

Audit expectation gap factors and stakeholders' confidence in Nigerian quoted firms

Abdul-Azeez Adeniyi Alao

*Department of Accounting, Olabisi Onabanjo University,
Ago-Iwoye, Nigeria.*

Okikijesu Olaide Olaniyan

*Department of Accounting, Olabisi Onabanjo University,
Ago-Iwoye, Nigeria.*

Olumayowa Ayorinde Jacob

*Department of Social Science Education, University of Ilorin
Ilorin, Nigeria.*

Abstract: *The Audit Expectation Gap (AEG) has emerged as a demanding concern in the auditing profession, with far-reaching implications for corporate governance, financial reporting, and stakeholder trust; hence, this study investigated the effect of the AEG factors on the stakeholders' confidence in Nigerian quoted firms. The study employed a cross-sectional survey research design, while a total of one hundred and three (103) valid responses were used for the analysis. The data was analysed via the regression analysis with the aid of the Statistical Packages for the Social Sciences (SPSS) at a 5 per cent level of significance. The findings revealed that only the reliability factor has a significant positive effect on stakeholders' confidence, while the other factors exhibited an insignificant positive effect on stakeholders' confidence. The study concluded that the reliability of financial statements plays a crucial role in influencing stakeholders' confidence in Nigerian quoted firms. Therefore, it was recommended that the Nigerian quoted firms should prioritise accurate, dependable, and timely financial reporting.*

Keywords: *Reliability factor; Independence factor; Responsibility factor; Going concern factor; Stakeholders' confidence*

Background to the study

Contemporary businesses frequently encounter challenges stemming from their complex and ever-evolving structures. The role of auditors within economically unstable settings, where stakeholders increasingly seek clearer and more meaningful financial disclosures in audit reports, is therefore essential. Consequently, the independent audit has become crucial for instilling investors' confidence in the quoted companies, especially in the present times (Onulaka & Sammy, 2017). Auditing serves as a cornerstone of financial accountability, and it offers independent assurance about the correctness and reliability of Financial Statements (FSs). Stakeholders rely on audits to

ensure transparency and trust in the operations of firms. Based on the foregoing, stakeholders often assume auditors provide absolute assurance against fraud and financial mismanagement, while auditing standards only require reasonable assurance of financial statement accuracy.

This disconnection, according to Nguyen and Nguyen (2020), undermines trust in the auditing profession and has implications for stakeholder confidence. Nguyen and Nguyen (2020) contend that the Audit Expectation Gap (AEG) is not merely a theoretical issue but a practical challenge that has repeatedly surfaced during financial crises and corporate failures in our society. Meanwhile, the term AEG, according to Alao (2024), refers to the discrepancy in the opinion of the stakeholders about auditors' duties. This situation is

especially significant in Nigeria, where preserving investor trust, guaranteeing financial openness, and promoting economic progress all depend on the legitimacy and efficacy of the audit profession.

However, the public confidence in auditors' reports began to dwindle in the 1990s and 2000s as a result of numerous financial scandals that affected corporate entities worldwide, especially large ones. For instance, Enron, Tyco, and Xerox in the USA, Polly Peck in the UK, and African Petroleum PLC and Cadbury PLC in Nigeria contributed to this suspicion (Sani & Ikpor, 2023). Ashibogwu *et al.* (2023) asserted that the public's opinions about the auditor's responsibilities, which are different from the auditor's understanding, were at the genesis of the AEG debate. Ikpe and Uwah (2023) also supported Ashibogwu *et al.* (2023) claim by maintaining that the AEG has increased because of undetected notorious financial statement frauds. Furthermore, the AEG is not only a technical audit issue but also a governance issue because weak governance structures often exacerbate the expectation gap by enabling management to manipulate financial statements, delaying audit engagement responses, or shielding auditors from stakeholder scrutiny.

The audit expectation gap has emerged as a pressing concern in the auditing profession, with far-reaching implications for corporate governance, financial reporting, and stakeholder trust. This gap, which represents the divergence between what stakeholders assume auditors deliver and what auditors are mandated to perform, has created widespread misunderstandings. Stakeholders often expect that auditors are accountable for detecting all forms of fraud and irregularities, ensuring absolute accuracy in FSs. In contrast, the auditors are only mandated to offer reasonable assurance that FSs are free from material misstatements. The audit expectation gap not only undermines trust in FSs but also jeopardises the broader economic landscape by discouraging investment and diminishing market efficiency.

Moreover, several researchers in their recent studies have widely discussed and classified several factors contributing to the AEG in the literature. These classifications are

evident in the research of various scholars such as Alao (2024), Alao *et al.* (2022), Jannat (2022), and Akther and Xu (2020). However, in the present study, the empirical analyses were grounded in the classifications outlined by Alao *et al.* (2022) and Alao (2024). According to these studies, the AEG factors are condensed into four main categories, namely "going concern, independence, responsibility, and reliability factors". This study examined the influence of the aforementioned AEG factors on stakeholders' confidence in Nigerian quoted firms.

Literature review and hypothesis development

Audit expectation gap factors

The concept of the Audit Expectation Gap (AEG) has been explored extensively in recent literature, with various scholars offering nuanced definitions. Ashibogwu *et al.* (2023) conceptualise the AEG as the variance between users' expectations and the actual contents presented in audit reports, highlighting a misalignment between what stakeholders hope to see and what auditors formally provide. Similarly, Ikpe and Uwah (2023) describe AEG as the discrepancy between the public's perceptions of external auditors' responsibilities and the statutory obligations that auditors are legally bound to fulfil. This framing underscores the importance of distinguishing between perceived and actual duties in the auditing profession.

Expanding on this perspective, Alao *et al.* (2023) define AEG as the divergence between the views held by auditors and those of the general public regarding auditors' responsibilities. This definition suggests that the gap is not only a matter of expectation but also one of viewpoints and interpretations of professional roles. In a related study, Alao (2024) discusses the broader term "Expectation Gap (EG)" as the divergence between auditors' and stakeholders' opinions on the scope of auditors' responsibilities. Here, the focus is placed on the relational aspect of the gap, where differing opinions between the parties involved create misalignment.

Lazarus et al. (2021) provide a nuanced understanding of the expectation gap by situating it within the broader framework of stakeholders' perceptions and preferences regarding the role and responsibilities of auditors. They explain that this gap emerges primarily because users of financial statements (FSs) often hold irrational, unrealistic, or overly optimistic expectations about what auditors are capable of achieving under existing auditing standards. In essence, many stakeholders assume that auditors can detect all instances of fraud, ensure absolute accuracy, or guarantee the financial health of an entity, when in reality, auditing standards are designed to provide reasonable assurance rather than absolute certainty. This misalignment between stakeholder expectations and the actual scope of auditors' work creates a persistent expectation gap, which is compounded by a general misunderstanding or lack of awareness about the inherent limitations of an audit, including issues like materiality thresholds, sampling methods, and the reliance on management-provided information.

Collectively, these definitions underscore that the Audit Expectation Gap arises from a multifaceted interaction between legally defined obligations, the specific professional responsibilities of auditors, the perceptions and assumptions of the public, and the often unrealistic expectations placed on the auditing profession. This gap signifies more than a mere misunderstanding; it represents an enduring challenge in reconciling the formal scope of auditors' duties with the diverse and sometimes conflicting demands of stakeholders such as investors, regulatory authorities, and the general public. The persistence of this gap highlights the inherent tension between what audits are designed to deliver under statutory frameworks and what the broader community expects them to achieve in terms of assurance, fraud detection, and financial accountability, thereby reflecting a fundamental issue in maintaining trust and credibility in financial reporting.

In this study, the AEG factors were examined based on the classifications established by Alao et al. (2022) and further expanded upon by Alao (2024). These studies provide a structured framework for understanding the core elements of AEG, which

have been systematically organized into four primary categories: going concern, independence, responsibility, and reliability factors. The going concern factors relate to an entity's ability to continue its operations into the foreseeable future without significant financial distress. Independence factors emphasize the impartiality and objectivity required in ensuring unbiased evaluations. Responsibility factors focus on the accountability and obligations of the parties involved in maintaining and assessing the AEG elements. Lastly, reliability factors underscore the trustworthiness and consistency of the information or processes under consideration. Together, these four categories form a comprehensive foundation for evaluating AEG in both theoretical and practical applications.

Stakeholders' confidence

Freeman (1984) described the stakeholders as those groups whose support is crucial to the continued existence of any organisation. These groups are of two dimensions – internal (those within the control of the organisation) and external (those whose activities/influences are beyond the control of the organisation). According to Akther and Xu (2020), meeting the expectations of society and narrowing the AEG may work as a crucial instrument for keeping the stakeholders' confidence. Stakeholders' confidence in this study is considered from the perspectives of the AEG factors vis-à-vis the Nigerian quoted firms. Therefore, the study tends to investigate how each of the aforementioned AEG factors influences stakeholders' confidence in Nigerian quoted firms.

Theoretically, this study is anchored on stakeholder theory, which emphasises that organisations are accountable not only to shareholders but to a broader group of stakeholders who are affected by their operations. Freeman (1984) introduced the stakeholder theory to highlight the importance of identifying and understanding the various stakeholders of an organisation, as well as the dynamic relationships between organisations and these stakeholders. The theory underscores how prioritising stakeholder needs contributes to

value creation for both the organisation and its stakeholders (Horisch *et al.*, 2020). According to Okafor *et al.* (2021), stakeholders encompass individuals, groups, and institutions that have a vested interest in a firm and are directly or indirectly impacted by its operations in a legitimate capacity.

In the context of corporate governance and external auditing, stakeholders such as investors, employees, regulators, customers, and the general public play crucial roles, with their expectations and interests significantly influencing the effectiveness of these processes. In Nigeria, where public trust in financial reporting is fragile, these stakeholder groups often harbor unrealistic expectations of auditors, demanding outcomes that extend beyond their actual responsibilities, such as the detection of all forms of fraud or the assurance of financial stability. This misalignment between expectations and the scope of auditors' duties contributes to the ongoing issue of Audit Expectation Gap (AEG), highlighting the need for a clearer understanding and management of these expectations to enhance trust and the overall efficacy of financial reporting.

Empirically, the relationship between AEG and stakeholders' confidence has been subjected to many studies, and there have been reports of diverse findings. For instance, Ocheni and Adah (2018) examined the impact of the AEG on stakeholders' decision-making. The data gathered was analysed using the regression analysis. The findings revealed that the AEG has a significant influence on stakeholders' decision-making. Rostami (2019) conducted a study on the subsistence of AEG in Iran and Iraq. Questionnaires were administered among auditors and users (bank staff, university students, and investors) of financial statements. The analysis was conducted with the aid of R software. Meanwhile, findings from the study showed that all the variables (audit report form, users' training, standards' setting, and auditors' attributes) considered have no significant effect on reducing AEG in the two countries.

However, Zakari (2017) had earlier examined the impact of IFRS adoption on the financial reporting of listed Nigerian oil and gas companies. The secondary data used for the study was based on two (2) periods: the period

for which the companies prepared financial reports based on the use of Nigerian GAAP (2007-2011) and the period for which the companies prepared financial reports based on the use of IFRS (2012-2016). The findings showed that the Nigerian GAAP is more favourable to shareholders when compared to IFRS, while IFRS is more favourable to long-term lenders when compared to the Nigerian GAAP.

Also, Gacheru *et al.* (2019) investigated the effect of audit committee characteristics on the AEG in Kenya. The authors used regression analysis to test the formulated hypothesis. The findings showed that audit committee characteristics have a significant effect on the AEG in Kenya. Olojede *et al.* (2020) conducted a qualitative study by gathering opinions through questionnaires to examine the existence of the AEG in Nigeria. The authors employed a non-parametric analysis - the Mann-Whitney U-test, while the results corroborated previous studies by confirming the subsistence of AEG in Nigeria. Akther and Xu (2020) investigated the subsistence of the AEG in Bangladesh and its influence on stakeholders' assurance. The findings revealed the existence of the AEG in Bangladesh, whereas it was further reported that AEG harms stakeholders' confidence.

Also, Nguyen and Nguyen (2020) conducted a study to examine the features, causes, and the existence of AEG among auditors, users of financial information, and students studying auditing in Vietnam. Using the non-parametric test to analyse the data collected, the study found the existence of an expectation gap among the respondents as regards the responsibility of the auditors in detecting frauds, errors, and the protection of firms' assets. Nwaogwugwu (2020) investigated the effect of IFRS adoption on the financial performance and value of Nigerian listed banks. Like the study of Zakari (2017), the data used for this study were also segregated into two (2) periods: pre-IFRS period (2008-2011) and post-IFRS period (2012-2015). The findings revealed that IFRS adoption in Nigeria has no impact on the financial performance and value of Nigerian listed banks.

Lateef *et al.* (2021) investigated the nexus between the adoption of IFRS and the financial reporting quality of Nigerian non-

financial firms. The study used a linear regression model to test the hypotheses. Findings revealed that the value relevance, and timeliness of financial reports significantly increased after the adoption of IFRS. Therefore, stakeholders gain more useful information, thereby enhancing their decision-making and confidence. Also, Fotoh *et al.* (2021) investigated the existence of AEG in Cameroon. Being survey research, the data was sourced via a questionnaire administered to the auditors, accountants, bankers, and investors. The questionnaire was designed to capture fifteen different statements on a five-point Likert scale. The findings revealed the existence of AEG concerning auditors' accountability to prevent and detect fraud, as well as the maintenance of sound internal control systems and auditors' trustworthiness.

Alao *et al.* (2022) carried out a study on the review of literature on AEG. The authors engaged in a review of the "components and approaches" for narrowing the AEG. Findings from the review revealed that there are two (2) approaches for narrowing the AEG, while the components were summarised into four (4). The approaches are defensive and constructive, while the components comprise the reliability, independence, responsibility, and going-concern factors. Hammond *et al.* (2022) examined the nexus among corporate reporting, corporate governance, going concern and investor confidence in the Sub-Saharan listed banks. The data collected from Nigeria, Ghana, and South Africa were analysed via the Partial Least Squares Structural Equation Model, while the findings revealed that corporate reporting and governance, as well as going concern, have a positive effect on investor confidence in the Sub-Saharan listed banks.

Ashibogwu *et al.* (2023) assessed the presence of AEG in Nigeria. The study employed the primary source of data via questionnaire administration. The questionnaires were administered among participants in the Nigerian exchange group. The data were later analysed with the aid of the Chi-square technique. The finding revealed that there is a variance in the observations of users of financial information and the auditors regarding auditors' duties and responsibilities. Sani and Ikpore (2023)

investigated the influence of the AEG and auditors' statutory duties on financial reporting quality in Nigeria. To achieve the stated objectives of the study, two hundred and fifty-two (252) questionnaires were administered among the stakeholders in various sectors of the Nigerian economy. Multiple regression and t-test statistical tools were employed in the data analysis. The findings revealed that the AEG and auditors' statutory duties have a significant influence on financial reporting quality in Nigeria.

Agbeyangi (2023) conducted a comprehensive investigation into the Audit Expectation Gap (AEG) and its influence on the financial performance of Nigerian manufacturing firms, focusing particularly on how differences in auditors' detection of errors, fraud prevention practices, and the issuance of audit opinions affect critical performance indicators like Return on Assets (ROA) and Return on Equity (ROE). Drawing on survey data collected from seventy-five audit and management personnel, the study demonstrated that these gaps between auditors' actual duties and stakeholders' expectations have significant implications for financial outcomes, as firms with better alignment between audit practices and user expectations tended to report stronger performance metrics. The research underscores the importance of bridging the AEG by ensuring that auditors' responsibilities are clearly communicated and effectively executed, as such alignment not only enhances the credibility of financial reporting but also contributes to improved profitability and overall organizational effectiveness in the manufacturing sector.

Okonewa and Okafor (2023) examined the impact of audit quality on the accounting going concern of the Nigerian listed manufacturing companies. The authors adopted the Altman Z-Score approach in the selection of sampled companies, while the regression analysis was used to analyse the data. The findings revealed that the going concern status of the Nigerian listed manufacturing companies is improved when the services of the Big Four audit firms are engaged. Furthermore, it was reported that audit quality was linked to improved going concern status in healthy firms but not in financially distressed ones. Odum and

Kelechi (2023) investigated the effect of auditors' independence on audit quality in the Nigerian Deposit Money Banks. The authors used the regression analysis to test the hypothesis, while the findings showed that audit committee independence and audit fees have an insignificant positive effect on the audit quality of Nigerian Deposit Money Banks.

Omotilewa *et al.* (2024) investigated sustainability reporting playing a critical role in addressing information asymmetry and bridging stakeholders' expectation Gap in Nigerian businesses. A cross-sectional survey design was employed, with data collected through an online structured questionnaire distributed to one hundred and fifty (150) participants, of which one hundred and thirty-eight (138) responses were analysed. The results indicated that sustainability reporting significantly improves the disclosure of business-related information. Alao (2024) examined the existence of the AEG in the Nigerian quoted firms based on the factors identified in the study of Alao *et al.* (2022). The study employed the "Mann-Whitney U test" in testing the hypotheses. The findings revealed the subsistence of the AEG concerning the independence, responsibility, and going concern factors.

Enofe *et al.* (2025) examined the reasonableness expectation gap among users of audited financial statements in Nigeria. Their findings showed that many stakeholders, including investors and managers, held unrealistic views about auditors' responsibilities, particularly regarding fraud detection and ensuring complete financial accuracy. This disconnect between public perception and actual auditing standards was identified as a key factor leading to distrust in the audit process. Adeyemo *et al.* (2025) investigated the influence of stakeholders' expectations on audit compliance in selected Nigerian audit firms. The hypotheses formulated for the study were tested via regression analysis, while the findings revealed that stakeholders' expectations have a significant influence on audit compliance.

Going concern factor

The going concern factor is a fundamental principle in financial reporting that underlies the preparation of financial statements, as

emphasised by the International Accounting Standards Board (IASB) in its Conceptual Framework. It presumes that a reporting entity will continue to operate into the foreseeable future, enabling the presentation of its financial position and performance without the need for liquidation or significant downsizing considerations. This principle requires directors to ensure that the entity maintains its going concern status, as the integrity of financial statements depends on this assumption being valid. Consequently, the financial reports must undergo thorough audits to verify and reinforce this presumption, providing stakeholders with credible assurance that the organisation is capable of sustaining operations in line with the going concern expectation (IASB, 2024).

H1: There is significant influence of the going concern assumption of financial reporting on stakeholders' confidence

Independence factor

The independence factor is a cornerstone of the integrity and objectivity required of external auditors, ensuring that their evaluation of financial statements remains credible and unbiased. As outlined in Section 377(1) of the Companies and Allied Matters Act (CAMA), 2020, auditors are appointed specifically to scrutinise corporate records and enhance the reliability of financial statements prepared by directors, thereby fostering public trust in the organisation's reporting. To protect this independence, both the Institute of Chartered Accountants of Nigeria (ICAN) and CAMA (2020) have established comprehensive guidelines requiring auditors to remain free from any undue influence by management. One critical safeguard is the prohibition on auditors providing non-audit services to the same clients, which mitigates conflicts of interest and preserves the professional detachment necessary for objective assessment. By adhering to these regulatory frameworks, auditors uphold the essential independence that underpins transparent and trustworthy financial reporting.

H2: There is significant influence of the independence factor on stakeholders' confidence

Responsibility factor

Section 407 of the Companies and Allied Matters Act 2020 (CAMA) requires auditors to conduct all necessary inquiries to form a sound opinion on the financial statements, ensuring thoroughness and accuracy in their assessments. This section emphasizes the importance of due diligence in the auditing process, allowing auditors to provide reliable and credible financial evaluations. Furthermore, Section 403 of CAMA (2020) mandates that auditors maintain independence by prohibiting them from serving as officers, employees, partners, or agents of the reporting company. This independence is crucial to prevent conflicts of interest and to uphold the integrity of the audit process. Additionally, the section stipulates that auditors must perform their duties diligently, supported by qualified and experienced personnel, to ensure effective task execution and the successful completion of their auditing responsibilities.

H3: There is significant influence of the responsibility factor on stakeholders' confidence

Reliability factor

Financial statements (FSs), as mandated by the Companies and Allied Matters Act (CAMA, 2020), are prepared by corporate directors to provide a comprehensive overview of an entity's financial activities and position, serving diverse users with varying informational needs as recognised by the International Accounting Standards Board (IASB, 2024). To ensure the credibility and reliability of these reports, independent auditors are engaged to meticulously examine the statements, assessing their compliance with Generally Accepted Accounting Principles (GAAP) and all applicable legal requirements, while also verifying that they are free from material misstatements. This rigorous audit process ultimately assures stakeholders that the financial statements present a fair and accurate reflection of the company's financial health, thereby fostering confidence and informed decision-making among investors, regulators, and other key users of the financial information.

H4: There is significant influence reliability factor on stakeholders' confidence

Methodology

Design and data collection

The study employed a cross-sectional survey design, where a questionnaire was developed and distributed to directors, accountants, external auditors, and shareholders of quoted firms in Nigeria. The design was employed because the study is qualitative. Meanwhile, the design was adopted by previous researchers in similar studies. These include Adeyemo *et al.* (2025), Alao (2024), and Omotilewa *et al.* (2024). Also, the study adopted a purposive sampling technique while the questionnaires were administered electronically with the aid of Google Forms. The link was shared among directors, external auditors and shareholders of quoted firms who are residents in Ibadan, Oyo State, Nigeria.

Known for its rich cultural heritage and historical significance, Ibadan is home to numerous quoted firms operating in sectors such as manufacturing, publishing, and services. The city's industrial zones, including Oluyole Industrial Estate and Eleyele Industrial Area, make it an ideal environment for exploring the dynamics of corporate operations and the relationship between audit practices and stakeholders' confidence. A total of one hundred and three (103) valid responses were obtained from the shared Google Forms that were used for the study. The regression model was employed in testing the study's hypotheses at a 5 per cent level of significance.

Reliability test

The reliability of the research instrument was firmly established through an initial pilot survey conducted among a targeted group of twenty-five (25) participants comprising directors, accountants, external auditors, and shareholders in Ibadan, Oyo State, Nigeria. This pilot exercise aimed to ensure the consistency and dependability of the instrument before its full-scale application. To achieve this, the data collected from the pilot study were subjected to a

reliability test using the Cronbach's Alpha method, which is a widely recognised statistical technique for assessing internal consistency. The analysis was carried out with the assistance of the Statistical Package for the Social Sciences (SPSS), providing a precise and systematic

evaluation of the instrument's performance. The resulting reliability coefficients, which confirm the instrument's adequacy for the main study, are summarised and presented in Table 1.

Table 1. Reliability Test Results

Construct	Items	Cronbach Alpha
Reliability Factor	7	0.72
Independence Factor	7	0.76
Responsibility Factor	7	0.81
Going concern Factor	7	0.79
Stakeholders' Confidence	5	0.85

Data description

Table 2 indicates a nearly equal gender representation among the respondents; hence, such balance suggests that the perspectives captured in the study are well-distributed across gender lines, which may enhance the generalisability of the findings and reduce potential gender bias in the interpretation of the results. Also, the distribution suggests that the data collected is predominantly influenced by the perspectives of accountants, which could shape the overall findings and interpretations. The relatively smaller representation of directors, auditors, and shareholders may provide

supplementary viewpoints but may not have as strong an impact on the study's general outcomes compared to the majority group. Furthermore, the distribution reveals that the study's findings are likely to be shaped primarily by the views and experiences of early-career professionals, which may reflect more current industry practices but possibly less institutional or historical insight. Overall, the data suggests that while most respondents are academically qualified at the undergraduate level, a notable portion also possesses specialised professional training, indicating a workforce with a blend of academic and practical financial expertise.

Table 2. Respondents' Data Distribution

Variables	Label	Frequency	Percentage (%)
Gender	Male	52	50.5
	Female	51	49.5
	Total	103	100.0
Position	Accountants	70	68.0
	Directors	3	2.9
	External Auditors	13	12.6
	Shareholders	17	16.5
	Total	103	100.0
Years of Experience	Less than 5 years	67	65.0
	5 – 10 Years	19	18.4
	11 – 15 Years	9	8.7
	Above 15 Years	8	7.8
	Total	103	100.0
Qualifications	HND/B.Sc.	76	73.8
	M.Sc./MBA	6	5.8
	PhD	-	-
	Professional Qualification	21	20.4
	Total	103	100.0

Results

Table 3 provides a comprehensive summary of the regression analysis and the conclusion regarding the tested hypothesis, encompassing key statistical elements such as coefficients, T-statistics, and probability values. The coefficients indicate the magnitude and direction of each independent variable's effect on the dependent variable, while the T-statistics serve

as a measure of the significance of each coefficient in relation to its standard error. The probability values, or p-values, further support the evaluation of the hypotheses, determining whether the relationships observed are statistically significant. Together, these components allow for a systematic interpretation of the regression results, offering a clear basis for accepting or rejecting the hypotheses based on empirical evidence.

Table 3. Summary of hypothesis conclusion

Hypothesis	Hypothesis Statement	Coefficient	T-statistic	P-Value	Conclusion
H1	There is significant influence of the going concern assumption of financial reporting on stakeholders' confidence	0.08	0.83	0.41	Rejected
H2	There is significant influence of the independence factor on stakeholders' confidence	0.11	1.14	0.26	Rejected
H3	There is significant influence of the responsibility factor on stakeholders' confidence	0.03	0.25	0.80	Rejected
H4	There is significant influence reliability factor on stakeholders' confidence	0.25	2.57	0.01	Accepted

The findings of the study clearly demonstrate that the going concern factor does not significantly affect stakeholders' confidence in Nigerian quoted firms. This conclusion is supported by the regression analysis results, which reveal a p-value of 0.41, surpassing the 0.05 threshold for statistical significance, thus indicating an insignificant positive influence. Moreover, the analysis shows that the relationship between the going concern factor and stakeholders' confidence is very weak and positive, lacking the strength to meaningfully impact decision-making or perceptions. As a result, the alternative hypothesis suggesting that the going concern factor affects stakeholders' confidence is rejected, while the null hypothesis, which asserts that it has no significant influence, is upheld. This outcome implies that stakeholders' trust appears to be shaped by other factors rather than the going concern status of these firms.

The analysis indicates that the independence factor exerts only a weak and statistically insignificant influence on stakeholders' confidence in Nigerian quoted

firms, as demonstrated by the regression result with a probability value of 0.26 ($p > 0.05$). Although the relationship between independence and stakeholder confidence is slightly positive, the effect is not meaningful in either practical or statistical terms. This finding implies that stakeholders' trust and assurance in these firms are more likely determined by other elements beyond independence, as the factor alone does not play a decisive role in shaping their confidence. In essence, while independence may contribute marginally to a favorable perception, it is insufficient on its own to significantly sway stakeholders' confidence levels.

The analysis of Nigerian quoted firms reveals that the responsibility factor, which was initially presumed to contribute significantly to stakeholders' confidence, actually exerts a negligible influence. The regression analysis yielded a p-value of 0.80 ($p > 0.05$), indicating that any positive relationship between the responsibility factor and stakeholders' confidence is both statistically insignificant and extremely weak. This finding leads to the rejection of the alternative hypothesis, which

suggested that the responsibility factor has a meaningful impact, and instead supports the null hypothesis, affirming that the responsibility factor does not substantially affect stakeholders' trust or perception of the firms. In practical terms, this implies that stakeholders' confidence in Nigerian quoted firms is likely shaped by other variables, and focusing solely on the responsibility factor may not yield measurable improvements in stakeholder assurance or engagement.

The analysis clearly indicates that the reliability factor plays a critical role in shaping stakeholders' confidence in Nigerian quoted firms. The regression results, with values showing $p = 0.01$ and $P < 0.05$, confirm a statistically significant and positive relationship between the reliability of financial reporting and the level of confidence stakeholders place in these firms. In other words, when the accuracy and trustworthiness of financial reports improve, stakeholders are more inclined to believe in the firm's integrity and stability, ultimately enhancing their willingness to engage, invest, and support the organisation. This finding underscores the importance of maintaining high standards of financial reporting, as reliable and precise disclosures directly contribute to strengthening stakeholders' trust and overall corporate credibility.

Discussion

The findings revealed that the reliability of financial statements significantly influences stakeholders' confidence in Nigerian quoted firms. This means that when firms provide accurate, transparent, and dependable financial reporting, stakeholders are more likely to trust the company. The adoption of International Financial Reporting Standards (IFRS) plays a crucial role in reducing information asymmetry, as it ensures that investors and other stakeholders have access to consistent and comparable data. By enabling stakeholders to make informed investment decisions, reliable financial statements directly enhance their confidence in the firm. This outcome aligns with the stakeholder theory, which posits that organizations should adequately address the

needs of their stakeholders, reinforcing that dependable financial reporting is a key driver of stakeholder trust.

The above finding is consistent with the study by Lateef et al. (2021), which highlighted that both the value relevance and timeliness of financial reports improved significantly after the adoption of IFRS. Their research suggests that stakeholders benefit from enhanced access to useful information, ultimately strengthening their confidence and improving their decision-making processes. Similarly, Ocheni and Adah (2018) emphasized that high-quality financial reporting significantly influences stakeholder decision-making. However, not all studies reached the same conclusion. For instance, Zakari (2017) found no meaningful change in financial reporting quality or investor returns after IFRS adoption, indicating that the benefits of IFRS may be uneven across sectors. Supporting this nuance, Nwaogwugwu (2020) observed that while IFRS adoption had a positive effect on firm performance, the effect was not statistically significant, suggesting that improved reliability in financial statements does not always directly translate to increased stakeholder confidence.

Furthermore, the findings indicate that the independence of the external auditor does not significantly influence stakeholders' confidence in Nigerian quoted firms. One possible reason is that stakeholders often have limited visibility into the actual practices that ensure auditor independence, or they may assume that regulatory frameworks already guarantee this independence. Consequently, they perceive little direct impact of auditor independence on their trust in a firm. This conclusion is in line with Odum and Kelechi (2023), who found that while audit committee independence had a positive effect on audit quality in Nigerian banks, the effect was not statistically significant.

Additionally, the study revealed that the responsibility factor of auditors does not significantly affect stakeholders' confidence in Nigerian quoted firms. Stakeholders may not fully grasp the boundaries and limitations of auditors' responsibilities, particularly since many assume auditors play a central role in detecting fraud, which is not always the case. This misalignment of perception contributes to a

large expectation gap, as confirmed by Adeyemi and Olowookere (2011), who pointed out that stakeholders often overestimate auditors' roles in safeguarding their interests.

Moreover, the findings indicate that the going concern assumption in financial reporting does not significantly influence stakeholders' confidence in Nigerian quoted firms. This is likely because going concern evaluations are technical in nature and often only become apparent to stakeholders during periods of financial distress or crisis. Stakeholders generally do not associate these evaluations directly with their trust in the firm unless a problem arises. Hammond et al. (2022) found that while going concern can have a positive effect on investor confidence, its impact is not always strong enough to mediate the relationship between corporate governance and investor trust. Similarly, Okonewa and Okafor (2023) noted that audit quality can improve perceptions of going concern in financially stable firms, but this effect is negligible in distressed firms. Conversely, Akther and Xu (2020) observed a negative relationship between the audit expectation gap (AEG) and stakeholder confidence, indicating that misunderstandings of these technical elements can even erode trust.

Conclusion

The study concludes that the reliability of financial statements serves as a fundamental cornerstone in shaping stakeholders' confidence in Nigerian quoted firms. This reliability goes beyond mere compliance; it reflects a firm's integrity and commitment to truth in financial reporting. A strong majority of respondents in the research affirm that when financial statements are reliable, accurate, and fully compliant with International Financial Reporting Standards (IFRS), they foster a higher degree of trust among investors, regulators, and other market participants. The study elaborates that such trust directly influences investment decisions, as stakeholders are more inclined to commit resources to firms that demonstrate transparency. Moreover, reliable reporting supports the stability of the capital market by reducing information asymmetry, mitigating the

risk of misrepresentation, and ensuring that all parties operate with consistent and credible data.

Furthermore, the research highlights that improving financial reporting practices involves more than securing reliability alone; it also demands bridging perceptual and interpretive gaps among stakeholders. Different groups, such as investors, analysts, and regulators—may interpret the same financial information in varying ways, which can create misunderstandings and erode trust even when the data itself is correct. Therefore, the study emphasises the importance of transparent and accountable auditing practices as mechanisms to harmonise these perceptions. This includes providing clear disclosures that explain financial figures, offering thorough commentaries on complex items, and maintaining ethical auditing standards that promote fairness and consistency. By consistently communicating these financial details and contextual explanations, firms can reduce ambiguity and strengthen mutual understanding.

Ultimately, the study underscores that enhancing the reliability of financial reports is a vital first step towards sustaining stakeholder confidence, but long-term success hinges on nurturing a broader culture of transparency and trust. The research elaborates that such a culture emerges when firms combine accurate reporting with proactive communication, ensuring that all stakeholders can easily interpret and rely on the information provided. By adopting these practices, Nigerian quoted firms stand to attract higher levels of investment, improve their market valuation, and contribute to the creation of a resilient and robust financial ecosystem. This dual focus on reliability and transparency positions the firms not only as credible market participants but also as active contributors to the sustainable growth of the national capital market.

Implications for stakeholders

For regulatory bodies and corporate entities, the findings underscore an urgent and critical need to implement and maintain strict compliance with International Financial Reporting Standards (IFRS). This means that organisations should consistently monitor their adherence to these

global accounting standards, ensuring every financial transaction is recorded and reported accurately. Strengthening and enhancing internal control systems is equally vital, as these systems act as the first line of defence against errors, fraud, and misstatements. When financial statements are accurate, consistent, and transparent, they not only enable the market to make informed decisions but also preserve the credibility and reputation of the institutions involved. In addition, implementing robust oversight mechanisms helps regulatory bodies detect irregularities quickly and maintain the stability of the financial ecosystem. By reinforcing compliance protocols, organisations reduce the likelihood of penalties, litigation, or market distrust, thereby protecting investors, creditors, and the broader economic environment.

For companies, the findings highlight that accurate and timely financial reporting is more than a regulatory obligation, it is a central pillar of effective stakeholder engagement. Transparent reporting demonstrates a company's commitment to accountability and builds confidence among investors, customers, and business partners. To achieve this, companies should invest in modern technological solutions, such as advanced accounting software and automated reporting systems, which minimise human errors, speed up the reporting process, and integrate real-time data analysis. Additionally, employing highly qualified, competent professionals ensures that the complex requirements of financial reporting are met and that reports presented to stakeholders comply with all relevant standards. This approach not only reduces operational risks but also strengthens the company's reputation for reliability and professionalism, which are essential for attracting and retaining stakeholder trust.

Ultimately, these recommendations advocate for a synergistic approach where compliance, technological innovation, and professional expertise work collectively to elevate financial reporting practices. Compliance provides the foundation for legal and ethical operations, technology enhances efficiency and accuracy, and skilled professionals ensure the information is meaningful and reliable. Together, these

elements reinforce corporate governance frameworks, creating a resilient structure that can withstand financial scrutiny. This integrated strategy does more than meet regulatory requirements; it drives long-term value creation, promotes sustainable growth, and secures the confidence of both internal and external stakeholders in the organisation's financial integrity.

Limitations and suggestions

The study in question is constrained by its focus on only four of the AEG factors as detailed in the research of Alao et al. (2022) and Alao (2024). This limitation suggests that while the study provides valuable insights, it does not cover the full spectrum of AEG factors that could potentially influence stakeholders' confidence in Nigerian quoted firms. The scope of the study is further narrowed by its exclusive examination of the impact of these AEG factors on stakeholders' confidence, without considering other potential influences or outcomes. This indicates a need for a broader approach in future research to capture a more comprehensive understanding of the dynamics at play.

To advance the field, future studies are encouraged to explore the effects of AEG factors across different sectors of Nigerian business organizations. This would not only provide a more holistic view of the influence of AEG factors but also help identify sector-specific nuances that may affect stakeholders' confidence. Additionally, expanding the AEG framework to include more components could enrich the existing literature, offering deeper insights into the mechanisms through which these factors operate. By broadening the scope and depth of research, scholars can contribute to a more robust understanding of the relationship between AEG factors and stakeholders' confidence, ultimately enhancing the theoretical and practical applications of stakeholder theory.

The current study has made a significant contribution to the existing literature by investigating the influence of AEG factors on stakeholders' confidence. By aligning its findings with stakeholder theory, the study not only validates the theoretical framework but also provides empirical evidence that supports the

role of AEG factors in shaping stakeholders' perceptions and confidence in firms. This alignment underscores the importance of considering stakeholder perspectives in organizational decision-making processes and highlights the potential for AEG factors to serve as critical indicators of stakeholder confidence. As such, the study lays a foundation for further exploration and refinement of stakeholder theory, encouraging researchers to continue building on its principles to better understand and address the needs and expectations of stakeholders in various contexts.

References

- Adeniji, A. A. (2012). *Auditing and Assurance Services* (2nd ed.), Lagos: Value Analysis Consult.
- Adeosun, O. A., & Ayedogbon, M. (2025). The effects of international financial reporting standards on the quality of financial statements in Nigerian listed Companies. *Journal of Economics, Finances and Management Studies*, 8(2), 787-800.
- Adeyemo, F. H., Igbekoyi, O. E., Azeez, O. A., & Ademoye, K. (2025). Stakeholders' expectation and audit compliance: Evidence from selected audit firms in Nigeria. *Journal of Liaoning Technical University (Natural Science Edition)*, 19(4), 81-106.
- Agbeyangi, B. A. (2023). Audit expectation gap and financial reporting credibility: An empirical analysis. *West African Accounting Journal*, 11(1), 54–70.
- Akther, T., & Xu, F. (2020). Existence of the audit expectation gap and its impact on stakeholders' confidence: The moderating role of the Financial Reporting Council. *International Journal of Financial Studies*, 8(4), 1-25.
- Alao, A. A. (2024). Audit expectation gap: An empirical analysis from Nigeria. *International Journal of Commerce and Finance*, 10(2), 131-153.
- Alao, A. A., Akingunola, R. O. & Akintoye, I. R. (2022). *Audit expectation gap: A review of literature*. Conference Proceedings at the 7th Annual International Academic Conference on Accounting and Finance held at Rivers State University Nkpolu-Oroworukwo, Port Harcourt, Nigeria, Auditorium from 12th – 13th April, 2022.
- Alao, A. A., Akingunola, R. O. & Akintoye, I. R. (2023). Corporate governance, audit quality and audit expectation gap: Theoretical and conceptual perspectives. *International Journal of Commerce and Finance*, 9(2), 92-107.
- Ashibogwu, N. K., Omonigho-Okoro, R. & Ikenga, G. U. (2023). An empirical analysis of the audit expectation gap in Nigeria. *Journal of Management Small and Medium Enterprises*, 16(3), 431-440.
- Companies and Allied Matters Act (CAMA) (2020). Companies and Allied Matters Act 2020. Laws of the Federation of Nigeria. Retrieved from <https://cac.gov.ng>
- Enofe, A. O., Mgbame, C. O., Aronmwan, E. J., & Ogbeide, I. E. (2025). Audit reasonableness expectation gap: Users' perception in Nigeria. *International Journal of Business and Social Research*, 3(3), 154-163.
- Fotoh, L. E., Lorentzon, J. I., & Fossung, M. F. (2021). An empirical investigation of the audit expectation gap: Evidence from Cameroon. *Journal of Accounting and Taxation*, 13(3), 191-204.
- Freeman, R. (1984). *Strategic management: A stakeholder approach*, Boston: Pitman.
- Gacheru, M. M., Nasieku, T. & Oluoch, O. (2019). Effect of audit committee characteristics on the audit expectation gap: Evidence from state corporations in Kenya. *European Journal of Accounting, Auditing and Finance Research*, 7(1), 48-65.
- Hammond, P., Opoku, M. O., & Kwakwa, P. A. (2022). Relationship among corporate reporting, corporate governance, going concern and investor confidence: Evidence from listed banks

in sub-Saharan Africa. *Cogent Business & Management*, 9(1), DOI: [10.1080/23311975.2022.2152157](https://doi.org/10.1080/23311975.2022.2152157)

Horisch, J., Schaltegger, S., & Freeman, R. E. (2020). Integrating stakeholder theory and sustainability accounting: A conceptual synthesis. *Journal of Cleaner Production*, 275(1), DOI:[10.1016/j.jclepro.2020.124097](https://doi.org/10.1016/j.jclepro.2020.124097)

IASB (2024). International Accounting Standards Board (IASB) (2018). *Conceptual framework for financial reporting*. IFRS Foundation. Retrieved from www.ifac.org

Ikpe, A., & Uwah, M. (2023). Audit quality and stakeholder confidence in listed Nigerian firms. *Nigerian Journal of Accounting and Finance*, 15(2), 112-126.

International Accounting Standards Board (IASB) (2024). *Conceptual framework for financial reporting*. IFRS Foundation.

Jannat, T. (2022). Investigation of expectation gap between auditors and investors in Bangladesh. *International Journal of Current Science Research and Review*, 5(3), 640-646.

Lateef, S. A., Rashid, N., Olowookere, J. K., & Ado, A. B. (2021). An empirical evidence of the value relevance and timeliness of financial reports in the post-adoption of IFRS in Nigeria. *The Journal of Management Theory and Practice (JMTP)*, 2(1), 16-25.

Lazarus, E. F., Johan, I. L., & Michael, F. F. (2021). An empirical investigation of the audit expectation gap: Evidence from Cameroon. *Journal of Accounting and Taxation*, 13(3), 191-204.

Nguyen, H. T. & Nguyen, A. H. (2020). Audit expectation gap: Empirical evidence from Vietnam. *Journal of Asian Finance, Economics and Business*, 7(5), 51-60.

Nwaogwugwu, C. C. (2020). Effects of IFRS adoption on the financial performance and value of listed banks in Nigeria. *Journal of Finance and Accounting*, 8(4), 172-181.

Ocheni, S. I. & Adah, A. (2018). Perception on audit expectation gap on the statutory duty of Nigerian auditor. *European Journal of Accounting, Auditing and Finance Research*, 6 (8), 42-53.

Odum, A. N., & Kelechi, C. C. (2023). Effect of Auditor's independence on audit quality: evidence from Deposit Money Banks in Nigeria. *Journal of Global Accounting*, 9(4), 147-163.

Okafor, A., Adeleye, B. N., & Adusei, M. (2021). Corporate social responsibility and financial performance: Evidence from US tech firms. *Journal of Cleaner Production*, 292, doi: [10.1016/j.jclepro.2021.126078](https://doi.org/10.1016/j.jclepro.2021.126078).

Okegbe, T. O., Ojimadu, J. O., Orajekwe, J. C., & Egbunike, F. C. (2019). Auditor independence and audit quality: Empirical evidence from Quoted Oil and Gas Firms in Nigeria. *Journal of Global Accounting*, 6(1), 75-87.

Okonewa, O., & Okafor, G. O. (2023). Audit quality and accounting going concern of listed manufacturing companies in Nigeria: Altman Z-score approach. *Journal of Global Accounting*, 9(4), 183-205.

Olojede, P., Erin, O., Asiriwa, O., & Usman, M. (2020). Audit expectation gap: An empirical analysis. *Future Business Journal*, 6, 1-12.

Omotilewa, O. J., Adeyemi, S. B., & Oladipo, T. O. (2024). Bridging stakeholders' expectations gap: The role of sustainability Reporting of Listed Firms in Nigeria. *European Journal of Business and Innovation Research*, 12(2), 17-40.

Onulaka, P., & Sammy, M. (2017). Influence of self-regulatory policy of auditing profession on audit expectation gap: qualitative methodological approach. *Mediterranean Journal of Social Science*, 8(1), 96-104.

Rostami, V. (2019). Audit expectation gap in Islamic countries. *Iranian Journal of Accounting, Auditing and Finance*, DOI: [10.22067/ijaaf.2019.39252](https://doi.org/10.22067/ijaaf.2019.39252), 55-72.

Sani, A. I., & Ikpor, I. M. (2023). Audit expectation gap, auditors' statutory duty and financial reporting quality in Nigeria. *Journal of Accounting, Auditing and Business*, 6(1), 16-31.

Zakari, M. (2017). International Financial Reporting Standard (IFRS) adoption and its impact on financial reporting: Evidence from listed Nigerian oil and gas companies. *Asian Journal of Finance & Accounting*, 9(1), 464-474.