Compliance Audit and Corporate Financial Performance: Banks in Rivers State

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ABSTRACT
The paper examined compliance auditing and corporate financial performance. The quasi-experimental research design is adopted for this paper. The respondents were managers drawn from banks operating in Rivers State. The research hypotheses developed in this study were analyzed and tested by the use of the spearman's rank order correlation. Results indicated that there is a strong and significant relationship between auditing procedures and return on investment; there is a positive and significant relationship between auditing procedures and profitability; there is a strong and positive relationship between auditing rules and return on investment; and there is a significant and positive relationship between auditing rules and profitability. It was concluded that conclude that compliance auditing is a process of conducting audit in line with all the applicable known rules and procedures that gives an audit a high regard in the settlement of corporate governance issues and the enhancement of corporate financial performance of organizations. It was recommended that banks should plan their audit processes in line will all relevant standards and regulations guiding audit processes in order assess their performances; and banks should adopt the use of compliance audit process in order to achieve a comprehensive review of their organization's adherence to regulatory rules and guidelines for the provision of valid and reliable audit reports for all stakeholders.
Keywords: Compliance Audit, Corporate Financial Performance, Auditing Procedure, Auditing Rules, Return on Investment, Profitability.

INTRODUCTION

The need for compliance auditing is to ensure that during litigation about the audit procedures and rules adopted in an audit process, valid and verifiable audit report can be provided by an organization to state the true position of affairs in a company. This is to provide a true picture to all stakeholders about the affairs of the organization (Fargason, 1993). Compliance audit deals with the comprehensive review of an organization's adherence to regulatory rules and guidelines (Stephen, 2002). It is also linked with the process of determining if transactions in organizations have followed applicable rules or not (Fargason, 1993). Thus, if rules are violated, the compliance audit process ensures that the cause of the violation is investigated and necessary precautions taken with the appropriate recommendation given to prevent future deviations (Stephen, 2002).

Most researchers of compliance auditing treat the concept as one seeking to investigate the procedure used to ascertain effective internal control for the realization of reliable audit and to avoid possible litigation (Fargason, 1993). Thus, Vitez (2010) opined that "a compliance audit is the review of business functions to determine whether or not a company is meeting specific contractual, regulatory or predetermined requirements. Compliance audits are used in the review of organizations employees or departments". Consequently, to actualize the achievement of corporate performance, organizations use compliance audits to conduct internal reviews that measure how well each department operates according to standard operating procedures. Contractual and regulatory compliance audit review how well an organization follows written agreements or meets third party guidelines (Fargason, 1993).

In compliance audit, the rules being tested can be those created by the organization for itself, through corporate bye-laws, policies, plans and procedures or can be those imposed on the organization through external laws and regulations (Kantiolm, 1998). Based on this, compliance audit seeks to ascertain how the adoption and adherence to regulatory processes, policies, plans, and guidelines can enhance organizational effectiveness through valid and reliable audits reporting (Fargason, 1993).

Compliance Auditing has been the focus of many studies in the Auditing, Investigation and Control literatures over the last 25 years (Fargason, 1993; Kantiolm, 1998). This attention is likely due to several reasons; to comprehensively review whether or not regulatory guidelines on a company's transaction are followed; to review business functions whether or not specific contractual requirement is met, to conduct employee reviews and department reviews within an organization. It is also assumed that compliance audit reviews how well an organization follows written agreements for meeting third party guidelines.

According to Vitez (2010), evidences have been produced indicating that compliance auditing has direct link with compliance testing. This is to show that auditing is done in a manner of furnishing reasonable assurance that internal auditing control procedures are being applied as prescribed, so that the auditor is assured of the validity of underlying evidence. This is usually done by observing compliance procedures. Compliance procedures are tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect. Thus, the auditor needs to ensure that internal control exist and that the internal control is operating effectively and being operating continuously throughout the period under audit to ensure that they can be relied upon. Based on the above, this study is intended to explore why organizations should comprehensively review the ways they adhere to regulatory guidelines? Are organizations obliged to meet specific contractual requirements for their audit to be valid and reliable? Are external auditors responsible for conducting compliance auditing? Can compliance auditing be used to measure how well an organization is performing? Can compliance audit be used to conduct the internal reviews of organizations to achieve profitability and return on investment? Is the internal control system review required for an efficient compliance audit? Thus, to fill this gap in past studies, the study seeks to find out the ways by which compliance auditing can be used to enhance corporate financial performance for the achievement of set objectives in banks.

The general objective of this study is to examine the relationship between compliance auditing and corporate performance. The specific objectives of this paper are to examine:

(i) how auditing procedures can enhance return on investment,
(ii) the means by which auditing procedures can enhance profitability,
(iii) how well auditing rules can affect return on investment and
(iv) how well auditing rules can affect profitability.

Consequently, using the objectives of this paper as the backbone of the study, the following hypotheses were developed.

H_{01}: Auditing procedures does not significantly affect return on investment.
H_{02}: Auditing procedures does not significantly affect profitability.
H_{03}: Auditing rules does not significantly affect return on investment.
H_{04}: Auditing rules does not significantly affect profitability.

REVIEW OF RELATED LITERATURE

SOME THEORETICAL CONCEPTS AND ISSUES

Compliance Auditing entails the process whereby organizations comprehensively review their transactions in line with regulatory guidelines. It is a means used to determine whether an audit process or transaction has or has not followed applicable rules (Kantiolm, 1998).

According to Fargason (1993), compliance auditing refers to a comprehensives review of an organization's adherence to regulatory guidelines. If rules are violated, the auditor determines the cause and recommends ways to prevent future deviations. The rules being tested can be those created by the organization for itself through the corporate bye-laws, policies, plans and procedures; or can be those imposed on the organization through external laws and regulations (Kanholm, 1998).

According to Stephen (2002), compliance audit deals with the responsibility of the organization to audit whether the activities of the company are in accordance with the relevant laws, regulations and authorities that govern the company. This involves reporting on the degree to which the audited entity is accountable for its actions and exercises good public governance. More specifically, these elements may involve auditing to what extent the audited entity follows rules, laws and regulation, budgetary resolutions, policy, established codes, or agreed upon terms, such as the terms of a contract or terms of a funding agreement.

Gary (1997), said that ''compliance audit is an audit undertaken to confirm whether a firm is following the terms of an agreement (such as a bond indenture), or the rules and regulations applicable to an activity or practice prescribed by an external agency or authority''.

In addition, Gray (1997) opined that ''the growth of compliance auditing is fundamentally a 21st century phenomenon''. Its emergence as a distinct type of auditing coincides with the rapid growth of business after the industrial revolution and the concurrent growth in efforts by firms and governments to direct and control business practices.

Specifically, according to Feldesman *et al* (1999), compliance audit highlights the unique role auditing plays when identifying events or incidents that may affect an organizations ability to achieve its objectives. Compliance audit is important in corporate business decision-making processes. It helps top executives prevent operating losses resulting from adverse regulatory initiatives, such as litigation, fines and other punitive sanctions. Thus, compliance audit helps organizations to strategically and operationally enhance corporate financial performance.

According to Ngerobo (2000), Corporate Performance is concerned with the means by which organization's effectiveness is measured by laid down objectives to reflect how well resources are used. The indicators of corporate performance are return on investment, profitability, market share, sales volume and shareholders' value. When these factors are favourable, organizations are in healthy condition. However, when they are not, organizations are in poor conditions (Ngerobo, 2000).

REVIEW OF SOME EMPIRICAL STUDIES

According Arthur (1994), opined that ''in order to effectively carryout a compliance audit, compliance auditors must have the skills to research issues effectively using authoritative materials, understand how to apply the knowledge gained to the circumstances being tested, and be able to explain to the organization what compliance means in day-to-day operations''. Rules for compliance auditing can be carried out by employees of the organization, public accountant or anti-graft auditors assigned by a regulatory government agency. Compliance audit rules are often done by internal auditors in advance of an external compliance audit so that any potential problem can be detected and corrected in advance. This is because when internal auditors have already audited activities and management has taken action to correct non-compliance, external examiners may request that documentation as evidence of the organization's good-faith effort to correct non-compliance (Arthur, 1994).

David (1999) opined that ''the person or organization requesting the compliance audit plays the key role in determining the objective, scope, and time period to be reviewed and who will do the work''. They may also control the audit process itself by outlining detailed procedures and prescribing method for judging results. Before beginning a particular compliance audit, the auditors must be properly qualified through education and experience to perform the work. Also the auditor must have a clear understanding of the laws, policies, or standards being evaluated, decide how to recognize when a deviation has occurred and how to evaluate evidence through audit tests. This means that the auditor must figure out, for each event to be tested, just what evidence signifies compliance and what evidence signifies non-compliance.

In addition, it is important for the auditor to find out the degree of deviation from standards that is considered tolerable by the audit sponsor (David, 1999).

According to David (1999), compliance auditing involves the adherence to rules and procedures which must be followed logically in the execution of an audit programme in an organization. It involves the means of carrying out audit in line with regulatory guidelines. Thus, to him, the components of compliance auditing are: Compliance Auditing Procedures, and Compliance Auditing Rules.

According to Osmond (2010), a compliance audit procedure involves the review of business functions to determine whether or not a company is meeting specific contractual, regulatory or predetermined requirements in its audit. Compliance audits can review a company's employees or departments. Organizations use compliance audits to conduct internal reviews that measure how well each department operates according to standard operating procedures. Contractual and regulatory compliance audits review how well a company follows written agreements or meets third party guidelines. Thus, each compliance audit follows the under listed universally accepted procedures. According to Osmond (2010), the procedures are thus:

According to Osmond (2010), compliance audits begin when auditors meet with the company management to initiate meeting. External auditors are usually responsible for conducting compliance audits. Auditors will discuss with management on the type of compliance audit and what business functions specifically need reviewing. The scope of the audit is another issue to discuss. Auditors and company management will determine the information, sample size or number of functions to review. Any appropriate manuals contracts or other paperwork to review during the compliance audit, are also discussed during this meeting.

In addition, auditors will review each employee's performance to determine the level of individual compliance (Osmond, 2010). According to Osmond (2010), employees are responsible for completing business functions in accordance with company standards and contractual or regulatory requirements. Auditors may also review the availability of operational managers who oversee employees. A lack of oversight can indicate employees have free rein in to complete business functions regardless of standard operating procedures or contractual obligations. Auditors will make notes regarding employee performance, especially any violations of contractual, regulatory or company standards.

According to Goodman (1994), individual department reviews are another procedure in compliance audits. Auditors commonly review operational work for each business department. This information provides auditors with a quantitative analysis of the department's performance. A department audit is usually where the information sample size comes into play. Auditors review the specific information sample discussed in the management meeting. Auditors ensure the information is compliant and in accordance with operating standards or contractual agreements. If too many violations exist in the department's initial paper work sample, auditors usually pull a second sample of information. Additional violations may result in the department being out of compliance.

According to Goodman (1994), in the achievement a useful compliance audit procedure, auditors will have a final meeting with the company's management upon completing the compliance audit. Auditors will discuss the audit results and review any significant violations that were found. Company management can dispute the findings or provide additional insight into the employee or department performance. Auditors will issue a final report at the end of this meeting. The report will outline the violations found during the audit and how well the company maintains standards or contractual agreements. Outside organizations or regulatory agencies may require a copy of the auditor's official report. Auditor reports can give a positive or negative opinion on the company's compliance with contractual agreements (Goodman, 1994).

According to Arthur (1994), compliance auditing rules are basically the system of auditing that is carried out in line with known legislations, processes and criterion. An auditing rule involves the application of compliance testing by an auditor to determine audit evidence that is reliable (Arthur 1994).Compliance auditing are designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are effective. The auditor needs to ensure that internal control exist and that the internal control is operating effectively and being operating continuously throughout the period under audit to ensure that they can be relied upon.

David (1999) opined that ''compliance auditing rule is a manner of furnishing reasonable assurance that internal accounting control procedures are being applied as prescribed so that the auditor is assured of the validity of underlying evidence based on laws regulating audit''. Thus, any exceptions to compliance must be noted. Underlying evidence comprises an examination of the accounts themselves including reviewing the journals, ledgers, and worksheets. If the compliance tests provide evidence that controls are functioning properly, the underlying evidence is deemed reliable. Thus, the following three audit rules are typically used in conducting valid and reliable audits:

1) Inquiry of personnel regarding the performance of their duties.
2) Observing personnel actions, and
3) Inspecting documentation for evidence of performance in conducting employee functions. An example is examining invoices to ensure that receiving documents and proof of delivery are attached when the invoices are presented for payment and events for the whole year. Compliance tests may be conducted on a subjective or statistical basis.

COMPLIANCE AUDITING AND CORPORATE FINANCIAL PERFORMANCE

According to Messier (1997), the objective of compliance auditing is to determine whether the audit work of an organization is following prescribed laws, regulations, policies or procedures. The audits can be performed within a business organization for internal purposes or in response to requirements by outside groups, particularly government. Compliance audits can also be performed on individuals, for example, a compliance audit of an individual's tax return. Typically, in organizations compliance auditing looks at the assessment of an organization's departments, such as marketing, accounting, finance, production, procurement and human resources in order to ascertain if the specified laws and regulations governing the mode of operations are adhered to. It is expected that the process of compliance auditing prohibits business entities from corrupt and unethical practices that will enable the firm to survive and meet up its objectives.

According to Richard (2009) corporate performance comprises the actual output or results of an organization as measured against its intended inputs or objectives. The process of compliance audit entails the ability of a firm to carryout audit work in accordance with audit rules and procedures that will enable a firm to achieve return on investment and profitability in a long run. Hence, compliance auditing serves as a factor that may enhance corporate performance.

According to Dye (1993), auditing rules are the definitions for what is and what is not audited and it provides the means by which specified regulations are observed in the audit process to assess the performance requirements of a business organization. According to Khan (1993), return on investment is the profit generated by the money a business owner puts into the business. According to Baker (2000), return on investment is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments.

According to Parkash and Carol (1993), auditing procedure involves the techniques of gathering audit evidence to substantiate the reliability of the accounting records. The process involves knowing whether the information presented is logical and reasonable and it is done by observing business assets, transactions and appraising management's activities. Auditing procedures are the methods of verifying and ensuring the continued effectiveness of audit process (Simunic, 1984). Thus, it may be considered that auditing procedure can enhance return on investment. Based on this, Nitzan and Bichler (2010) opined that ''return on investment is how well

management utilized the resources at its disposal for the purpose of bringing an acceptable return to shareholders''.
Auditing rules are considered as the laid down regulations that directs an auditor to know what is and what is not to be audited (Dye, 1993). It provides the means by which specified regulations are observed in an audit process in order to assess the performance requirements of business organizations. Thus, auditing rules may influence profitability, which is a performance measure for a business. According to Prahalad (1994), profitability is the ability of a firm to earn profit. It is the state or condition of yielding a financial profit or gain, and it is the primary goals of a business.

METHODOLOGY

RESEARCH DESIGN AND DATA COLLECTION

The quasi-experimental research design is adopted for this paper. This is because the various elements of the design are not under the control of the researcher (Baridam, 2001). The sources of data used for the study are primary. The primary source of data collected for the study include: obtaining information from the respondents with the use of personal interview and the administration of questionnaire. The study used questionnaire derived from the research questions and research hypotheses as instrument for gathering data. The instrument is based on the use of the four point likert scale on ordinal basis. And they are: To a great extent 4; To a considerable extent 3; To a moderate extent 2; To a slight extent 1; and Not at all 0. The instrument is used to elicit information on the subject matter, which is "compliance auditing and corporate financial performance." The questionnaire contains two sections. Section one contained the bio-data of the respondents, such as name, age, sex, level of education, name of company, and marital status; while, section two contained the questions showing the independent and dependent variables. The questions were answered based on the likert scale.

TEST OF VALIDITY AND RELIABILITY

The researcher used questionnaire as the instrument to get response from the respondents contacted in the selected banks. The questionnaire was constructed based
on the use of content validity to show questions covering the dependent and independent variables. The instrument was face-validated by the supervisor of the project an expert in the field. The researcher used the test-retest approach to obtain the reliability of the study. The initial draft of the instrument was first pilot-tested on 50 respondents from the selected banks with each bank having 5 copies of the questionnaire. The final draft instrument of the study was produced after correction, which was endorsed by the supervisor of the project. Again, the reliability of the instrument was established using the test-rates method on 50 respondents from the selected banks, and a co-efficient of 0.7 was obtained for the instrument.

DATA ANALYSIS TECHNIQUE

The research hypotheses developed in this study were analyzed and tested by the use of the spearman's rank order correlation. The spearman's rank order correlation is usually designated as Rho. It rants paired observations, thus requiring at least ordinal data – Rho, symbolized by rs or p, measures the degree of relationship between two sets of ranked observations. In other words, it indicates the degree of effectiveness in predicting one-ranked variable based on another ranked variable. Rho assumes any value from – 1 to + 1 indicating perfect correlation and 0 no relationship (Baridam, 2001). The spearman's rank order correlation co-efficient was adopted by the use of the Statistical Package for Social Sciences (SPSS).

DISCUSSION OF FINDINGS AND STATISTICAL TESTING OF HYPOTHESES

In order to find out the degree of relationship between various measures of the independent and dependent variables, hypotheses were put forward with a view of making inferences from the results of the tests. The hypotheses in this study were tested using the non-parametric statistical test - Spearman Rank Order Correlation Coefficient. The test was adopted because data collected for the research were measured in ordinal scale. The correlation matrix is in table 5, with the summary of hypotheses tested on table 6. The table shows the relationship between the dependent and independent variable.

Hypothesis One:

Relationship between auditing procedures and return on investment

H_{01}: Auditing procedures does not significantly affect return on investment.

The result of the test indicates a spearman correlation coefficient (rho = 0.710, $p< 0.05$) (see table 5). This shows a strong and significant relationship between auditing procedures and return on investment. Therefore, the null hypothesis was rejected, while the alternative hypothesis was accepted. The literature review of the present study suggested that there is a positive relationship between auditing procedures and return on investment. According to Dye (1993), auditing rules are the definitions for what is and what is not audited and it provides the means by which specified regulations are observed in the audit process to assess the performance requirements of a business organization. According to Khan (1993), return on investment is the profit generated by the money a business owner puts into the business. According to Baker (2000), return on investment is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. The implication of this is that audit rules will streamline the audit process of the organization as it will give the stakeholders confidence in the management of their resources as it will also enable the organization to enhance its financial performance by the realization of excellent return on investment.

Hypothesis Two:

Relationship between auditing procedures and profitability

H_{02}: Auditing procedures does not significantly affect profitability.

The result of the test shows a spearman correlation coefficient (rho= 0.760, p< 0.05) (see table 5). This implies that there is a positive and significant relationship between auditing procedures and profitability. As a result, the null hypothesis was rejected, and the alternative hypothesis was accepted. The literature review of the present study suggested a positive relationship between auditing procedures and profitability.

According to Parkash and Carol (1993), auditing procedure involves the techniques of gathering audit evidence to substantiate the reliability of the accounting records. The process involves knowing whether the information presented is logical and reasonable and it is done by observing business assets, transactions and appraising management's activities. Profitability is a useful measure of how well an organization uses its assets and funds in carrying out marketing activities. It involves a state of yielding a financial profit or gain, which is the primary goal of a company. Without profitability, the business may not survive in the long run. So measuring current and past profitability and projecting future profitability is very important in firms (Tybout *et al*, 2005). The implication of this is that when audit activities are done procedurally, some loop holes will be covered, and this will enable the organization to recover losses that will be profitable to it.

Hypothesis Three:

Relationship between auditing rules and return on investment

H_{03}: Auditing rules does not significantly affect return on investment.

The result of the test indicates a spearman correlation coefficient (rho= 0.790, p< 0.05) (see table 5). This shows that there is a strong and positive relationship between auditing rules and return on investment. Thus, the null hypothesis was rejected and the alternative hypothesis was accepted. The literature review of the present study suggested a positive relationship between auditing rules and return on investment. Auditing rules are considered as the laid down regulations that directs an auditor to know what is and what is not to be audited (Dye, 1993). According to Khan (1993), return on investment is the profit generated by the money a business owner puts into the business. According to Baker (2000), return on investment is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. The implication of this is that the setting up of audit rules enables the firm to have a guide in the way and manner the audit process of the organization will be managed to achieve its set targets.

Hypothesis Four:

Relationship between auditing rules and profitability

H_{04}: Auditing rules does not significantly affect profitability.

The result of the test shows a spearman correlation coefficient (rho= 0.770, p< 0.05) (see table 5). The analysis showed that there is a significant and positive relationship between auditing rules and profitability. As a result, the null hypothesis was rejected and the alternative hypothesis was accepted. The literature review of the present study suggested a positive relationship between auditing rules and profitability. It provides the means by which specified regulations are observed in an audit process in order to assess the performance requirements of business organizations. Auditing rules are considered as the laid down regulations that directs an auditor to know what is and what is not to be audited (Dye, 1993). Thus, auditing rules may influence profitability, which is a performance measure for a business. According to Prahalad (1994), profitability is the ability of a firm to earn profit. It is the state or condition of yielding a financial profit or gain, and it is the primary goals of a business. Thus, to achieve organizational profitability, the audit rules will be provided as guides for the management of corporate audit and other investigative measure to enable the firm attain it set goals.

Table 5: Spearman's Rank Correlation Analysis of the Relationship Between Compliance Auditing and Firm Financial Performance

	Statistics	Auditing Procedures	Auditing Rules	Return on Investment	Profitability
Auditing Procedures	rho	1.000			
Auditing Rules	rho	.240**	1.000		
Return on Investment	rho	.710*	.790*	1.000	
Profitability	rho	.760*	.770*	.230**	1.000

Source: Field Data, 2013 and SPSS Output
N = 40
*= Correlation significant at 0.05 level (2-tailed)
**= Correlation significant at 0.01 level (2-tailed)

Table 6: Summary of Hypotheses Tested: H_{o1}-H_{o4}

Variables	Return on Investment	Profitability	Accept	Reject
Auditing Procedures	.710* H_{o1}	.760* H_{o2}		H_{o1} H_{o2}
Auditing Rules	.790* H_{o4}	.770* H_{o4}		H_{o3} H_{o4}

Source: Field Data, 2013 and SPSS Output
N = 40
*= Correlation significant at 0.05 level (2-tailed)

CONCLUSION

The findings of this paper indicated that compliance auditing is strongly related to corporate financial performance. Compliance audit deals with the comprehensive review of an organization's adherence to regulatory rules and guidelines. Also, it seeks to ascertain how the adoption and adherence to regulatory processes, policies, plans, and guidelines can enhance organizational effectiveness through valid and reliable audits reporting for the achievement of corporate objectives. Thus, we will conclude that compliance auditing is a process of conducting audit in line with all the applicable known rules and procedures that gives an audit a high regard in the settlement of corporate governance issues and the enhancement of corporate financial performance of organizations.

RECOMMENDATIONS

In the light of our findings, we provided the following recommendations:
Firstly, banks should plan their audit processes in line will all relevant standards and regulations guiding audit processes in order assess their performances.
Secondly, banks should adopt the use of compliance audit process in order to achieve a comprehensive review of their organization's adherence to regulatory rules and guidelines for the provision of valid and reliable audit reports for all stakeholders.

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