



GAPS IN AUDIT EXPECTATIONS AND PERFORMANCE: CASE OF LISTED MANUFACTURING COMPANIES IN NIGERIA

Babatunde Adisa Agbeyangi, Oluwatobi Nurudeen Ogunnusi, Abiodun Abel Oderinde.

¹ Department of Accountancy, The Federal Polytechnic, Ilaro, Nigeria.

² Department of Mathematics & Statistics, The Federal Polytechnic, Ilaro, Nigeria.

Phones : +2347035558209, +2348134340254, +2348033079015.

Corresponding e-mail: batatunde.agbeyangi@federalpolyilaro.edu.ng

Abstract

The financial performance of Nigerian listed manufacturing companies relies significantly on the effectiveness of the auditing process they undergo. This study focused on investigating the impact of the Audit Expectation Gap (AEG) on the performance of listed manufacturing companies in Nigeria. The AEG arises from the difference between auditors' defined roles as per the law and the perceived roles assigned to them by users of audited financial statements. A survey research design was adopted, employing a cross-sectional field survey. The use of structured questionnaires facilitated data collection from three quoted manufacturing companies in Nigeria. The survey targeted a purposive sample of 25 audit and management staff from each selected company, totaling 75 respondents. The results of the study revealed that variations in return on assets (ROA) and return on equity (ROE) were attributable to discrepancies in detecting errors, frauds, and auditors' opinions expressed in the audited financial statements. Notably, the independent variables related to prevention of errors and frauds, and the opinions on audit expectation gaps demonstrated significant correlations with the dependent variables (p -values $< .05$). In conclusion, the audit expectation gap was found to have adverse effects on the auditing profession, particularly due to its positive influence on the return on assets and return on equity, which are vital performance indicators for listed companies. To address this issue, it is recommended that the audit profession should embrace modified responsibilities as demanded by users of audited account with the aim of enhancing both ROA and ROE performance metrics.

Keywords: *Audit Expectation Gaps, Financial Performance, Errors and Fraud.*

Introduction

The regulatory framework for maintaining the integrity of manufacturing enterprises must include the audit function. However, the expectations of users of audited financial statements often differ from what the audit function delivers, leading to a recognized expectations gap (ICAA, 2012). Modern businesses face ongoing challenges due to their complexity and dynamic nature. Auditors operate in an environment of economic instability, where the demand for more relevant and informative financial information from readers of reports is increasing. The independent audit has become crucial for instilling investors' confidence in manufacturing companies, especially in the present times (Onulaka & Sammy, 2017).

According to the Technical Pronouncements of the International Federation of Accountants (IFAC, 1997), an audit is a procedure that enables auditors to provide a judgment on whether financial claims are presented truthfully and according to a particular economic system. The Statement of Auditing Standards (SAS) number one on codification, which is provided by the Nigerian International Accounting Board (NASB), provides additional clarification on audits. This standard states that an audit's goal is to evaluate financial statements and provide an independent auditor's opinion on their accuracy in light of Generally Accepted Accounting Principles (GAAP). Mandatory and voluntary (non-statutory) audits are the two categories into which Izedonmi (2009) divides audits. The financial records of governmental organizations, commissions, ministries, and limited liability companies that are listed on the stock



exchange are subject to statutory audits, which are mandated by the Nigerian constitution and the Companies and Allied Matters Act (CAMA), 1990. On the other hand, partnership and unincorporated business accounts are not included in non-statutory audits (Salehi, 2016).

Users of financial statements feel that auditors should have obligations beyond their statutory responsibilities, both explicit and implicit. They count on auditors to protect them from fraud, mistakes, and irregularities by spotting them with the help of their expertise. However, auditors frequently believe that the law, such as the Nigerian Companies and Allied Matters Act (CAMA), 2004, has specifically defined their job. According to Akinbuli (2010), auditors' principal responsibility is to offer credibility to the accounts prepared by directors by using necessary care and competence in their job, not to uncover fraud or errors.

The contrast between what the general public and users of financial statements believe and what the audit profession believes and expected of them during an audit is known as the "audit expectation gap" (Atu & Atu, 2010). According to Lee et al. (2009), this gap has been recognized for many years, and Liggio (1974) is credited with coining the phrase "audit expectation gap" in the auditing literature. According to Liggio (1974), it is the difference between the performance level users of financial statements expect and that of independent accountants.

Numerous academics have studied audit expectation gaps from a variety of angles, presenting varied viewpoints on their existence and origins. The Audit Expectation Gap (AEG) and its impact on the financial performance of listed industrial businesses in Nigeria is the specific subject of this study. The objective is to ascertain how it would affect financial performance.

Literature Review

The Concept of Audit Expectation Gap

According to Fazdly and Ahmed (2004), the audit expectation gap is a serious problem in auditing because it has hurt and still hurts the profession's foundation. According to Baker (2002), the core of a profession is the public's faith in a group of professionals. The professional job loses its importance and meaning if this trust is violated (Porter et al., 2005).

According to Appah (2011), there is a mismatch between what society expects from auditors and their actual performance, which has resulted in widespread criticism and legal action against auditors. The audit expectation gap is typically attributed in research studies to users' realistic expectations of audits as well as overblown assessments of the performance of the audit profession.

The mismatch between the auditor's actual performance level and the various public expectations for that performance is known as the expectation gap, according to ABREMA (2008). The mismatch between what auditors believe their responsibilities are and how the general public and users of financial statements perceive those responsibilities is known as the audit expectation gap, according to McEnroe and Martens (2001).

The audit expectation gap (Ojo, 2006) refers to the discrepancy between what users of financial statements and the general public believe an audit should include and what the audit profession asserts is expected of them during an audit.

The audit expectation gap (AEG) in research investigations has been addressed using a number of different methods. Four potential options were outlined by Lee and Azham (2008): education, an expanded audit report, a structured audit process, and an increase in the duties and performance expectations for auditors. Despite practical difficulties, it was discovered that education helped financial statement users become more aware of the goals of an audit process, which proved to be a useful strategy for reducing the AEG.

In order to bridge the AEG, Haniffa and Hudaib (2007) looked on the effects of implementing Islamic principles into Saudi Arabia's code of ethics and auditing requirements. As a method to reduce the expectation gap, Fulop, Tiron-Tudor, and Silviu (2019) developed forensic accounting procedures. They discovered that applying forensic audit



techniques and conducting a cost-benefit analysis could improve auditors' capacity to spot fraud and close the expectation gap surrounding their responsibility to find fraud and financial irregularities in Nigeria.

Gramling et al.'s (1996) study in the US contrasted how professional auditors and students perceived the functions and responsibilities of auditors. The AEG was decreased as a result of students' increased understanding of the auditing process and their responsibilities thanks to exposure to audit education. According to Saad et al. (2013), participants' ignorance of the auditing procedure enhanced their willingness to blame auditing firms for accounting fraud. Therefore, it is believed that education can overcome ignorance brought on by a lack of comprehension of the auditing process.

In order to reduce the AEG, McEnroe and Martens (2001) suggested a two-pronged public education strategy that included standardizing the definition of the audit attest function in annual reports and hosting interactive forums at AGMs to answer questions about the nature and scope of the audit. To inform the public about auditing, regulators were urged to finance media awareness campaigns and conduct free seminars. The necessity for auditors to increase shareholders' understanding of acceptable expectations at AGMs was stressed by Lee, Ali, and Gloeck (2009).

The audit profession plays a crucial role in influencing stakeholders' trust in corporate operations (Akther & Xu, 2020). However, a notable expectation gap exists between what financial statement users believe an audit should convey and what the audit profession believes it should deliver, which can be uncomfortable for auditors, especially during corporate crises.

Akther and Xu (2020) considered the moderating role of the Financial Reporting Council in their investigation of the AEG's impact on stakeholders' confidence. Their research examined various aspects, including fraud detection, the significance and utility of audit reports, provision of audit services, reporting concerns, and unmet expectations for assurance services. The study found an inverse relationship between the AEG and stakeholder confidence, with auditors being able to reduce the gap and enhance stakeholder confidence by maintaining perceived independence and engaging more with users.

Factors Affecting the Audit Expectation Gap

Divergent perspectives exist regarding the causes of the AEG. The audit profession frequently blames the discrepancy on the ignorance and exaggerated expectations of the general public and users. Studies, however, have also indicated that the audit profession may be blamed for it (Lesage et al., 2011). This gap is a result of a number of factors, including the audit function's complexity, auditors' conflicting roles, retrospective evaluation of their performance, delayed responses to changing expectations, irrational expectations, and the lack of independence of auditors (Lee & Azham, 2008; Humphrey, 1991).

The complexity of the audit function

The role of auditors tends to vary and evolve over time due to contextual circumstances such as socioeconomic growth, corporate failures, and judicial decisions. The use of subjective terms like "true and fair view," "reasonable," and "materiality" in audit reports further complicates the understanding of the audit role. As a result, the general public may struggle to interpret different concepts and remain unaware of changes in the audit function or the evolving responsibilities of auditors, which serves as a contributor to the audit expectations gap (Lee & Azham, 2008).

Dobroţeanu et al. (2009) opined that the public's perception has not kept pace with the development of the audit function, often viewing auditors as infallible watchdogs who catch all errors and frauds. Up until 1991, discussions about the audit expectations gap primarily centered around the two main components of the audit function: audit assurance and audit reporting. The audit report has been traditionally seen as a guarantee of correctness by both the public and auditors (Humphrey, 1991). Different opinions exist on whether the audit report should ensure the management's effectiveness and the company's financial stability. This has led to debates on the structure and content of audit reports.



Users often perceive that unqualified audit opinions are given only when the audited entity is financially sound, making it difficult for them to comprehend why significant financial issues may arise shortly after receiving an unqualified audit opinion. The interpretation of qualified audit opinions may also vary among users. This aspect of the audit expectations gap is further exacerbated by a codification issue, as users would better understand the messages conveyed in audit reports if they were more familiar with the code used by auditors.

Auditors' Contradictory Responsibilities

This is a consequence of audit firms expanding their consulting services, leading auditors to take on dual roles. On one hand, they act as consultants to management, who may want them to overlook financial manipulation. On the other hand, they are expected to be neutral auditors, acting in the shareholders' best interests by disclosing all financial issues. This conflict of interest arises because auditors might prioritize management's interests to protect the income from consulting services, which they know to be lucrative. Consequently, this situation can compromise the objectivity and independence of the audit (Lee & Azham, 2008).

Previous research has shown that these conflicting roles can have adverse effects on audit independence, impacting both the actual independence and the perception of independence (Lee, Azham, & Bien, 2009). The public might perceive that auditors prioritize their own interests, which hinders them from delivering the expected performance due to the conflicting roles they undertake (Lee & Azham, 2008).

Performance rating of auditors in the past

Due to the public's limited ability to assess the quality of an audit, the evaluation of an auditor's performance often occurs retrospectively (Lee & Azham, 2008). As a result, poor-quality audits may go unnoticed, while high-profile audit failures attract significant attention, leading to heightened unmet expectations (Humphrey, 1991). This retrospective knowledge may cause the public to believe that the audit was inadequately conducted, even if the auditors lacked access to all relevant information. This perception becomes more pronounced in cases of corporate scandals and failures, where the public tends to associate company failures with subpar auditor performance and, consequently, an audit failure. Such misconceptions further widen the gap between the actual and expected audit quality.

Responding slowly to shifting expectations

The audit expectations are further complicated by the impact of corporate crises on the public's perception of the audit function. These crises may lead to revised or heightened auditing requirements and changes in practices. However, there is often a delay in responses, and auditors may face criticism for not keeping up promptly with the evolving demands of the corporate landscape. Both the audit profession and governmental authorities are scrutinized for acting mainly in response to scandals and crises, and for being perceived as adopting a reactive approach to preserving professional standards (Lee et al., 2009).

Interestingly, a 1988 examination by the Canadian Institute of Chartered Accountants revealed that users of audit reports initially had realistic and attainable expectations of the audit process (Humphrey, 1991). The audit expectations gap emerged as a result of the audit profession's sluggishness in adapting to and evolving alongside changes in the corporate and social environments. Closing the audit expectations gap largely depends on the profession's willingness to acknowledge the necessity for change and to enhance its adaptability (Humphrey, 1991).

Financial performance of firms

Financial performance encompasses the skillful and efficient management of a company's financial resources, aimed at maximizing shareholders' interests through various performance metrics such as return on assets, return on equity, and other relevant financial indicators. It revolves around the judicious allocation and utilization of the company's financial assets to achieve optimal outcomes that enhance the value and profitability of the organization for its shareholders.



Return on Asset

Return on Assets (ROA) is a financial metric utilized to evaluate a company's profitability relative to its total assets. This ratio gauges the effectiveness of the business by comparing its earnings (net income) with the capital invested in assets. The formula to calculate ROA is as follows:

$$ROA = \frac{\text{Net income}}{\text{Average Assets}}$$

Return on Equity

Divide net income by shareholders' equity to get the financial performance metric known as return on equity (ROE). Return on equity (ROE) is sometimes referred to as the return on net assets because shareholders' equity is calculated by deducting a company's debt from its total assets. For the purpose of calculating the ROE as a percentage, a firm may use both positive net income and equity figures. Net income is calculated before distributions to preferred shareholders, before dividend payments to regular shareholders, and before interest payments to lenders. The formula for determining ROE is as follows:

$$ROE = \frac{\text{Net income}}{\text{Shareholder Equity}}$$

Shareholders' equity represents the total investment made by the owners of a company in their business. This encompasses both the direct capital they have injected and the accumulated income earned and reinvested since the company's inception. It reflects the ownership stake and financial interest of shareholders in the company's assets and retained earnings.

Theoretical review

The Policeman Theory, which was previously the preeminent theory in auditing until the 1940s, served as the focal point of the article. In accordance with this view, auditors performed the role of police officers, primarily verifying mathematical accuracy and identifying and preventing fraud. However, because this theory did not take into account the movement in auditing towards confirming the accuracy and fairness of financial accounts, it has lost part of its explanatory power. Recent financial developments have caused this idea to be critically reevaluated. The auditor's duty to spot and report fraud is a hotly contested topic that stems from the Policeman Theory's foundational assumptions about the public. There is continual public discussion about the extent of the auditor's participation in fraud detection, even if the auditing literature does not substantially support this idea.

The management of the company is in charge of preventing and uncovering fraud and irregularities, and it is their obligation to build a strong internal control system to provide reasonable confidence in this regard. Particularly, unless expressly indicated in the conditions of their employment, the auditor's responsibility to aggressively look for fraud is not one that arises by default. Nevertheless, when fraud and irregularities are present, a well-conducted audit should naturally find them.

Empirical Review

Audit

According to Littleton (1933), the original purpose of auditing was to verify the integrity of individuals entrusted with financial responsibilities, distinct from administrative duties. Two categories of early audits emerged: public hearings of official government findings and examination of charge-and-discharge accounts. These audits aimed to provide a check on 'accountability' without additional objectives, essentially scrutinizing stewardship accounts (Littleton, 1933).



Flint (1988) highlighted that in the nineteenth century, auditors' roles were closely tied to management's responsibility for stewardship, encompassing honesty and integrity. As business activities grew, auditing transformed from verifying a complete and accurate view to a "true and fair perspective," leading to a shift in the audit opinion from "full assurance" to "moderate assurance" (Salehi, 2008). Hiring auditors was justified to handle potential conflicts of interest among company managers, shareholders, and bondholders (Okafor & Otolor, 2013).

In essence, auditing is an independent function that uses organized methodologies to examine claims made by economic activities and communicate conclusions to users in a report. A number of authors (including Uwuigbe et al., 2019; Kell et al., 1986; Olojede et al., 2020; Pound et al., 1997; Gill et al., 1999; Gill et al., 2001) agree with the American Accounting Association (AAA) (1973) definition of auditing as a methodical process of objective evaluation. According to Arens et al. (1997), auditing is the process by which a qualified, independent individual gathers evidence regarding quantifiable information related to a particular economic entity in order to assess and communicate the degree of correspondence between the quantifiable information and predetermined standards.

Mautz and Sharaf (1986) define auditing as being "involved with the verification of accounting data, with determining the accuracy and trustworthiness of accounting statements and reports." The term "systematic process" refers to a logical and well-organized set of steps, involving inputs, processing, and outputs that systematically consider all essential factors.

The definitions by AAA and Arens et al. (1997) include the phrases "objectively gathering and analyzing evidence" and "competent independent individual." These imply that auditors must possess qualifications to understand the applied criteria, expertise in accumulating evidence for examination, and independence in evaluating results without bias or preconception.

Need for auditing

The presence of potential conflicts of interest between management and stakeholders necessitates the need for an audit. To address this, a contractual agreement is often established, outlining that management is obligated to provide a set of financial data intended to reflect the entity's financial condition and operational performance (ACCA, 2019).

Considering the reviewed issues, this paper penned down the following hypotheses:

H₀₁: Perceived audit expectation gap have no significant influence on return on asset of quoted manufacturing firms in Nigeria

H₀₂: There is no significant relationship between prevention of errors and fraud and return on asset of quoted manufacturing firms in Nigeria

H₀₃: audit expectation gap have no significant influence on return on equity of quoted manufacturing firms in Nigeria

H₀₄: There is no significant relationship between prevention of errors and fraud and return on equity of quoted manufacturing firms in Nigeria

Methodology

The researcher utilized the survey method for this study, employing a survey research approach to gather information from various categories of respondents.

The population in this study refers to individuals or units meeting the selection criteria for the group under examination, from which a representative sample was taken. The population includes audit and management staff from Nestle Nigeria Plc, Nigeria Bottling Company Ltd, and Nigerian Breweries.



Convenient sampling was employed, and a sample of 25 audit staff and management staff from the selected manufacturing firms was selected, resulting in a total of 75 respondents participating in the survey. This sampling approach was chosen due to the indeterminate population sizes of the companies and the cost-effectiveness of conducting the survey.

For data collection, both primary and secondary methods were adopted. The primary method involved using a research instrument (questionnaire) to gather data through the survey, while the secondary method entailed collecting information from articles, journals, and other publications relevant to the research.

Descriptive and inferential methods of data analysis were employed. The descriptive analysis involved examining the research questions. The research questions were analyzed using weighted average response scores, which represent the decision thresholds of the test instruments within the given intervals. The inferential statistical methodology was used to test the stated hypotheses using the linear regression model as stated in the model specification.

Model Specification

Based on the set objectives of this study, the following models were specified:

$$ROA = f(AEG, PEF) \tag{1}$$

$$ROE = f(AEG, PEF) \tag{2}$$

The functional relationship is written in explicit form as;

$$ROA_i = \alpha_0 + \alpha_1 AEG_i + \alpha_2 PEF_i + \epsilon_i \tag{3}$$

$$ROE_i = b_0 + b_1 AEG_i + b_2 PEF_i + \epsilon_i \tag{4}$$

Where;

ROA ≡ perceived Return on Assets, *ROE* ≡ perceived Return on Equity, *AEG* ≡ perceived Audit expectation Gap, *PEF* ≡ Prevention of Errors and Fraud,

α_0, α_1 and α_2 are parameters to be estimated for equation (1); b_0, b_1 and b_2 are parameters to be estimated for equation (2); ϵ_i is the random error term that is *N.I.D* ~ (0, σ^2). Equation (1) was used to achieve the stated hypotheses one and two while equation (2) was used to achieve the stated hypotheses three and four.

Results and Discussion

Descriptive Statistics

Table 1: Descriptive statistics analysis of respondents’ opinion on audit expectation gap

s/n	Statements	Min.	Max.	Mean	Std.
1	Audit is not completed properly because of hindsight knowledge, even if the auditors may not have had access to all of this information	1	4	3.52	.927
2	Poor quality audits fade into the background while audit failures that are highly newsworthy become noticeable	1	4	3.37	1.027
3	Auditors come under fire for failing to act quickly enough to keep up with the changing needs of the corporate environment.	1	4	2.64	1.097



4	Auditors serve as consultant to management, thereby resulting to conflicting role.	1	4	2.63	1.153
5	Users get the impression that unqualified audit opinions are only given if the audit customer is in good financial standing	1	4	3.03	.820
Grand mean				3.04	

N=67; Mean response score interval: SA = 3.5 - 4.0; A = 2.5 - 3.4; D = 1.5 - 2.4; SD = <1.5

Source: Researcher's self-Computation

Table 1 illustrates the perceptions of respondents regarding audit expectation gaps. The results for item 1 reveal that the majority of respondents strongly agreed, with a mean response score of 3.52, that auditors may not have had access to all information and thus, it might appear that the audit was not completed properly due to hindsight knowledge. For item 2, with a mean response score of 3.37, most respondents agreed that poor quality audits tend to go unnoticed, while highly publicized audit failures attract attention, and auditors are criticized for not adapting quickly to the changing corporate environment (mean response score of 2.64). Furthermore, the findings for item 4 indicate that a significant number of respondents, with a mean response score of 2.63, agreed that auditors' role as consultants to management can lead to conflicting roles. However, the majority of respondents (mean response score of 3.03) agreed that users perceive unqualified audit opinions as being granted only to financially stable clients.

The overall weighted mean response score of 3.04 indicates that respondents' opinions on audit expectation gaps are relatively high. The weighted mean value demonstrates that respondents agreed with the analyzed items in the study.

Table 2: Descriptive statistics analysis of respondents' opinion on Prevention of errors and fraud

s/n	Statements	Min.	Max.	Mean	Std.
1	An audit offers an impartial review of the work of agents and the information they supply, preserving confidence and trust.	1	4	3.19	1.033
2	Risks of financial statements may be materially misstated as a result of errors and frauds.	1	4	3.15	1.171
3	Auditors and managements responds to internal and external allegations of fraud affecting the organization	1	4	2.93	1.146
4	Lack of understanding increases the amount of blame placed on the auditing company when an accounting fraud is discovered.	1	4	2.84	1.053
5	Establishing an adequate system of internal control by management staff prevents and detects fraud and irregularities.	1	4	3.09	.633
Grand mean				3.04	

N=67; Mean response score interval: SA = 3.5 - 4.0; A = 2.5 - 3.4; D = 1.5 - 2.4; SD = <1.5

Source: Researcher's self-Computation

Table 2 presents the descriptive statistics analysis of respondents' opinions on auditors' roles in the prevention of errors and fraud. With a mean response score of 3.19, the results for item 1 show that the majority of respondents agreed that an audit offers an independent check on the work of agents and the information they provide, helping to maintain confidence and trust.

Regarding item 2, the table shows that most respondents, with a mean response score of 3.15, agreed that the risks of financial statements being materially misstated due to errors and fraud are significant. Additionally, auditors and



managements respond to internal and external allegations of fraud affecting the organization, as agreed by the majority of respondents with a mean response score of 2.93.

Furthermore, item 4 of the table reveals that respondents agreed, with a mean response score of 2.84, that a lack of understanding increases blame placed on the auditing company when an accounting fraud is discovered. On item 5, with a mean response score of 3.09, respondents acknowledged that establishing an adequate system of internal control by management staff is essential in preventing and detecting fraud and irregularities.

Overall, the high grand mean response score of 3.04 suggests that respondents generally agree that auditors' proactiveness in detecting errors and fraud in the accounting system influences their expectations and perception of auditors within the organization.

Table 3: Descriptive statistics analysis of respondents' opinion on auditors' expectation gaps in relation to manufacturing companies return on assets.

s/n	Statements	Min.	Max.	Mean	Std.
1	Return on Assets plays a vital role in investigating the value of fraud in manufacturing firms.	1	4	3.30	.969
2	The Internal audit evidence has a true and just view in the detection of value of fraud in quoted manufacturing industries in Nigeria.	1	4	3.12	1.225
3	The return on asset of manufacturing companies is affected negatively if the expectation of auditors are not met	1	4	2.87	1.205
4	The successful use and allocation of a company's financial resources with the goal of maximizing shareholders' interests through return on assets is referred to as the firm's performance.	1	4	3.07	1.063
5	The audit expectation gap is linked with auditors' responsibility for assessing company's profitability in proportion to its total assets.	2	4	2.79	.625
Grand mean				3.03	

N=67; Mean response score interval: SA = 3.5 - 4.0; A = 2.5 - 3.4; D = 1.5 - 2.4; SD = <1.5

Source: Researcher's self-Computation

According to the respondents' opinions on audit expectation gaps in relation to manufacturing companies' return on assets, item 1 in Table 3 showed that a majority of respondents agreed, with a mean response score of 3.30, that return on assets plays a significant role in investigating the value of fraud in manufacturing firms. Additionally, respondents expressed agreement, with a mean response score of 3.12, that internal audit evidence provides a true and just view in detecting the value of fraud in quoted manufacturing industries in Nigeria. Considering item 3 in the table, respondents agreed, with a mean response score of 2.87, that the return on assets of manufacturing companies is negatively affected when auditors' expectations are not met. Additionally, with a mean response score of 3.07 on question 4, respondents concurred that a company's performance is defined by how well financial resources are used and allocated in order to maximize shareholders' interests through return on assets. With a mean response score of 2.79, respondents also acknowledged the connection between the audit expectation gap and the auditors' duty to evaluate a company's profitability relative to its total assets. Overall, the high mean response score of 3.03 suggests a positive relationship between manufacturing firms' performance, measured by return on assets, and audit expectations, particularly when auditors fulfill their responsibilities in assessing profitability.



Table 4: Descriptive statistics analysis of respondents’ opinion on auditors’ expectation gaps in relation to manufacturing companies return on equity

s/n	Statements	Min.	Max.	Mean	Std.
1	Fraud drastically affects the return on equity of quoted manufacturing companies when auditors expectations are not met	1	4	2.24	.939
2	The internal audit function is an effective tool against the occurrence of fraud in manufacturing companies which in turn improve the return on equity.	1	4	2.88	1.187
3	Auditors do not do enough work to live up to the financial statements expectations raised in order to accomplish its return on equity	1	4	2.66	1.052
4	The audit expectation gap is linked with auditors’ responsibility for assessing company’s profitability in proportion to its equity.	1	4	3.16	.931
5	Auditors’faovourable performance reduces the firms debt for the growth of its return on equity.	1	4	2.61	1.014
Grand mean				2.69	

N=67; Mean response score interval: SA = 3.5 - 4.0; A = 2.5 - 3.4; D = 1.5 - 2.4; SD = <1.5

Source: Researcher’s self-Computation

Table 4 presents the descriptive statistics analysis of respondents' opinions on auditors' expectation gaps concerning manufacturing companies' return on equity. The results of item 1 showed that a majority of respondents disagreed, with a mean response score of 2.24, that fraud drastically affects the return on equity of quoted manufacturing companies when auditors' expectations are not met. However, respondents agreed, with a mean response score of 2.88 in item 2, that the internal audit function is an effective tool against the occurrence of fraud in manufacturing companies, which, in turn, improves the return on equity.

On the other hand, item 3 indicated that a majority of respondents agreed, with a mean response score of 2.66, that auditors do not do enough work to live up to the financial statements' expectations, which hampers the achievement of desired return on equity. Respondents also acknowledged the link between the audit expectation gap and auditors' responsibility for assessing a company's profitability in proportion to its equity, as evidenced by a mean response score of 3.16 in item 4. The results emphasized that auditors' favorable performance reduces the firm's debt for the growth of its return on equity, with a mean response score of 2.61 in item 5.

Overall, respondents agreed, with a mean response score of 2.69, that the financial performance of manufacturing firms, as measured by return on equity, can be adversely affected if there is an expectation gap in auditors' responsibility for assessing the company's profitability in proportion to its equity.

Regression Analysis

Table 5: Regression Coefficients (Dependent variable = ROA)

Model	Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance
						VIF



(Constant)	.840	.226		3.707	.000		
AEG	.266	.078	.306	3.400	.001	.730	1.369
PEF	.455	.070	.584	6.477	.000	.730	1.369

$R = 0.788$; $R^2 = 0.620$; $Adj. R^2 = 0.608$; $F\text{-stat.} = 52.291$, $p\text{-value} = 0.000$

Source: Researcher’s Self-Computation

Table 5 reveals the relationships between return on asset (ROA) as a performance measure, audit expectation gap (AEG), and the prevention of errors and fraud (PEF). The strong positive relationship is evident from the R value of 0.788, indicating that the ROA of selected manufacturing companies is closely related to their perceived AEG and the auditors' role in preventing errors and fraud. The coefficient of determination (R-square) value of 0.620 indicates that 62% of the variation in manufacturing companies' performance, measured by ROA, can be explained by the prevention of errors and fraud and the AEG, while the remaining 38% is influenced by other variables not included in the model. The adjusted R-square value of 0.608 suggests that the inclusion of other variables not in the model accounts for 60% of the variation in ROA concerning AEG and PEF. The Durbin Watson value of 2.254 indicates no serial correlation between the error term of the fitted model, affirming its best fit.

The F-test, assessing the joint effect of AEG variables on the dependent variable simultaneously, yields an F-statistic of 52.291 with a p-value of $0.003 < 0.05$ significance level, demonstrating that both AEG and PEF significantly influence the financial performance of quoted manufacturing firms in Nigeria, considering ROA. Consequently, the overall model is statistically significant and exhibits a good fit.

Looking at the regression coefficients in the table, the beta constant value of 0.840 (p-value 0.000, less than 0.05 level of significance) indicates that quoted manufacturing companies' financial performance has existed ab initio, implying that ROA of the quoted companies is positively inclined without the influence of the independent variables AEG and PEF. The variance inflation factors (VIF) result of 1.369 for each of the independent variables indicates that AEG and PEF are not correlated, meeting the assumption of the fitted linear regression model's precision.

Moreover, the beta coefficient values of 0.266 and 0.455 suggest that a unit increase in AEG and PEF, respectively, leads to a corresponding increase in ROA of the quoted manufacturing company. These coefficients are positive and statistically significant (p-values < 0.05 level of significance), indicating that the duo predictor variables, as proxied by ROA, hold statistical significance. This aligns with the a priori expectation that auditors' ability to prevent errors and detect fraud enhances the growth of quoted manufacturing firms' ROA, particularly when auditors diligently perform their work in the best practice, thus bridging the expectation gap.

Table 6: Regression Coefficients (Dependent variable = ROE)

Model	Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics	
	B	Std. Error	Beta	T	Sig.	Tolerance



(Constant)	1.134	.256	4.428	.000
AEG	.305	.088	.397	3.449 .001 .730
PEF	.214	.079	.310	2.695 .009 .730

$R = 0.618$; $R^2 = 0.381$; $Adj. R^2 = 0.362$; $F\text{-stat.} = 19.725$, $p\text{-value} = 0.000$

Source: Researcher's self-Computation

Table 6 illustrates the relationships between return on equity (ROE) as a performance measure, audit expectation gap (AEG), and the prevention of errors and fraud (PEF). The R value of 0.618 indicates a moderate positive relationship between the ROE of the selected manufacturing companies and their perceived AEG and the auditors' role in preventing errors and fraud. The coefficient of determination (R-square) value of 0.381 shows that the prevention of errors and fraud and AEG explain 38.1% of the variation in the performance of the manufacturing companies, taking ROE into consideration, while the remaining 61.9% is influenced by other variables not included in the model. The adjusted R-square of 0.362 suggests that 36.2% of the variation in ROE concerning AEG and PEF can be explained by the inclusion of other variables not part of the model. The Durbin Watson value of 2.176 indicates no serial correlation between the error term of the fitted model, indicating a good fit.

The ANOVA test in Table 4.3.5 shows that the obtained F-statistic of 19.725 with a corresponding p-value of 0.000 (less than 0.05 level of significance) indicates that both PEF and AEG have a significant influence on the financial performance of quoted manufacturing firms in Nigeria, considering ROE. Hence, the overall set of independent variables captured in the model is statistically significant and provides a good fit.

Examining the regression coefficients in Table 6, the beta constant value of 1.134 (p-value 0.000, less than 0.05 level of significance) suggests that quoted manufacturing companies' financial performance has been in existence ab initio, implying that ROE of the quoted companies is positively inclined without the influence of the independent variables AEG and PEF. The Variance Inflation Factors (VIF) result of 1.369 corresponds to Table 4.3.3, indicating no collinearity in the set of AEG and PEF, supporting the model's efficiency.

In addition, the beta coefficients of 0.305 and 0.214 reveal that a unit increase in AEG and PEF, respectively, results in a corresponding increase in the ROE of the quoted manufacturing company by 0.266 and 0.455. These coefficients are positive and statistically significant (p-values < 0.05 level of significance). The positive and significant influence of AEG and PEF aligns with the a priori expectation, as auditors' ability to prevent errors and detect fraud improves the growth of quoted manufacturing firms' ROE, particularly when auditors diligently perform their work in the best practice, which also helps bridge the expectation gap of auditors.

Discussion of Findings

In this study, four hypotheses were examined concerning the influence of perceived audit expectation gap on the financial performance of quoted manufacturing firms in Nigeria. The results led to the rejection of all the four null hypotheses, indicating significant relationships between audit expectation gaps and the performance measures considered. Hypothesis one focused on the influence of perceived audit expectation gap on return on assets (ROA) of quoted manufacturing firms in Nigeria. The findings revealed a positive and statistically significant relationship between audit expectation gaps and ROA, which aligns with the a priori expectation that such gaps would affect a firm's performance either positively or negatively. These results are consistent with Salehi's (2011) work, emphasizing the importance of enhancing auditor independence and responsibilities to reduce corporate reporting scandals and increase audit quality by minimizing the audit expectation gap.

Hypothesis two explored the relationship between prevention of errors and fraud (PEF) and return on assets for quoted manufacturing firms in Nigeria. The null hypothesis was rejected, indicating a significant relationship



between PEF and ROA. The positive and statistically significant relationship supports the idea that effective prevention of errors and fraud positively impacts a firm's performance, as measured by ROA. This finding corroborates with Ogbonna and Appah's (2014) study, where they highlighted the causal link between audit expectation gap and corporate performance, showing that the detection of errors and fraud influences earnings per share and return on capital employed.

Hypothesis three investigated the influence of audit expectation gap on return on equity (ROE) of quoted manufacturing firms in Nigeria. The null hypothesis was rejected, indicating a significant relationship between audit expectation gaps and ROE. The positive and statistically significant impact of audit expectation gaps on ROE is consistent with the a priori expectation that such gaps would affect a firm's performance in this context. However, these results diverge from the findings of Olojede, Erin, Asiriwa, and Usman (2020), who primarily attributed the audit expectation gap to users' unreasonable expectations due to a lack of understanding of auditors' roles.

The findings of hypothesis four revealed a significant relationship between prevention of errors and fraud and return on equity (ROE) of quoted manufacturing firms in Nigeria. As a result, the null hypothesis was rejected, indicating that prevention of errors and fraud plays a vital role in the financial performance of manufacturing companies in the country (refer to table 6). The positive and statistically significant relationship between prevention of errors and fraud and ROE aligns with the a priori expectation, suggesting that effective prevention of errors and fraud positively impacts the performance of manufacturing firms. These findings are consistent with the work of Ogbonna and Appah (2014), who also studied the causal link between audit expectation gap and corporate performance in Nigeria. Their research supports the results of this study, as they found that variations in the detection of errors and fraud influenced earnings per share and return on capital employed in the Nigerian context. Together, these findings emphasize the importance of preventing errors and fraud as a means to enhance the financial performance of quoted manufacturing firms in Nigeria.

Overall, the study's results highlight the importance of managing and minimizing audit expectation gaps to enhance the financial performance of quoted manufacturing firms in Nigeria. The findings contribute to the existing literature on audit expectation gaps and suggest measures to improve audit quality and corporate reporting practices.

Conclusion

Researchers and the accounting profession have grappled with addressing the audit expectation gap in various ways. It has become evident that a substantial expectation gap exists, particularly concerning auditors' responsibilities in preventing and detecting fraud. This gap is not solely a result of auditors' underperformance but is also influenced by unrealistic and excessive expectations from the public. The presence of the audit expectation gap poses significant challenges for the auditing profession, as it directly impacts financial performance indicators like return on asset (ROA) and return on equity (ROE). Bridging this gap is crucial to uphold the perception of auditors as providers of a valuable service to society. By narrowing the disparity between the public's expectations and auditors' actual performance, companies can experience an improvement in their ROA and ROE metrics. To effectively address the audit expectation gap, the audit profession should be open to embracing additional or revised responsibilities demanded by users of audited accounts. By doing so, the value of the audit in terms of cost-benefit can be enhanced, and the financial performance of firms can be positively influenced. Further research in this field can adopt a quantitative approach, supplementing the qualitative methods already used, such as structured questionnaires. As the audit expectation gap is a multifaceted concept, future studies could explore the perspectives of various stakeholder groups regarding key audit matters. Additionally, investigating the impact of including different types of audit matters in audit reports could provide valuable insights into bridging the expectation gap effectively. In conclusion, addressing the audit expectation gap is vital for sustaining the credibility and value of the auditing profession. By acknowledging the multifaceted nature of this challenge and exploring innovative solutions, auditors can better align



public expectations with their actual performance, ultimately leading to improved financial performance indicators for companies.

References

- ABREMA, (2008). UK Registered Auditors, 15 Years Audit Experience. Retrieved from: www.innmaggsgoldwin.co.uk (Accessed on: December 12,2022) and evidence Critical Perspectives on Accounting. 9(3):299-330. <http://dx.doi.org/10.1006/cpac.1997.0159>.
- ACCA (2019). Closing expectation gap in audit. https://www.accaglobal.com/content/dam/ACCA_Global/professional-insight/expectation-gap. Accessed 27 Dec 2022
- 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.
- Appah, E., & John, S. (2011). Merger and Acquisitions in the Nigeria banking industry: An exploratory investigation. *Social Science Journal*, 6(3), 213–220.
- Arens, A., Peter, J., Gregory, E., & James, K (1997). *Auditing in Australia*. 4th edition. Prentice Hall, Melbourne
- Atu, O. K., & Atu, E. R. (2010). "Auditing: The Journey so far and its Expectation Gap", *The Nigerian Accountant*, April/June, 43(2).
- Dobroţeanu, L., Dobroţeanu, C.L., & Ciolpan, D. (2009). A semiologic approach to audit expectations gap. The research was conducted as part of a CNCSIS financed research project.
- Epstein, M.J., & Marshall A.G (1994). Investor Views of Audit Assurance: Recent Evidence of the Expectation Gap. *Journal of Accountancy* 177: 60.
- Fazdly, M., & Ahmed, Z. (2004). Audit expectation gap: The case of Malaysia. *Managerial Journal*, 19(7), 897–915.
- Flint, D. (1988). *Philosophy and principles of auditing: an introduction*. Macmillan, London 22.
- Fulop, M, Tiron-Tudor A. & Silviu G (2019). Audit education role in decreasing the expectation gap. *J Educ Bus* 94(5):306–313
- Haniffa, R., & Hudaib, M. (2007). Locating audit expectation gap within a cultural context: the case of Saudi Arabia. *J Int Account Audit Tax* 16(2):179–206
- Humphrey, C., Moizer P., & Turley, S. (1992). The audit expectations gap plus ca change plus dcest la meme chose "Critical Perspectives on Accounting.3, 137-161.
- Humphrey, C. (1991). *Audit Expectations: Current issues in auditing. 2nd Edition. Accounting and Finance Series*. Paul Chapman Publishing Ltd, London.
- ICAA (2012). Preserving Capital Market Confidence through Audit Quality' The Institute of Chartered Accountants in Australia, Summary of benchmark data from Audit Quality Research 2012
- Izedonmi, F.I., & James, O. (2010). Evidence of Audit Expectation Gap between Auditors and Users of Financial Reports in Nigeria. *Journal of Business and Organizational Development*, 2, 114-128.
- Lee, T. H., Alli, A.M., & Gloeck J (2009). The audit expectation gap in Malaysia: an investigation into its causes and remedies. *South African Journal of Account Audit* 9:57–88.



- Lee, T. H., & Azham, M .A. (2009). “The Audit Expectation Gap: A Review of the Contributing Factors”, *Journal of Accounting and Auditing*, 4(8): 30-37.
- Liggio, C.D. (1974). The expectation gap: the accountants’ waterloo. *Journal of Contemporary Business*. 3(3):23–35
- Limperg, T. (1932). The social Responsibility of the Auditor, Reproduced in Limperg Institute; (1985).The New Zealand: Limperg Institute.
- Mautz,, R., & Sharaf, H. (1986). The philosophy of auditing,13th edition. American Accounting Association, Sarasota
- McEnroe, J. E., & Martens, S. C. (2001). Auditor’s and Investor’s Perception of the Expectation Gap. *Account. Horizon*, 15(4), 345–358.
- Mock, S. Theodore J., Jean Bédard, Paul J. Coram, Shawn M. Davis, Reza Espahbodi, Rick, C., & Warne. (2012). The Audit Reporting Model: Current Research Synthesis and Implications. *American Journal of Practice & Theory* 32: 323–51.
- Ogbonna, G. N., & Appah, E. (2014). Causality of Audit Expectation Gap and Corporate Performance in Nigeria. *Research Journal of Finance and Accounting*, 5(9). 11-21
- Okafor, C. A., & Otolor J. I. (2013).Narrowing the expectation gap in auditing: the role of the auditing profession. *Research Journal of Finance and Accounting* 4: 43–52.
- Okaro, S. C. (2005). The Role of the Securities and Exchange Commission in Protecting The Integrity of the Nigerian Capital Market. *The Nigerian Accountant*, 38 (4), 18-22
- Okoye, L, Erin, O., Ado, A, & Areghan, I (2017). Corporate governance and financial sustainability of microfinance institutions in Nigeria. In: Proceedings of the 29th international business information management association conference, IBIMA 2016: sustainable economic growth, education excellence and innovation management through vision 2020
- Olagunju, A. (2011). An Empirical Analysis of the Impact of Auditors Independence on the Credibility of the Financial Statement in Nigeria. *Research Journal of Finance and Accounting* 2: 82–99.
- Onulaka, P. (2014). Effect of audit expectation gap in Nigerian capital market. *International Journal of Account Financial Report* 4(2):294–311
- Onulaka, P., & Samy, 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
- Porter, B., Simon J., & Hartherly, D. (2005). Principles of Auditing. New York: John Wiley and Sons Ltd.
- Salehi, M. (2016). Quantifying audit expectation gap: a new approach to measuring expectation. *Zagreb Int Rev Econ Bus* 19(1):25–44
- Salehi, M, Masoury A., & Azary Z (2009). Independence and audit expectation gap: empirical evidence from Iran. *International Journal of Economics and Finance* 1(1):165–174
- Salehi, M. (2011). Audit expectation gap: Concept, nature and trace. *African Journal of Business Management*, 5(21), 8376-8392.
- Swamy, M., (2007). An Empirical Study of Corporate Audit Expectation Gap in Bangalore City.



Uwugbe O, Olorunsho O, Uwugbe U, Ozordi E, Asiriwa O, Asaolu T, Erin O (2019). Corporate governance and financial statement fraud among listed firms in Nigeria. In: *IOP conference series: earth and environmental science*, 33(1), p 012055