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Causality of Audit Expectation Gap and Corporate Performance in Nigeria

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Abstract
This study examined the relationship between Audit Expectation Gap and firms' performance in Nigeria which arises as a result of the several differences between the auditors' role as defined by law and the perceived role of the Auditor by the users of audited financial statement of companies. Cross sectional field survey of the quasi-experimental research design was used in this study because the survey relied on a sample of elements from the population of interest. Secondary data was also used to corroborate the primary data. Diagnostic analysis, augmented Dickey-Fuller analysis, regression analysis and granger causality analysis were used to test the implications the independent variables have on the dependent variables. The results showed that the variation in earnings per share and return on capital employed was attributable to the variation in detection of error and fraud and opinion of auditors in the audited financial statement and that the independent variables granger cause the dependent variables. The study concludes that EPS is significantly influenced by prevention of error and fraud in audited financial statements. Therefore the study recommends, among others, that the Audit profession should accept additional or modified responsibilities demanded by the users of audited Accounts in order to further improve EPS and audit-cost-benefit value. Also necessary is the use of engagement letter as an appendix to Audited Accounts to explain and create awareness to the users of Annual Accounts of what the CAMA, 1990 requires the duties of auditors to be and what the auditors believes his legal duties entail.
Keywords: Audit, Expectation Gap, Corporate Performance, Causality, Nigeria

INTRODUCTION

The "audit expectation gap" is a crucial issue associated with the independent auditing function and has significant implications on the development of auditing standards and practices (Lin and Chen, 2004). The auditing profession believes that the increase in litigation and criticism against the auditors can be attributed to the audit expectation gap. The audit expectation gap is defined as the difference between what the public expects from an audit and what the audit profession accepts the audit objective to be. The audit expectation gap is critical to the auditing profession because the greater the unfulfilled expectations from the public, the lower is the credibility, earnings potential and prestige associated with the work of auditors(Lee et al., 2009). The essence of auditing and its expectation gap is facing the problem of relevance in the world today. The users of audited account are most times not satisfied with the work an auditor does and each of the users have their different ways and purposes in which they use the report of an auditor (Atu and Atu, 2010).

Over the years, the economy of Nigeria has been bedeviled by sustained high rate of corruption, conflicting financial reporting from various government agencies on petroleum income. The economy is really faced with poor human developmental and economic indices as evidenced by high rate of perennial and persistent inflation, low per capita income, poor income distribution, declining GDP and sustained impoverishment of the citizenry with its attendant national and international image problem (Ogbonna, 2011). Nigeria has been classified in various positions as one of the most corrupt nations in the world by Transparency International (T I). As a result of corruption, 80% of Nigerian energy revenue benefits only 1% of Nigerian population (World Bank Report, 2010).This means that Nigerian natural resources are corruptly exploited and mismanaged by few privileged individuals. A typical example is the Nigerian crude oil blocks owned by few individuals to the exclusion of the majority. The social stigma and integrity complex that are associated with such negative and notorious classification leaves much to be desired by any nation. The accounting profession in Nigeria has been under pressure due to rising public expectation. The rise in public expectation was occasioned by the series of business and financial institutions failures that occurred during the recessionary years of late 80's and 90's, which gave rise to increased public interest/expectation (Samuel, 2000). This series of failures did not go unnoticed by the investing public and regulatory authorities that each and every one of the organizations that that crashed had engaged the services of highly reputable firm of chartered accountants, auditors, lawyers and other professionals (Randle, 1998). So, the question is what went wrong

The criticism of and litigation against auditors failing to meet society's expectations is clearly harmful to the individual auditor and/or audit firm concerned (Porter and Gowthorper, 2004). Asien (2007) argued that the unqualified audit opinion is wrongly seen as a certification that the firm is solvent, liquid and has the capacity to adapt to the dynamics of the environment which continuity of existence implies. This lack of understanding on the part of the public makes it difficult for them to know who has responsibility for financial statements preparation and the continued existence of the enterprise. As per CAMA, the management is responsible for the preparation of the financial statement.

External auditor reports add credibility to the financial reporting by ensuring that accounting statements follow the generally accepted guidelines and are accurate, but when the auditor's performance is below public expectations then his signature together with his brief opinion will no longer be useful to decision makers. For instance, if the auditing profession has issued a standard that says that auditors should observe the client company's stock-taking procedures but the auditor fails to do so then his performance would be said to be deficient because he has not behaved in a manner consistent with professional auditing standards.

For many years external auditors have been subjected to increasing amounts of criticism and litigation and the collapse of Enron and WorldCom in the US, and the subsequent worldwide disintegration of their external auditors (Arthur Anderson) has demonstrated the fragility of professional reputations. The most damaging criticisms are those that suggest that an auditing firm has failed the society in which it works. So it is vital to understand, what society expects of auditors. The global search for a solution to the audit expectation gap problem has become strident. The credibility of the accounting profession appears to be at its lowest ebb. In the United States of America, the profession has lost its self regulatory status .In this circumstance, the profession is bestirring itself and the result is a welter of fresh suggestions and initiatives aimed at solving the expectation gap problem. Some of the suggestions appear mundane while some others at best appear controversial. One U.K research study even concluded that expectation gap problem cannot be eliminated. There is the belief that the accountancy profession has resisted change in auditing for so long that it was unlikely to change of its own initiative. Therefore, it becomes crucial to investigate the perceptions of all major stakeholders involved with financial reporting and the effect of its performance on firms.The objective of this study therefore, is to examine the causality between audit expectation gap and corporate performance in Nigeria. To achieve this objective, the paper is divided into five interconnected sections. The next section presents the review of relevant literature on audit expectation and corporate performance. Section three examines the materials and methods used in the study. Section four presents the results and discussion and the final section examines the conclusion and recommendations.

LITERATURE REVIEW

This section of the paper examines relevant literatures on audit expectation and corporate performance in Nigeria.

Theoretical Framework

The study was anchored on a number of theories. These theories, which are briefly discussed and related to the study include:

(i) The Agency Theory;
(ii) The Inspired Confidence Theory; and
(iii) The Policeman Theory.

The Agency Theory: In agency theory, a principal delegates decision making responsibility to an agent; in the case of a company the agents are the directors /managers. The theory implies entrusting resources to the agent and in turn these agents must usually produce a report regarding the use of resources both in quantitative and qualitative manner. Those entrusted with decision making authority are generally regarded as having a duty of 'accountability' a duty to demonstrate how they managed the resources entrusted to them. Audit serves a fundamental purpose in promoting confidence and reinforcing trust in financial information. Agency theory is a useful economic theory of accountability that helps to explain the development of the audit. Agency theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by the agents (Gerrit and Mohammad, 2007). Agency theory is based on this relationship between investors (principals) and managers (agents). The Institute of Chartered Accountants in England and Wales, in November 2006, as cited by Millichamp and Taylor (2008) puts it this way: In principle, the agency model assumes that no agents are trustworthy and if they can make themselves richer at the expense of their principals they will. The poor principal, so the argument goes, has no alternative but to compensate the agent well for their endeavours so that they would not be tempted to go into business for themselves using the principal's assets to do so.

An audit provides an independent check on the work of agents and of the information provided by an agent which helps to maintain confidence and trust, (ICAEW, 2005). The simplest agency model assumes that no agents are trustworthy and if an agent can make himself better off at the expense of a principal then he will. Auditing is a means of monitoring that will lead to an overall reduction of agency costs (Ng, 2002).

The Theory of Inspired Confidence*:* Limperg (1932) published a series of essays which became known as the 'Theory of Inspired Confidence'. He argued that the auditor derives his general function in society from the need for an expert and independent opinion based on that examination. The function is rooted in the confidence that society places on the effectiveness of the audit and in the opinion of the accountant. This confidence is, therefore, a condition for the existence of that function; if the confidence is betrayed, the function, too, is destroyed, since it becomes useless. He went on to argue that, there were two circumstances in which the confidence could be betrayed. It could be betrayed if the expectation of society is exaggerated, that is, it exceeds what the auditor is capable of performing. Conversely, it can be betrayed if the auditor under-performs. He recognized that society's needs are not static. They are dynamic and influenced by changing perceptions and changes in the environment. The central area of Limperg's work is related to the social responsibility of the independent auditor and possible mechanisms for ensuring that audits meet society's need. Limperg's work highlights the importance of the social significance of auditing and the implications for how an audit should be performed. Limperg (1992) emphasizes the role of the auditor in relationship with the users of financial statements in the sense that the independent auditor acts as a confidential agent for society. Limperg's framework is based on the greatest possible level of satisfaction of users of financial statements with regard to the auditor's work. In achieving this objective, the auditors are to perform enough work to meet the expectations they have aroused in society.

The Policeman Theory: An auditor's job is to focus on arithmetical accuracy and on the prevention and detection of fraud. Is an auditor responsible for discovering fraud, like a policeman? This was the most widely held theory on auditing until the 1940's. Under this theory an auditor acts as a policeman focusing on arithmetical accuracy and on prevention and detection of fraud. However, due to its inability to explain the shift of auditing to, verification of truth and fairness of the financial statements; the theory seems to have lost much of its explanatory power. Recent financial statements have resulted to careful reconsideration of this theory. However, there is an ongoing public debate on the auditor's responsibility for detection and disclosure of fraud drawing stakeholders onto the basic public perceptions on which the theory is derived. Auditing literature did not support this theory. The responsibility for the prevention and detection of fraud and irregularities is that of the management of the enterprise who may obtain reasonable assurance that this responsibility has been discharged by establishing an adequate system of internal control. It is not part of an auditor's duties to search for fraud unless he is required to do so by a specific term of his engagement. However, if audit is properly carried out, the work of auditor should expose fraud and irregularities where they exist.

The Concept of Audit Expectation Gap

Audit expectation gap is a critical issue in auditing because of the damage it has brought, and continues to bring to the essence of the auditing profession Fazdly andAhmed (2004). Baker (2002) argues that public confidence in a group of professionals is the "living heart"of the profession. Hence if such confidence is betrayed, the professional function too is destroyed, since it becomes useless (Porter *et al*., 2005). According to Appah (2011), the widespread criticism of and litigation against auditors indicates that there is a gap between society's expectations of auditors and auditors' performance as perceived by society. The majority of research studies suggest that the audit expectation gap is mainly due to users' reasonable expectations of audits as well as their unrealistic perceptions of the audit profession's performance. ABREMA (2008) says that the expectation gap is the gap between the auditor's actual standard of performance and the various public expectations of the auditor's performance. McEnroe and Martens (2001) note that the auditing expectation gap is the difference between (i) what the public and other financial statement users perceive auditors' responsibilities to be and (ii) what auditors believe their responsibilities entail. Ojo (2006) described the audit expectation as the difference between what users of financial statements, the general public perceive an audit to be and what the audit profession claim is expected of them in conducting an audit. In this respect, it is important to distinguish between the audits profession's expectations of an audit on one hand the auditor's perception of the audit on one hand. Many members of the public expect that auditors should accept prime responsibility for financial statements; auditors certify financial statements; auditors clear opinion should guarantee the accuracy of financial statements; auditors should perform 99% check; auditors should give timely warning about the possibility of business failure and auditors should prevent and detect fraud. These public expectations are beyond the actual standard of performance by auditors. By the audit profession, the reality is that management is fully responsible for the content of financial statements; an audit should only provide reasonable assurance that financial statements are free from material misstatement; an audit are only required to test selected transactions. It does not make economic sense in today's world to check all transactions and an audit does not guarantee that fraud will be detected. It on this basis that Haniffa and Hudaid (2007) observed that one of the causes of the performance gap in relation to the auditors' role and responsibilities is due to a deficiency in the standards, a situation that arises when auditors are not able to fulfill the role and responsibilities expected by the public because they are not clearly defined or are included in the legal pronouncements.

An expectation gap regarding materiality seems to exist. Several studies indicate that users demonstrate lower materiality thresholds than auditors (deficient performance gap) (Cho et al. 2003; Holstrum and Messier 1982, 58; Højskov 1998,). Many users expect that an unqualified audit report implies that an auditor has performed a hundred percent check and guarantees the preciseness of the financial statements (unreasonable expectations gap) (Den Dekker 2005, 25; Gowthorpe and Porter 2002). The gap that is caused by unreasonable expectations of users is also referred to as the 'knowledge gap', because it results from users having not enough knowledge with respect to the auditors' existing responsibilities (Gowthorpe and Porter 2002). In her research, Brakenhoff states that one third of the users of the financial statements are not informed about the concept of materiality (Brakenhoff 2002, 37).

The existence of an expectation gap regarding materiality, might contribute to a reduction of the perceived value of the auditor's opinion as regards to the true and fair view of the financial statements of a company. This is not in the interest of users and auditors of the financial statements. Therefore, it is important to know whether a relevant expectation gap regarding materiality exists and if so, how to narrow it.

Contributing Factors to the Audit Expectation Gap

Different views exist of the reasons for the existence of the audit expectations gap. The audit profession tends to blame the unawareness and unreasonable expectations of the public and the users for the existence of the gap. However, studies have shown that the audit profession itself may be the reason for the gap's existence. (Lesage et al., 2011) Several factors describe what drives and causes this audit expectations gap and some of these contributing factors are the complicated nature of the audit function, conflicting role of auditors, retrospective evaluation of auditors' performance, time lag in responding to changing expectations, unawareness and unreasonable expectations and auditors not being independent enough. (Lee and Azham, 2008 & Humphrey, 1991)

The audit function is of complicated nature as it is dynamic as the role of the auditor tends to evolve and change over time as a consequence of contextual factors such as socio-economic development, business failures and verdict of the courts. In addition, the nature of the audit function is further complicated by the subjective concepts used in audit reports, such as "true and fair view", "reasonable" and "materiality". As a result, the public may have a lack of understanding of how to interpret the various concepts, or may not be aware of how the audit function has evolved and when there is a change in the duties of the auditors. Thus, this complicated nature of the audit function contributes to the audit expectations gap. (Lee and Azham, 2008) According to Dobroţeanu et al. (2009), the public way of thinking has not followed the evolution of the audit function and is thus anchored in the traditional role of an auditor as a policeman, which will detect all mistakes and frauds. According to Humphrey (1991), the debate about the audit expectations gap has up until 1991 focused on the audit function and the two of the main aspects of it has been audit assurance and audit reporting. The debate about the audit assurance has been based on the audit report. According to Lee (in Humphrey, 1991), the general view of the audit report, both among the public and among auditors, has been that it is a guarantee of accuracy. In addition, there are views that the audit report aims to give assurance of the financial health of the company as well as the efficiency of management. The debate about audit reporting has focused on the form and content of audit reports and different views exist in this area. Unqualified audit opinions have been perceived by the users as something that is only issued if the audit client does not have any financial problems. As a consequence, the users have difficulties understanding why companies may have serious financial problems short after the auditors have issued an unqualified audit opinion. Moreover, qualified audit opinions may diverge in the intended message and the perceived meaning by users. In this aspect, the audit expectations gap is enhanced by a codification problem, i.e. that if users had better understanding of the code used by auditors in the audit reports, the users would perceive the messages more accurately.

The conflicting role of auditors is a consequence of the increased amount of consulting services offered by audit firms. Thus, the auditor both serves as an advisor to management, which wants the advisor to ignore financial manipulation, and as an objective auditor in the interest of the shareholders, which want the auditor to report all financial problems. These conflicting roles create a conflict of interest as the auditor, knowing that the consulting service is very lucrative, may act in the interest of the management in order to secure the income of the consulting service. As a result, this may impair the audit independence and thus the objectivity of the audit. (Lee and Azham, 2008) In fact, prior research has shown that the conflicting role of auditors does have negative impacts of the audit independence and this may impact both the independence in fact and in appearance (Lee, Azham and Bien, 2009) The conflicting role of auditors causes an expectations gap as the public may assume that auditors act in self-interest and thus do not achieve the reasonable expected performance (Lee and Azham, 2008).

Retrospective evaluation of auditors' performance takes place as the public is incapable of determining the quality of an audit and thus the hindsight evaluation is the only visible indication of the auditor performance (Lee and Azham, 2008). As a result, the audit failures become visible as they are of high newsworthiness, while good quality audits remain in the background. This effect enhances the un-met expectations. (Humphrey, 1991) Hindsight evaluation might not be a fair evaluation as hindsight knowledge makes the public believe that the audit was not performed adequately, even though the auditors may not have had all this information. This becomes especially obvious in the case of corporate scandals and collapses where the public assumes that a business failure also means deficient auditor performance and thus an audit failure. This misperception of the quality of an audit further increases the audit expectations gap. (Lee and Azham, 2008)

Time lag in responding to changing expectations is another factor that causes an audit expectations gap. Corporate scandals give rise to changed public expectations of the audit function and may as a consequence lead to changed or increased auditing standards as well as changes in practice. Even so, there is a time lag in the responses and auditors may still be criticised for not responding fast enough in order to be able to meet the changing demands of the business environment. (Lee and Azham, 2008) In addition, the audit profession and the relevant public authorities are criticised for only taking action in the event of scandals and crises and thus having a retrospective approach to maintaining the quality of the profession (Lee et al., 2009). According to an investigation by the Canadian Institute of Chartered Accountants (in Humphrey, 1991) carried out in 1988, the users of the audit reports had reasonable and achievable expectations of the audit. Rather, the audit expectations gap existed due to the fact that the audit profession had failed to not quick enough react and evolve to the changes in the business and social environment. Thus, the audit profession needs to increase its ability to adapt, as the audit expectations gap may almost only be narrowed by the profession accepting the need for change. (Humphrey, 1991) 21

Another factor that enhances the audit expectations gap is the ***society's unawareness and unreasonable expectations*** of auditors. The reasons for the unreasonable expectations are partly that the public misunderstand the nature, purpose and capacities of an audit function. (Lee and Azham, 2008) Generally, users of audit reports perceive the audit function to be broader than the audit function performed. In addition, the perceived audit function is broader than the audit function required by legislation and what is seen as legitimate by auditors. According to Humphrey (1991), the audit profession's response to the audit expectations gap is usually to highlight the public's lack of understanding of the audit function and the unreasonable expectations they have. (Humphrey, 1991) More specifically, the public seems to believe that the auditor's signature on the audit report means that all numbers are absolutely correct. The consequences of this are that the risks of an audit have been overlooked and that the capabilities of the auditor have been over-emphasised. (Lee et al., 2009) Duties that are part of the unreasonable expectations may not be cost-beneficial to perform for the auditor and as a result, these duties will not be part of the auditors reasonably expected performance unless the audit beneficiaries are prepared to bear the costs. (Lee and Azham, 2008) Moreover, media plays an important role in the formation and representation of the public opinion. As accounting, auditing, corporate scandals etcetera are of complicated nature and not completely understood by large parts of the public, media has the opportunity to form the public opinion by explaining these areas in a way that is understandable to the public. However, these explanations are founded in the journalists own perceptions of the situation and in addition they are able to attract all attention to specific issues. As a result, media may after reporting about e.g. a business fraud increase the public expectations of the auditor. (Lesage et al., 2011)

The final aspect that affects the audit expectations gap is the **audit independence**. This is seen as the most valuable attribute of an auditor as it is of high importance that the audit is performed objectively. There are concerns that auditors not being, or seeming to be, independent enough will affect the audit expectations gap. Competitive pressures to acquire audit clients may have lead to audit firms cutting costs to an extent where it may affect the audit quality and the audit independence. Another concern that may impair the audit independence is the provision of non-audit services. However, all major investigations in this area up until the beginning of the 1990's have found little evidence that these services actually impaired the audit independence. According to several studies reviewed by Humphrey (1991), user groups had much stricter views on situations that could jeopardise the audit independence, than the auditors themselves. (Humphrey, 1991) In spite of the efforts by the profession to increase the audit independence, the public confidence in the independence of auditors seems to remain unchanged (Dobroţeanu, Dobroteanu and Ciolpan, 2009). This, they argue, is a consequence of a minority of the auditors, which do not seem to value the professional ethics and independence in appearance (Dobroţeanu, Dobroteanu and Ciolpan, 2009).

Firms Performance

This has to do with the effective and efficient utilization and allocation of firms' financial resources with the objective of maximizing shareholders interest through return on capital employed and other financial performance indicator.

Earnings Per Share

This is one way of checking from shareholders perspective if the company's profitability is growing or not. It shows how much each ordinary share of the company will earn from the profit. The Anglo Saxon companies put much emphasis on the ratio and it is a requirement of GAAP and IFRS to always show the ratio on financial statement.

Earnings per share are the profit, expressed in pence attributable to each ordinary share outstanding. It is profit or loss attributable to the ordinary shareholder, divided by the number of ordinary shareholders (Jennings, 1993)

$$EPS = \frac{\text{Earnings available to ordinary shareholders}}{\text{Number of ordinary share}}$$

Earnings per share (EPS) are widely used in stock market measure. Of all the information disclosed in corporate financial statement, the earnings per share is the single most important accounting value (Ofuan, 2005).

Return on Capital Employed (ROCE)

This ratio show how much the company has received from its investment in long term funds. The long term funds are shareholders equity entrusted to the company for a long period of time. Bauwhede (2009) stated that this ratio is in compliance with corporate governance of a company.

There is no widely definition of return on capital employed (ROCE). Therefore due care is taken in calculating the ROCE of companies used. The return on capital employed compares the profit earned before interest and tax to the fund used to generate the return often capital employed.

The return on capital employed (ROCE) is net profit before interest and tax divided by capital employed.

$$ROCE = \frac{\text{Profit before interest \& tax}}{\text{Capital Employed}}$$

Empirical Studies

Hilan (2000) in Singapore studied audit expectation gap with reference to a company's audit objectives. The study objective is to examine if an audit expectation gap exists between auditors and non-auditors in Singapore with respect to the objectives of a company audit. He concluded that an audit expectation gap with respect to company audit objectives exist s between auditors and non-auditors. The non-auditors place a significantly greater demand on audits and auditors than what auditors themselves perceive as their roles and responsibilities to be. Also Martins, Kim and Amy (2000) in Singapore investigated audit expectation in Singapore. The study objectives include: (i) to examine the extent to which lower levels of user cognizance of the role, objectives and limitations of an audit are associated with unreasonable audit expectations and perception; and (ii) identifying the extent of gap with regard to expectations and perceptions about duties and responsibilities of auditors, fraud prevention and detection. The extent of the audit expectation gap is measured by comparing non-auditors' expectations and perceptions regarding the role, objectives, and limitations of an audit, with auditors' responses reflecting audit reality as prescribed in the standards.

Fadzly and Ahmed (2004) in Malaysia examined the perceptions of 'what auditors are doing' by comparing auditors' and users' perceptions. The study comprises of two parts. In the first part respondents' opinions and beliefs about audit functions were accumulated to find the evidence of expectation gap. In the second part a controlled experiment was used on investors to find the effect of reading material on respondents' expectations. For the controlled experiment, reading material was developed in the form of a brochure. It contained information about the audit functions and specially addresses the issues that are susceptible to misconceptions among the users such as auditor's responsibilities to accounts and financial statements and internal controls and fraud. 100 undergraduate students were selected and the questionnaire was administered to them twice over a period of four months, where the brochure was given only during the second survey. The students were in the first trimester of their senior year and would only learn about financial audit during their second semester. The result indicated that after reading the brochure there were no significant differences in students' and auditors expectations. The result of the study show a wider gap on the issue of the auditor's responsibility and lesser expectation gap with respect to reliability and usefulness of audit.

Lin and Chen (2004) in China investigated with respect to audit objectives, auditor's obligation to detect and reporting fraud and third party liability of auditors. The study evidenced the emergence of the expectation gap in China. Their study found that the beneficiaries believed that auditors were responsible for the truthfulness and reliability of financial statements, detecting and reporting errors and frauds, liable for fraudulent or misleading information contained in prospectus disclosure and disclose in the audit report the uncovered frauds, inefficiency or irregularities more than management. They concluded that much most be done to improve public accounting practices in China to bridge the expectation gap.

Dixon, Woodhead and Sohliman (2006) in Egypt investigated the expectation gap between auditors and financial statement. The study confirmed the existence of an expectation gap in the nature of the audit function, the perceived performance of auditors, their duties and role, their independence and the non-audit services. The data for the study were collected through questionnaire and the study participants were auditors, bankers and investors (general public, financial analysts and brokers). 100 questionnaires were distributed to each group and the overall response rate was 37% and the Mann-Whitney U-test was applied. The result of the study shows that there was a wider expectation gap on the issue of the auditor's responsibility and lesser expectation gap with respect to reliability and usefulness of audit.

Therefore on the basis of the literature, the following research hypotheses were examined in this study:

$H0_1$: There is no significant relationship between prevention of errors and fraud and return on capital employed

HO_2 : There is no significant relationship between expression of auditor's opinion on financial statement and Earnings per share.
HO_3 : Prevention of Errors and fraud does not significantly affect earnings per share.
HO_4 : Expression of auditor's opinion does not significantly affect return on capital employed.

MATERIALS AND METHODS

This study adopted both secondary and primary sources of data collection. The secondary sources of data include textbooks, journals, accounting professional pronouncements and magazines. The primary data for the study were generated through the administration of questionnaires conducted to evaluate audit expectation gap and corporate performance in the Nigeria. The target population includes all quoted firms in Nigeria while the accessible population includes quoted firms in the Bayelsa, Delta and Rivers States of Nigeria. Two hundred (200) respondents, from the sampled firms from the accessible population of twenty (20) firms for the period August 2013 – December, 2013. The sample of twenty (20) firms was reached via systematic sampling. Here, haven decided on the number of firms that will make up the sample (n), this was used to divide the population (N) to give the interval (K) within which accounting firms were selected. The first part of the questionnaire contains questions on organization' and respondents' characteristics. The second part of the questionnaire examined the audit expectation gap variables such as prevention of errors and fraud, auditors opinion, using five point scale of 5- great extent (GE), 4- considerate extent (CE), 3- moderate extent (ME), 2- slight extent (SE) and 1- no extent (NE). The third part of the questionnaire examines the various accounting performance indicators such as earnings per share, capital employed. A total of one hundred and fifty four (154) usable questionnaires were completed and used for the analysis. The questionnaire were pre-tested using twenty five (25) respondents in some of the sampled firms and a reliability test was done on the data collected using Cronbach Alpha model, to explore the internal consistency of the questionnaire (kothari, 2004; Krishnaswamy, Sivakumar and Mathirajan, 2004; Ndiyo, 2005; Baridam, 2008). The result of the reliability test shows that the designed questionnaire is highly reliable at 0.71. Excel software helped us to transform the variables into format suitable for analysis, after which the econometric view (E-View) was used for data analysis. The ordinary least square was adopted for the purpose of hypothesis testing. The ordinary least square was guided by the following linear model:

$Yi = f(X_1, X_2)$……………………………………………………………………………….. (1)

$EPS = \beta_0 + \beta_1 PEF_1 + \beta_2 AOP_2 + \varepsilon$ …………………………………………………………….. (2)

$ROCE = \beta_0 + \beta_1 PEF_1 + \beta_2 AOP_2 + \varepsilon$ ……………………………………………………………(3)

That is $B_1 - \beta_2 > 0$

EPS = Earnings per Share, ROCE = Return on Capital Employed, PEF = Prevention of Errors and Fraud, AOP = Auditors Opinion; β0, β1, β2, are the coefficients of the regression, while ε is the error term capturing other explanatory variables not explicitly included in the model. However, the model was tested using the diagnostic tests of heteroskedasitcity, serial correlation, normality and misspecification (Wooldridge, 2006; Gujarati and Porter, 2009; Asterious and Hall, 2007). Augmented Dickey-Fuller was also used in the study for stationarity of data.

RESULTS AND CONCLUSION

This section of the paper presents the results and discussion obtained from questionnaires administered to respondents from the sampled firms in three cities in Nigeria.

RESULTS FOR MODEL TWO

Table 1: Breusch-Godfrey Serial Correlation LM Test:

F-statistic	8.629189	Probability	0.173316
Obs*R-squared	14.34731	Probability	0.130264

Source: e-view output

Table one above shows the Breusch – Godfrey Serial Correlation LM test for the presence of auto correlation. The result reveals that the probability values of 0.17 (12%) and 0.13 (10%) is greater than the critical value of 0.05 (5%). This implies that there is no evidence for the presence of serial correlation.

Table 2: White Heteroskedasticity Test:

F-statistic	0.942165	Probability	0.310821
Obs*R-squared	9.519861	Probability	0.293577

Source: e-view output

Table two above shows the White Heteroskedasticity test for the presence of heteroskedasticity. The econometric result reveals that the probability values of 0.31 (31%) and 0.293 (29%) are considerably in excess of 0.05 (5%). Therefore, there is no evidence for the presence of heteroskedasticity in the model.

Table 3: Ramsey RESET Test:

F-statistic	0.067894	Probability	0.649215
Log likelihood ratio	0.071133	Probability	0.628195

Source: e-view output

Table three above shows the Ramsey RESET test for misspecification. The econometric result suggests that the probability values of 0.64 (64%) and 0.62 (79%) are in excess of the critical value of 0.05 (5%). Therefore, it can be seen that there is no apparent non-linearity in the regression equation and so it would be concluded that the linear model for the accounting services is appropriate.

Table 4: Augmented Dickey-Fuller Unit Root Test

Variable	ADF	1%	5%	Test for Unit root
PEF	-4.683626	-3.4755	-2.8810	I(0)
AOP	-3.039842	-3.4755	-2.8810	I(0)
EPS	-4.194624	-3.4755	-2.8810	I(0)
ROCE	-3.492857	-3.4755	-2.8810	I(0)

Source: e-view output

Table four above shows the Augmented Dickey-Fuller unit root test for stationarity of the variables. The result suggests that PEF, AOP, EPS and ROCE with ADF of -4.683626, -3.039842, -4.194624, and -3.492857 is less than 1% of -3.4755 and 5% of -2.8810. The result reveals that the variables are stationary at I(0). Therefore, ordinary least square can be applied in the analysis of data when data is stationary at I(0) (Greene, 2002; Wooldridge, 2006; Asterious and Hall, 2007; Brooks 2008; Gujarati and Porter, 2009; Kozhan, 2010).

Table 5: Multiple Regression Analysis
Dependent Variable: EPS
Method: Least Squares
Date: 10/20/13 Time: 15:58
Sample(adjusted): 1 154
Included observations: 153 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.275444	2.256856	1.451330	0.1488
PEF	0.285935	0.095662	2.989017	0.0233
AOP	0.249495	0.106627	2.339885	0.0306
R-squared	0.384214	Mean dependent var		12.99346
Adjusted R-squared	0.301218	S.D. dependent var		3.098167
S.E. of regression	2.888766	Akaike info criterion		4.997962
Sum squared resid	1226.711	Schwarz criterion		5.116803
Log likelihood	-376.3441	F-statistic		5.281431
Durbin-Watson stat	2.16401	Prob(F-statistic)		0.018507

Source: e-view output

Table five (5) shows the multiple regression analysis for earnings per share and audit expectation gap measured using prevention of errors and frauds. The result suggests that prevention of errors and fraud (PEF) and auditor's opinion (AOP) with p-values of 0.0233 (2%), and 0.0306 (3%) is less than the critical value of 0.05. Hence, we deduce that there is a significant relationship between audit expectation gap and corporate performance. The R^2 (coefficient of determination) of 0.384214 and adjusted R^2 of 0.301218 shows that the variables combined determines about 38% and 30% of corporate performance. The F-statistics and its probability shows that the regression equation is well formulated explaining that the relationship between the variables combined of corporate performance are statistically significant (F-stat = 5.281431; F-pro. = 0.018507).

Table 6: Regression Analysis
Dependent Variable: ROCE
Method: Least Squares
Date: 10/20/13 Time: 10:59
Sample: 1 154
Included observations: 154

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.401553	1.902005	3.365686	0.0010
PEF	0.196336	0.092215	2.129112	0.0349
AOP	0.314949	0.086671	3.633831	0.0204
R-squared	0.622878	Mean dependent var		12.83766
Adjusted R-squared	0.542571	S.D. dependent var		2.993393
S.E. of regression	2.709216	Akaike info criterion		4.869377
Sum squared resid	1086.298	Schwarz criterion		4.987700
Log likelihood	-368.9421	F-statistic		7.756112
Durbin-Watson stat	1.990554	Prob(F-statistic)		0.000002

Source: e-view output

Table six (6) shows the multiple regression analysis for return on capital employed (ROCE) and audit expectation gap measured using prevention of errors and frauds. The result suggests that prevention of errors and fraud (PEF) and auditor's opinion (AOP) with p-values of 0.0346 (3%), and 0.0204 (2%) is less than the critical value of 0.05. Hence, we deduce that there is a significant relationship between audit expectation gap and corporate performance measured with return on capital employed. The R^2 (coefficient of determination) of 0.622878 and adjusted R^2 0.542571 shows that the variables combined determines about 62% and 54% of accounting services provided by professional accountants. The F-statistics and its probability shows that the regression equation is well formulated explaining that the relationship between the variables combined of accounting services are statistically significant (F-stat = 7.756112; F-pro. = 0.000002).

Table 7: Pairwise Granger Causality Tests
Date: 10/20/13 Time: 16: 05
Sample: 154
Lags: 1

Null Hypothesis:	Obs	F-Statistic	Probability
PEF does not Granger Cause EPS	153	1.01032	0.03409
EPS does not Granger Cause PEF		2.59173	0.11950
AOP does not Granger Cause EPS	153	2.95517	0.03749
EPS does not Granger Cause AOP		0.72992	0.40071
PEF does not Granger Cause ROCE	153	3.06831	0.01162
ROCE does not Granger Cause PEF		0.44644	0.50992
AOP does not Granger Cause ROCE	153	0.11108	0.04159
ROCE does not Granger Cause AOP		0.04409	0.83532

Source: e-view output

Table seven (7) presents the econometric analysis of audit expectation gap and corporate performance in Nigeria using Granger Causality test. The result suggests that Prevention of errors and fraud (PEF) does granger cause earnings per share (EPS) because the probability of 0.03409 is less than the critical value of 0.05, that is (0.03409<0.05), also earnings per share (EPS) does not granger cause prevention of error and fraud (PEF) because the probability value is greater than the critical value of 0.05 (0.11950>0.05); auditors opinion (AOP) does granger cause earnings per share (EPS) because the probability value of 0.03749 is less than the critical value of 0.05 (0.03749<0.05), also earnings per share (EPS) does not granger cause auditors opinion because the probability is greater than critical value (0.40071>0.05); prevention of errors and fraud (PEF) does granger cause return on capital employed (ROCE) because the probability value is less than the critical value (0.01162<0.05), also return on capital employed (ROCE) does not granger cause prevention of errors and fraud (PEF) because the probability is greater than critical value (0.50992>0.05). Auditors opinion (AOP) does granger cause return on capital employed (ROCE) that is (0.04159<0.05) and return on capital employed (ROCE) does not granger cause auditors opinion (AOP) because (0.83532>0.05). Therefore, the Granger Causality analysis suggests that audit expectation gap perception does affect corporate performance.

CONCLUSION AND RECOMMENDATIONS

The research examined audit expectation gap and corporate performance in Nigeria. The study reviewed relevant empirical papers on audit expectation gap. These studies highlight the various variables of corporate performance and audit expectation gap. The empirical analysis provided a correlation between audit expectation and corporate performance of firms. That is, audit expectation gap does granger cause the corporate performance of firms measured with earnings per share (EPS) and return on capital employed (ROCE). On the basis of the empirical result, the paper concludes that high relationship between prevention of error and fraud and firms performance. Auditors are not responsible, and should not be held to be responsible, for detecting fraud but auditors should be looking for ways of improving the detection rate, to help build public trust in the audit profession. The auditor's responsibility is to express an opinion whether the financial statement give a true and fair view, and the audit is also designed to give a reasonable assurance that the financial statements are free of falsity or misstatements. Their responsibility is not to prepare the financial statements or give absolute assurance that the figures in the financial statement are correct, nor to provide a guarantee that the company will continue in existence. It is submitted that this is wrong as a guarantee of continued existence should really be an audit objective. Hence, the following recommendations are provided to reduce the expectation gap: The use of engagement letter as an appendix to audited accounts to explain to the users of Annual Accounts what the CAMA 1990 requires the duties of Auditor to be and what the legal duties entail which are normally set out in the letter of engagement to the client; The audit profession needs to accept additional or modified responsibilities demanded by the market, under the condition that their cost-benefit will not be unfavourable and do not impair the audit independence. This will also improve the confidence in the audited accounts; Suggestions on how to enhance the public confidence are to assure that the auditor is objective, independent and has high integrity, that the control and supervision of auditors are performed objectively and that the audits are of high quality; In an attempt to close the expectation gap, audit reports should move from standardized language to a more flowing style, also known as the long term reports; to allow or require auditors to disclose additional information which they think readers should know. This will bring in existence the audit report that is most useful to the user and at the same time avoid creation of doubts in the mind of the reader and the risk of incorrect interpretation or lack of comparability; Users of Financial Statements should be Enlightened More on the Responsibilities of Auditors on the Financial Statement: Formal education of users also appears to be a potential tool for reducing the gap. It is important for the users of financial statements to know the extent to which they hold the external auditors responsible for the problems of the organization. Educating Society through the shareholders forum about the audit function and work of auditor helps to narrow the gap. Awareness should be created by the audit committee in different forms; Expansion of auditors' responsibilities is likely to be a good way of meeting the expectation of the public. However, the cost of such services should be considered since the public is a free rider of such services. This expansion can include peer review system whereby the responsibilities of some members of the audit team are to review what others have done. The cost of these additional services needs to be borne by the company. Thus, the company may be reluctant to engage the services of auditors unless they become a statutory requirement in Nigeria or the benefit of engaging such services outweighs the cost.

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