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NEXUS BEWEEN AUDIT EXPECTATION GAP AND RELIANCE ON AUDITED FINANCIAL STATEMENTS IN NIGERIA

Ezuwore-obodoekwe, C.N., Ph.D[1] and Elias Igwebuike Agbo, Ph.D[2]
[1]Department of Accountancy, Faculty of Business Administration,University of Nigeria, Enugu Campus.
[2]Department of Accounting and Finance, Faculty of Management and Social Sciences, Godfrey Okoye University, Ugwuomu-Nike, Emene, Enugu State, Nigeria.

Abstract: *The sudden financial failures that occurred in the companies like Enron, WorldCom, and Xerox in the United States of America, Lehman Brothers, Polly Peck in the UnitedKingdom and African Petroleum Plc., Cadbury Plc., in Nigeria have created public distrust with the auditors. Unlike before,auditors must now earn the public trust beforet heyare trusted. This study provides an empirical analysis of the connection between audit expectation gap and the reliance on audited financial statements in Nigeria.The survey research design was employed to achieve the objective of the study. Data were also collected through primary source, using structured questionnaire. The study used Chi-square for the analysis of data. The population for the study is two hundred and twenty-four, while the sample size is one hundred and forty-four. Findings show that the process of appointing auditors has a significant relationship with the public reliance on audited financial statements, audit expectation gap is significantly connected wth public reliance on audited financial statements and the quantity of frauds detected by auditors has a significant relationship with the public reliance on audited financial statements in Nigeria.The study recommends that a new business-reporting model be put in place aimed at releasing more non-financial information to the public and providing clear description of the role of independent audit.*

Keywords: Audit expectation gap, Reliance, Audited financial statements, Nigeria.

Introduction

Literature reveals that corporate failures have given rise to questions and doubts amongst the public about the quality of accounting information and financial audit. Revelations of shady annual reports accompanied by vague audit reports have been in focus. These have been accompanied by severe losses by investors and other interested parties. Recent examples such as the Enron, world com and Skandia accounting disasters have further highlighted the dilemma of information asymmetry.

The financial scandals of the recent years in the big companies like Enron, Tyco, WorldCom, and in Nigeria, African Petroleum Plc. and Cadbury Nig. Plc exacerbate the above problems. These events have made the public who are at the receiving end to believe that the auditors either fail in their role or wilfully collude with the management and board. The stakeholders agitated because these corporate failures in many respects are traceable to the financial improprieties of the directors and yet, the auditors did not qualify their reports.

Olojede,Olaynika,Asiriuwa and Usman(2020) contend that the distress witnessed in the banking sector in Nigeria between 1997 and 1999 was as a result of poor corporate governance and opportunistic behaviors of the directors. Another failure in the banking industry was experienced in 2009 following the global credit crunch and the shock prompted the collapse of the capital market. Between 2002 and 2005, Cadbury Nig. Plc. over-bloated its profit by N13.25 billion and Akintola

Williams Deloitte, the external auditors, did not discover it. Also, in 2007, the account of Nampak Nig. Plc. was overstated by N2.8 billion, while the Board of defunct African Petroleum Plc. concealed N22.00 billion loan in its year 2000 accounts(Olojede,2009).

According to Maccarrone (1993), the galloping rise in public agitation and controversies against the auditors was as a result of the financial scandals and audit failures of recent years. In addition, Godsell(1992) notes that there is a common belief by the various stakeholders that the audited accounts serve as certification of the firm's solvency, propriety, and business viability.For this reason, the public usually considers corporate failures in the firms as synonymous with audit failures. When the audit process fails to detect fraud, there is often a public outcry against the auditor and his work. In alignment with this position, Owolabi(2007) by insinuated that several billions of naira was lost by investors as a result of the connivance of preparers of the accounts and auditors in falsifying the figures and, thereby, manipulating the earnings to reflect a position which differs from the true position. This explains the conflict of interest between the users of financial statements and auditors.

The users of financial statements generally opine that the auditor's duties should go beyond the statutory role. They perceive that through his professional capability an auditor is capable of preventing and detecting fraud, errors, and irregularities which might harm the users of accounts. However, auditors in their opinion believe that they have an explicit role clearly defined by the law such as Nigerian Company and Allied Matters Act (2004). According to Akinbuli(2010), it is not the responsibility of an auditor to detect fraud or irregularities. In the contrary, the primary responsibility of an auditor is to give credibility to the accounts prepared by the directors and, in so doing, exercise due care and skill in the conduct of his work.

Generally, the provision of accounting information and auditing are regulated by laws. The accounting and auditing professions interpret the laws and create rules and recommendations for accounting and auditing practice. Widespread lack of confidence and doubts and the quality of accounting and auditing among investors and other interested parties, as a result of the recent accounting disasters, have given rise to strong demands for changes in the rules of the game.

Auditing has been in existence since the early human civilization period. It was first created to detect fraud through an extensive detailed examination from ancient times until the late nineteenth century. The nineteenth century was a turning point in auditing through the creation of laws like the English Companies Act of 1862.This law emphasized the need for an independent review of accounts for both small and large enterprises.

Auditing adds credibility to the financial statements and contributes tremendously to the efficient running of business organizations, the capital markets, and the economy as a whole (Razaee,2004) However,according to Olojede et al.(2020), the work of the auditors has become difficult because of globalization and its concommitant risks of doing business, changing business environment as well as increased sophistication in information technology. Arising from the unprecedented opportunities, companies have expanded with transactions that are more complex, more sophisticated control systems and highly computerized technology. Eventhough audit strategies have changed over the years, the changes have not matched with the dynamics in the business environment. Audit processes carry greater risk because of the use of statistical sampling techniques for audit tests(Olojede et al., 2020).As indicated by Olojede et al.(2020), majority of the computer-assisted audit techniques (CAATs) have their limitations. Quite often, they donot work with real-time data streams of today's business environment. Consequently, they are incapable of detecting doubtful transactions like potential frauds or irregularities

The early auditing was allegedly designed to ascertain the extent of the honesty of the individuals that were charged with the fiscal, rather than managerial, responsibilities. The author identified the two stages that early auditing went through,namely the public hearing of the results of government officials and the scrutiny of the charge-and–discharge accounts. Both types of audit were designed only to facilitate a check upon accountability. In effect,auditing of those days simply was a matter of examining and testing the stewardship role of accounting.

In the nineteenth century, the role of auditors was became linked to management's stewardship function (Flint, 1971) with stewardship being regarded in the narrow sense of honesty and integrity. However, the verifying function was on sampling basis because of the burgeoning volume of business activity. This functional shift in auditing from 'true and correct view' to 'true and fair view' caused a paradigm shift in the audit process. This also caused a change in audit opinion from 'complete assurance' to 'reasonable assurance'.

The responsibility of auditors to detect fraud during the 1800's was a question that was unanswered until the Mckesson & Robbins case of 1939. By 1940 the responsibility for fraud detection by the auditors was moved to the management of the companies. Also, people were made to understand that testing was the auditor's technique and detailed examination was done only when deemed necessary. The 1950's continued to reduce the importance of fraud detection by the auditors. Emphasis on the audit was placed on the determination of the truthfulness of the financial statements. This has resulted to the creation of an audit expectation gap.

Audit expectation gap is the difference between what the public expects from an audit function and what the audit profession accepts the objective of auditing to be. He defines the expectation gap as the gap between society's expectations of auditors and auditors' performance. It's a gap that exists between the expectation and reality. Most people expect auditors to be able to detect fraud and detect timely failures of the company but this is not in line with the duties of an auditor and if the users of auditor's report are not satisfied with the auditor's report its creates an unfriendly relationship between the auditors and its users. Controlling the conflict of interests among firm managers, shareholders and bondholders is a major reason for engaging auditors (Chow, 1982). Nevertheless,in spite of the fact that at the moment the emphasis on the auditor's role has been shifted from fraud detection to determining the truthfulness of the financial statements. the public have often looked upon auditors as professionals essentially charged with the responsibility for detecting fraud This stuation has resulted in a gap in audit expectation which is likely to affect the public reliance on audited financial statements. The main objective of this study, therefore, is to ascertain the level of significance of the connection betweenaudit expectetion gap and the reliance on audited financial statements. Specifically, the study intends to find out if(i) the process of appointing auditors has a significant relationship with the public reliance on audited financial statements, (ii) the extent to which the audit expectation gap is connected wth public reliance on audited financial statements and (iii) if the quantity of frauds detected by auditors has a significant relationship withe public reliance on audited financial statements.The result of this study will further clarifythe factors that tend to significantly affect the reliance of the Nigerian public on audited financial statements. The rest of the paper is structured as follows:- Section 2 reviews the related literature; Section 3 presents the methodology;Section 4 is concerned with the presentation and analysis of data while section 5 concludes the paper.

2.0 Review of the related literature

2.1 Conceptual framework

2.1.1 Auditing

The American Accounting Association (AAA) (1973) defines auditing as a systematic process of objectively obtaining and evaluating evidence regarding the assertions concerning economic actions and events with the intention of ascertaining the degree of correspondence between those assertions and established criteria and communicating the results to the interested users.For Arens, Peter, Gregory and James (1997), auditing refers to the process by which a competent, independent person accumulates evidence about quantifiable information that is related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information andsome established criteria. However, Mautz and Sharaf (1986) define auditing as an exercise concerned with the verification of accounting data and with determining the accuracy and reliability of accounting statements and reports. All the foregoing definitions identify auditing as a system comprising inputs, processing and outputs, which are a set of logically structured and organized series of procedures to ensure that all critical elements are addressed. The term "audit" is derived from the Latin word "audire" which means 'to hear' and auditor literally means 'hearer'. The use of this term was based on customary role of audit function in the sense that the persons responsible for maintenance of accounts were expected to go to some impartial and experienced persons, normally judges, who used to hear the accounts prepared by the persons in charge and express their opinion about their correctness. Auditing is generally seen as the independent examination of the financial statements of an organization with a view to expressing an opinion as to whether these statements give a true and fair view and comply with the relevant statutes and the international financial reporting standards (Aguolu, 2008). Sikka, Puxty , Mott and Cooper (1992) explain that the main reason behind the audit practice is to enable the auditors to express an opinion whether the financial statements presented, portray a true and fair view. The objective of an audit is to ensure that the financial records on which the auditor is reporting show a true and fair view and are not misleading. The general public however seems to have a high expectation that the auditor will detect or prevent all frauds. Users believe that auditors should assume a responsibility beyond examining and attesting the fairness of financial statements and shoulder a direct responsibility to protect the interest of the audit beneficiary through detecting and reporting frauds as irregularities

2.1.2 Audit expectation gap

The term audit expectation gap (AEG) was first introduced to audit literature by Liggio (1974).This author defines AEG as the difference between the levels of expected performance as envisioned by users of a financial statement and the independent accountant. Monroe and Woodcliff (1993) define audit expectation gap as the difference in beliefs between auditors and the public about the duties and responsibilities assumed by auditors and the messages conveyed by audit reports. Writing on the use of audit decision aids to improve auditor adherence to a "standard". Jennings, Reckers and Kneer(1993) refer to audit expectation gap as the difference between what the public expects from the auditing profession and what the profession actually provides. For Porter (1993), the expectation gap is the gap between society's expectations of auditors and auditors' performance, as perceived by society. Hence,the concept comprises two components.namely (i) reasonableness gap (that is, the gap between what society expects auditors to achieve and what the auditors can reasonably be expected to accomplish) and (ii) performance gap (that is, the gap between what society can reasonably expect auditors to accomplish and what auditors are seen to have achieved).

In Re Kingston Cotton Mill (1896), LJ Lopes of the Appeal Court stated that the auditor was a watchdog but not a bloodhound. This remark underlines the fact that the auditor's primary role is not the detection of fraud. The probable lack of clarity between the users of financial statements, the general public and auditors as regards the proper definition for the role and definition of an audit is what contributes to the expectations gap.

Liggio (1974) is credited as the first to introduce and define the concept of audit expectation gap in literature. He defines gap as the difference between the levels of expected performance as perceived by both users of financial statement and the auditor. In 1978, this definition was extended by the Commission on Auditors Responsibilities (CAR) which examined whether a gap exists between what the public expects or needs and what auditors can and should reasonably expect to accomplish (Porter & Gowthorpe,2004). The audit expectation gap has also been considered as the difference in beliefs between auditors and the public about the duties and responsibilities assumed by auditors and the message conveyed by the audit reports.It is equally understood by some to mean the difference between what the public expects from the auditing profession and what the profession actually provides (Monroe & Woodliff, 1993; Jennings, Reckers & Kneer, 1993).

The expectations gap is the difference between what users of financial statements, the general public perceives an audit to be and what the audit profession claims should be is expected of it in conducting an audit. In this respect, it is important to distinguish between the audit profession's expectations of an audit on one hand, and the auditor's perception of the audit on the other hand. In addition,an auditor may perceive a somewhat different interpretation or, worse still, fail to comply with the standards set by the audit profession.

According to Lee and Azham (2008), a number of studies have examined the causes of audit expectation gap. These studies show that the factors include (i) the complicated nature of audit function,(ii) conflicting role of auditors, (iii)retrospective evaluation of auditor's performance, (iv) the time lag in responging to changing expectations, (v) the self-regulating process of the auditing professional and(vi) the unawareness and unreasonable of expectations. For Humphrey, Turley and Molzer (1992),however, the potential causes of the audit expectation gap are many and varied. The gap could be attributed to a number of factors such as the probabilistic nature of auditing, the ignorance, naivety and unreasonable expectations of non-auditors and the hindsight evaluation of audit performance. It could arise from (i)the evolutionary development of audit responsibilities which create response time lags to changing expectations,(ii) corporate crises which lead to new expectations and accountability requirements and period of high standard setting activities and(iii) a self-interested profession which is a self-regulatory monopoly operating in the guise of a socially oriented role.

Causes of Audit Expectation Gap

A number of studies have been conducted to examine the causes of audit expectation gap. These studies reveal the following as factors contributing to the existence of the gap: the complicated nature of audit function, conflicting Role of Auditors, Retrospection Evaluation of Auditors performance, Time lag in responding to changing Expectations, Self-Regulation process of the Auditing professional and the unawareness and unreasonable Expectations (Lee and Azham, 2008).

The potential causes of the audit expectation gap are many and varied. Humphrey , Turley and Molzer (1992) suggested that the gap could be attributed to a number of factors: the probabilistic nature of auditing: the ignorance, naivety and unreasonable expectations of non-auditors; the hindsight evaluation of audit performance; the evolutionary development of audit responsibilities which create response time lags to changing expectations; corporate crises which lead to new expectations and accountability requirements and period of high standard setting activities; and a self-interested professional which is a self-regulatory monopoly operating in the guise of a socially oriented role.

2.1.3 Financial statements

Murphy(2018) defines financial statements as written records which convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc.in order to ensure accuracy and for tax, financing, or investing purposes. Essentially,financial statements include balance sheet,income statement and cash flow statement.

2.2 Theoretical framework

There are several theories relating to the responsibilities of the auditors and the subject of audit expectation gap. However, this study is anchored on the inspired confidence and role conflict theories were selected and discussed briefly. This is because they are relevant and thus provide theoretical foundation for the empirical study.

2.2.1 Theory of Inspired Confidence

This theory was developed in the late 1920s by the Dutch professor Theodore Limperg (Hayes, Schilder, Dassen & Wallage,1999).According to Hayes et al., (1999), Limperg's theory addresses both the demand for and the supply of audit services. According to Limperg, the demand for audit services is the direct consequence of the participation of outside stakeholders in the company. These stakeholders demand accountability from the management in return for their contribution to the company. Since information provided by management might be biased, possible divergence between the interest of management and outside s-stakeholders, an audit of this information is required. With regard to the level of audit assurance that auditor should provide, (the supply side), Limperg adopts a normative approach. The auditor's job should be executed in such a way that the expectations of a rational outsider are not thwarted. So, given the possibilities of audit technology, the auditor should do everything to meet reasonable public expectations.

2.2.2 The role conflict theory

This theory explains the existence of audit expectation gap. It was developed by Rizzo , House and Lirtzman (1970). The theory assumes that the auditor has a responsibility to examine the books of accounts and give credence to the financial statements which is prepared by the board.In addition,it provides that the stakeholders should expect the auditor to undertake this assignment faithfully (Koo& Sim, 1999). The theory expects the auditor to assume the status of a professional person in a social system. Consequently, the auditor has to comply with the role specifications provided to him by the society. Where there is a breach, compliance can be enforced through social action and this may even entail penalties, where it is necessary (Davidson, 1975; Biddle & Thomas, 1979). According to Davidson (1975), the stakeholders include management, institutional investors, financial analysts, tax authorities, and creditors. These groups have different expectations which are in most cases change from time to timeas they have to re-define their role specifications and interplay with other societal factors. The multi-dimensional expectations are the reasons for role conflict (Olojede et al., 2020).

2.3 Empirical review

There are many prior studies both in developed and emerging countries on the subject of audit expectation gap.Some of them like Flint (1988), Spiceland, Sepe and Tomassini (2001) Alleyne and Howard (2005), Haniffa and Hudaib (2007), Owolabi (2007), Oseni and Ehimi (2010), Adeyemi and Uadiale (2011), Salehi (2011) as well as Appolos, Onuoha and Aguguom (2016), mostly employed survey questionnaire to identify the inherent characteristics of the gap, its effects, and how to narrow it. The outcomes of maqny of the studies largely showed the presence of users' misunderstanding with regard to auditor's duties and responsibilities. Audit environment, however, influenced the divergent views among the various groups. some of the findings of the studies reviewed are reported below.

Haniffa and Hudaib (2007) examined audit expectation gap by considering the tradition and culture in Saudi Arabia. The authors collected data, using mailed questionnaire and semi-structured interviews. Descriptive statistics and Mann–Whitney *U* test were used for data analysis. findings show that the performance gap significantly exists in the area of auditors' responsibilities as statutorily provided for and those reasonable expectations of the public in Saudi Arabia.

Salehi, Masoury and Azary (2009) examined audit independence and expectation gap in Iran. Structured questionnaire was distributed to 214 investors and 227 chartered accountants. The data collected were analysed through descriptive statistics and Mann–Whitney *U* test. The results show a significant expectation gap between the investors and auditors on actual level of audit independence in Iran.

Lee, Alli and Gloeck (2009) invstigated the causes and remedies of audit expectation in Malaysia. The empirical data were gathered from 35 people through semi-structured interviews. They observed some complexities in the reasons for audit expectation gapand attributed the causes to misconception, ignorance by the users, unreasonable public's expectation, weak legislations, and poor quality work by the auditors.

Jedidi and Richard (2009) investigated the audit expectation gap in the UK. They employed series of unstructured interviews to obtain data from the management, auditors, investors, regulators, and other undefined respondents. The results of the study show that auditors' and financial statements users' perceptions were different in respect of the nature and conduct of an audit.

Porter (1993) investigated audit expectation gap in New Zealand witnessed significant difference in the belief statements of the auditors and audit beneficiaries in relation to the auditors' duties.

Adeyemi and Uadiale (2011) reviewed audit expectation gap in Nigeria. They used survey research method and structured questionnaire in collecting data. With purposive sampling technique, they sampled two hundred (200) respondents. descriptive and inferential statistics were used for the analysis of data. The testing of the hypotheses was done using analysis of variance (ANOVA).Findings show that audit expectation gap existed in Nigeria, and there was significant difference in the beliefs of the groups with regard to the responsibilities of auditors.

Oseni and Ehimi (2010) sought to find out the nature and degree of audit expectation gap in Nigeria. The data were obtained through questionnaire, and 160 respondents were sampled. The authors used Chi-square for data analysis, and their results show that there was an outstanding contrast in the auditor's duties for preventing and detecting fraud.

Concerning the difference in belief of auditor's report, Tanko(2011) confirmed a wide audit expectation gap on the quality of audit report in the public sector in Nigeria, while Adeyemi and Uadiale (2011)observed wide expectation gap on decision usefulness of audit report in the private sector.

Onulaka and Samy (2017) investigated the effect of audit expectation gap in the Nigerian capital market.They confirm the wide gap in the areas of auditor's responsibility for fraud detection and prevention.

Olojede et al.(2020) did an empirical analysis of the scope and nature of audit expectation gap in Nigeria. The authors used a descriptive and survey research design to achieve the objective of the study. They collected data through primary source, using structured questionnaire. The study employed Mann–Whitney *U* test and Kolmogorov–Smirnov *Z* test for the analysis of data and test of normality of distribution, respectively. The results show that audit expectation gap exists in Nigeria, and the new auditor's report did not have any serious impact in reducing the gap. The audit expectation gap was found to have primarily arisen from the unreasonable expectation of the users due to their lack of understanding of the roles of auditors.

3. Methodology

3.1 Research design

This study applied the survey research design and collected data from the primary source. The data were acquired using well-structured questionnaire as was adopted by Oseni and Ehimi (2010) and Adeyemi and Uadiale (2011) to measure the opinions of the respondents cncerning the duties and responsibilities of auditors. The cardinal aim was to help provide an authentic assessment of audit expectation gap in Nigeria and also provide the basis for comparison with previous works.

3.2 Population of the study

The geographical study area for the research is Enugu State The study comprises two (2) sets of population. The first set is made up of the users of the financial statements such as bankers, investors, stockbrokers, and financial analysts, while the second set is made up of the accountants in practice (auditors) in Nigeria.

3.3 Sampling techniques

The study adopted purposive sampling technique to determine our samples for the two sets of population. According to Oseni and Ehimi (2010), this sampling technique makes it possible for the researchers to employ their skills, prior knowledge, and experience to select appropriate respondents. Adefila(2008) considers the purposive sampling technique as possessing the major attribute of ensuring that data are collected from respondents, who most of the time, are difficult to locate but are important to the accomplishment of the study. Consequently, we surveyed 350 respondents in Enugu State. The questionnaire was distributed to 250 users and 100 auditors.

3.4 Method of data analysis

The hypotheses of the study were tested using the chi-square statistical tool.

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

Where

Fo = Observed Frequency

Fe= Expected Frequency

$\sum$ = Summation of all item

X^2 = Chi-Square.

The level of significance is 0.05

The data were processed with the SPSS Statistics

4. Data presentation and analysis

In this section, the results of the primary data analysis were presented and analyzed. Conclusions were drawn therefrom.

4.1 Statement of the hypotheses

1.. H_0: The process of appointing auditors has no significant relationship with the public reliance on audited financial statements in Nigeria.

2. H_0:Audit expectation gap is not significantly connected wth public reliance on audited financial statements in Nigeria

3. H_0: The quantity of frauds detected by auditors has no significant relationship with the public reliance on audited financial statements in Nigeria.

4.2 Hypothesis testing and discussion of results

Hypothesis1

Under this hypothesis, three field survey analyses from the questions in the questionnaire of this work has been selected and used for the analysis of this hypothesis and overall decision rule stated below after the test of the field survey questions.

Table 4.3.1: The process of appointing auditors has no significant relationship with the public reliance on audited financial statements in Nigeria.

OPTIONS	FO	FE	FO– FE	(FO–FE)^2	(FO-FE)^2/FE
Strongly Agree	0	27.4	-27.4	750.76	27.4
Agree	9	27.4	-18.4	338.56	12.36
Undecided	42	27.4	14.6	213.16	7.78
Disagree	86	27.4	58.6	3433.96	125.3
Strongly Disagree	0	27.4	-27.4	750.76	27.4
					172.84

Source: Field Survey 2020

Formula:

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

$$FE = \frac{137}{5} = 27.4$$

$$\therefore X^2 = 172.84$$

Degree of Freedom = (r – 1)
= (5 – 1) = 4

As was stated in chapter 3, a choice of 95% level of confidence was selected for testing the entire hypothesis. This implies that the critical level will be 5% (0.05) level of significant.

Decision rule

Degree of freedom 4 at 0.05 level of significant = 9.49, from the analysis, the X^2 value = 172.84 is greater than the critical value = 9.49. This will mean that the alternate hypothesis is accepted, implying that the process of appointing auditors has a significant relationship with the public reliance on audited financial statements Nigeria.

Hypothesis 2

Table 4.3.2: Audit expectation gap is not significantly connected wth public reliance on audited financial statements

OPTIONS	FO	FE	FO– FE	$(FO–FE)^2$	$(FO-FE)^2/FE$
Strongly Agree	0	27.4	-27.4	750.76	27.4
Agree	70	27.4	42.6	1814.76	66.23
Undecided	11	27.4	-16.4	268.96	9.82
Disagree	56	27.4	28.6	817.96	29.85
Strongly Disagree	0	27.4	-27.4	750.76	27.4
					160.7

Source: Field Survey 2020

Formular;

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

$$FE = \frac{137}{5} = 27.4$$

$$\therefore X^2 = 160.7$$

Degree of Freedom = (r – 1)
= (5 – 1) = 4

Decision rule

Degree of freedom 4 at 0.05 level of significant = 9.49, from the analysis, the X^2 value = 160.7 is greater than the critical value = 9.49. This will mean that the alternate hypothesis is accepted- implying that audit expectation gap is significantly connected wth public reliance on audited financial statements in Nigeria.

Hypothesis 3

Table 4.3.3: The quantity of frauds detected by auditors has no significant relationship with the public reliance on audited financial statements in Nigeria.

OPTIONS	FO	FE	FO– FE	$(FO–FE)^2$	$(FO-FE)^2/FE$
Strongly Agree	36	27.4	8.6	73.96	2.6
Agree	89	27.4	61.6	3794.56	138.49
Undecided	9	27.4	-18.4	338.56	12.36
Disagree	3	27.4	-24.4	595.36	21.73
Strongly Disagree	0	27.4	-27.4	750.76	27.4
					202.7

Source: Field Survey 2020

Formula;

$$X^2 = \sum(Fo\text{-}Fe)^2$$

$$FE = \frac{137}{5} = 27.4$$

$$\therefore X^2 = 202.7$$

Degree of Freedom = (r – 1)
= (5 – 1) = 4

Decision rule

Degree of freedom 4 at 0.05 level of significant = 9.49, from the analysis, the X^2 value = 202.7 is greater than the critical value = 9.49. This will mean that the alternate hypothesis is accepted - implying that the quantity of frauds detected by auditors has a significant relationship with the public reliance on audited financial statements in Nigeria.

5. Conclusion

In the recent times, there have been several sudden financial failures in the universe. These events have made the public who are at the receiving end to believe that the auditors either fail in their role or wilfully collude with the management and board. The stakeholders agitated because these corporate failures in many respects are traceable to the financial improprieties of the directors and yet, the auditors did not qualify their reports. When the audit process fails to detect fraud, there is often a public outcry against the auditor and his work. The users of financial statements generally opine that the auditor's duties should go beyond the statutory role. They perceive that, through his professional capability an auditor is capable of preventing and detecting fraud, errors, and irregularities which might harm the users of accounts .From the 1950's,.emphasis on the audit has had to be placed on the determination of the truthfulness of the financial statements rather than fraud detection . This has resulted to the creation of an audit expectation gap This gap has tended to affect the reliance of the users on audited financial statements negatively. This study provided an empirical analysis of the connection between audit expectation gap and the reliance on audited financial statements in Nigeria.The survey research design was employed to achieve the objective of the study. Data were also collected through primary source, using structured questionnaire.Using the Chi-square for the analysis of data, the study found that in Nigeria the process of appointing auditors has a significant relationship with the public reliance on audited financial statements, audit expectation gap is significantly connected wth public reliance on audited financial statements and the quantity of frauds detected by auditors has a significant relationship with the public reliance on audited financial statements in Nigeria. These results align with the findings of prior studies such as Oseni and Ehimi (2010), Adeyemi and Uadiale (2011), Onulaka and Samy (2017) and Olojede, Olayika, Asiriuwa and Usman (2020) which explained the audit expectation gap as arising from misconception, ignorance by the users, unreasonable public expectation, weak legislations, and poor quality work by the auditors. attributed the causes to misconception, ignorance by the users, unreasonable public's expectation, weak legislations, and poor quality work by the auditors. The study recommends that a new business-reporting model be put in place aimed at releasing more non-financial information to the public and providing clear description of the role of independent audit.

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