Dagunduro, M. E., & Akinadewo, J. O. (2023). Iris Journal of Economics & Business Management, 1(4), 1-8. https//doi.org/103352/IJEBM.2023.01.000518

Al-Dhubaibi, A. A. S. (2021). Auditors' perceptions for their roles and responsibilities: The impact of exposure to litigation risk. *Accounting, 7*, 1435-1444.

Chandler, R., Edwards, J., and Andedrson, M. (1993). Changing perceptions of the role of the company auditor. *Aud. Bus. Res.*, *23*, 443-459.

Chukwu, G. J., Ordu, P.A., Barigbon, M. & Namapele, A. (2019). Sufficiency and appropriateness of audit evidence for giving an opinion on the true and fair view of financial statements. *International Journal of Innovative Development and Policy Studies*, *7*(3) : 36-43.

De Vries, M., Hassink, H. F. D., Bollen, L. H., & Meuwisen, R. H. G., (2009). Corporate fraud and the audit expectation gap: a study among business managers. *Journal of International Accounting, Auditing and Taxation*, 18(2), 85-100.

Gaye, T. T., & Colley, Z. (2020). An investigation of audit expectation gap in the public sector in Sub-Saharan Africa: The case of the Gambia. *Kristianstad University Sweeden*, 1-75.

Hayes, R. S., Schilder, A., Dassen, R., & Wallage, P. (1999.). Principles of Auditing: An International Perspective. . *London: Mcgraw-Hill Publishing Company, 5*, 2257-2274.

Humphrey, C., Moizer, P., & Turley, S. (1993). The audit expectation gap in Britain: An empirical investigation. *Accounting and Business Research*, *23*(91A), 395-411.

International Federation of Accountants (IFAC), International Standards on Auditing (ISA) 240. (2009). The Responsibilities of Statutory Auditor on the Financial Statements. *Handbook of International Auditing, Assurance, and Ethics Pronouncements*, Part 1.

Issahaku, S., & Muntari, M. (2015). The evaluation of evidence of the audit expectation gap in Ghana. *Research Journal of Finance and Accounting*, *6*,(24), 61-85.

Limperg, T. (1932). The social responsibility of the auditor, reproduced in Limperg Institute, (1985). *The Netherlands: Limperg Institute*.

Ogoun, S. & Odogu, T. K. Z. (2020). The adequacy of the auditor's report in the anti-graft age: A forensic view. *iBusiness*, *12*(1), 1-20.

Ojo, M. (2006). Eliminating the audit expectations gap: Myth or Reality? . *RePEc Archive Accessed from http://mpra.ub.uni-muenchen.de/232/1/MPRA paper 232.pdf*.

Olaoye, S. T. (2019). Independence of statutory auditor and reliability of financial statements: evidence from listed manufacturing companies in Nigeria. *International Journal of Asian Social Science.* , https://doi.org/10.18488/journal.1.209.98.436.449.

Omodero, C.O., & Okafor, M.C. (2020). Audit education as an effective tool for narrowing audit expectation gap: evidence from literature review. *Journal of Educational and Social Research*, *10*(5), 27-39. https://doi.org/10.36941/jer-2020-0102.

Owolabi, S.A., & Olagunju, A.O. . (2020). Historical evolution of audit theory and practice. . *International Journal of Management Excellence*, *16*(1), 1626-1648.

Owolabi, S.A., Jayeoba, O.O., & Ajibade, A.T. (2016). Evolution and development of auditing. *Unique Journal of Business Management Research*, *3*(1), 32-40.

Salehi, M. (2011). Audit expectation gap: Concept, nature and trace. *African Journal of Business Management*, 5(21), 8376-8392.

Tjeng, P. (2021). The effect of auditor's technical abilities on the quality of financial statement information. *International Journal of Economics and Finance*, 13(6); 129, DOI: 10.5539/ijef.v13n6p129.