

**DIGITAL CURRENCY AND ITS CHALLENGES ON AUDIT PRACTICE****AUDU, Solomon Ibrahim**

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**Abstract**

*A review of the anticipated Finance Act in Nigeria 2022 shows that taxes are intended to be raised on cryptocurrency transactions even though the law in Nigeria does not recognize cryptocurrency. However, there is the e-Naira which is also a digital currency that utilizes the block-chain technology. In the light of this the auditing profession needs to ensure that the understanding of these set of transactions are understood otherwise, it poses a risk to audit engagement and audit might lose its relevance. This study is therefore designed to examine the challenges that digital currency transactions will pose to the practice of auditing. The qualitative research method was adopted in this study and the desk review research design was used to extract the challenges pointed out from existing papers in accounting literature. This study shows that digital currency transactions pose a risk to the auditing profession due to lack of full understanding to the dynamics that revolve around such transactions. It is recommended that auditing standards be created to guide auditors in practice and education curriculums for accountants both in study and practice be updated with detailed information on such contemporary issues.*

**Keywords:** Audit evidence, Audit Standards, Block chain technology, Digital currency, Distributed Ledger

**1. Introduction**

Auditing involves the independent examination of financial reports by a professional (competent individual) to give an independent opinion and improve the credibility of the financial report. However, this function of independent examination might require the auditor to examine financial transactions of specialized businesses in which the auditor might need to rely on other specialists to carry-out their function. This means that auditors in such circumstances cannot competently give a report on a technical matter without considering the work of another competent specialist. This is the aim of the International Standards on Auditing (ISA) 620.

Block chain technology which is a twenty-first century disruption has come with its benefit and challenges (Lombardi *et al.*, 2021). One of such challenges is the full understanding of how it is operated, evaluating the risk of block chain transactions, amongst others (Lombardi *et al.*, 2021). For instance, the custody of this set of assets are held by various custodians which provides a reliability challenge for auditing.

It's important to point out that the big 4 audit firms are skeptical in rendering audit service to the cryptocurrency firms (Roberts, 2022). On the other hand, firms that once rendered audit service to firms that deal with cryptocurrency have begun reviewing their operations towards bitcoin trading firms. Various

studies have been carried out to examine the contribution of cryptocurrency on various economies. For instance, Siyanbola *et al.* (2021) showed how cryptocurrency transactions did not significantly contribute to economic development. Furthermore, their study showed how cryptocurrency did not have a significant influence on illicit funds but revealed that it positively affected the flow of illicit funds in Nigeria. Mazikana (2018) opined that cryptocurrency has a lot of prospective benefits but also have challenges which comes along with it. Agu (2020) reported on the wide use of cryptocurrency among various territories on the African continent even though some countries haven't legalized its use. Dion-Schwarz *et al.*, (2019) however pointed out that the low level of regulation on cryptocurrency has led to its misuse in illegitimate activities aside from the genuine economic interest.

Also, the development of cryptocurrency as a form of digital asset has come with its challenges on accounting which is described as the language of business as it is used to represent all commercial transactions into meaningful summary so that intended users can take the right decision.

Audu *et al.*, (2022) opined that the accounting profession value is a function of the public perception, therefore, with the challenges presented by the advent of cryptocurrencies, this can dampen the perception of the public on the accounting profession as with the case of FTX which failed in December 2022 and led to speculations on the audit reports provided prior to its failure (Roberts, 2022). Hence, to maintain the value placed in the accounting profession, there is a need to better understand the challenges posed by the advent of digital currencies and the measures that can be taken to mitigate the identified challenges.

Various studies (Gokoglan *et al.*, 2022; Jakovljevic, 2022) have been carried out to evaluate the influence of cryptocurrency on the accounting profession. Despite these studies, Adeleke (2019) shows that there still exists paucity of studies in this direction from the African continent which creates a knowledge gap. They also pointed out that the few studies carried out on the African continent employed the survey research technique which creates a methodology gap. Therefore, this study intends to fill the identified gaps by examining the influence of digital currency on audit practice.

The remaining part of this paper shows a review of the concepts, theory and existing literature. The study further shows the methodology of the study, the discussion of the findings, conclusion and recommendation.

## 2. Literature Review

### 2.1 Conceptual Review

The main concepts in this studied are briefly examined in this section as shown below:

### **Digital Assets**

Digital assets are intangible assets that are stored in a digital form. Digital assets can be described as virtual assets which suggests that the assets are real but not in a real form. They are stored in a digital form which suggests that their values are created not because of their physical form (Nian & Chuen, 2015). Digital assets can exist in the form of digital documents, motion picture, audible content, and any other form which are stored electronically with computers or with the aid of telecommunication devices such as cryptocurrencies (Zhang & Gourley, 2009).

Broby and Paul (2017) opined that block-chain technology is malleable by providing a unique identity for each digital coin that allows it to retain its value. They are maintained by digital autonomous organization (DAO) which are not entities that are recognized by law such as companies, but they operate just as companies to provide services that are required for the transmission and storage of the digital money (Ringelstein & Staab, 2009).

### **Auditing Challenges of Digital Assets**

Hegazy and Nahass (2012) explained that in auditing digital assets, the challenge of multiple jurisdictions arises whereby the issues bordering on the laws of the various jurisdictions will impact the nature of the audit. Broby and Paul (2017) pointed out that digital assets also have a challenge of being able to initiate transactions remotely without being able to easily identify the initiator of such transactions. In addition, they pointed out that transactions of digital assets are not time stamped thus making it difficult for the auditor to recognize the period where the transaction falls into. Furthermore, digital currencies such as cryptocurrency have ephemeral values which are determined by the amount of confidence generally held by holders of such asset. This makes it highly volatile, and the value cannot be reliably maintained even though the quantity of coins remains unchanged. In the auditing process, verification of transactions is critical to the overall quality of the audit process. However, digital currencies have the challenge of not being able to ensure that such currencies reliably belong to the firm under review. Audit opinions are carefully formed based on the audit evidence gathered. Audit evidence can be described as the documentary trail shown on which audit opinions are formed (Broby & Paul, 2017).

In addition, Jakovljevic (2022) opined that there is a need for auditors to be trained such that auditing skills are upgraded to handle the peculiarity posed by the operations of cryptocurrency. Balde (2020) further mentioned that most auditors lacked the capacity and the required skill to handle such tasks.

Auditing process involves gathering of audit evidence that shows the valuation of assets or transactions. Pimentel *et al.*, (2020) revealed that fair value was not easily determined which is used in cryptocurrency transactions. Therefore, the valuation of cryptocurrencies is volatile and can put the auditor at risk.

Confirming the existence of the cryptocurrency is a challenge as the movement of cryptocurrency can be carried out without the initiator being restricted to a particular geographic location and without clearly identifying the initiator of such transfers (Broby & Paul, 2017).

The above is like the confirmation of ownership of cryptocurrency balance (Gauthier & Brendan; 2021) where the amount of cryptocurrency presented cannot be truly traced as all belonging to the reporting entity due to the anonymous nature adopted in the distributed ledger.

Furthermore, Balde (2020) showed how there is a need for full understanding by auditors of the operations of the distributed ledger. Jackson (2018) therefore suggested the need for training of accounting professionals.

Finally, a current challenge being faced is the absence of regulation or standards (Vincent & Winkins, 2020; Khan, 2022). These challenges are a compilation of various studies that need to be handled within the accounting profession for it to remain relevant.

## 2.2 Theoretical Review

Two theories are reviewed in this study which are:

### **Technology Acceptance Model Theory**

The theory states that there is a process for users of a new technology to follow before they adapt to its use. The theory identifies behavioral intention and the attitude of the users as the main influence on their use of the new technology put in place. These are being moderated by the users' perception of the new technology's usefulness and ease of use. The development of the theory is credited to Davis, F.D. in 1989. The theory is seen to be an extension of the theory of reasoned action.

Benbasat and Barki (2007) opposed the theory for not being to accurately predict the point where users of the new technology will align with its use. In addition, Bagozzi (2007) laid credence for the variations to the theory as a weakness on its own. However, Workman (2007) opined that ease of use and users' perception do indeed influence users' acceptance of a new technology.

From the foregoing, as it relates to audit practice, regulation on digital currency is seen to be influenced by the understanding of auditors about cryptocurrency and the perception of the auditing regulatory body on the use and legitimacy of cryptocurrency.

### **Theory of Institutional Isomorphism**

The development of the theory of isomorphism is credited to Paul DiMaggio and Walter Powell in the year 1983. Isomorphism theory states that a change is carried out in an institution in line with a change in its environment (DiMaggio & Powell, 1983). This change can be because of pressure by professional regulatory bodies (normative), pressure from other bodies in which the institution is dependent upon (coercive) and voluntary imitation due to the perceived benefits (mimetic). Therefore, the accounting profession needs to take deliberate actions in channeling a guide on how its members (professional accountants) handle digital asset transactions.

### **2.3 Empirical Review**

Some of the existing literature carried out in the direction of block-chain technology and auditing are reviewed in this section. For instance, Khan (2022) assessed the issues with audit regulation on block-chain technology. Qualitative research method was used in the study. The study showed that block-chain technology has a lot of prospects, but it is not fully understood now hence, the challenge to set audit regulation around it. In a similar attempt on the examination of the need for auditing standards, Gauthier, and Brendan (2021) assessed the influence of block-chain technology on reporting and auditing procedure. A qualitative research method was employed, and interviews were conducted on selected auditors to view their perception of how block-chain technology influences the auditing procedure. The outcome from the study revealed that there is demand for IT audit standards. Similarly, Vincent and Wilkins (2020) evaluated the issues associated with auditing cryptocurrencies. Qualitative research method was used in the study. There are no standards to govern audit procedure of cryptocurrency. However, Shehada and Shehada (2020) examined the potential challenges that cryptocurrency transactions present to accounting. The survey method was employed with primary data collected through the conduct of questionnaire. They revealed that IFRS deals sufficiently with the complexities presented by cryptocurrency transactions which is contrary to earlier calls for the development of standards to handle digital assets.

Jakovljevic (2022) examined the challenges that cryptocurrency presents to auditors. A qualitative research method was used, and primary data was gotten after administering questionnaire on selected 329 respondents. There is a need for auditors to be trained sufficiently to overcome the challenges of

auditing posed by cryptocurrency. Similarly, Jackson (2018) showcased the result of block-chain technology on auditing. The survey method was employed with primary data collected the conduct of questionnaire. There is a need for training existing professionals and regulation on how to audit such transactions.

Pimentel et al (2021) showed reasons why there is a need for training among audit professionals. They arrived at this by examining the challenges associated with block-chain technology and auditing. Qualitative research method was used, and primary data was collected after conducting interview on the selected respondents. Highlighted that the determination of fair value, third party holding and the variations in its practice among geographical territories could serve as factors that will hinder the audit procedure. Prux et al (2021) also provided a rationale for training of auditors. This was shown from their study after assessing the potential and threats of using block-chain technology in public sector transactions. Descriptive research design was used, and primary data extracted using questionnaire which was administered. Blockchain technology is not fully understood by accounting professionals. In addition, Balde (2020) assessed the level of awareness amongst Malaysian auditors on block-chain technology. Primary data was gathered after administering questionnaire on 65 selected auditors. Auditors still understand little about block chain technology. Finally, Barandi et al (2020) examined the impact of block-chain technology on continuous auditing. The survey method was employed with primary data collected the conduct of questionnaire. There is a need for auditors to update their knowledge of block-chain technology too remain relevant.

Despite these challenges, some other studies have shown some of the potential benefits of digital assets. Gokoglan et al (2022) examined the challenges that block-chain technology has on audit activities. Qualitative research method was used, and a desk review design was employed. Block-chain technology will reduce the cost of monitoring as it provides an audit trail through its system.

Lombardi *et al* (2021) investigated the influence of block-chain technology on Auditing. Desk review was carried out on existing literature. The study showed a guide for future research and showed how block chain can assist audit implementation.

Broby and Paul (2017) assessed the auditing techniques in existence used in auditing digital assets. Desk review was carried out on existing literature. They pointed out that the nature of digital assets provides that they are self-audited. However, these assets still have challenges which need to be addressed and the current audit techniques cannot effectively handle the auditing process of digital assets.

### **3. Methodology**

The qualitative research method was employed in carrying out this study by reviewing exiting literature to extract information that sharpened the discussion of this study. The desk research design was then used to extract information that sharpened the discussion in this study.

### **4. Discussion of Findings**

The result of the review carried out in this study shows that the challenges that face auditing can be summarized into problems associated with gathering audit evidence, problem of auditors fully understanding the nature of cryptocurrency transactions and the absence of regulation or standards to guide the practice of auditing on issues that revolve around cryptocurrency.

Based on the technology acceptance model, it suggests that the accounting profession in general need to brace up and recognize that distributed ledger is an innovation that has come to stay which have been in existence since about 2010 (Broby & Paul, 2017). Furthermore, from the theoretical base of the institutional isomorphism which shows how change is being affected based on the environment, the accounting profession is not aliened to change as the level of commercial activities over time has influenced the accounting profession. Therefore, the distributed ledger system should be seen and recognized as such a change that will also influence the accounting profession and as such technical guide should be provided in the form of both financial reporting and auditing standards.

### **5. Conclusion and Recommendation**

This study was carried out to examine the challenges posed on audit practice by digital assets. The study shows that indeed there are challenges which face the accounting profession which have not yet been fully taken care of. Based on the outcome from this study and in a bid to surmounting these challenges, the following recommendations are given:

- i. Laws need to be enacted by the legislature in Nigeria to ensure that sufficient audit evidence can be provided on cryptocurrency transactions in Nigeria.
- ii. Accounting and auditing standards should be clearly given such so that accountants can properly handle such transactions; &
- iii. Tertiary education curriculums in accounting and continuous membership training of professional accountants in practice should be updated with the modification to standards created around digital currency. Such that, newly graduated accountants and already existing accountants are equipped on ways to handle cryptocurrency transactions.

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