CORPORATE GOVERNANCE AND AUDIT EXPECTATION GAP IN NIGERIA: HOW RELEVANT IS AGENCY THEORY?

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Abstract

The quality and credibility of financial statements build strong public confidence in relying on the ability of accounting information contents of financial statements to enhance usefulness and economic value of investment decisions. Contemporary debate has been raised, suggesting that the ineffectiveness of corporate governance has widened the expectation gap, while others argue that auditors have not exercised enough professional dexterity, due diligence and skepticism in meeting the needs of the financial statement users. In contributing to this debate, this study examines corporate governance and audit expectation gaps from the perspective of agency theory. The study employed a systematic exploratory research, using relevant materials drawn from accounting and financial documentations, journals, periodicals and other related sources. The study gives a contextual understanding of audit expectation gap from the perspective of corporate governance performance oversight function inadequacies, giving room for wider expectation gap. The study reveals that both the board's inability to institute effective corporate governance machinery, the auditor's negligence and unreasonable expectation of the public have all contributed to the audit expectation gap. The study recommends that auditors should accommodate the concerns of the public in rendering credible and quality audit services, the board should exercise its oversight function of effective supervision of the managers and ensure audit independence is not in any way compromised.

Keywords: Audit expectation, Audit Quality, Corporate governance, Financial statement, Credibility, Due diligence, True and fair.

Introduction

The agency theory suggests that the demand for audit services arises from the conflict between the principal (shareholders) and agents (corporate managers). Alzeban (2020) opined that audit expectation gap is the actual difference between what the general financial statements users think of what auditors do and what the users want auditors to do (Alawi, Wadi & Kukreja, 2018; Akther & Xu, 2020). The audit expectation gap has created vast theoretical debate and sensitive concern arising from the difference between what the auditing profession stipulates and what the financial statement users expect, creating diverse performance expectations and other perceptual beliefs of what the audit report entails. Apparently, the perceptions of the financial statement users of auditors' professional services, duties and responsibilities have outside the norms, been wide and diversely beyond the prescribed auditing stipulations by International Auditing Standards (IAS) and assigned by the statute and the auditing profession globally (Kachelmeier, Rimkus,

Schmidt & Valentine, 2019). These misunderstandings, misconstrued duties and extent of roles of the auditor by the financial statement users have resulted to wide gap, otherwise the audit expectation gaps and these gaps exist in the areas of auditor's responsibilities towards detecting fraud and errors, inability of the auditor to make a substantive predictive clear statement on the going concern ability of the clients in the financial statements (Mansur &Tangi, 2018; Furedi-Fulop, 2017).

Bedard, Gonthier-Besacier and Schatt (2019) posit that unfortunately, many of the financial statement users understanding of audit function situate with the premise of preparing clients' accounts, deal with tax matters, prevent and detect fraud and making disclaimer statement of the clients financial statement, only fewer financial statement users have understanding of the statutory restricted and guided roles and responsibility of auditors, hence, the audit expectation gap is the gap between what the financial statement users believe to be the purpose of audit report compared with the actual nature of the audit assurance reported to these financial statement users by auditors.

Corporate governance and its monitoring functions are intended to ensure bridging the expectation gaps. International Auditing Standards and Nigerian Standards of Auditing (ISA 200/NSA) stipulate in paragraph 8, the expected roles of the corporate management and that of the auditor in relation to ensuring reliability of financial statements (Canadian Institute of Chartered Accountants, 2018). In this circumstance, the auditor has the duties and responsibility to ensure unprejudiced formation and expression of unbiased opinion on the financial statements, while the management has the duty and responsibility for preparing and fairly presenting financial statements in accordance with the prescribed financial reporting framework ready for the auditors assignment (Kipkoech & Rono, 2017). Consequently, the duty of credible financial statements does not relieve the corporate governance of its monitoring best practice and oversight function charged with governance of such duties and responsibility nor the auditor's skepticism and duty of care and fair representation of the interest of the financial statement users.

Different groups of users of the audited financial statement do exist, and each group has different audit expectations in relation to auditor's duties and responsibilities and these expectations arise due to the extent of auditor opinion on the true and fairness of the accounting information content financial statements (Moooohs, 2017). Evidence has shown that there is wide difference in this regard as a vast percentage of the public expect financial statements to be totally and completely free from any possible errors and misstatements. The inability of the financial statement to state in clear terms certification free of materiality and errors creates expectation gaps (Nwaobia, Onuoha & Aguguom, 2016). According to Nwaobia *et al.,* (2016), the expectation gap gets widened when the auditor fails to meet the stakeholders' expectation of the auditor to give a forecast opinion on the clients going concern status. Auditors tend to face situational dilemma as the financial statements users expect an appropriate warning note or distress information about the companies audited by them on the going concern of the companies, NuhuUmaru and Salisu, 2017). As a result, investors result to blackmail and litigation when they suffer losses investing in companies where

disclaimer clause or disqualifications were not stated in the financial statements.

Diverse opinions and results abound concerning the effect of corporate governance on audit expectation. While some studies have reported that corporate governance failures and ineffective monitoring practices had a positive effect on audit expectation gap, implying that auditors have not carried out their functions judiciously to prevent widening audit expectations gap (Rahman & Naima, 2017; Sayyar, Basiruddin, Rasid & Elhabib, 2015). It is one of the duties of corporate governance to ensure the interest of the public is protected by meeting the expectation of the financial statement users (Onulaka & Samy, 2017). According to Olojede, Olayinka, Asiriuwa and Usman, (2020), the stakeholders and the general public expect transparency, and good accountability from the corporate management, ability of the corporate governance to influence quality financial reporting and above all, exhibit adequate information disclosure that will go far to address some of the issues agitating the minds of the general public and when these are not properly fixed by the management, it reflects the presence of weak and ineffective corporate governance.

In place Olojede *et al.,* (2020) further posit that corporate governance in most cases has failed to have a positive effect on the managerial structure and dynamics of decision that affects the stakeholders. Rana, Hoque and Sharma (2017); Toumeh, Yahya& Siam (2018) reported that corporate governance had a positive effect on audit expectation gaps.

On the contrary, some other studies have revealed an inverse result, that corporate governance had a negative effect on audit expectation gaps (Zraiq & Fadzil, 2018); Alzeban, 2020). According to Alawi, Wadi and Kukreja (2018), it is instructive to establish that there are two significant and fundamental aspects of the audit exercise, the establishment of audit evidence facts and the other is for the auditor to report material facts fairly and fearlessly as an exhibition of audit independence, addressing some of the expectation concern of the public. These scholars assert the auditors and not corporate governance are to blame for the creation and existence of expectation gap, since the efforts of the corporate governance is positively related to effective appointment of the auditors and not to dictate for the auditors in meeting audit expectations of the financial statement users. Al-Ani and Mohammed (2015) reported that corporate governance had a negative effect on audit expectation gaps.

Consequent to diverse opinions and mixed results of prior studies, the possible effect of corporate governance on audit expectation gaps, reveals inconclusiveness and gaps in literature. Beyond the foregoing, Al-Matar, Al-Swidi and Fadzil (2014) studied empirical analysis of audit expectation in Nigeria while Nwaobia, Onuoha and Aguguom (2016) examined new auditors reporting standards and the audit expectation gap, and Kamal and Begum (2018) investigated audit expectation gap in Nigeria. All the studies adopted a desk research approach, creating a gap for an empirical analysis in this regard. In a recent study, Olojede, Erin, Asiriwa and Usman (2020) studied audit expectation gap, as an empirical analysis. In an effort to differ from these previous studies, none of these studies considered the corporate governance angle of the possible effect of corporate governance on audit expectation gap.

In extending the frontiers and filling these gaps in literature, the objective of this study is to contribute to knowledge and

proposed to examine the effect of corporate governance on audit expectation gaps. The rest of the study is carried out in this manner: Section 2, the review of extant literature, section 3, the methodology was presented. In section 4, the study presented the conclusion and recommendation of the study.

Review of Extant Literature

Audit Expectation Gaps

The audit expectation gaps have been viewed from three perspectives, the communication expectation gap, performance expectation gap and corporate governance expectation gap. According to Furedi-Fulop (2017), when the shareholders and the other stakeholders become insatiable in their demand, and have refused to align their expectation demand unparalleled with the auditor regulatory guideline, expectation gaps are bound to happen. On the contrary view, Lennox, Schmidt and Thompson (2019); Mansur and Tangi (2018) posited that though it is clear and understandable that auditing profession is highly regulated, yet, some auditors do compromise their independence and show weak skepticisms, incompetence and lack of care and skills, and when these happen, the expectation gaps widens and corporate governance becomes the monitoring mechanism to control and ensure expectation gap is narrowed. Farouk and Hassan (2014) documented that there are various forms of expectation gaps:

Communication expectation gap:

The communication expectation gap dimension stems from possible misunderstanding of what the auditor's roles and responsibility entail and inability of the auditor to clearly communicate these facts to the financial statement users (Farouk & Hassan (2014). In most cases, the information conveyance procedures and content of the accounting information are ambiguous and complex for the understanding of the financial statements users (Kachelmeier, Rimkus, Schmidt& Valentine). To a large extent, the many user misinterpret the accounting information content of the audited financial statements and misconstrue it to means (Fulop, Tiron-Tudor and Silviu (2019), (i) auditor's clear assurance and guarantee of the continuous existence of the clients so audited and reported on Li (2020), (ii) auditor giving impression that unqualified auditor report implies that there are no possibility of errors or fraud in the entire organization Fanta, Kemal and Waka (2013), (iii) all probable errors, irregularities and fraud ought to have been discovered and reported by the auditors in the audited financial statements (iv) and that the primary duty and responsibility of the auditor is to detect fraud and misstatements and report same for the general public Panda and Leepsa (2017) and also the users of financial statement after auditors report need not suffer and investment loss using the financial statement.

Performance expectation gap:

In performance expectation gap, Rahman (2017) noted that the public expectations are an offshoot of past losses suffered by some innocent investors as reported in some celebrated cases of Enron and Arthur Anderson, The WorldCom scandals, Tyco and Waste Management scandals involving auditing firms inability to exercise due diligence and duty care in performance of audit assignment. The public users of financial statements are wise and reasonable to know what they want from accounting information content of financial statements (Rahman &Saima,

2017). The reported and high profile of corporate failures and financial crisis reveal that the auditor has compromised his independence, integrity and auditing profession dragged to the mud (Sayyar, Basiruddin, Rasid & Elhabib, 2015). It reveals unethical and inadequate technical skills, dispositions and irrational professional characters and traits of incompetence, and characteristics capable of widening expectation gaps.

Corporate governance expectation gap:

It is the duty of the management to ensure that the financial statements are prepared following the accounting standards, that the all transaction are conducted in line with fairness, avoidance of inter-company dealings complications, ensure compliance to arm's length transaction between associates, parent-subsidiary business transactions and ensure proper information disclosure of financial and non-financial information as may be required by the shareholders, and general public financial accounting information users (Zraiq & Fadzil, 2018; Reiner, 2020).

Corporate Governance

Corporate governance is concerned with ensuring adequate machinery for the day to day operational management activities that ought to enhance audit quality and addressing many of the concerns of the stakeholders (Nuhu, Umaru & Salisu, 2017). In this circumstance, corporate governance entails instituting a transparent and efficient system of direction and adequate control that dictates and stipulates how members of the board governs and monitors the affairs of the company, taking connivance of the interest of the shareholders and all the other stakeholders of the company (Nwaobia*et al.,* 2016). Consistent with the position of nwaobia *et al.,* (2016), other studies noted that corporate governance is positively related to effective audit performance, meeting stakeholders' expectation and protecting the going concern of the company. Similarly, Alqatamin (2018) submitted that corporate governance has a positive effect on audit expectation gap, situating that it involves a system that allow rules, policies and operational practices that guarantees accountability, transparency and protection of corporate assets, enhance credibility of accounting information and recommending to the annual general meeting a reputable auditing firms that will provide a quality auditing service, ensure unbiased financial reporting.

Board Independence:

The corporate governance has the responsibility to ensure board independence and the board duties and responsibility to ensure business is carried out in an honest and auditor enjoy full professional independence in carrying out their functions. The board audit committee is expected to institute a reasonable system that allows audit committee independence capable of ensuring audit quality and addressing some of the concerns of the stakeholders. Within this framework, the board uses its monitoring oversight functions to check possible excessiveness and overbearing punitive behaviours of the managers, meditate on all crucial issues, hire a set of professional seasoned administrative and manager

Corporate Audit Committee:

The audit committee in every organization constitutes a major cornerstone for efficient corporate governance and bridging the expectation gap between the corporate governance and audit expectation gap. In every organization, the board of directors has relied on the expertise of their

audit committees to enhance the active oversight function of annual auditing processes (Amer, Ragab & Shebata, 2014). Studies have revealed that members of the audit committee ensure adequate best quality services when the members enjoy unbiased operations, required independence and show of professional objectiveness. As expected the corporate audit committee ensures audit quality, credible financial reporting and ensure non-interference with the independence of the committee and that of the external auditors in protecting the interest of the investors (Furedi-Fulop, 2017). As a responsibility, the board supervises the corporate system of internal control and safeguards the interest of the company to ensure adequate compliance with existing laws and regulation prevailing within the industry the company belongs to (Mohs, 2017). To an extent, the corporate audit committee extends its oversight function to information technology and other operational matters. The external auditors are supervised by the corporate audit committee who ought to report to it directly as opposed to reporting to management. In addition, Onulaka (2014) reported that the corporate audit committee had a positive effect on expectation gap and is responsible for the appointment and supervisory role of controlling the recommendation of appointing and dismissal of the auditors and auditor's compensational packages.

Possibilities: Narrowing the Audit Expectation Gaps

Studies have written extensively suggesting different ways to reduce and narrow the audit expectation gap. According to Reiner (2020), the auditor's report and annual reports should be enhanced to such that the intended information will be well communicated. Prior studies have reported diverse suggestions and possibilities of narrowing the auditors' expectation gaps. Professional bodies are getting more concerned over the expectation gap and have instituted various measures to narrow the expectation gap. The Nigerian Institute of Chartered Accountants if Nigeria (ICAN) has put in place measures to address the problem of expectation gap, among them, continuous education training of its members in audit practice, the professional practice monitoring process and the mandatory continuous professional education. Other possibilities include the establishment of an audit committee as provided in CAMA 2004 as repealed and replaced with company law of 2020, the fear of litigation and judiciary process and this will require auditor due diligence and skills in auditing and preparation of financial statements (Rana, Hoque & Sharma, 2017).

Toumeh, Yahya and Siam (2018) opined that annual general meeting (AGM) creates a veritable opportunity for the stakeholders to ask questions on some gray areas for explanation and clarification, this will go extra mile in narrowing the expectation gap, at the AGM, some fundamental questions are raised the auditor will be handy and amply available to proffer details answers. Well constituted audit committee plays a crucial role to influence audit quality as well as meeting some basic expectations of the stakeholders, thereby narrowing some issues agitating the mind of the stakeholders. Many studies have attempt to examine the effect of audit committee on stakeholders expectation gap around the world, the developed, developing and emerging economies, mixed results have been documented of the effect of corporate governance through audit committee on audit expectation gap, many

of these studies have revealed that audit committee had positive effect on expectation gap Rahman & Naima, 2017; Nuhu, Umaru & Salisu, 2017).

Education of the financial users and creation of appropriate awareness has the ability to narrow the expectation gap. According to Bedard, Chtourou & Courteau (2014), audit expectation gap arises due to ignorance of the duties and responsibilities of the auditor. The International Auditing Standards and all other local auditing bodies have prescribed guidelines and standards regulating the auditor and auditing procedures, however, the majority of the stakeholders are ignorant of these procedures. The management of companies has duties to perform towards narrowing the stakeholders' expectation gap, according to Boterenbrod (2017), the management of corporate organization has responsibility to ensure the financial statement are prepared in line with the accounting principle and guidelines, and expected to put in perspectives the interest of the other stakeholder in all strategic and managerial decisions.

Nigerian Standard on Auditing:

In alliance with the International Auditing Standards (IAS), the Nigerian Standard on Auditing (NSA) influences auditors' compliance to the auditing standards, deals with professional independence of the auditors to enhance interferences by the clients of the auditors' responsibilities when conducting audit exercise in accordance with IAS and NSA standards. It sets out the clear aims and objectives of the audit independence, explains the nature and scope of auditing services in meeting the expectation of the financial statement users. According to Onulaka (2017; Ahmed, 2018), the body clarifies the scope, authority and structure of the Nigerian Standards on Auditing and general duties and responsibility of auditors to ensure audit quality and ensure credibility information content and also to reduce complications in the financial statement. The NSA regulatory body ensures auditors compliance with all applicable legal, regulatory and auditing professional obligations (Farouk & Hassan, 2014).

Theoretical Consideration

Agency Theory

The agency theory was propounded by Berle and Means (1932) but brought to popularity to literature by Jensen and Meckling (1976), who postulated that the principal (shareholders) delegated the responsibility with authority to agents (managers) to manage their productive resources on its behalf, believing that the agents (managers) will be faithful and be trusted in managing these productive resources to the best interest of the owners, incidentally, the case of conflict of interest arose, as the managers acted in their own interest against the interest of the shareholders. Agency theory illustrates the association between the principal who willingly delegates responsibility and authority to act on its behalf to another, the agent who equally accepted the offer willingly to act and perform such responsibility and authority on behalf of the principal as delegated. In this regard, the agency theory attempts to describe the nexus between the principal and the agent using the metaphor of a contract (Donaldson & Davis, 1994).

The agency theory further suggested that the need for auditor services to benefit both agents (management) and the principals (shareholders). Hence auditors are appointed for the mutual benefits of

management and the shareholders including the other third parties who have an interest in the affairs of the company (Becker,Defond, Jiambalvo, Subramayam, 1998). Agency theory suggested that there is a contractual relationship between the agent and the principal, while the principal voluntary handed its productive resources to the agent to manage on its behalf, believing that the agent will act in the best interest of the principal, however, the agent instead acted on its own interest to the disadvantaged of the principal. The theory proposed that a company is a netting pot of contractual relationships involving so many interest groups who directly or indirectly make one form of contribution or the other to the company, and in return expect a reward. It is, therefore, the responsibility of the management to fairly harmonize and coordinate these groups' expectations such that no group will be unfairly treated (Dtthamrong, Chancharat, Vithessonthi, 2017; Darskuviene, Bendoraitiene, 2014).

Relevance of Agency Theory

The nexus between agency theory in possible influence of corporate governance on audit expectation gap seems contextually crystalized in the clear case of conflict of interests resulting from lack of trust, and confidence of the principal (shareholders) and the agents (management) the monitoring role of the board of directors through adequate institutionalizing corporate governance, recommendation for appointment and confirmation by the shareholders through two-third majority at the annual general meetings (AGM), the responsibility of the effective corporate governance in supervising and enhancement of audit quality and attending to the bridging the audit expectation gap. Consequently, the relevance and appropriateness of this theory is never in doubt. The Shareholders wealth maximization model is put into perspective, when shareholders feel surcharged and their interests are threatened, they might try to become more aggressive and want to actively be involved in the running of the company, this, managers do not want to see. Apparently, the majority of shareholders can discuss their concerns with the company chairman and possibly with other senior directors. All shareholders might be able to express their displeasure by voting against directors, who are anti-shareholders wealth maximization model of the company at the annual general meeting of the company, although their rights and powers are restricted by company law.

Stakeholder Theory

Stakeholder Theory was developed by Freeman in the year 1984 (Milne, 2001). The theory suggests that there were other interested groups in the affairs of the company beyond the shareholders and managers, that these groups of people have invested interest that must be protected. These stakeholders include customers, employees, suppliers, fund lenders, government labour unions, host community and the society at large, others include managers, activists, competitors and those who were affected directly or indirectly by the fortunes or misfortunes incidental to the company (Becker et al., (1998). The stakeholder theory believes that companies and its activities were more less a contractual relationship between management and shareholders in one perspective and a different relationship between employees, shareholders, creditors, the labour union, government and other stakeholders for the symbiotic relationships (Pandey, 2010). The theory further pointed out that the concern of management should

not be centered only on satisfying and protecting the interest of shareholders alone, but should also consider the interest of other stakeholders outside the shareholders. According to Freeman and Reed (1983), the managers can be more successful and protected in managerial activities when strategic decisions are tailored towards the interest of all the stakeholders.

The stakeholder's theory has some basic assumptions that shareholders were selfish in nature in their wealth maximization, demanding higher dividends and market share appreciation (Lennox, Schmidt & Thompson, 2019). The shareholders would want the manger to pursue decision and investment that will maximize shareholders wealth while manager were greatly motivated in pursuing the shareholders higher earnings since it would amount to robust bonuses and remunerations).There were some proponents of stakeholder's supporters who have shown reasons other stakeholders besides the shareholders should be protected.

According to Kipkoech and Rono (2016), corporate establishments have a normative (moral) obligation to treat every stakeholder fairly and in a positive way and this commitment were in turn seen as shaping strategic roadmap in performance sustainability, impacting oil and gas and nonperformance landscape of the going concern ability of the company.

On the contrary, some other scholars have criticized some of the assumptions of stakeholder theory (Alam and Akhter, 2017) opined that the shareholders rightly deserve higher earnings and the dividends since they were the risk bearers and they were owners of the company. As residual owners, the only compensation for their equity investments was enhanced dividends. Also, Amer, Ragab and Shehata (2014) submitted that shareholders' wealth maximization was justified and that managers' motivation in making decision that will protect shareholders interest ahead of the other stakeholders was right steps towards protection their job and the stability of the organization, since the shareholders were the equity holders, and bears risks with has the ability to vote out management that was not doing their bits during the annual general meetings (AGM). Panda and Leepsa (2017) also argued that Freeman stakeholder theory provides inadequate explanation of the company's behaviour within its environment and failed to sufficiently address the dynamics which link the company to the stakeholders. Also that the stakeholder theory did discuss the concept of congruent values between the entity and stakeholders, incidentally, these congruent values were in the context of identifying alliances versus conflict, nevertheless failed to elucidate the process involved in the relationship between entity and stakeholders.

Theory of Expectation Gap

Theory of expectation gap was proposed by Victor Vroom in 1964 (Boterenbrod, 2017). The theory suggested that shareholders desire some legitimate expectations from the managers and management of the corporate organization where they have made some rewardable contributions, and incidentally, these expectations are genuine and natural: of effective performance, good corporate governance practices and managers putting the stakeholders' interest in right perspective when making strategic and managerial decisions.

According to Boterenbrod (2017), there is a financial reporting expectation gap when some vital information are held back from the stakeholders and/or that the reporting process has not captured all the relevant and underlying economic realities on ground and not comprehensive enough in meeting shareholders' expectations in terms of reliability and completeness of accounting information as contained in the financial statements (Alawi, Wadi & Kukreja, 2018).

Eisenhardt (1989) noted that some disparities are intentionally carried by the managers to hide vital information, in pursuance of their own interest and goals. Those auditors seem not to understand the needs of the stakeholders since the auditors are not making concerted efforts towards closing these shareholders' expectation gap. In most cases, there clear partial disclosures, and evidence of information asymmetry, adverse selection and not being transparent enough as expected by the shareholders, creates financial reporting expectation gaps.

Some of the assumptions of stakeholders are significant in literature, the theory of expectation gap assumes that (i), that there are other interested parties apart from shareholders (ii), the theory assumes that the manager is motivated only to protect the interest of shareholders because of their direct relationship. (iii) That shareholders are selfish in nature as they are positioned to force the manager to pursue shareholders wealth maximization model (SWM), (iv) that managers are motivated to pursue shareholders wealth maximization as an indirect pursuit of their own high bonuses expectations. Alawi, Wadi and Kukreja (2018) submitted that the expectations gap in this context is defined as the difference between the expected performances as envisioned by the independent auditors who had reviewed the financial reports prepared by the management falling short of the shareholders' expectations.

Lending Credibility Theory

Lending credibility theory is predicated on the public assumption that the primary duty of auditing is to add value and credibility to the financial statement prepared and presented by the management of the organization. Watts and Zimmerman (1979). Lending credibility theory suggested that auditors are unbiased umpire, who are professionally independent and having the professional expertise to render an impartial auditing service, capable of reporting true and fair financial statement, to certify a reliable, credible and the true state of financial health condition of the financial activities of the company. The lending credibility theory further suggested that the auditors’ services have the capacity to lend credence and credibility to the financial statement, trusting that the auditor will not compromise on these duties and responsibilities. The auditor audit exercise (Admati & Pfleiderer, 1988).

The contention and lack of confidence arising between the shareholders (Principal) and the management (Agents) gave impetus and reasons for the demand for audit services with the mind that the audit services will add value, quality and credibility to the financial statement prepared by the management for the consumption of the shareholders and other stakeholders (Barney, Ketchen & Wright, 2011). Previous studies have documented that events of the past has generated loss of confidence and growing perceptions of conflict of interest where the principal believe that the agents are not rendering honest reports in line with their biddings, rather may that managers may have prepared the financial statement

withholding vital information, concealment of discretionary activities in their favour, since obvious, the managers have some privilege information that could use in their interest to the detriment of the shareholders and the other stakeholders not known to the shareholders (Nonaka, 1994).

Methodology

This study examined the effect of corporate governance on the audit expectation gap in Nigeria. In addressing this problem, a qualitative approach of systematic exploratory approach was adopted, using relevant material drawn from accounting and financial documentations, journals, periodicals and other related sources. The study gives a contextual understanding of audit expectation gap from the perspective of corporate governance performance oversight function inadequacies, giving room for wider expectation gap.

Conclusion and Recommendations

Conclusion

The concerns of the audit expectation gap have been a controversial debate in literature, that many studies have differed in the possible causes of the audit expectation gap. Some studies have posited that the audit expectation gap is widening unabated, laying credence to chronicles of financial scandals and smearing reputation the auditing profession result from some celebrated cases where high profile scandals where auditing firms were implicated. The cases of Enron and Arthur Andersen, Waste Management, Tyco and many others are cases that brought the auditing profession to the cleaners and these cases have exacerbated loss of public confidence on the acclaimed professional umpires, thereby widening the audit expectation gap. This study in contributing to knowledge has examined and x-rayed the possible effect of corporate governance on audit expectation gap. The study has revealed that some previous studies documented mixed results, while some studies have documented that corporate governance had a positive influence on the audit expectation gap (Owolabi & Omotilewa, 2020; Bedard et al., (2019).

Some of these studies reported that it is the duty and responsibility of the board of directors to ensure effective corporate governance, establishment an organ from itself, the audit committee who is saddled with the responsibility of ensuring institutional a system that will guarantee transparency, accountability and independent of the auditors in reporting quality and credible, true and fair financial statements and that so doing, bridges the widened gap, toward narrowing the audit expectation gap. The study also revealed some contradictions, as studies have reported negative significant effect of corporate governance on audit expectation gap (Eluyela, Akintimehin, Okere, Ozordi, Osuma, Ilogho & Oladipo, 2018 Barua and Barua (2020) posited that auditors to an extent are independence of the corporate governance who ought to exercise their professional auditing function with due diligence and all skepticism to ensure high quality and credible financial statement. This study concluded that both the corporate governance, the statutory auditors and the public have significant parts to play in narrowing the audit expectation gap.

Recommendations

Based on the detailed review and examination of possible effect of corporate governance on audit expectation gap, the study recommends that the auditors should exercise true professional independence,

due diligence, professional care and skill as required in the auditing standards when conducting audit exercise to obtain reasonable assurance and audit evidence as a guide in expressing audit opinion. The public expects transparency, honest reports and credible financial statements, useful and capable of adding investment decisions. The board should exercise its duties and responsibility of instituting effective corporate governance, exercise its oversight function through its audit committee in supervising the recruitment of credible management teams and also supervise the external auditors to enhance quality and credible audit reports. The study also recommends that the public should show some reasonableness in their expectations, since the auditors are under strict regulatory guide in meeting the auditing standards.

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