AUDIT LIABILITY AND STAKEHOLDERS EXPECTATION GAP IN COVID-19 ERA

OWOLABI S. A. PhD.

DEPARTMENT OF ACCOUNTING, SCHOOL OF MANAGEMENT SCIENCES,

BABCOCK UNIVERSITY, ILISHAN- REM, OGUN STATE, NIGERIA

&

ODUNAYO, JIMOH

DEPARTMENT OF ACCOUNTING, SCHOOL OF MANAGEMENT SCIENCES,

BABCOCK UNIVERSITY, ILISHAN- REM, OGUN STATE, NIGERIA

Abstract

This study examined audit liability and stakeholders' expectation gap in COVID-19 era. The study considered the possibility of the existence of audit liability as a deterrent to audit failure and spur the auditor to exercise more professional care and skills to avoid unnecessary litigations and excessive audit liabilities. In carrying out this paper, the study employed exploratory research design, using related and revenant materials from the field of accounting and auditing. The study reviewed some journals, periodicals, and other documented financial and auditing bulletins considered useful for the study. In contributing to knowledge, the study provided evidence that auditing service is a contractual commitment and that auditors can be held liable for any economic loss resulting from established professional negligence even during the during the COVID-19 era. The study, therefore, recommended that auditors should exercise more due diligence, professional care, and skills, and skepticism in carrying out audit services as an effort in narrowing stakeholders' expectation gap. That the stakeholders should show some reasonableness in understanding the duties and responsibilities, as regulated profession by the International Auditing Standards.

Keywords: Audit liability, Audit firms, Audit evidence, Due diligence, Professional care and skills, Stakeholder expectation gap.

Introduction

Evidently, audit duties and responsibilities are clearly indispensable economic and contractual services for the interest of the general public reinforcing trust and confidence in financial reporting. In the last two decades, the auditing profession had suffered reputational setbacks and been disquieted with unprecedented diverse litigations and accusations arising from reported audit failures in meeting societal expectations, causing stakeholders' expectation gap (Fossung, Fotoh & Lorentzon, 2020). Global events of the financial crisis and unprecedented economic losses have adversely caused investors misfortunes and this obviously has become an immensely researched phenomenon and widespread of stakeholders' discontentment of declining audit quality and the credibility of the audit report. Audit quality and stakeholders' confidence is essentially significant to the auditors' reputation and when confidence in audit reports evaporates and is lost, then audit in itself is of no consequence, and the auditing profession and its services become irrelevant in the financial market and in the global economies (Olojede, Erin, Asiriuwa & Usman, 2021; Sukhdev-Singh, 2017).

As expected, misconceptions of auditors' duties and professional responsibilities had led to diverse perceptions and wide expectations, and

extensive criticisms regardless of auditors' strict adherence in systematically and methodologically observing regulatory standards and existing auditing standards (Stocker, Arruda, Mascena & Broaventura, 2020). Nonetheless, on daily basis, the stakeholders' perceptions and expectations are widening and this is giving a global concern (Onulaka & Sammy, 2017). When the audit duties are misunderstood and greatly criticized, inadvertently leads to deepening reduced confidence in the work and report of the auditors (Mansur& Tangi, 2018). The problems and widening of the stakeholders' expectations seem natural and will continue for a longer period because of the nonexistence of proper education and communication of the roles and responsibilities of auditors to the users and the stakeholders.

The stakeholder expectation gap is complex and the present perceptions are inevitable since there are fundamentally divergent opinions and beliefs between what the financial users expect from auditing and what audit reports convey to the public. In actual fact, some of the divergences and expectation gap is not because absence of credibility of audit report, rather the inability to understand the proper content diverse perceptions and expectations (Hynan, 2019; King & DeBeer, 2018). According to Ruhnke and Schmidt (2014), the possible expectation is that audit report should uncover all material and immaterial irregularities or instant cases of fraud in the financial statements, however, from the auditing standards perspective, this isn't necessarily the role the statutory audit which has its limitations based on the auditing guidelines and principles (Johnson, Redlbacher & Schaltegger, 2018). Incidentally, the limitations are inherently part of what drives the stakeholders' expectation gap in audit reports (Salehi, 2016).

As a matter of reality, it should be understood that there is entirely no infallibility in audit, since audit may not uncover all possible minute irregularities in the audit report, to such extent that audited financial statement may not ascertain 100% free from errors or possible liability. On the contrary, studies have argued that auditors should be professionally sound and exercise all possible professional skepticisms, be honest and auditors must not sign or certify what they do not believe to be true, fair, and free from misstatements (Agrawal & Chatterjee, 2015). Consistent with this view, Fallan (2015) posited that auditors must take responsibility for material misstatements or immaterial misstatements, should take all reasonable care and skill in all audit exercises in all circumstances, otherwise, audit liability is never conditional.

Audit liability is consequent to the fact that audit work is a contractual agreement accepted by the auditor with full attendant responsibilities and risks and these liabilities could fall into criminal or civil depending on the nature hence the auditor need to exercise his professional assignment with all professional skills, competence and due care (Farasangi & Nohongdari, 2017; Erin, Ogundele & Ogundele, 2016). Consistent with this understanding, Boterenbrod (2017) posited that auditor's duties to the stakeholders and specifically to the clients from the angle of tort and contract give effect to liabilities when events of negligence are proved and established (Alawi, Wadi & Kukreja, 2018). When stakeholders willfully and innocently rely upon the financial statement audited by the auditor in making economic decisions with economic implications, in the circumstance, the auditor unambiguously has

responsibilities to do creditably, honestly, and carefully, and should be liable for the sustenance of any economic loss (Falcone & Sica, 2019; Ruhnke & Schmidt, 2014). In addition, that auditors have the duty to ensure that stakeholders do not develop unrealistic expectations and wrong perceptions of the audit profession (Secundo, Perez, Martinaitis & Leimer, 2015).

The contractual clauses of reasonable care and skills and the professional attitudinal disposition of professional skepticism are circumstantially significant as a guide when carrying out audit exercise as the auditor must be honest and exercise adequate professional competence as a professional auditor and be aware that audit liability is an exercisable in all circumstances (Solabomi & Uwuigbe, 2013). According to Stocker *et al.,* (2020), the case of Re Kingston Cotton Mill limited of 1896 gave an incursive and clear understanding opinion of the degree of skill and care expected of auditor, that what is a reasonable skill, care and caution largely depend on particular merits, conditions and circumstances of each case. In all cases, when the fortune of a corporate organization starts to face financial difficulties, it is natural that someone should be held responsible and accountable and no less than the professional umpire (Fulop, Tiron-Tudor & Silviu, 2019; Guranda, 2015). Nwaobia, Onuoha and Aguguom (2016) stated that when auditors fail to exercise professional skepticisms, as a result, could not reveal fraud, or misdoings, the trustworthiness tends to reduce significantly and should be responsible for consequential economic loss resulting from negligence.

The indictment of some auditing firms, the case of Waste Management and Enron that implicated Arthur Andersen, WorldCom financial scandal that led to Sarbanes-Oxley Act, Wirecard financial scandal in Germany that implicated Ernst and Young, Tyco, the KPMG fraud case of college financial misstatement in the United States of America as too obvious to ignore. In Nigeria, the case of Cadbury Nigeria Plc, Stanbic-IBTC case with Financial Reporting Council of Nigeria due to unethical misconduct of patent right tax evasion scandal, and the then African Petroleum Plc are some of the problems that have triggered the expectation gap (Schaltegger, Gibassier & Zvezdov, 2013).

A vast literature has been carried out considering the stakeholders' expectation gap (Mansur & Tangi, 2018; Sukhdev-Singh, 2017). Besides, the new auditors' standards were equally intended to close the widening stakeholders' gap, incidentally, stakeholders still have become irrational and insatiably not satisfied, hence the expectation gap get widening on daily basis, creating a gap for more research studies. Based on the foregoing, it is apparent there is a conflict of an expectation gap between the auditors' statutory roles and procedures in reporting and the expectation of the stakeholders (Johnson, Redlbacher & Schaltegger, 2018). Divergent results and mixed results have been ensured as reported in the literature (Onulaka & Samy, 2017; Olojede, Erin, Asiriuwa & Usman, 2021).

There are potentials signaling effects that COVID-19 pandemic will impact major decline on audit quality of corporate income in the global landscape. This is consequent to economic slowdown and probable indirectly, by tax policies and administrations measures taken in response to the lockdown (IMF, 2020). There are implications for corporate organizations and households due to disruption of economic activities in ways that are unique to COVID-19 crisis. For example, the need for global social distancing has

distinct impact on the tax base, tax rate, tax administration and the extent of corporate and individual taxpayer's compliance (Olaniyi & Akhator, 2020; Natural Resources Fiscal Regimes, 2020). Events so far have shown that the COVID-19 pandemic may impact on audit quality and increase chances of audit liability and generally widen stakeholders' expectation gap globally. In some African nations, there could be an intensive stress in the domestic economies, resulting to possible manipulation of inventory, upscaling assets valuation, increased insider dealings and difficulty in risk assessments by the auditors (OECD, 2020).

While some studies have reported that auditors are unnecessarily being maligned (Sulkowski, Edwards & Freeman, 2018; Taslima & Fengju, 2019). Others think otherwise (Uwuigbe, Olorunshe, Uwuigbe, Ozordi, Asiriuwa, Asaolu & Erin, 2019). For instance, Farasangi and Nohongdari (2017) reported that audit liability had a positive impact on stakeholders expectation gap, the contradiction was reported in the other studies (Olojede, Erin, Asiruwa and Usman (2021), who posited that the stakeholder expectation gap exists from the unreasonable expectation of the stakeholders due to ignorance of the roles of auditors. The objective of this study is to address these problems and fill gaps in the literature, consequently, this study, therefore, examined the effect of audit liability on stakeholders' expectation gap. The rest of the study is fashioned in this way: section 2 considered a review of extant literature, section 3 presented the methodology and in section 4, the conclusion and recommendation of the study were presented.

Review of Extant Literature

Auditing:

Auditing exercise is meant to add value and credibility to the audit reports and enhance appropriately the quality of investment decisions, aid managerial decisions, aid in efficient operation businesses, and aid analysts in making good predictive reporting and capital market mechanism globally (Facone, Sica, 2019). Auditing work has never been an easy task, rather a complex and painstaking exercise, considering the extent of reliance by the general public in making useful decisions (Alawi, Wadi & Kukreja, 2018). Beyond this perspective, auditing is a professional service and its contracting obligation requires a liability clause and this can never be budged out the contract as unbinding to professional negligence, incompetence, and reckless behavior, and shabby financial reporting. Auditing exercises are dynamic and globally regulated by the International Standards of Auditing (ISA). Auditing in essence is a systematic process of accurately obtaining and evaluating audit evidence regarding assertion about economic actions and events to ascertain the degree of correspondence between those assertions and established standards and communicating the results to concerned users (Fossung, Fotoh & Lorentzon, 2020).

Stakeholders Expectation Gap

The stakeholders' expectation reflects the difference between what the auditing professions stipulate for the auditor to report and what the stakeholders expect to see in the audit report, the difference between what the audit regulators bodies want to reflect in the financial statement and what the stakeholders expect from the financial statement. Studies at different periods have defined stakeholders'

expectation gap from different angles, Nwaobia, Onuoha, and Aguguom (2016) posited that the expectation gap has its historical foundation from stakeholders expectation gap is closely related to the problem of agency theory and demand for audit services Onulaka and Samy (2017), shareholders expect the professional auditor to exercise professional proficiency in all its audit exercise, ensure that credence to a financial statement is validated and that the financial statement is dependable and reliable to enhance the credibility of financial statement (Fallan, 2015; Alonso-Canada & Caba-Perez, 2019). In spite of the significance of audit function in certification of financial statements, the International Accounting Standards has made enough regulations to such new accounting standards to improve accounting standards, all these efforts have not eliminated the expectation gap (Gatimbu & Wabwire, 2016). This has been a global concern because different stakeholders have different perceptions, and this perceptional challenge as long has created a perceptional gap between the stakeholders and the auditors.

Possible Causes of Expectation Gap:

The auditing exercise is carried out in line with the prescriptions and precepts laid down in the auditing standard. The stakeholders expect more information far beyond the auditing standards prescriptions (Gnanaweera & Kunori, 2018). While the stakeholder expects that the auditor gives more assuring credence to the financial statement, the auditor cannot do beyond the auditing standards guidelines (Gibassier & Alcouffe, 2018). Akther and Xu (2020) suggested that there is a wide difference between what the stakeholders expect from the financial statement and what auditor duties and responsibilities are as provided in the financial statement. Olojede, Erin, Asiriuwa, and Usman (2021) posited that the expectation gap arose primarily because the stakeholders' expectations are unreasonable, perceptional, and contradict the prescriptions of the auditing standards and guidelines.

Beyond the foregoing, the following factors have been advanced as possible causes of expectation gap: (i) complicated nature of audit exercise, the objective of audit and complex procedure of auditing, roles, and dynamic rather static nature audit contribute to the stakeholders' expectation gap. (ii) Consistent complicated and conflicting roles of auditors not meeting the conflicting interest of the stakeholders (iii) Hindsight and retrospection evaluation modus operandi evaluation model of auditing and auditors performance by the stakeholders due to lack of the capacity to understanding the quality of auditor and performance of auditors (iv) Time lag in responding to different changes in auditing regulatory guideline, standards, and principles to address the diverse stakeholders' expectation gaps.

Other studies posited that the stakeholder expectation gap exists because of stakeholders' unreasonable expectations and the other financial statement users, naïve and ignorance of the auditing standards stipulations (Aguguom & Ajayi, 2020; Haro-de-Rosario, Saez-Martin & Caba-Perez, 2018). Ignorance of the stakeholders Hidayat (2017), deficiency in the performance of the auditor Gurarda (2015), complexities of audit assignment (Hassan and Romilly (2017), ignorance and misconception of the stakeholders (Hartikayanti, Trisyardi and Saptono (2016), and unstable audit regulations. Hidayat (2017) posited that problems of expectation

gaps arise from toe perspectives, the communication gap perspective, and performance perspective, unreasonableness perspective.

Communication gap perspective:

From the communication perspective, stakeholders believe that because the auditor's report states true and fair, that the opinion is expected to remain constant throughout, as such to the stakeholders, an unqualified audit report implies a 100 % clean bill of health of the company in all ramifications, Harding and Hsiaw (2014), that the unqualified audit report signifies that the company has been guaranteed by the auditors to a continuous existence and the stakeholders expect that auditor discovered fraud and irregularities (Gunarathne & Lee, 2015).

Performance gap perspective:

From the performance gap perspective, the stakeholders seem to capitalize on some pockets of incompetence characteristics exhibited by the auditor, such as the inadequate technical skill of the auditor, outdated technical knowledge of the auditor, unreasonable audit budge and possible insufficient audit evidence obtained during audit exercise (Fulop, Tiron-Tudor & Silviu, 2019). The inability of the auditor to exhibit absolute independence, inability to detect fraud, and perhaps the inability of the auditor to forecast possible operating deficiencies in the going concern status of the clients Reiner, 2020).

Unreasonableness gap perspective:

Gibassier and Alcouffe (2018) posited that stakeholders' expectations are quite unreasonable and unpredictable considering the diverse and numerous stakeholders. The stakeholders lack adequate basic accounting knowledge to understand and appreciate the efforts of the auditors. Meanwhile, Hassan and Romilly (2017) submitted that the stakeholders expect the auditor to report fraud or irregularities discovered and when such happens after the auditor report, it then means that the auditor is incompetent and lacks adequate skills.

Audit Liability:

Over the years, the name of the auditing profession has been dragged to the mud and has suffered diverse litigations and financial scandals (Salehi, 2016). These problems have gotten to such alarming unprecedented level due to the spectacular fall of widely publicized and high profiled and the case of Enron and Arthur Andersen that had brought an outright cessation of Arthur Andersen out of the then big 5 (Ruhnke & Schmidt, 2014). In a situation where innocent financial stakeholders suffer losses due to fraud or any economic collapse of ostensibly health companies, institutional proceedings of blame are always insinuated Mansur & Tangi, 2018). The greater the expectation gap, expectation gap is detrimental issues to the auditor and the auditing profession and the more the credibility, auditors earning potentials and the lower the prestige of the auditing profession since it is believed that the expectation gap is harmful to the public, existing and potential investors of the concerned clients involved (Sukhdev-Singh, 2017).

All over the world, the work of an auditor is regarded as a contractual obligation with attached responsibilities as well as risks, giving rise to liabilities. Like any other profession, the accounting and auditing professions have our contractual services with possible attendant responsibilities (Stocker, Arruda, Mascena & Broaventura, 2020). In auditing services, the

liability could be criminal or civil depending on the nature of the circumstance, implying that the auditor must carry out the contracted audit work with all reasonable appropriate skills, competence, and diligence (Solabomi & Uwuigbe, 2013). The auditors' duty and responsibility to clients and other stakeholders who use the financial statements, or the third parties as the case may be stipulated liability in tort and this gives rise to liability, especially when the act of negligence is established. When the user of financial statement believing same to be the product of professional output, the consumption is making economic decisions with pecuniary implications, in such circumstances, auditors have a responsibility, as such, it is expected that auditor does their audit exercise with all diligence, honestly and carefully (Onulaka & Samy, 2017).

The contractual clause of "reasonable care and skill" with the assertiveness of "professional skepticism" are very implicating in law, as such in exercising audit work it was established as a liability as reported in the case of London and General Bank of 1895 and in that case, the judge found the auditor guilty and liable, the judge pronounced that Auditor was liable as he must be honest and believe whatever he signs to be true, he must take reasonable care and skill before he believes that what he certifies is nothing but the true (Taslima & Fengju, 2019). Auditor professional liability is possible in law and when found guilty, the auditor could be found liable. The professional auditor has professional liability under the common law as well as under the statutory law, in this circumstance, the professional liability could give rise to criminal liability or civil liability arising possibly from contract or tort (Sulkowski, Edwards & Freeman, 2018)

Criminal Liability:

In line with the Nigerian legal framework as contained in section 560 of CAMA as amended with 2020 company law of 2020 stipulates that if any person willfully makes a statement that is misleading or false in any material form, knowing to be false, he is criminally liable and may be imprisoned for a period of 2 years in convicted by the High Court or a fine or 4 months imprisonment (Sutherland, Davis, Terton & Visser, 2018). According to Sutherland *et al.,* (2018), under section 436 of the Nigerian criminal code, if a promoter, director, officer, or an auditor of a company makes circulation, circulates, publishes or consent to such publication or circulation of financial statement that is seen to be false in any material form intended to deceive or defraud any person is guilty of a felony and liable to 7 years imprisonment.

Civil Liability:

Besides the criminal liability, the auditor responsibility equally covers civil liability in line with the law of contract (Agrawal & Chatterjee (2015). The civil liability suggested that the audit client as a legal entity has a contractual agreement with the auditor in relation to the supply of professional service and as such the auditor has a duty of professionalism and care as implied in it in status, implying that duty of care is considered automatic and should not have any further proof (Farasangi & Nohongdari, 2017; Fasan & Mio, 2017). The law stipulates those two elements must be established: (i) whether or not the duty of care has been breached by the auditor (ii) and whether the auditors' clients have at any known time suffered a specific loss due to the breach of this duty of care (ACCA, 2019). Beyond the foregoing, section 368 subsection 1 of CAMA 2004 as repealed and

replaced in the company law of 2020, suggested that an auditor is liable if the auditors fail to exercise care, diligence, and skills, if the company suffers any loss or damage as a result of auditor's failure to discharge his duties fiduciary imposed on him.

COVID-19 Era

It was a turbulent and challenging exercise for the auditing profession during the pick of the Ecovid-19 pandemic era. The stakeholders' expectation was heightened owing to possible propensity to manager high incentives to discretionary earnings to fill performance gaps and deficiencies created by the lockdowns and movement restrictions (El-Mousawi & Kanso, 2020). International Financial Reporting Standards (IFRS) and Financial Reporting Council of Nigeria (FRCN) apprehensively came up with some measures and audit regulation during COVID 19: There should be strict compliance with engagement procedures as provided in ISA 210 agreeing on the terms of the audit engagement. The auditor should notify the financial reporting council where it is impracticable to do so and obtain permission for any deviation. Auditors are to plan their work in the area of evidence collection. The use of video/telephone conferencing and electronic evidence is encouraged and when there is difficulty in obtaining sufficient audit evidence through the means mentioned above, the auditor should consider modifying their opinion on the financial statement in line with ISA.

The financial statement with a modified opinion must then be brought to the council's attention following the provision of the Financial Reporting Council Act. COVID 19 pandemic has impacted business greatly while some businesses had collapsed due to COVID 19 while it offers fresh and new opportunities for others. COVID 19 has changed the way business is conducted in the world and Nigeria is not exceptional while, the audit profession is not left without being impacted. COVID 19 has affected the way audits were being conducted due to restrictions to clients' offices which has affected the collection of audit evidence. Audit evidence or access to the financial statement of the clients are done through technology now. Some clients grant their auditor access to their environment through VPN (Virtual Private Network) based on the need to know and/or need to use. (Least Privilege) (ISACA 2020).

Closing Expectation Gap

Efforts could be made towards narrowing the stakeholders' expectation gap. Auditors are required to obtain sufficient complete evidence as required by the auditing standards (Falcone, 2018). The auditor at all times must be guided that there are different users of the financial statement who are not professionally knowledgeable, hence the need to simplify the accounting information content to such extent that with reasonable accounting knowledge, the users can understand the content for useful information decisions. Studies have suggested the following measures:

Education of the stakeholders:

Nwaobia, Onuoha and Aguguom (2018) suggested that the stakeholders be educated to understand the dynamics and complexities of audit exercise and what the auditing regulatory guidelines expect from the auditor. Stakeholders should have some basic accounting knowledge to understand and interpret what could necessitate qualification or non-qualification of audit report, and true and fair expression implies.

Expand Audit Reporting Requirements:

The International Auditing Standards should expand the auditing guidelines to cover adequate information to address some financial and nonfinancial matters that border on the going concern status of the clients.

Structured Audit Methodology:

Boterenbrod (2017) suggested that audit assignment should be aimed at giving a comprehensive report towards satisfying the stakeholders and all other financial statements users. Exploring the use of structured and semi-structured audit evidence gathering had been found to be positively significant to stakeholders' expectation gap.

Expanding Auditor duties and responsibilities:

In an effort to narrow the stakeholders' expectation gaps, Hynan (2019) opined that the need to expand auditors duties and responsibilities, expand the scope of auditors services to provide for the growing demand of the public, and in addition expand the core audit services and extended audit services.

Core audit services:

King and DeBeer (2018) suggested that expanding the core auditor services is one of the means of reducing the expectation gap. These include: (i) adequate investigation of the clients' internal control (ii) effective fraud and evaluation of the going concern (iii) adequate

Extended audit services:

This includes carrying out a thorough business risk assessment, management discussion, and analysis, ensuring the quality of accounting policies and standards are fully complied, evaluating corporate governance, evidence of consistent disclosure compliance and effective audit performance and continuous audit exercise (Secundo, Perez, Martinaitis & Leitner, 2015).

Theoretical Consideration

Stakeholder Theory:

The stakeholder's theory suggested that consideration beyond the traditional relationship between the shareholders and the managers of the expanded interested parties of stakeholders such as the customers, the suppliers, employees, lenders, and borrowers, the government, trade unions, the local communities where companies operate (Schaltegger, Gibassier & Zvezdov, 2013). Sanda, Mikailu and Garba (2005) posited that stakeholder theory considers the company as a relationship of contracts between the corporate management and shareholders on one angle and employees, shareholders, creditors, debtor, government, and the other stakeholders on the other angle. In order words, stakeholder theory regards and proper attention should go beyond traditional management shareholder relationships to include all parties who are interested in the welfare of the organization (Mansur & Tangi, 2018). Those who will be affected and benefit from the company directly or indirectly the fortunes or misfortunes of events of the company.

Many groups of people are interested in the operational and effective performance of the company and particularly the going concern of some companies and with diverse interests, the managers are expected to carry the interest of all parties in mind when formulating strategic decisions and investment that will beneficial to all rather than pursuing an exclusive interest of shareholders. Hynan (2019) noted that managers can perform well and survive when the stakeholders' interests are better

protected. For instance, the shareholders' wealth maximization, in the long run, can never be achieved if the other stakeholders of customers, employees, suppliers, and others are not considered in the scheme of things. According to Hynan (2019), the management and the corporate governance efforts should be geared towards empowering all the stakeholders who contribute or control resources and skills to ensure that the interest of these stakeholders is aligned with that of shareholders.

While some studies have shown support to the philosophy of stakeholders' theory, suggesting that the stakeholders are powerful and have the capacity to promote the effective performance of corporate organizations when their interest is taken care of, and therefore argued that management should consider them in all its managerial decisions (Panda & Leepsa, 2017; Akther & Xu, 2020). Others have criticized the stakeholders' theory, situating the fact that there are no risk bearers, and questioned why their interest should give management much concern. According to Donaldson and Davis (1995), the shareholders are the equity holders, risk bearers, and residual owners, as such the shareholders' wealth maximization model should be pursued first before any other consideration.

Theory of Inspired Confidence:

The theory of inspired confidence was developed by Prof. Theodore Limperg in early 1920 as posited by (Hayes, Dessen, Schilder & Wallage, 2005). The theory of inspired confidence suggested that the demand for audit is a direct consequence of the fact that the participation of outside stakeholders in the operational and business activities of companies. The owners (principal) is different from the management (agents) and the other stakeholders (the public) are not part of the running of the business. These stakeholders demand accountability and honest opinion of the affairs of the company from the management (Davis, Schoorman & Donaldson, 1997). Incidentally, the information provided by the management might be biased and may likely cover the interest of the management who has privileged information not known by others and who also prepared the financial statement. It is only natural and fair that the service of a third party (auditors) what are considered as an umpire and independent party to give a true and fair opinion of the state of financial position of the activities of the company.

Some of the assumptions of the theory of inspired confidence posited that the auditor should provide an honest opinion, exercise all fairness and due diligence to ensure that the confidence reposed on him by the stakeholders are not abused by taking a side in expressing audit opinion. The stakeholders and the general public do not trust the financial statement prepared by the management but will do when the auditors certify them and confer confidence and trust that the financial statement will be credible, reliable, and useful for decision making. Some studies have posited that auditors play the role of inspiring the stakeholders to trust and accept the financial statement after the audit exercise and that the auditors have the role of inspiring the general public to trust the financial statements because the same has been audited by the auditors.

On the contrary, some studies have posited that the auditors' past antecedents have shown that they cannot be trusted and do not have the integrity to inspire

confidence in the financial statements (Schilling, 2000; Rose, 1973). Oseni and Ehimi (2010) considered some reported financial scandals in the past the case of Arthur Andersen and Enron case, the case of Waste Management, and that Tyco financial scandals as few betrayals of trust displayed by the auditors. Oseni *et al.,* (2010) further stressed that some auditors do not have the moral and professional competence to ensure they play effectively the role of inspired confidence s claimed by the supporters of the theory of inspired confidence.

Lending Credibility Theory:

The Lending credibility was developed by Watts and Zimmerman in 1979. The lending credibility theory suggested that the services of the auditors are essentially significant in adding credibility to the financial statement prepared by the management who is running the business. The lending credibility theory posited that auditors with their professional expertise as a third party has the capacity to ensure certification of the financial statement, prepared by the management, ensure that the financial statements are free from errors, discretionary income, and possible manipulation of accounting figures (Rowley & Moldoveanu, 2013). The audit quality has the propensity and capacity to ensure accuracy and reliability of the financial statement, and the financial statements, the efficacy of adding value to investment decisions (Bedard, Gonthier, Besacier & Schatt, 2019). Adeyemi and Uadiale (2011), noted that the general public and other stakeholders think that auditing services are intended to add credibility to the financial statement.

Lending credibility theory assumes that auditors are (i) independent third party and that the auditor has the contractual obligation to ensure a true and fair judgment, (ii) auditors' confidence is supreme and cannot be betrayed (iii) the stakeholders consume the financial statement trusting that they are credible and dependable because of the certification of the auditors (iv) The demand for auditors is based on the lending credibility ability of the financial statement by the auditors. While some studies support the lending credibility theory, others oppose the role and honest capacity of the auditors to lend credibility to the financial statements considering the antecedents of financial scandals involving some notable and high profiles auditing firms. For instance, while Falcone and Sica (2019); Boterenbrod (2017) support the role of auditors in lending credence and confidence to users of financial statements, Salehi (2016); Mansur and Tangi (2018) questioned the extent of independence being exercised by the auditing firms when many of them perform double roles of consulting services and at the same time the auditing services of the same account of the client.

Methodology

This study examined audit liability and stakeholders' expectation gap. The study considered the possibility of the existence of audit liability as a deterrent to audit failure and could spur the auditor to exercise more professional care and skill to avoid litigation and unnecessary audit liabilities. In carrying out this paper, the study employed exploratory research design, using related and revenant material from the field of accounting and auditing. The study reviewed journals, periodicals, and other

documented financial and auditing reviews considered useful for the study.

Conclusion and Recommendations

The study examined audit liability and stakeholders' expectation gap**.** The study considered the possibility of the existence of audit liability as a deterrent to audit failure and could spur the auditor to exercise more professional care and skill to avoid litigation and unnecessary audit liabilities. Stakeholders' expectation gap in recent times has deepened due to misunderstanding and misconceptions about auditor's duties and responsibilities. It is believed that the consciousness and prevalence of audit liabilities are a panacea to spur awakening and true professionalism among the member of the auditing profession since professional negligence and misstatements care capable of instigating criminal charges and auditing liabilities against the erring auditors and auditing firms. Audit exercise and expression of opinions ought to provide to the stakeholders' absolute assurance that the financial statements of companies audited by the auditors do not contain any misinformation, fraud, and errors capable of hurting prospective users. The study concludes that auditors should not underplay or compromise the virtues of audit independence, extensive audit exercise, and professional skepticisms to enhance unbiased reporting, fair and true audit reports capable of auditing value to users of financial statements.

Recommendations:

The study, therefore, recommended that auditors should exercise more due diligence, professional care and skills, and skepticism in carrying out audit services. Stakeholders should exercise more reasonableness, fairness, and a true understanding of the true nature of auditor duties and responsibilities. Auditors should make extra efforts to extend, expand and incorporate into the audit reports the scope and concerns of the stakeholders' interests and expectations towards narrowing the existing expectation gaps.

Contribution to knowledge:

The study provided evidence that auditing service is a contractual obligation and those auditors can be held liable for any economic loss resulting in established professional negligence.

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