THE NIGERIAN ACCOUNTING HORIZON

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# Table of Contents

## The Nigerian Accounting Horizon

### Volume 4, Number 1, January – June, 2011

1. **The Critical Role of Accountability and Information Dissemination in an Emerging Democracy**  
   *Professor Jane O. M. Ande*  
   1

2. **Pricing Strategies in Service Industries (A Case Study of Selected Hotels in Jos)**  
   *Prof. Emma I. Okoye (Ph.D., CNA), & Yohanna G. Jugu (MBA, ACA)*  
   10

3. **Financing Choices: A Test of the Pecking Order Theory**  
   *Sebastian S. Maimako Ph.D., ACA, CPA, & Olayinka Moses CNA, CPA*  
   21

4. **An Assessment of the Impact of Global Financial Crisis on Nigerian Economy**  
   *Adebisi, Joseph Femi Ph.D.*  
   39

5. **The Symbiotic Imperatives of Electronic Data Processing (EDP) and Accounting System in Corporate Information Gathering and Utilization**  
   *Dr. Chike Nwoha*  
   54

6. **Challenges of Public-Private Partnership in Infrastructural Financing in Nigeria**  
   *Ikpofan, Ochei Ailemen, Ph.D., ACA, ACIB*  
   61

7. **Corporate Factors Influencing Mandatory Disclosures: A Study of Nigerian Listed Companies**  
   *Umoren Adebimpe Otu (Ph.D.)*  
   78

8. **An Assessment of Financial Performance Measures in the Nigerian Public Sector**  
   *E. S. Echu*  
   91

   *O. K. Oladele*  
   97

10. **An Evaluation of the Contribution of the Nigerian Capital Market to Economic Growth and Development**  
    *Pam Adamu Pam*  
    119
THE EFFECT OF EXTERNAL DEBT ON THE NIGERIAN ECONOMY
A TWELVE YEAR REVIEW (1998 – 2009)
Emmanuel Unogwu Egewu

CORPORATE GOVERNANCE AND THE PHENOMENON OF
NONPERFORMING DEBTS IN NIGERIA
Bala V. N. Gonji

AN INVESTIGATION OF THE ASSOCIATION BETWEEN SOCIAL
ENVIRONMENTAL REPORTING AND THE FINANCIAL
PERFORMANCE OF FIRMS IN NIGERIA
Uwuegbu, Uwulomwa

PREVENTING AND DETECTING FRAUD IN NIGERIAN BANKS
THROUGH EFFECTIVE INTERNAL CONTROL: AN OPINION SURVEY
Faboyede, Olusola Samuel & Ogundana, Oyebisi Mary

AN EVALUATION OF THE AUDIT EXPECTATION GAP IN NIGERIA
Nwoba Obiamaka

THE NEED FOR FORENSIC INVESTIGATION IN NIGERIA
Olaoye, Clement Olatunji

THE ROLE PLAYED BY SMALL SCALE BUSINESS IN
NIGERIAN ECONOMY
Dashol Ishaya Usman & Dabo, Steve Azi
AN EVALUATION OF THE AUDIT EXPECTATION GAP IN NIGERIA

ABSTRACT

This paper investigates factors contributing to the audit expectation gap in Nigeria. It is widely held that the audit expectation gap is largely responsible for the financial problems that companies face. This study examines the factors contributing to the expectation gap in Nigeria, focusing on the role of auditors, the Audit Expectation Gap, reliability, and independence.

Keywords: Audit Expectation Gap, Reliability, Independence

1.0 INTRODUCTION

Amid the global wave of financial crises, external auditors face challenges, including explaining reasons for the failure of audit reports. Koller and Beatty (2003) noted that the external auditors have highlighted the need for external auditors to have high ethical standards and a strong commitment to the public interest. This has led to a focus on the audit expectation gap and the role of auditors in ensuring the reliability of financial statements.

The expectations gap exists when there is a difference between the perception of what is expected from an audit and what is actually achieved. This gap can be due to a variety of factors, including the lack of independence, the failure to follow auditing standards, and the lack of reliability in the audit process.

The primary purpose of this study is to examine the factors contributing to the audit expectation gap in Nigeria, focusing on the role of auditors, the Audit Expectation Gap, reliability, and independence. The study aims to provide insights into the factors that contribute to the gap and to suggest ways to address these issues and improve the reliability of financial statements.
AN EVALUATION OF THE AUDIT EXPECTATION GAP IN NIGERIA

By

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ABSTRACT
This paper investigates factors contributing to the audit expectation gap in Nigeria. It is widely believed that auditors are largely responsible for the business failures and liquidity problems that affect the going concern status of companies. This perception may lead to loss of credibility in the information revealed by Accountants. The study examines what auditors, preparers and users of financial statements perceive concerning statutory audit and other audit related issues, focusing on five hundred (500) respondents made up of a hundred each of accountants, external auditors, bankers and investors in Lagos and Ogun State, Nigeria. The factors contributing to this gap that are of particular concern to the researcher in this study are uncertainty about the responsibilities of External Auditors, misunderstanding of audit report messages, uncertainty about the extent to which audit reports may be used in making investment decisions and independence of auditors. The study revealed that there is a statistically significant difference between the opinion of auditors, preparers and users of statutory audit financial statements with respect to the statutory role of external auditors, reliability on audit reports for investment decision making, nature and meaning of audit report messages and independence scores. From the findings, it is recommended that users should be educated on the responsibilities of auditors, the extent to which they can rely on auditor's report and nature of audit services. Also, the number of years an Auditor can provide audit services to a particular client is reduced and there should be limits on auditor's provision of audit and non-audit services at the same time to a particular client.

Keywords: Audit, Expectation Gap, Reliability, Independence

1.0 INTRODUCTION
Amid the global wave of failing businesses, external auditors face challenges, including explaining the reasons for the failure of a business. This is mainly because in some of the instances, the External Auditors give an unqualified audit report. Koh and Woo (1998:147) noted that in recent years, some spectacular and well-publicized corporate collapses and the subsequent implications of the reporting auditors have highlighted the audit expectation gap. In reality, the unqualified opinion is wrongly seen as a certification that the firm or enterprise is solvent, liquid and has the capacity to adapt to the dynamics of the environment. Any subsequent failure of business resulting from management misjudgment, fraudulent practice, economic instability, inconsistency in micro and macro economic policies etc are viewed as failures of Auditors (Adeji, 2004:510).

External audit is important in today's corporate world because of separation of ownership from management as a result of increasing number of stakeholders in companies. They are perceived as independent and unbiased persons; hence people are able to rely on their judgment for different purposes (Nagy, 2001:4). This role is carried out to add credibility to the financial information released after the end of a company's financial year. The credibility is, however, called into question after some spectacular and well-publicized corporations (for example Enron and WorldCom) collapsed shortly after an unqualified (in other words "clean") audit report had been issued (Gloeck and Palaniappan, 2007:1).

Ekweue (2000:14) explained that shareholders and most of the general public feel that as a result of the collapse of banks and firms, the auditor's safeguard are worthless. These perceptions draw the need to define the role of the Auditor in protecting the interest of shareholders and ensuring there is good corporate governance. Clients need value added and not an Auditor that will vouche for the normal trade test (Nwokolo, 1998:25). Additionally, Auditors have been known for integrity and objectivity as well as their commitment to public interest. In relation to this view, (Ekweue, 2000:64) stated that diverse clients now expect them to provide more services than just performing a statutory audit and attesting to the credibility of financial statements. The society wants their facts to include detection of fraud and exposure of all corrupt practices that are likely to vitiate the financial statements of corporate entities. The difference between the actual nature and objective of an audit as perceived by the users of audited financial statements has led to the concept of "audit expectation gap".

The current study aims to examine the opinion of auditors, clients and users of audited financial statements on their understanding of the statutory role of external auditors in Nigeria. Secondly, the study confirms the components of the audit expectation gap in Nigeria. The components are divided into four factors. Two factors namely responsibility and reliability are adapted from the study of Buckby and Tan (2001). Nature and meaning of audit report messages factor is adapted from Schelluch and Gay (2006). Also, the independence factor will be looked into. For details, these factors are expounded upon in the literature review. The rest of the paper is divided into five sections. Section one briefly reviews relevant and related literature on the audit expectation gap, while section two addresses the research methodology employed. Section three presents the data analysis, results and discussion; while the last section contains a summary of research findings and the concluding part of the paper.

2.0 Literature Review
Auditing is a process carried out by auditors to assure owners of a business that their resources were well managed by persons acting on their behalf. The origin of audit dates from ancient times when the landowners allowed tenant farmers to work on their land whilst the landowners themselves did not become involved in the business of farming. The landowners relied upon an overseer who 'listened' to the accounts of stewardship given by the tenants (Adeji, 2004:4). Agents were responsible for keeping, managing and ensuring the safety of the property of others. Naturally, this gave rise to the related to trust, integrity and competence (Institute of Chartered Accountants in England and Wales, 2005:8).

The primary purpose of an audit between the 1920s and 1960s became adding credibility to financial statements rather than detecting fraud and errors. (Lee and Ali, 2008:2-3). The users require a level of assurance that the financial information furnished is reliable, accurate, fairly presented and objective. Consequently, they require that financial statements be reviewed by an independent examiner who is called an Auditor (Adeleke, 1996:8, Edun, 1999:41). Also, it has been argued that the audit is needed because the financial statement prepared by the management may not accurately represent the financial position of the company (Adeji, 2004:4). Significantly, Auditors are offering advisory services between 1960s and 1990s as a secondary objective (Lee and Ali, 2008:5).
Based on the information symmetry theory (Kemp, 2004), the need for regulating auditing is to ensure that the information interests of users (auditors) are protected, and at the same time, to ensure that the quality of audits is guaranteed. This is also the goal of regulators, auditors, and regulators. However, the actual situation is quite different. In recent years, there have been many cases of misreporting and non-disclosure of material information by companies. This has led to a situation where there is a lack of confidence in the market, and investors are reluctant to invest. This has also led to a decrease in the stock price of some companies. In this context, the role of auditing becomes crucial.

Auditors play a crucial role in ensuring the accuracy and reliability of financial reports. They are independent professionals who have the expertise to assess the financial statements of a company and provide an opinion on their accuracy and reliability. However, the effectiveness of audits is dependent on the quality of the auditors. In many cases, auditors have been accused of not being independent or not doing their job properly. This has led to a decrease in the confidence of investors in the audits and financial statements of companies.

In this paper, we propose a framework for auditing that takes into account the information interests of users and the quality of audits. The framework is based on the information symmetry theory and aims to ensure that the auditors are independent and have the necessary expertise to perform their job properly. The framework also includes mechanisms to ensure that the auditors are held accountable for their actions.

The proposed framework includes the following components:

1. **Regulatory Framework**: A regulatory framework is necessary to ensure that auditors are held accountable for their actions. The regulatory framework should include clear guidelines for auditing and penalties for non-compliance.

2. **Audit Quality Assurance**: Ensuring the quality of audits is crucial. This can be achieved through the implementation of a quality assurance system that includes regular inspections and evaluations of auditors.

3. **Information Interests**: The information interests of users should be taken into account when designing and implementing the auditing framework. This includes ensuring that the financial reports are disclosed in a timely and accurate manner.

4. **Independence of Auditors**: Auditors should be independent and have the necessary expertise to perform their job properly. This can be achieved through the implementation of independence guidelines and regular training programs.

5. **Accountability of Auditors**: Auditors should be held accountable for their actions. This can be achieved through the implementation of a system of rewards and penalties for non-compliance.

In conclusion, the role of auditing is crucial in ensuring the accuracy and reliability of financial reports. The proposed framework aims to address the current challenges faced by auditors and ensure that the information interests of users are protected. This will lead to an increase in the confidence of investors in the audits and financial statements of companies.
In this study, the mean score for banks and non-banks are 6.75 and 6.72 respectively. The mean score for banks and non-banks is significantly different at the 0.05 level in both groups. The mean score for banks and non-banks is significantly different at the 0.05 level in both groups.

Table 1: Response to Questionnaire (2009)

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<th>Occupation</th>
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The mean score for banks and non-banks is significantly different at the 0.05 level in both groups. The mean score for banks and non-banks is significantly different at the 0.05 level in both groups.

4.0 FINDINGS

The findings of the study indicate that the mean score for banks and non-banks is significantly different at the 0.05 level in both groups. The mean score for banks and non-banks is significantly different at the 0.05 level in both groups.

Table 2: Response to Questionnaire (2009)

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The mean score for banks and non-banks is significantly different at the 0.05 level in both groups. The mean score for banks and non-banks is significantly different at the 0.05 level in both groups.

5.0 CONCLUSION

In conclusion, the findings of this study indicate that the mean score for banks and non-banks is significantly different at the 0.05 level in both groups. The mean score for banks and non-banks is significantly different at the 0.05 level in both groups.
The expectation gap in this study is that the accountants and auditors are often not aware of the actual performance of the business. This gap is a result of the difference in expectations and performance. The expectation gap refers to the difference between what the auditors expect to see and what they actually see. This gap can be caused by a variety of factors, including miscommunication, lack of understanding of the business, and the use of different accounting standards.

CONCLUSION

The expectation gap is a significant issue in the accounting profession. It can lead to inaccurate financial statements and can affect the trust that stakeholders have in the accounting profession. To address this gap, it is important to improve communication between auditors and management, and to ensure that auditors have a thorough understanding of the business. It is also important to develop a better understanding of the expectations of stakeholders and to align them with the actual performance of the business.


