10.24198/jaab.v6i1.42099

Audit Expectation Gap, Auditors' Statutory Duty and Financial Reporting Quality in Nigeria

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Abstract: *The study examined the impact of the audit expectation gap and auditors' statutory duty on financial reporting quality in Nigeria. Data for the study were obtained primarily through questionnaires administered to randomly selected 400 respondents comprising auditors, accountants, stockbrokers, and investors in various sectors of the Nigerian economy. Of the distributed questionnaires, 252 were received, representing a 63 per cent response rate. Multiple regression and t-statistical tools were employed to analyze the responses to the questionnaire designed to reflect five (5) Likert Scale on the impact of audit expectation gap and statutory duty of auditors (explanatory variables) on financial reporting quality (dependent variable). The results indicated that all the independent variables significantly impact the dependent variable. The study recommended, among others, that auditors' responsibility/duty should be expanded through legislation to capture/include the implicit expectation of the ways audit expectations in Nigerian society.*

Keywords: Audit expectation, Gap, Auditors' statutory duty, Financial Reporting, Quality.

Introduction

The primary duty of an auditor is to express an opinion on the client's financial statements and whether the statements so examined are true and fair. The opinion lends creditability to the information content of financial statements and contributes a major part of the total corporate information. The information is useful to both internal and external users of financial statements for various purposes. Management (internal user) for instance, with financial statement information, management (internal user) would be able to assess the organisation's profitability, liquidity, and cash flow. Similarly, investors (external users) require financial statements to access the performance of the enterprises they have invested in or committed their funds to and the yield thereon. Also, other stakeholders such as customers, competitors, government, investment analysts, and the general public use company's financial statements and reports to satisfy their diverse information needs. Financial statements are mere assertions of management and evaluation and reports of auditors, becomes a valuation source of information that can be relied upon for various decision of users (Frenard & Benard, 2013). The assertions are usually about economic activities and events that occur in the enterprises. As such, auditors are expected to ascertain the degree of correspondence between those assertions and established criteria and communicate the results of their findings through reports to interested users as a duty.

In Nigeria, the statutory duties of an auditor are expressly stated in the Company and Applied Matters Act (CAMA) 2020. Section 407

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(1) of the Act provides that a company auditor has to carry out this type of examination of the financial statement of the client as it will enable him/ her (auditor) to form an opinion as to whether: (i) Proper accounting records of the clients for which he/she audit have been kept (ii) The statement of the financial position and the income statement are in agreement with the accounting records and returns and (iii) If (i) and (ii) have not been properly done in section 407 (2) requires the auditor to state that fact in his report. These duties appear to be simple at the surface, but becoming complex given the contemporary dynamic nature of the business environment and increasing sophistication in information technology before preparing the report, auditors are expected to carry out the necessary audit tests, including the deployment of Computer-Assisted Audit Technique (CAAT) for reliable conclusion on client's financial statements (Frenard & Benard, 2013). These onerous duties provide reasonable assurance and valuable information to stakeholders on company conditions for a decision such as investment and divestment (Horgnert & Cyril, 2015).

Unfortunately, the public's assurances and confidence in auditors' reports started dwindling in the 1990s and 2000s due to all forms of financial scandals that characterized the operation of most enterprises worldwide, especially the big ones. Cases of financial scandals in big companies like Enron, Tyco, and Xerox in the USA, Polly peak in the UK, African Petroleum PLC, and Cadbury PLC in Nigeria in the late 1990s to mid-2000s are some of the issues of financial reporting that have created public distrust in audit reports. The issue is ranging in Nigeria as some of the issues of corporate failure as a result of scandals are attributable largely to the collusion of auditors with management to give clean reports on the operation of their clients in the face of glaring financial improprieties of the directors (Lambert & Henry, 2015). To the general public, the heartbeat of the auditing profession and the worth of an auditor is his/her ability to discover any fraud or irregularity that may have been perpetuated by managers and directors.(Milton & Taylor, 2014). In the opinion of users of auditors' reports on financial statements of clients, they expect auditors' function should go beyond their legal duty to include detection of error, fraud, and all forms of irregularities in financial statements that can negatively affect their decision. To auditors, they believe that their duties are explicitly defined in law and limited to the examination of financial statements and expression of opinion on the true and fair state of affairs of clients as a means of lending credibility to the accounts and various assertions of management made in the financial statements. When auditors in their assignment failed to discover fraudulent activities of management and directors in accounting prepared to reflect a false position of the enterprise, it was always believed by the public, particularly investors, that auditors must have connived with management to do the falsification (Forkler & Edward, 2016)

The foregoing poses a challenge regarding the expectation of what auditors ought to do, the statutory duty of auditors, the gap created between the expectation and the statutory duty, and the effects on the FRQ. The conflict between the opinion of users of financial statements and the opinion of auditors who examined and reported on management's assertions in financial statements has created a lot of mistrust in auditors' reports. The loss of confidence in auditors' reports is alarming, especially in Nigeria, where most public and private organizations continue to receive auditors' certification of their solvency, propriety, and viability despite rampant issues of mismanagement (Okey & Nnamali, 2020). Therefore, this study aims to empirically examine the effect of the audit expectation and auditors' statutory duty of FRO in Nigeria.

Literature and Hypotheses Development

Audit Expectation Gap (AEP)

Generally, there is a gap created by the expectations of the users of financial statements as a result of their ever-increasing and perhaps unrealistic demand placed on auditors' duty, mostly outside what the auditors are legally required to do. The audit expectation gap can be defined as the difference in the opinion of auditors and users of financial statements

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regarding auditors' duties (Parker & Scott, 2017). The seeming failure on the part of auditors' to do what the general public (users of financial statements) expected him or her to do on examination of financial statements has brought the notion of an audit expectation gap. The gap is the difference between what the public expects in auditors' duty and what was statutorily provided as auditors' duty (Theodeon & Davis, 2017). The gap can be further widened sometimes, especially if applicable professional standards fail to capture the standard of performance required of an auditor. Thus, Gbenco and Olaja (2018) opined that the general public's expectation regarding the auditor's performance is paramount in the conduct of an audit because any unfulfilled expectations of the society would be injurious to the stakeholders with a negative effect on the credibility of the auditing profession. Public trust is sacrosanct in any profession, and when the trust is lost, the result is credibility problems and erosion of value attached to the profession (Peterson & Walder, 2016).

Generally, the audit expectation gap exists as a result of the difference between the public perception of auditors' role and responsibility regarding audit engagement and the statutory responsibility/duty in the engagement. In the general public's opinion, auditors' duty should be both explicit and implicit beyond the statutory role of merely examining financial statements and expressing an opinion but also function as skilled professionals responsible for fraud detection and prevention. The difference in the opinions of users of financial statements of enterprises and auditors regarding the explicit duty of auditors and the expected implicit duty of auditors from the public point of view is the basis that has created AEG in society (Peterson & Walder, 2016 and Theoden & Davis, 2017).

Financial Reporting Quality (FRQ)

FRQ has been of concern to business stakeholders all across the globe. The essence of the financial report auditors is to convey relevant information to the public regarding the reliability of various assertions made by management in the financial statements. Omerah and Nneka (2017) defined FRQ as the extent or degree to which an enterprise's financial statements give a true and fair view of its financial status/position on a particular day/date. ''True and Fair'' is an expression normally reflected in auditors' reports. By the expression, the auditor is not giving one hundred per cent assurance that the financial statements are correct rather, it is an opinion that the information, to the best of the auditor's professional competency, reflects a high degree of the true state of affairs of the enterprise on a particular day/date and can be relied upon for decisions. Thus for a financial report to be of high quality and useful to stakeholders for decision-making, Ebboh & Unekpo (2016), Olu and Johnson (2017), and Olugbo and Okeke (2018) stated that such report of auditors should be understandable, reliable, timely, comparable, not misleading and devoid of information asymmetry. The level of information asymmetry is key in evaluating the quality of financial reports. One of the many advantages of financial reports considered to be of quality is the limitation it places on information asymmetry and managerial discretion in using accounting estimates (Olugbo & Okeke, 2018),

FRQ, from the perception of the general public, is a variable that depends on the extent or the rate at which the application of analytical procedure and review of auditors can discharge the implicit expectations of users of accounting information as well as the explicit duties of auditors (Dergan & Robert, 2016). These functions/duties are error detection, fraud detection, examination of accounts financial statement, and reporting. The gap created is the difference in the expectation between the implicit and explicit duties widened by the audit process, procedures, and analytical review failure to meet the expectations (Caddel & Harvey, 2021).

Error Detection (ED)

Generally, an accounting error is a non-fraudulent discrepancy in financial statements which occurs when a transaction is calculated and entered wrongly unintentionally in the books of accounts of an enterprise. Therefore, ED is the recognition, measurement, presentation, or disclosure of non-fraudulent discrepancies in an

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enterprise's financial statements (Shanky & Horler, 2015). Thus, Caddel and Harvey (2021) viewed ED as analytical procedures and reviews of auditors that will reveal mistakes or oversights in financial statements that could occur through unintentionally adding transactions into wrong accounts, flip-flopping numbers, reversing entries, and overlooking or forgetting to record a transaction. Auditors can detect these errors using ratios, comparative analysis, trend analysis, etcetera (Getson & Zyaad, 2014). Publishing accurate financial statements as a result of errors often leads to poor managerial decisions and to poor decisions of external users of a company's financial statements.

Fraud Detection (FD)

Generally, fraud in accounting and auditing refers to an irregularity involving criminal deceit and manipulation of accounts for personal gains. Surlen and Orlfer (2017) viewed fraud as discrepancies in the accounts of an enterprise intentionally for the misappropriation of either money or goods of the enterprise. FD refers to the analytical procedures and reviews of auditors that are expected to reveal any fraud that might have occurred in the operation of an enterprise (Charles & Edna, 2016; Surlen & Orlfer, 2017). Though FD is not the primary purpose of the audit, the duty is a key implicit role of auditors expected by users of financial statements of enterprises (Charles & Edna, 2016).

Examination of Accounts, Financial Statements, and Reporting (EAFSR)

It is the application of auditors' analytical procedures and reviews in checking clients' financial statements. (Lingmen & Hasen, 2014 and Hebron & Yankee, 2016). It is the effectiveness of audit procedures in covering all areas of business operation. The application of procedures and reviews will reveal the strength and weaknesses of the company's internal control system and whether the measures put in place are adequate to secure as far as possible the completeness and accuracy of records(Hebron & Yankee, 2016). It is an express duty of auditors to state in their reports on the operation of the client's business whether or not an effective internal control system exists and adequate records are kept. EAFSR are explicit duties with liability attached in case of failure with remedy available to anyone who made a wrong decision on the strength of auditors' reports (Lingmen & Hasen, 2014).

Failure of Audit Process to Defect Error and Fraud(FAPDEF)

It is measured by the quantum of errors or fraud existing in the financial statements of a client not found after the application of the necessary audit procedures compared to those that are found (Rogers & Sandra, 2016). It is the risk that the auditor's substantive tests procedures and reviews of client financial statements will fail to defect errors and material misstatements indicative of fraud. The failure constitutes audit risk categorized into three: Inherent risk, Control risk, and detention risk (Nick & Leon, 2018). Auditors must determine how their professional assessment of the risks will affect the overall audit outcomes and whether to issue a clean bill report (Cleaven & Sein, 2018).

Empirical Review

Prior studies have been conducted in both developing and developed economies in the area of audit expectation gap and auditors' duty. For instance, Utlzy and Sulman (2018) examined the audit expectation gap in Singapore. The data used for the study were primarily collected from responses of auditors accountants to a questionnaire designed to reflect a five-point Likert scale. Findings from the Mann-Whitney U test analysis showed the existence of an expectation gap between what auditors are legally required to do and the expectations of the public on what auditors ought to do. Similarly, Ornell et.al (2019) examined the audit expectation gap in Thailand, intending to determine the extent to which differences exist between public opinion regarding the duty of auditors and what auditors believe to be their duty.

Data for the study were collected from responses from auditors, investors, accountants, and auditors in five multinational firms. The data were analyzed using Mann-Whitney U test statistics. Findings indicated a significant expectation gap between the two beliefs. The

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study of Purlsen and El-Hallan (2019) in the Philippines further confirms the existence of a gap between the expectation of business stakeholders regarding auditors' duties and the legal role of auditors. The result of a descriptive analysis of data obtained from 155 respondents made up of investors, accountants, and auditors to a questionnaire on public expectations of auditors' duty. Findings indicated that expectations of the public are outside the purview of the statutory, role of auditors. The findings of Utlzy and Sulman (2018), Ornell et.al (2019), Purlsen and El-Hallan (2019) indicated that users of financial statements have different perceptions of auditors' duty. The study of Estali and Hamlani (2019) in Jordan provided reasons for the existence of a gap between public expectations of an auditor's duty and the statutory role of auditors. The study investigated the cause of the audit expectation gap. Data for the study were obtained from investors, accountants, financial analysts, and auditors in 22 corporations in Jordan using their responses to a questionnaire on the subject matter. Results of descriptive statistics of means and standard deviation indicated misconception of the users of auditor's report as the major factor responsible for the gap.

In the UK, Watts and Hargan (2018) examined the relationship between the audit expectation gap and information communication. Results of descriptive analysis of responses of auditors, investors and accountants to the questionnaire revealed that misinformation is a significant factor that contributes to the expectation gap. Harrison and Gerrod (2018), on information dissemination and public expectation gap, examined the influence of public awareness on auditors' duty to reduce the gap. Data for the study were obtained from responses from auditors and investors in ten (10) corporate organizations in Bosnia. A descriptive analysis of the data (responses to the questionnaire) was done using graphs and mean scores. Results indicated that information dissemination on the role of auditors is the most significant expectation gap-reducing factor. Similarly, Tuzla, Holland, and Ray field (2018) studied the determinants of the audit expectation gap. A descriptive analysis of responses from 164 respondents made up of auditors, accountants, and investors revealed that the skills of auditors, the level of auditors' independence, and knowledge of the public regarding the statutory duty of auditors have a significant impact on reducing the audit expectation gap. These studies indicate that multiple ways can be deployed to reduce the gap.

In the USA, George and Semann (2017) studied the audit expectation gap and the statutory function of auditors. Results of descriptive analysis of data obtained primarily from the responses of auditors, investors, and accountants revealed that inadequate knowledge of auditors' duties is largely responsible for the expectation which can be reduced by public enlightenment on the legal duty of auditors. Similarly, Backey and Gilmat (2018), Deurry, et.al (2019), and Caddel and Harvey (2021), in their studies on varying perceptions of the role of auditors and approaches to measuring the perceptions, found out in their studies that differences exist among stakeholders in their perceptions regarding auditors duty measured by attitudes and unreasonable demands from auditor's report which can be reduced by awareness creation.

In Nigeria, Okafor and Pauline (2019) carried out a study on the audit expectation gap. Data for the study were primarily collected from responses to the questionnaire of 115 randomly selected auditors, investors, and accountants in fourteen (14) corporate organizations in Lagos. Analysis of the data was done using inferential statistics. Results indicated audit expectation gap is caused by a difference in opinions of diverse users of audited financial statements. Similarly, the study of Remi and Odulayo (2017), Rasheed and Walid (2018), and Garffa and Oganni (2020) also confirmed the existence of an audit expectation gap in the beliefs and opinions of auditors and the public regarding auditors' duty.

Okey and Nnamali (2020) provided additional evidence of audit expectation and value relevance questions surrounding auditor's reports in Nigeria. The study investigated the impact of audit reports on business decisions. Data for the study were obtained from responses of 75 randomly selected investors, stockbrokers, accountants, and auditors of companies listed on

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the Nigerian Stock Exchange (NSE) to a questionnaire designed to reflect a five (5) point-Likert scale. The analysis of the data was done using descriptive statistics of ANOVA and chi-square. Findings indicated that firstly, the expectation gap exists in the opinion of financial statement users regarding the auditor's duty, and secondly that despite the gap, the reports of auditors are still valuable information sources for business decisions.

These studies in Nigeria focused on establishing the existence of an expectation gap between different opinions about the auditor's statutory role and reasons for the differences in the beliefs without the effect of the expectations, the gap, and the statutory functions of auditors on the financial Reporting Quality (FRQ). Based on the submission of existing literature, the hypotheses of this study were formulated as follows:

Ho$_1$: *Audit expectation has no significant influence on FRQ in Nigeria.*

Ho$_2$: *Auditors' statutory duty has no significant effect on FRQ in Nigeria.*

Ho$_3$: *The existence of a gap between the public expectation of the auditor's duty and the statutory duty of auditors has no significant impact on FRQ in Nigeria.*

Theoretical Framework

The study is anchored on the role conflict theory propounded by Rizzo, House, and Lirtzma in 1970. The theory assumes that incompatibility will arise among a person's roles and that there are contrary expectations arising due to two or more roles that need to be resolved. From an auditing perspective, auditors have a statutory responsibility to examine the books of accounts of their clients and express opinions there (explicit role) and the implicit role of auditors expected by the public. According to the theory, an auditor is an employee of shareholders as such, he/she (auditor) has a fiduciary duty, and by that appointment, he/she assumes the status of a professional person in the realm of a social system. As an employee of shareholders, the auditor must comply with the specification given by the shareholders and the expectations of the general public, whom the shareholders themselves represent. Auditors have a fiduciary role to the shareholders and the general public, enforceable through social action, and failure to perform may involve payment of penalties (Golffer & Demitrus, 2016). Payment of penalty arises for anyone who might have suffered an injury in one form or the other on account of relying on auditors' reports for business decisions (Brokly & Fitcher, 2015).

Role conflict resolution, the thrust of the theory, has made it relevant to this study as the gap created by the conflicting nature of the auditor's duty, its effect on the financial reporting quality, and ways to narrow the gap (resolution) is the aim of this study.

Method, data, and analysis

The section describes the method adopted in carrying out the study, particularly the procedure followed in data collection and analysis. It is descriptive research on the audit expectation gap, the statutory duty of auditors, and financial reporting quality in the Nigerian environment. Data for the study were obtained primarily through questionnaires administered to randomly selected 400 respondents comprising auditors (internal and external) of organizations, accountants, stockbrokers, and investors in various sectors of the Nigerian economy for their opinion on what the public expects of auditors' duty, the legal duties of auditors and the impact on financial reporting quality. 252 distributed questionnaires were returned, representing a 63 per cent response rate.

The study employed multiple regression and t-test statistical tools in analyzing the responses obtained from the questionnaires designed to reflect the 5-point Likert scale on the impact of Audit Expectation (AE), Auditors' Statutory Duty (ASD), and Expectation Gap (AEG) being the explanatory variables on Financial Reporting Quality (FRQ) being the dependent variable. Descriptive statistics and a Pearson correlation matrix between the explanatory variables were also conducted.

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Model Specification and Measurement

The study adopted the regression model of Crainner and Braig (2010), Bostler and Arthrut (2012), and Ferrod (2013) to determine the change in the value (quality) of Financial Reporting (FR) explained by the rate at which the implicit and explicit duties of auditors are carried out namely: Error Detection Rate (EDR) and Fraud Detection Rate (FDR), Auditors Statutory Duty (ASD) of examination of Accounts, financial statements and reporting and Expectation Gap (EG) in terms of Failure of Audit Process to Detect Error and Fraud (FAPDEF). Therefore, the econometric form of the equation to specify the model of the study is as follows:

$$FRQ = a + \beta_1 ED + \beta_2 FD + \beta_3 EAFSR + \beta_4 FAPDEF + \varepsilon \quad \ldots (1)$$

Where:

FRQ= Financial Reporting Quality

a= Intercept

ED = Error Detection

FD= Fraud Detection

EAFSR= Examination of Accounts, Financial Statements, and Reporting

FAPDEF =Failure of Audit Process to Detect Error and Fraud

ε = Error term.

The presumptive signs of the parameter in the specification representing apriori expectation are as follows: $\beta_1\ \beta_2\ \beta_3\ \beta_4 > 0$.

The positive signs among the predictor variables indicate the expected trend in their behaviour.

Table 1. *Measurement of Variables*

Variable	Measurement	Source
FRQ	Measured by the growth in the number of investors and decisions taken based on the reliability and timeliness of FR.	Porta & Maxkin (2015), Dergan & Robert (2016)
ED	Measured by the scores of responses to the questionnaire on the relationship of the variable (ED) with FRQ rated on a five-point Likert scale.	Getsom & Zyaad (2014) and Shanky & Horler (2015)
FD	It is measured by scores of responses to the questionnaire on the relationship of the variable (FD) with FRQ rated on a five-point Likert scale.	Charles & Edna (2016), Surlen & Orlfer (2017)
EAFSR	It is measured by responses to the questionnaire on the relationship of the variable (EAFS&R) with FRQ rated on a five-point Likert scale	Lingmen & Hangen (2014), Hebroon & Yankee (2016)
FAPDEF	It is measured by scores of responses to the questionnaire on the relationship of the variable (FAPDEF) with the FRQ rate on a five-point Likert scale.	Rogers & Sandra (2016), Nick & Leon (2018) and Cleaven & Sein (2018).

Source: Authors analysis, 2022.

Reliability of the Instrument

The reliability test of the questionnaire construct was conducted using Cronbach's Alpha, with each construct on the variables having 0.78, 0.73, 0.71, 0.79, and 0.83 for FRQ, ED, FD, EAFSR, and EAPDEF respectively. Cronbach's Alpha coefficient greater than 0.6 is considered acceptable for the reliability of items of a construct (Nunnally, 2014, cited in Ekpo, 2016)

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Result and Discussion

From the descriptive statistics in table 2, FRQ has a mean value of 3.852549 and a standard deviation of 0.369498. The maximum and minimum values for the same variable are 4.28 and 3.424 respectively. With the value of 0.856 (4.28 – 3.424), the difference between the two values (max-min) represents an insignificant movement away from the mean values. The Jarque-Bera statistics value of 1.028850 and p-value of 0.041330 confirms the normality of the data and the suitability for generalization. The values also confirm the absence of outliers in the data.

ED has a mean value of 3.735272 and a standard deviation of 0.433001. The maximum and minimum values have an insignificant difference of 1.43 (4.28 – 2.850480) representing an insignificant movement away from the averages of the values. The Jarque-Bera statistics value of 0.493704 and p-value of 0.042353 confirms the normality of the data and its suitability for generalization. The values also confirm the absence of bias in the data.

Table 2. Summary of Normality Statistics (Descriptive Statistics)

Parameter	FRQ	ED	FD	EAFS&R	FAPDEF
Mean	3.852549	3.735272	3.935263	3.525728	3.156305
Median	3.997520	3.706480	3.731645	3.424000	3.131976
Maximum	4.280000	4.280000	4.362113	3.996231	3.616600
Minimum	3.424000	2.850480	2.145207	2.761142	2.850451
Std Deviation	0.369498	0.433001	0.393821	0.293422	0.365886
Skewness	-0.037767	-0.448753	-0.763264	-0.664826	-0.379196
Kurtosis	1.183871	2.226621	2.891262	3.340641	1.881495
Jarque-Bera	1.028850	0.493704	1.303671	1.266282	0.417184
Probability	0.041330	0.042353	0.005966	0.006235	0.035788
Sum	42.23504	41.08800	41.08800	38.79392	34.71936
Sum. Sq Dev	1.594962	2.190380	2.190380	1.005800	1.850871

Source: E-view version 10.0 output.

FDR has a mean value of 3.935263 and a standard deviation of 0.393821. The maximum and minimum for the variable are 4.362113 and 2.145207, respectively. The difference of 2.17 approximately represents an insignificant movement from the averages of these values. The Jarque-Bera statistics value of 1.303671 and p-value of 0.005966 confirms the normality of the data and its suitability for generalization.

EAFS&R has a mean value of 3.525728 and a standard deviation of 0.293422. The maximum and minimum variables are 3.996231 and 2.761142, respectively. The difference of 1.235 (3.996231-2.761142) represents an insignificant movement away from the average of the values at 3.378687. The Jarque-Bera value of 1.266282 and P-value of 0.006235 confirms the normality of the data and its suitability for generalization.

FAPDEF has a mean value of 3,156305 and a standard deviation of 0.365886. The maximum and minimum values for the variable are 3.616600 and 2.850481, respectively, with a difference of 0.766552. The difference represents an insignificant movement away from the average of the values. The Jarque-Bera value of 0.417184 and p-value of 0.035788 confirms the normality of the data and its suitability for generalization.

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Table 3. Correlation Matrix

	FRQ	ED	FD	EAFS&R	FAPDEF
FRQ	1.0000				
ED	02127	1.0000			
FD	0.3343	0.3511	1.0000		
EAFSR	0.4149	0.4356	0.4553	1.0000	
FAPDEF	0.2233	0.3136	0.4732	0.3681	1.0000

Source: Authors computation, 2022

Table 3 presents the degree of association among the explanatory variables. From the result, the paired relationship among the variables is found to be positive. Further, the coefficients of the variables are less than 0.7, with the highest correlation occurring between FAPDEF and FD at 0.4732. The coefficient among explanatory of less than 0.7 is an indication of the absence of multicollinearity and high predictory power of the explanatory variables of likely changes in the dependent variable (Fernard & Kortoon, 2013; Donald & Arthan, 2015).

Table 4. Multiple Regression Result

Variable	**Coefficient**	**Std. Error**	**t- Statistics**	**Prob**
C	6.177575	0.761977	6.968224	0.000
ED	0.633727	0.190921	3.452115	0.000
FD	0.697100	0.210011	3.417594	0.000
EAFS&R	0.662245	0.199513	3.246713	0.000
FAPDEF	0.608593	0.200561	3.296770	0.000
R. Squared 0.667381		Mean dependent Var 3.753437		
Adjusted R Square 0.645752		S.D dependent Var 0.456389		
S.E of regression 0.305402		Akaike Info Criterion 0.700369		
Sum squared resid 0.887866		Schwarz criterion 0.768766		
Log-likelihood -1.961132		Hannan-Quinn criterion 0.657254		
F-Statistics 12.604683				
Prob (F-Statistics) 0.055017		Durbin Watson Stat 2.151824		

Source: SPSS output version 18.0

The hypotheses formulated in this study were tested using t-statistics (Table 4). The study's significance level is 5 per cent for a two-tailed test. The rule of thumb for a t-statistics test is to accept the null hypothesis of a study if, at a 5 per cent level, the critical value, which is 1.96, is greater than the calculated value otherwise rejects the hypothesis. From the result shown in table 4, the calculated t-statistics values for all the explanatory variables are greater than the tabulated value at 1.96. That is 3.452115>1.96, 3.417594>1.96, 3.246713>1.96, and 3.296770>1.96 for ED, FD, EAFS&R and FAPDEF, respectively. Therefore, the null hypotheses of the study are rejected. This implies that both the implicit and explicit duties of auditors have a significant impact on FRQ.

Further, the overall fit and significance of the model were found to be good, as indicated by the high value of F-statistics at 12.6 and significant at the 5 per cent level as shown by the 0.055017 results of prob (F-statistics). Similarly, the predictory ability of the independent variables was found to be high, as indicated by the coefficient of determination (R^2) value at 0.66738. This means that approximately 67 per cent variation in FRQ is explained by the combined effects of the independent variables (ED, FD, EAFS&R, and FAPDEF).

Further, the result of Durbin Watson (DW) statistics indicated the absence of serial correlation among the explanatory variables as the calculated DW value at 2.152 approximately is greater than the Tabulated Upper DW (DWu)

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value at 1.883. The absence of autocorrelation among the explanatory variables indicates high predictory power of the variables of likely changes in FRQ. With unbiased estimates, the unbiased estimates of the study as confirmed by the normality of the data and the high predictory powers of explanatory variables provide a basis for reliance on this study for government policy and relevant professional bodies regulating the auditing profession in Nigeria.

Discussion

The findings of this research work that both the implicit and explicit duties of auditors have impact on FRQ is consistent with Ligmen & Hansen (2014), Utlzy & Sulman (2018) Ornell et'al (2019) and Okey &) Nnemali (2020). Worthy of note is that FRQ and credibility of auditors' report have gone beyond what the explicit duties of authors can impact to include the implicit duties of error and fraud detection (the expectation of users of companies' financial statements auditors' report). Therefore the inclusion of the implicit duties of auditors in this study and the impact the duties have on FRQ is a contribution of this work to body of knowledge. The implicit duties are critical in FRQ as it is always the expectation of users of financial statements that auditors should be responsible for error and fraud detection. The findings of this work would enhance or improve the understandability and satisfaction of users of financial statements regarding the distinction between statutory and non-statutory duties of auditors and the impact each category can make on FRQ.

Conclusion

The study investigated the impact of the audit expectation gap and auditors' statutory duty on financial reporting quality in Nigeria. Data for the study were obtained, from purposively sampled 20 staff in five (5) auditing firms who have auditors of businesses that have been in operation for over ten (10) years (2013-2022) and twenty (20) investors in various sectors in the Nigerian economy. The study employed multiple regressions for analysis. Results indicated that all the explanatory variables have an impact on the dependent variable (FRQ). It is the basis of this that the following recommendations are part forward as a way of narrowing the audit expectation gap in Nigeria:

1. Auditors' commitment to honesty, objectivity, and integrity in discharging their statutory duty can greatly reduce the suspicious perception of their role by the general public particularly users of companies' financial statements and auditor's reports. Honesty, Integrity, and avoidance of conflict of interest in auditors' professional judgment are the characteristics of complete virtue that can narrow the expectation gap.
2. The audit committee should rigorously support the neutrality of auditors and their independence from management. The support can be demonstrated through the committee's responsibility concerning nomination, appointment, and determination of audit fees.
3. Expansion of auditors' responsibility through appropriate legislation to allow auditor's report in reasonable degree, suspicious fraud in the course of their duties to appropriate authorities. In this regard Section, 407(1) and (2) of CAMA 2020 should be redone to capture the implicit expectation of the general public in auditors' duty.

Limitation and Further Research

The study focused on the quantitative approach to discovering the impact of explicit, implicit duties of auditors (ED & FD) and the gap (failure of auditors to meet the expectation of the general public) on FRQ. It is suggested that further studies be conducted theoretically and empirically on how to reduce the expectation gap in the society.

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Appendix

Reliability of Relationship between FRQ, ED, FD, EAFS & R and FAPDEF

S/No	Statement	SA	A	UND	D	SD
1	The quality of financial reports depend on the extent to which the reports are free from errors that could mislead users into taking wrong decision.					
2	The quality of financial reports depend on the extent to which the reports are free from frauds that could mislead users into taking wrong decisions.					
	The quality of financial reports depend on the extent to which auditors analytical procedures and review of accounts are carried-out					
4	For financial reporting quality, auditors' analytical procedure, review of accounts and test of transactions should detect errors and fraud that financial statements may contain.					
5	Poor financial reporting quality depends on failure of audit process to detect error and fraud					
6	For quality of financial reports error and fraud detection should be made part of explicit duty of auditors					

Reliability coefficient

Item	Scale mean	Scale Var	Squared multiple corr	Cronbanch Alpha	Overall Alpha
1	40.6667	40.5815	0.7341	0.7834	
2	41.0001	40.9261	0.6301	0.7791	
3	40.7851	40.6361	0.5264	0.7815	0.78
4	40.7338	40.7141	0.6856	0.7761	
5	40.6540	40.5502	0.7533	0.7784	
6	40.8147	40.7301	0.6372	0.78113	

Source: Computation using STRATA 11.0 statistical package

Reliability of Relationship between Error Detection (ED) and Financial Reporting Quality (FRQ)

S/No	Statement	SA	A	UND	D	SD
1	Error detection in financial can improve financial reporting quality.					
2	Error detection is not part of the duty of auditors and cannot impact on financial reporting quality.					
3	Error detection is part of the duty of auditors and can impact on financial reporting quality					
4	The quality of financial reports of enterprises depends on the extent to which their statements are free from error.					
5	There is linkage between error detection, financial reporting quality and confidence in auditors' reports.					
6	Audited financial statement is a certificate of auditors that those statements are free from all errors					

Reliability Coefficient

Item	Scale mean	Scale Var	Squared multiple corr	Cronbanch Alpha	Overall Alpha
1	39.2434	39.1362	0.7102	0.7308	
2	39.5651	39.2411	0.6183	0.7284	
3	39.3576	39.5815	0.7416	0.7315	0.73
4	39.3081	37.3426	0.5837	0.7268	
5	39.2311	39.1143	0.7532	0.7211	
6	39.3862	40.7135	0.6983	0.7345	

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Reliability of relationship between Fraud Detection (FD) and Financial Reporting Quality (FRQ)

S/	Statements	SA	A	UND	D	SD
1	Fraud detection in financial statements can improve financial reporting quality					
2	Fraud detection is not part of auditors' duty and cannot impact on the financial reporting quality					
3	Fraud detection is part of auditors' duty and can impact on financial reporting quality					
4	The quality of financial reports of enterprises depend on the extent to which their financial statements do not contain frauds					
5	There is linkage between fraud detection in financial reporting quality and confidence in auditors' reports					
6	Audited financial statements is a certificate of auditors that those statements are not fraudulently prepared					

Reliability Coefficient

Item	Scale mean	Scale Var	Squared multiple corr	Cronbanch Alpha	Overall Alpha
1	40.2600	40.1113	0.7071	0.7093	
2	40.5900	40.4217	0.5915	0.7067	
3	40.3772	39.9681	0.7082	0.7050	0.71
4	40.3265	38.7218	0.7090	0.7114	
5	40.2474	39.2841	0.6936	0.7103	
6	40.4066	40.2315	0.7104	0.7068	

Source: Computation using STRATA 11.0 statistical package

Reliability of Relationship between auditors' duty (Examination of Accounts, Financial Statements and Reports and FRQ.

S/No	Statement	SA	A	UND	D	SD
1	Auditors' role of examination of client's books of accounts and financial statements has positive impact on financial reporting quality.					
2	Assessing the adequacy of client's accounting system as a basis for preparation of financial statements has impact on financial reporting quality.					
3	Auditors' analytical procedures, models and reviews of financial reporting quality has impact on financial reporting quality					
4	The analytical procedures and reviews of financial transaction of auditors should detection all errors and frauds in the financial statements of client					
5	For financial reporting quality error and fraud detection should be made part of auditors' duties through legislation					

Reliability Coefficient

Item	Scale mean	Scale Var	Squared multiple corr	Cronbach Alpha	Overall Alpha
1	39.6561	39.2136	0.6783	0.7896	
2	39.9811	39.7151	0.7418	0.7905	
3	40.2964	39.6674	0.7814	0.7872	0.79
4	39.7216	40.1131	0.6978	0.7911	
5	40.3258	40.3115	0.7944	0.7937	

Source: Computation using STRATA 11.0 statistical package

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Reliability of Relationship between failure of audit process to detect error and fraud and FRQ

S/No	Statement	SA	A	UND	D	SD
1	Financial reporting quality depends on the extent to which audit processes, procedures and analytical review of financial statements are able to detect errors and frauds					
2	Failure of audit processes to defect error and frauds in financial statements will affect financial reporting quality					
3	The expectation of users of financial statements of enterprise is that all errors and frauds in financial statements should be detected by analytical procedures and reviews of auditor without which financial reporting quality would be doubtful					
4	Failure of analytical procedures of auditors to detect error and frauds in financial statements are largely responsible for corporate failures					
5	Poor financial reporting quality undermines the relevance of auditors' duty					

Key

SA= Strongly Agree – 5 points, A = Agree – 4 points, UND = Un Decided = 3 points, D = Disagree – 2points, SD = Strongly Disagree – 1 point

Reliability Coefficient

Item	Scale mean	Scale Var	Squared multiple corr	Cronbach Alpha	Overall Alpha
1	39.2595	38.4743	0.7115	0.8294	
2	40.9734	39.8916	0.6893	0.8336	
3	39.8934	40.3537	0.7682	0.8287	0.83
4	40.6633	39.9161	0.7906	0.8305	
5	40.2567	40.1174	0.7437	0.8276	

Source: Computation using STRATA 11.0 statistical package