

Audit Expectation Gap and the Credibility of Public Sector Audit: The Nigerian Case

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Abstract

The study investigated the impact of audit expectation gap on the credibility of Nigerian public sector audit. The survey research design was adopted to elicit responses from respondents on audit expectation gap in Nigeria. The source of data was primary. Descriptive and inferential statistics were used. The gathered data were scrutinized and analyzed by employing a Chi-Square quantitative analysis technique using SPSS. The results revealed that there was a significance impact of audit expectation gap on the credibility of audit report and that audit expectation gap can be eliminated or minimized through sensitization. It also found auditing education to be highly correlated to reducing the expectation gap. The study concluded that there was the existence of audit expectation gap in the Nigerian Public Sector. It therefore recommended that there was the need for continued sensitization of the public, by both the auditing profession and other stake holders on the role and duties of the auditor to avoid unreasonable expectation by the public.

Keywords: *Audit: Expectation Gap: Credibility: Public Sector*

1. INTRODUCTION

The credibility of auditors is increasingly being called into question in many countries around the world as evidenced by widespread criticism and litigation directed against auditors (Olagunju & Leyira, 2012). The trust in the role of accountants, auditors, professionals and institutions saddled with the responsibility of supervising and regulating the economic activities seems to have declined drastically. The financial scandals between 2001-2002 in the United States due to misappropriation, wastage and mismanagement of economic resources which led to total collapse of some multinationals can be traced to failure in auditing system.

Other financial scandals include Royal Ahod in Netherlands, ComRoad AG in Germany, Sino Forest in Canada and India, and Olympus in Japan, which are associated with audit failures

(Oluyombo and Okunola, 2018). The failure of the two giant organizations WorldCom and Enron in the United States and her auditors, Arthur Andersen, led to a geometric rise in the amount of damaging criticism and litigations against external auditors. The effects of the auditors not fulfilling the obligations expected of them by individuals and the society at large or failure to fulfill them to the anticipated standard are not restricted to the individual auditors or firms concerned. Rather, it escalated and resulted into sharp reduction in the society's trust in the audit profession as well as the role it plays (Porter and Gowthorpe, 2004).

Europe and the United States experienced some auditing disrepute that are worrisome and call for intense scrutiny of the value and worth placed on the financial reporting and poor business behaviour both in developed and developing countries. Consequently, the blame varies from inadequate audits to haphazard standards and deficient monitoring (Kellas, 2004). Spectacular and corporate collapses has unwillingly exposed the auditing profession, especially because of various criticism and litigation against auditors.

Auditing has suffered a 'social phenomenon' because of the dynamism in the functions which is dependent on the auditor and the public (Power 2000; Daud, 2007). The professional perspective of the auditor's obligations with what they do differs hence this gave rise to information asymmetry among the auditors, auditees, users of audited financial statements and the public at large. The intention behind auditing a financial record is to allow the auditor express an independent opinion on the financial statements whether it was prepared in all material aspects, in agreement with an accepted framework of financial reporting. Whereby the auditor expresses an opinion as true and fair view or depict fairly in all significant aspects. However, "true and fair view" has been misinterpreted by the users of the audited account as "true and correct" or "right and adequate". This has resulted into a gap between what the auditor does and what is expected of him to do. That is, the difference between statutory expectations minus actual performance. Reforms in the Nigeria public sector necessitated a shift from the regulatory audit approach which gives room for audit expectation gap.

In view of the public crave to know what and how well the nation's scarce resources are utilized, the traditional approach has been expanded to include detailed and meaningful explanation on inadequacy, mismanagement, losses, depletion of government resources and non-deliverables of most contracted projects (Oluyombo and Okunola, 2018). The study of Ferdousi (2012) noted that auditors are mandated to ensure that government executed projects are carried out efficiently, effectively and economically which is referred to as performance audit or value for money audit. Developed economies are known for high level of transparency and accountability, a healthy bureaucracy and skilled manpower (Sandholtz and Koetzle, 2000). Developing countries are very far from this level. Research work relating to audit expectation gap from the perspective of performance audit have been carried out in developed countries with little or no literature for the emerging societies. This study provides an insight into audit expectation gap in the Nigerian public sector as an emerging economy

Objectives of the Study

Hence, the main objective of the study was to investigate the impact of audit expectation gap on the credibility of Nigerian public sector audit. The specific objectives were to:

- (i) Determine the impact of audit expectation gap on credibility of audit report in Nigerian Public Sector.
- (ii) Assess whether audit expectation gap can be eliminated or minimized in the Nigerian Public Sector through sensitization.

Hypotheses of the Study

In line with the research questions and objectives, the hypotheses of the study were:

- (i) There is no significance impact of audit expectation gap on the credibility of audit report in Nigerian Public Sector.
- (ii) Audit expectation gap cannot be eliminated or minimized in the Nigerian Public Sector through sensitization.

2. REVIEW OF RELATED LITERATURE

Who is an Auditor?

The term “audit” as defined by Woolf (1997) is

“a process (carried out by suitably qualified auditors) whereby the accounts of business entities, including limited companies, charities, trusts and professional firms, are subjected to scrutiny in such detail as will enable the auditors to form an opinion as to their truth and fairness. This opinion is then embodied in an ‘audit report’, addressed to those parties who commissioned the audit, or to whom the auditors are responsible under statute”.

Similarly, Adeniji (2004) described audit as “the independent examination of, and expression of opinion on, the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation”. The opinion formed by an auditor in relation to the truth and fairness of the financial statement is embodied in what is called audit report. This report by the auditor is addressed to the company’s stakeholders who have devoted their material, financial and other resources to the care of the managers. Even though there are many types of audit, this study is concerned with financial audit.

Audit Expectation Gap

Various tasks fall on the auditors in view of the need to reassure the stakeholders of the guarantee that they will get value for their investment. Auditors and stakeholders have come to admit that there is a gap between the perceptions of auditors’ responsibilities and what the auditors really do (Jedidi and Richard, 2010). What the audit functions are differs from the profession’s understanding of its duties. There are mismatch between societal expectations of auditors and the perceived deliverables by the auditors. Chandler and Edwards (1996) pointed out that the accounting profession may have to battle with the public reactions towards the value of audits. Due to the high level of financial failure of some high ranked companies as stated above, this has given room to criticism and attacks on auditors and accountants. The argument as to how the audit should be carried out, the approaches and the manner in which the audit should be conducted, the methods to be used and the level of coverage of the auditors’ examination of

the company's books of accounts shows the audit profession in itself has some expectation gaps regarding appropriate way of conducting an audit between auditor's performance and public expectations.

The gap has two major components:

1. A Gap between what society expects auditors to achieve and what they can reasonably be expected to accomplish (designated the reasonableness gap).
2. A Gap between what the societies can reasonably expect auditors to accomplish and what they are perceived to achieve (designated the performance gap).

This may be subdivided into two:

- A gap between the auditor that can reasonably be expected of auditors and auditors existing duties as defined by the law and professional promulgations (deficient standards) and
- A gap between the expected standard of performance of auditors existing duties and auditors perceived performance, as expected and perceived by society (deficient performance). The above definitions convey that, auditing is an independent function by means of an ordered and structured series of steps, critically examining assertions made by an individual or organization about economic activities in which they have engaged and communicated the results in the form of report to the users

Types of Expectation Gap

1. **The Performance Gap:** This is caused by the failure to conform to statutory requirements and professional standards by auditors.
2. **The Standard Gap:** This exists where statutes and the professional standards fail to properly reflect the appropriate standard of performance deemed appropriate by the courts of law.
3. **The Feasibility Gap:** This is caused by society's increasing, and often unrealistic, demands for accountability.
4. **The Communication Gap:** This is caused as a result of inadequacy in the report issued by auditors or upon the conclusion of the statutory audit and the unreasonable expectation of the intended users.

3. METHODOLOGY

This research adopts the survey method to achieve the objectives of the research. The survey was designed to elicit responses from respondents on audit expectation gap in Nigeria. The source of data for this study is primary. The primary data were obtained through the administration of questionnaire to civil servants in Ministries, Department and Agencies, as well as the staff of the Office of the Accountant-General and the Office of the Auditor-General in FCT Abuja.

The population of the study consists of Civil Servants, Public servants and the general public. While civil and public servants are directly involved in public financial management, the general

public are there to assess the performance of government Ministries, Departments and Agencies. Government financial statements are prepared by the Office of the Accountant-General while financial statements are audited by the Office of the Auditor-General. All the Ministries, Departments and Agencies are involved in originating the financial information as it affects each Ministry, Department and Agency.

Sample size can be defined as the number of observations used for calculating estimates of a given population (Smith, 2009). To determine the sample size, Adams and Schvaneveldt (1985) formula for determining the sample size of an unknown population was applied as follows:

$$\text{Sample Size} = n \div [1 + (n \div P)]$$

Where: Confidence Level = 95%,

Calculating for Sample Size,

$$n = 1.960 \times 1.960 [0.10(1 - 0.10) / (0.04 \times 0.04)]$$

$$n = 1.960 \times 1.960 [0.09 \div 0.0016] = 1.960 \times 110.25$$

$$n = 216.09$$

The researcher collected both primary and secondary data. Primary data was collected through semi structured questionnaire which were distributed to staff of the Accountant-General's Office, Auditor-General's Office, other public and civil servants in the FCT, Abuja. The questionnaire comprised of a Likert type questions, multiple choices and open ended questions.

In this study, both descriptive and inferential statistics were used. First, the responses to the questionnaire were analyzed by making use of descriptive statistics such as frequencies, percentages, minimum, maximum, means and standard deviation to describe the patterns of data. Data was captured from the questionnaire and collated with the aid of Microsoft Excel 2010. The gathered data are scrutinized and analyzed by employing a Chi-Square quantitative analysis technique using SPSS.

4. DATA PRESENTATION AND ANALYSIS

Questionnaire Distribution and Analysis

Table 4.1: Questionnaire distribution

Number of Copies Distributed	Number of Copies Retrieved	Number of Valid/Used Copies
216	192	171

Source: Field Survey, 2023

Table 4.1 showed that out of the 216 copies of the questionnaire distributed to respondents, 192 copies were retrieved. This was 89% of the sample size. However, out of this number, only 171 copies were found valid and useful for further analyses. This was 79% of the sample size and 89% of the total number of copies retrieved. Further analyses were based on the copies retrieved and found valid.

Table 4.2: Demographics of respondents

Categories	Frequency	Percentage
<u>Gender:</u>		
Male	114	67
Female	57	33
<u>Age Bracket</u>		
25 – 30	53	31
31 – 40	62	36
41 – 50	40	23
51 – 60	11	07
61 years and above	05	03
<u>Academic Qualification</u>		
O’Level	25	15
ND/NCE	60	35
HND/B.Sc.	58	33
Masters and above	11	07
Others	17	10
<u>Length of Service</u>		
0-3 years	38	22
4 – 7 years	51	30
8 – 10 years	30	18
10 – 15 years	15	09
15 – 20 years	16	09
20 years and above	21	12

Source: Field Survey, 2023

Table 4.2 showed that there were a total of 114 (67%) male respondents and 57 (33%) female respondents. In terms of their age brackets, the table shows that a total of 53 (31%) respondents,

62 (36%) respondents, 40 (23%) respondents, 11 (7%) respondents and 5 (3%) respondents were within the ages of 20 – 30, 31 – 40, 41 – 50 51 – 60 and 61 years and above, respectively. On their academic qualifications, a total of 25 (15%) respondents had O’Level Certification; while 60 (35%) respondents, 58 (33%) respondents, 11 (7%) respondents and 17 (10%) respondents had ND/NCE, HND/B.Sc., Masters and above as well as other qualifications respectively. Also, data presented in the table show that a total of 38 (22%) respondents, 51 (30%) respondents, 15 (9%) respondents 16 (9%) respondents and 21 (12%) respondents had served at various number of years.

4.3 Analyses of research variables

In this section of the study, all the questions in the questionnaire that directly relate to the objectives and hypotheses of the study were analyzed using tables and simple percentages.

Table 4.3: Level of impact of audit expectation gap on credibility

Response	Frequency	Percentage
High	81	47.3684211
Very High	63	36.8421053
Fairly High	18	10.5263158
Low	5	2.92397661
Very Low	4	2.33918129
Total	171	100

Source: Field Survey, 2023

Table 4.3 shows that 81 (47%), 63(37%), 18(11%), 5(3%), and 4(2%) of the respondents disclosed the level of impact of audit expectation gap on credibility was high, very high, fairly high, low and very low level of impact of audit expectation gap on the credibility of Nigerian public sector.

Table 4.4: Analysis of responses on the impact of audit expectation gap on credibility of audit report

S/N	Statement	SA	A	UN	D	SD	Total
1	Audit report loses credibility as the expectation gap widens.	60	40	37	16	18	171
2	The detection of fraud and error is a function of a well and skillfully conducted audit.	101	41	12	9	8	171
3	Audit expectation gap makes members of the public to see auditing as a compromised profession.	86	54	16	10	5	171

4	Members of the public will lose faith in the auditing exercise if the gap continues to exist.	98	55	8	6	4	171
	Total	345	190	73	41	35	684
	Average	86	48	18.3	10.25	8.75	171
	Percentage	50	28	10.7	5.9942	5.12	100

Source: Field Survey, 2023

Table 4.4 presented responses on the impact of audit expectation gap on the credibility of audit report. On the average, the table showed that 86 (50%) respondents, 48 (28%) respondents, 18 (11%) respondents, 10 (6%) respondents and 9 (6%) respondents strongly agreed, agreed, were indifferent, disagreed and strongly disagreed respectively to the questions relating to the impact of audit expectation gap on credibility of audit report.

Table 4.5: Analysis of responses on whether audit expectation gap can be eliminated or minimized in the Nigerian Public Sector through sensitization

S/N	Statement	SA	A	UN	D	SD	Total
1	Audit expectation gap can be eliminated in the Nigerian Public Sector through sensitization	60	78	19	8	6	171
2	Audit expectation gap can be minimized in the Nigerian Public Sector through sensitization	118	37	5	6	5	171
3	Knowledge of the role of auditors and that of the officers of the organization will help in eliminating or minimizing audit expectation gap.	92	62	8	7	2	171
4	Sensitization can minimize as well as eliminated the audit expectation gap.	115	43	6	4	3	171
	Total	385	220	38	25	16	684
	Average	96	55	9.5	6.25	4	171
	Percentage	56	32	5.56	3.655	2.34	100

Source: Field Survey, 2023

Table 4.5 presented responses on whether audit expectation gap can be eliminated or minimized in the Nigerian Public Sector through sensitization. On the average, the table showed that 96 (56%) respondents, 55 (32%) respondents, 10 (6%) respondents, 6 (4%) respondents and 4 (2%) respondents strongly agreed, agreed, were indifferent, disagreed and strongly disagreed

respectively to the questions relating to as to whether audit expectation gap can be eliminated or minimized in the Nigerian Public Sector through sensitization.

Test of hypotheses

In this section, all the stated hypotheses would be tested using SPSS Chi-square version 21.

Test of hypothesis one

H₀: There is no significance impact of audit expectation gap on the credibility of audit report in the Nigerian Public Sector.

H₁: There is a significance impact of audit expectation gap on the credibility of audit report in the Nigerian Public Sector.

This hypothesis was tested using table 4.4 and SPSS applied thus:

Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
impact of audit expectation gap on the credibility of audit report	171	4.3626	.91882	1.00	5.00

Chi-Square Test

Frequencies

impact of audit expectation gap on the credibility of audit report

	Observed N	Expected N	Residual
SD	4	34.2	-30.2
D	6	34.2	-28.2
UN	10	34.2	-24.2
A	55	34.2	20.8
SA	96	34.2	61.8
Total	171		

Test Statistics

	impact of audit expectation gap on the credibility of audit report
Chi-Square	191.368 ^a
Df	4
Asymp. Sig.	.000
Monte Carlo Sig. Sig.	.000 ^b

95% Confidence Interval	Lower Bound	.000
	Upper Bound	.017

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 34.2.

b. Based on 171 sampled tables with starting seed 299883525.

Interpretation

The SPSS output shows that X^2 calculated is 191.368 at 0.05 level of significance and df (4) and p-value equals 0.000. This shows that the test is significant.

Decision

Since X^2 calculated (191.368) is greater than X^2 critical (9.488) and p-value (0.000) is less than alpha (0.05), we therefore reject H_0 and accept H_1 which states that there is a significance impact of audit expectation gap on the credibility of audit report.

Test of hypothesis two

H_0 : Audit expectation gap cannot be eliminated or minimized in the Nigerian Public Sector through sensitization.

H_1 : Audit expectation gap cannot be eliminated or minimized in the Nigerian Public Sector through sensitization.

This hypothesis was tested using table 4.5 and SPSS applied thus:

Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
Audit expectation gap can be eliminated or minimized through sensitization	171	4.5088	.79238	1.00	5.00

Chi-Square Test Frequencies

Audit expectation gap can be eliminated or minimized through sensitization

	Observed N	Expected N	Residual
SD	3	34.2	-31.2
D	3	34.2	-31.2
UN	5	34.2	-29.2
A	53	34.2	18.8
SA	107	34.2	72.8
Total	171		

Test Statistics

	Audit expectation gap can be eliminated or minimized through sensitization
Chi-Square	247.158 ^a
Df	4
Asymp. Sig.	.000
Sig.	.000 ^b
Monte Carlo Sig.	.000
95% Confidence Interval	
Lower Bound	.000
Upper Bound	.017

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 34.2.

b. Based on 171 sampled tables with starting seed 926214481.

Interpretation

The SPSS output shows that X^2 calculated is 247.158 at 0.05 level of significance and df (4) and p-value equals 0.000. This shows that the test is significant.

Decision

Since X^2 calculated (247.158) is greater than X^2 critical (9.488) and p-value (0.000) is less than alpha (0.05), we therefore reject H_0 and accept H_1 which states that audit expectation gap can be eliminated or minimized through sensitization.

5. CONCLUSION AND RECOMMENDATION

Conclusion

This study confirmed the existence of audit expectation gap in the Nigerian Public Sector. The audit expectation gap was more pronounced in the area of auditor’s duties and responsibilities. From the outcome of this study, the audit expectation gap primarily arose from the expectation of the public due to their lack of understanding on the roles of auditors. This is consistent with the role conflict theory, which states that conflict in the perception of the role of auditors is what is called “audit expectation gap”. The auditors’ role is described as the interactions of the normative expectations of the various interest groups in the society. These interest groups are different role senders who may have direct or indirect relationship to the role position. This implies that an auditor is not only responsible to the shareholders, but also to other stakeholders who are the users of accounting information.

Hence, the auditors face a multi-task and multi-expectation assignment that is difficult to fulfill. The role conflict indicates that statutory objective of audit is not responsive to societal expectations. Consequently, the auditors are constantly under the threat of credibility and liability crisis from the increased litigation against and criticism of their work (Lee, Alli & Gloeck, 2009). Therefore, the audit expectation gap poses a very serious threat to the auditing profession and auditors cannot continue to maintain a legalistic posture, while the public are dissatisfied with their services. More so, the evolution in auditing profession has always been based on the changing demands in the society. For audit to sustain its relevance, the profession must improve on the speed of response to the demands of the society.

Recommendation

There is the need for continued sensitization of the public, by both the auditing profession and other stake holders on the role and duties of the auditor to avoid unreasonable expectation by the public. The study found auditing education to be highly correlated to reducing the expectation gap, as such; the course should be expanded to all levels and across disciplines to have wider coverage.

There should be improved communication and feedback system by the auditing profession on how the public view its activities. Specifically, the communication between and within the auditing environment will greatly assist in monitoring and reducing the possibilities of the audit expectation gap created by the deficient performance audit.

The professional bodies can also monitor the reduction of the expectation gap through its licensing procedures. As auditors apply for license to practice, the professional bodies could ensure their competence and possibly organize a workshop for them to help explain and educate them on gray areas and procedures in the audit that possibly have direct impact and or cause the expectation gap.

Other stakeholders also have a role to play in educating members of the public on the role of the auditor and the expectation and coverage of the audit report.

The judiciary also should be sensitized as to the role of the audit and the responsibility of the auditor in terms of the coverage of his audit report and his liability to third party. This will go a long way in reducing the gap created by the outcome of court cases on the issue of the expectation gap between the public and the auditor.

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