

APPLICATION OF EXTENSIBLE BUSINESS REPORTING LANGUAGE (XBRL) IN REDUCING AUDIT EXPECTATION GAP IN NIGERIA

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ABSTRACT

The inability of the stakeholders and auditors to have a common understanding of the scope of audit function and the transparency needed during the performance of the audit work have created an expectation gap which is now a challenging issue that lead to this research work, an application of Extensible Business Reporting Language (XBRL) in reducing audit expectation gap in Nigeria. This expectation gap is a major danger currently threatening the audit profession and it has gone deep to question the credibility of current financial reporting process. The Extensible Business Reporting Language (XBRL) is simply an open standard - based reporting system being built to accommodate the electronic preparations and exchange of business reports around the world. The methodology of this work is simple desk review. The researcher found the followings: that there is need for proper transparency and accountability of corporate business transactions and financial reporting and that there is the need to cut down data manipulations. The conclusion is that the stake holder's interests need to be carried along in the preparation of financial information. The researcher recommends that for there to be proper accountability in financial report, there is the need to electronically tag the assets and liabilities of every corporate organization through the use of Extensible Business Reporting Language for it will give transparency and also reduce expectation gap.

INTRODUCTION

Increase in transparency crisis in business transactions of corporate organizations usually put auditing profession at the centre for tongue lashing. Perhaps due to the short fall in the financial statement in what the stakeholders expect to what the auditors could be able to offer may have been the main contributing factor. Usually stakeholders, investors and other users of financial statement expect the auditors to indicate fraud and proffer solution on how to prevent it and show early signs of intending fraud and irregularities.

The situation is not usually true as the auditors place emphasis on primary responsibility of ensuring that the financial statement prepared by management of a given organization presents true and fair view regarding the state of their business affairs. Thus Lin and Clie (2004) report that the belief of the public and other users of financial statement is that auditors should take more responsibilities in detecting fraud, illegal acts and material misstatement and to perform better in communicating the nature and the result of audit including given early warning about the possibility of corporate failure in the near future. This issue raised by Lin et al has in no small measure created an expectation Gap in what the professional auditor offers and what the public expect from them. This therefore, make the public to show complain of dissatisfaction in the auditor's performance. Thus to implore Extensible Business Reporting Language (XBRL) in financial statement becomes necessary since business reporting is revolutionizing by using internet technologies to make the flow of financial and business data more transparent and efficient. The Extensible Business Reporting Language (XBRL) work with Extensible Mark-up Language (XML) by publishing financial information through it. XML is a computer language like Hypertext Markup Language (HTML) used for interchanging the documents on the World Wide Web as it has the tendency of information modelling and the expression of semantic meaning commonly required in business reporting, it also offers cost saving, greater efficiency and improved accuracy and reliability to all those involved in supplying or using financial data, (Abdullahi 2001). Thus, Shin (2003) holds that HTML format does not allow for searching analysis or downloading some other software application that has analysis and manipulation capabilities.

Uses of XBRL

Extensible Business Reporting Language (XBRL) can be applied to a very wide range of business and financial data which covers the following;

Company internal and external financial reporting, business reporting to all types of regulators, including tax and financial authorities, central bank and governments, filling of loan reports and applications, credit risk assessments, exchanges of information between governments department or between other institutions such as central bank, authoritative accounting literature – providing a standard way of describing accounting document provided by authoritative bodies. A wide range of other financial and statically data which needs to be stored, exchanged and analysed. Abudullahi (2011).

1. 2 Statement of Problem

Public trust originates from the extent which the audited financial statement was able to meet up with the expectation of the users. This often deviates from what the professional auditor to offer has based on his traditional role. Therefore there is need to enhance public confidence which is the bedrock of every profession, by reducing financial pad up known as creative accounting, reducing irregularities, embezzlement, material misstatement, which forms "Expectation gap" by communicating better the nature and result of audit works through Extensible Business Reporting Language (XBRL).

1.3 Objective of the Study

The general objective of this study is to find out if Extensible Business Reporting Language (XBRL) could be used in reducing Audit expectation gap.

The specific objectives of the study are;

1. To ascertain the extent of existence of audit expectation gap in Nigeria
2. To find out the significant factors that causes the widening audit expectation gap in Nigeria.
3. To ascertain if the Extensible Business Reporting Language (XBRL) could be used to reduce financial misstatement thereby reducing the Expectation gap in Nigeria.

1.4 Significance of the Study.

The work is significant to the following bodies and organizations in Nigeria.

- a. The core investors
- b. The government of Nigeria at all levels
- c. The Nigeria various financial regulators
- d. The tax administrators.

1.5 Scope of the Study.

The scope of this study will be delimited to the application of Extensible Business Reporting Language (XBRL) in reducing audit expectation gap in Nigeria.

Review of Related Literature

Extensible Business Reporting Language (XBRL) came into existence in July 1999 through Charles Hoffman, a professional accountant and become popularized by group of leading financial organizations, financial service providers, accounting firms and technology companies, Abudullahi (2011). The way of its design involves tagging all assets and liabilities electronically. Any increase or decrease in assets or liabilities is also electronically adjusted through the secret code by only the unit in charge. This enables financial reports to be easy for preparation and posting on the internet and it is easy to understand once they are posted (JOA 2000). There are so many sources of accessing financial information but financial analyst usually prefer using website to obtain information for it is easier. AICPA (2000) have it that approximately 80% of major companies worldwide make some kind of financial disclosure online. Nigeria has accepted International Financial Reporting Standard (IFRS) in order to enjoy the benefits it offers such as reduction of the cost of doing business, cross border listing, attraction of foreign direct investment. But Nigeria has not fully embraced XBRL as a requirement for reporting financial information in IFRS, but XBRL and IFRS works together. Above all Extensible Business Reporting Language (XBRL) is a guiding principle which can be used to reduce financial misappropriation thereby enhancing growth and survival of public and quoted companies. Olamide (2010) says that the major corporate collapses and related frauds which occurred in Nigeria and around the world have raised doubts about the credibility of the operating and financial practices of quoted companies which Nigeria is no exception. But Dallas (2005) holds that the growing complexities of business transactions, the globalisation of financial markets and the increasing need for information coupled with tougher internal audit and lingering concerns over the adequacy of accounting and internal control system, will undoubtedly focus continued attention on financial reporting discipline. The investors and other financial stakeholders need accurate, genuine and reliable -financial information which when delivered promptly will help them take informed financial decisions. XBRL has the tendency of proffering solution to this demand as it improves the usefulness of financial information delivery through internet. Shin (2003) says that XBRL makes full use of the efficiencies of the internet – primary source of financial information for today’s users. The general public, the investors, and regulators around the globe require increased financial transparency in order to regain market confidence and stimulate the economy. This Eileen (2002) says that XBRL is a way to really improve transparency for investors and the timely delivery of standardized data because of its simplicity and the improved efficiency. The expected growth of XBRL will impact on the company’s exchange of financial data as well as business reporting of all kinds. Since XBRL has the tendency of eliminating entry errors, encourage more analysis of data, facilitate comparison against external data, and provide greater transparency (Hoffman et al 1998). It could be used to reduce expectation gap of Audit.

The expectation gap which was first introduced by Liggo (1974) as cited by Adeyemi & Uadiale (2011) is said to be the difference between the level of expected performance as envisioned by users of a financial statement and independent accountants. Contributing to this porter (1993) sees it as the gap between what the society expects of the auditors and what auditors actually do. To this Ojo (2006) opines that comparison be made between the reasonable expectations of users of financial statement and what the audit profession expects.

Factors Creating Audit Expectation Gap

The following may constitute the factors for expectation Gap in Auditing.

- a. The complicated nature of audit function
- b. The conflict of role between auditors and management.
- c. Time lag in responding to changing Expectation.
- d. Unreasonable Expectation of the public.

Gloeck and Jager (1993) hold that conflict of interest arising from the provision of non-audit clients greatly contributes to the expectation gap. But Leung et al (2007) detailed that present accounting firms have diversified by providing a wide range of services and products which include measurement of business performance, risk assessment, information reliability system, electronic commerce and health, and other care performances measurement. Conflict may arise if the shareholders expect the auditor to identify and report all problems with financial statement while management will expect the auditor to ignore financial statement manipulation (Koo and Sim 1999) while Rizzo et al (1990) see this as inter sender role conflict. Humphrey et al (1992) hold that time lag may create expectation gap between identifying and responding to continually changing and expanding public expectations by accounting profession, thereby rendering existing standard deficient. International Financial Reporting Standard (IFRS) 1 requires an entity to provide extensible disclosure and to the unreasonable expectation by the public, Humphrey et al (1993) associate the problem of expectation gap with the misconception of the nature, purpose and capacities of an audit 'function. To these Sikka et al (2003) summaries it that a greater, expectation gap would lead to lower credibility, depressed earning potential and prestige associated with the audit work. Therefore there is the need to implore Extensible Business Reporting Language in audit work so as to enhance the reduction of the expectation Gap.

Advantages of Extensible Business Reporting Language (XBRL)

The following according to Abdullahi (2011) forms the advantages companies will gain by using XBRL

- a. It saves costs by preparing data in one form and automatically generating many outputs. Companies will avoid keying of data and other manual tasks.
- b. It consolidates results across division and subsidiaries with much greater speed and reliability.
- c. It improves accuracy and reliability of financial data.
- d. It focuses effort on analysis, forecasting and decision making, rather than on laborious tasks in gathering, compiling and preparing data.
- e. It achieves quicker and more efficient decisions.
- f. It makes more effective use of the internet in communicating with investors.
- g. Companies will benefit from the growing importance of websites as a means of communication.
- h. It improve investors relations through provision of more transparent and user friendly information.
- i. It simplifies the process and reduces the cost involved in regulatory reporting to tax and other authorities.
- j. It helps to obtain quicker response from counter-parties including banks and regulators.

2.2 Empirical Review

Many scholars have carried out related work in this field of study and some of these works will be reviewed here.

Schelliuch (1996) carried out a work tagged "Schelliuch's semantic differential belief procedure." He developed a semantic differential instrument to measure the message communicated through audit reports based on steps outline in earlier works by Mathotra (1981), Holt and Moizer (1990) and Monroe and Woodcliff (1993). This approach was replicated with success in Best, Buckby, Best and Tan (2001) in assessing audit Expectation gap in Singapore.

Emenike (1997) carried out work for development research, group Nigeria stock exchange, on the title "Regulation of Financial Reporting for Accountability in public Companies in Nigeria, correcting the non-compliance with financial reporting standard and governance code in some public companies". The report shows evidence of inconsistency in reporting standards. It also shows deviation from governance codes of selected public companies in Enugu and Anambra State, which is a general problem of accountability of quoted public companies on Nigeria stock exchange. This report shows lapses in reporting standards.

Oladimeji carried out a work on corruption in quoted companies in 1997 titled, the role of behavioural accounting for effective service delivery in corporate accounts of public companies. He highlights the nature, type and effect which corruption could have on corporate accounts and behavioural accounting as a measure to achieving public companies objectives. He concludes that an internal and external influence of a system during operation often alters the corporate organizational objectives (Ejike 2012).

Hoffman, Harding, Cohen and Matherne carried out a study on the use of XBRL in financial report between July 17 1999 and April 6th 2000. They made use of Extensible Business Reporting Language (XBRL) through Extensible Markup Language (XML) for electronic reporting of financial information. Their report shows evidence of reducing mechanical data entry, elimination of entry errors, it shows that XBRL encourages more analysis of data, and facilitates comparisons against external data, and provision of greater transparency in financial report (Abudullahi 2011).

2.3 Theoretical Framework

This work anchors on the theory of:

- **Pure-impression Model (PMM) of accountability.** The PMM came through Keppler in 1995 and it states that accountability serves as a linkage construct by continually reminding people of the need to;
 - a. Act in accordance with the prevailing form and content of financial reporting.
 - b. Advance compelling justification/excuses for conduct that deviate from the form and content of financial reporting, (Ejike 2012).
- **Agency Theory:** - This holds that the demand for quality audit work is necessitated on the reasonable compensation for the auditor and the need to handle conflict of interest amicably. (Jensen and Mackling 1976).
- **Theory of inspired confidence by Carpenter (1990).** This states that the stakeholders of an organization demands accountability from the management crew as an exchange for their contribution towards the resources of the organization.
- **Decision Rule Model:** Nwoko (1997) sees it as an objective method of selecting from among alternatives especially in a situation that is quantitative. It includes selecting one with the minimum cost or at least highest contribution margin.

These theories support the use of Extensible Business Reporting Language (XBRL) to reduce audit expectation gap which aims at discouraging financial misappropriation, errors, wastages, fraudulent practices and misstatements but ensure improvement on accuracy and reliability of financial data.

Impacts of Extensible Business Reporting Language (XBRL) on Audit Firms

The increasing need for companies to produce financial statements in the XBRL format will have a great impact on auditing firms . There is the need for the audit firms to plan for the coming wave of additional effort required to provide assurance over XBRL documents. It is also of importance to develop the cadres of skilled individuals who will provide such support to audit team. Audit and assurance firms need to exploit the potential impact and plan exactly on how to develop the required skins and develop necessary tool that they need to provide assurance over XBRL documents.

Extensible Business Reporting Language (XBRL) and Generally Accepted Audit Practice (GAAP)

The Extensible Business Reporting Language and generally accepted audit practice taxonomy is based on generally accepted accounting principles which gave much coverage of financial reporting concept including all financial statement disclosure requirements and many rules for commonly followed reporting practices. Taxonomy according to Abudullahi (2011) is a description and classification system for concepts and XBRL taxonomy is a particular way to describe and classify reporting concepts.

Discussion

Attempt was made in discussing the strategies that was used in accomplishing the objectives of the study. The theoretical framework and the gap identified were also discussed.

3.1 Strategies used for Meeting the Stated Objectives

The first objective of this work tries to ascertain the extent of existence of audit expectation gap in Nigeria. Nwagboso (2010) holds that financial report has a difficult task in its attempt to satisfy the need of users because the users are many and have a wide variety of interest while Aruwa & Atabs (2011) in Okafor (2012) provided instances of creative accounting and fraudulent financial reporting in Nigeria. These have therefore created expected gap in audit report. On the factors responsible for the expectation gap, Gloeck and Jager (1993) put it as the conflict of interest arising from the provision of non-audit client while Humphrey, Moizer, and Turley (1992) view it from time lag perspective especially now that most countries are changing from generally accepted audit practices (GAAP)to international financial reporting standard (IFRS).

The third objective which sort to know if the Extensible Business Reporting Language (XBRL) could be used to reduce financial misstatement thereby reducing audit expectation gap. Abuduliahi (2011) says that XBRL is a language for the electronic communication of business and financial data which is revolutionizing business reporting around the world and Dallas (2005) adds that the investor and other financial stakeholders need accurate and genuine and reliable financial information which when delivered promptly will help them take informed financial decisions. This therefore makes the XBRL effective and efficient for financial reporting which has the ability to reduce the expectation gap.

Identification of Gaps

Nigeria has adopted the use of international financial reporting standard but has not fully embraced Extensible Business Reporting Language (XBRL) as a requirement for reporting in international financial reporting standard but XBRL and IFRS go hand in hand. Manually prepared financial report often presents misleading information due to its manipulation tendencies. There is also yet to be established accounting framework which will guide specifically the type of representations of stakeholders interest and what those interest should be like, otherwise the clamour over expectation gap will continue but Sikka, Puxty, Wilmot and Cooper (2003) say that greater expectations gap would lead to lower credibility, depressed earning potential etc.

Adequacy/Relevance of Theoretical Framework

The theory of inspired confidence by carpenter is the most preferred theory for this work because it fully supports the idea of reduction in expectation gap. It has the following characteristics:

- i. That there should be transparency and accountability through the financial report by the management of business organizations to the stakeholders.
- ii. It supports the idea of detailed explanations of financial operations and conditions of a given firm.
- iii. It also supports cut down on data manipulation
- iv. It discourages embezzlement, financial misappropriation and fraudulent activities as they distort accountability.

The theoretical framework is strengthened by other theoretical framework such as pure impression model (PMM) of accountability. The agency theory which have it that auditor should ensure quality job in as much as they are compensated for that and decision rule model which is an objective method of selecting from among alternatives. All these support the application of Extensible Business Reporting Language in reducing audit expectation gap. Hence for there to be a transparent accountability, there is the need to electronically tag the vital information of an organization such as assets and liabilities.

3.2 Conclusion

The stake holder's interest need to be carried along in the operation of corporate organization and their reporting of financial information. The wave of high profile accounting scandals since the year 2000 which negatively affects the public perception of auditor's independence (Okafor 2012) need to be property arrested. Therefore there is the need to encourage the corporate organizations to adopt both the IFRS and XBRL as a means of producing their financial reporting as it has the tendency of bringing transparency to job performance and its reports. This Ezejelue 1978 in Nwagboso (2010) says that what the developing countries need is a dynamic reporting tool, serving some social purpose and not a slavish adherence to the two conventional general purpose statement (the balance sheet and profit and loss account) in their original form. More research is urged not only to identify more of these users and their reporting needs, In our less developed environment, but also ways and means of satisfying these needs. He adds, let us not lure into accepting and reporting instrument that is devoid of the required usefulness and dynamism simply because the alternative is" difficult or time consuming. The Extensible Business Reporting Language in financial reporting therefore serves the purpose of dynamic reporting tool. Above all XBRL is an enhancement of traditional modes of financial reporting.it does not usually provide extra data than standard financial statement.

3.3 Recommendations

- i. The existing framework for audit report need to be expanded to create the scope of informing the users of what the auditor's role and responsibilities really are.
- ii. The business operators in Nigeria should be encouraged to adopt IFRS and XBRL since two of them works hand in hand.
- iii. Staff and personnel should be trained in XBRL to enable them know how to work and produce financial report through it without encountering difficult
- iv. Since XBRL produce accurate and reliable financial data therefore there is the need that it is backed up with a legislative act.
- v. All corporate organization should be encouraged to forward information about their activities including financial report in the net as above 80% of the world information seeker go to the net to look for it.

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