Audit Reports and Audit Expectation Gap: The Nigerian Experience

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Abstract
Auditing profession is distinctive. It ascertains the genuineness of financial information that assists stakeholders in taking financial decisions. Doubtlessly, expectation gaps do subsist between the stakeholders and auditors. This occurs as it appears that the stakeholders lack exactly the obligations of an auditor. The duty of an auditor is stipulated in the statute no matter the demand by the stakeholders. What is required from an auditor is essential in today's corporate world. This becomes imperative because of the breakup of ownership from management. The prime of auditors is now being questioned globally, and it is witnessed by criticisms and litigations against auditors. This study empirically investigated gaps in audit reports. Copies of questionnaires were distributed to the staff of Auditing Firms in the three (3) Senatorial-districts in Ondo State. That is, Central Senatorial Distric, North Senatorial District and South Senatorial District, all in Ondo State as representatives of the entire population. Questionnaires retrieved were analyzed with computer software (SPSS 21).The statistical tool employed was ordinary least square regression. The study noted that there is an association between parties to financial statements and gaps, while audit quality control has no real influence on gaps. The study therefore recommended that users of the financial statements should be adequately educated in order to limit the gaps.

Keywords: *Gap, Quality control, Financial statements, Audited reports, Integrity, Independent*

1.0 Introduction

The ground for this study is to look into the possibilities of audit expectation gap in audit reports. The study will analyze the motives behind the gaps and suggest how best the gaps could be reduced. Audited financial information is considered to be necessary instrument for financial decision making. Lenders, investors, suppliers and shareholders depend greatly on audited accounts for decision making. The confidence of stakeholders as to the going concern of business is built in the audited information (Adeyemi, 2011). Undoubtedly, in most cases, audited accounts contained gaps. A gap is the different believe between the auditor and the public (Al-Awaqleh, 2008). To reduce gaps, auditors must be painstaking in carrying out audit work. There have been cases of gaps in audited accounts globally. The collapsed of Enron and WorldCom in United State of America (US) in 2002 shortly after a clean report (unqualified) was issued, is an evidence of gaps (Lee, Gloeck, and Palaniappan, 2007). In Nigeria, the winding up of Skyrocketing Insurance Premium, Cadbury Nigeria Plc. where profits were exaggerated with the knowledge of a particular auditor was another case of gaps (Akinbuli, 2010). The indictments of the Akintola Williams for audit failure worsen the gaps (Word, 2020). The testimony of Adeyemi and Uadiale (2011) of financial irregularities and frauds that involved Wema bank, Finbank, Cadbury, spring bank and others was described as gaps. The scandals witnessed by investors and regulators, that eventually imparted negatively on their decisions on investments and the collapsed of the Carillion Construction Company in the United Kingdom (UK) which made audited accounts users suffered financial loss was attributed to gaps (Stephen, 2018). The collapsed of Equity Funding (an insurance firm in1973, and Drysdale Government Securities and Penn Square based in Los Angeles is an evidence of gaps (Adeyemi, 2011). The most infamous in Jordan's history is the Petra bank bankruptcy in 1989 which had a terrible wallop, resulting in further corporate collapsed and a reduce in the Jordanian dinar exchange rate from #3.35 to #1.41 was a major gap (Al-Awaqleh, 2008). The above failures have on a regular basis put the function of an auditor under public watch. The presence of gaps is due to many factors. Business environment is subject to changing. To this end, the auditors function should be increased to include noticing of fraud and its preclusion. There have been a lot of researches on audit expectation gap but there is no clear distinction on who should be responsible for such gap. In view of the above gap, there is the need for an empirical research to ascertain whose responsibility is the gap. To address our research questions, the questionnaires were sent to targeted respondents.

Statement of the Problem

Expectation gap should be considered as a very serious issue in auditing profession. Gap is the major issue facing the profession nowadays. The premier of an auditor depends on the genuinely and reliability of audited reports. The expectation of the public is that auditor should observe and forestall frauds. Auditors assumed that the detection and prevention of fraud is not there major audit objective. As a result, some of the auditors do not take fraud serious in their audit profession .Some even compromise frauds and irregularities. Gap is critical issue to auditing profession because, the moment an auditor fail to meet with the public expectation, the importance attached to the profession stands discredited. If a particular company appears to have been faced with serious financial predicaments without any advice or warning, by the auditor, the auditor may be made liable for any eventualities. To minimize expectation gap, an auditor must be diligent and painstaking while carrying out audit work. As a matter of fact, interest of users must be paramount to the auditor. Akinbuli (2010) stated that litigation and criticism against auditors is a function of expectation gap. Arising from the above phenomenon, the following research questions were raised:

- **i.** How does expectation gap affects users of financial statements?
- **ii.** How can financial statements be freed from gaps?
- **iii.** How can gaps affect audit profession?

Objectives of the study

The broad objective of the study is to investigate the impacts of audit expectation gap on financial statements in Nigeria, while the specific objectives are to:

- **i.** Examine the extent at which gaps affect users of financial information in Nigeria. And to
- **ii.** Determine the affiliation between gaps and financial statements

Statement of Hypotheses

- **i.** H_{01}: Expectation gap has no significance impact on financial statements.
- **ii.** H_{02}: Expectation gap has no important effects on users of financial statements.
- **iii.** H_{03}: There is no any relationship between expectation gap and financial statements.

2.0 Literature Review

Conceptual Issues

Auditing

Auditing can be explained as a function and a process of evaluating the truth and acceptability of the claim by an individual, group and organizations in connection with business activities (Salehi, 2011). Adeyemi and Uadiale (2011) defined auditing as a process and approach use to obtain and evaluate evidence regarding claims about economic activities and to depict the level of honesty between those claims and device means of disseminating results to users. Akinbuli (2010) viewed auditing as a process through which an auditor obtain facts about information that has to do with economic entity for the purpose of communicating the sincerity of the reports. Olagunju and Leyira (2012) observed auditing as a concerned with the verification of accounting data, which determines the accuracy and reliability of accounting statements and reports. Purpose for audit reports is to protect the interest of stakeholders and to convey the truthful and fairness of financial statements to the users (Saeid, and Abbas, 2017). Salehi (2011), Song, and Windram (2000) argued that the agreement between shareholders and management requires that managers should provide financial information that will depict the correct states of an entity.

Audit report:

Audit report is a statement issued by an auditor assuring the genuineness of financial statements (Song, and Windram, 2000). Audit report is an instruments that build the confidence of shareholders, most especially when business decision is conceived (Meyers, and Gamst, 2006). Majority of investors cannot but considered audited reports before embarking on any business. To this end, companies rely on audit report to enhance the status of their firms for the purpose of expanding (Lee, Azham, and Kendasamy, 2008). Some people believe that financial information that is not audited is essentially worthless for investing purposes (Messie, and Emby, 2005).

Audit Expectation Gap

Stephen (2008) defined gaps as the differences between the expectation of the public and what auditor offered. Stephen and Kingsley (2018)'s opinion about gaps is akin to that of Stephen (2008). Ojo (2006) states that gaps are the differences between what the auditor should do and the conceiving of users. Gap can be seen as the divergent opinion between the auditor and the public. Adeyemi and Uadiale (2011) viewed gap as a different perception between auditors and users.

Gap can be categorized as communication and performance. Communication gap arise from auditor's report most especially when the report states that an account is free from doubt as at a period of time. The belief of the public is that unqualified audit guarantee the continued existence of firms. They also expect all frauds to be discovered by statutory audit. Performance gap occurs when public expectations are reasonable. Auditors may fail to fulfill the expectation of the public due to the following: Inadequate technical skills, outdated knowledge, unreasonable audit budget and insufficient audit evidence (Adeniyi, 2012).

Audit gap can be viewed at two perspectives: Users and auditor's perspective. Users can suffer financial loss if the information used for their investment decisions is misleading. Accordingly, litigation can be taken against an auditor if users suffered financial loss because of gaps in audit reports rely upon by the users (Stephen, and Abuh, 2018).

Gap could be minimized by reviewing the following: Implementation of auditing education, broadening the responsibility of auditors to observe fraud and to prevent same (Soyemi, 2014).

Audit Report and Financial Statement

Financial statements can be described as records of financial activities and position of a business at a particular period. Financial information is usually prepared in a format and in such away it would be easier to understand (Johnson, and Kenny, 2013). Financial statements encompass the following Statement of Financial status: This statement reports a company's a ssets, liabilities, and owners' equity at a given period. Income statement: The statement deals with company's income, expenses, and profits at a time. Equity statement: The statement rep orts on the changes in equity o the company during a particular point in time. Cash Flow Statement: It reports on a company's cash flow activities; particularly its operating, investing and financing activities (Deloitte, 2011). The function of financial statements is to present usable information to users. Financial statements should be free from any ambiguity. On the other hand, auditing is to confirm the reliability of a given financial statements (Alexander, Britton, and Jorissen, 2005).

Audit quality control

The control can be explained as the process and medium through which a third party is convinced that the audit professional practice has complied with regulatory standards in the conduct of audit and that any reports emanating therefrom can be rely upon (Saeid, and Abbas, 2017). Elements of the control can be viewed as: Ethical, Independence, Monitoring, Consultation and documentation (Soyemi, 2014, Taslima, and Fengju, 2020).

Theoretical Framework

Policeman theory

The theory was popular used until the 1940s.The theory stated that an auditor acted as a policeman. The principle of the theory centered on correctness, accuracy, observing and forestalling frauds. With time, the theory was unable to explain the transformation of auditing to authenticate the truth position of financial statements. It appears its explanatory power eluded it. (Salehi, 2011).

Agency theory

The theory depicts the affiliation between two parties. That is, principal and agent. The later agrees to perform a particular task for the former with a view of deriving rewards for the tasks (Porter, 2003).

Credibility Theory

The theory assumes that the major function of an auditor is credibility. According to the theory, audited accounts should enhance the status of an organization. Such practices alley the fairs of shareholders, while it build the confidence of other parties (Alexander, Britton and Jorissen, 2005).

Among the theories, agency theory seems to be more related to the issue of auditing in Nigeria. The theory concluded that there is the need for a good relationship between managers and owners of business and that the relationship can only be strengthening through mutual understanding between the duos. The study adopted agency theory based on its relevance to the study.

Empirical Review

Olagunju and Leyira (2012) conducted an empirical study on audit perspectives of auditors and audited account users in Nigeria. Questionnaire was adopted for data collection. Chi-Square tool was used to canvas the data. There result revealed that there was significant affiliation between the roles of an auditor and the perception of the public.

Johnson and Kenny (2013) carried out research work on evidence of the audit expectation gap in Nigeria. Linkert scale questionnaire adopted for collection of data. SPSS version 19 was used to analyze the data. Their study showed that it was the duty of auditors to notice and stall fraud.

Teslima and Frengju (2020) investigated audit gap and its upshot on stakeholders' confidence in Bangladesh. Questionnaire was adopted to generate data while Man-Whitney U-Test was used to examine data. Their result confirms that financial reporting council played a vital part in maintaining auditor's independence that actually leads to diminution of gaps.

Sacid and Abbas (2017) carried out a research on audit gaps in Iran. Questionnaire was adopted to generate data. Their result showed that no regards was given to the independence of auditors in the country.

Stephen and Abuh (2018) examined audit gap as regards auditor's duty in Nigeria. Questionnaire was adopted to gather data while simple regression was used to analyze data. The study reveals that stakeholders were ignorance of auditors work. The study also stated that the auditors' reports were not detailed enough to disclose gaps.

Best, Buckby, and Tan (2001) uncovered gaps in audit in Singapore. The study determined the nature of gaps in auditor's responsibility. Their results proved that gaps exist in audited reports of auditors.

Lin and Chen (2004) conducted an empirical study on audit gaps in China. The study adopted coded questionnaires to collect data. Regression analysis was used to analyze data. The study confirmed issues of gaps in the duty of auditors in the country.

Fadzly and Ahmad (2004) studied the dimensions of gaps In Malaysia. The study applied questionnaire to obtain data while regression analysis was used to analyze data. The results found evidence of gaps in audit profession in the country.

Adeyemi and Uadiale (2011) conducted a survey research in Nigeria to examine the extent of gaps in the duty of auditors. The study applied both questionnaires and interviews to gather data. Regression analysis was used to analyze data. The study revealed that gaps were found to be wide in audited reports in the country.

3.0 Methodology

Research Design

The survey design for the study is cross- sectional survey. This is because the research study requires the use of primary data. This is achievable through the application of simple-stratified-random sampling technique. The study applied qualitative data which include coded (scale) data from copies of questionnaire administered. Ordinary least square regression and descriptive statistics were also applied to test the hypotheses.

The population for the study embraced all staff of Auditing Firms in Ondo State. Simple-stratified-random sampling technique was used to select sample respondents from the staff of auditing in the state. The samplings of the study include five (5) members from each of the Auditing Firms in the State. Fifteen auditing firms were visited for the purpose of the study.

Research Instruments

The main research instrument was questionnaires. Copies of questionnaire prepared in statement form of likert scale measurement were administered to the staff of the auditing firms. Seventy five (75) copies of questionnaire were distributed and successfully retrieved questionnaire were subjected to reliability test and outcome indicated Cronbach-Apha of 0.751.

Model Specification

Econometric model is formulated for the research study as stated below:

AEG = f (UFS, AQC, FS)

AEG= $\beta_0 + \beta_1$UFS + β_2AQC+ β_3FS + Σ

Where:

AEG = Audi expectation gap

UFS = User of financial statement

AQC = Audit Quality Control

FS= Financial statement.

Σ = Stochastic Error

Term β_0 = Constant

β_1 to β_3 =Coefficients

Our apriority expectations are expressed as: $\beta_1 > 0$; $\beta_2 < 0$, $\beta_3 < 0$, The model is adapted.

4.0 Interpretations and Discussions

This section examines correlations, least square regression, and test of hypotheses and discussion of findings.

Table 1: Correlations

	AEG	UFS	AQC	FS
AEG	1			
UFS	.442**	1		
AQC	.129	.107	1	
FS	-.009	.002	.734**	1

Source: Researchers' computation (2019)

Table 1 shows association among variables examined which include audit expectation gap (AG), Users of financial statement (UFS), audit quality control (AQC) and financial statement (FS). When audit gap (AG) was at a unit value users of financial statement was positively correlated (UFS=0.442), audit quality was positively correlated (AQC=0.129 and financial statement was negatively correlated (FS=-0.009). **. Correlation is significant at the 0.01 level (2-tailed). The results show no perfect correlation among the variables and also none of the variables value exceeded 0.90, implying absence of multicollinearity problem as suggested by Meyers, Gamst and Guarino (2006).

Table 2: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.255	.616		3.663	.000
	AGUFS	.460	.119	.421	3.871	.000
	AGAQC	.199	.161	.199	1.240	.219
	AGFS	-.134	.137	-.156	-.981	.330

Source: Researchers' Computation , 2019 (SPSS 21) (See appendix for detailed results)

AEG=2.255+0.460AGUFS+0.199AGAQC-0.134AGFS

(3.663) (3.871) (1.240) (-0.981)

Table 2 showed outcome of the independent variables which consisted of users of financial statement (UFS), audit quality control (AQC) and financial statement (FS).

Reported below the model in parentheses were the t-statistics values. The coefficient of determination (R^2) with a value of 0.214, implied that 21% of the systematic variations in the dependent variable (audit expectation gap (AEG) was explained by the independent variables while about 79% were explained. After adjusting the degree of freedom (adjusted square bar (R^2)), the coefficient of determination was at 0.179, indicating that only 18% of the changes in the dependent variable was accounted for, while 82% were accounted by other variables useful to the study that were not specified. The general statistic (F-statistic) or goodness-of-fit measure with value of 6.156 compared with minimal standard error of the estimate of 0.0.558, suggested that the broad result is statistically significant and there exist linear relationship with independent and dependent variables. Similarly, the Durbin Watson with a value of 1.902, showed absence of serial correlation and this further suggested that the results are suitable for predictions and decision making.

Test of hypotheses and Discussion of findings

First, it is observed that users of financial statement (UFS) having positive coefficient value of 0.460.with audit expectation gap (AEG), implied that a unit increase in users of financial statement perception could lead to increase in audit expectation gap by over 46%. The result is in line with our priory expectation. In testing the hypothesis (*H_0: users of financial statement has no significant influence on audit expectation gap*), users of financial statement indicated probability value of 0.000 which was less than critical probability value at 0.05 (5%) significance level, meaning that we reject the hypothesis. This implied that user of financial statement has significant influence and positively relationship with audit expectation gap. This implied that users of financial statement are a critical factor enhancing audit expectation gap in Nigeria. The finding is in tandem with Best et al. (2001) and Adeyemi and Uadiale (2011) who found that users of financial statement like investors expected auditors to wider expectation gap in the areas of the auditors' responsibility for preventing and detecting fraud, maintenance of accounting records, and selection of appropriate auditing procedure.

Second, it is deduced that audit quality control (AQC) which is a proxy for independence auditor having positive coefficient value of 0.199.with audit expectation gap (AEG), revealed that a unit increase in audit quality control could lead to increase in audit expectation gap by over 20%. The result is in against our apriority expectation. In testing the hypothesis (*H_0: audit quality control has no significant influence on audit expectation gap*), audit quality control showed probability value of 0.219 which is greater than its critical probability value at 0.05 (5%) significance level, meaning that we accept the hypothesis. This indicated that audit quality control has no significant influence, but positively related with audit expectation gap. By implication audit quality control (auditor independence) is a weak factor influencing factor of audit expectation gap in Nigeria. The finding corroborated with Soyemi (2014) who established audit quality control entails auditor's independence, ethical requirements, monitoring, consultation and documentation such that not necessarily to detect and prevent frauds which differ from public perception thereby creating the gap.

Finally, financial statements (FS) which stood at negative coefficient of -0.134 showed that a unit increase in financial statement proxy for audit report could lead to decrease in audit expectation gap by over 13%. The result is in line with our apriority expectation. In testing the hypothesis (*H_0: financial statement has no significant influence on audit expectation gap*), financial statement has probability value of 0.330 which is greater than its critical probability value significant at 0.05 levels, suggesting that we accept the hypothesis. This showed that financial statement has no significant influence and negatively related with audit expectation gap. By implication is that financial statement (audit report) is a weak factor influencing factor of audit expectation gap in Nigeria. The finding supported views of Deloitte, (2011) and Alexander, et al, (2005) who stated that financial statement are prepared by management and audited by professional auditor for the interest of users to enable them make economic decisions.

5.0 Conclusion and Recommendations

The thrust of this paper is to investigate audit expectation gap in Nigeria. Issue of audit expectation gap has attracted considerable interest in accounting and auditing profession. In attain to investigate the study; several conceptual and empirical studies were examined. This found that users of financial statements have significant positive relationship on audit expectation gap, while audit quality control and financial statement have no significant influence. It is therefore concluded that user of financial statement is a critical factor influencing audit expectation gap, while audit quality control and financial statement are weak influencing factors of audit expectation gap in Nigeria.

This study consequently recommended as follows:

Users of the financial statements should be adequately educated about financial statements prepared by management and audited reports by professional accountants so as to reduce the expectation gap.

Audit quality controls in terms of ethical requirements of auditors, independence, contractual relationship, documentations and some misconception issues that could cause expectation gap should be clearly stated in the audited reports and accounts for the interest of the users. This will guide against court litigations when undetected and prevented frauds occur in organization as experienced in cases of collapsed Enron, WorldCom, and Cadbury whereby professional accountants like Arthur Andersen and Akintola Williams were sued.

Financial statements should clearly indicate roles and responsibilities of the auditors in terms of fraud detections and preventions and as well roles of users of financial statements. At the annual General Meeting (AGM), chairman should reflect its statement in relation to crucial roles and responsibilities of the auditors in the annual reports and accounts. However, auditors should be transparent, credible and trustworthy to report any fraudulent activities in the financial statement prepared by management in course of their audit

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Appendix

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  /SHEET=name 'Sheet1'
  /CELLRANGE=full
  /READNAMES=on
  /ASSUMEDSTRWIDTH=32767.
EXECUTE.
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RELIABILITY
  /VARIABLES=AEG UFS AQC FS
  /SCALE('ALL VARIABLES') ALL
  /MODEL=ALPHA.
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Reliability

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	72	100.0
	Excluded[a]	0	.0
	Total	72	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.751	4

GET DATA

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  /READNAMES=on
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EXECUTE.
DATASET NAME DataSet1 WINDOW=FRONT.
```

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	FS, UFS, AQC[b]	.	Enter

a. Dependent Variable: AGAR
b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.462[a]	.214	.179	.558	1.902

a. Predictors: (Constant), FS, UFS, AQC
b. Dependent Variable: AEG

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.751	3	1.917	6.156	.001[b]
	Residual	21.174	68	.311		
	Total	26.924	71			

a. Dependent Variable: AEG
b. Predictors: (Constant), FS, UFS, AQC

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.255	.616		3.663	.000
	UFS	.460	.119	.421	3.871	.000
	AQC	.199	.161	.199	1.240	.219
	FS	-.134	.137	-.156	-.981	.330

a. Dependent Variable: AEG

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.34	4.79	4.22	.285	72
Residual	-1.046	.993	.000	.546	72
Std. Predicted Value	-3.081	2.010	.000	1.000	72
Std. Residual	-1.875	1.779	.000	.979	72

a. Dependent Variable: AEG

```
CORRELATIONS
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  /PRINT=TWOTAIL NOSIG
  /MISSING=PAIRWISE.
```

Correlations

Correlations

		AEG	UFS	AQC	FS
AEG	Pearson Correlation	1	.442**	.129	-.009
	Sig. (2-tailed)		.000	.280	.937
	N	72	72	72	72
UFS	Pearson Correlation	.442**	1	.107	.002
	Sig. (2-tailed)	.000		.371	.986
	N	72	72	72	72
AQC	Pearson Correlation	.129	.107	1	.734**
	Sig. (2-tailed)	.280	.371		.000
	N	72	72	72	72
FS	Pearson Correlation	-.009	.002	.734**	1
	Sig. (2-tailed)	.937	.986	.000	
	N	72	72	72	72

**. Correlation is significant at the 0.01 level (2-tailed).

REGRESSION

```
/MISSING LISTWISE
/STATISTICS COEFF OUTS R ANOVA
/CRITERIA=PIN(.05) POUT(.10)
/NOORIGIN
/DEPENDENT AEG
/METHOD=ENTER UFS AQC FS
/RESIDUALS DURBIN.
```

Regression

Analysis of Questionnaire Administered **Total Collection = 72**

S/N	ITEMS	A	D	SA	SD	U	Total
	AUDIT GAP AND AUDIT REPORT						
1	To what extent does audit gap in audit						
	reports affects auditor's reports?	39	2	29	2	-	72
2	Audit gap in audit reports reduces the						
	quality of audit reports	45	2	22	1	2	72
3	Audit gap in audit reports can lead	38	6	22	1	5	72
	auditors to litigation						
	AUDIT GAP AND USERS OF FINA						
4	**NCIAL**						
	STATEMENS	41	2	25	4	-	72
5	To what extent does audit gap in audit						
	reports affects users of financial	40	2	25	1	4	72
6	statement?						
	Audit gap in audit reports can leads to	36	2	26	3	5	72
	huge financial loss by users of financial						
7	Statements						
	Audit gap in audit reports can mislead	30	1	40	1	-	72
8	users of financial statement	41	3	25	3	-	72
9	**AUDIT GAP AND AUDIT QUALITY**	44	2	25	1	-	72
	CONTROL						
10	To what extent does audit quality						
	control enhance audit work?	50	4	16	1	1	72
11	Ethical requirements aids audit quality						
	Control	48	4	18	2	-	72
12	Proper documentation good for audit						
	Work	35	3	30	2	2	72
	AUDIT GAP AND FINANCIAL STATEMENTS						
	To what extent does audit gap in audit reports affect financial statements?						
	Audit quality control enhance the quality of financial statements						
	Audit gap in audit reports can lead to the rejection of financial statements						