

# **AUDIT EXPECTATION GAP: PERSPECTIVES OF AUDITORS AND AUDITED ACCOUNT USERS**

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## **Abstract**

This study empirically examined Audit Expectation Gap: Perspectives of Auditors and Audited Account Users. For the purpose of this study primary and secondary data were used. Data were sourced through the examination of vast array of relevant literature like journals, standard textbooks, magazine and questionnaires. The data collected were analyzed by the use of simple percentage and tested by using Chi-square. The analyses reveal that misunderstanding gap exist between Audited account users and Auditors. Elements of the user misunderstanding gap discovered in this study include: (i) Duties; (ii) powers and rights (iii) Appointment and dismissal (iv) level of assurance of audit report (v) independence of auditors in performance of their duties. The study concluded that expectation of the users of audited financial statements and their belief of the duties, rights, roles and responsibility of auditors are too demanding and at variance with what is actually obtainable in the statutes and laws that regulate the work of an auditor. Finally, the study recommends that Professional bodies in collaboration with auditors should organize symposia to educate the audited account users on the duties and responsibilities of an auditor, so that the performance gap can be bridged and that the users of audited accounts should familiarize themselves with the laws, statutes and standards that regulate and stipulate the duties of an auditor so as to know what to expect of the auditors in order to bridge the performance gap.

**Key-words:** Audit Expectation Gap, Auditors, Financial statement

## **Introduction**

Auditing as it is understood now-a-days evolved some two thousand years ago. Expansion of industries and commerce in a big way which took place in post-industrial revolution era, gave rise to various types of business organizations.

In particular, the emergence of joint stock companies which are managed by persons (Directors) other than the proprietors, (i.e. shareholders) warranted some sorts of satisfaction to the shareholders, that their money was not being misused. For this purpose, it became necessary for Directors to render accounts to the shareholders at regular intervals (usually on annual basis).

The Directors in some cases, in order to conceal their inefficiencies or other lapses, had started adopting fraudulent accounting practices. The governments, therefore made some legal provisions, whereby accounts were required to be checked and reported upon by an independent person other than the Directors. These persons came to be known as Auditors.

The primary objective of an audit is to provide a report by the auditor, stating therein his opinion on the truth and fairness of financial statement so that any person using such statements can have a critical appreciation of the information contents of the statements in them. The audit therefore provides an opportunity to users of financial statements to understand the information contained therein in a realistic and transparent manner.

However, users of these audited financial statements see auditors in different lights, and as such expect different duties from them, therefore leading to the problem of expectation gap. There is now a considerable evidence of a gap when external auditor's understanding of their roles and duties is compared against the expectations of various user groups and the general public, regarding the process and outcome of the external audit (i.e. audit expectation gap).

The credibility of external auditors is increasingly being called into question in many countries around the world as evidenced by widespread criticism and litigation directed against auditors (Porter, 1993). The Canadian Institute of Chartered Accountants established the MacDonald Commission to study the public's expectation of audits. The Commission presented its final report in 1988, and concluded that the public is largely ignorant of the extent of the responsibilities entrusted to auditors and that some of the most knowledgeable segment of the public feel that their expectations are not being fulfilled.

In the U.K, the Auditing Research Foundation (1989) identified the expectations gap as one of the priority areas for investigation. In 1991, the Institute of Chartered Accountants in Ireland established an independent commission to study the expectations gap. The Commission presented its final report in 1992 and concluded that there was evidence of an expectations gap which should be addressed as a matter of priority.

In Australia, the ASCPA and the ICA published a major research study in 1994 highlighting the need to address the issues related to the expectations gap. There is therefore, widespread recognition within the profession of the existence of a significant audit expectations gap and the need to take urgent and effective action to address the gap. Hence, we now look into some questions which are in ardent quest for their solutions which in fact prompted the need for researching into the perspectives of audited account users

### **Statement of the Problem**

The phrase "Audit Expectations Gap" was first introduced into the literature over twenty years ago by Liggio (1974). It was defined as the difference between the levels of expected performance "as envisioned by the independent accountant and by the users of financial statement".

Tweedie (1987) set out the extent of the problem as follows:

“The public appears to require

- 1 a burglar alarm system (protection against fraud).
- 2 a radar station (early warning of future insolvency)
- 3 a safety net (general re-assurance of financial well being)
- 4 an independent auditor (safeguards for auditor independence)
- 5 coherent communications (understanding of audit reports)”

He concluded, “Given these concerns, it is clear that the basic tenets of an audit are being misunderstood. The primary objective of an audit is to establish the reliability of financial statement and the related accounting records of a company or an institution. However, owing to the fact that there are discrepancies in the role of an auditor and the expectations of users of the audited financial statement as to what they believe the auditors should perform, the credibility of external auditors is increasingly being called into question in many countries around the world, as evidenced by widespread criticisms and litigation directed against auditors (Porter, 1993). There is evidence that some of these criticisms are based on society’s misunderstanding of the fundamental role of the external auditor (i.e. an expectation gap)

At times, when a company suffers liquidation, the auditors are usually fingered as the probable cause of the company’s predicaments because of the users’ belief of auditors’ duties and responsibility. It is therefore, the intention of the study to assess (through a research study) the audit expectation gap and the perspective of auditors and audited account users in Nigeria in order to form an opinion as to whether the gap really exists and to make appropriate recommendations as to how the gap can be bridged.

### **Objectives of the Study**

The expectations gap has been recognized by the auditing profession as an issue of fundamental importance. The Commission on Auditors Responsibilities (AICPA 1978) was established to investigate the existence of such gap and concluded: “After considerable study of available evidence and its own research” such a gap does exist. Therefore, the general objective of the study is basically to better align the views of auditors and the audited account users (i.e. to bridge the expectation gap).

The specific objectives of the study are:

- 1 To examine the duties and responsibilities of external auditors.
- 2 To examine the expectation of the various audited account users of the external auditor.
- 3 To examine the steps that can be taken to bridge the audit expectation gap.

### **Research Questions**

Answers to the following questions will be sought consequent to the statement of the problem and the purpose of the study.

- 1 What are the duties and responsibilities of an external auditor?
- 2 What are the expectations of the users of audited accounts of the external auditor?
- 3 What are the steps to be taken to bridge the gap?

### **Research Hypotheses**

The following research hypotheses were tested:

- H1: Fraud detection is not the main duty of an auditor.
- H2: Auditors do not really carry out their work independently.
- H3: Auditors do not have right and power to sue a company for inadequate supply of information needed.
- H4: Appointment and removal of an auditor is not the responsibility of share holders
- H5: Auditors should not give only reasonable but absolute assurance.

### **Theoretical / Literary Reflections**

#### **The Roles of Auditors**

The role of the auditor in the business and economic life of the society is very important. Modern business enterprises are quite large and mostly in corporate form, wherein the shares are owned by thousands of people (shareholders). Generally, these persons (shareholders) are not involved in the day to day running of the business, and they appoint Directors to run and manage the entity. It therefore becomes desirable that such business enterprises should produce accounts which will indicate the true financial position and how successfully these enterprises are operating. Owners of these businesses do expect their Directors / Managers to prepare true and fair accounts, but because the Directors or the Managers themselves prepare these, they may either deliberately or unintentionally produce accounts which are false and or are misleading. Naturally, therefore, shareholders wish to have these accounts examined by an independent competent person who can assess and then attest how well the management have discharged their functions. An auditor provides this assurance to them. He therefore is not an employee of the company or the servant of the Directors but is appointed by the company (shareholders), to check and report his findings on the statements of account prepared, which by the nature of things is an assurance function, while at the same time it brings to light how well or how badly the entity has functioned.

CAMA requires an auditor to state in his report whether in his opinion the financial statements:

- Show a true and fair view or
- Comply with the requirements of relevant statutes.

This requirement implies that the short statements of the auditor are merely an expression of opinion and not a certificate. The auditor equally has the duty of objectivity in verifying all facts about the current assets like cash, treasury bills, treasury certificates and loans in the case of a bank. In forming his opinion, he must obtain adequate information on all the resources of the fixed assets of the bank and claims against them.

In considering the statutory responsibilities of auditors, decided cases require the auditor to exercise reasonable care and skill but what constitutes skill and care have not been determined. Equally, the law requires auditors to express trueness and fairness of the financial statements; but the extent of the job to carry out before such opinion could be

expressed is never stated. This makes the auditor's statement a mere opinion but he must be honest in his professional job.

The general summary implied from the decided cases is that, any professional under **obligation to exercise care and skill, whether imposed by specific contract or otherwise**, should carry out his job in a manner that conforms to the general standards of that particular trade. In the case of *Re-Kingston Cotton Mill Co. Limited (1896)*, the principle of the case stated that the auditor was not guilty of malfeasance having relied on the stock certificate prepared by his client without participating in the stocktaking. However, the upper court reversed the decision and held the auditor liable because he did not exercise reasonable care and skill. The judge held that the auditor was not liable for not tracking down ingeniously and carefully laid scheme of fraud when there was nothing to arouse suspicion and when the frauds were perpetrated by trusted servants of the company. He was however found guilty of not exercising reasonable care when there was something to excite suspicion and thus made him to probe the matter to the bottom, and that he was a watchdog and not a bloodhound. Auditors also need to provide more material information to the shareholders.

### **Directors' Responsibility vis a vis Auditors' Responsibilities**

In reference to the provision of section 334 and 335 of Company and Allied Matters Act 1990, the Directors of the Company are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Company as at the end of the financial year, and must comply with the Companies and Allied Matters Act.

The responsibilities of the Directors include:

- Maintenance of proper records of transactions.
- Disclose with reasonable accuracy at any time, the financial position of the company.
- Making sure the accounting records of the Company are kept at the Company's register.
- Ensure internal control procedures are instituted to safeguard asset, prevent and detect fraud and other irregularities.

It is the basic responsibility of the management to prepare financial statement. At times, the financial statement prepared by management are not accurate and convey wrong impression of the entity's financial appearance to the users of those statements. The primary responsibility for the preparation of financial statements free from material misstatements is that of the management including that of prevention and detection of fraud and error.

On the other hand, an auditor should be aware of his responsibilities in carrying out their duties. He is not responsible for preparing the accounts, maintaining internal control and assessing efficiency of business operations. These tasks are the responsibilities of the Directors / Management. His duty is to properly and adequately verify the transactions recorded in the books of account and their ultimate presentation in the form of accounting statements and to express opinion thereon. It is the duty of the auditor to use his or her skill and knowledge to consider, unfold and report whether the view given by the financial statement is consistent, accurate, true and fair.

The responsibilities of an auditor are many as stated above and the stakeholders, which include shareholders, investors, creditors, regulators, tax and other authorities, employees, debtors, general public etc., have great expectations from the auditors. There is no doubt that the auditor's opinion enhances the credibility of financial statements by

providing a high, but not absolute, level of assurance that such financial statements are free from material misstatement. Absolute assurance in auditing is not attainable as a result of such factors as the need for judgment, the use of testing, the inherent limitations of any accounting and internal control systems and the fact that most of the audit evidence available to the auditors is persuasive rather than conclusive in nature.

### **Audit Expectation Gap**

There is now considerable evidence of a gap when external auditors' understanding of their role and duties are compared against the expectation of the various user groups and the general public regarding the process and outcome of the external audit (i.e. audit expectation gap). The credibility of external auditors is increasingly being called into question in many countries around the world, as evidenced by widespread criticism and litigation directed against auditors (Porter, 2003)

The phrase "Audit Expectation Gap" was first introduced into the literature over twenty years ago by Liggio (1974). It was defined as the difference between the levels of expected performance as envisioned by the independent accountant and by the user of financial statements. Tweedie (1987) set out the extent of the problem as follows:

"The public appears to require:

- a burglar alarm system (protection against fraud).
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- an independent auditor (safeguards for auditor independence).
- coherent communications (understanding of audit reports)"

Porter (1993) concluded that earlier definitions of audit expectations gap were excessively narrow in that they failed to recognize the possibility of sub-standard performance by auditors. She highlighted the importance of considering the full extent of the audit expectations gap, and argued that this can only be done by comparing society's expectations of auditors against the perceived performance of auditors. Viewed in this way, the gap can be widened either by an increase in society's expectations (some of which can be unreasonable) or a deterioration in perceived auditor performance (sub-standard performance arises where the auditor fails or is perceived to fail to comply with legal and professional requirements). Conversely the gap can be narrowed either by a reduction in society's expectations or an improvement in perceived performance.

Best et al. (2001) citing Porter (1988) defines audit expectation gap as the difference between what the society expects auditors to achieve and what they can reasonably accomplish. Olowookere (2005) simply states that the audit expectation gap is the gap between the role of an auditor as perceived by the auditor, and the expectation of the users of the financial statements such as the banks, government, investors, employees, lenders, insurance companies and others. The expectation gap in auditing is defined as "the difference between what the public and financial statement users believe auditors are responsible for and what auditors themselves believe their responsibilities are" (AICPA 1993: 3).

According to Millichamp (1996), the expectation gap is concerned with the external auditor's role as stated in the regulation and statute law. Many users misunderstand the

nature of the attest function, especially in the context of an unqualified opinion. Some users believe that an unqualified opinion means that the entity has foolproof financial reporting. Some feel that the auditor should not only provide an audit opinion, but also interpret the financial statements in such a manner that the user could evaluate whether to invest in the entity. There are also users who expect auditors to perform some of the audit procedures while performing the attest function like penetrating into Company affairs, engaging in management surveillance and detecting illegal acts and/or fraud on the part of management. It is these high expectations on the part of users of financial statements that create a gap between auditors' and users' expectations of the audit function. In addition, the users also place the responsibility for narrowing the gap on auditors and others involved in preparing and presenting financial statements.

Various studies have confirmed the existence of the audit expectation gap. Prior literature in audit expectation gap evinces that the expectations gap between auditors and financial statement users has existed for the past 100 years. The audit expectation gap has become a topic of considerable interest world wide, for research in general, and in the advanced countries like the U.S, the U.K, New Zealand, Germany and Singapore in particular for the last thirty years. This is due to the occurrence of series of corporate failures, financial scandals and audit failures in these advanced countries and their subsequent impact on other countries' audit profession. The literature available on audit expectation gap and related matters evinces the extent to which the auditing environment has become litigious.

The widespread criticism of and litigation against auditors indicates that there is a gap between society's expectations of auditors and auditors' performance as perceived by society. The majority of research studies indicate that the audit expectation gap is mainly due to users' unreasonable expectations of audits as well as their unrealistic perceptions of the audit profession's performance. According to these studies, the differences may be attributable to users' misunderstanding of what is reasonably expected from an audit, and of the actual quality of the audit work. Although a number of explanations for the existence and persistence of the audit expectation gap appear in the literature, references to users' misunderstandings of the role, objectives and limitations of an audit, inadequate audit standards and deficient auditor performance capture the main essence of its causes. This results in users' dissatisfaction with auditors' performance that undermines confidence in the auditing profession and the external audit function. The term 'expectation gap' is commonly utilized to describe the situation whereby a difference in expectation exists between a group with a certain expertise and a group, which relies upon that expertise. The public perception of an auditor's responsibility differs from that of the profession and this difference is referred to as the Audit expectation gap.

The audit expectation gap has a long persistent history. The central issues incorporated within it are fraud detection, auditor independence, public interest reporting and the meaning of audit reports and these issues have not only remained unresolved since the emergence of the term, 'audit expectation gap', in the 1970s, but also have a history that is as long as that of the Company auditing itself (Humphrey et. al., 1993).

Liggio (1974) was concerned that since the late 1960 the profession had been under attack regarding the quality of its professional performance. He suggested two reasons for this: 'a greater willingness to hold others-especially professionals-accountable for perceived misconduct and the expectations gap as a factor of the levels of expected performance as

envisioned by both the independent accountant and by the user of financial statements. The difference between these levels of expected performance is the expectation gap. This definition was extended a little in the Cohen Commission's (1978) terms of reference. The Commission was charged, inter alia, to consider whether a gap might exist between what the public expected or needed and what auditor could and should reasonably do. They did not allow for substandard performance. It is submitted that the gap which gives rise to criticism of auditors is that between what the society expects from auditors and what it perceives it receives from them. It is therefore proposed that the gap more appropriately entitled 'the audit expectation performance gap' may be defined as the gap between society's expectation of auditors and auditor's performance as perceived by society.

Given this definition, the analysis indicates that 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 society can reasonably expect auditors to accomplish and what they are perceived to achieve (designated the performance gap).

This may be subdivided into two: 1) 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 2) 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 ó 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 ó This is caused by society's increasing, and often unrealistic, demands for accountability.
4. The Communication Gap ó 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.

### **Audit Expectation Gap: Empirical Evidences**

The following studies bring out the nature of audit expectation gap prevailing in different countries of the world. These studies bring out the differences in perceptions on audit expectation gap amongst different sections of the society. Most of the studies ascertain the auditors' and the public's view of the roles and responsibilities of auditors through the use of questionnaire surveys. The foundations for research in audit expectation gap were laid down in the seminal works of Lee (1970) and Beck (1974), who investigated the duties which auditors were expected to perform. Liggio (1974a) visualized the changing role of

auditors at the initial stages. Then, he pioneered the concept of audit expectation gap (Liggio, 1974b).

In the USA, Baron et al., (1977) examined the extent of auditors' detection responsibilities with respect to material errors, irregularities and illegal acts. They attempted to establish whether there are any differences in the perceptions regarding auditors' detection and disclosure duties between the auditors and users of accounting reports (financial analysts, bank loan officers and corporate financial managers). They found that auditors and users of accounting reports have significantly different beliefs and preferences on the extent of auditors' responsibilities for detecting and disclosing irregularities and illegal acts. In particular, users held auditors to be more responsible for detecting and disclosing irregularities and illegal acts than the auditors believed themselves to be.

In a similar context, Low (1980) examined the expectation gap in Australia. The extent of auditors' detection and disclosure responsibilities concerning errors, irregularities and illegal acts as perceived by auditors and a non-auditor group was investigated. It was found that both groups differed significantly in their perceptions of the extent of auditors' detection and disclosure responsibilities and that an expectation gap existed between the two groups. This finding is consistent with that of Beck (1974), who reported that shareholders had higher expectations of auditors than what most auditors would consider reasonable.

In Singapore, Low et al., (1988) examined the extent of the expectation gap between auditors and financial analysts on the objectives of a company audit. The results indicated that both groups perceived the traditional objective of the audit (i.e. expressing an opinion on financial statements) as one of the primary audit objectives. However, besides this objective, respondents possessed an array of beliefs as to what they considered as audit objectives. Financial analysts perceived an audit as setting a seal on the accuracy of the financial accounts of the company. Further their perceptions of fraud prevention and detection responsibilities of auditors are more demanding than those that the auditors believed they themselves should possess.

In the UK, Humphrey et al., (1993) examined the expectation gap by ascertaining the perceptions of individuals on audit expectations issues through the use of a questionnaire survey comprising a series of mini-cases. The issues investigated include the following: what is and should be the prohibitions and regulations placed on audit firms? And what decisions are auditors expected to make? The respondents included chartered accountants in public practice, corporate finance directors, investments analysts, bank lending officers and financial journalists. The survey revealed a significant difference between auditors and the respondents in their views on the nature of auditing. The results confirmed that an audit expectation gap exists, specifically in areas such as the nature of the audit function and the perceived performance of auditors. The critical components of the expectation gap were found to include auditors' fraud detection role, the extent of auditors' responsibilities to third parties, the nature of balance sheet valuations, the strength of and continuing threats to auditors' independence, and aspects of the conduct of audit work.

Cameron (1993) explored the relationship between public accountants and their small business clients in New Zealand by seeking the opinions of public accountants, small business and associated third parties (bankers, business consultants and enterprise agencies) with respect to the roles that the auditors are expected to perform and those that they actually perform. The results revealed that the three groups expected auditors to provide compliance services, give accounting-related advice, show concern for clients' financial

health, actively seek out client problems and give general business advice. Auditors were perceived as actually providing all of the services expected of them except the service of actively seeking out client problems. In relation to the other functions, the actual performance of chartered accountants was generally perceived to fall below the expected levels.

Epstein and Geiger (1994) discussed the shift in auditing profession in terms of its basic functions and the primary audit objectives from the investors' perspective. The auditor opines that as a profession CPAs continually must assess public reaction to their stated role in financial reporting as well as determine the public's perception of the type and level of assurances believed on desired to be provided by auditors. The results of this study brings out the fact that there exists audit expectation gap and the profession's perception that an audit should provide reasonable assurance of financial statement accuracy. This is held by only a minority of the (sample) investors. To summarize, the majority of investors want from an audit absolute assurance that the financial statements are free of all types of material misstatements.

Chung (1995) in his article entitled "Auditor's confidence and the audit Expectation Gap, examined how varied levels of confidence of auditors results in audit expectation gap and the inadequacy of which leads to inadequate performance by auditors. He is of the opinion that if auditors are under confident, it suggests that their decision confidence is not a contributor to the audit expectation gap. An over-confident auditor may be dangerous as over confidence may result in inefficient auditing. The objective of the auditor is to make the most accurate (correct) decision possible after considering all the facts. Anyone who suffers financial loss as a result may sue an auditor who expresses an inaccurate opinion on a set of financial statements that he examined. In addition to making accurate decisions, the confidence of the auditor in his decision is also important. If auditors are over confident, this may reduce the value of their audit opinions and the effectiveness of the profession. If they are under-confident they may take longer time to make decisions.

Gramling and Schatzberg (1996) conducted a survey among auditors and undergraduate business students. Responses from the students were collected before and after they completed auditing coursework. The students' perceptions were closer to auditors after they completed the coursework, particularly about the roles and responsibilities of auditors, but signs of the expectations gap remained in areas pertaining to fraud. However, the extent of the gap was lower than before the students were about to start the audit coursework. Hence, audit education could still be considered as an effective way to reduce the expectation gap.

Noordin's (1999) study is important for two reasons: Firstly the result of this study may affect the process of setting auditing standard. That is, either the existing standards must be modified or new audit standards must be framed. This is because of the fact that an auditor's report is the only medium of communication that includes the auditor's opinion regarding their audit work and their final opinion regarding the financial statements audited. Hence in this sense, it is important to study the degree of usefulness of an auditor's report. This results in forcing the auditors to deliver a report in more clear terms that help in reducing the expectation gap. Secondly the results of his study are expected to affect the audit academic environment, and educating users regarding the knowledge of audit. Auditor's report is essential so that users understand the essence of audit as well as the utility of auditor's report. It was found that knowledgeable users placed less responsibility

on auditor than less knowledgeable users. He concludes that education on audit amongst users will be an effective approach to narrow down the expectation gap.

Best et al., (1999) examined evidence in support of the long form audit report for audit expectation gap in Singapore. The study extends research on the audit expectation gap in Singapore by surveying auditors, bankers and investors. The study provides some insight into the nature and extent of the audit expectation gap in Singapore. Evidence was found of the existence of a moderate gap. Out of the sixteen areas, a significant area of gap indicates that the auditors are responsible for detecting all fraud and the auditors are not responsible for preventing fraud. In addition, there was evidence that investors believe auditors have some responsibility for ensuring an entity has sound internal controls.

Hian (2000) has studied the audit expectation gap in Singapore, with reference to a company's audit objectives. The objective of this study is to examine if an audit expectation gap exists between auditors and non-auditors in Singapore with respect to the objectives of a Company audit. He concluded that an audit expectation gap with respect to Company audit objectives exists between auditors and non-auditors. The non-auditors place a significantly greater demand on audits and auditors than what auditors themselves perceive their roles and responsibilities to be.

Martinis et al., (2000) made an examination of the audit expectation gap in Singapore. The main objectives of their study were: (a) to examine the extent to which lower levels of user cognizance of the role, objectives and limitations of an audit are associated with unreasonable audit expectations and perception; and (b) identifying the extent of gap with regard to expectations and perceptions about the duties and responsibilities of auditors, fraud prevention and detection. The extent of the audit expectation gap is measured by comparing non-auditors' expectations and perceptions regarding the role, objectives, and limitations of an audit, with auditors' responses reflecting audit reality as prescribed in the profession's auditing standards.

Hudaib (2002) conducted a survey on audit perception gap in Saudi Arabia. He conducted a survey using a combination of mail questionnaires and semi-structured interviews. He found that the ideology and legal structure in the Saudi environment significantly affect audit perceptions gap.

Fadzly and Ahmad (2004) examined perceptions on 'what auditors are doing' by comparing auditors' and users' perceptions in Malaysia. The study comprises two parts. In the first part, respondents' opinions and beliefs about audit functions were accumulated to find the evidence of expectation gap. In the second part a controlled experiment was used on investors to find the effect of reading material on respondents' expectations. For the controlled experiment, reading material was developed in the form of a brochure. It contained information about the audit functions and specifically addresses the issues that are susceptible to misconceptions among the users such as auditor's responsibilities to accounts and financial statements and internal control and fraud. Hundred undergraduate students were selected and the questionnaire was administered to them twice over a period of four months, where the brochure was given only during the second survey. The students were in the first trimester of their senior year and would only learn about financial audit during their second trimester. The results indicated that after reading the brochure there were no significant differences in students' and auditors' expectations. The result of the study shows wider expectation gap on the issue of the auditor's responsibility and lesser expectation gap with respect to reliability and usefulness of audit.

Elements of the user misunderstanding gap investigated in the study by Pierce and Kilcommins include (i) Duties (ii) Ethical and legislative framework (iii) Liability (iv) Audit report. The duties' component consists of fraud and error and many commentators have found the expectations gap to be widest in relation to detection and reporting of fraud. The second element, the ethical and legislative framework included issues such as auditor independence, auditor appointment and audit regulation. In relation to auditor liability, Gloeck and de Jager argue that the Caparo case added a liability gap to the expectations gap since the public does not know to whom the auditor is liable. However, it could also be argued that the substandard performance component of the expectations gap already embraces the liability gap as auditors are encouraged to underperform in the absence of any statutory duty of care to third party stakeholders ó especially since no economic incentives exist for them to owe a duty of care to such stakeholders.

**Methodology**

The primary data for the study were sourced from five (5) randomly selected audited account users and five (5) randomly selected audit firms based in Lagos. Equal numbers of copies of the questionnaires were distributed to both the audited account users and the audit firms. The study made use of primary and secondary data. Concerning the primary source, questionnaire was used to gather the data. The questionnaire was a five-point rating scale (Likert scale), starting from strongly agreed (SA), Agreed (A), and Undecided (UN), Disagreed (D), and Strongly disagreed (SD). The questionnaire was designed in such a way that every question in the questionnaire was related to the research questions and hypothesis of the study. Also the result was used to answer the research questions and test the relevant hypotheses. Fifty copies of the questionnaire were distributed to five categories of users of financial statement and another 50 copies to five (5) audit firms, and 80 copies were returned for the designed purpose of the study. Supportive secondary data contained in standard textbooks and journals with perspective on audit expectation gap were also used. The statistical technique for data analysis and test of hypothetical proposition is the Chi-Square. A survey approach was adopted in generating data for the study. This was achieved through the distribution of copies of the questionnaires and personal interviews.

**Result**

The data analysis proceedings and results are facilitated by the tabulations and computations below. The critical values of the chi-square ( $X^2$ ) statistic are specified at 99% level of confidence and 4 degrees of freedom (Levin 1990:840).

**Table 1** (1) Section A, Question 11(Response from audited account users): Fraud detection is the main duty of an auditor.

RESPONSES	O	E	O – E	(O – E) <sup>2</sup>	(O-E) <sup>2</sup> /E
STRONGLY AGREE	24	10	14	196	19.6
AGREE	14	10	4	16	1.6
DISAGREE	1	10	-9	81	8.1
STRONG LY DISAGREE	1	10	-4	16	8.1
<b>TOTAL</b>	<b>40</b>	40			<b>37.4</b>

**Source:** *Research Data, 2011*

**Table 2** (1B) Section B, Question 8(Response from auditors): fraud detection is the main duty of an auditor.

RESPONSES	O	E	O – E	(O – E) <sup>2</sup>	(O-E) <sup>2</sup> /E
STRONGLY AGREE	-	10	-10	100	10
AGREE	-	10	-10	100	10
DISAGREE	28	10	18	324	32.4
STRONGLY DISAGREE	12	10	-2	4	0.4
<b>TOTAL</b>	<b>40</b>	<b>40</b>			<b>52.8</b>

**Source:** *Research Data, 2011*

**Table 3** 3A) Section Aø Question16 (Response from audited account users): Auditors do not really carry out their work independently.

RESPONSES	O	E	O – E	(O – E) <sup>2</sup>	(O-E) <sup>2</sup> /E
STRONGLY AGREE	19	10	9	81	8.1
AGREE	15	10	5	25	2.5
DISAGREE	1	10	-9	81	8.1
STRONGLY DISAGREE	5	10	-5	25	2.5
<b>TOTAL</b>	<b>40</b>	<b>40</b>			<b>21.2</b>

**Source:** *Research Data, 2011*

**Table 4** (3B) Section Bø Question 12(Response from auditors): Auditors do not really carry out their work independently.

RESPONSES	O	E	O – E	(O – E) <sup>2</sup>	(O-E) <sup>2</sup> /E
STRONGLY AGREE	-	10	-10	100	10
AGREE	-	10	-10	100	10
DISAGREE	32	10	22	484	48.4
STRONGLY DISAGREE	8	10	-2	4	0.4
<b>TOTAL</b>	<b>40</b>	<b>40</b>			<b>68.8</b>

**Source:** *Research Data, 2011*

**Table 5** Section Aø Question 14(Response from audited account users): Auditors have the right and power to sue a company for inadequate supply of needed information

RESPONSES	O	E	O – E	(O – E) <sup>2</sup>	(O-E) <sup>2</sup> /E
STRONGLY AGREE	17	10	7	49	4.9
AGREE	15	10	5	25	2.5
DISAGREE	6	10	-4	16	1.6
STRONGLY DISAGREE	2	10	-8	64	6.4
<b>TOTAL</b>	<b>40</b>	<b>40</b>			<b>15.5</b>

**Source:** *Research Data, 2011*

**Table 6** Section -Bø Question 11 (Response from auditors): Auditors have the right and power to sue a company for inadequate supply of needed information.

RESPONSES	0	E	O – E	(O – E) <sup>2</sup>	(O-E) <sup>2</sup> /E
STRONGLY AGREE	-	10	-10	100	10
AGREE	-	10	-10	100	10
DISAGREE	4	10	-6	36	3.6
STRONGLY DISAGREE	36	10	26	676	67.6
<b>TOTAL</b>	<b>40</b>	40			<b>91.2</b>

Source: *Research Data, 2011*

**Table 7** Section -Aø Question 23(Response from audited account users): An auditor can only be appointed and removed by shareholders.

RESPONSES	0	E	O – E	(O – E) <sup>2</sup>	(O-E) <sup>2</sup> /E
STRONGLY AGREE	5	10	-5	25	2.5
AGREE	6	10	-4	16	1.6
DISAGREE	15	10	5	25	2.5
STRONGLY DISAGREE	14	10	4	16	1.6
<b>TOTAL</b>	<b>40</b>	40			<b>8.2</b>

Source: *Research Data, 2011*

**Table 8** Section -Bø Question 15(Response from auditors): An auditor can only be appointed and removed by shareholders.

RESPONSES	0	E	O – E	(O – E) <sup>2</sup>	(O-E) <sup>2</sup> /E
STRONGLY AGREE	-	10	-10	100	10
AGREE	40	10	30	900	90
DISAGREE	-	10	-10	100	10
STRONGLY DISAGREE	-	10	-10	100	10
<b>TOTAL</b>	<b>40</b>				<b>120</b>

Source: *Research Data, 2011*

**Table 9** Section -Aø Question 12(Response from audited account users): Auditors should only give reasonable and not absolute assurance.

RESPONSES	0	E	O – E	(O – E) <sup>2</sup>	(O-E) <sup>2</sup> /E
STRONGLY AGREE	8	10	-2	4	0.4
AGREE	2	10	-8	64	6.4
DISAGREE	15	10	5	25	2.5
STRONGLY DISAGREE	15	10	5	25	2.5
<b>TOTAL</b>	<b>40</b>	40			<b>11.8</b>

Source: *Research Data, 2011*

**Table 10** Section Bø Question 9(Response from auditors): Auditors should only give reasonable and not absolute assurance.

RESPONSES	O	E	O – E	(O – E) <sup>2</sup>	(O-E) <sup>2</sup> /E
STRONGLY AGREE	8	10	-2	4	0.4
AGREE	32	10	22	484	48.4
DISAGREE	-	10	-10	100	10
STRONGLY AGREE	-	10	-10	100	10
<b>TOTAL</b>	<b>40</b>	40			<b>68.8</b>

*Source: Research Data, 2011*

**Table 11** Summary of Hypotheses Test Results

HYPOTHESIS NUMBER	SECTION	X <sup>2</sup> CALCULATED	X <sup>2</sup> CRT	INFERENCE	DECISION
1	A	37.4	7.81	X <sup>2</sup> Cal > X <sup>2</sup> Crt	Accept Alternate
	B	52.8	7.81	X <sup>2</sup> Cal > X <sup>2</sup> Crt	Accept Alternate
2	A	21.2	7.81	X <sup>2</sup> Cal > X <sup>2</sup> Crt	Accept Alternate
	B	68.8	7.81	X <sup>2</sup> Cal > X <sup>2</sup> Crt	Accept Alternate
3	A	21.2	7.81	X <sup>2</sup> Cal > X <sup>2</sup> Crt	Accept Alternate
4	B	68.8	7.81	X <sup>2</sup> Cal > X <sup>2</sup> Crt	Accept Alternate
5	A	15.5	7.81	X <sup>2</sup> Cal > X <sup>2</sup> Crt	Accept Alternate
6	B	91.2	7.81	X <sup>2</sup> Cal > X <sup>2</sup> Crt	Accept Alternate
7	A	8.2	7.81	X <sup>2</sup> Cal > X <sup>2</sup> Crt	Accept Alternate
8	B	120	7.81	X <sup>2</sup> Cal > X <sup>2</sup> Crt	Accept Alternate
9	A	11.8	7.81	X <sup>2</sup> Cal > X <sup>2</sup> Crt	Accept Alternate
10	B	68.8	7.81	X <sup>2</sup> Cal > X <sup>2</sup> Crt	Accept Alternate

## **Discussion of Findings**

The research work borders on the audit expectation gap- perspectives of auditors and audited account users. The results of the analysis and the hypothesis tested show that from the perspective of the audited account users there is a significant difference between the duties of an auditor and the perception of the work of an auditor by audited account users. It was discovered that audited account users claim to know who an auditor is and what his functions are, and they base their decisions on audited accounts. They believe an auditor is to be blamed in the event of liquidation of a Company which has been audited by the auditor, and that if adequate supply of needed information is not made by the company to an auditor to do his job, then he has the right to sue the company for inadequate supply of needed information. It was also revealed that users of audited accounts believe that they don't over-depend on auditors' opinion and that auditors deliberately keep useful secrets of audited companies from the users of audited accounts. Users of audited account also believe that an auditor's opinion on the financial statements of a Company for a year can be relied upon for the subsequent years. It is further discovered that users desire that auditors present audited account in such a way that it will be easily understood by users and that the issue of misconception on the duties of an auditor is due to lack of adequate education on the issue.

Another discovery is that users of audited accounts believe that auditors prepare audited financial statements and that the work of an auditor is determined by the management, that an auditor cannot be removed by shareholders. They also believe that management fixes the fees of an auditor and that auditors report to them.

The study also reveals that, users believe auditors should give absolute assurance and not just a reasonable assurance. They also believe that fraud detection is the main function of an auditor. Furthermore the study reveals that users of audited accounts believe that auditors do not really carry out their work independently. They believe that since management hire and fire an auditor, an auditor therefore cannot be independent in the course of his statutory duties.

However, from the result of the analysis and the hypothesis tested based on the perception of the auditors, it shows that there is a significant difference between the duties of an auditor and the perception of the work of an auditor by the audited account users. From the findings of the study, it shows that auditors do not have the same views as the users of audited accounts. Auditors do not see detection of fraud as their main duty, they believe they should only give a reasonable and not an absolute assurance on audited accounts, they believe they don't have the right to sue a company for inadequate supply of needed information.

The study further reveals that auditors base their opinion on the information supplied in the financial statements provided by the Directors of the Company, and that they carry out their work independently. It was also discovered that auditors believe they do not deliberately keep useful secrets of audited Companies from audited account users and that their work is not determined by management. The shareholders fix their fees, the auditors report to them and the shareholders can only remove them.

The implication of this is that audited account users do not have a sound knowledge of the duties of auditors. This goes to say that majority of the users of audited accounts are not actually familiar with the functions and duties of an auditor. The result of this findings corroborate the earlier assertion made by Hian (2000:29) which says that audited

account users place a significantly greater demand on auditors than what auditors themselves perceive their roles and responsibilities to be.

There were concerns among users regarding the reliability of financial statements and relatively strong views that the auditor has responsibility for the prevention of fraud. Dixon et al., (2006: 46) investigated the expectation gap between auditors and financial statement users in Egypt. The study confirmed the existence of an expectation gap in the nature of the audit function, the perceived performance of auditors, their duties and role, their independence and the non-audit services which further goes to show that users of audited financial statements still perceive an auditor in a wrong way. Elements of the user misunderstanding gap discovered in this study include: (i) duties (ii) powers and rights (iii) appointment and dismissal (iv) level of assurance of audit report (v) independence of auditors in performance of their duties.

### **Conclusion**

From the summary of findings presented above, the following conclusions were made.

- There is lack of adequate public enlightenment and education on the duties, roles, responsibilities, powers and right of an auditor, the appointment and dismissal of an auditor, level of assurance of audit report and independence of auditors in the performance of their duties, which shows why users of audited accounts have a wrong perception of auditors.
- The users of audited accounts have a non-challant attitude towards relevant statutes, statutory pronouncement and audit guidelines which relates to the duties, roles, appointment, independence of an auditor, which makes the users to be misinformed and misled and have a wrong perception of auditors.
- The presentation of audited financial statements is too ambiguous for audited account users to understand which accounts for the users misinterpretation of financial statements and which makes them blame and hold auditors responsible in case of any loss suffered by them.
- The expectation of the users of audited financial statements and their beliefs of the duties, rights, roles and responsibility of auditors are too demanding and at variance with what is actually obtainable in the statutes and laws that regulate the work of an auditor.
- An auditor does not have primary responsibility for the prevention and detection of fraud, Auditing standard provides an approach that an auditor should follow when conducting an audit. It requires that when planning and performing audit procedures, evaluating and reporting the procedure thereon, the auditor must consider the risk of material misstatement in the financial statement resulting from fraud and error.

### **Recommendations**

This study has investigated many issues, both empirically and in literature and based on the findings, certain conclusion have been drawn. This section further extends the frontiers of the study by making some recommendations that are intended to bridge the audit expectation gap and better align the views of auditors and audited account users. The following specific recommendations are deemed appropriate at this juncture.

- i. Professional bodies in collaboration with auditors should organize symposia to educate the audited account users on the duties and responsibilities of an auditor, so that the performance gap can be bridged.
- ii. The users of audited accounts should familiarize themselves with the laws, statutes and standards that regulate and stipulate the duties of an auditor so as to know what to expect of the auditors in order to bridge the performance gap.
- iii. In order to reduce the misinterpretation and misunderstanding of audited account by the users, management should try and present audited financial statements in a way that it would be easily understood by users of audited accounts so as to bridge the communication gap that exists.

It is anticipated that when all these are done, it will help to bridge both the performance and communication expectation gap already in existence.

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