AN EMPIRICAL ANALYSIS OF THE AUDIT EXPECTATION GAP IN NIGERIA

[1]Ashibogwu Nze Kingsley, [2]Omonigho-Okoro Robinson, [3]Ikenga Godwin Uzoamaka

[1,2]Department of Accounting, College of Management and Social Sciences, Novena University, Ogume Delta State - Nigeria
[3]Science, Business and Innovation, Faculty of Science (Deep Tech innovation), Vrije University Amsterdam - Netherlands

e-mail:
[1]ashibogwukings@gmail.com
[2]omonighor@yahoo.com
[3*]uzoresearch@outlook.com (*corresponding author*)

ABSTRACT

The study assesses the roles, duties, and responsibilities of the auditor that led to the so-called audit expectation gap in Nigeria with a focus on the capital market. The objective of the studies is to assess if indeed audit expectation gap in Nigeria exists. The study uses the chi-square distribution to ascertain the argument. It was observed that the collapse of many companies across the world was occasioned by corporate governance failure as most financial statements prepared by these firms were satisfied okay by the auditors but yet the companies later went underground thereby resulting in the audit expectation gap argument. Among other things, the study recommends that the relevant professional bodies should collaborate with auditors and educate the users of financial statements to understand the duties and responsibilities of the auditor towards narrowing it performance gap. Also, audited financial statements should be presented manner that people can read and understand the reports.

Keywords: *Audit Expectation Gap; Auditors; Financial Statement; Prevention of Fraud; Nigeria*

Diterima (Received) : 11-04-2023
Direvisi (Revised) : 14-10-2023
Disetujui (Approved) :30-10-2023
Dipublikasi (Published) : 01-11-2023

INTRODUCTION

The survival and growth of any capital market are predicated on the efficiency and transparency of the audit function and there are no shortages of theoretical justification in the literature. The argument on the expectation gap centered on the views expressed by the public on the auditor's duties which are different from the perception of the auditor himself. Generally, the public sees the responsibilities and duties of the auditor to majorly include detection and prevention of fraud but more often than not the users of financial reports usually find out something different. The 1970s saw the emergence of the audit expectation gap when many users of financial statements misunderstood the attestation function, especially in the context of unqualified opinions. They believed that an unqualified opinion is synonymous with foolproof financial reporting. In this context, the auditor should not only concern itself with audit opinion but rather go further to interpret financial statements to enable users to form the right investment decision. Also, there were other users of audit reports whom the auditor was involved in the affairs of the company in the areas of management surveillance as well as detecting frauds involved by management. Therefore, the expectation of the public from the auditor is high regarding financial statements which in the process creates the so-called gap between auditors' and users' expectations of the audit function (Salehi, 2011). Therefore, what has led to the audit expectation gap is the perception the users of audited financial reports have of the responsibilities of the audit function which is different from the perception of the auditors themselves. This implies that the users have a different idea of what auditing should be leading to the audit expectation gap (Nwobu, 2008).

Olojede et al. (2020) submit that the auditor's work is increasing every day with daunting challenges as a result of globalization which carries with it high risks in the dynamic business environment and the complexity involved in the use of information technology. They further argue that this array of opportunities makes it possible for companies to expand with operations in several departments of the business becoming complex with sophisticated control systems coupled with highly computerized technology now employed to run some factories. Although the auditors have to try to change strategies over the years to cope with the development, the change seems to be inadequate in addressing rapidly increasing dynamics in the business environment (Olojede et al, 2020). The fundamental difference that gives rise to the expectation gap is the fact that what the users of financial statements expect from the auditing process is at variance with what is contained in the financial audit reports. Some experts have argued that the gap so created may not be due to a lack of knowledge of auditing but rather what the public wishes that the auditors should do thereby giving rise to a reality and expectation gap. As a result, stakeholders normally become concerned and apprehensive. A notable expectation usually expressed by businesses in the auditing process is to uncover any financial irregularities by way of fraud in the accounting reports. However, the limitation faced by the auditors makes detection of irregularities in the financial statements not necessarily the role of an audit. Therefore, the business owners will become unhappy that the audit has not carried out the comprehensive and far-reaching audit assignment expected of them (Olojede et al, 2020).

Before 1989, the public perception of the auditor was the detection and prevention of fraud and any illegalities in the financial statements. However, following the landmark judgment by LJ Lopes appeal court in Re Kingdom cotton mills (1996), the auditor was seen as a watchdog but not a bloodhound. This decision suggests that the primary role of the auditor is not the detection of fraud but rather to form an opinion on the fairness, reliability, and accuracy of the financial statements whilst the information made available to the users of audit reports does not mislead the investors. These differences in perception of the roles and duties of the auditors by the general public and the auditor himself account for the emergence of the audit expectation gap. This is why Onulaka (2014) avers that present-day business owners face increasing challenges occasioned by the complexity and dynamic nature of the business environment. He submits that there will always be uncertainties in economic conditions thereby prompting users of financial statements to continuously request useful accounting information making the independent audit a critical element for investors' decision to invest in the capital markets (Lonnox, 2009).

The cases of financial scandals reported in some blue-chip companies such as Enron, WorldCom, and in the case of Nigeria, Cadbury Nigeria Plc, Lever Brothers Nigeria Plc, African Petroleum Plc as well as Oceanic and Intercontinental Banks Plc further stirred anxiety in the minds of the public on the audit expectation gap. Following the failure of these companies, the users of financial statements begin to see the auditors as a failure in their avowal duties or have colluded with the management and boards of these companies. The agitation by stakeholders was because the corporate failure in these companies was traceable to the financial misappropriations by the directors and the auditors still went ahead to okay their reports. Between 1997 and 1999 for instance, the distress experienced in the financial industry in Nigeria was occasioned by poor corporate governance and opportunistic behavioral tendencies of the directors. This was followed by another wave of banking failure in 2009 that was predicated on a global credit crunch that led to a shakeup of the capital market. Specifically, Cadbury Nigeria Plc had its profits overstated by ₦13.3 billion between the 2002-2005 financial years, yet the external auditors led by Akintola Williams Deloitte could not discover anomalies in the financial statements. Likewise, the Board of the then African Petroleum Plc was said to have concealed over ₦22.00 billion loan in their financial statements of 2000 (Olojede, 2009). The results of these financial scandals made the public lose confidence in any accounting method, particularly the auditor. Consequently, the users of financial statements have come to regard corporate failures of the firms to be synonymous with audit failures because of the connivance of the account preparers with auditors to manipulate and falsify the figures thereby making the accounts look different from the true position. This is the idea behind the conflict of interest between auditors and the users of financial statements (Olojede et al 2020).

However, there exists a large volume of related empirical research, many of which were carried out in developed economies leaving developing countries including Nigeria at the mercy of scanty empirical studies. Also, many related studies in Nigeria on the audit expectation gap focus on a very narrow area in terms of sample size and section of the population. Finally, the few works conducted in Nigeria were undertaken before the new auditor's report was introduced in 2016. Therefore, the current study is germane to close the lacuna. It is on these notes that the study is germane. The rest of the paper is organized as follows. Section two contains a brief review of the literature. Section three presents the method of analysis while section four discusses the results. Finally, section five concludes the paper with policy remarks.

LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

The literature is replete with several definitions of the audit expectation gap. According to AICPA (1993), the audit expectation gap is defined as the difference between what the general public and the users of financial statements see the duties and responsibilities of the auditor to be and what auditors themselves believe their responsibilities are. Liggio (1974) defines the audit expectation gap as the difference between the degree of performance expected to be carried out by the financial statement users and the independent auditors. Notably, the audit expectation gap has been frequently defined as the way and manner the users of financial statements and the public conceived auditors' roles, duties, and responsibilities and the actual way the auditors believe their responsibilities should be (Monroe & Woodliff, 1993; Frank, Lowe & Smith, 2001; McEnroe & Martens, 2001). Porter (1993) gives a more vivid account of the audit expectation gap by embracing the difference between the users of financial statements and society's expectations of the auditor as well as the way the auditor perceived his performance. In this regard, the gap is being understood in two ways, namely, the reasonableness gap, which encompasses the gap between what society expects auditors to achieve (unreasonable expectations) and what they can reasonably be expected to accomplish. The other is the performance gap, which refers to the gap between what society can reasonably expect auditors to achieve and what the auditors are perceived to accomplish.

The argument on the audit expectations gap has been very intense and controversial. This prompted several governments across the world to diversify the means of investigation by which the problem can be eliminated or at least reduced. Accordingly, several commissions were constituted which form an important part of the expectation gap literature. Some of these commissions include the Metcalf Committee of 1976, the Cross Committee of 1977 in the United States, the Adams Committee of 1977 in the United Kingdom, and the Cohen Commission of 1978. There were also the Tread-way Commission of 1987 and the MacDonald Commission of 1988 in Canada. These commissions had different views. For instance, the Cohen Commission of 1978 believes that a gap may likely exist between the public expectation and what the auditors think he could reasonably accomplish. In a study conducted by Poter (1993) cited in Tanko (2011), the authors aver that the definition of the gap with regards to the expectation space failed to mention when an auditor's performance will accomplish a possible minimum standard.

Empirically, Nwobu (2008) uses a sample of 400 respondents with 100 each from auditors, accounting firms, the banking industry as well as investors/stockbrokers with operational activities in Lagos and Ogun States. Using the analysis of variance (ANOVA), the study finds a significant difference in the opinion expressed by auditors and users of audit reports in Nigeria. Okaro (2009) examines how ICAN (Institute of Chartered Accountants of Nigeria) members perceive the notion of the audit expectation gap. A sample of 159 respondents all of whom were ICAN members was used for the study. Using the method of chi-square technique, the study finds of the 29 members sampled, 24 agreed to the bridging of the audit expectation gap in Nigeria. Tanko (2011) documents a study that seeks to know if there exists evidence of an audit expectation gap in Nigeria and, if there is, then identify the possible areas and proffer a workable solution. Using a five-point Likert-type questionnaire, the study finds evidence of a wide expectation gap between the auditors' views and the beneficiaries of audit reports in Nigeria. Olagunju and Leyira (2012) assess the role of the audit expectation gap between the auditors and the users of the audited account of some selected firms in Lagos. Using the Chi-square method, the study finds that there is a difference of opinion in areas such as the powers and rights of the auditors, the duties of the auditors, appointment and dismissal, independence of the auditors as well as assurance in the audit reports. Onulaka (2014) opines that the relevance of the audit expectation gap has made several scholars around the world interested in undertaking studies that aim at fraud prevention. The authors carried out a study to assess how the audit expectations gap affects financial performance in the capital market in Nigeria.

Meanwhile, Limisi et al. (2017) assess the effect of the tax audit expectation gap on corporate taxpayers and tax authorities in Nigeria. Using the descriptive statistics and chi-square technique, the study finds the existence of a tax audit expectation gap, between corporate taxpayers and the tax authority. Olojede et al. (2020) aver that the public lost confidence in the auditors as a result of financial scandals of high magnitude that occurred in some blue-chip firms like Enron in the US and Cadbury in Nigeria in the last centuries. The authors employ descriptive statistics to assess the nature and scope of the audit expectation gap in Nigeria. Additionally, the Mann-Whitney U test and Kolmogorov-Smirnov Z test were utilized for the analysis to achieve normality for distribution. Accordingly, the study finds that indeed audit expectation gap exists in Nigeria with no hope in sight of reducing the unreasonable expectation gap debacle.

As a result of the crucial role of the auditor in ensuring true and a fair view of the financial statements, the public expects the highest level of integrity from the audit team. This is because the information contained in the financial reports influences the decision of the potential investors whether to invest or not. However, the recent financial scandals across the world that led to the failure of many firms such as the case of Enron, Parmalat, Cadbury Nigeria Plc, Lever Brothers Nigeria, and Savannah Bank Plc among others, made many people begin to question the relevance of the auditor in the preparation of financial statements. Going by the public expectation, it appears that the users of financial statements seem to have a different idea of how auditing should be done. The result is the so-called audit expectation gap. Several factors responsible for this gap include but are not limited to the inability of the audit to braise up with complex challenges such as fraud detection and prevention in the ever-changing business environment. Another problem is the poor examination of the audit reports by most auditors which has misled the potential investors into making an avoidable wrong decision as well as the decline in performance occasioned by the absence of independence of the auditor from management. Also, it has been generally agreed that the process of auditing involves high risk as a result of statistical sampling techniques used for testing which most computer-assisted audit techniques are saddled with limitations. In most cases, it is difficult if not impossible to use the computer software to conduct work on real-time data streams noted for today's business environment. In the process, the computers are unable to detect and prevent doubtful transactions like potential frauds or irregularities. These problems shall be investigated in this study.

The objective of the study is to examine the different perceptions of the auditors' duties by the public and the auditor himself. As a result of the following problem, this research question becomes relevant to the study: is there a different perception of the auditors' duties by the public and the auditor himself?

There is no doubt that, though the issue of the audit expectation gap is not new, an indebt analysis of the issue will be of enormous benefit to stakeholders, investors, and researchers in the field.

METHOD

The study shall utilize an ex-post research factor survey approach necessary for data distribution. It, therefore, uses primary data that were sourced through the questionnaire approach.

The primary method of data collection was used to source the questionnaires. The study focuses on the Nigerian capital market and as such all activities in the Nigerian

Stock Exchange (NSE) which constitute the population of the study. A simple random sampling technique was used for the data collection. Accordingly, a sample size of 50 respondents was taken.

Therefore, the study shall use the Chi-square technique to analyze the primary data sourced through questionnaires from the Nigerian Stock Exchange (NSE) in Abuja and Lagos.

RESULT AND DISCUSSION

Data Analysis

The data was analyzed using Tables, frequency, and simple percentages as well as the Chi-square technique. Specifically, the chi-square (X^2) method was used to test the hypothesis denoted by the formula as follows:

$$X^2 = \sum \frac{(F0 - Fe)^2}{Fe}$$

Where; X^2 = chi-square; F0 = observed frequency; Fe = expected frequency; Σ = summation of value.

Decision Rule: if X^2 is greater than the Table of values at the 5% level of significance and degrees of freedom, the null hypothesis is rejected in favor of the alternative hypothesis and vice versa.

Data Presentation and Analysis

Table 1 shows that out of 60 questionnaires distributed to the respondents, a total of 50 were returned and 10 questionnaires were not. Consequently, 50 questionnaires were used for the analysis.

Table 1
Questionnaires Distributed

Response	Respondents	Percentage (%)
Returned	50	83
Not Returned	10	17
Total	60	100

Source: Field survey, 2022

Table 1 shows that about 83% of distributed questionnaires were returned while 17% were not. Therefore, the various field investigations were presented and analyzed.

Table 2
Age Distribution of respondents

Age	Number	Percentage
Between 20-30 Years	30	30%
Between 31-40 Years	50	50%
Between 41-50years	15	15%
Between 51-60 Years	5	5%
Total	100	100%

Source: Field survey, 2022

Table 2 indicates that 30% of the respondents are made up of 20-30 age groups, 31-40 age groups 50%, 41-50 age group 15%, and age group 51-60 (5%). The Table reveals that the age -group 31-40 seems to have a large labor force. It also shows that operators at the NSE are relatively young people.

Question 1: Is it the duty and responsibility of the auditor to detect and prevent fraud in an organization?

Table 3
Response

Option	Response	%
Yes	50	100
No	0	0
Total	50	100

Source: Field survey, 2022

In Table 3, all the respondents representing 100% agree that it is the duty and responsibility of the auditor to detect and prevent fraud in the organization.

Question 2: Is the auditing process seriously weakened by imprecise accounting standards?

Table 4
Response

Option	Response	%
Yes	50	100
No	0	0
Total	50	100

Source: Field survey, 2022

Table 4 shows that all 50 respondents agree that imprecise accounting standards weaken the audit process while none of the respondents disagree.

Question 3: Does a defect in auditing standards affect an auditor's technical competence?

Table 5
Response

Option	Response	%
Yes	45	90
No	5	10
Total	50	100

Source: Field survey, 2022

In Table 5, it can be seen that 45 respondents, or 90 percent think that defects in auditing standards affect an auditor's technical competence while 5 respondents representing 10% disagreed.

Question 4: Does the perception of the users of financial statements differ from the perception of the auditor?

Table 6
Response

Option	Response	%
Yes	43	86
No	7	14
Total	50	100

Source: Field survey, 2022

Table 6 shows that 43 respondents (86%) agree that the users of financial statements have a different perception from that of the auditor. On the other hand, 7 respondents, or 14% disagree.

Test of Hypotheses

Ho: There is no relationship between the perception of users of audited accounts and the auditor on the duties and responsibilities of the auditor to detect and prevent fraud in an organization.

The chi-square technique is employed to test the hypothesis as follows.

Table 7
Calculation of Expected Frequency

Option	Table 3	Table 6	Total
Yes	50	43	93
No	0	7	7
Total	50	50	100

Expected Frequency = Column total x Row total
Grand Total

$$\text{Yes} = \frac{50 \times 93}{100} = 46.5$$

$$\text{No} = \frac{50 \times 7}{100} = 3.5$$

Table 8
Contingency Table

Opinion	Fo	Fe	Table 4.9 Fo-Fe	$(Fo-Fe)^2$	$\frac{(Fo-Fe)^2}{Fe}$
Yes	50	46.5	3.5	12.25	0.263
No	0	3.5	-3.5	12.25	3.5
			Table 4.7		
Yes	43	46.5	-3.5	12.25	0.263
No	7	3.5	3.5	12.25	3.5
Total	100	100	0	49	7.526

$$X^2 = \frac{\Sigma(Fo - Fe)^2}{Fe} = 7.526$$

A + 5% significant level and 95% confidence level at one degree of freedom, table value is 3.841

$X^2 = (R - 1)(C - 1)$

$X^2 = 3.841$

Decision Rule: The X^2 calculated value of 7.53 exceeds the Table value of 3.84. Therefore, the null hypothesis is rejected in favor of the alternative hypothesis and we conclude that the public perception of the duties and responsibilities of the auditor is different from the perceptions the auditor had previously.

CONCLUSION AND SUGGESTION

The study examines the audit expectation gap in Nigeria with a focus on the capital market. The study observes that the collapse of many companies across the world including Nigeria was a result of corporate governance failure. The financial statements prepared by these firms were satisfied okay by the audit team yet the companies still went underground like in the case of Oceanic Bank in Nigeria. This makes the public lose confidence in the auditor thereby resulting in the audit expectation gap argument. The objective of the studies is to assess if indeed audit expectation gap in Nigeria exists. As a result of the primary data sourced through questionnaires, the study uses the chi-square distribution to ascertain the argument. Accordingly, the study finds that the audit expectation gap exists in Nigeria. To align the views of users of audited accounts with the auditors, the relevant professional bodies should collaborate with auditors and the users of financial statements to understand the duties and responsibilities of the auditor to narrow the performance gap. Also, the public who gets to do with the information in the financial statements must do well to understand the status, laws as well as standards that regulate and stipulate the duties of an auditor. This is to enable him/her to have at the fingertip what is expected of the auditor. Finally, management may consider the presentation of audited financial statements in a manner that less skilled people can read and understand the reports thereby bridging the expectation gap between the users of audited accounts and the auditors.

REFERENCES

AICPA (1993). *Report of the National Commission fraudulent financial reporting*. New York, Treadway Commission Report, AICPA.

Frank, K.E., Lowe, D.J. & Smith, J.K. (2001). The expectation gap: Perceptual differences between auditors, jurors, and students. *Managerial Auditing Journal, 16*(3): 145–149. https://doi.org/10.1108/02686900110385588.

Liggio, C. (1974). The expectation gap: The accountant's Waterloo. *Journal of Contemporary Business, 3*(3): 27–44.

Limisi, E.A.M., James, B.M. &David, W. (2017). Optimal measures for minimizing the tax audit expectation gap in Kenya. *European Journal of Business and Strategic Management, 2*(4): 33- 55.

Lonnox, C. (2009). The changing regulatory landscape. *International Journal of Auditing, 13*(2): 79-85.

McEnroe, J. E. & Martens, S. C. (2001). Auditors' and investors' perceptions of the "expectation gap". *Accounting Horizons, 15*(4): 345– 358. https://doi.org/10.2308/acch.2001.15.4.345.

Monroe, G. S. & Woodliff, D. R. (1993). The effect of education on the audit expectation gap. *Accounting and Finance, 33*(1): 61–78. https://doi.org/10.1111/j.1467-629X.1993.tb00195.x.

Nwobu, O. (2008). *The audit expectation gap in Nigeria*. An unpublished M.Sc Thesis submitted to the Department of Accounting, College of Business and Social Sciences, Covenant University, Ota, Ogun State, Nigeria.

Okaro, S. C. (2009). *Bridging the audit expectation gap: the perception of ICAN members*. Being an M.Sc thesis submitted to the Department of Accountancy, University of Nigeria, Nsukka.

Olagunju, A. & Leyira, M.C. (2020). Audit expectation gap: Perspectives of auditors and audited account users. *International Journal of Development and Management Review, 7*: 197-215.

Olojede, P. (2009). *Bridging the audit expectation gap: The Nigerian Experience.* Unpublished M.Sc. dissertation submitted to Leeds Metropolitan University, UK.

Olojede, P., Erin, O., Asiriuwa, O. & and Usman, M. (2020). Audit expectation gap: an empirical analysis. *Future Business Journal, 6*(1): 01-12. https://doi.org/10.1186/s43093-020- 00016-x.

Onulaka, P. N. (2014). Effect of audit expectation gap in Nigerian capital market. *International Journal of Accounting and Financial Reporting, 4*(2): 294-311. https//dx.doi.org/10.5296/ijafr.v4i2.6485.

Porter, B. (1993). An empirical study of the audit expectation-performance gap. Accounting and Business Research, 24(93): 49–68. https://doi.org/10.1080/00014788.1993.9729463.

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

Tanko, M. (2011). An empirical analysis of audit expectation gap in Nigeria. *Munich Personal RePEc Archive (MPRA) Paper No 49661*. https://mpra.ub.uni-muenchen.de/49661/.