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Effect of Audit Expectation Gap in Nigerian Capital Market

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Abstract

Audit expectation gap is a phenomenon that presently attracts the attention of researchers all over the world. The basic problem is in the area of how the public perceives the role of the auditor, which in most cases centers on the prevention of fraud and irregularities. On the other hand the auditor and the auditing profession always exonerate themselves from the fact and perception of the public towards their work. However, the continued litigation against the auditor and the auditing profession has called on a rethink on the relationship of the auditor and the audit work he performs This paper is structured to briefly establish what auditing and its expectations gap is and the relationship audited financial statement has on capital market and to investigate if the identified gaps have any significant effect in the volume of transactions in the Nigerian capital market. It sought to establish the perception of the capital market operators on its existence. Respondents view was also sought on how the gap could be narrowed. Chi-square ($\chi 2$) was used to analyze the data obtained from the study. The data were obtained through questionnaire. Two hundred and ninety (290) copies of the instrument were found useful out of 350 copies distributed using purposive sampling technique. In this study, a cross-sectional survey was conducted in Lagos and Abuja stock Exchange to capture the perceptions of key users of financial statements in Nigerian capital market. The tests of hypothesis were done using Microsoft Excel 2010 version. Tests were carried out at a significant level of 5% and twelve degree of freedom. The findings of the study indicated that there is a wide expectation gap in the areas of auditors' responsibility for fraud prevention and detection. Audit expectation gap has negative impact on the volume of transactions in Nigerian stock exchange.

Keywords: Auditing, audit expectation gap, capital market, Nigeria, financial statements, perceptions.

1. Introduction

The audit function is an essential part of the regulatory structure which supports the integrity of our capital market. There is a recognised expectations gap which surrounds the audit function, as many users of audited financial statements have different expectations of the audit function from what it delivers (ICAA, 2012). This paper is structured to briefly establish what auditing and its expectations gap is and the relationship audited financial statement has on capital market and to investigate if the identified gaps have any significant effect in the volume of transactions in the Nigerian capital market. The complexity and dynamic nature of business today presents constant challenges. Auditors are operating in an environment where economic conditions are uncertain and users of financial reports are increasingly demanding of more relevant and useful information. Now more than ever, the independent audit is critical to investor confidence in capital markets (Lonnox, 2009).

Auditing has been variously defined. A definition has been offered by the report of the Committee on Basic Auditing Concepts of the American Accounting Association which defines Auditing as 'a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicate the results to interested users' (Izedonmi, 2009:14).

International Federation of Accountants (IFAC) Handbook (1997) Technical Pronouncements defines an Audit as a mechanism that enables the auditor to express an opinion on whether the financial statements are prepared in all material respects and in accordance with an identified financial framework. The Nigerian Accounting Standard Board (NASB) also offered some insights. For instance, Statement of Auditing Standards (SAS) No. 1 on codification however sees audit in terms of the objectives of an audit. According to the standard, the objective of an audit is examination by independent auditor and the expression of opinion on the fairness with which they represent financial position in conformity with Generally Accepted Accounting Principles (GAAP). Izedonmi (2009) asserted that audit can be divided into two major parts namely, Statutory Audit and Voluntary or Non-statutory Audit. The statutory audit includes the account of government and its agencies, commissions, ministries and Limited liability companies listed in Stock Exchange as required by the Nigeria constitution, companies and Allied Matters Act 1990 respectively, while the non-statutory audit includes the accounts of partnerships, enterprises that are not incorporated, political parties, clubs, etc.(Izedonmi 2009).

According to Lee et al, (2008) auditing is a critical function in a contemporary business environment because of the paradigm shift in the structure of business from small to large corporation over the past three decades. 'The result of growth from small to multinational corporations has made it possible to mobilize finance from increasing large number of small investors through the capital market and credit granting by financial institution' (Swamy, 2007:16). 'As companies have grown in size, their management shifts from shareholder-owner to small groups of professional manager entrusted with the responsibility of executing the wealth creation function and because of this separation of ownership interests from management functions, auditors have come to occupy primary importance in bridging the communication gap between management of an enterprise and their shareholders through their authentication of the reliability and correctness of financial reporting'(Swamy, 2007:16). According to Millichamp as cited in Akinbuli (2010), Auditing as a discipline evolved because of the practice of stewardship accounting and from then onward property owners appointed individuals to manage their resources for a period after which the stewards present an accountability report. Onofe (2013), opined that over the years, this simple concept became complex due to industrialization and emergence of limited liability companies which created a platform for divorce of ownership from control and management.

For this reason, Salehi (2007), cited by Lee , Ali and Gloeck,(2009) opined that "the auditor plays a centrifugal as well as centripetal role today". This, according to Salehi, (2007), 'facilitates good corporate governance, accountability and transparency among corporate participant, and more importantly, it has become the gatekeeper of financial truth'(A-Qarmi, 2004). Similarly, Alleyne and Howard, (2005) claimed that notwithstanding the importance of the audit function in the current capitalist economy, the duties and responsibilities of auditors have never been well defined .To date, the duties and responsibilities of auditors have remained the most controversial issue in auditing (Lee *et al*, 2009). (Humphrey, 1997) , opined that the role of auditors in society has always been surrounded by "mystique or paradox" (ie a situation that seems strange because it involves two ideas or quantities that are very different) and Power (1994), regards this as the crisis in the present-day auditing. 'A review of auditing literature shows how the auditing profession has responded to this problematic issue by coining the phrase" audit expectation gap "and weak participation in the debate by accounting profession fuelled by major financial scandals, such as the US Savings and Loan debacle, Enron and WorldCom, US accounting firms lost suit after suit, billions of dollars, as well as share of their credibility and in addition to monetary and reputation losses, increased legal fees, costly out-of-court settlements, (in case of Nigeria), skyrocketing insurance premiums , threatened regulation are some of the costs associated with audit expectation gap' (Wolf, Tackett and Claypool, 1999:472;, Akinbuli, 2010:42) . According to Humphrey (1997), the above failures have regularly put the audit function under public microscope.

'The phrase audit expectation gap is generally defined as the difference between what the public and the users of financial statements perceive the role of an audit to be, and what the audit profession claims is expected of them during the performance of an audit' (Atu and Atu, (2010:47). Although the existence of audit expectation gap and its associated problems has been acknowledged for several decades now, it appears that Liggio (1974) was the first to apply the term "audit expectation gap" in the auditing literature (Lee et al, 2009). Liggio (1974), defined audit expectation gap as 'the difference between the level of expected performance as envisioned by the user of a financial statement and by the independent accountant'

The term audit expectation gap emerged during the 1970s (Humphrey et al, 1993). Many users misunderstand the nature of the attest function, especially in the context of an unqualified opinion. Some users believe that an unqualified opinion means that the entity has foolproof financial reporting. According to Salehi (2011), some feel that the auditor should not only provide an audit opinion, but also interpret the financial statements in such a manner that its users could evaluate whether to invest in the entity or not. There are also users who expect auditor to perform some of the audit procedures in addition to attestation function. Some of the users of audit report want auditor to penetrate into the company's affairs, engaged in management surveillance, detecting legal acts and fraud in the part of management. It is these high expectations on the part of users of financial statements that create a gap between auditors' and users' expectations of the audit function.

1.1 The Nigerian Financial System

'In every country there exists a financial system that is responsible for regulating the financial environment of the economy, determining the types and amounts of funds to be issued, cost of funds and the use to which these funds are to be put' (Osaze, 2007). In Nigeria, the financial system is made up of two major markets namely: the Money Market and the Capital Market. The Money market is the market for short-term funds and securities, including treasury bills, one-year treasury certificates, Central Bank notes, negotiable certificates of deposit, commercial papers, commercial and merchant bank savings and investment notes and other funds of less than one year duration. On the other hand, the Capital Market is the market for longer term funds and securities whose tenure extends beyond one year. These include long-term loans, mortgage bonds, preference stocks, ordinary shares, Federal Government bonds, industrial loans and debentures. According to Gaumnitz and Dougall (1980), cited by Osaze (2007), capital market is a complex institutions and mechanisms through which intermediate funds and long-term funds are pooled and made available to business, government and individuals and instruments already outstanding are transferred. These institutions which traditionally play one role or the other in the transfer of funds from saving public to users include stock exchanges, stock registrars, issuing houses, stockbrokers, underwriters and security and exchange commission.

Nigeria is a major growth pole in the West Africa sub-region and the entire African continent.(Sanusi 2009) It has enormous geo- political and strategic advantage that if leveraged upon, would foster growth. [Sanusi 2009]. According to the World Bank, it has a population of 168.8 million in 2012, which is about 19 percent of Africa's 886.4million. However, the National Bureau of statistic stated the population to be 167 million. Its GDP in year 2012 was $262.6 billion, and it has a growth rate of 7.7% [IMF], and a land area of 923768 square kilometers [Sanusi 2010] and it is the 6th most populated nation in the world.(Soludo, 2oo8).

Nigeria is the single largest geographical unit in West Africa and lies within the tropics. It is the 8th largest producer of crude oil petroleum and has 6th largest deposit of Natural gas in the world (Sanusi 2010).

1.2 Capital Markets Differentiated from Money Markets

Whereas the capital markets are used for raising of long term finance, such as purchase of shares, or for loans that are not expected to be fully paid back for at least one year, money markets are used for raising short term finance, sometimes for loans that are expected to be paid back as early as overnight. (Sullivan & Sheffrin 2003) According to Mclindon (1996), funds borrowed from the markets are typically used for general operating expenses, to cover brief periods of illiquidity (for example, a company may have inbound payments from customers that have not yet cleared, but may want to immediately pay out cash for its payroll). But when a company borrows from the capital market, often, the purpose is to invest in additional physical capital goods, which will be used to help increase its income. It can take many months or years before the investment generates sufficient return to pay back its cost, and hence, the finance is long term. Together, money markets and capital markets form the financial markets.

Investopedia defines the money market as "a segment of the financial market in which financial instruments with high liquidity and very short maturities are traded. It is used by participants as a means of borrowing and lending in the short term, from several days to just under a year. Money market securities consist of negotiable certificates of deposits, bankers acceptances, treasury bills, commercial papers, municipal notes and so on." The above views were fully subscribed by Fabozzi *et. al.* (2002) who added that trading in money markets is done over-the-counter and in whole sale. The majority of money market instruments are traded in the banks.

1.3 Problem Statement

The collapse of Enron in 2002 and revelations of unethical behaviour by members of the board of large corporations in the USA, Great Britain and other parts of the world have reopened the debate about the credibility of auditing profession and their usefulness in establishing confidence in the capital markets. According to Azeez (2009) the crisis which sparked off in Britain have crossed the boundaries with interdependent and interrelated economies not spared by the shock, as evidenced by the lull in the international capital market with share price reaching their lowest prices ever in history. When prices began to get embarrassingly bearish with time, indications were clear that the world was in for serious economic challenges which made well rated companies especially banks as casualties, while others are battling with the storm of insolvency. The objective of the audit is to improve the reliability of information used for investment and credit decisions. Ultimately, the purpose of audit independence is to improve the cost-effectiveness of the capital markets (Jacobson and Elliott (1998). In the US, the Sarbanes Oxley Act (SOX) 2002, introduced major changes to the US audit, financial reporting and corporate governance regimes. According to Lennox (2009), similar regulatory changes subsequently occurred in the UK and many other countries and scandal and regulatory change has brought attendant changes in the conceptualisation of practice. For example, Khalifa, Sharma, Humphrey and Robson (2007) present evidence that the dominant audit discourse shifted from one of 'business value' to one of 'audit quality'.

Many have recognized the changes in the audit function as an effort by the auditing profession to ensure that the profession remains relevant to its constantly changing environment. Flint (1988), Power (1994; 2000), Epstein and Geiger (1994) share the same view as they are of the opinion that the progression in the practice of auditing was basically in response to a perceived need of the public who seek information or reassurance about their conduct or performance of their business which they placed on the stewardship of the management. However, Humphrey et al,(1993) and , Sikka et al,(1998) are of the opinion that the progression of the audit function was a direct and indirect result of the 'political games' of the audit profession to ensure it maintains the power of self-regulation. In this context, the audit profession seek to shift the preferred meanings about the nature, practice and/or outcomes of auditing, in other words leading to the varying definition and perception of the function of the auditor thereby resulting to a gap between the services received versus the expected services provided by the auditors, which is generally termed the audit expectation gap in the literature.

The purpose of the high quality external audit is to provide assurance to investors, in particular, so that they feel confident in the stewardship of management and can trust in the financial information on which they base decisions to invest (ICAA, 2012). Quality external auditing is integral to the effective functioning of our capital markets. It is an essential service requiring specialist skills and knowledge. Therefore, the sustained viability of the audit profession is critical and in particular attracting, retaining and developing the right people for the profession (ICAA, 2012).

1.4 The Objectives of the Study

As will be demonstrated in the later section, research into the audit expectation gap in the context of core investors like the pension fund administrators, Stockbrokers, financial analysts, bankers and other members in the capital market have not been carried out in Nigeria. Therefore, this study will attempt to fill the research gap in this area. In other to achieve this, the study seeks to:

1. To investigate the respondents' perceptions on the existence of audit expectation gap in Nigerian Capital Market.
2. Investigates the respondents' perceptions on the usefulness of audit process in Nigerian Capital Market.

3. Investigate the extent of the public reliance on auditors' report has affected the volume of transactions in the Nigerian capital market.

2. Research Questions

The study is designed to provide answers to the following research questions in order to achieve the above stated objectives:

I. What is the perceptions of the respondents groups on the existing duties and responsibilities of auditors.

Ii. To what extent does the public reliance on auditors' report affect the volume of transactions in Nigerian Stock Exchange and hence expectation gap?

iii Do changes in auditing standards and auditor's technical competence have any bearing in audit expectations gap?

3. Research Hypotheses

Ho1: There is no significant difference in the perception of the respondents groups on the existing duties and responsibilities of auditors.

Ho2: The defect on auditing standards and auditor's technical competence has no significant effect on audit expectation gap.

Ho3: Public reliance on audit's report has no significant effect on volume of transactions in Nigerian Stock Exchange.

4. Literature Review and Development of Hypotheses

The term "audit expectation gap" refers to the difference between (1) what the public and financial statement users believe the responsibilities of auditors to be and (2) what auditors believe their responsibilities are (AICPA 1993 p.iii). This expectation gap notion is not new, and might have originated in the well publicised public hearings conducted to determine how the massive McKesson & Robbins fraud, exposed in 1937, could exist over several years (McEnroe and Martens, 2001). According to McEnroe and Martens (2001), additional investigations of the accounting profession and the role of public accountants in performing audits occurred many years since the McKesson & Robbins scandal. Some of the more publicized inquiries involved Senator Lee Metcalf (1970s),Representative John Moss (1970s), Representative John Dingell (1980s and 1990s), and the U.S. General Accounting Office (GAO) (1990s). In 1988, the American Institute of Certified Public Accountants (AICPA) Committee ,the Auditing Standards Board (ASB), sought to reduce the expectation gap with a series of Statements on Auditing Standards (SASs), SAS No. 53 through SAS No. 61,collectively referred to as the "expectation gap" SASs (AICPA, 1988). One attempt to assess the efficacy of these SASs was a 1993 AICPA-sponsored conference (AICPA 1993) that reviewed both the progress of the expectation gap SASs and future issues confronting the ASB. The Conference concluded that further research on the expectation gap SASs was "sorely needed" (AICPA 1993, iv). In the area of fraud detection, both the AICPA (1996 P.7) and the GAO (1996, 75) concluded that the expectation gap still exists; however, they did not offer any empirical evidence to that effect McEnroe and Martens (2001 p.346).

The capital market is an aspect of the financial market comprising a network of specialized financial institutions, series of mechanisms, processes and infrastructure, that in various ways facilitate the bringing together of suppliers and users of medium to long term capital for investment in socio – economic development projects (Al-Faki,2006). These markets channel the wealth of savers to those who can put it to long term investment." The capital market helps in channeling capital or long term resources to firms with relatively high and increasing productivity, thus, enhancing economic expansion and growth. (Alile 1984, 1997, Ekundayo 2002, Sullivan & Sheffrin 2003). The Investopedia defines the capital market as"markets for buying and selling equity and debt instruments.

According to Osaze (2007), the origin of the Nigerian capital market date back to colonial times when the British Government ruling Nigeria at that time sought funds for running the local administration. Most of these funds derived from agriculture, produce marketing and solid mineral mining. Aside from expanding its revenue base through taxation, the colonial master found it necessary to raise funds from the public sector to cover temporary shortfalls in funds availability. Odife (2000), asserted that the first step in this direction was to secure the necessary funds for the development of infrastructure and long-term capital projects. This led to promulgation of 10 years plan of Local Loan Ordinance of 1946 for the floatation of the first 300,000 pounds 3% Government stock 1956/61 with its management vested on the Accountant General of the Federation. In 1957, the Government and other Securities Act was enacted. This law specified the types of securities in which trust fund may be invested (Osaze, 2007). In addition, the colonial government set up the Professor Barback Committee to examine the ways and means of fostering a shares market in Nigeria. Part of the terms of reference of this committee included the possibility of establishing a capital market in Nigeria (Osaze, 2007 p.55).

Operational and Regulatory Framework of the Nigerian Capital Market

Capital Market is one of the institutions that contribute to economic development of any nation. As a driver of economic growth and development, regulation of capital market is necessary. Government has put in place regulatory and institutional frameworks to ensure growth of capital market. According to Idigbe (2013), prior to 1988, the regulation of the capital market in Nigeria was essentially by way of self regulation such as the Lagos Stock Exchange Act 1961 and the Companies Act 1968.

5. Methodology

5.1 Research Design

The study adopted a cross sectional survey design. This was designed to investigate the existence and effect of audit expectation gap in Nigerian Capital Market and what need to be done to reduce the gap.

5.2 Population Sample Size and Sampling Technique

The population of the study from which the sample was drawn comprised of Audit partners, Fund Managers, Stockbrokers and Financial Analysts in Lagos and Abuja. Purposive sampling was adopted to ensure that only knowledgeable respondents were chosen. A sample consisting of respondents in Lagos and Abuja will be considered a good representation of the respondents groups since the ultimate test of a sample design is how well it represents the characteristics of the population it purports to represent (Denscombe, 2003; Ogunbameru, 2003). Three hundred and fifty (350) questionnaires were distributed by mail and partly by hand out of which only 300 were returned but 290 were found to be usable. The respondents were required to indicate the extent of their agreement in the list of semantic differential belief statements on the score of 1 to 5. A score of one (1) represented strong disagreement with the statement while a score of (5) five represented strong agreements. This type of scaling was in agreement when items are to be judged on a single dimension and arrayed on a scale with equal interval (Alrek and Settle, 1995, Oseni and Ehimi, 2010; Baridam, 2008).

5.3 Data Collection

The data collection comprised of both primary and secondary data. The primary data were collected from the responses received from the structured questionnaires while secondary data were collected from Journals and text books and quarterly and annual report from the Nigerian Stock Exchange (NSE) as well as the search engine from the internet.

Method of Data Analysis

Descriptive statistical tools used for this research include table and frequency distribution while chi-square inferential statistical techniques were considered appropriate because it measures the difference between the expected and observed frequencies (Baridam, 2007). It is appropriate in this data analysis because as a non-parametric test, it is a good procedure for count data in categories or rankings (Ubom, 2004). It is calculated as follows:

$$X^2 = \frac{\sum(O-E)^2}{E}$$

Where:

O = Observed frequency E = Expected frequency Decision rule at any level of significance is that the null hypothesis is rejected if the calculated chi-square (χ^2) is greater than or equal to the critical value from the chi-square table, otherwise the null hypothesis is retained.

6. Data Analysis and Interpretation Of Results

Respondents were grouped into four; Audit Partners, Fund Managers (representing core investors) stockbrokers and Financial Analysts. A sample size of eighty-seven (87) is targeted for each respondent groups making a total of three hundred and fifty copies (350) copies of questionnaire administered, a total of three hundred (300) copies were returned but (290) were found useful for analysis. This represents an overall response rate of ninety per cent (82%) for all the groups. These responses were used in providing answers to the questions raised in the study using five-point Likert scale which measures the extent to which a person agrees or disagrees with the questions.

Test of the Research Hypotheses

(i) Auditor's responsibility to detect and prevent fraud

"The very fact that different theories regarding the role of the auditor exist, indicates that there is no generally accepted description of the role of the auditor; and the fact that investors turn to auditors when financial loss is suffered is also an indicative of uncertainty of the role that the auditor plays or is supposed to play" (Gloeck and De Jager, 1993:6). According to Russell and Dawing (2002), the uncertain role of the auditor and the diversity of questions which arise from this uncertainty together comprise the greatest single factor contributing to the expectation gap. Various researchers such as Godsell (1991, Tanko 2011 etc consider the growing number of liquidations without the auditors having given due warning as an important factor causing the expectations gap.

The Nigerian Companies and Allied Matters Act 1990 require all financial statements of listed companies in Nigeria to be audited by a qualified Nigerian auditor. (*Section 357 (1) of Nigerian Companies and Allied Matters Act, 1990*). The main objective of this section of the law is for the auditor to provide assurance on the accuracy of the books of accounts. The auditor therefore needs to plan their work and increase the scope so as to detect material misstatement in the financial statement. According to ISA 240 and NSA No.5, (Nigerian Auditing Standards) it is not the primary responsibility of auditors to detect fraud and irregularities hence narrower audit scope. This same view is shared in Kamau (2013). The Fund Managers and other users of accounting information are thinking that detection of fraud and irregularities is a major role of the auditor and there leading to expectation gap. To verify this information, the following hypothesis will be tested:

Ho1: There is no significant difference in the perception of the respondents groups on the existing duties and responsibilities of auditors.

Looking at Table 1 from the appendices, the Chi-Square (X^2) calculated is 41.5 while the critical value is 21.03 from the statistical table. The Chi-Square calculated value (41.5) is higher than the critical value (21.03). As a result of this, the researcher rejects the null hypothesis at 5% level of significance and 12 degree of freedom. It can be concluded that there is significant difference between the expectations of audit report users and that of the auditors. It therefore means that the users of audit report expect the responsibilities of auditors to include prevention and detection of fraud.

(ii) Deficient Auditing Standards

Porter and Gowthorpe (2004) after a study in UK and New Zealand concluded by asserting that if the existing audit expectation gap is to be narrowed, the ***standards*** should bring the auditor's responsibilities and performance closer to public expectations.

Gee, et al, (1993) contended that financial reporting and its associated expectations are closely linked to expectations held of auditors. He opined that certain aspects of the expectation gap are not attributable to the auditor, but to shortcomings in the financial reporting process prescribed by International Standards on Auditing (ISA 700).

According to Humphrey and Turley (1992) this gap exists where statutes and professional standards fail to properly reflect the appropriate standard of performance deemed appropriate by the court of law. The Institute of Chartered Accountants in England and Wale (ICAEW, 1990), shared similar views in their position paper on auditor's responsibility for detecting fraud and other irregularities. Sherley and Turley (2013) on sharing similar view asserted that it is important that further clarification in relation to these ambiguities be provided because the roles of auditors depend on the interpretation of these terms. To verify this assertion the following hypothesis will be tested:

Ho2: The defect on auditing standards and auditor's technical competence has no significant effect on audit expectation gap.

Looking at Table 2 in the appendices, the Chi-Square (X^2) calculated is 30.12 while the critical value is 21.03 from the statistical table. The Chi-Square calculated value (30.13) is higher than the critical value (21.03). As a result of this, the researcher rejects the null hypothesis at 5% level of significance and 12 degree of freedom. It can be concluded that there is significant difference between the perceptions of users of audit report and on the effect of auditing standards on expectation gap.

(iii) Reliability of Audit Report by the Capital Market Operators

The Nigerian Securities and Exchange Commission (SEC) amendment Act of 2010 contain Rules on Regulations of Public Companies as Part B4 Rule 97A. By virtue of that Rule, every public company whose securities are required to be registered, shall file with the Commission on a periodic or annual basis and on a specified format, its **audited financial statement** and other returns as may be prescribed by the Commission from time to time. The above Rule is in line with a study by Adams and Evans (2004) and Lonnox (2009) which contended that "the complexity and dynamic nature of business today presents constant challenges. Auditors are operating in an environment where economic conditions are uncertain and users of financial reports are increasingly demanding of more relevant and useful information. Now more than ever, the independent audit is critical to investor confidence in capital markets" (Lonnox, 2009).

According to ISA 200, audited financial statements are to give a certain degree of confidence for internal users (paragraph3). This implies that audited financial statements are useful and reliable for decision making by capital market operators in Nigeria. The above assertion is verified by testing the following hypothesis:

Ho3: Public reliance on audit's report has no significant effect on volume of transactions in Nigerian Stock Exchange.

From Table 3 in the appendices, the Chi-Square (X^2) calculated is 40.63 while the critical value is 21.03 from the statistical table. The Chi-Square calculated value (40.63) is higher than the critical value (21.03). As a result of this, the researcher rejects the null hypothesis at 5% level of significance and 12 degree of freedom. It can be concluded that there is significant difference between the perceptions of users of audit report on the effect of reliable audit report and the volume of transactions in the Nigerian Capital Market.

7. Conclusion

Researchers and the accounting profession have responded in different ways to the audit expectation gap. It is concluded that there is a wide expectation gap in the areas of auditors‟ responsibility for fraud prevention and detection. However, it must be noted that the expectation gap arises from a combination of excessive expectations and insufficient performance. The audit expectation gap is detrimental to the auditing profession as it has negative influences on the value of auditing and the regulation of auditors in the modern society. This study established that if auditors are to retain the public confidence and perception of them as providing a valuable service in society, the gap between the capital market operator’s expectations of auditor’s performance must be narrowed. The study provides evidence of the existence of expectation gap between auditors and capital market operators in Nigeria. The propositions made in the study were evaluated using selected items or statements of hypotheses. It can be concluded that there is significant difference between the expectations of audit report users and that of the auditors. It therefore means that the users of audit report expect the responsibilities of auditors to include prevention and detection of fraud.

The results of the second hypothesis reveal that there is significant difference between the perceptions of users of audit report and on the effect of auditing standards on expectation gap. The results of the third hypothesis also reveal that there is significant difference between the perceptions of users of audit report on the effect of reliable audit report and the volume of transactions in the Nigerian Capital Market.

In the light of the research findings, the following recommendations are made: The existing duties and responsibilities of auditors should be clearly defined and widened to include fraud detection by the standard setting bodies.

The public (users of financial statements) should be educated about the objects of an audit, auditors‟ role and responsibilities.

The auditors should strive to ensure that he discharges his duties, objectively, professional and ethical conduct in order to sustain the confidence reposed in him by users for his services.

Education of auditing practitioners should be encouraged through Mandatory Continuing Professional Education (MCPE) to all existing auditors in respect of their responsibilities under statute.

There should be an independent government agency like the Public Interest Oversight Board (PIOB) in USA, to oversee the implementation of audit regulations in Nigeria.

The role of the auditor should be clarified so as to give a clear cut to the auditors and the users of audit reports.

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APPENDICES

HYPOTHESIS 1

There is no significant difference in the perception of the respondents groups on the existing duties and responsibilities of auditors.

Table 1.	SA		A		N		D		SD		TOTAL
RESPONDENTS	O	E	O	E	O	E	O	E	O	E	
Auditors	36	29	20	21	5	7	10	11	6	7	77
Core investors	38	28	22	23	3	7	8	11	4	7	75
Stock Brockers	16	26	12	20	16	7	14	10	10	6	68
Fnancial Analysts	20	27	30	20	4	7	10	10	6	6	70
TOTAL	110	110	84	84	28	28	42	42	26	26	290

Source: Researcher's Computation using Excel 2014

HYPOTHESIS 2

The existing regulatory framework and technical competence of auditors has no significant effect on audit expectations gap.

Table 2.	SA		A		N		D		SD		TOTAL
RESPONDENTS	O	E	O	E	O	E	O	E	O	E	
Auditors	40	27	18	22	6	9	8	6	6	13	78
Core Investors	18	26	30	21	12	9	6	6	8	13	74
Stock Brockers	20	23	10	19	12	8	8	6	18	12	68
Financial Analysts	22	24	24	20	4	8	2	6	18	12	70
TOTAL	100	100	82	82	34	34	24	24	50	50	290

Source: Researcher's Computation using Excel 2014

HYPOTHESIS 3

Public reliance on audit report has no significant effect on the volume of transaction in the Nigerian Stock Exchange.

Table 3	**SA**		A		N		D		SD		TOTAL
RESPONDENTS	O	E	O	E	O	E	O	E	O	E	
Auditors	30	27	26	24	4	7	6	9	10	8	76
Core Investors	38	27	22	24	4	7	8	9	4	8	76

Stock Brockers	16	24	12	22	16	7	14	9	10	8	68
Financial Analysts	18	24	32	22	4	7	8	9	8	8	70
TOTAL	102	102	92	92	28	28	36	36	32	32	290
Source: Researcher's desk computation using excel 2014											

HYPOTHESIS 1				
O	E	D	D²	D²/E
36	29	7	49	1.7
20	21	-1	1	0.1
5	7	-2	4	0.6
10	11	-1	1	0.1
6	7	-1	1	0.1
38	28	10	100	3.6
22	23	-1	1	0
3	7	-4	16	2.3
8	11	-3	9	0.8
4	7	-3	9	1.3
16	26	-10	100	3.8
12	20	-8	64	3.2
16	7	9	81	12
14	10	4	16	1.6

HYPOTHESIS 2				
O	E	D	D²	D²/E
40	27	13	169	6.259
18	22	-4	16	0.727
6	9	-3	9	1
8	6	2	4	0.667
6	13	-7	49	3.769
18	26	-8	64	2.462
30	21	9	81	3.857
12	9	3	9	1
6	6	0	0	0
8	13	-5	25	1.923
20	23	-3	9	0.391
10	19	-9	81	4.263
12	8	4	16	0.5
8	6	2	4	0.667

HYPOTHESIS 3				
O	E	D	D²	D²/E
30	27	3	9	0.333
26	24	2	4	0.167
4	7	-3	9	1.285
6	9	-3	9	1
10	8	2	4	0.5
38	27	11	121	4.481
22	24	-2	4	0.167
4	7	-3	9	1.285
8	9	-1	1	o.111
4	8	-4	16	2
16	24	-8	64	2.667
12	22	-10	100	4.545
16	7	9	81	11.57
14	9	5	25	2.777

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10	6	4	16	2.7
20	27	-7	49	1.8
30	20	10	100	5
4	7	-3	9	1.3
10	10	0	0	0
6	6	0	0	0
290	290	0	626	42

18	12	6	36	0.333
22	24	-2	4	0.166
24	20	4	16	0.8
4	8	-4	16	0.5
2	6	-4	16	0.5
18	12	6	36	0.333
290	290	0	660	30.12

10	8	2	4	0.5
18	24	-6	36	1.5
32	22	10	100	4.455
4	7	-3	9	1.285
8	9	-1	1	0.111
8	8	0	0	0
290	290	0	606	40.63