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Corporate Governance Failure and Enhancing Public Confidence in Audit Reports

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ABSTRACT
The recent wave of corporate failures had been linked with corporate governance deficiencies in relation to false financial statements and misrepresentations together with unrealistic unqualified audit reports. Stock market financial analysts, corporate investors and other stake holders are all confused with the relationship between favorable audit reports and corporate failures in the business world. This concern had created distrust on the truthfulness of financial statements and lack of confidence on audit reports and audited financial statements. To bring back public confidence on audit report, the researchers decided to consider factors such as personal and audit qualities as measures to improve the truthfulness of audit reports and financial statements. The study was conducted among selected audit firms and users of financial statements in the southern part of Nigeria. A questionnaire was used to collect primary data and a simple chi-square was used to test the hypotheses. The results revealed that auditor's personalities and perception in life has a direct bearing on the truthfulness of audit reports. The researchers recommended that the relevant professional bodies of accounting in Nigeria should improve on their supervisory role on audit quality reviews and peer review on audit firms in Nigeria.
Keywords: Corporate Governance, Audit Report, Public Confidence, Credibility, Auditor, Personal Qualities, Quality Control

1.0 INTRODUCTION

The preparation of stewardship report from the accounting point of view is the role of management, who oversees the affairs of the business organization on behalf of the owners usually the shareholders. This stewardship report represents the financial statements covering the operating performance and the financial position of a company. It is usually prepared by the directors and addressed to the shareholders as a fulfillment of their agency responsibility. Suffice to say that if all the facts concerning financial transactions were properly and accurately recorded, and if the owners and managers of business enterprises were entirely honest and sufficiently skilled in matters of accounting and recording, there would be little need for independent auditing. However, human nature being as it is, there probably will always be a need for the auditor to ensure the provision of dependable financial information which is essential to the very existence of our society and the business world.

The goal of the providers of accounting information runs directly counter to those of the users of the information. Implicit in this line of reasoning is the recognition of the social need for independent auditors, individuals with a professional competence and integrity who can tell whether the information on which investors can rely constitutes a fair picture of what is really going on in an enterprise. Good accounting and financial reporting is the basis for society to allocate its resources in the most efficient manner. The contribution of the independent auditor is to give credibility to financial statements for this singular fact (Oyadonghan and Ibanichuka 2014).

Credibility in this usage means that the financial statements can be believed; that is, they can be relied upon by outsiders, such as trade creditors, bankers, stock holders, government and other interested third parties. Therefore Credibility is “The quality of being generally accepted and trusted” (Oxford Advanced Learner’s Dictionary of English). Audited financial statements are now the accepted means by which business corporations report their operating results and financial position. The word audit when applied to financial statements means that the statements of financial position, income and changes in equities /retained earnings are examined with an audit report prepared by independent public accountant, expressing a professional opinion as to the fairness of the company’s financial statements. On the other hand, Confidence is the feeling that you can trust, believe in and be sure about the abilities or good qualities of something or somebody. Audit competence can only be achieved if public confidence on audit reports can be improved significantly.

Both credibility and confidence goes hand in hand and each variable impacts on each other to achieve the audit quality and competence the users of financial statement desires. However, management failure arising from co-operate governance failure over the years had contributed to the loss of credibility in audit reports. The solution to this problem of credibility in financial and audit reporting lies in appointing an independent person and public confidence in audit reports is enhanced when the profession encourages high standards of performance and conduct on the part of all practitioners’.

According to Olagunju (2011), for an audit to be credible and reliable, it must be performed by someone, who is independent and cannot be influenced by position, power which will affect its own conclusion. Auditor independence helps to ensure quality audit (Oyadonghan and Ibanichuka, 2014). The UK financial Reporting Council (UKFRC) has undertaken an extensive reform on audit quality and in February 2008 released the audit quality frame work to improve i.e. the confidence and credibility in audit. They are includes the culture within an audit firm, the skills and personal qualities of audit partners and staff, the effectiveness of the audit process; the reliability and usefulness of audit reporting; and factors outside the control of an auditor that affects the audit quality (Linberg and Beck,2004). The aim of this research work is to improve audit reliability and public confidence, by utilizing the significance of confidence and credibility as approaches to improving audit competence.

One of the cumulative negative effects that window dressing (creative accounting) had was the collapse of some USA giant companies such as Enron; world-com, Global Crossing, Tyco, with a host of others in Nigeria (Linberg and Beck 2004). The outcome of the investigations on the collapse of these firms shows that they have being window dressing their accounts with false statements of financial positions for years. This has affected the confidence of the public on the favorable audit reports these companies had being having for the affected periods. Therefore it is objective to determine what measures can contribute to improving public confidence in audit reports in Nigeria, and to establish some causes responsible for the lack of public confidence in audit report. Geographically, the study will cover the global view on issues of public confidence and credibility in audit and financial reporting. Cases of window dressing and collapse of corporate governance as it negatively impacted on audit credibility is also covered, both in the global and Nigerian perspective.

2. LITERATURE REVIEW

Over the past decades, increased litigations as well as criticisms of auditors has left little room for doubt that auditors are facing liability and credibility crises in their profession. The reputation of accountancy profession comes under question for the reliability of their services (Adhikari, 2011). The association of corporate failure with faulty audit reports had called for greater attention to the issue of reliable audit report. At the same time, there has been evidence of an increased frequency of re-stated financial statements. All these have had a negative cumulative impact on the way informed opinions views the quality of financial reporting and auditing. This loss of credibility has been widely spread across the world.

A key factor of the problem was the unprecedented high share prices in the capital market. Maintaining this price level is a top management priority and when it becomes clear that the supposed price level is not justified by the profitability of the firm, a fall in share prices will be accentuated by a major revaluation of the shares. The quest over the years has been how to improve on the faithfulness and credibility of the audit and financial reporting process and to sustain a high standard. Adequate literature review has shown that effectives of the audit process, the auditor's personal qualities and skills as well as the discipline from the accounting profession have a significant relationship with the achievement of public confidence and credibility in audit reports.. For instance, independence is fundamental to the credibility of auditors' reports. Those reports would not be credible, and investors and creditors will have little confidence in them, if auditors were not independent in both fact and appearance. To be credible, an audit opinion must be based on an objective and disintegrated assessment (Olagunju, 2011).

Credibility and Public Confidence in Audit Report

Credibility in this usage means that the financial statements can be believed, that is, they can be relied upon by outsiders, such as trade creditors, bankers, stockholders, government and other interested third parties. On the other hand, confidence according to the Oxford Advanced Learner's Dictionary of English, 5th edition, is defined as "the feeling that you can trust, believe in and be sure about the abilities or good qualities of something or somebody". Again, the public relates to the stakeholders who have varying interest, uses and expectations from the financial statements prepared by the directors of a company. The stakeholder includes and not limited to the following.

a. The general public
b. Shareholders-potential and existing
c. Government at various levels
d. Creditors
e. Debtors
f. Employees
g. Management
h. The international community
i. Donor agencies
j. Regulatory authorities

The basic objective for preparing financial statements is to provide financial information useful for making economic decisions. According to Olagunju (2011), for an audit to be credible, and reliable, it must be performed by someone who is independent and cannot be influence by position and power which will affect its own objectivity, he recommended that for auditors to remain strictly independent and credible, they should not allow themselves to be re-engaged by their clients, with any other advisory or non audit services in order to safe guard them from self review threat.

Factors Responsible for Loss of Auditors Public Confidence and Credibility:

a. Window dressing or creative accounting: Okolie [2007:187] defined the term as all actions taken to hide unpalatable facts about a company from its creditors, bankers, and general public. Some of such actions include frequent revaluation of land and building, inflation of inventory values, lower depreciation charges, capitalization of revenue expenditures like repairs and maintenance expense. Upon the above manipulations, the company still obtains an unqualified audit report with its untrue statement of financial position..

b. Corporate governance failure: ICAN [2009:240] provide a list of factors responsible for many of the corporate governance failures:

i. poorly designed remuneration package

ii. Excessive use of share options among top management

iii. When trading failed to earn the targets of earnings manipulation on the accounts.

This case was very apparent in the case of companies like Ahold, Enron, WorldCom and Zerox.

c. Auditors compromising fundamental principles:

Most times because of the closeness or familiarity between the auditors and clients, with the risk of losing big clients, auditors favored their client over their independence and objectivity during financial auditing and reporting to the disadvantage of the investors. Such principle usually breaches auditors' independence, objectivity and integrity.

On practical grounds, one or all of the aforementioned issues have resulted in the wave of corporate scandals, especially in the United States of America within the last few years. Nigeria had its portion of the crises recently with the financial institutions, when the prices of shares nosedived, wiping out billions of naira in market value. Confidence of investors was rocked to its foundation. .

Significance of Credible Financial Statements to Various Users: ICAN identified the factors below to show the significance of credibility of financial statements:

1. Government requires and uses accounting information as a score sheet for stewardship, decision making and for tax imposition.
2. Employees would like to know the profitability and liquidity position of their establishment to confirm stability of tenure, promotion prospects, and creation of staff benefit facilities.
3. Employers are interested in accounting information to ascertain the profit made, compare yearly figures and plan for future income generations and reward negotiations.
4. Existing investors are anxious to know whether fund placed in the business of a company will continues to yield reasonable returns, or divested.
5. New investors display rationality of putting their money in viable, profitable and liquidly sound ventures only.
6. Banks, creditors and professional lenders, will not grant credit to poorly performing entities whose accounts shows gross inability to repay loans, service-changes etc. they rely on credible financial statement to do this.
7. Companies within the same industry are requiring credible financial statements to compare their performance of firms so as to draw average ratios as bench marks.
8. Statisticians and financial analysts and journalists compute many accounting ratios from the audited financial statements to seek for information from them.

With regards to the aforementioned, one will know that the need for credible financial statement can never be an over-demand.

Professional Qualities of Auditors

The list of these qualities of an auditor is not exhaustive and can grow to intimidating proportions. But with respect to human personality, morality and emotion and perhaps appear more reasonable Okolie, (2007:15) provided the following.

Intellectual Qualities

The auditor's qualifications are not limited to his professional certificates. These include intelligence, judgment, creativity, intuition, and technical knowledge of the field, technical proficiency and judgment most be adequately combined with a certain degree of creativity and intuition to enable an auditor perform creditably well.

Personality traits

Personality traits are overall necessary qualities that will enable an auditor to be able to conduct a given audit job. Skepticism, inquisitiveness, self confidence, independence, assertiveness and egoism are traits that the auditor cannot function without. They must be combined together.

Moral Qualities

An auditor is expected to maintain high sense of discipline before he function properly as an auditor. Some of these moral qualities are entrenched in the code of ethics of the Institute of Chartered Accountants of Nigeria (ICAN). The qualities included here are fairness, integrity high ethical standards, and good human relationship.

Emotional Qualities

Emotional means feelings. It indicates a person's reactions or responsiveness to other people's actions, inactions, and reactions. A person without feelings is like automation. The emotional qualities requires by an auditor include empathy, tack, and sensitivity. The operating personnel of a client often christen or sees auditors as "policemen" because they have the ability to report criticisms of operating performance, failure and weaknesses and this makes the auditors to be seen as a threat or as someone to be suspected and feared. The auditor must also be factual and persuasive in his arguments so that he is able to convince his client about his view point. Sensitivity unlike empathy requires the auditors to recognize and note changes in the feelings of others.

Guides to Maintaining and Improving Audit Competence

A strict adherence to the fundamental audit procedure by auditors will assist in some ways in the quest to ensure audit competence and arouse public confidence in financial reporting.

How Corporate Governance Failure affects the Credibility of Audit Reports

There has been a lengthy history of corporate failure linked to governance and reporting failure. The recent high profile corporate failure may have involved larger numbers, but many of the issues highlighted are similar to those raised by cases in past periods. The cumulative impact of high profile cases has led to a steady loss in credibility of financial statements and the participants involved in their production and reporting. 1980's and 1990's have many examples of reporting failure, generally associated with governance and business failure. In U.K, cases of failure include names such as Maxwell, BCCT, Polly Peck and Barings. In France, the collapse of Credit Lyonnais was reported; Germany had Metal Gesell Schoft and Schneider. In Australia, the case of AWA, Bond, Spedley securities and Tri continental occurred, while in Canada, Canadian Commercial Bank, Caster Holdings and Roman corporation collapsed. Japan has Yamarchi, while the US has the many examples from the savings and loan industry as well as cases such as Sunbeam, Waste Management, and Wedtech etc. (Linberg and Beck, 2004)

The first Asian financial crises in the second half of 1997 also raised questions about the reliability of financial statements and the role of the large international accounting firms in reporting on them. A report issued by the United Nation conference on trade and development (UNCTAD) in March 1999 considered the corporate reporting implication of the crises. The report stated that the failure or near failure of many financial institutions and corporations in the East Asian region resulted from a highly leveraged corporate sector, growing private sector reliance on foreign currency borrowing and lack of transparency and accountability. A crucial role was played by disclosure deficiencies, and the lack of appropriate disclosure requirements indirectly contributed to the deficient internal controls and imprudent risk management practice of the corporations and banks.

In the period to 2001, the stock markets in many of the developed countries had a long period of rapid price rise to an historical height. In certain sectors, such as telecommunication and E-.business, the surge was particular dramatic. The pressure to deliver performance in line with the expectations of the market was correspondingly high and in many cases, increasingly focused on maintaining share price in the short term. The incentive was there for “creative accounting’’ and outright falsification to maintain high ratings. The problem arising from deceptive reporting went beyond national boundaries and the accounting profession was unable to cover the stock waves created by loss of confidence. The collapse of Enron and the related auditor issues such as the false audit reports of KGMP in South Africa are seen by many as the events that initiated the changed perception of the reliability of financial reporting. As the brief history set out here suggests, it might be better to consider Enron as the event that confirmed a trend and by its sheer size, awoke many to issues that had been significant for some time. Enron now serves as the bench mark or reference point that gave the issues greater visibility. The larger, but much simpler, reporting failure at world com and issues raised at Global crossing TYCO, Adelphi and Xerox added further examples reinforcing the perception that financial reporting was not to be relied upon (Linberg and Beck 2004).

Code of Best Practices on Corporate Governance The code is divided into three parts namely:

a. board of directors
b. shareholders
c. audit committee

Board of Directors

Among the issues covered by the code is that the board of directors should be in control of the affairs of the company in a lawful and efficient manner, such that the company will continuously improve on its value creation. The board should with due regards to the other stakeholders interest ensure that the value created is shared among the shareholders and employees. Also, ensuring the integrity of financial controls and reports is a fundamental responsibility of the board of directors.

Non-executive directors

Non executive directors should bring independent judgment to bear on issues such as integrity, performance, resources including key appointments and standard of conduct. Other than their fees and allowances, non-executive directors should not be dependent on the company for their income. They should be independent and not be involved in business relationships with the company that could fetter or encumber their independent judgment.

They should neither participate in the company’s share option scheme nor be executive directors but using their formal training to reflect and cover the range of the competence needs of the company.

Executive Directors

There should be full and clear disclosure of director's total endowment and those of the chairman and highest paid directors including pension attributions, stock options, where the earnings are in excess of five hundred thousand naira. In the determination of their remuneration, executive directors should not play an active role.

Reporting and Control

It is the duty of the board to present a balanced reasonable and transparent assessment of the company's position

The financial and non-financial reporting requires the directors an overriding need to promote transparency. It is the primary responsibility of the board to ensure and guard internal control systems, the board should ensure that an objective and professional relationship exist within the company. External auditors should not be involved in business relationships with the company. An audit committee of at least three non-executive and three executive directors should be in existence with integrity and outspokenness. In compliance with the company's and allied matters act, the directors should report that the business is a going concern with supporting assumptions or qualifications as necessary

Shareholders Right and Privileges

It should be the responsibility of shareholders to elect directors and approve the terms and conditions of their directorships

Before the annual general meeting, a notice should be sent at least 21 working days with such details as annual reports, audited financial statement and other information that will enable them to vote properly on an issue

There should be at least one director on the board to represent minority shareholders

The board should ensure equal treatment of all shareholders such that none is given preferential treatment or superior access to information or other materials.

Audit committee

Audit committee should be established by companies with the key objectives of raising standard of corporate governance and boosting public confidence on financial reporting. Okolie (2007:148) argued that the audit committee was originally conceived as a means of reducing the influence of management on the auditor in the performance of his duties. As such an audit committee with independent board membership is pictorially the most effective, for the purpose of monitoring and achieving some balances in the relationship between management and the external auditor.

Meanwhile, the code of best practices on corporate governance provide that audit committee should be established in accordance with CAMA section 359(3), with not more than one executive director.

A majority of the non-executive directors serving in the committee should be independent of the company in terms of management or business or other relationships. A non-executive director nominated by members of the audit committee should be the chairman of the committee. The secretary of the audit committee should be an independent person, nominated by the committee. A major aspect of the terms of reference for audit committee is that the committee should maintain a contractive dialogue between the external auditor and the board and enhance the credibility of the financial statement disclosures and the interest of the stakeholders.

Enforcement and Compliance of the Codes of Best Practices on Corporate Governance

As can be seen from the above, enforcement of corporate governance is more of self regulatory effect than statutory backing however, internationally large institutional investors often brings pressure to bear upon companies to improve on corporate governance. But where it becomes necessary and applicable, appropriate sanctions should be applied. This is the position adopted by the Securities and Exchange Commission (SEC), and corporate affairs commission (CAC) in the enforcement of compliance with corporate governance code of best practice in Nigeria when issues are brought before them.

The Concept of Audit Report

Okolie (2007:127) is of the view that one of the most important aspects of the whole audit job is the auditor's report. The content of the auditor's report is guided and governed by:

a. Statute regulating the existence and operations of the company. In Nigeria, such laws include companies and allied matters, Act, 1990, banks and other financial institutions Act (BOFIA, 1991), the insurance Act, 2003 etc.
b. The auditing standard and guidelines

Contents of the audit report as laid down by Auditing Standards.

The auditing standard requires that the auditor's report should state clearly the following matters as discussed below

i. The auditor's report should be properly titled or given a suitable heading and its is normally addressed to the members of the company
ii. The particular financial statements audited must be identified and this is usually done at the introductory paragraph. It also includes the accounting convention and accounting policies which have been followed in preparing financial statements.
iii. Statement of responsibilities of the auditors and directors i.e. the directors are responsible for the preparation and presentation of the financial statements and a statement that the responsibility of the auditors is to express an opinion on the financial statements.

The inclusion of the description of director's responsibilities in the auditor's report is very necessary especially where such descriptions has not been included in the financial statements or in any other accompany information such as the directors report. The following points according to Okolie 2007:130 must be included in the description of directors' responsibilities before it can be considered adequate.

a. CAMA, 2004 requires preparing financial statement for each financial year. Such statement should give a true and fair view of the company's (or group of companies) state of affairs at the end of the year.
b. In preparing those statements, the directors are required to

i. Select suitable accounting policies and apply them on consistent basis, making judgments and estimates that are prudent and reasonable.
ii. State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
iii. Prepare the financial statements on a going concern basis unless it is not appropriate to presume that the company will continue in business.

c. The directors are for:

i. Keeping proper accounting records
ii. Safeguarding the assets of the company
iii. Taking reasonable steps to prevent and detect fraud and other irregularities CAMA (2004) (Oyadonghan and Ogoun, 2017)

Basis of Auditor's Opinion

The opinions of the auditors must rest on certain substantive criteria. The basis of the auditor's opinions must always be explained by including in their report.

i. A statement showing the auditors compliance with auditing standards and guidelines or departure
ii. A statement showing that in the process of carrying out the audit.
   a. Evidence relevant to the amount and disclosure in the financial statements were examined on a text basis
   c. Statement showing that the accounting policies appropriate for the company's circumstance were consistently applied and adequately disclosed.
   d. Significant estimates and judgments made by the company's directors in preparing the financial statements were assessed.
   e. A statement that the financial statements are devoid of material miss-statements caused by fraud, errors, improprieties or any other irregularities
   f. A statement that the auditors' have complied with relevant accounting and auditing standards.

Meanwhile, the opinion expressed by an auditor may be either a qualified opinion or an unqualified opinion.

Unqualified Audit Reports

an unqualified auditors opinion is an opinion in which, in the judgment of the auditor, the financial statements give a true and fair view and have been prepared in accordance with the requirements of the accounting principle, policies and necessary provisions relevant or applicable statements (Okolie 2007:132)

Qualified Audit Report

Other matters which affect the auditor's opinion and in material circumstances where he is unable to express an unqualified opinion and which may lead to a qualified audit report. There are no reasons for auditors not to issued qualified reports since their intention is to audit the clients and report on the lapses, errors and misstatements discovered. Mean while the situations that could give rise to the issue of a qualified report are:

[i] There is a limitation on the scope of the actuators work

[ii] There is a disagreement with management regarding the acceptability of the accounting polices selected, the method of their application or the adequacy of financial statement disclosures.

Grounds for a Qualification

In case of uncertainty the auditor can give either:

A disclaimer of opinion if the matter is fundamental. This shows that the auditor has not been able to form an opinion as to whether the financial statements give a true and fair view.

A subject to opinion qualification if the matter is material but not fundamental. This shows that the financial statements give a true and fair view only if portions of the financial statements referred to are correct. In case of disagreement, the auditor can give an adverse opinion' if the matter under consideration is fundamental. This is to the effect that the financial statement gives a true and fair view. An ''except for option'' report if the matter is material but not fundamental. This is to the effect that the financial statement gives a true and fair view except for matters referred to.

Audit on the Crossroad

Given the growing list of financial reporting scandals, audit is once again at a cross road. The significant manner of big corporate failure scandals over the past years all over the world creates audit crises in market places, the large payouts resulting from audit litigations in both the developed and developing countries have adversely affected the quality of audit services. Also, people have witnessed and become victims of corporate failures due to poor corporate governance by management. In such a situation, effective corporate governance structures that should have detected any unlawful or unethical behavior by the dominant party may have been missing. The cases of unethical conduct of management implicate the efficiency of accounting systems, internal control structures, and reliability of the audit function. Disparity in maturity pattern of assets and liabilities, over valuation of collateral that may be running robust, and other forms of aggressive earnings management and creative accounting had become credibility virus in the accounting system and audit functions..

In Nigeria, Cases of corporate governance failure leading to the outright failure and acquisition of both oceanic and intercontinental bank plc and the case of window dressing of Cadbury plc have shown that we are also witnessing corporate failure, scandals, or liquidity crunch in recent days that may raise questions about credibility on the auditor's report and sustainability of business, giving reasons for the audit profession to be more proactive to lead the debate on credibility (Oyadonghan and Ogoun, 2017).

Questionable Roles of the Auditor

These are roles or relationships of auditors that reduces the independence of the auditor. In the view of Adhikari (2011), some of the questionable roles of auditors among others is economic dependence on the client, market competition in audit, other non-audit services, close relationship with clients in confessional rate or free of cost, worries about their re-appointment etc. due to these factors, auditors may be unable to produce fair and reliable reports in certain cases and their independence of course may be denied and they may be found guilty of gross negligence in performing their duties. Gross negligence means failures to exercise minimum due care when material errors or irregularities that should have been detected by the application of professional standards goes unnoticed.

Cases finding fault with auditors about the application of professional standards, practices and inadequate disclosure have occurred overtime, raising questions over auditor's performance. Some of the cases of non-compliance of standard are revenue recognition, fictitious receivables, failure to disclose related party transactions, verification of cash/bank balances and failure to obtain third party confirmation, inadequate collateral of loan, non recording of major transactions, failure to assess the clients business risk etc. The standards also require auditors to indicate any substantial doubt about the entity's existence as a going concern. In such cases, the auditors must add an explanatory paragraph following the opinion to his report.

Public expectations and its conflict

Over the decades, audit is at the center of a heated debate. How and why are the questions people expect the auditor to answer when financial mismanagements are discovered or perceived, based on the views that the responsibility of discovering any wrong doing in any entity is on the auditors. There has been disparity in the people's expectations and the auditors, especially with regard to their duties, responsibilities and objectives (Appah and Oyadonghan, 2011). However, the auditor's responsibility is to express an opinion whether the financial statements generated by the directors give a true and fair picture of the firm in accordance with the financial reporting framework. People may have expectations from auditors that go beyond the professional responsibilities by providing absolute assurance on the accuracy of the financial statements. The users of financial statements may question why the auditors did not detect material irregularities and disclose them in their report (Oyadonghan and Ogoun, 2017; Oyadonghan and Ibanichuka 2014).

The Expectation Gap

Adhikari (2011) is of the view the expectation gap is the difference between what the public losers of financial statement perceive about auditors responsibilities to be and what exactly the auditor's responsibilities are. Therefore, it is a gap between what is required by regulations and what market/public need is. The auditors' responsibility for detecting fraud is one of the major areas contributing to the expectation gap. Similarly, Porter (1993), and Appah Oyadonghan (2011), views expectation gap as the differences between the public expectation from an audit and what the auditing profession prefers the audit objectives to be. A key point here is the use of audit profession as a benchmark rather than focusing on the individual auditors.

According to Almer and Brody (2002), a failure is always interpreted as an audit failure in spite of the level of procedures and test performed by the auditor. Almer and Brody (2002) further claimed that an auditor can carry out his audit in accordance with the generally accepted auditing standards and still be found negligent if the audit did not prevent risk to financial statement users. A reform in the auditing profession will positively enhance auditor's performance to meet the needs of the users. Another area of difference is where the management overrides the control structure and conceals facts, perhaps for self interest. In such a case, an auditor's exercise, of due care, fails to detect irregularities ensure an error free financial statements produced by management. This will result in significant misrepresentation in financial statements not detected by the auditor and further widen the expectation gap.

The next area of difference is perception about the entity's ability to continue as a going concern. The users believed that an unqualified, audit report is a guarantee that an entity is healthy financially. However, immediately after the report such an entity is found either in a financial crisis and unable to sustain itself or undergoing a liquidation process. Such situations give rise to credibility problems on unqualified audit reports and lack of public confidence on financial statements.

Bridging the Expectation Gap

First, auditors shall report all cases of misrepresentation, non-compliance with rules, regulations and professional standards or any act of omission or commission, intentional or unintentional, committed by a client or employer, including by management or by others working for or under the direction of the client or employer, which is contrary to prevailing laws or regulations (NOCLAR) to relevant authorities as required to bridge the gap to some extent. If the auditors are found grossly negligent in the discharge of their duties, they may be liable to actions under various Acts, regulations and disciplinary tribunals of their professional bodies such as section 368(1) to (3) of (CAMA, 2004 ICAN ACT, CAP III, law of the federation 2004 (section 11(1) to (3).

Secondly, compliance with ICAN Code of Conduct for professional members, quality control, and auditors' peer review systems should be encouraged to help narrow the expectation gap.

Thirdly, educating and enlightening the public about the true nature and objectives of an audit and its responsibility is very necessary (Oyadonghan and Ogoun 2017).

Quality Control and Reports Credibility

The auditing operational standards require an auditor to actually control his work. Quality control is a means by which an auditor obtains an assurance that his expression of professional opinion will always reflect the observance of quality control standards and guidelines.

External Quality Controls

The external quality control procedures are established by professional accounting bodies, which are as follows:

a. compliance with auditing standards

b. compliance with auditing guideline
c. compliance with exposure draft
d. monitoring the audit to ensure its compliance with standards.
e. Penalizing members that fail to comply with the standards.

Internal Quality Controls

The internal quality control procedures are further divided into two phases viz: General quality control procedures and specific controls in audit jobs.

General control procedures:

a) This represents a set of procedures, which every firm must maintain
b) Every firm must maintain a documentation of planned procedures so that steps to be taken in every audit assignment are clearly defined
c) Audit staff should be exposed to on the job training and professional developments in order to acquire global audit experience.
d) Before a firm accepts an audit assignment, consideration should be given to the firm's ability
e) Technical competence of staff and audit partners is important.
f) Monitoring of audit staff compliance with the quality control procedures
g) Consultations with knowledgeable accounting firms or make use of ICAN consultation committee.
h) Compliance with professional ethics issues by ICAN is not negotiable.

Specific quality control procedure:

These procedures are specifically related to a given audit assignment and include the following

- Allocation of staff and briefing
- All audit jobs should be properly documented
- Audit programme and checklist should be adopted
- Contentious matters should be identified and discussed with managers and partners
- All audits should be thoroughly reviewed.

Acknowledgement of audit job reviewed must be in force (Okolie 2007:40-44).

The Auditor's Threat

a) Self-interest threat (for example, having financial interest in a client). This is the threat that "a financial or other interest an auditor nurtures in a client will inappropriately influence the professional accountants judgment", conduct or behaviour .Examples include:
   - A firm entering into a contingent fee arrangement that relates to an assurance engagement
   - A member of the audit team entering into employment deals with the auditee.
   - A firm is concerned about the chance of losing a significant client.
   - A firm having undue dependence on total fees receivable from a client
   - A member of the assurance team having a significant close business relationship with an assurance client
b) Self-review threat (for example, auditing financial statements prepared by the audit firm).
c) Advocacy threat (for example, promoting the clients, position by dealing in its shares). This threat says that a professional accountant will promote the position of a client or employees to the stage that the professional accountant's objectivity is compromised. Example include
   i. When the firm is promoting shares of an audit client
   ii. When a professional accountant is acting as an advocate on behalf of an audit client in litigation or disputes with third parties.
d) Familiarity threat (for example, an audit team member having his/her family member as an officer of the client).
e) Intimidation threat (for example, threat of replacement due to disagreement). This is the threat that a professional accountant will be prevented from performing his work objectively in view of

actual or perceived pressure which includes: attempts to exert undue influence over him. Examples of circumstances which may create intimidation threat for a professional accountant in public service include:

A firm being threatened with dismissal from a client engagement

A firm being threatened with litigation by the client

A firm being pressurized to reduce inappropriately the extent of work performed so as to reduce fees.

A professional accountant being informed by a partner of the firm that a planned promotion will not take place except the accountant agrees with an audit client's inappropriate accounting treatment.

Remedies for Auditor's Threat

Examples of safeguards

Education training and experience requirements for entry into the profession

Continuity in professional development requirements

Corporate governance regulations

Professional standards

Professional or regulatory monitoring and disciplinary procedures

External review by a legally empowered third party of the reports, returns, communication or information produced by professional accountants.

METHODOLOGY

This research work used the survey design to achieve an assessment of the confidence and credibility level in audit report by providing answers to the three set of hypothesis put forward.

First, to determine whether, improvements on the credibility of financial statements can improve the public's confidence on audit reports. Secondly, to investigate whether audit quality and credibility is a function of auditors personal quality and thirdly to investigate whether the loss of credibility in audit reports is caused by the collapse of corporate governance in companies. The population of this research work span through the audit firms to the companies in Nigeria. This study analyzed a sample of audit firms, and users of financial statements of banks and other companies in Bayelsa and Rivers states of Nigeria. Forty (40) questionnaires were administered to respondents. Out of this 15 were sent to auditors while 25 were sent to users of financial statements, by using a purposive sampling or the non randomization technique when collecting data for this research. The data for this study was gathered from only primary sources. Accordingly the primary data was collected through the questionnaire that was administered to the staff, management partners and directors of the audit firms, users of financial statements from March to May 2017.

Model Specification

The following chi-square formula was used to analyse the primary data collected:

$$X^2 = \frac{\sum (fo - fe)^2}{Fe}$$

Where X^2 = (pronounced kigh)

$\sum$ = summation

Fo = observed frequency

Fe = expected frequency

Also, v= degree of freedom = n-1

A chi-square is used due to its simplicity in interpretation. This condition is necessary because this study is not just and academic work but a means of solving a national problem that involves many sectors and people who may not understand the technicalities associated with other statistical tools. Again the data content is simple, few and primary.

Decision rule*:*

The calculated value of X^2 is compared with the table value (test statistic or critical value) of X^2 for a given degrees of freedom at a certain specified level of significance. If the calculated value of X^2 is more than the table value of X^2, the difference between theory and observation is considered significant i.e. such a difference could not have arisen due to mere fluctuations of simple sampling or by chance, it must be attributed to more serious and potent factors from without.

Hence, the null hypothesis is rejected and the alternative accepted.

If on the other hand, the calculated value of X^2 is less than the table value, the difference between theory and observation is not considered to be significant i.e. it is regarded as due only to simple sample fluctuation and hence ignored. Thus, the null hypothesis is accepted and the alternative rejected.

Data Presentation and Analysis

In this study 40 questionnaires were distributed to the various respondents viz-a-viz the auditors and the users. However, 38 were returned and 2 were not returned.

RESULTS AND INTERPRETATIONS

Test of hypothesis one

Table 1: Improvement in the credibility of financial statement helps to enhance the public confidence of audit report?

Variable	Observed frequency (fo)	Expected frequency (fe)	Fo-fe	$(fo-fe)^2$	$\frac{(fo-fe)^2}{fe}$
Strongly agreed	8	7.6	0.4	0.16	0.02
Agreed	24	7.6	16.4	268.96	35.39
Undecided	0	7.6	-7.6	57.76	7.6
Strongly disagreed	1	7.6	-6.6	43.56	5.73
Disagreed	5	7.6	-2.6	6.76	0.89
X^2 calculated					=49.63

.: x^2 calculated = 49.63

x^2 from critical table = 9.49 at 0.05 level of significance and degree of freedom =2, i.e. n – 1=3-1= 2

Decision rule

Since the x^2 calculated of 49.63 is greater than the x^2 from the critical table of 9.49 at 0.05 level of significance, we therefore reject the null hypothesis and accept the alternative hypothesis. We can then conclude that improvement in the credibility of financial statement can enhance public confidence oN audit report.

Test of Hypothesis Two

Table .2: Audit quality and credibility is a function of auditor's personal qualities.

Variable	Observed frequency (fo)	Expected frequency (fe)	fo-fe	$(fo\text{-}fe)^2$	$(fo\text{-}fe)^2$ Fe
Strongly agreed	12	7.6	4.4	19.36	2.55
Agreed	20	7.6	12.4	153.76	20.23
Undecided	2	7.6	-5.6	31.36	4.13
Strongly disagreed	0	7.6	-7.6	57.76	7.6
Disagreed	4	7.6	-3.6	12.29	1.71
X^2 calculated					=36.23

.: x^2 calculated = 36.22

X^2 from critical table =9.49 at 0.05 level of significance and degree of freedom of 4, ie n-1=4

Decision rule:

Since the x2 calculated of 36.22 is greater than the x^2 from critical table of 9.49 at 0.05 level of significance and degree of freedom of 4, we therefore reject the null hypothesis and accept the alternative hypothesis. We can then conclude that audit quality and credibility is a function of auditors personal qualities

Test of hypothesis three

Table 3: Corporate governance failure is responsible for the loss of credibility in audit report

Variable	Observed frequency (fo)	Expected frequency (fe)	Fo-fe	$(fo\text{-}fe)^2$	$(fo\text{-}fe)^2$/ Fe
Strongly agreed	0	7.6	-7.6	57.76	7.60
Agreed	30	7.6	22.4	501.76	66.02
Undecided	3	7.6	-4.6	21.16	2.78
Strongly disagreed	0	7.6	-7.6	57.76	7.6
Disagreed	5	7.6	-2.6	6.76	0.89
X^2calculated					= 84.89

.: x^2 calculated = 84.89

x^2 from critical table =9.49 at 0.05 level of significance and degree of freedom of 4, ie n-1=4

Decision rule

Since the x^2 calculated of 84.89 is greater than the x^2 obtained from critical table of 9.49 at 0.05 level of significance and degree of freedom of 4, we therefore reject the null hypothesis and accept the alternative hypothesis. We can then conclude that loss of credibility and confidence in audit report is caused by the collapse of corporate governance in companies management.

DISCUSSION AND SUMMARY OF FINDINGS

The major findings in this study are summarized below:

It was discovered that the investing public has little confidence on the audit reports of companies.

It also discovered that users of financial statements desire credible audit report to be relied upon for investment decision making.

That improvement in the credibility of financial statements can enhance the public confidence on audit report

That auditors need to be given more powers to perform their job.

It was also found out that self disciplined auditors are likely to exhibit high independence in their professional duties.

That audit quality and credibility is a function of auditors' personal qualities.

Lastly, it was also discovered that loss of credibility and confidence in audit report is caused by the collapse of corporate governance among companies

RECOMMENDATIONS

The researchers therefore provide the following policy options to sanitize the situation:

1. An urgent reform is needed in the auditing profession which will look at the modern role of auditor's

2. Prohibits auditors from rendering non-audit services to the same client they are auditing so as to prevent the occurrence of self review threat.

3. Auditor's should be given more powers to defend or sure CEO's chief financial officers or client's management that are prone to be fraudulently disengaging auditors for being objective.

4. A well functioning principles of corporate governance and its compliances by management will help to check the excesses of high-power management team.

5. Increase in the frequency of audits in a year

6. ICAN and FRC disciplinary tribunal should be proactive in their investigations rather than being passive or reactive.

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