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Audit Expectation Gap and Fraud Detection in Nigeria: The Public Servants' Perception

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Abstract:
The audit function of fraud detection has been a key issue in audit expectation gap for decades now as users' of financial statements demand more in terms of disclosure requirement and reporting of fraud incidences in organization. The aim of this research is to investigate whether there is significant difference in perception among public servants about fraud detection and expectation gap. This is an descriptive research, the study used questionnaire to collate primary data while purposive sampling technique was use to select sample from a finite population. Chi-Square test was used as statistical tool to measure the responses of respondents used as our sample size. The findings of the study indicate that there is no significant difference in opinion regarding issue of fraud detection and audit expectation among public servants. The study concluded that the lack of significant difference in perceptions of public Servants might not be unconnected with the statutory nature of regulatory audit being carried out in the public sector of which most respondents have knowledge of the objective of such audits.

Keywords: *Audit, fraud detection, audit expectation gap, public servants*

1. Introduction

The past two decades has witnessed corporate accounting scandals that have cast serious doubt on the integrity and credibility of audited financial statements. The users of financial statements have become more informed and now demand more from audit assurance services. The failure of external audit to detect fraud in cases of Enron, WorldCom, Palmalat and Famie Mac has caused a paradigm shift on the auditing profession as confidence of stakeholders in financial reporting has been eroded by corporate fraud.

The plethora of criticisms and litigation against auditors is not unconnected with the audit expectation gap. Audit expectation gap is defined as the difference between the public perceptions of auditing profession and what the audit profession regards the audit objective to be. The users of audited financial have varied reasons for using audit report but these objectives are not being served effectively. The inability of auditing to meet the expectation gap of stakeholders has caused relevance, integrity, earning potential and esteem issues associated with the work of auditors (Lee et al., 2009)

The secondary objective of an audit which is to detect and prevent errors and frauds has been a contentious between clients and auditors as the primary responsibility for prevention and detection of errors and fraud rests with the management of organizations. The major issue in audit expectation gap is that auditors' responsibility should go beyond just attesting whether a financial statement shows a true and fair view of what the purport to represent and provide assurance as to the integrity of underlying records used in preparing the account so that misfeasance on the part of management can be identified and reported. Agency theory analyses the relationship between two parties: investors and managers, where managers are seen as agents, acting on behalf of the principal (investors) for a consideration. This theory pre-supposes that managers will always want to act in their self-interest which may undermine the interest of the investors (Anderson & Emander, 2005). Audit serves a primary purpose in promoting confidence and reinforcing trust in financial statement information. Agency theory is an economic theory of accountability that helps to explain how auditing evolved. Agents have more information than principals and this information asymmetry adversely affects the principals' ability to establish whether their interests are being faithfully protected.

This study aims to identify expectation gap concerning external auditor's responsibility in detecting management fraud in the public sector. Our research will anchor discussion on the agency theory and the objective of study is to find out," Do there exist a difference in opinion between public accountants and auditor's perception audit expectation gap in relation to corporate fraud in government Ministries, agency and departments in Nigeria. Previous studies (Lowe & Pany ,1993, Epstein & Geiger 1994, Humphrey et al,1993) point to the evidence of expectation gap. In line with the above previous findings, we provide the following statement of hypothesis:

H0: There is no significant difference in public Servants perception of fraud detection and expectation gap.

This study seeks to document evidence on perception of public servants on fraud detection and audit expectation gap resulting from agency theory conflict. Lack of previous studies in Nigeria as regards expectation gap in the public sector motivated this study to provide the public sector evidence on fraud detection and expectation gap.

2. The Concept of Auditing

Auditing as a field of study can be traced to the ancient Greek and Egyptian civilization where stewardship accounting was practiced. The landowners and property owners appointed managers to oversee their harvest/resources and stand discharged/undischarged upon rendering their account of stewardship faithfully or otherwise. Early audit was obligatory and focused on detecting fraud and financial misfeasance in the eighteen century, where the basic role of an auditor was to proof the integrity of individual charged with fiscal responsibilities. Literatures showed that, there was a functional shift much later in the responsibility of auditors from "true and correct view 'to 'true and fair view' caused by a paradigm shift in the audit process. The consequence of this dynamic shift snowballed in change of opinion from "complete assurance' to "reasonable assurance'.

Ijeoma (2008) defined, 'auditing as an unbiased examination of an inquiry into any statement of account relating to money worth, the underlying documents and the physical assets where possible and all other available evidence as will enable the auditor to form an opinion thereon and report accordingly'.

Auditing is also 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 established and established criteria and communicating the results to interested users.

The import of these definitions is that audit is an examination of a company's financial statement by an independent body duly appointed so that an opinion regarding assertions about entries in the financial statement can be certified as "true and fair".

This role in examination of financial statement can only be achieved if the auditor is independent which include programming, investigative and reporting independence (Enyi et al., 2012). The auditor should plan his work without internal or external interference and report his findings fearlessly to shareholders without management or an outsider influencing the audit opinion. There are threats to auditors' independence which are self-interest, self-review, advocacy, familiarity and intimidation threat (Adeniji, 2010).

The other concept of materiality as it relates to auditing is a decision by the auditor if knowledge of a matter is likely to influence the user of the financial statement, materiality is anything significant to the circumstances of each company and the auditor must insist on full disclosure and on the right disclosure and right representation.

Confidentiality concept of auditing requires an auditor to respect the information gathered in the course of the audit since he stands in the position of trust with the client. Auditors' should only divulge any information when legal or professional duty compels them to do so. Accountability reflects the need for the Government and its agencies to serve the public effectively in accordance with the laws of the land.

Fraud detection is intended to identify inappropriate, inefficient, illegal, fraudulent, or abusive acts that have already transpired and to collect evidence to support decisions regarding prosecutions, disciplinary actions or other remedies. Three key factors are important for fraud detection namely internal control, risk assessment and management process. There are two ways material misstatements could occur with respect to fraud: misappropriation of assets and fraudulent financial reporting (Salehi, 2008). Albrecht (1996) opined that fraud consist of three components namely theft act, the concealment act and the conversion act. Fraud may occur because of three main factors- incentive, opportunity and rationalization.

Audit function is essential in giving reasonable assurance about assertions made in the financial statement by management and users of audited reports expect this assertion to be free from management bias and correct, true and fair with regard to the enterprise resource.

3. The Concept of Audit Expectation Gap

Liggo (1974) was the first to identify expectation gap in audit literature as the difference between the levels of expected performance as envisioned by the independent accountant and by the user of financial statements. Porter (1993) defined it as the gap between a society's expectation of auditors and auditor's performance, as perceived by society.

Fadzly and Ahmad (2004) improved the research conducted in Malaysia by determining the essence of education as a tool for minimizing the gap. The found that auditors' scope of legal responsibility and culpability were significant indicators to the gap and financial statement Users education helped in reducing the expectation gap

Porter and Gowthorpe (2004) investigated the structure, composition, and extent of the audit expectation performance gap in UK and New Zealand: they compared findings from the two countries both longitudinally and cross-culturally. The found out that audit gap are made up of reasonableness gap, deficient standard gap and deficient performance gap

Scholarly works of Chrystelle (2009),Ojo (2006), Sidani (2007) suggested the presence of expectation gap. All studies conducted in this area showed a common agreement among scholars that society's lack of knowledge about the objective of an audit, auditors' inability to report on reliability of information contained in financial statements and lack of monitoring and sanctions on auditors to improve performance are factors that have contributed to the expectation gap.

After Porter, studies undertaken in the area of audit expectation gap focused on the presence of expectation gap, identified the causes and proffered suggested solutions for minimizing it. In the US (Epstein & Geiger,1994) confirmed the existence of audit expectation gap, (Humphrey et al,1993 in the UK, Robinson & Lyttle,1991 in Ireland, Lin & Chen,2004 in China, Dixon et al,2006 in Egypt, Monroe & Woodliff ,1993 in Australia, Schelluch,1996 in South Africa, Ojo,2006 in Nigeria).

4. Audit Expectation Gap and Fraud Detection

Corporate fraud by management has been on the front burner as information asymmetry between shareholders and management of organizations continues to widen. The engagement of auditors to breach this gap which from the clients' perception is detection of all kinds of fraud and the auditors' statutory objective of forming an opinion on the financial statements has created a gap between auditors and clients. Fraud involves misallocation of resources or distorted reporting of the availability of resources, so that it contradicts the elements of round and prudent management (Salehi,2008). The Enron fraud scandal in US led to a renewed commitment on the part of various governments to re-regulate auditing, financial reporting and corporate governance regimes. Carcello et al. (2006) argued that in order to improve financial credibility, the Sarbanes-Oxley Act was introduced by the US government in 2002 to provide punishment on failures of companies to adhere to corporate, auditing, financial reporting of public companies including provisions meant to deter and punish corporate accounting fraud and corruption.

Lin and Chen (2004) studied with regard to audit objectives in China, auditor's obligation to detect and report fraud and third party liability of auditors. The study found evidence of expectation gap, as users of accounting information believe that the auditors were responsible for the truthfulness and reliability of financial statements, detecting and reporting frauds and errors, liable for fraudulent information contained in audited reports and are better positioned to unearth frauds, inefficiency or irregularities more than management.

In Egypt, Dixon, Woodhead and Sohliman (2006) researched the expectation gap between auditors and financial statement. The experimental research used 100 questionnaires which were distributed to study participants- auditors, bankers and investors. The mann-Whitney U-test was applied and the result showed that there was a wider expectation gap on the issue of the auditors' responsibility and lesser expectation gap with regards to reliability and usefulness of audit.

Koh and Woo (1998) studied the nature and structure of audit expectation gap and suggested measures by which the gap can be reduced through expanded audit reports, education, structured audit methodologies.

Best, Buckby and Clarice (2001) conducted a research on audit expectation gap with emphasis on users' perception of auditor's responsibilities especially in the area of fraud prevention and detection maintenance of accounting record using questionnaire survey and Mann Whitney test for statistical analysis. They investigation supported the clarion call for the change of the wordings of the audit report from the short form to the long form.

Lowe (1994) conducted a research among auditors and analyst in Singapore and in Australia and found out that in both countries, significant differences in perceptions were discovered in areas with respect to assurance over fraud detection and the reliability of information presented in audited financial statements.

Fraud cases are differentiated based on the presence of collision, materiality, type of audit made, and whether the fraud was committed by management or other employees (Harold et al. ,2009). Establishing the users of audit reports reasonable expectation regarding fraud and provisions of the auditing standard in vogue will help in adjusting auditing guideline and principles so that the standards gap can be narrowed.

The various studies are in agreement with the fact that expectation gap regarding what constitutes the objective of an audit between management of businesses and auditors has contributed to the prevalence of fraud in organizations as there is usually bulk-passing as to whose duty it is to detect fraud in an organization. The statutory provision of making detection of fraud a secondary responsibility for auditors has always been questioned by users' of financial statement who feel that auditors' should do more to provide assurance regarding financial information provided by management. The trade-off between audit expectation gap/fraud which auditing standard has failed to narrow has led to the introduction of corporate governance codes like the Sarbanes-Oxley Act of 2002 in United States which sought to provide punishment on failures of companies to adhere to corporate governance, auditing, financial reporting of public companies including provisions meant to deter and punish corporate accounting fraud and corruption (Adeniji,2010)

5. Research Methodology

The aim of this study is to test whether there is a significant difference between audit expectation gap and fraud detection among public servants in Nigeria. It is a descriptive research design where questionnaire developed based on the method used in Chowdhury et al (2005), Best et al. (2001) and Salehi (2008) will be employed.

The Chi-Square test will be employed to test the respondent responses since we are conducting a non-parametric test. This method is chosen because it is especially valuable in dealing with ordinal data. Our respondent consists of 100 public Servants' drawn from government ministries, departments and agencies using purposive sampling technique.

The perceptions of public servants as regards fraud detection and audit expectation gap were tested for significant differences by using Chi-Square test at confidence level of 0.05.

The Chi- Square test formula is given by:

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

2

Where

O = Observed Frequency

E = Expected frequency

The degree of freedom is given as:

Df = (r – 1) (C – 1) Where r = rows, c = columns

We used 5% level of significance

6. Results and Discussion

This section presents the results of the Chi-square test

Chi-Square Test

NPAR TEST
/CHISQUARE=VAR00001 VAR00002
/EXPECTED=EQUAL
/MISSING ANALYSIS.

6.1. Frequencies

% Of Public Servants Observed Respondents			
	Observed N	Expected N	Residual
12	1	1.2	-.2
45	1	1.2	-.2
60	1	1.2	-.2
70	2	1.2	.8
80	1	1.2	-.2
95	1	1.2	-.2
Total	7		

Table 1
Source: SPSS 16.0

6.2. Frequencies

% Of Public Servants' Observed Respondents			
	Observed N	Expected N	Residual
5	1	1.2	-.2
30	2	1.2	.8
40	1	1.2	-.2
55	1	1.2	-.2
80	1	1.2	-.2
88	1	1.2	-.2
Total	7		

Table 2
Source: SPSS 16.0

	% Of Public Servants-Yes Respondents	% Of Public Servants'-No Respondents
Chi-Square	.714[a]	.714[a]
Df	5	5
Asymp. Sig.	.982	.982

Source: SPSS 16.0
a. 6 cells (100.0%) have expected frequencies less than 5. The minimum expected cell frequency is 1.2.

Table 3: Test Statistics

The hypothesis of this study is that there is no significant difference between public servants' perception of fraud detection and expectation gap. The results indicate(TABLE 3), since the calculated Chi-square of 0.714 is less than table value of 0.982, we accept the null hypothesis and reject the alternative that there is no significant difference in public servant's perception of fraud detection and audit expectation gap. This result is in disagreement with the work of Salehi (2008) in Iran, Lin and Chen (2004) in China, Dixon et al. (2001) in Egypt, Lowe (1994) in Singapore and Australia, Schelluch (1996) in South Africa, Ojo (2006) in Nigeria who found significant relationship in perceptions with respect to assurance about fraud detection, wider gap in auditor's responsibilities than on reliability of information provided and places auditors as those responsible for discovering fraud more than management. Their works mainly involved the private sector and our finding is inconsistent with the result of their findings with regards to perceptions of workers' in the public sector.

7. Conclusion and Recommendations

Fraud detection as a secondary responsibility of an auditor has generated heated debates among users' of financial statement as to whose responsibility it is to detect fraud in an organization. This has created expectation gap in perception of different stakeholders. We found out from our research that there is no significant difference between fraud detection and audit expectation gap as perceived by public servants. This is as a result of information at the disposal of public servants regarding what the objectives of an audit are. Audit education has the tendency of narrowing expectation gap of respondents.

We recommend that audit education and should be embarked upon by professional accounting bodies and audit firms on the statutory duties of auditors to reduce expectation gap. High level of professionalism and due diligence should be imbibed by auditors to give credibility and assurance to accounting information they attest to and assert opinion regarding their 'true and fairness'.

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