FACTORS AFFECTING AUDIT EXPECTATION GAP IN LISTED COMPANIES IN NAIROBI SECURITIES EXCHANGE (NSE)

BY

OGWENO JACKLINE AWUOR

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DECLARATION

This project is my original work and has not been presented for the award of a Masters in any institution of higher learning

Name: Ogweno Jackline Awuor

Signature: ______________________ Date: _________________

This project is presented for defense with my approval as KCA University supervisor

Name: Dr. Brigitte Okonga

Signature: _________________ Date: __________________

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LIST OF ABBREVIATIONS

NSE:	Nairobi Security Exchange
US:	United States
UK:	United Kingdom
IASB:	The International Accounting Standards Board
SPSS:	Statistical Package for Social Science

ABSTRACT

The principal function of the auditor is to offer impartial judgment on the books of accounts and the subsequent financial statements. Users of accounting information whether shareholders or the general public, nonetheless, have unreasonable high expectations from auditor in contrast with the actual role of the auditor hence the realization of audit expectation gap. This study seeks to investigate the factors affecting audit expectation gap in listed companies in NSE. Specifically, the study looked at the auditor's independence, auditor's competence, as well as the users' knowledge of auditors role as the principle objectives. The study employed descriptive research design. A population of 62 public companies trading on NSE was targeted. A closed-ended questionnaire was administered to 29 senior managers in charge of finance and 29 auditors resulting to 58 respondents purposively sampled. Data collected was grouped, coded and analyzed using SPSS, version 21 and results presented in form of tables, graphs and pie charts. Multiple linear regression and correlation analysis was used for testing relationship between the dependent and the independent variables. The findings were presented in figures and tables. The study established that the auditor's independence had a negative effect on the audit expectation gap. The study further established that the auditor's competence had a negative effect on the audit expectation gap as a decline in the auditor competence led to an increase in the expectation gap. The same effect was found to exist between the user knowledge of the auditor role and the audit expectation gap. The study recommended that, the independence of the auditor should be strengthened by drafting legal laws promoting the independence of the auditors in Kenya. The study recommends a need to carry out a study on the expectations of the users of the financial statements and in order to identify and meet the reasonable ones, and correction the unreasonable expectations to mitigate the audit performance gap. Study further recommends a need to strengthen the role of the competent professional auditors and perform the effective supervision of the audit profession and accounting, as well as examining the audit standards, and the laws regulating auditing career, and carry out the necessary amendments to meet the reasonable expectations of the users of financial statements and increased quality of professional performance. There is need for the audit association in Kenya and the government to contribute to the dissemination of information culture and increase communication, and educate of the users of financial statements about the functions of the audit and the auditor's responsibilities, duties, functions with the aim of mitigating the unreasonable expectations gap.

Key words: audit expectations gap, unreasonable expectations, users of financial information, financial statements and books of accounts.

DEFINITION OF OPERATIONAL TERMS

Audit expectation gap: refers to the difference between what the public and financial statement users believe auditors are responsible for and what auditors themselves believe their responsibilities are. (Lee, Ali & Bien, 2009)

Auditor Independence: refers to the independence of the internal auditor or of the external auditor from parties that may have a financial interest in the business being audited (Appah, 2010).

Nairobi Securities Exchange: NSE is a leading African Exchange, based in Kenya and one of the fastest-growing economies in Sub-Saharan Africa, Founded in 1954. It is a Market that trades in Shares (Equities) and Bonds (Debt instruments). Shares and Bonds are money or financial products (Musyoka, 2012)

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The world is going through difficult times of collapse of publicly listed companies mainly as a consequence of major financial mismanagement, audit failures and scandals. According to Lane (2016), financial scandals that affected companies such as American Apparel, China Medical Technologies (CMED), SunEdition, Dick Smith, Cardbury PLC Nigeria and Level brothers in Nigeria were as a result of widespread fraud through fraudulent financial reporting by the auditing firms and professions to mislead the public. This trend has elicited unending arguments within the accounting profession with a focus being on the audit expectations gap (Kimutai, 2012). This is occasioned by the fact that, auditors often find themselves at the center of criticism for failing to alert the top management of any fraudulent activities early enough for action to be taken.

According to Salehi (2015), an audit is an independent scrutiny of the financial records of a firm and is carried out by a competent auditor. The final audit report gives confidence that the outputs of auditing are produced with respect to the accounting standards, company's acts, free from misinformation and shows a fair judgment about the financial health of the company. There is general concern that public and auditors have diverse beliefs concerning the roles and responsibilities of auditors as well as auditor's choice of words in the audit report. The variance between what the so called consumers of information statements consider what auditors should do and what the auditors finally do is what is referred to as audit expectation gap.

According to Dana's (2011) reports, the foundation for studies concerning audit expectation gap around the world may be traced back to the findings of Liggio, Beck and Lee who studied the auditors' functions as demanded by the consumers of audit reports. Soon after publishing the report of the study, many people developed interest in audit expectation gap and conducted numerous studies with the purpose of management audit expectation gap. The massive corporate failure prompted US, UK and Canada to prevail upon other countries to conduct surveys on audit expectation gap. Wide spread financial crisis and collapse of both corporate and government owned enterprises forced stakeholders to start questioning the role and responsibilities of auditors. It later became apparent that pointing out the expectations is crucial particularly in fraud detection. Currently, consumers of audited financial statements have greater expectations from auditors. Besides, the general public expects auditors to give opinion and interpret company's financial information in a manner that people can make a determination of whether to invest in the company (Kimutai, 2012 as cited in Salehi and Rostami, 2009).

Stirbu, Moraru and Farcane (2013) in their study found out that majority of investors and auditors seem to agree about the definitions and importance of the certain terminologies relating to audit expectation gap. Nonetheless, opinion varies with regard to activities to be done before making unqualified opinion. Investors demand that unqualified opinion should not be made until the following conditions are met: every article of significance to creditors and investors has been disclosed and reported, auditors should declare they are acting in the best interest of the public, there are effective internal controls, the financial statements are not corrupted with misstatements arising from fraud management, the financial statements do not have misinformation whose purpose is to conceal employee fraud and the company has never involved itself in illegal activities (Daraghmeh and Aqil, 2011 as cited in McEnroe andMartens,2001).

Company's Act CAP 486 of laws of Kenya demands the auditor to indicate in their audit reports if they accessed all the material facts that were adequate for the purposes of carrying out an audit. They also need to point out whether necessary books of account have been prepared and kept by the firm, and whether the firm's profit and loss account, and balance sheet are consistent with the returns and books of account. Lastly, auditors need to express their professional opinion whether these accounts give the necessary information and in a way so required and give a fair judgment.

Onwong'a and Ongocho (2010) reported that majority of investors in Kenya were aware of frauds and mainly associate them with letdown of auditors. Hence, these investors expect such frauds to be detected early enough by auditors. The study further established that auditing can disclose fraud but to a certain point based on the materiality of the committed fraud, the extent of the authorization of the audit work and adequacy level of internal control system.

The unending criticism directed to auditors indicates a significant gap between actual performance of the auditors and public expectations. Stirbu, Moraru and Farcane (2013) relates the presence of this gap to two things: unreasonable public expectations from the auditors or the auditor's performance are sensible and within the confines of what is required of them based on auditing standards governing professionals and the auditor's performance is unconvincing. The preparation of financial data is the function of the firm management, whereas, the role of the auditor is providing credibility to the data prepared (Daraghmeh and Aqil, 2011). Overcoming the challenge of audit expectations gap needs a real practical action to minimize it. Thus, this study is believed to be a significant contribution to these efforts through investigation of factors affecting audit expectation gap in companies listed in NSE, Kenya with a view to narrowing the gap.

1.1.1 Audit Expectation Gap

The term Audit expectation gap was first applied in auditing literature by Liggio (1974) in Lee Ali and Gloeck (2009) as the difference between levels of expected performance as seen by the user of financial statement and the independent accountant. Financial information users perceive that the auditors should not only give an opinion but also interpret the financial statement to enable them make decisions on investing in an entity. The users of financial information also expect the auditors to use the procedures to detect illegal activities and fraudulent activities by management. The difference in what the users of financial information expect from auditors and the opinion given by the auditors is what is referred to as audit expectation gap. Audit expectation gap between auditors and financial information users has existed for many years. The topic has become of interest due to corporate failures, financial scandals and audit failures witnessed worldwide in advanced countries like US, UK, Germany, Singapore, Newziland (Ajibolade,2008). A lot of criticism and litigations levied against the auditors by the society indicates that a gap exists between financial information users and auditors performance by the society.

The expectation gap can be attributed to the unrealistic expectations of the users of financial information. The expectation gap is as a result of the users of financial information not understanding the roles and objectives of the auditors. Various studies have been carried out and confirmed the existence of audit expectation gap worldwide and have come up with different meanings. According to AIPCA (1993), audit expectation gap is the difference between what the public as well as financial statement users believe auditors are responsible for and what the auditors actually believe is their responsibilities. Porter (1993) carried out an empirical study on audit expectation performance gap. Porter defined expectation gap as the difference between society's expectation of auditors and auditor's performance as perceived by the society. Porter (1993) further identified two major components of AEG namely: Reasonableness gap; - It is a gap between what the society expects auditor to achieve and what they can reasonably be expected to accomplish. Performance gap; Gap between what society can reasonably expect auditors to accomplish and what they are perceived to achieve. McEnroe and Martens (2001), defined audit expectation gap as the difference between what the public and other users of financial statement perceive the responsibilities of auditors to be and what auditors believe their responsibilities are.Ojo (2006), defined audit expectation gap as the difference between what users of financial statements, the general public perceive an audit to be and what is expected of an audit profession in conducting an audit.

Lee, Ali and Bien (2009) defined audit expectation gap as "difference between what the public expects from an audit and what the audit profession accepts the audit objective to be." Audit Expectation gap is "critical to the auditing profession because the greater the unfulfilled expectations from the public, the lower is the credibility, earnings potential and prestige associated with the work of auditors" (Lee , Ali and Bien 2009). Audit expectation gap was originally defined as the difference between levels of expected performance as envisaged by auditors and user of financial report and as the gap between society expectations of auditors and auditor's performance as perceived by society (Shaikh and Talha, 2003).

1.1.2 Factors Affecting Audit Expectation Gap

These are the items that influence the expectation gap. They contribute to the existence of the audit expectation gap. Some of the factors that affect audit expectation gap are, independence of the auditor, Auditors self-regulating policy, competency of an auditor, professionalism of an auditor, users of information knowledge on auditors roles, Honesty and integrity, lack of sufficient standards ,lack of communication to users of financial statement. The most dominant factors affecting audit expectation gap that will be investigated on are auditor independence, competency, auditors self-regulating and user knowledge on auditor roles.

To some extent cases of audit expectation gap have been fueled by unreasonable expectations of the user groups. These possibly points out that the users need to be educated regarding what to expect of auditors (Siddiqui, Nasreen, & Choudhury-Lema, 2009)). According to Sidani (2007) 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 (2004) 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. According to Salehi and Azary (2008) the Iranian bankers are unaware of auditing functions as according to them, auditors roles include producing financial statements and prevention and detection of fraud.

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 (Frank, Lowe & Smith, 2001). 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 (Epstein & Geiger, 1994). Porter (1988) pointed out the two components of expectation gap which are reasonableness gap and performance gap. According to Zikmund (2008), the auditors are required to carry out their work with a certain level of professional skepticism.

1.1.3 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) was founded in 1954.It is listed and regulated by the Capital Markets Authority. The NSE is mandated with providing a trading platform in the stock market and overseeing its member firms. NSE is one of the fastest-growing economies in Sub-Saharan Africa and leading African Exchange, based in Kenya. NSE has a six-decade heritage in listing (shares) equity and (bonds) debt securities. It offers trading facility for both the local and international investors keen on trading in Kenyan economy. NSE demutualized and self-listed in 2014. Its Board and management team comprised some of Africa's leading capital markets professionals, who are focused on innovation, diversification and operational excellence, is contributing to the achievement of economic growth in Kenya by encouraging savings and investment, in addition to aiding access to cost-effective capital by both local and international companies. NSE operates under the jurisdiction of the Capital Markets Authority of Kenya. (NSE, 2017).

There are 62 companies that are listed and trade in Nairobi Securities Exchange. The companies are grouped or divided into different sectors according to the kind of services it provides or does. The companies have been grouped under 14 sectors. Examples of these sectors are agriculture, banking, telecommunication, real estate, automobiles, petroleum, commercial, investment, insurance, manufacturing, construction etc. (www.nse.co.ke). Companies listed in NSE are Rea vipingo, car and General, Barclays bank, Kenya airways, Uchumi supermarket, Athi river mining, Total Kenya, Ken Gen, Jubilee Holdings, Britam Holdings, Mumias sugar, Safaricom ltd, Stanlib fahari, New gold issuer among others (NSE, 2017).

1.2 Statement of the Problem

The users of financial statements believe that the role of an auditor is to detect fraud. Most of the corporate failures are associated with the auditor's failure to detect fraud during their audit engagement. A case of Uchumi Supermarket where the auditors were accused of not detecting anomalies in the retail outlet that led to losses and the risk of insolvency. Another case is of Kenya Airways, the pride of Africa where KPMG the company's auditors were accused of not detecting fraud perpetrated by staff and external parties, costing the company millions of shillings that almost led to its closure. What the users of financial information and the public do not understand is that the role of an auditor is not just detecting of fraud but auditor's role is to provide reasonable assurance on whether a company's financial statements are presented fairly, in all material respects, in accordance with the financial reporting framework of the jurisdiction in which the company operates.

Onwong'a and Ongocho (2010) argued that the role of the auditor has changed from just giving absolute assurance to that of giving reasonable assurance on the books of accounts and financial statements. Further, it is the work of the company management to set up and implement internal control systems that will detect frauds incidences or other material manipulation. Adeyemi and Olayinka (2011) argue that audit expectation gap exists in Nigeria particularly on issues concerning auditing responsibility. It was observed that there was significant difference in the perception of the responding group on the existence of audit expectation gap in Nigeria thus it was suggested that the public be educated about objectives of an audit, auditors role and responsibilities to narrow the audit expected gap.

Salehi (2011) argues that audit expectation gap is not a new phenomenon in auditing literature .He addresses the nature and different dimensions of audit expectation gap around the world and concludes that the gap should be reduced by auditor himself by improving audit responsibilities; educating various users and mandating new standards as these are the causes creating the difference between the auditor himself and the users of financial information.Wanjohi (2011) from Kenya did a study on the rationale for use of forensic accounting in reducing audit expectation gap. He used forensic accounting as a solution to audit expectation gap.

Nonetheless, studies indicate that most users of financial information hold that the auditor's fundamental function is to unearth frauds and errors. This disagreement between auditor's real role and the accounting information consumer's believe concerning the actual function of the auditor is what is referred for the auditor's expectation gap. Most of the studies done previously have indicated that audit expectation gap exists but no study has been done to find out the factors that contribute to the audit expectation gap hence no study has been done on factors affecting audit expectation gap in companies listed in NSE in Kenya, hence the knowledge gap. This problem of audit expectation gap should be addressed so that auditors and consumers of audit reports can read on the same page. The best way towards ensuring a common understanding about audit expectation gap is to ascertain and examine the factors that affect it. This study thus sought to determine the factors affecting audit expectation gap in listed companies in NSE.

1.3 Objectives of the Study

The general objective of the study was to determine the factors affecting the audit expectation gap in listed companies in NSE.

1.3.1 Specific Objectives

i. To determine the effect of auditor's independence on audit expectation gap in listed companies in NSE.
ii. To examine the effect of auditor's competency on audit expectation gap in listed companies in NSE.
iii. To determine the effect of information users' knowledge on auditor's role on audit expectation gap in listed companies in NSE.

1.4 Research Questions

i. What is the effect of auditors' independence on audit expectations gap in listed companies in NSE?
ii. What is the effect of auditor's competency on audit expectations gap in listed companies in NSE?
iii. How has the information users' knowledge on auditor's role affected audit expectations gap in listed companies in NSE?

1.5 Significance of the Study

The study may be beneficial to the following:

1.5.1 Auditors

This study will enhance the professionalism of auditors as the auditing profession has been under intense pressure due to rising public expectations. This can be achieved by testing the rule, regulations and criteria controlling audit profession, as well as making the crucial amendments to satisfy the minimum expectations from the users of financial statements and reinforce the impartiality of the auditors.

1.5.2 Audit Firms

The study also draws the attention of audit firms or company's internal audit offices towards the implementation of effective supervision and quality control of the work of auditors to ensure that they are held personally responsible for their works.

1.5.3 Stakeholders

The study will be significant to stakeholders as they will gain understanding on their role in the audit expectation gap. It will boost confidence in the public and stakeholders in the financial statements and audit reports by satisfying their reasonable expectations.

1.5.4 Academicians and Body of Knowledge

Finally, the study findings will be used as a source of literature in the library and will contribute to the knowledge of audit expectation gap.

1.6 Justification of the Study

Public companies in Kenya have either collapsed or inflicted with financial wounds in the recent past due to financial mismanagement or fraud. The auditors have had a fair share of criticism over this crisis. This is because users of financial statements believe that auditors fail to unearth these frauds as early as possible for appropriate actions to be taken. They claim that auditors deliberately or ignorantly include material misstatements or just write unqualified audit reports as a way of covering up the actual financial status of the company. This trend of financial problems in public companies in Kenya has elicited serious doubts in audits leading to ballooning audit expectation gap. The researcher holds that if this trend continues, there will be endless disagreements between the auditors and the stakeholders. In other words, stakeholder's audit expectations will never be satisfied and the blame will always be placed on the auditors whenever a financial crisis arises. The study therefore sought to test the auditor's independence, competency, and information users knowledge on auditors role against the audit expectation gap.

1.7 Scope of the Study

This study focused on factors affecting audit expectation gap in companies listed in Nairobi Security Exchange. The survey was restricted to selected companies from different sectors listed in the Nairobi Securities Exchange (NSE). Auditor's independence, competency, and information users knowledge on auditors roles were examined with respect to their effect on audit expectation gap. Data was collected from internal auditors, finance officers, investors, human resource officers in selected companies. The study was conducted between the period of August and September 2018.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature in relation to factors affecting audit expectation gap in listed companies in Nairobi Securities Exchange. The literature covers an overview of the literature of previous studies, findings and recommendation showing the research gap to be filled and theoretical framework. The theoretical literature helped the study to develop a conceptual framework. The chapter concludes with a conceptual framework.

2.2 Theoretical Review

This review is a structure that can hold or support a theory of a research study. It introduces and describes the theories which explain why the research problem under study exists and connects the study to the existing knowledge (Kennedy, 2007).The study is anchored on three theories namely the policeman theory, the agency theory and the stakeholder theory. These theories may help us in understanding audit expectation gap.

2.2.1 The Policeman Theory

According to (Kimutai, 2012 as cited in Hayes et al. 1999), the policeman theory was the most widely used theory in auditing up to 1940s. This theory argues that an auditor assumes the work of police by ensuring mathematical accuracy, detection and prevention of fraud. Kimutai, 2012 claims that failure of the theory to justify the change of auditing to just verification of material facts has contributed to its reduced dominancy. The fraud detection is currently a daily subject of debate specifically on the roles of auditors where frauds in financial statement have been unearthed. Currently, there is much pressure on the need to empower auditors in terms of giving them wider mandate so that they start detecting fraud (Ramlugun, 2014).

This theory is linked to the audit expectation gap research as the users of financial information still believe that the fundamental role of an auditor is to prevent and detect fraud and not the shift to verification of truth and fairness of the financial statements and books of account. This difference created between what the user of information expects to be the role of an auditor and what the auditor actually knows is his role is the expectation gap. The theory has not been able to explain the shift from fraud detection to verification of financial statement thus still contributing to the expectation gap in auditing.

In connection with the Policeman Theory discussion, it is important to bring forth an important element which results from the distance between what the auditor's responsibility really is and what is expected from the independent auditors' work by the general public. Regarding the issue, Salehi (2011) explains the idea of the expectation gap as: 'expectation gap' is commonly used to describe the situation whereby a difference in expectation exists between a group expertise and one which relies upon that expertise. The perception of the public with regard to the auditor's responsibility is not in tandem with those of the profession. This has been confirmed and proved by the by existence of the audit expectation gap. The majority of research studies indicate that the audit expectation gap is mainly due to users' reasonable expectations of audits as well there as unrealistic perceptions of the audit profession's performance. Prevention and detection of fraud lies with the management of a company as they can obtain a reasonable assurance that the responsibility has been discharged by establishing adequate internal control systems. If a company wants an auditor to search for fraud then a specific term of engagement should be given to him as it is not the duty of an auditor to search for fraud. On the other hand if an auditor carries out the assignment properly it should be able to expose any fraud or irregularities and where it exists.

2.2.2 The Agency Theory

The Agency Theory by Stephen Ross and Barry Mitnick analyzes the association between investors and managers. According to this theory, managers are viewed as agents representing the investors. Nevertheless, senior managers will often serve their own interests at the expense of the interest of investors. The theory requires that managers should serve and represent the interests of shareholders. Managers are considered to be working for their own selfish interest, apparently abandoning codes of ethics and integrity. A company is perceived to be a product of formal contracts and every group contribute to the building of the firm, at a certain fee. In this case, managers often have the lion's share of these contributions through fraudulent means. Hence, managers should advance trust, faith and principles since these values are the only guiders for the financial structuring of the firm. For managers to follow principles in running the business, an independent body is needed to supervise and monitor managers as part of quality assurance to principles. The theory also requires that principals should only engage highly qualified and reputable auditors (Hayes et al., 2005).

A principal-agent relationship is as a result of the principals engage another person as their agent so as to perform duties on their behalf. Delegation of responsibility has been found to promote an efficient and productive economy. However, delegation can also mean that the principal needs to place trust in an agent to act in his/her best interests. Because of information asymmetries between principals and agents and differing motives, principals may lack trust in their agents and may consequently need to put in place mechanisms to reinforce this trust. An audit provides an independent check on the agents and helps maintain confidence and trust between the agent and the principal. On behalf of the principal, the auditor being the eye of the principal, assesses whether the financial reports prepared by the agent, present a fair view of the company.

Audit serves in promoting confidence and reinforcing trust in the financial information. Agency theory is helpful in explaining the development of the audit. According to the theory, the agents have more information than principals which adversely affects the principals' ability to monitor whether or not they are being properly served by the agents (Gerrit and Mohammad, 2007). Agency theory is based on the investors (principals) managers (agents) relationship. The agency theory relates to this research as investors who in this case are the principals and also users of financial information expect the auditor to protect their interest (Anderson & Emander, 2005). By the investor hiring a reputable and qualified auditor the expectation from the investor is that the auditor unearths and detects fraud or any illegal activities carried out in the firm. Audit expectation gap is created as the expectation of the investor are not met as the auditor role is to verify the financial statements and final books of accounts and give a true and fair view. Engagement of auditors as an independent body helps in controlling and monitoring the managers providing an assurance to the principals (investors).

2.2.3 Stakeholder Theory

Stakeholder theory by Ian Mitroff (1983) is basically a continuation of agency theory. Hill and Jones (2008) defined stakeholders as individuals who affect the company and can be affected by the same firm. They include investors, customers, employees, creditors, unions, stockholders, the surrounding community and the government. Those stakeholders that have more influence on the company are more important for company managers (Deegan & Unerman 2011). Hill and Jones (2008) divided stakeholders into internal and external. Internal stakeholders are managers, executive officers, employees and stakeholders. External stakeholders are those groups, organizations or individuals that have claims on the company. External stakeholders comprise of local communities, customers, creditors, suppliers, and government. Each stakeholder supplies the all-important resources and expects its interest to be satisfied. Furthermore, each stakeholder will demand different information from companies and managers within the companies should provide the information that stakeholders demand (Idowu & Filho, 2009) and (Hill & Jones, 2008). Deegan & Unerman (2011) further argued that primary stakeholders are so essential in that the firm cannot sustain itself without them unlike secondary ones whose absence cannot affect the existence of the company. While it is expected that all stakeholders receive same treatment in the company, however, according to stakeholder theory, some managers behave in a manner that glorifies the major stakeholders. This is preference treatment is based on the value of stakeholder's resources to the company. The recent argument is that many people including the community or the government have interests and resources bestowed to the company whichever minor, therefore, auditors have a duty to ensure that all stakeholders have their interests protected by monitoring all the deals advanced by management.

While some stakeholders are primary and are necessary for the survival of companies, others are secondary and as such, companies can survive without them. All stakeholders should be treated fairly by the companies, but according to the Stakeholders Theory, managers in the companies act in a way that meets the needs of the most powerful stakeholders. ''The more important the stakeholder's resources are to continued viability and success of the company, the greater the expectation that the stakeholder's demands will be addressed'' (Deegan & Unerman 2011). For instance, creditors provide capital for companies in the form of debt (Hill & Jones, 2008) and are one of the important and powerful stakeholders, without which, companies cannot survive. Thus, managers attempt to act in a way that meets their creditor expectations (Idowu & Filho, 2009) and (Deegan & Unerman 2011).

This theory has a link to audit expectation gap as the auditors duty is to ensure the interests of stakeholders are protected regardless of what part they play in the company by availing all and equal information to them, and not on bias terms since some are preferred more by the managers than others. Information given on bias terms will create an audit gap between the auditor and the shareholders. The information given to the stakeholders who are users of the information on bias terms will not meet the expectations of the shareholders thus creating an audit gap. It is the duty of the auditor to avail all the information to the stakeholders regardless of the value of resources invested and management intervention by glorifying some of the stakeholders.

2.3 Empirical Review

Empirical Literature in this section reviewed studies done on factors affecting audit expectation gap. This study reviewed various global, regional, and local past studies found useful to it. This review of these studies was based on the study objectives. The study searched for and identified various past studies which have explained audit expectation gap.

2.3.1 Auditors Independence and Audit Expectation Gap

Independence of the auditor is one of the most vulnerable expectations within the corridors of accounting profession. This is the freedom away from temptations or forces that can affect auditor's powers to arrive at fair decisions. Auditor's independence is crucial to both the public in general and audit career, in that for the former, the absence of auditor independence risks the investment of common people and for the latter, independence of the auditor signifies public stewardship and professional status (Adeyemi & Uadiale 2011). According to Appah (2010), the independence of auditors can be expressed in terms of fact and appearance. Independence in fact, is the state of mind of the auditors, their capability to make unbiased and objective decisions. Independence in appearance is the observer's view that there is no relationship between the auditor and the client to elicit a conflict of interest. Therefore, consumers of apparent independence should also be considered if the audit is going to be highly valued and generally accepted.

There are five types of threats that may affect the independence of the auditor: auditor's interest, auditor involvement in client's affairs, relationship with the client, pressure from stakeholders and peer review of audit work (ISB, 1997, cited in Kimutai, 2012). Further, there are three types of professional independence in fact that an auditor should observe namely, programming independence, reporting independence, investigative independence. Programming independence is the liberty to choose the audit procedures and techniques without any external pressure. Reporting independence is the when an auditor is at liberty to write recommendations without external interference. Investigative independence refers to the freedom to obtain and examine the evidences concerning activities, areas, managerial policies and personal relationship.

Auditors' independence has been questioned over a number of issues: first, auditors have the propensity to carry out more than one job for instance management advisory service, internal auditing or external auditing with similar clients. Freier (2004) believed that auditors would not give an independent opinion to the users if they were providing other consultative services to the client at a fee. According to Adeyemi and Uadiale (2011), auditors might not give impartial evaluation for users when they are the same individuals offering professional consultancy services to the company at a fee. These sentiments were echoed by Appah (2010) who argued that this behavior would strengthen the economic bond between the audit client and auditors which might later impact negatively on auditor's independence. A study conducted by Kimutai (2012) showed that there was a disagreement between financial directors and audit partners over the issue of offering multiple services for the same client. Offering of other services to the client would impair the auditor's independence since they are looking out for their own interests instead of protecting the interests of the stakeholders.

Another issue is that auditors' attitudes come into play when under pressure from company stakeholders. In most cases if this happens, the work of the auditor is compromised. In this regard, the CICA (1988, cited in Appah, 2010) suggested the formation of company's audit committee and insisting on strict standards of financial reporting. Nonetheless, CICA still noted that the surest way to have a high standard audit is for the auditor to have dedication and commitment to professionalism. Auditing standards permit auditors to offer help to a certain extent of advising and this should not be used in making decisions.

2.3.2 Auditor's Competence and Audit Expectation Gap

Competency is the ability to perform duties to recognized standards. A competent person in a profession is deemed to possess a set of skills which are applied in approaching and performing roles effectively (Agyei *et al.*, 2013). Similarly, an auditor requires certain skills to be considered competent on the job. Flint (1988, cited in Kimutai 2012) argued that audit competence is a combination of both skill and knowledge, which are acquired through education, professional training and work experiences.

According to IFAC's (2017) circular on "competence Requirements for Audit Professional", auditors should have relevant education, skills and use professional attitudes, values and ethics to different settings and organizations. Agyei *et al.* (2013) proposed that only individuals with adequate education, training and competence in auditing are the ones to be allowed to carry out an audit and prepare reports. Accordingly, auditor competence's perception is controlled by two factors: capability to construct valuable opinion and evaluate factually the quality of information. The two aspects rely on auditor's technical skills, training, education and experience. It implies that only auditors who meet these requirements would be in a position to fully understand situations under investigation and be able to give quality audit reports.

Of much importance is that auditor's competence has a profound consequence on the auditor judgment and independence. Agyei *et al.* (2013) claim that incompetent auditor has a high probability of arriving at unfortunate judgments. In the ideal situation where the independence of the auditor is not compromised, a competent auditor would navigate in complex situations and tasks just by invoking his or her skills, experience and knowledge.

Due to their expertise, auditors would evaluate evidence and at the same time reject some materials availed to them. However, incompetent auditors may not find it easy to handle the same audit assignment. Consequently, these auditors might go with unsuitable questions as well as being unable to pick what is useful in terms of evidence from the chunk. These kinds of auditors heavily rely on the material evidence availed by the client, thus the final judgment might fail credibility test (Appah 2010).

Further, auditors should be versed with internal controls mechanisms and accounting system that applies to various businesses. They should possess good working knowledge of accountancy such as bookkeeping, taxation and costing other academic background in economics, information technology, computing, law e.t.c. Advanced knowledge might include handling the audit techniques and procedures to confirm transactions (Kimutai, 2012). Gonzi *et al.* (1993, cited in Adeyemi and Uadiale (2011),) argued that competence is only demonstrable in the work. In this case there is a strong relationship between competence and quality of work done. In the context of this study, the relationship between competence and work specifically falls under deficient performance. Whereas the lack of competence may be because of poorly defined standards that is the standards are not handling issues related to the auditor's characteristics effectively.

2.3.3 Users' Knowledge of Auditors Role and Audit Expectation Gap

A research by Daraghmeh and 'Aqel, (2011) was purposed to obtain empirical evidence concerning the insensible demands form users of audit report. The most significant result in this report is that insensible audit expectations gap was alarmingly widening in Palestinian due to manly ignorance about auditor's roles. The results of this study also showed that consumers of financial statements who tend to have unreasonable expectations are the most crucial factors that promotes audit expectation gap.

Bogdanoviciute (2011), findings confirmed that there was indeed audit expectation gap in Lithuanian firms. The auditor's responsibility, reliability, liability to the parties and fraud detection were major concerns among the public. Nonetheless, it was also found out that auditors too hold diverse opinions about fraud detection and prevention as well as the value of audit reports. This could be as a consequence of augmented monitoring by regulatory agencies as far as the supervision and responsibilities of auditors are concerned. Such government attention is aimed at reigniting trust among investors trust especially after any reported financial scandal. Agyei *et al.* (2013) in their study focusing on expectation gap among stock agents and auditors also found out that the audit expectation gap was real in Ghana as far as responsibilities of auditors are concerned. Users of audit information expect auditors to reveal fraud and possibly prevent them in addition to implementing sound internal accounting control systems of the firms under audit. The stakeholders also suggested to the regulatory body of auditors to develop regulations, standards and rules that effectively direct the auditors in meeting their reasonable expectations.

In the same study Agyei *et al.* (2013) argued the change in auditor's roles which happened in twentieth century from identification of financial fraud to just confirmation of financial statements, contributed to audit expectation gap to a large degree. It is now clear that the users' lack of knowhow about the principal roles of auditors, auditors' failure to convince users to accept their roles as well as the dictates of accounting regulations have continued to give much attention to the audit expectation gap's

(Ramlugun, 2014). To lower the persistence of the gap, intensifying awareness among users and auditors can help overcome this challenge (Okafor & Otalor, 2013).

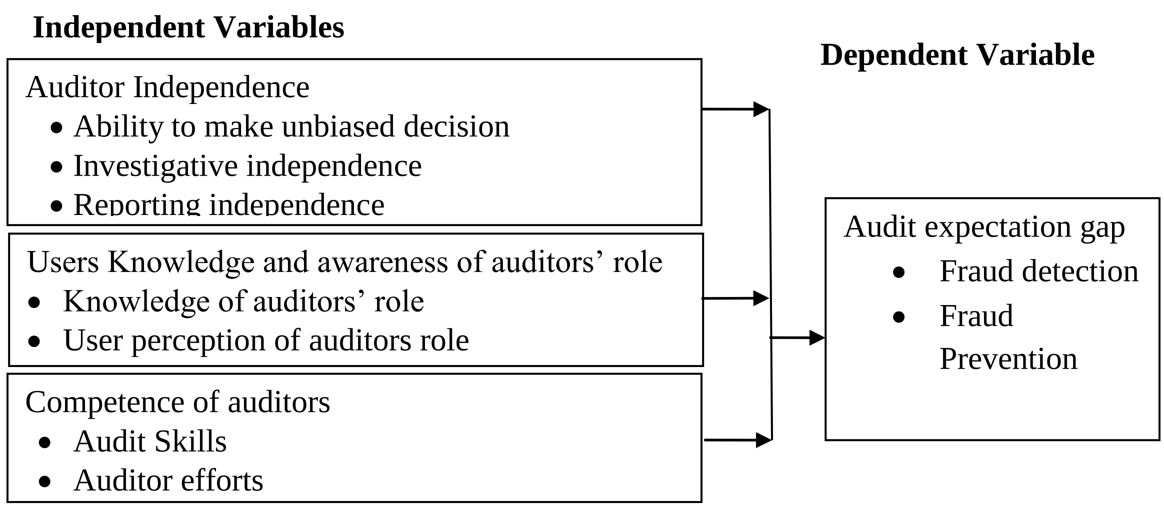
2.4 Knowledge Gap

Factors auditor independence, self-regulating, user knowledge and competence of the auditor influence the audit expectation gap. The auditor's close relationship with the client has a profound effect on the auditor's independence. The auditors also appreciated that their roles concerning unearthing frauds is not discharged well due to their lack of necessary skills and knowledge. According to the literature, stakeholders expect auditors to disclose all financial materials and facts to meet their unreasonable demands. Technicality of concepts and terms applied in accounting, users' failure to recognize the nature and confines are the major causes for the persistence of audit expectation gap. It is proposed that audit should be conducted and reported by a person possessing adequate education, training, experience in auditing and accounting principles.

From the literature reviewed, most studies conducted mainly focused on ascertaining the presence of an audit expectation gap in various nations around the world. A handful of studies have examined details concerning the source and solutions to audit expectation gap. Other few researches have questioned the initiates of audit expectation gap and went further to construct a model to show different cogs of expectation gap. In contrast, this study will use a multiple regression model approach to investigate the factors affecting audit expectation gap. Again, reviews clearly show that few researches on the audit expectation gap have been conducted in Africa and specifically in Kenya's. This study is going to contribute immensely to the enrichment of knowledge about audit expectation gap in Kenya.

2.5 Conceptual Framework

Figure 2.1: Conceptual Framework



Source: Author (2018)

2.6 Operationalization of Variables

Objectives	Variable	Type of variable	Measurement	Type of measurement
To determine the effect of auditor's independence on audit expectation gap in listed companies in NSE.	Auditor's independence	Independent	Ability to make unbiased decision Investigative independence Reporting independence	Ordinal
To examine the effect of auditor's competency on audit expectation gap in listed companies in NSE.	Auditor's competence	Independent	Audit skills Auditors efforts	Ordinal
To determine the effect of information users' knowledge on auditor's role on audit expectation gap in listed companies in NSE.	User knowledge of auditor's role	Independent	Knowledge of Auditor's role User perception of Auditor's role	Ordinal
Audit expectation gap	Audit expectation gap	Dependent	Detection and Prevention of fraud	Ordinal

2.7 Research Hypothesis H_{O1}

H_{01}: The auditor's independence has no significant effect on the audit expectations gap among companies listed in the NSE.

H_{A1}: The auditor's independence has significant effect on the audit expectations gap among companies listed in the NSE.

H_{02}: The auditors' competence has no significant effect on the audit expectations gap among companies listed in the NSE.

H_{A2}: The auditors' competence has significant effect on the audit expectations gap among companies listed in the NSE.

H_{03}: The user knowledge of auditors' role has no significant effect on the audit expectations gap among companies listed in the NSE.

H_{A3}: The user knowledge of auditors' role has significant effect on the audit expectations gap among companies listed in the NSE.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology of the study described as, research design, target population, sampling techniques and sample size, research instruments, data collection techniques, and data analysis are presented.

3.2 Research Design

This study adopted a descriptive research design. The descriptive research design is considered appropriate since it helps provide answers to the questions of who, what, when, where, and how associated with the particular research problem (Cooper & Schindler, 2008). The design was further considered appropriate due to its robust effect on relationship studies and because of the comparative analysis implied by several research objectives. Besides, the descriptive research design enabled the researcher obtain information on audit expectation gap of listed manufacturing firms and thereafter described their audit expectation gap with respect to auditors' independent and competence and users' knowledge on auditors' role.

3.3 Target Population

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined set of people, services, elements, and events, group of things or households that are being investigated.

The population of the study was the companies listed at the NSE. According to the NSE (2018), there were 62 companies listed at the NSE trading publicly.

3.4 Sample and Sample Procedure

Disproportionate stratified random sampling was used to select the samples for the study. The target population was categorized according to their type whether manufacturing, agriculture, among others. Disproportionate stratified sampling is used when the same sample size is utilized from each stratum, irrespective of the relative size of the stratum when compared with the population size. This technique could be used if the stratum sizes did not differ much, but given the range of the stratum sizes, it would not have been practical to use the same sample sizes for all strata, as a representative sample of the larger stratum would have been more than the total population for a smaller stratum. This resulted into 29 firms. The sample size was purposively determined, where each publicly listed company produced senior manager in charge of finance and an auditor probably in a higher position from audit firm attached to the listed company. This resulted into a sample size of 58 respondents.

Table 3.1: Sample Size

Category of Listed Companies	Population	Sample size
Agriculture	6	3
Automobile & Accessories	1	1
Banking	11	4
Commercial Services	12	5
Construction & Allied	5	2
Energy & Petroleum	5	2
Insurance	6	3
Investment	5	2
Investment services	1	1

Manufacturing & Allied	7	3
Telecommunication	1	1
Real estate	1	1
Exchange Traded Fund	1	1
Total	**62**	**29**

3.5 Instrumentation and Data Collection

In this study data was collected using a closed-ended questionnaire. A questionnaire is a tool of data collection having a set of questions to be used as guiders in gathering information from respondents (Mugenda & Mugenda, 2008). Questionnaires were preferred because the respondents can be found in a standardized way. It also saves time as well as helping to collect information from a large pull of people (Kothari, 2008). The questionnaire had five sections. Section One sought information on the respondent's demographic data. Section Two sought information with regard to the auditors independence, while Section Three sought information on the auditors competence. Section Four sought information on users' knowledge of auditors' role and Section Five information on the audit expectation gap.

The questionnaires were self-administered to the respondents after getting relevant clearances (introductory letter from the University and permission from target firms). The researcher booked appointment with the respondents where it was to explain candidly the purpose of the study. Where it was not possible to fill and return the questionnaire immediately, drop and pick later method was used, within duration of one week.

3.6 Data Analysis and presentation

Data collected was coded and classified into different components to facilitate a better and efficient analysis. The quantitative data gathered through close ended questions was analyzed through descriptive statistics using the Statistical Package for Social Science (SPSS version 21.0) and presented through percentages, frequencies, mean and standard deviation. Tables and figures were used to present the study findings.

For the purpose of analyzing the relationship between the study variables, the study used both correlation and regression analysis. However before running the regression model, the study performed various diagnostic tests on the study data including normality, homoscedasticity and multicollinearity tests to ascertain the appropriateness of the study data for the regression analysis.

Regression analysis was useful to the study as it helped the researcher to analyze the existing relationship between the study's independent variables and the dependent variable. The key benefit of using regression analysis lies in its ability to indicate the extent to which changes in the independent variables affect the dependent variable. It was also able to indicate the relative strength of the different independent variables' effects on a given dependent variable.

Correlation analysis was applied in the study as it allows the quantification of the strength of the relationship between the independent variables and dependent variable. This enabled the researcher to establish how the independent variables of the study related with the study's dependent variable.

The regression model used in the study was as follows;

$AEG = \beta_o + \beta_1 AI + \beta_2 AC + \beta_3 KAP + \mathcal{E}$

Where:

AEG = Audit expectation gap

β_o = Constant

AI= Auditor independence

AC= Auditor competency

KU= Knowledge of users on Auditor s role

β_1, β_2, & β_3= Coefficients

$\mathcal{E}$ = error term

Further, the t-test with a critical value of 1.96 and a p value of 0.05 was used to test the significance of auditors' independence, competence, and user knowledge of auditors' role on audit expectation gap. According to Kothari (2004) an independent variable has a significant effect if the t statistics is greater than + or –1.96 or if the p value is less than 0.05.

3.7 Diagnostic Tests

As part of data analysis and presentation, the researcher conducted various diagnostic tests with a view of ascertaining the appropriateness of the study data for regression analysis. These tests are critical in ensuring that the study data meets the specific assumptions underlying regression analysis. The researcher performed normality, homoscedasticity and multicollinearity tests. These are as described below:

3.7.1 Normality Test

As part of exploratory data analysis, tests for normality of distribution of the response variable were conducted. Normality of the data was tested using the Shapiro – Wilk test. The significance level of $\alpha = 5\%$ is acceptable. Normality is assumed if $P \geq 0.05$ while for $P < 0.05$ deviation from normality is assumed (Ghasemi & Zahediasl, 2012).

3.7.2 Heteroscedasticity

Heteroscedasticity is a situation where the variability of a variable is unequal across the range of values of a second variable that predicts it (Vinod, 2008). In this study Heteroscedasticity was tested using the Breuch-pagan/cook-weisberg test. For the Breusch-Pagan/Cook- Weisberg test, the null hypothesis is that the error variances are all equal while the alternative hypothesis is that the error variances are a multiplicative function of one or more variables. Homoscedasticity is evident when the value of "Prob > Chi-squared" is ≥ 0.05 (Bera & Jarque, 2012).

3.7.3 Multicollinearity

Multicollinearity in the study was tested using Variance Inflation Factor (VIF) and Tolerance. The reciprocal of tolerance known as the Variance Inflation Factor (VIF) shows how much the variance of the coefficient estimate is being inflated by multicollinearity. A VIF for all the independent and dependent variables less than 3 (VIF ≤ 3) indicates no multicollinearity while a VIF of ≥ 3 indicates collinearity and more than 10 indicates a problem with multicollinearity (Maddala & Lahiri, 1992). The Tolerance

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

In this section the primary data from the field is analysed presented and interpreted. The researcher distributed 58 questionnaires to the respondents out of which 54 completed and returned. This gave a response rate of 93.1% which is above Mugenda and Mugenda (2008) recommendation of 50% response rate. The findings are presented in tables and figures with the first section presenting respondents' personal information then in accordance with research objectives.

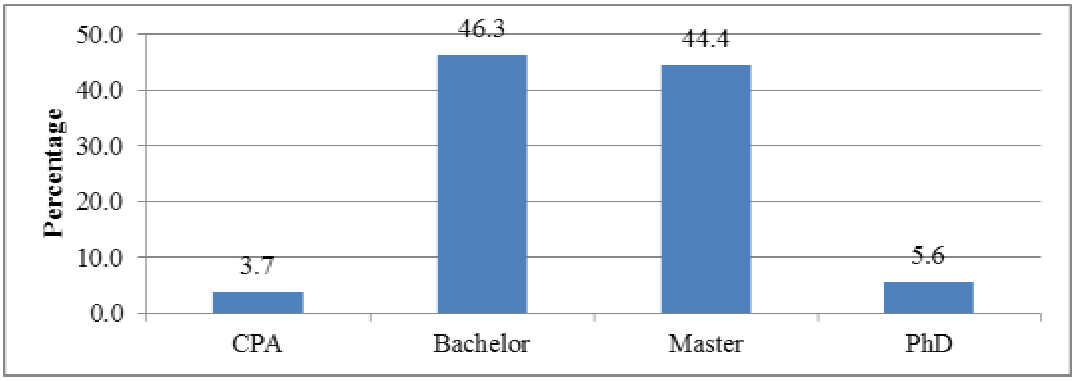
4.2 Respondents' Personal Information

The study sought to determine the distribution of respondents with regard to their personal information such as highest academic qualification, professional qualification, auditing experience and occupation. The findings are presented in the subsequent sections.

4.2.1 Highest Academic Qualification

The study sought to determine the respondent's highest academic qualifications. The findings are presented in Figure 4.1.

Figure 4.1: Highest Academic Qualification

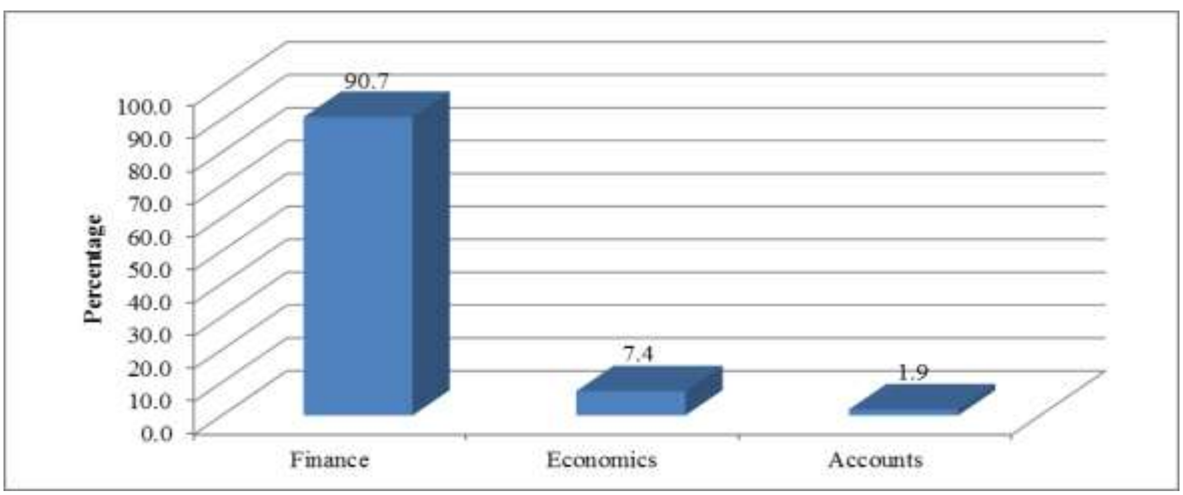


The results of the study show that 46.3% of the respondents had bachelors while 44.4% of the respondents had master academic qualifications. The findings of the study indicate that the respondents were relatively highly educated.

4.2.2 Professional Qualification

The respondents were asked to state their professional qualification. The findings of the study show are presented in Figure 4.2.

Figure 4.2: Professional Qualification

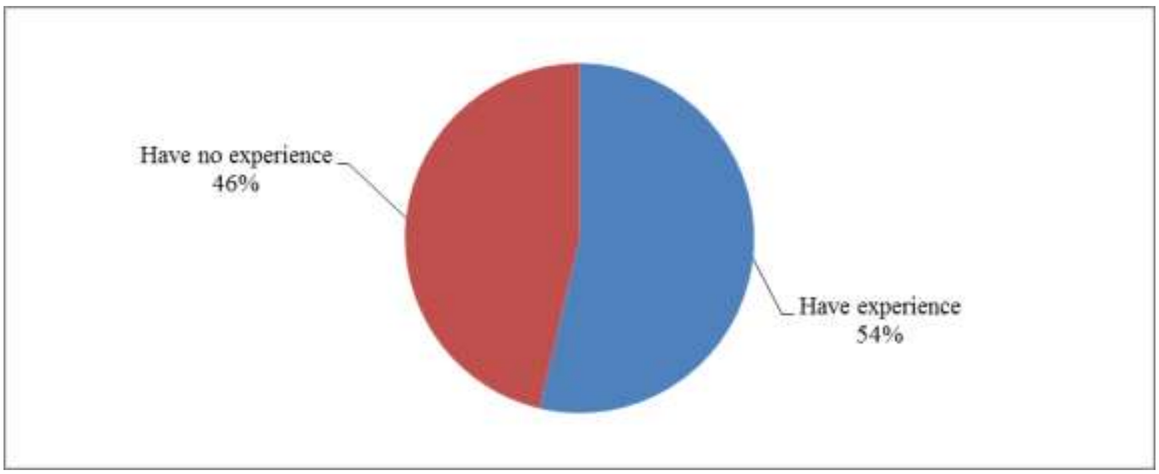


The findings of the study show that majority of the respondents (90.7%) had finance backgrounds. There were only 7.4% economists. These findings of the study indicate that most of the finance managers and auditors have finance backgrounds.

4.2.3 Auditing Experience

The respondents were asked to state whether they had auditing experience. The findings are presented in Figure 4.3.

Figure 4.3: Have Auditing Experience



The study findings show that 54% of the respondents indicated that indeed they had auditing experience while 46% had no auditing experience.

4.2.4 Duration of Experience in Audit

The study sought to establish how long the respondents have been auditors. The findings are in table 4.1.

Table 4.1: Duration of Experience in Audit

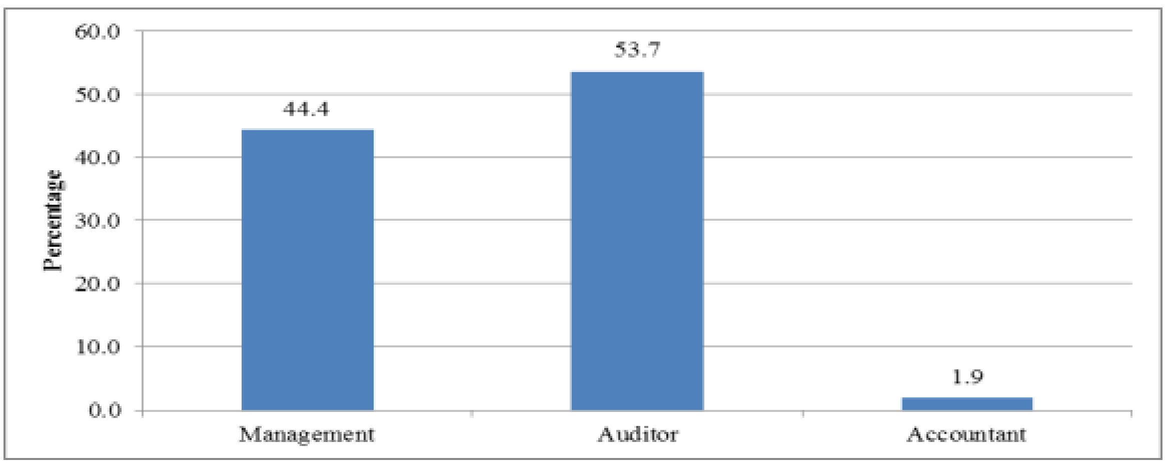
Categories	**Frequency**	**Percent**
1 - 10 years	23	42.6
Above 10 years	6	11.1
No response	25	46.3
Total	**54**	**100.0**

The study findings show that most of the respondents (23, 42.6%) have been auditors for between 1 and 10 years while 6(11.1%) respondents have been auditors for over 10 years. The findings show that respondents have had a relatively long audit experience.

4.2.5 Distribution by Occupation

The respondents were asked to state their occupation. The findings are presented in Figure 4.4.

Figure 4.4: Distribution by Occupation



The study findings show that 44.4% of the respondents were management while 53.7% were auditors.

4.3 Auditor's Independence and Audit Expectation Gap

In this section the study sought to determine the effect of auditor's independence on audit expectation gap. The respondents were therefore asked to state the extent to which they agreed with regard to the auditor's independence. This was on a scale of strongly disagree, disagree, neutral, agree and strongly agree. The scores 0.0 to 1.0 was taken to represent strongly disagree, score 1.1 to 2.0 was taken to represent disagree, score 2.1 to 3.0 was taken to represent neutral, score 3.1 to 4.0 represent agree and score 4.1 to 5.0 represent strongly agree. The findings are presented in Table 4.2.

Table 4.2: Auditor's Independence

	N	Mean	Std. Dev
Auditor independence means personal independence	54	3.89	.664
Auditor independence means auditor should be financial responsible	54	3.39	.492
Auditor engaging in non-audit and audit services at the same time may impair objectivity	54	3.65	.705
Provision of audit services consistently for a long period of time may lead to familiarity threat.	54	3.96	.846
Auditors are more concerned with pleasing management	54	3.35	.781
Financial independence enhances auditor independence	54	3.39	.627
Auditor independence means reporting obligations to third parties	54	3.30	.768
Auditor independence means auditors should not provide other services	54	3.41	.496
Total		3.54	.672

The data in Table 4.2 above show that a high degree of agreement with regard to auditor's independence as the average of the total answers of the scale is 3.54 with standard deviation 0.672 for all statements. It therefore evident to the researcher that the auditor independence is an important factor in the audit expectation gap. It is therefore important that the auditor performs his/her duties professionally in all stages of the audit process. The auditor should not be biased to any party such as seeking to please the management, but free of conflict of interest as well as free of any barriers to his independence and objectivity.

4.4 Auditor's Competency and Audit Expectation Gap

In this section the study sought to establish the effect of the auditor's competence on the audit expectation gap. The respondents were therefore asked to state the extent to which they agreed with the statements regarding the auditor's competence. This was on a scale of strongly disagree, disagree, neutral, agree and strongly disagree.

Table 4.3: Auditor's Competency

	N	Mean	Std. Dev
The necessary academic qualification and appropriate training to the Auditor	54	3.35	.731
The performance of the auditor to his job accurately in line with the career ethics, laws and organization standards of the profession.	54	3.61	.899
The auditor has to plan for his work, use adequate documented evidence to perform his job appropriately	54	3.78	.691
Activation the Penal and Professional laws to improve the performance of the auditor	54	3.28	.712
The adequate understanding of the auditor to the nature of corporation business he audits	54	3.48	.693
Total		3.50	.745

The findings in table 4.3 above show that generally respondents highly agreed with the statements as the total average of the respondents is 3.50 and a standard deviation of 0.745 meaning no variances in the responses. The findings show that respondents agreed that necessary academic qualification and appropriate training for important (mean score, 3.35). Respondents also agreed that the performance of auditor to his job accurately in line with the career ethics, law and organization standards of the profession (mean score 3.78) and further agreed that the auditor has to plan for his work, use adequate documented evidence to perform his job appropriately (mean score 3.78). Respondents agreed that the adequate understanding of the auditor to the nature of the corporation business he audits (mean score, 3.48). The findings indicate that the auditor's competence is considered important determinant of audit expectation gap.

4.5 Information Users' Knowledge on Auditor's Role on Audit Expectation Gap

In this section the study sought to determine the effect of the user information and knowledge of the auditor's role on the audit expectation gap. The respondents were therefore asked to state the extent to which they agreed with the statements regarding the user information and knowledge on the auditors' role. The findings are presented in Table 4.4.

Table 4.4: Information Users' Knowledge on Auditor's Role on Audit Expectation Gap

	N	Mean	Std. Dev
Users have knowledge about the audit profession in general	54	3.30	.768
Users have knowledge about the benefits and objectives of the audit	54	3.46	.605
External users of financial statements are most important factors that contribute in existence of audit expectations gap	54	3.56	.538
Financial managers have a role in existence of unreasonable audit expectations gap	54	3.61	.529
Accountants have a role in emergence of the expectations gap	54	3.46	.539
External users have unreasonable expectations about responsibilities of auditor.	54	3.44	.502
Fraud prevention and detection, assurance and communication of usefulness of audited financial should be done by auditors	54	3.50	.505
Relevant agencies should test accounting standards and external assessment of financial statements	54	3.63	.487
		3.49	.559

The study findings show that respondents largely agreed with the statements as the total of the answers show average mean to be 3.49 with a standard deviation of 0.559. The findings show that respondents agreed that the user knowledge about the audit profession was important (mean score 3.30). The respondents also agreed that the users have knowledge about the benefits and objectives of the audit (mean score 3.46). Respondents agreed that the external users of financial statements are most important factors that contribute in existence of audit expectations gap (mean score 3.56). The respondents agreed that external users have unreasonable expectations about responsibilities of auditor, audit objectives, benefit of audit and profession in general more than internal users (mean score 3.44). The results indicate that the information user's knowledge and awareness of the auditor's role is an important determinant of audit expectation gap.

4.6 Audit Expectation Gap

The study sought to determine the extent of audit expectation gap among the respondents. The respondents were therefore asked to state the extent to which they agreed with the statements regarding the role of the auditors. This was on a scale of strongly disagree, disagree, neutral, agree and strongly agree. The findings are presented in Table 4.5.

Table 4.5 Audit Expectation Gap

	N	Mean	Std. Dev
The auditor is responsible for detection of all fraud and error	54	3.63	.487
Auditors are responsible for soundness of internal control structures	54	3.57	.499
Auditors are responsible for maintaining of accounts records	54	3.56	.502
The management are responsible for preparation of financial statement	54	3.59	.496
The auditor does not exercise judgment in the selection of audit process	54	3.58	.494
Total		3.59	.496

The results of the study show that respondents generally agreed with statements as the total answer show a mean of 3.59 with a standard deviation of 0.496. The results show that respondents agreed that the auditor is responsible for detection of all fraud and error (mean score 3.63). The respondents also agreed that the auditors are responsible for soundness of internal control structures (mean score 3.57). Respondents agreed that the auditors are responsible for maintaining of accounts records (mean score 3.56). The results indicate that the respondents have demonstrated that the audit expectation gap for instance is the responsibility of the auditors to detect all the frauds and error, soundness of internal control structures and maintaining of accounts records.

4.7 Correlation

The study performed a correlation analysis to test the level of association between any of the two variables to test the strength and the direction. The findings are presented in Table 4.6.

Table 4.6: Correlation

		Auditor independence	Auditor competence	Information user	Auditor expectation gap
Auditor independence	Pearson Corr	1			
	Sig. (2-tailed)				
Auditor competence	Pearson Corr	.067**	1		
	Sig. (2-tailed)	.000			
Information user	Pearson Corr	.083**	.158**	1	
	Sig. (2-tailed)	.000	.000		
Auditor expectation gap	Pearson Corr	.218**	-.029**	-.349**	1
	Sig. (2-tailed)	.000	.000	.000	

The findings of the study show that there was a strong positive and significant association between any of the two independent variables as all are greater than 0.5 and the p-values are less than 0.05. The results however show that relationship between any of the independent variables and the dependent variables were weak and negative.

4.8 Regression Analysis

The study further carried out regression analysis to establish the statistical significance relationship between the independent variables auditor's independence, auditor's competence and information users' knowledge of the auditors' role on the dependent variable which was audit expectation gap. The regression analysis results were presented using regression model summary tables, analysis of variance (ANOVA) table and beta coefficient tables.

Table 4.7 shows that the coefficient of determination is 0.183; therefore, about 18.3% of the variation in the audit expectation gap is explained by auditor's independence and competence and information users' knowledge on the auditors role. The regression equation appears slightly weak for making predictions since the value of R^2 is less than 0.5.

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.428[a]	.183	.134	.619

a. Predictors: (Constant), Information user, Auditor competence, Auditor independence

The Analysis of Variance (ANOVA) is used to indicate whether the overall regression model is significant or not. Table 4.8 show the ANOVA result for regression coefficients indicates that the significance of the F is 0.00 which is less than 0.05. This indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data). There is therefore a significant relationship between the dependent variable and independent variables.

Table 4.8: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.294	3	1.431	3.730	.017[b]
	Residual	19.188	50	.384		
	Total	23.481	53			

a. Dependent Variable: Audit expectation gap

b. Predictors: (Constant), Information user, Auditor competence, Auditor independence

The study further determined the beta coefficients of auditor independence, auditor competence and information user verses the audit expectation gap as shown in Table 4.7

Table 4.9: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.084	1.727		1.786	.080
	Auditor independence	.740	.384	.248	1.927	.060
	Auditor competence	.017	.170	.013	.099	.922
	Information user	-.929	.325	-.371	-2.859	.006

`a. Dependent Variable: Auditor expectation gap

Fixed model: Audit expectation gap = 3.084 + 0.740Auditor independence + 0.017Auditor competence - 0.929User knowledge

Table 4.9 thus shows no significant relationship between auditor independence and audit expectation gap (p-value < 0.05). Based on this, the studies therefore fail to reject the null hypothesis that auditor independence has significant effect of the audit expectation gap. The findings however mean that a unit change in the auditor independence will result into a 0.740 change in the audit expectation gap. The findings further show that there is no significant relationship between auditor competence and audit expectation gap (p-value > 0.05) and hence accept the null hypothesis that there is no significant effect of auditor competence on audit expectation gap. The results mean that a unit change in the auditor competence will result in a 0.017 change in the audit expectation gap. There was a significant relationship between user knowledge of auditors role and audit expectation gap (p-value < 0.05), hence reject the null hypothesis (Ho_3). The results mean that a unit change in the user knowledge will result into a 0.929 change in the audit expectation gap, however in the opposite direction.

4.9 Diagnostic Tests

4.9.1 Test for Multicollinearity

The results in Table 4.10 show that all the values of VIF are less than 3.0 ($VIF \leq 3$) in accordance with Maddala and Lahiri (1992) recommendations. This therefore means that there is no problem of multicollinearity.

Table 4.10: Collinearity Statistics

	Tolerance	VIF
Auditor independence	.990	1.010
Auditor competence	.972	1.029
Information user	.970	1.031

a. Dependent Variable: Audit expectation gap

4.9.2 Normality Test

The study tested for normality of the distribution. For the data to be normally distributed, the observed values should be spread along the straight diagonal line shown in Figure 4.5. Since most of the observed values are spread very close to the straight line, there is high likelihood that the data is normally distributed. This finding confirms the P-P plot below.

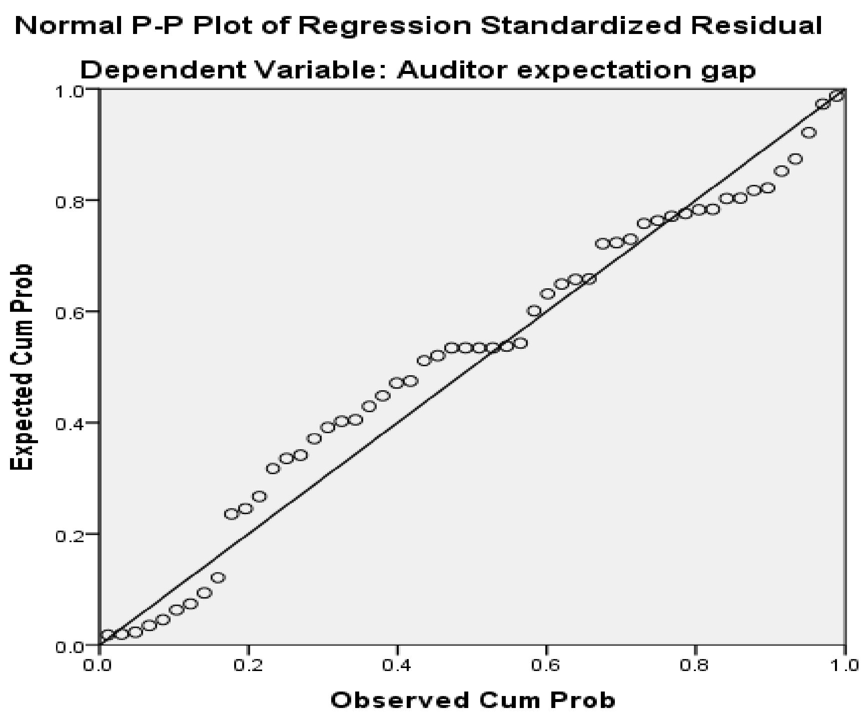


Figure 4.5: Normality Test

4.9.3 Test for Heteroscedasticity

The study tested for the assumption of heteroscedasticity of the variables. Heteroscedasticity is a situation where the variability of a variable is unequal across the range of values of a second variable that predicts it. According to the findings in Figure 4.6, the scatterplot of the residuals appear short outs of gun shots and have no obvious pattern. The findings show that there are points equally distributed above and below zero on the X axis, and to the left and right of zero on the Y axis. This shows absence of heteroscedasticity.

Therefore having satisfied the assumptions of the regression, the study concludes that the regression model fits the study.

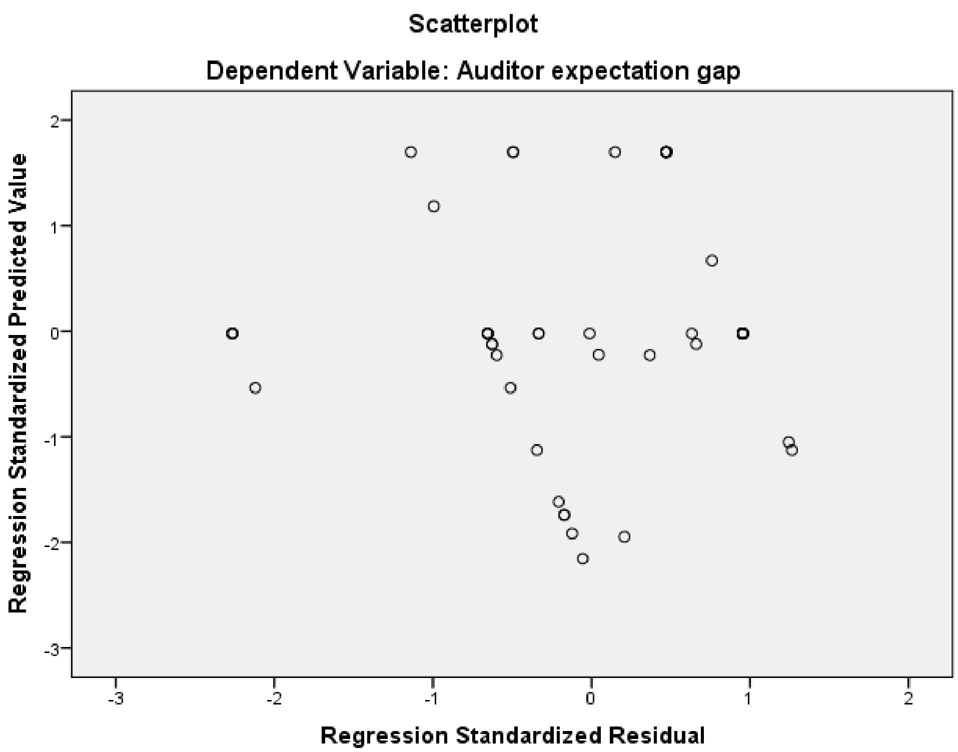


Figure 4.6: Test for Heteroscedasticity

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, the conclusions based on the findings from where the researcher has made recommendations for action. The chapter also presents suggestions for further research.

5.2 Summary of Findings

The first objective of the study was to determine the effect of the auditor's independence on the audit expectation gap in the listed companies in NSE. The study established that respondents agreed that the auditor independence means personal independence (mean score, 3.89). Respondents agreed that auditor independence means auditor should be financial responsible (mean score 3.39). The auditor engagement in non-audit and audit services at the same time would impair objectivity (mean score 3.65). The study established that according to respondents the provision of audit services consistently for long period of time may lead to familiarity threat (score 3.96). Most respondents agreed that the auditors were mainly concerned with pleasing the management (score 3.35). In general respondents agreed with the statements (score 3.54), implying that there was the problem of auditor independence. As to the effect of the auditor independence of the audit expectation gap, the study established that there was a negative significant relationship, meaning that as the auditor independence decreases, the audit expectation gap increase at the rate of 0.182. The findings of the study are consistent with the work of Adeyemi and Uadiale (2011) that auditors might not give impartial evaluation for users when they are the same individuals offering professional consultancy services to the company at a fee. The findings also support the views by Kimutai (2012) that auditor's involvement in client's affairs is a threat to the auditors independence.

The second objective of the study was to examine the auditors competence on the audit expectation gap in listed firms in NSE. The established that respondents highly agreed with the statements as the total average of the respondents is score 3.50 The established that respondents agreed that necessary academic qualification and appropriate training was key (score, 3.35). The performance of auditor to his job accurately in line with the career ethics, law and organization standards of the profession (score 3.78). Respondents agreed that the auditor has to plan for his work, use adequate documented evidence to perform his job appropriately (score 3.78). Most respondents agreed that adequate understanding of the auditor to the nature of the corporation business he audits (score, 3.48). On the effect of auditor competence on audit expectation gap, the study established that there was a negative significant relationship between the auditor's competence and audit expectation gap, implying that as the auditor competence declines, the audit expectation gap increases at the rate of 0.029. The study findings are consistent with Agyei et al (2013) that auditors with competence, who fully understand situations under investigation are able to give quality audit reports as incompetent auditors have a high probability of arriving at unfortunate judgements.

The third objective of the study was to determine the user knowledge of the auditor's role on the audit expectation gap in companies listed in NSE. The study findings revealed that respondents largely agreed with the statements as the total of the answers show average score is 3.49. Respondents agreed that the user knowledge about the audit profession was important (score 3.30). The study established that the users have knowledge about the benefits and objectives of the audit (score 3.46). Respondents agreed that the external users of financial statements are most important factors that contribute in existence of audit expectations gap (score 3.56). The study revealed that the external users have unreasonable expectations about responsibilities of auditor, audit objectives, benefit of audit and profession in general more than internal users (score 3.44). Respondents agreed that the auditor is responsible for detection of all fraud and error (mean score 3.63) and further that the auditors are responsible for soundness of internal control structures (mean score 3.57). On the effect of user knowledge on the audit expectation gap, the study established that was a negative significant relationship between the user knowledge and the audit expectation gap, a change in the user knowledge would result into a 0.124 change in the audit expectation gap in the opposite direction.

5.3 Conclusion

The study established that the auditor's independence was compromised as the auditors were found to be engaging in non-audit and audit services at the same time, and were more often than not concerned with pleasing the management of the client firms. The study established that the auditor's independence had a negative effect on the audit expectation gap. The study established that the auditor's competence featured prominently in the expectation gap. The study findings revealed that the auditor's competence had a negative effect on the audit expectation gap as a decline in the auditor competence led to an increase in the expectation gap. The study established that while the users pupated to have the knowledge on the auditor's role, a test of the same revealed that respondents were mainly unaware on the auditor's role such as detection of fraud, setting up of internal control structures and maintaining of accounts records. There was found a negative effect of user knowledge of the auditor role on the audit expectation gap.

5.4 Recommendations

Based on the findings of the study, the researcher made the following recommendations:

i. The Institute of Certified Public Accountants of Kenya and the government is called to play its role in strengthening the independence of the auditor and drafting legal laws promoting the independence of the auditors in Kenya.
ii. A need to carry out a study on the expectations of the users of the financial statements and in order to identify and meet the reasonable ones, and correction the unreasonable expectations to mitigate the audit performance gap.
iii. The audit body in Kenya to strengthen the role of the competent professional auditors and perform the effective supervision of the audit profession and accounting, as well as examining the audit standards, and the laws regulating auditing career, and carry out the necessary amendments to meet the reasonable expectations of the users of financial statements and increased quality of professional performance.
iv. The ICPAK and the government have to work on upgrading the performance of professional auditors and encouraging them to adhere to the ethics of audit to mitigate the performance gap.

v. There is need for the audit association in Kenya and the government to contribute to the dissemination of information culture and increase communication, and educate of the users of financial statements about the functions of the audit and the auditor's responsibilities, duties, functions with the aim of mitigating the unreasonable expectations gap.

5.5 Suggestions for Further Research

This study was done on the factors affecting audit expectations gap in the listed companies in NSE only. The study recommends that similar studies should be done in other companies in Kenya not listed at the NSE but have the investors' interest in Kenya.

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APPENDICES

Appendix A: Questionnaire

SECTION A- PERSONAL INFORMATION

1. Name of Organization……………………………………………….

2. Highest Academic Qualification:

   - KCSE (   )
   - CPA ( )   Level………………….
   - Bachelor ( )
   - Master ( )
   - PhD ( )

3. Professional Qualification

4. Do you have auditing experience?

5. If yes, for how long: Below 1 year   1-10 years   above 10 years

6. Occupation: Management   Auditor   Accountant

Instruction: The following statements use a five (5) point likert scale. On the scale, five (5) is the highest construct. The likert scale is given as follows: 5-strongly agree, 4-agree, 3-neither agree nor disagree, 2- disagree, and 1- strongly disagree

SECTION B- INDEPENDENCE FACTOR

	1	2	3	4	5
1. Auditor independence means personal independence					
2. Auditor independence means that auditor should be financial responsible					
3. Auditor independence can influence the performance of audit services.					
4. When an auditor engages in provision of non-audit and audit services at the same time, objectivity may be impaired					
5. Provision of audit services consistently for a long period of time may lead to familiarity threat.					
6. Auditors are more concerned with pleasing management					
7. The quality of audit has improved in the recent years					
8. Financial independence enhances auditor independence					
9. Auditor independence means reporting obligations to third parties					
10. Auditor independence means auditors should not provide other services					

SECTION C- COMPETENCY FACTOR

	1	2	3	4	5
1. The necessary academic qualification and appropriate training to the Auditor					
2. The performance of the auditor to his job accurately in line with the career ethics, laws and organization standards of the profession.					
3. The auditor has to plan for his work, use adequate documented evidence to perform his job appropriately					
4. Activation the Penal and Professional laws to improve the performance of the auditor					
5. The adequate understanding of the auditor to the nature of the corporation business he audits					

SECTION C- USERS' KNOWLEDGE OF AUDITORS' ROLE FACTOR

	1	2	3	4	5
Unreasonable audit expectations gap severely exists in Kenya					
Information users have knowledge about the audit profession in general					
Information users have knowledge about the benefits and objectives of the audit					
External users of financial statements are the most important factors that contribute in the existence of the audit expectations gap					
Financial managers have a role in existence of unreasonable audit expectations gap					
Accountants have a role in the emergence of the expectations gap					
External users have unreasonable expectations about the responsibilities of the auditor, the audit objectives, benefit of audit and the profession in general more than internal users					
Fraud prevention and detection, assurance and communication of usefulness of the audited financial should be done by auditors					
Relevant agencies should test the accounting standards and the external assessment of the financial statements					

SECTION D: AUDIT EXPECTATION GAP

	1	2	3	4	5
The auditor is responsible for detection of all fraud and error					
Auditors are responsible for soundness of internal control structures					
Auditors are responsible for maintaining of accounts records					
The management are responsible for preparation of financial statement					
The auditor does not exercise judgment in the selection of audit process					

Appendix B: Listed Companies at Nairobi Securities Exchange

1. Athi River Mining
2. Atlas African Industries
3. B.O.C Kenya Ltd
4. Bamburi Cement Ltd
5. Barclays Bank Ltd
6. Britam (Kenya)
7. Car and General (K) Ltd
8. Carbacid Investments Ltd
9. Centum Investment Co Ltd
10. CIC Insurance Group Ltd
11. Co-operative Bank of Kenya Ltd
12. Crown Berger Ltd
13. Deacons (East Africa)
14. Diamond Trust Bank Kenya Ltd
15. E.A.Cables Ltd
16. E.A.Portland Cement Ltd
17. Eaagads Ltd
18. East African Breweries Ltd
19. Equity Group
20. Eveready E.A
21. Express Ltd
22. Flames Tree Group Holdings ltd
23. Home Africa
24. Home Africa
25. Housing Finance Co Ltd
26. I&M Bank
27. Jubilee Holdings Ltd
28. Kakuzi
29. Kapchorua Tea Co. Ltd
30. KenolKobil Ltd
31. Kenya Airways Ltd
32. Kenya Commercial Bank Ltd
33. KenGen
34. Kenya Orchards Ltd
35. Kenya Power & Lighting Co Ltd
36. Kenya Re-Insurance Corporation Ltd
37. Kirwitu Ventures
38. Liberty Kenya Holdings
39. Limuru Tea Co. Ltd

40. Longhorn Kenya Ltd
41. Mumias Sugar Co. Ltd
42. Nairobi Securities Exchange
43. Nairobi Business Ventures
44. Nation Media Group
45. National Bank of Kenya Ltd
46. NIC Bank Ltd
47. Olympia Capital Holdings ltd
48. Safaricom Ltd
49. Sameer Africa Ltd
50. Sanlam Kenya
51. Sasini Ltd
52. Scangroup Ltd
53. Stanbic Holdings Ltd
54. Standard Chartered Bank Ltd
55. Standard Group Ltd
56. Stanlib Fahari I-REIT
57. Total Kenya Ltd
58. TPS Eastern Africa (Serena) Ltd
59. Trans-Century Ltd
60. Uchumi Supermarket Ltd
61. Unga Group Ltd
62. Williamson Tea Kenya Ltd