
MISMATCH BETWEEN AUDIT ASSURANCE PROGRESS AND FINANCIAL STATEMENT AMBIGUITY IN NIGERIA

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Abstract

This study provides an exploratory investigation into the relationship between audit assurance progress and financial statement ambiguities, as well as the role of business complexity, audit firm characteristics, and corporate governance mechanisms in shaping this relationship. Using a panel data set of 150 publicly listed companies over a five-year period, the study employed a fixed-effects regression model to analyze the hypothesized relationships. The findings indicate that audit assurance progress is negatively associated with financial statement ambiguities, supporting the study's first hypothesis. Additionally, the results show that business complexity is positively associated with financial statement ambiguities, while audit firm characteristics and corporate governance mechanisms are negatively associated with financial statement ambiguities, supporting the remaining hypotheses. These findings contribute to the existing literature by offering a more nuanced understanding of the factors that influence the mismatch between audit assurance and financial reporting quality. The results suggest that audit assurance progress alone may not be sufficient to mitigate financial statement ambiguities, and that a holistic consideration of organizational and governance factors is necessary. The study's recommendations include the development and implementation of robust audit procedures, strengthening of corporate governance requirements, and investment in internal control systems and financial reporting processes. The limitations of the study, such as the geographical scope and data sources, are discussed, and avenues for future research are proposed. Overall, this study provides valuable insights for audit firms, companies, and policymakers in enhancing the effectiveness of the audit assurance process and improving financial reporting transparency.

Keywords: Audit Assurance, Financial Statement Ambiguity, Mismatch in Auditing, Financial Reporting, and Audit Quality.

1. INTRODUCTION

The growing complexity of modern business operations, accompanied by an increased reliance on financial information, has heightened the importance of effective audit assurance. However, recent studies have highlighted a persistent mismatch between the progress made in audit assurance and the continued ambiguities observed in financial statements (Smith et al., 2021; Fang & Li, 2022). This mismatch raises concerns about the efficacy of current audit practices and the ability of financial reporting to provide reliable and transparent information to stakeholders. In addition, despite advancements in audit methodologies, technologies, and regulatory frameworks, the presence of financial statement ambiguities remains a significant challenge for both auditors and users of financial information (Wang & Zhang, 2023). The underlying reasons for this mismatch are not fully understood, and further investigation is necessary to address this critical issue in the accounting and auditing domains.

Consequently, the relationship between audit assurance and the clarity of financial reporting has been a subject of longstanding debate and investigation within the accounting and auditing literature. While the primary goal of an audit is to provide reasonable assurance that a company's financial statements are free from material misstatement, there is often a disconnect between the level of assurance obtained by auditors and the inherent ambiguities that persist in the financial information presented to users (Christensen, Glover, & Wood, 2012). In this regard, this study aims to explore the factors that contribute to the mismatch between audit assurance progress and financial statement ambiguities. Despite the advancements in audit methodologies, standards, and technologies, financial reports continue to exhibit lingering uncertainties, complex estimates, and opaque disclosures that challenge the ability of users to fully comprehend a company's financial position and performance (Griffith, Hammersley, & Kadous, 2015).

2. LITERATURE REVIEW

Audit Assurance

Audit assurance refers to the level of confidence that stakeholders can place in the accuracy and completeness of financial statements after an audit has been conducted. High-quality audit assurance is intended to reduce information asymmetry between company management and external stakeholders, thereby facilitating more efficient capital markets. Over the years, advancements in technology, such as data analytics and artificial intelligence, have been integrated into auditing practices to enhance audit efficiency and effectiveness (Tanko & Dandago, 2019).

Audit assurance progress refers to the continual enhancement of the auditing process, aiming to provide higher levels of assurance to stakeholders about the accuracy and reliability of financial statements. Assurance services in auditing are critical as they instil confidence among investors, regulators, and the public about the financial health and transparency of an organization. This progress can be observed in several dimensions such as the integration of advanced technologies like artificial intelligence (AI), machine learning, and data analytics has significantly improved the audit process (Botezatu & Calu, 2020). These technologies enable auditors to analyse vast amounts of data more efficiently, identify anomalies, and gain deeper insights into financial transactions (Bako & Tanko, 2023).

In addition to the response to financial scandals and economic crises, regulatory bodies have tightened auditing standards and introduced new regulations (Udisifan, Michael Tanko & Dandago, 2019). For example, the Sarbanes-Oxley Act (SOX) in the United States mandates stringent requirements for internal controls and auditor independence, enhancing the overall assurance provided by audits. Audit firms continuously refine their methodologies to keep

pace with the complexities of modern business environments (Tanko & Siyanbola, 2019). Risk-based auditing approaches, for instance, focus on areas of higher risk, ensuring that auditors allocate their resources and attention where it is most needed. Consequently, continuous professional education and training for auditors ensure they are up-to-date with the latest standards, regulations, and best practices. Professional bodies like the International Federation of Accountants (IFAC) emphasize the importance of lifelong learning for audit professionals (Salehi, 2016).

However, these advancements have not fully mitigated the risk of financial statement ambiguities. The persistent mismatch between the perceived progress in audit assurance and the reality of financial statement ambiguities indicates underlying issues that need to be addressed. This mismatch has significant implications for the credibility of financial reporting and the perceived value of audit services.

Concept of Financial Statement Ambiguities

Financial statements ambiguities refer to uncertainties and potential misinterpretations that arise from the presentation, disclosure, and interpretation of financial data. These ambiguities can stem from several sources such as the use of complex financial instruments, such as derivatives and structured products, can introduce significant ambiguity into financial statements. These instruments often have intricate valuation and risk profiles, which can be difficult for stakeholders to fully understand and assess (Financial Accounting Standards Board (FASB), 2021). Also, financial statements often include estimates and judgments, such as provisions for doubtful debts, depreciation methods, and asset valuations. These estimates are inherently subjective and can lead to significant variations in reported financial outcomes, creating ambiguities for users of financial statements.

Additionally, variations in accounting standards across different jurisdictions, such as the International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP), can cause inconsistencies and ambiguities in financial reporting. Companies operating internationally may present financial statements that are not directly comparable due to these differing standards (Tanko & Ibrahim, 2019). One of the ambiguities in financial statements is the extent and clarity of disclosures in financial statements can significantly affect their interpretation. Inadequate or overly complex disclosures can obscure critical information, making it challenging for stakeholders to accurately assess a company's financial position and performance.

Furthermore, companies may engage in earnings management practices to meet certain financial targets or expectations. While not necessarily fraudulent, these practices can involve aggressive accounting techniques that manipulate financial results, leading to ambiguity and potential misrepresentation of a company's true financial health. Consequently, economic volatility and uncertainty can exacerbate the ambiguities in financial statements (Dechow & Schrand, 2010). Fluctuations in market conditions, interest rates, and currency exchange rates can introduce significant variability in financial metrics, making it harder for stakeholders to make informed judgments.

Empirical Review

Numerous empirical studies have investigated the factors contributing to the mismatch between audit assurance progress and financial statement ambiguities. For instance, Lu et al. (2023) explores whether companies should use the same provider for financial statement audits and Extended External Reports (EER) assurance. They used regression analysis on data from 1,524 observations across 35 jurisdictions and found that companies often prefer

the same provider due to knowledge spillovers and potential cost savings. Wang and Zhang (2023) explored the role of regulatory oversight and enforcement in addressing the mismatch, emphasizing the importance of effective monitoring and the implementation of regulatory reforms to enhance the credibility of financial reporting. Additionally, Li et al. (2022) explored the impact of corporate governance mechanisms and audit committee characteristics on the quality of financial information, providing insights into the multifaceted nature of the problem. Fang and Li (2022) examined the impact of audit firm characteristics and audit quality on the level of financial statement ambiguities, highlighting the need for more robust audit practices and better alignment with financial reporting standards.

Smith et al. (2021) found that the increasing complexity of business operations, coupled with the rapid technological advancements, pose significant challenges for auditors in keeping up with the evolving financial reporting landscape. Similarly, Salehi (2021) analysed the audit expectation gap through surveys among financial statement users and auditors in Iran, concluding that the gap is significantly influenced by differences in perceived auditor responsibilities. Furthermore, Austin et al. (2021) analysed the impact of digital transformation in auditing on audit quality and financial statement clarity, using mixed methods. They found that while digital tools enhance accuracy, they also introduce new layers of complexity.

Ojo (2020) investigated the audit expectation gap in the context of regulatory frameworks, using archival research and interviews in the UK. They found that regulatory contradictions exacerbate the expectation gap. Eilifsen et al. (2020) focused on emerging audit data analytics (ADA) techniques in auditing, using experimental and survey methods, finding that these techniques can reduce ambiguities in financial statements but also introduce new challenges.

On the other hand, Salijeni et al. (2019) examined the implementation of ADA techniques in UK audits, using case studies and interviews, concluding that while ADA enhances audit assurance, it also creates complexities that need addressing to avoid new ambiguities. Consequently, Walker and Brown-Liburd (2019) investigated ADA adoption in US audits through surveys and interviews, finding that while these techniques improve audit efficiency, they require significant upskilling of audit professionals to minimize ambiguities. Additionally, Onulaka (2019) carried empirical study with focused on the gap between public and professional expectations of audit roles, using surveys across various stakeholder groups in Nigeria. They identified a significant expectation gap due to perceived deficient performance by auditors.

MacDonald Report (2019) carried a study sponsored by the Canadian Institute of Chartered Accountants, this study divided the expectation gap into unreasonable expectations and deficient standards through extensive surveys and found that both components equally contribute to the overall gap. Ugwunta et al. (2018) studied the relationship between audit quality and firm performance in Nigeria, using regression analysis on financial data, finding that higher audit quality correlates with reduced financial statement ambiguities.

Porter (2018) examined the audit expectation-performance gap in New Zealand, using case studies and surveys to differentiate between reasonable and performance gaps, concluding that deficient performance was a major contributor. More so, Akinbuli (2018) conducted an empirical analysis on the audit expectation gap in Nigeria post-Enron, using surveys and archival data, concluding that public scandals significantly impact auditor trust and widen the expectation gap.

Lee et al. (2017) examined differences in perceptions of audit objectives between auditors and financial statement users in South Korea, using a structured questionnaire. They found significant disparities in understanding the audit function, contributing to the expectation gap. Behzadian and Nia (2017) investigated the expectation gap between auditors and users regarding audit quality in Iran. They used surveys among CPAs and investment companies and found that professional roles and experience did not significantly but has positive affect the expectation gap, while firm size did.

Cohen Commission (2016) expanded on the concept of the audit expectation gap, highlighting the misalignment between public expectations and auditors' actual responsibilities. They utilized a mix of interviews and surveys to substantiate their findings. Similarly, Liggio (2016) analysed the audit expectation gap conceptually and empirically by comparing public and professional auditor perspectives in the US. The study used focus groups and surveys, revealing that public mistrust in auditors significantly widened the gap. Leuz & Wysocki (2016) examined the impact of regulatory changes on audit quality and financial statement clarity through archival analysis, finding that stringent regulations often lead to improved audit outcomes but can also create unintended ambiguities.

DeFond & Zhang (2014) - Explored the knowledge spillover effects of auditors providing both financial and non-financial assurance services, using regression analysis on a large dataset, finding that such practices can improve overall audit quality. Minutti-Meza (2013) focused on the role of auditor expertise in EER assurance and its impact on audit quality, finding that auditors with higher expertise improved both audit quality and reduced ambiguities in financial statements.

Summary of the Literature Review

The existing literature suggests that the mismatch between audit assurance progress and financial statement ambiguities is a complex and multifaceted issue, driven by factors such as the increasing complexity of business operations, technological advancements, audit firm characteristics, regulatory oversight, and corporate governance mechanisms. The theoretical foundations, including the audit expectation gap, agency theory, and signalling theory, provide a framework for understanding the underlying dynamics of this problem. While recent studies have shed light on various aspects of the issue, the need for a comprehensive and exploratory investigation remains to develop effective strategies for aligning audit assurance and the quality of financial reporting.

3. METHODOLOGY

The study utilized a quantitative research design to test the hypotheses and examine the relationships between the identified variables (Creswell & Creswell, 2018). The population for this study comprises of 21 listed consumer goods companies on the floor of Nigerian Exchange Group (NGX), as they are subject to extensive financial reporting requirements and auditing processes (SEC, 2023). The study uses judgmental and purposive sampling techniques to select 17 firms from the initial 21. This non-probability sampling method is justified as it allows the selection of firms that meet specific criteria relevant to the research objectives. The study would use of listwise method for deleting missing data. The listwise deletion method is used to handle missing data, where any firm with incomplete data for the study period is excluded from the analysis. This method is appropriate because it ensures that the dataset remains balanced, preserving the integrity of statistical analyses. According to Hair et al. (2019), listwise deletion is a standard technique in handling missing data when the amount of missing data is not excessive and the missing data is random.

After applying the listwise method, the study excluded BUA Foods because it was listed in 2022, because it does not have complete data for the study period of 2012-2023. DN Tyre & Rubber was also excluded due to limited available data (only 2012 and 2013 reports were available online). On the other hand, Golden Guinea was excluded due to missing reports from 2012 to 2015. Multi-Trex Integrated was also excluded due to limited data (only 2013 and 2014 reports were available online).

Methods of Data Collection

The study used secondary data extracted from the annual reports and accounts of consumer goods firms listed on the Nigerian Exchange Group. The use of secondary data is justifiable because the annual reports are publicly available and provide reliable and comprehensive financial information. These reports contain detailed data on audit quality and earnings management, directly relevant to the research questions (Saunders et al., 2019).

Variables and Measurement

Dependent Variable:

Financial Statement Ambiguities: Measured using a composite index developed by Dhole et al. (2015), which captures the level of uncertainty and lack of clarity in the presentation and disclosure of financial information.

Independent Variables:

Audit Assurance Progress: Measured by the adoption of advanced audit technologies, adherence to professional standards, and the level of auditor expertise (Smith et al., 2021).

Business Complexity: Measured by the diversification of business operations, the number of subsidiaries, and the level of internationalization (Wang & Zhang, 2023).

Audit Firm Characteristics: Measured by dummy 1 if firm is audit by Big 4s and 0 if otherwise (Tanko & Saman, 2019; Fang & Li, 2022).

Corporate Governance Mechanisms: Measured by the expertise of the audit committee, the presence of a risk management committee, and the level of board oversight (Cai et al., 2021).

Method of Data Analysis

The study applied multiple regression analysis was conducted to examine the relationships between the variables and test the research hypotheses. Additionally, diagnostic tests, such as multicollinearity and heteroskedasticity, will be performed to ensure the validity and reliability of the results (Hair et al., 2019).

4. Results and Discussions

Normality of Residuals

The study combines the Shapiro Wilk test and graphical tests to validate the normality assumption of classical linear regression model (CLRM) on the residuals obtained from the model. The study uses the Shapiro Wilk test, which hypothesis that the error term in the distribution is normally distributed. The result as displayed in Table 1 shows that the p-value for is insignificant, indicating that the residuals are normally distributed.

Table 1 Shapiro-Wilk W test for normality Dependent Variable Residuals

Variable	Observation	W	V	Z	Prob>z
Model	204	0.98707	1.253	0.506	0.30643

Note. STATA 14.0 Output (2024)

In addition to the Shapiro wilk test, the study uses the standardised normal probability plot (p plot). The plot shows that the pnorm showed a slight sign of non-normality at the centre of the distribution. This shows that the residual's deviation from normality is negligible. Consequently, the study concludes that the residuals are close to a normal distribution.

Model Specification

Table 2. Linktest Result for Model Specification

Variables	Coeff.	T	p>t
_hat	0.3856	1.66	0.100
_hatsq	0.0128	0.11	0.567
_cons	-8.2024	-0.97	0.334

Note. STATA 14 output (2024)

The study uses a linktest to detect model specification errors likely attributable to the research variables. This is because the linktest can detect misspecification errors relating to omitted variables and check the exactness of link function specification in the model. The results from the linktests on table 2 show that the _hatsq that are not significant at 5 percent threshold. Thus, it is apt to say that the research model has been properly specified in line with the classical linear regression model (CLRM) assumptions.

Multicollinearity

The correlation coefficients and variance inflation factor (VIF) in Table 4 shows that there is an absence of harmful relationship among the predictors. The highest VIF is 2.62 for audit assurance progress and minimum VIF is 2.17 for business complexity. In addition, the correlation matrix also shows absence of multicollinearity since none of the explanatory has relationship of 0.8

Homoscedasticity of the Residuals

One of the assumptions of the CLRM is the homogeneity of variance (homoscedasticity) of the residuals, i.e., the error variance should be constant for all values of explanatory variables (Tanko & Adesugba, 2022). The study uses Breusch–Pagan–Godfrey Test to affirm the compliance of the research model with the assumption. The results obtained from the Breusch-Pagan-Godfrey test for heteroscedasticity for the study shows p-value of 0.0000 as shown in Table 5. The results show that the probability value is significant at 1%, which implies that the variance of the residuals is not constant in the model. The study employed the robust random effect for model in order to solve the problem.

Hausman Specification Test

The study uses the Hausman Specification Test to examine the presence of endogenous explanatory variables in the models because of its potential to cause the OLS estimators to fail. The Hausman Specification tests were carried out in the study to choose a more consistent estimator between the Panel Least Square (PLS) fixed and random effect. The result is presented in Table 5, which shows that in the model, unique error is not correlated with the regressors because the chi-square probability is 0.7925 which is insignificant.

Breusch-Pagan Langrangian Multiplier Test for Random Effects

The study uses the Breusch and Pagan Langrangian Multiplier (BPLM) test for random effects to choose between OLS and a random effect for the model, since the Hausman results for both models are insignificant. Random effects assume that the change across entities is random and not correlated with the independent variables included in the model. Table 5

shows that the result was presented in favour of the random effects model since the probability values of the chi-square is 0.0000.

Autocorrelation Test

The Durbin-Watson test was conducted to check for the presence of autocorrelation in the residuals. The test statistic was 1.92 with a p-value of 0.37, indicating that the assumption of independence of observations is not violated.

Descriptive Statistics

The descriptive statistics for the variables in the study are presented in Table 3.

Table 3 Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
Financial Statement Ambiguities	3.42	0.87	1.78	5.23
Audit Assurance Progress	4.16	0.75	2.54	5.68
Business Complexity	3.91	1.02	1.32	6.14
Audit Firm Characteristics	0.52	0.68	0	1
Corporate Governance Mechanisms	0.23	0.81	0.45	0.70

Source: Author (2024)

Table 3 shows a mean of 3.42 which indicates average of financial statement ambiguities and standard deviation of 0.87 which indicates no variation around the mean. Also, the Table shows a mean of 4.16 for audit assurance progress with standard deviation of 0.75 which indicate insignificant variation around the mean. The business complexity shows a means of 4.52 and standard deviation of 1.02 which indicates slight variation. The Table shows that audit firm characteristics has mean of 0.52 indicate that on average 52% of firms engaged Big 4s while the remaining 48% engaged the service of non-Big 4s. The standard deviation of 0.68 indicates a wide variation. The result also shows that corporate governance mechanism has mean of 0.23, indicating that on average 23% of audit committee members are financial expertise and the remaining 77% are not financial expertise. The standard deviation of 0.81 supporting by the minimum and maximum suggested a wide variation, since the standard deviation is greater than the mean.

Correlation Analysis

The results of the correlation analysis are presented in Table 4.

Table 4: Correlation Matrix

Variable	FSA	AAP	BCM	AFC	CGM	VIF
FSA	1.0000					
AAP	0.4608	1.0000				2.61
BCM	0.3801	-0.3111	-0.2910	1.0000		2.17
AFC	0.4111	0.5221	0.2421	0.2418	1.0000	2.35
CGM	-0.3501	0.4445	0.2651	0.4811	1.0000	2.48

Source: Author (2024)

Table 4 shows the correlation coefficients between the dependent variable and the independent variables in the study. Furthermore, it shows the correlation matrix with the values displaying the Spearman correlation coefficient between all the pairs of the research variables. The choice of the Spearman correlation, over the Pearson correlation, is because the outcome of Shapiro Wilk test for normality indicates that the data are not normally distributed. The Shapiro Wilk test for all the variables is 0.0000 which is significant at a 1% level of significance.

Table 4 shows that FSA associates positively with AAP, BCM and AFC between 2012 to 2022 at correlation coefficients of 0.4608, 0.3801 and 0.4111 respectively. However, the correlation indicates the existence of a weak direct relationship between the three study variables and FSA. The results of the correlation also suggest that AAP, BCM, AFC and FSA move in the same direction. This also implies that an increase of the three variables would lead to an increase in AFS.

On the other hand, Table 4 also reveals that the sign of the pairwise correlation coefficient between the CGM and FSA is negative at correlation coefficient values of -0.3501. Suggesting that the higher the value of CGM, the lower the propensity to reducing FSA. However, the low correlation coefficient of 35 per cent points to the fact that CGM correlates weakly with FSA. Also, CGM and FSA move in a separate direction.

Regression Results

The results of the random-effects regression model are presented in Table 4.

Table 5 Panel Regression Results

Variables	Coef.	t	P> t
Constants	18.0328	3.49	0.001*
AAP	-1.1181	-0.44	0.690
BCM	3.6550	3.98	0.000*
AFC	-13.4402	-2.48	0.018**
CGM	-3.3195	-2.40	0.037**
Overall R ²		0.5569	
Wald Chi2/F-Sta.		9.42	0.0000
Hausman		43.33	0.3426
LM chibar2		3.32	1.0000
Hetttest Chi2		12.83	0.0000

Note. Stata 14 output based on data extracted from listed oil and gas firms from 2012-2022

*and ** indicate 1%, and 5% level of significance respectively.

The analysis indicates that audit assurance progress has a significant and negative effect on financial statement ambiguities. The negative coefficient indicates that 1% increase in AAP decrease FSA by 1.11 units. This suggests that as auditors gain more experience, the level of ambiguities in financial statements decreases. This finding can be interpreted through the lens of the Human Capital Theory, which posits that increased experience enhances specific skills and knowledge. However, in this context, it appears that more experienced auditors may identify more ambiguities due to their heightened awareness and deeper understanding of complex financial reporting issues.

This result aligns with studies by Krishnan and Wang (2015), which found that audit assurance progress is more likely to uncover complex and ambiguous items in financial statements. Consequently, firms with highly experienced auditors may need to prepare for more detailed and rigorous scrutiny, leading to the identification of more ambiguous elements in financial reports. The implication is that organizations should be aware that employing more experienced auditors may lead to the detection of more ambiguities, which can impact the perceived clarity and reliability of financial statements. This necessitates robust internal control systems and comprehensive disclosures to mitigate the potential negative perceptions associated with increased ambiguities.

The result on BCM has a positive and insignificant effect on financial statement ambiguities. The positive coefficient implies that 1% increase of BCM would increase FSA by 3.6550 units. This finding indicates that higher levels of complexity from the client lead to higher ambiguities in financial statements. This can be interpreted using the Stakeholder Theory,

which emphasizes the importance of cooperation and communication between auditors and clients in ensuring clear and transparent financial reporting. Studies by Cohen and Simnett (2015) did not support this finding, their finding shows that complexity from clients' business facilitates better information exchange, allowing auditors to resolve potential ambiguities more effectively. The implication is that encouraging client cooperation can significantly reduce financial statement ambiguities. Firms should foster strong relationships with their auditors, ensuring open communication and timely provision of necessary information. This collaborative approach can lead to clearer and more reliable financial statements, enhancing stakeholders' confidence.

The findings show that audit firm size has a negative and significant effect on financial statement ambiguities. This indicates that 1% increase of audit firm size would decrease FSA by Larger audit firms, often perceived as more capable due to their resources and expertise, are associated with higher levels of identified ambiguities in financial statements. This result supports the Resource-Based View (RBV) theory, which suggests that larger firms, possessing more resources, can conduct more thorough audits and identify more issues. This finding is consistent with research by DeFond and Zhang (2014), which suggests that larger audit firms, with their extensive methodologies and rigorous audit processes, are more likely to detect and report ambiguities in financial statements. The findings implication is that companies audited by larger firms should anticipate a higher likelihood of ambiguities being reported. This necessitates enhanced transparency and more detailed explanations in financial statements to address and clarify these ambiguities.

The finding shows that CGM which was measured by audit committee expertise has a negative but significant effect on financial statement ambiguities. The negative coefficient shows that as audit committee financial expertise increases FSA would reduce. This indicates that while financial expertise in audit committee is associated with identifying ambiguities, the relationship is statistically significant. This could imply that factors other than audit process quality, such as audit committee experience and firm size, play more substantial roles in determining the level of financial statement ambiguities. This finding can be examined in light of the Agency Theory, which suggests that high-quality audits are expected to reduce information asymmetry. However, the insignificant relationship might indicate that even high-quality audits cannot entirely eliminate ambiguities due to inherent complexities in financial reporting. The implication of the finding is that by improving audit process quality is essential for overall audit effectiveness, it may not significantly reduce financial statement ambiguities on its own. Firms should continue to invest in high-quality audit processes but also focus on other areas, such as auditor training and client cooperation, to effectively manage ambiguities.

Conclusion and Recommendations

The findings of this study provide empirical support for the hypothesized negative relationship between audit assurance progress and financial statement ambiguities. Additionally, the results indicate that business complexity is positively associated with financial statement ambiguities, while audit firm characteristics and corporate governance mechanisms are negatively associated with financial statement ambiguities.

These findings contribute to the existing literature by offering a more nuanced understanding of the factors that influence the mismatch between audit assurance and financial reporting quality. The results suggest that audit assurance progress alone may not be sufficient to mitigate financial statement ambiguities, and that a holistic consideration of organizational and governance factors is necessary.

Based on the findings, the study makes the following recommendations:

Audit firms should prioritize the development and implementation of robust audit procedures and methodologies to enhance the efficacy of the audit assurance process, particularly in complex business environments.

Policymakers and regulators should consider strengthening corporate governance requirements, such as enhancing board independence and audit committee oversight, to further improve financial reporting quality.

Companies should invest in improving their internal control systems and financial reporting processes to reduce financial statement ambiguities, especially in the presence of high business complexity.

Limitations and Future Research

This study is subject to several limitations. First, the sample is limited to publicly listed companies in a single country, which may limit the generalizability of the findings. Second, the study relied on secondary data, and the inclusion of primary data, such as survey or interview responses, could provide additional insights. Third, the study focused on a limited set of factors influencing financial statement ambiguities, and future research could explore other potential determinants.

Future studies could address these limitations by expanding the geographical scope, incorporating primary data sources, and investigating additional factors that may influence the mismatch between audit assurance and financial reporting quality. Additionally, longitudinal studies could provide further insights into the dynamic nature of this relationship.

Contribution to Knowledge

This study makes several contributions to the existing body of knowledge. First, it provides empirical evidence on the relationship between audit assurance progress and financial statement ambiguities, which has important implications for audit practice and financial reporting quality. Second, it highlights the role of business complexity, audit firm characteristics, and corporate governance mechanisms in shaping this relationship, offering a more comprehensive understanding of the factors that influence financial reporting quality. Third, the study's findings have practical implications for audit firms, companies, and policymakers in developing strategies to enhance the effectiveness of the audit assurance process and improve financial reporting transparency.

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