Determinants of Audit Expectation Gap: Evidence from Limited Companies in Kenya

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Abstract: ***The role of the auditor is to provide objective assurance as to whether the books of accounts and the resulting financial statements portly a true and fair view. Public and in particular users of accounting information however has high expectations from auditor in comparison with the actual auditor's role thus giving rise to audit expectation gap. Expectation gap may be defined as the difference between what the public as well as financial statement users believe auditors are responsible for and what auditors actually believe their responsibilities are. The literature suggests a number of factors which affects the audit expectation gap. The researcher collected data from audit firms in Kenya. The data collected was subjected to multiple linear regression and correlation analysis with an aim of testing hypotheses and make conclusions on the determinants of audit expectation gap among companies in Kenya. The study found out that some factors suggested by the literature significantly affected the audit expectation gap among companies in Kenya. The rest of the factors tested were found not to have a significant effect on the audit expectation gap.***

Keywords: Audit Expectation Gap, Auditor Efforts, Auditor Skills, Public Knowledge, User's Needs

1. Introduction

In the recent past, the world has experienced a rise in corporate failures, financial scandals and audit failure. This has stimulated firm debate among the accounting profession's regulators and the public about the audit expectations gap [1]. This is because the accounting information users often ask where auditor was when the scandals were taking place. Some accounting information users therefore seem to partly blame the auditors for corporate failures.

Several studies carried out on the audit expectations gap problem were extensive. The studies established that the expectations gap between auditors and financial statement users has existed for the past 100 years even though the term has been introduced to the auditing scene just during the last 2 decades [2]. Much research is going on in this area of audit expectation gap and no conclusive solutions to the problem have been established therefore this study seeks to extend knowledge on the same field.

According to AICPA [3], expectation gap is the difference between what the public as well as financial statement users believe auditors are responsible for and what auditors actually believe their responsibilities are. Independent audit of financial statements has long been associated with the role of assurance, from which the credibility of information presented by the management is, to a certain extent, guaranteed. This distinctive role of audit however, has led to varying perceptions over the level of assurance that may be expected from auditors [4].

During the early development of the profession, auditors were engaged to provide almost absolute assurance against fraud and planned mismanagement since the size of the firms during that time were reasonably small [5]. This role however was reduced to the provision reasonable assurance as time went by and organizations became much complex [6]. According to Porter [6] the primary objective of an audit in the pre-1920's phase was to uncover fraud. This objective however changed by the 1930's, whereby the primary objective of an audit changed to verification of accounts. This was perhaps due to the increase in size and volume of companies' transactions which in turn made it difficult for auditors to examine all transactions. As a result the auditing profession therefore begun to assert that the responsibilities of fraud detection rested with the management. Further, management should also implement appropriate internal control systems to avert fraud in their companies. Most of the users of accounting information may not have adjusted to the changed role of the auditors hence the existence of an audit expectation gap.

The audit expectation gap has two components, the first one being the difference between what society expects auditors to achieve and what they can reasonably expect to accomplish, known as the reasonableness gap"; and the second one being the difference between the responsibilities society reasonably expects of auditors and auditors' actual performance, known as the performance gap" [7]. This study explores the determinants associated with both components of audit expectation gap as expressed in the conceptual framework.
In view if the discussion above on the role of auditor in Kenya as required by law and accounting international standards, Kimutai [8] explains that an expectation gap mainly in relation to the level and nature of auditor's responsibility exists in Kenya. She found out that expectation gap was essentially on the auditor's responsibility for the preparation of the accounting records and the soundness of the internal control structure of the entity.

The current study focuses on the determinants of audit expectation gap which research has shown that it exists. The

study analyses the two components of the audit expectation gap as illustrated by Porter [7] i.e. Performance gap and reasonableness gap.

2. Problem Statement

As expressed in the background of the study, the seventh schedule of the Company's Act (CAP 486) laws of Kenya requires the auditor to express in their reports whether they have obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purposes of their audit. They should also state whether, in their opinion, proper books of account have been kept by the company, and whether the company's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns. Finally they should express their opinion whether to the best of their information and according to the explanations given them, the said accounts give the information required and in the manner so required and give a true and fair view in the case of the balance sheet, of the state of the company's affairs as at the end of its financial year; and in the case of the profit and loss account, of the profit or loss for its financial year.

Kenyan investors agree that they have heard about frauds in the past and they associate them to the failure of auditor's responsibility. They therefore expect the auditors to be able to detect such frauds in the course of their audit engagement. Respondents in the research agreed that auditing can unearth fraud but to a limited extent depending on the degree of the mandate of the audit assignment, the materiality of the fraud committed, level of adequacy of the internal control system [9].

Though the auditor's initial role was to detect frauds i.e. providing absolute assurance, the responsibility of the auditors later changed to that of providing reasonable assurance on the financial statements and the books of accounts. It is the role of management to implement internal control systems that will prevent the occurrence of frauds or any other material misstatements. However research shows that many users of financial information believe that the primary role of the auditor is to detect errors and frauds. This conflict between the actual role of the auditor and the accounting information user's perception about the role of the auditor is known as the "Auditors Expectation Gap". Something needs to be done so as to address the problem of expectation gap so that auditors and users of accounting information can have a common understanding about the auditor roles. One of the most important steps towards addressing the issue of audit expectation gap is to identify those factors that contribute to its existence. This research therefore will explore the determinants of audit expectation gap in the Kenyan context.

3. Literature Survey

3.1 Audit Expectation Gap

Sikka et al [10] explains that the main reason behind the audit practice is to enable them to express an opinion whether the financial statements presented, portray a true and fair view. The objective of an audit is to ensure that the financial records on which the auditor is reporting show a true and fair view and are not misleading. The general public however seems to have a high expectation that the auditor will detect or prevent all frauds i.e. financial information users believe that auditors should assume a responsibility past examining and attesting the fairness of financial statements and shoulder a direct responsibility to protect the interest of the audit beneficiary through detecting and reporting frauds as irregularities.

Some cases of audit expectation gap are as a result of unreasonable expectations of the user groups. These possibly points out that the users need to be educated regarding what to expect of auditors [11]. According to Sidani [12] the society in general requires to be educated in order for them to form a reasonable expectation of the auditors' duties and responsibilities. Porter and Gowthorpe [13] further established that there were unreasonable expectations of the auditors' duties and the extent of guarantee or assurance provided by audited financial statements by societies both in the UK and New Zealand. Studies further show that users of accounting information do not understand the auditing functions. According to Salehi and Azary [14] the Iranian bankers are unaware of auditing functions. They expect and believe that auditors should play more roles in producing the financial statements and that prevention and detection of fraud is a part of auditor's responsibilities. The study further reveals that the Iranian bankers are willing to accept more responsibility of detecting illegal acts by the auditors than by the management.

One cause of the expectations gap as argued by accounting profession is the public's failure to appreciate the nature and limitations of an audit [15]. That is, the public in general view audit as a guarantee of the integrity of financial statements and as an assurance against fraud and illegal acts [5].

Porter [7] pointed out the two components of expectation gap which are reasonableness gap and performance gap. According to Zikmund [16], the auditors are required to carry out their work with a certain level of professional skepticism. He further explains that expectation gap i.e. performance gap is motivated by two variables which are: The auditor's ability to detect fraud where an auditor might use a variety of techniques, but lack the experience to effectively uncover red flags and the auditor's efforts to detect fraud where auditor may possess the skills to detect fraud, but might choose to take shortcuts or disregard obvious signs of potential fraud.

Turner et'al [17] considered four categories for expanded disclosure by auditors in their reports which are: audit; the quality of the financial statements; the quality of the financial reporting system; and sustainability of the business. Kelly and Mohrweis [18] established that users' perceptions about the nature of an audit were significantly changed after modifications of wording in audit reports.

Some studies suggest that audit lacks structured methodologies and as such increased use of auditor decision aids may be instrumental to narrow the expectation gap with the hope of eventual reduction in the legal liability of auditors. Adopting a more structured method of operation

may impact on the quality of audits rendered [19]. Purvis [20] explored the effectiveness of using both structured and semi-structured methods of data collection by auditors and concluded that the imposition of structure can have functional and dysfunctional aspects. Jennings *et al*. [21] empirically assessed the legal impact of the increased use of audit decision aids and structured audit approaches in the audit environment. His findings showed that decision aids are used as substitute standards of the auditors by jurists i.e. jurists do accept and use audit decision aids as a method to increase or at least maintain auditing standards.

Literature reviewed shows that the problem of audit expectation gap has always existed, but until recently it was not being given much attention. Porter [6] explained that the objective of an audit in the pre-1920's period was to expose fraud. The change of this objective by the 1930's, to objective of verification of accounts and provision of assurance brought about the problem of audit expectation gap.

Many studies have been carried out to establish the existence of an audit expectation gap in many different countries. Best, Buckby and Tan [22] established that audit expectation gap indeed exists in Singapore. Fadzly and Ahmad [4] further confirmed that the audit expectation gap exists in Malaysia. Dixon, Woodhead and Sohliman [23] also confirmed the existence of an audit expectation gap in Egypt while Sidani [12] verified that audit expectation gap exists in Lebanon. Stirbu et' al [24] in a study also found that there was a widespread misperception about the objective of an audit. Respondents in the study expressed that much higher expectation had been placed on the auditors' duties in detecting and reporting fraud than statutory or auditing standards requirements. Oluwagbemiga [25] further established that respondents had a very high expectation on auditors' duties on fraud prevention and detection which was in contrast with the requirements of ISA 200.

According to Schelluch and Gay [26] the auditors also believed that they had a higher level of responsibility and accountability than what is attributed to them by users of accounting information and/or financial statement preparers. These auditors' beliefs were dependent on the type of report issued whereby negative assurance opinion for an audit could confuse users and hence not meet the demands of the market. The situation in Kenya is not any different as Kimutai [8] also ascertained that audit expectation gap is real in the country.

Further studies have been conducted to interrogate the issue of audit expectation gap further. Siddiqui et' al [11] carried out studies about the role of education on audit expectations gap. The research found out that audit education significantly reduces the expectation gap, therefore confirming that lack of proper knowledge among the company's stakeholders is a cause of audit expectation gap generally. This study however did not explore other causes of audit expectation gap other than the knowledge gap between auditors and stakeholders. William *et al* [27] illustrated the three main components of audit expectation gap developed by Porter [28]. These components include deficient performance on the part of the auditors, deficient standards that fall short of the reasonable expectation of the public and unreasonable expectations on the part of the public.

Salehi and Azary [14] concluded that accounting information users have reasonableness expectations gap from auditors. Iranian auditors practice in accordance with the Iranian regulation and they have limited responsibility for detection fraud and illegal acts. The researchers recommended that more communication is needed between auditors and third parties since there is a lot of unawareness about auditor responsibility as well as limitations.

Koh and Woo [19] dealt with the issue of audit expectation gap and among the issued they addressed was the ways in which audit expectation gap may be reduced. The summarized the solutions to audit expectation gap in five major categories. This research deduced some of the causes of audit expectation gap from solutions provided by the researcher. A study by Chukwunedu and Okoye [29] revealed that Accounting Academics perceives Forensic Accounting techniques included in an audit as capable of increasing the ability of the Auditor to detect fraud and as a result aid in bridging the audit expectation gap in Nigeria. Salehi and Azary [30] were of the opinion that the provision of non-audit services among other issues caused the auditors not to produce a fair report. They therefore concluded that "auditor independence is a key element of the audit expectation gap" meaning that auditors who are independent helps in reducing the audit expectation gap.

The majority of research studies indicates that the audit expectation gap is mainly due to the users' unreasonable expectations of audits as well their unrealistic perceptions of the audit profession's performance. According to these studies, the differences may be attributable to users' misunderstanding of what is reasonably expected from an audit, and of the actual quality of the audit work [31]. However there are fewer researches which solely blame the auditor as the cause of audit expectation gap. Such scholars argue that the audit process is in the hands of the auditor and thus should not use stakeholder's high expectation as an excuse for not meeting user's expectations. The researcher in this study does not agree with the views of the latter class of scholars.

3.2 Knowledge Gap

The studies carried out have concentrated so much on establishing the existence of an audit expectation gap in various countries. Other studies have also looked at details about the origin and solutions to the problem of audit expectation gap. A few other studies have interrogated the causes of audit expectation gap and even developed the expectation gap model to show its different components. This study will interrogate the determinants of audit expectation gap using a multiple regression model approach.

The review of literature suggests that there are researches that have been carried out mostly from USA, Malaysia, Egypt, Iran, India, Nigeria, Singapore, etc. Not much of the studies have been carried out on the audit expectation gap in Kenya's perspective. This study contributed towards filling

the knowledge gap by exploring the determinants of audit expectation gap among limited companies in Kenya.

4. Research Methods

4.1 *Research* Design

Research design is a program that guides the investigator in collecting, analyzing and interpreting data. It assists the researcher to determine the objectives of research, subjects of research, the sample size, the data to be collected, the procedures for collecting and recording that data, the procedures for analyzing that data and how the data will be interpreted and presented [32]. The study employed a mixed research design comprised of descriptive design, hypothesis testing design, co-relational / causal design and survey design.

4.2 Data Collection and Response Rate

The research targeted a sample of 110 audit firms in Kenya and therefore questionnaires were sent to all the identified firms. A total of 85 questionnaires was filled and returned. This represents 77.27% of the originally targeted sample and 28.24% of the population. Three questionnaires were omitted in the analysis since they left some critical questions blank. The usable responses therefore were 82 questionnaires whose data were analyzed and the results thereof recorded.

4.3 Hypothesis Development

ISA 500 on audit evidence requires the auditor to carry out tests which will enable him to form an opinion on the status of the accounting records. It's on the basis of the audit evidence that the auditor may confidently provide assurance that the financial statements presented are free from any material misstatements. Gathering audit evidence requires the auditor to put some effort as well as posses the necessary skills required to carry out an audit. This fact helps us come up with the first two sets of hypotheses as follows:

H_0: Low Auditor Efforts does not contribute to Audit Expectation Gap among Limited Companies in Kenya

H_1: Low Auditor Efforts contributes to Audit Expectation Gap among Limited Companies in Kenya

H_0: Low Auditor Skills does not contribute to Audit Expectation Gap among Limited Companies in Kenya

H_1: Low Auditor Skills contributes to Audit Expectation Gap among Limited Companies in Kenya

Koh and Woo [19] expressed that auditors lack structured audit methodologies. They argued that if auditors work was structured, the structures would address the user's needs and expectations. The structured audit methodologies may provide some degree of certainty as to the results of the audit work. A lack of structured audit methodologies may have played a role in widening audit expectation gap. The study will therefore test the following hypothesis on the basis of this detail.

H_0: Lack of Structured Audit Methodologies does not affect Audit Expectation Gap among Limited Companies in Kenya

H_1: Lack of Structured Audit Methodologies affects Audit Expectation Gap among Limited Companies in Kenya

Auditor runs the office and remains in business courtesy of the fee he is paid, therefore he does may not want to do anything that will jeopardize this income [33]. ISA 210 requires that the auditor should confirm the degree of audit independence before accepting engagements. The auditor is professionally required to work independently for him/ her to make a proper judgment on the books of accounts. Auditors who lack audit independence may be influenced by the management in their judgment and thus may fail to meet accounting information user's expectations. It may be argued therefore that Lack of audit independence may contribute to audit expectation gap.

H_0: Little Auditor Independence does not contribute to Audit Expectation Gap among Limited Companies in Kenya

H_1: Little Auditor Independence contributes to Audit Expectation Gap among Limited Companies in Kenya

Siddiqui et' al [11] suggests that proper audit education may significantly reduce audit expectation gap. Salehi [31] further suggests that lack of knowledge of auditor roles by the accounting information users may sometimes lead to audit expectation gap. When the society is ignorant of the exact roles of the auditor, there is a high likely hood of having a mismatch of expectations between the society or accounting information users and the auditors. This information was verified by testing the following hypothesis.

H_0: Little Society Knowledge on the auditor's role does not contribute to Audit Expectation Gap among Limited Companies in Kenya

H_1: Little Society Knowledge on the auditor's role contributes to Audit Expectation Gap among Limited Companies in Kenya

The main objective of auditing as required by the Company's Act (CAP 486) laws of Kenya is to provide assurance on the books of accounts and the financial statements therefrom. The auditors therefore need to plan their scope of work so as to achieve the said objective. It is therefore not the primary role of the auditor to detect frauds hence narrower scope. The accounting information users tend to think that detection of frauds is a major role of the auditor therefore leading to audit expectation gap. The following was tested to shed more light on the issue.

H_0: Narrower Audit Scope does not contribute to Audit Expectation Gap among Limited Companies in Kenya

H_1: Narrower Audit Scope contributes to Audit Expectation Gap among Limited Companies in Kenya

The Canadian Institute of Chartered Accountants [34] developed the audit expectation gap model. According to this

model, expectation gap is caused by a mismatch between the public expectations about the role of the auditor and the auditor's actual roles and performance. Then it may be argued that unreasonable expectations by the public or users of financial information may lead to audit expectation gap. Most likely, the high expectations are fueled by higher users' needs. The hypotheses formulated on these grounds are as follows.

H_0: Higher Users Needs does not contribute to Audit Expectation Gap among Limited Companies in Kenya

H_1: Higher Users Needs contributes to Audit Expectation Gap among Limited Companies in Kenya

5. Results Discussion

5.1 Correlation Analysis

The variables were tested for their correlations with one another. Correlation analysis is important in revealing whether there is a positive or negative relationship between the independent and dependent variables. "If the absolute r-value is above 0.196, then there is a mild correlation. A somewhat correlation can be concluded if the absolute r-value is above 0.5. if the absolute r-value is exceeds 0.7, the correlation is strong [35]." The Pearson coefficients of correlation were calculated and presented in the following table

Table 1

	Audit Expectation Gap
Audit Expectation Gap	1.000
Auditor Efforts	-0.765
Audit Skills	-0.850
Audit Structure	-0.202
Auditor Independence	0.128
Public Knowledge	-0.790
Audit Scope	-0.471
User's Needs	0.806

Table 4.9

There was a strong negative correlation between audit expectation gap and auditor efforts since the person coefficient of correlation is more than 0.7 as per the rule of thumb according to Rasli. There was also a strong negative relationship between audit expectation gap and auditor skills since the person coefficient of correlation is more than 0.7. The relationship between audit expectation gap and audit structure was a mild one since the person coefficient of correlation was less than 0.5. The association between public knowledge and audit expectation gap was strong and negative in nature since the coefficient of correlation was more than 0.7. The audit scope was mildly negatively correlated to audit expectation gap since the coefficient of correlation was less than 0.5. Finally there was a strong positive association between user needs and audit expectation gap since the correlation coefficient was more than 0.5.

In summary, there was a high negative correlation between audit expectation gap and auditor efforts, audit expectation gap and auditor skills, as well audit expectation gap and public knowledge. On the other hand there was a high positive correlation between audit expectation gap and the user needs. This means that the variables which have high correlation may have an effect on the audit expectation gap.

There was a low correlation between audit expectation gap and audit structure, audit expectation gap and auditor independence, as well as between auditor's expectation gap and audit scope. Given that the audit expectation gap is the dependent variable in the study and the others are the independent variables, the correlation among the independent variables is relatively low thus the data did not suffer the problem of multi co linearity hence making the data reliable for multiple linear regression.

5.2 Multiple Linear Regression

Coefficients of determination

The researcher regressed level of audit expectation gap against seven independent variables which are: auditor efforts, auditor skills, audit methodology structure, audit independence, public knowledge, audit scope and user's needs. The regression statistics are shown in the table below.

Table 2

Regression Statistics	
Multiple R	0.9362
R Square	0.8765
Adjusted R Square	0.8648
Standard Error	0.4149
Observations	82

Table 4.12

All the coefficients of determination (R Square) of 0.8765, (Multiple R) of 0.9362 and (Adjusted R Square) of 0.8648 showed that the predictability strength of the model is very high. The regression results therefore indicated that the overall model was a good predictor of audit expectation gap. The variables that significantly affect audit expectation gap are good predictors.

Regression Coefficients

The summary of multiple regression results are presented in the table below.

Table 3

	Coefficients	t Stat	P-value
Intercept	4.8857	9.2467	0.00000000000005698
Auditor Efforts	-0.3709	-4.7942	0.00000822701889369
Auditor Skills	-0.4150	-4.4727	0.00002739941057868
Audit structure	0.0509	0.5636	0.57475383334928300
Auditor Independence	-0.0145	-0.2253	0.82240052541023900
Public Knowledge	-0.2755	-3.0879	0.00283705435105778
Audit Scope	-0.0582	-0.7330	0.46590073911565200
User's Needs	0.3300	4.0907	0.00010830754868736

Table 4.13

From the table 4.13 above, it is observed that the Intercept, auditor efforts, auditor skills, public knowledge, and user needs are good predictors of audit expectation gap. On the other hand audit structure; audit independence and audit scope do not have significant influence on the audit expectation gap.

Y intercept of 4.8857 is very high, meaning that in absence of the other variables, the audit expectation gap is very high since it's close to the score for very high option in the Likert scale which is 5. The operations of the other variables especially those that are on the negative effect could greatly reduce the audit expectation gap.

Auditor efforts have a coefficient of -0.3709 with a significance level of $8.227 \text{ X } 10^{-6}$. This implies that the nature of the relationship between auditor efforts and audit expectation gap is negative. The higher the auditor efforts to unearth frauds, the lower the audit expectation gap and vice versa. The significance level is almost negligible meaning that auditor efforts are a significant factor contributing to audit expectation gap.

Auditor skills have a coefficient of -0.4150 with a significance level of $2.74 \text{ X } 10^{-5}$. This implies that the nature of the relationship between auditor skills and audit expectation gap is negative. The higher the auditing skills to detect frauds, the lower the audit expectation gap and vice versa. The significance level is almost negligible meaning that auditor skills are a significant factor contributing to audit expectation gap.

Auditor structure has a coefficient of 0.0509 with a significance level of 0.5747. This implies that the nature of the relationship between audit structure and audit expectation gap is positive. However the significance level indicates that the audit structure on the issues of fraud detection is not a significant factor contributing to audit expectation gap. This variable was dropped from the subsequent regression analysis since it does not have significant influence on audit expectation gap.

Auditor independence has a coefficient of -0.0145with a significance level of 0.8224. This implies that the nature of the relationship between auditor independence and audit expectation gap is negative. However the significance level indicates that the audit independence is not a significant factor contributing to audit expectation gap. This means that whether there is interference with the audit work by management or not, the audit expectation gap still remains. This variable was subsequently dropped from the subsequent regression analysis since it does not have significant influence on audit expectation gap.

Public knowledge has a coefficient of -0.2755 with a significance level of 0.002837. This implies that the nature of the relationship between public knowledge about the auditor roles and audit expectation gap is negative. Increase in the public knowledge on the auditor's role to detect frauds, leads to decrease in the audit expectation gap and vice versa. The significance level is negligible meaning that auditor skills are a significant factor contributing to audit expectation gap.

Audit scope has a coefficient of -0.0582with a significance level of 0.4659. This implies that the nature of the relationship between audit scope and audit expectation gap is negative. However the significance level indicates that the audit scope is not a significant factor contributing to audit expectation gap. This means that whether there is scope of audit is expanded to include frauds or not, the audit expectation gap still remains. This variable was subsequently dropped from the subsequent regression analysis since it does not have significant influence on audit expectation gap.

User needs has a coefficient of 0.3300 with a significance level of 0.0001083. This implies that the nature of the relationship between accounting information user's needs and audit expectation gap is positive. The higher the accounting information user's needs especially on matters of fraud detection, the higher the audit expectation gap and vice versa. The significance level is negligible meaning that user's needs are a significant factor contributing to audit expectation gap.

Regression Model Specification

Three variables which are audit structure; audit independence and audit scope were dropped from further regression analysis since they were found not having a statistically significant effect on audit expectation gap. Further regression analysis was carried out on the remaining variables. Auditor efforts, auditor skills, public knowledge, and user needs were regressed on the audit expectation gap and the results were as presented in table 4 below.

Table 4

	Coefficients	*Standard Error*	*t Stat*	*Mean*	*P-value*
Intercept	4.8708	0.47044	10.354	-	0.000000000000003072
Auditor Efforts	-0.3765	0.0689	-5.466	-2.195	0.00000054716663267 41
Auditor Skills	-0.4250	0.0906	-4.692	-2.098	0.00001152754124940 63
Public Knowledge	-0.2782	0.0874	-3.181	-1.512	0.00211560913841568 00
User's Needs	0.3266	0.0775	4.215	3.9451	0.00006726591371828 56

Table 4.14

The significance level of Y intercept and all the variables regressed was less than 0.05. This means that all the variables have a statistically significant influence on the

audit expectation gap. Having concluded that, then the model used for estimating audit expectation gap is expressed as follows.

Y=4.8708 – 0.3765*AE – 0.4250*AS – 0.2782*PK + 0.3266*UN

Where Y = Level of Audit Expectation Gap

AE = Auditor Efforts

AS = Auditor Skills

PK = Public Knowledge

UN = User's Needs

Using the model specified and the expected values (mean) of the variables involved, the level of audit expectation gap can be estimated as follows.

Y= 4.8708 – 0.3765*AE – 0.4250*AS – 0.2782*PK + 0.3266*UN

Y= 4.8708 – 0.3765*2.2195 – 0.4250*2.1098 – 0.2782*1.9512 + 0.3266*3.9451

Y= 3.88415

This confirms that there is high audit expectation gap in Kenya since the 3.88415 is close to a score of 4 which is the score for high audit expectation gap in the Likert scale which was used to collect data.

Run Test on the randomness of the error term

The runs test according to Bradley [36] could be used to make a decision if a data set is from a random process. The researcher carried out a run test on the residual errors to establish whether they were random. One of the assumptions of linear regression is that the error term is random [37].

The hypothesis was stated as follows:

H0: The error term is random i.e. the sequence was produced in a random manner

H1: The error term is not random i.e. the sequence was not produced in a random manner

$$Z = \frac{R - \bar{R}}{s_R}$$

Where R is the observed number of runs, $\hat{R}$, is the expected number of runs, and S_R is the standard deviation of the number of runs.

$$\bar{R} = \frac{2n_1n_2}{n_1 + n_2} + 1$$

and

$$s_R^2 = \frac{2n_1n_2(2n_1n_2 - n_1 - n_2)}{(n_1 + n_2)^2(n_1 + n_2 - 1)}$$

Where n_1 and n_2 are the number of positive and negative values in the series respectively

Data was as follows: R =37

$n_1 = 39$

$n_2 = 43$

$$\hat{R} = \frac{2 \text{ X } 39 \text{ X } 43 + 1}{39 + 43} = \frac{3354}{82} + 1 = 41.902$$

$$S^2_R = \frac{2 \text{ X } 39 \text{ X } 43 \ (2 \text{ X } 39 \text{ X } 43 - 39 - 43)}{(39 + 43)2 \ (39+43-1)} = \frac{10997766}{544644}$$

$$Z = \frac{|37 - 41.9024|}{\sqrt{20.193}} = 4.9024$$

Since the sample size was large, the critical values for normal distribution were used in the analysis. At 95% confidence, the critical z for two tailed test is 1.96. The null hypothesis was to be rejected if the observed z was more than 1.96. In this case, the observed z (1.092) was less than the critical z (1.96) therefore the researcher failed to reject the null hypothesis.

Accepting null hypothesis implied that the stochastic error term was random meaning that the multiple linear regression model specified was reliable. This was so because the condition of randomness of the error term was satisfied.

Test on the normality of the error term

One of the assumptions of linear regression analysis is the normality of error term. Histogram and frequency curves may be used to check the normality of error term of a set of data [38]. The researcher plotted a histogram from the data for the observed errors and the graph was as shown in fig 4.3 below.

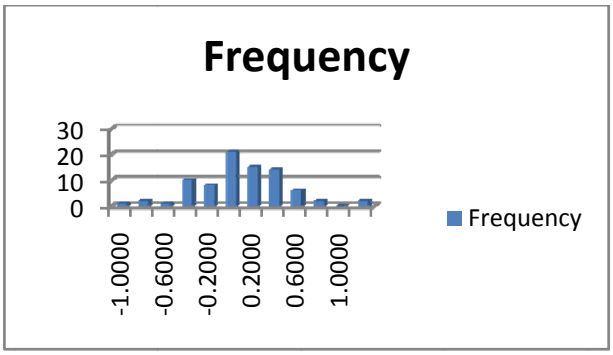


Figure 1: Histogram of the regression error

The histogram shows a high degree of symmetry and appears to be normally distributed. To confirm the symmetry, a Pearson's coefficient of skewness was computed. The coefficient of skewness was -0.0215 which confirmed that the data was symmetrical around the mean of -0.0000085. This implied that the stochastic error term was normally distributed meaning that the multiple linear regression model specified was reliable.

Solution to Audit Expectation Gap Problem

Measures should be put in place to improve auditor's motivation so as to increase their efforts to fraud detection,

enhance audit skills on fraud detection, sensitize the public on the role of auditor as pertains fraud detection and to reduce users expectations about the audit work. If such measures are put in place such that auditor efforts, auditor skills, and public knowledge are increased to high level which is a score of 4 on the Likert scale while public expectation labelled as user's needs is reduced to a moderate level which is a score of 3, then the audit expectation gap would reduce to 1.5318 which is between low (2) and very low (1) as computed below.

Y= 4.8708 – 0.3765*AE – 0.4250*AS – 0.2782*PK + 0.3266*UN

Y= 4.8708 – 0.3765*4 – 0.4250*4 – 0.2782*4 + 0.3266*3

Y= 1.5318

Sikka et' al [39] demonstrated that the meaning of audit can not be fixed and elimination of audit expectation gap requires that the meaning of audit be fixed. This analysis led to his conclusion that it was impossible to eliminate audit expectation gap. However the gap can be reduced by legislation and other applicable means. The model above also suggests that audit expectation gap may not be reduced to zero. Based on the variables of the specified model, the following actions may be helpful in reducing audit expectation gap to a reasonable level.

a) Auditors should at least increase their efforts to detect frauds
b) Auditors should consider acquiring necessary skills to detect fraud e.g. forensic auditing skills
c) The public and in particular the users of accounting information should make an effort to acquire reasonable level of knowledge and awareness on the precise role of the auditors
d) The users of accounting information should reduce their expectations about the auditor's report to a reasonably acceptable level.

4.4 HYPOTHESIS TESTING

4.4.1 Existence of audit expectation gap

The hypothesis testing of difference between means was computed to establish whether there was a significant difference between the public expectation and auditor's belief hence existence of the audit expectation gap. The descriptive statistics for public expectation and auditors belief, which was used to compute the statistical z are as presented in table below.

Table 5

Public Expectation		*Auditors Belief*	
Mean	3.9024	Mean	2.5853
Standard Error	0.1447	Standard Error	0.1054
Standard Deviation	1.3110	Standard Deviation	0.9551

Table 4.15

H_0 There is no significant difference between the public expectation and auditor's belief (I.e. $\mu_{pub} = \mu_{aud}$)

H_1 There is a significant difference between the public expectation and auditor's belief (I.e. $\mu_{pub} \neq \mu_{aud}$)

The statistical Z was calculated as follows:

$$Z = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{se_{\bar{x}_1}^2 + se_{\bar{x}_2}^2}}$$

$$Z = \frac{3.9024 - 2.5853}{\sqrt{(0.1447^2 + 0.1054^2)}} = \frac{1.3171}{0.03205}$$

$$Z = 41.095$$

Since the statistical Z (41.095) is more than the critical Z (1.96) the null hypothesis is rejected. This led to the conclusion that the audit expectation gap indeed existed since there was a statistically significant difference between the public expectation about auditors work and what the auditors believed is their role in fraud detection.

4.1.1 Decision Criteria for Hypothesis Testing in this Study

The researcher used regression analysis to test all hypotheses developed. Since the sample size used in analysis was 82, normal probability distribution statistic was used in the analysis. For all the seven hypotheses the decision criteria was as follows.

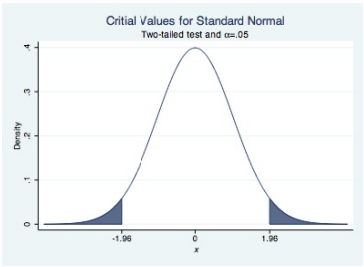


Figure 2: Decision Criteria

The level of significance adopted in the entire study is 5%. Therefore the null hypothesis (H_0) was rejected for observed z values which were greater than |1.96| and accepted if the observed or statistical z was less than |1.96|.

The summary of multiple regression results are presented in the table below.

Table 6

	Coefficients	Standard Error	z Stat	Critical z	Decision
Intercept	4.8857	0.5283	9.2467	1.96	Reject H_0
Auditor Efforts	-0.3709	0.0774	-4.7942	1.96	Reject H_0
Auditor Skills	-0.4150	0.0928	-4.4727	1.96	Reject H_0

Audit structure	0.05086	0.0902	0.5636	1.96	Accept H_0
Auditor Independence	-0.0145	0.0642	-0.2253	1.96	Accept H_0
Public Knowledge	-0.2755	0.0892	-3.0879	1.96	Reject H_0
Audit Scope	0.0582	0.0794	0.7329	1.96	Accept H_0
User's Needs	0.3299	0.0807	4.0907	1.96	Reject H_0

Table 4.16

Hypothesis 1

The regression results presented in table 4.16 above indicated that the level of auditor efforts had a high influence on the audit expectation gap as shown by the z static. The observed z for auditor efforts (-4.7942) was greater than the critical z (1.96), the null hypothesis (H_0) was rejected and alternative hypothesis (H_1) accepted. The researcher therefore concluded that low auditor efforts significantly influence the audit expectation gap.

The level of auditor efforts was measured using the percentage of time dedicated specifically to fraud detection and the other efforts directed thereof. Low auditor efforts contributes to high audit expectation gap while high auditor efforts directed towards detecting frauds leads to reduced audit expectation gap.

Zikmund [16] identified some of the reasons behind performance expectation gap which are linked to auditor efforts which includes, over reliance on client representations; close personal relationships with clients and laziness on part of the auditor i.e. a desire not to know. When the risk of material misstatement is high, more persuasive evidence is required together with individual auditor's judgment [40]. The researchers found a significant relationship between the degree of risk of misstatement and amount of evidence collected. This implies that degree of risk of misstatement have an effect on the auditor efforts. In this study auditor effort was found to have a significant influence on the audit expectation gap.

Hypothesis 2

The regression results presented in table 4.16 above indicated that the level of auditor skills to detect frauds had high influence on the audit expectation gap as shown by the z static. The observed z for auditor skills (-4.4727) was greater than the critical z (1.96), therefore the null hypothesis (H_0) was rejected and alternative hypothesis (H_1) accepted. The researcher therefore concluded that lack of auditor skills to detect frauds significantly influence the audit expectation gap.

The level of auditor skills was measured using the number of auditors who possess forensic auditing skills. Lack of auditor skills in fraud detection contributes to high audit expectation gap while high auditor skills on detection of frauds may lead to reduced audit expectation gap.

Zikmund [16] reported that some of the reasons why auditors may fail to identify red flags during an audit include unawareness or failure to recognize an observable condition indicating fraud; inexperience; and Failure to come up with potential fraud schemes and scenarios. These factors can be summarized as lack of appropriate skills to detect frauds on the part auditors. This study revealed that only a small percentage of auditors that possess forensic audit skills. Results of this study agreed with Zikmund's observations and found out that audit skills have some effect on performance expectation gap which is a component of audit expectation gap.

Hypothesis 3

The regression results presented in table 4.16 above indicated that lack of structured audit methodologies did not have significant influence on the audit expectation gap as shown by the z static. The observed z for structured audit methodologies (0.5636) was less than the critical z (1.96), therefore the null hypothesis (H_0) was accepted and alternative hypothesis (H_1) rejected. The researcher therefore concluded that lack of structured audit methodologies does not significantly influence the audit expectation gap.

The structured audit methodology was measured using the number of specific steps taken by the auditor in fraud detection. Lack of structured audit methodologies does not significantly contribute to high audit expectation gap.

Boritz et al. [41] in his study concluded that structured audit methodologies do not necessarily lead to better intra firm consensus. Purvis [20] further revealed that the use of structured and semi-structured audit procedures in the process of carrying out an audit engagement may not essentially be beneficial to the audit firms. Likewise this study observed that structured audit methodologies does not influence audit expectation gap. This implied that structured audit methodologies were not a determinant on audit expectation gap.

Hypothesis 4

The regression results presented in table 4.16 above indicated that lack of auditor independence did not have significant influence on the audit expectation gap as shown by the z static. The observed z for auditor independence (-0.2253) was less than the critical z (1.96), therefore the null hypothesis (H_0) was accepted and alternative hypothesis (H_1) rejected. The researcher therefore concluded that lack of auditor independence does not significantly influence the audit expectation gap.

The auditor independence was measured using the level of interference by management on auditors work especially when it comes to fraud detection issues. Lack of auditor methodologies does not significantly contribute to high audit expectation gap.

Sweeney [42] listed audit independence as one of the areas where difference in expectations between auditors and the public arise. Salehi *et al*. [30] stated that upholding of auditor independence is vital for the users of the financial statements. He further expressed that the more independent an auditor appears to the greater the confidence in his work and opinion. He finally concluded that audit independence is a key factor in reducing the audit expectation gap, since the investor and others are expecting more from auditor. On the contrary, this research found out that audit independence does not influence audit expectation gap in Kenya. Audit expectation gap is not a function of audit independence.

Hypothesis 5
The regression results presented in table 4.16 above indicated that the level of society or public knowledge on auditors role to detect frauds had a significantly high influence on the audit expectation gap as shown by the z static. The observed z for auditor skills (-3.0879) was greater than the critical z (1.96), therefore the null hypothesis (H_0) was rejected and alternative hypothesis (H_1) accepted. The researcher therefore concluded that little society/ public knowledge significantly influences the audit expectation gap.

The level of public knowledge was measured using the level of sensitization performed on accounting information users on what to expect from the auditor. Lack of public knowledge on auditor's role in fraud detection contributes to high audit expectation gap while public knowledge on the auditor roles in matters of fraud detection may lead to reduced audit expectation gap.

Bailey *et al*. [43] carried out a study and found out that more knowledgeable users conferred reduced responsibility on auditors as compared to less knowledgeable users. This suggested that a bigger audit expectation gap exists between auditors and less knowledgeable users in the USA. Similar conclusions were made by Monroe and Woodliff [44] who reported that the differences in perceptions between sophisticated or knowledgeable users and auditors were smaller than that of unsophisticated users. The situation is not any different in Kenya since the results of this research agrees with Monroe and Bailey's observation that public knowledge or knowledge by users of accounting information influences the audit expectation gap.

Hypothesis 6
The regression results presented in table 4.16 above indicated that narrower audit scope did not have statistically significant influence on the audit expectation gap as shown by the z static. The observed z for auditor independence (-0.7329) was less than the critical z (1.96), therefore the null hypothesis (H_0) was accepted and alternative hypothesis (H_1) rejected. The researcher therefore concluded that narrower audit scope does not significantly contribute to the audit expectation gap.

The audit scope was mainly measured using the fraction of audit report that specifically addresses fraud issues. The scope of audit works whether narrow or broad does not significantly lead to high or low audit expectation gap.

ISA 200 articulates that auditor's opinion on the financial statements usually deals with whether the financial statements are prepared, in all material respects, in agreement with the applicable financial reporting framework. The applicable financial reporting framework in Kenya consists of the International Accounting Standards, International Financial Reporting Standards, the Company's Act, Nairobi Stock Exchange rules where relevant. Most of the auditors try their best to provide their reasonable assurance based on the financial regulatory framework. The audit scope does not influence the audit expectation gap and hence expansion or reduction of audit scope may not have much effect on the audit expectation gap as expressed by a number of researchers.

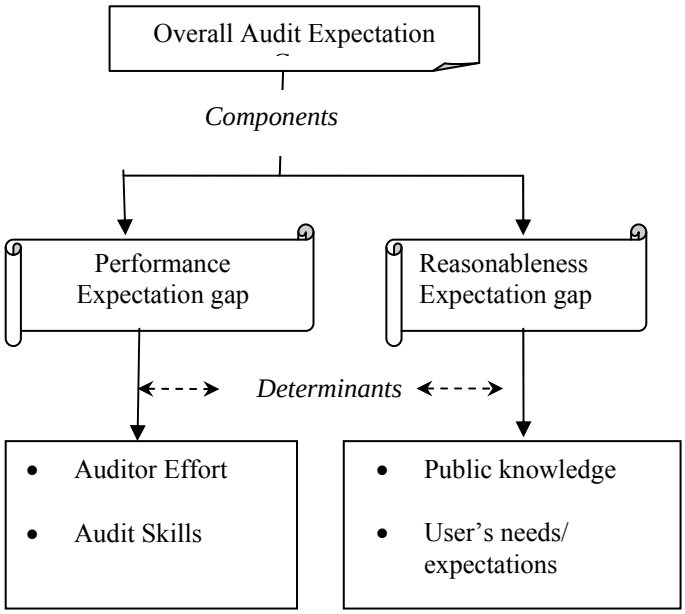
Hypothesis 7
The regression results presented in table 4.16 above indicated that level of accounting information user's needs and/ or expectations had high influence on the audit expectation gap as shown by the z static. The observed z for auditor skills (4.0907) was greater than the critical z (1.96), therefore the null hypothesis (H_0) was rejected and alternative hypothesis (H_1) accepted. The researcher therefore concluded that high user's needs by the accounting information users significantly influence the audit expectation gap.

The level of accounting information users was mainly measured using the level of reliance they place on the financial statements. High user's needs contribute to high audit expectation gap while low users needs may lead to reduced audit expectation gap.

ISA 200 on the overall objective of an independent auditor clearly indicates that "the auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive." This means that those relying on financial statements prepared by the management should not have unreasonable expectations and reliance on the reasonable assurance provided by an independent auditor.

6. Conclusion

The key role of the auditor is to provide objective assurance as to whether the books of accounts and the resulting financial statements represent a true and fair view of the state of affairs of the organization. In other words the auditors are supposed to confirm to the shareholders and other users of accounting information that the financial statements presented by the management are free from any material misstatements. Public and in particular users of accounting information however has high expectations from auditor as compared to their actual role thus giving rise to audit expectation gap. Expectation gap is defined as the difference between what the public as well as financial statement users believe auditors are responsible for and what auditors actually believe their responsibilities are.



This research concluded that audit expectation gap exists in Kenya where there is difference between the public expectation about the auditor's role and the actual performance by auditors. The audit expectation gap has two main components as established by various researchers which are performance expectation gap and reasonableness expectation gap. Auditor efforts as well as auditor skills to detect frauds are some of the determinants of performance expectation gap. Performance expectation gap is the difference between the public expectation about the auditor's performance and the actual performance. Public knowledge and users needs are some of the determinants of reasonableness expectation gap. Reasonableness gap is a component of audit expectation gap that is expressed as the difference between what the society expects auditors to achieve and what they can reasonably expect to accomplish. Structured audit methodologies, auditor independence and audit scope were not determinates of audit expectation gap.

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