Journal of Positive School Psychology
2023, Vol. 7, No. 6, 231-247 http://journalppw.com

The Impact Of Applying Institutional Governance Mechanisms On The Expectations Gap In The External Audit Offices In The Kingdom Of Saudi Arabia: A Field Study

Abeer Atallah Aloudat[1], Yosra Hamza[1], Mohammad Awni Mahmoud[2], Salah Aldeen Ali Nsour[1], Sukinah Abdullah Aljishi[1], Bushra Abdulmohsin Alghamdi[1], Sara Qasem Alsuwaidi[1] and Sara Saud Alotaishan[2]

[1]*Accounting Department, College of Applied Studies and Community Service, Imam Abdulrahman Bin Faisal University, P.O. Box 1982, Dammam, Saudi Arabia*
[2]*Management Information System Department, College of Applied Studies and Community Service, Imam Abdulrahman Bin Faisal University, P.O. Box 1982, Dammam, Saudi Arabia*

Abstract:

This field study examines the impact of applying institutional governance mechanisms on the expectations gap in external audit offices in the Kingdom of Saudi Arabia. The study explores how institutional governance mechanisms, such as regulations and standards, affect the expectations gap between auditors and stakeholders. The research methodology involves a survey of external auditors and interviews with stakeholders to gather data on their perceptions of the expectations gap. The findings suggest that applying institutional governance mechanisms can help to reduce the expectations gap by providing clear guidelines and standards for auditors to follow. However, there are still challenges in implementing these mechanisms effectively, such as a lack of awareness among stakeholders about auditing standards and regulations. Overall, this study highlights the importance of institutional governance mechanisms in improving audit quality and reducing the expectations gap in Saudi Arabia.

Keywords: institutional governance, institutional governance, financial statements.

Introduction:

Considering the successive developments in economic life, many business organizations have shown an increasing interest in the need to combat financial and administrative corruption to maintain continuity, survival, and security in today's ever-changing business environment.

Great international firms like Enron, which collapsed in 2001, and the current global financial crisis are the best evidence that financial and administrative corruption is the primary cause of the failure of businesses. Inadequate accounting and auditing processes, notably in the United States, contributed significantly to the onset of this worldwide catastrophe by revealing instances of financial and administrative malfeasance in companies.

The disparity between what users of financial accounts anticipate auditors would do and what auditors actually carry out is referred to as the "audit expectation gap." This term was created to describe the situation. Auditors are specifically expected by users of financial statements to guarantee technical competence, honesty, objectivity, independence, and impartiality in their reports, as well as to discover fundamental defects and prevent the issuance of misleading financial statements.

Therefore, there is a growing interest in implementing corporate governance standards on a global and regional scale as a quick fix and effective answer to regaining the trust of the financial community that relies on this data. For this reason, multinational organizations have taken an interest in codifying corporate governance concepts that may be used as a standard across jurisdictions. To safeguard the interests of shareholders and other stakeholders, the Saudi Capital Market Authority issued a regulation on corporate governance on November 12, 2006, which might serve as a benchmark in actual practice.

In this study, we seek to comprehend the effect of implementing institutional governance mechanisms on the expectations gap in external audit offices in the Kingdom of Saudi Arabia.

Study problem:

The discrepancy between customers' expectations and the accounts auditors' reports on financial statements in Saudi enterprises represents the research problem. Users of the financial statements are thereby deprived of information useful for decision making.

The following is a question that effectively frames the research problem:

1. Is there an impact of applying institutional governance mechanisms with its components (the audit committee, the external auditor, the board of directors, the internal auditor) on the expectations gap in the external audit offices in the Kingdom of Saudi Arabia?

According to this main question of the problem, the following questions arise:

1-1 Do the external audit have an effect on the expectations gap in external auditing offices in the Kingdom of Saudi Arabia?

1-2 Do the internal audit have an effect on the expectations gap in external auditing offices in the Kingdom of Saudi Arabia?

1-3 Do the audit committee have an effect on the expectations gap in external auditing offices in the Kingdom of Saudi Arabia?

1-4 Do the Board of Directors have an effect on the expectations gap in external auditing offices in the Kingdom of Saudi Arabia?

Study Hypothesis :

The study's hypothesis can be presented as follows in light of the situation and problems at hand:

H0-1 There is no statistically significant impact at the level of significance ($0.05\geq\alpha$) for the application of institutional governance mechanisms with its components (external auditor, internal auditor, audit committee, board of directors) on the expectations gap in the external audit offices in the KSA.

H0-1-1 There is no statistically significant relationship between the external audit and the expectations gap in the external audit offices of the KSA at the ($0.05\geq\alpha$) significance level.

H0-1-2 There is no statistically significant relationship between the internal audit and the expectations gap in external audit offices in the KSA at the ($0.05\geq\alpha$) significance level.

H0-1-3 There is no statistically significant relationship between the audit committee and the expectations gap in external audit offices in the KSA at the ($0.05\geq\alpha$) significance level.

H0-1-4 There is no statistically significant impact at the level ($0.05\geq\alpha$) for the Board of Directors (Governing Council) on the expectations gap in the external audit offices in the KSA.

Literature Review

According to (Shalaby and Eltobgey, 2016) this research set out to show how changing one component (the external auditor, the focus of the study) might affect another (corporate governance systems) and everyone involved. Auditors in the Jeddah and Riyadh offices of Saudi Arabian financial and monetary institutions listed on the stock exchange were included in the sample, as were managers of internal and external auditing and audit committees. Scientists created a questionnaire to help them collect the data they needed for their investigation. The researcher used the SPSS and Minitab to analyse the data, after first ensuring the questionnaire's validity and reliability before administering it to the study's sample, and then receiving and entering data from 100 usable questionnaires into SPSS. The researcher then calculated the sample participants' yes and no responses to questionnaire items using many statistical methods. This study examines the correlations and causal impacts of several corporate governance systems in the auditing department to improve the External Auditor's efficiency and effectiveness. The study found that corporate governance measures improve external auditor performance. This study emphasizes corporate governance measures for Saudi enterprises to adjust norms to the country's commercial environment.

To the study of (Alaraji, 2017) After Iraq's growing interest in corporate governance, this research tries to bridge the gap between external auditors' expectations and financial statement users. quantitatively evaluating worldwide auditor and investor opinions on Iraq The study found that investors and financial statement consumers trust financial reports prepared and audited in compliance with corporate governance concepts and specifications. This needs bridging external auditors' and customers' expectations. Iraq's financial statements and the disclosure and transparency principle help external auditors meet expectations. Based on the findings of the study, it was suggested that Iraq should pass and revise some key local legislation in accordance with concepts of corporate governance, as well as broaden the application of these concepts, in order to activate effective corporate management practices that are in accordance with local and international accounting and auditing standards.

According to (Jabbar, 2018) a chasm built up between the expectations of the financial community and those of the review profession as a result of the audit profession receiving regular criticism from the financial community and the resulting lack of services. Therefore, it became vital for the profession to consider the requirements of the financial community in order to bridge the gap and protect itself from additional assaults on its quality and trustworthiness. There are a number of obstacles that make it difficult for internal and external auditors to work together effectively. Management didn't know how internal and external audits were conducted, so everyone worked together to learn. Some employees are reluctant to help the external auditor because they believe he or she would try to find mistakes and make them pay for them. This research is an exploratory study of the accounting landscape in Iraq, focusing on a subset of firms trading on the Iraqi stock market, their auditors, internal auditors, and accounting professors at a few Iraqi universities. It aims to identify the connections between audit integration, audit quality, and the gap between actual and desired results.

The study of (Aladdin Dwekat, 2020) contributes to the literature by using a novel research methodology, fuzzy set qualitative comparative analysis, to fill a gap, add novelties, provide evidence from a previously unexplored (or underexplored) European context, and shed light on the effect of audit committee (AC) and board characteristics on CSR disclosure. Between 2016 and 2018, data from Eikon was used to randomly sample the top 69 non-financial European corporations by market value. This research furthers the case that complexity theory is both equifinality and intricate. This indicates that a number of AC characteristics, such as the independence of the chair, the inclusion of a financial expert on the board, the board's size and activity level, and so on, all play a role in CSR reporting (independence, gender, size, activity, and CEO duality). These qualities, when combined, motivate in-depth CSR reporting, which is crucial to the success of any formula. Our research provides professionals, regulators, and politicians with nuanced and substantial insights into how to best set and update rules for the make-up of advisory committees (ACs) and boards of directors.

According to (Reiner Quick, 2018) the study examined how large German listed companies choose auditors. Our logistic regression study of 432 firm-year observations from 2010–2014 reveals that corporate governance structure affects auditor selection. Hiring a Big Four accounting firm depends on board size and audit committee meeting frequency. Choosing a Big Four auditor negatively impacts supervisory board meetings and German corporate governance compliance. Having more women on the board has no effect either. Even without DAX30 data, which is statutory audited by Big 4 firms, the results hold. In this essay, we investigate the supervisory board, corporate governance code deviations, and Continental European female quota. Despite its oddities, two-tiered corporate governance system, and little investor protection, Germany is an economic powerhouse.

Study of (AL- Rawashdeh, 2014) 120 valid responses were received out of a total of 135 questionnaires sent to external auditors, proving the study's success in determining the degree to which the principles of the Corporate Governance Manual Jordan were applied to close the gap in expectations between external auditors and the community financial sector in Jordan. Corporate governance standards outlined in the Jordanian guide were found to have a positive and statistically significant impact on narrowing the performance gap. Measures such as implementing guide governance in non-listed enterprises on the Amman Financial Market and minimizing the expectations gap by making use of the primary responsibilities of internal audit committees are among the suggestions made by the study's authors.

According to (Lateef, 2020) after the Nigerian government instituted a code of corporate governance, this study analyzed how it affected the auditor's expectation gap. The results of the study were based on an examination of the existing literature, an examination of the qualitative data, and a discussion of the emerging themes. Due to growing awareness of accountability's potential anti-corruption benefits, the findings showed that implementing such a system can help close the audit expectation gap. To close the public's expectation gap, the study suggests that the auditing profession and other stakeholders continue educating the public on the roles and responsibilities of the auditor, management, and the board. It is up to the CBN, NAICOM, PENCOM, and NCC to put the approved Code of Governance into action.

Theoretical Framework

i. Introduction

The public's impression of an auditor's job and obligations may differ from the auditor's real function and responsibilities, creating a gap in expectations. It's clear that auditing's credibility, trustworthiness, and accountability are all suffering as a result of this chasm (Kangarluie and Aalizadeh, 2017). In the context of fraud investigations, the unrealistic expectations of auditors or litigation filed against them that result from the expectations gap might have serious consequences (Al-Dhubaibi, 2020). Thus, finding ways to narrow the gap between expectations and reality can greatly enhance auditing quality.

Corporate governance is the umbrella term for the policies and practices followed by a company’s board of directors. This subject has received significant attention in the wake of recent corporate scandals and large-scale failures (Gerged and Agwili, 2020). Corporate governance is generally beneficial to companies as it has been linked with financial performance, as well as ethical behavior, which in turn improve a company’s sustainability (Gerger and Agwili, 2020). Although some mechanisms of corporate governance are linked with improvement in various areas of a company’s performance, there is no universally accepted set of best practices that will be applicable and effective for every company (Gerger and Agwili, 2020). On the other hand, concepts of equal treatment of shareholders, disclosure, and transparency, as well as attributes like openness, responsibility, and social responsibility, are prized in the field (Alsalim, Amin, and Youssef, 2018). Therefore, the goal of corporate governance is to promote company performance and longevity by encouraging these traits and ideals.

As this is such a broad area with such a profound effect on a company, some of these mechanisms can also affect to the expectations gap in auditing. Previous studies have established that a strong positive correlation exists between the characteristics and principles of corporate governance and quality of accounting data (Alsalim, Amin, and Youssef, 2018). Therefore, it seems plausible that some mechanisms of corporate governance are linked to the difference in expectations. Policymakers can be guided by a better understanding of these mechanisms if they are identified.

ii. Governance Mechanisms

Four mechanisms of corporate governance are identified as potentially influencing the expectations gap in auditing: audit committee, internal audit, external audit, and board of directors.

iii. Audit Commission

The audit committee is a subsection of the board of directors responsible for communicating between the board, internal and external auditors, and the company's top executives (Suryanto, Thalassinos, and Thalassinos, 2017). The Saudi Arabian board of directors has an audit committee that looks over the books, makes recommendations to the board on how things should be done financially, and keeps an eye on both the internal and external auditors (Corporate Governance Regulations). This board is responsible for appointing both internal and external auditors, as well as establishing audit rules and procedures for the organization. By liaising between the board of directors and the company's internal and external auditors, the audit committee performs a crucial role in ensuring the highest standards are met. Directors and other stakeholders may benefit from education from these bodies in order to close the knowledge gap between what is expected of auditors and what they actually perform.

iv. Internal Auditor

An internal auditor is a member or department within a company who is responsible for monitoring its compliance with local laws and regulations. This specialist is responsible for preparing reports on the company’s audit activities, compliance with regulations, and policies aimed at improving this compliance, to the audit committee (Corporate Governance Regulations). Furthermore, the internal auditor provides recommendations for improving in these areas, as well as monitors the company’s compliance with these recommendations (Corporate Governance Regulations). Therefore, the internal auditor has a profound impact on informing, creating, and enforcing corporate governance policies, and is a critical factor in a company’s ability to cope with risk (Koutoupis, Pazarskis, and Drogalas, 2018). The internal auditor’s responsibility to recommend policy changes can help the audit committee better inform stakeholders.

v. External Auditor

An external auditor is an independent specialist who analyzes and audits the company’s financial statements. While an internal auditor’s objective is preventing law or regulation violations, an external auditor works to detect them, and is obligated to report them to the controlling authority (Corporate Governance Regulations). As the external auditor is independent from the company he or she audits, the possibility of collusion is reduced, meaning the external auditor plays a critical role in the prevention and detection of fraud or corruption (Saeed, Hamawandy, and Omar, 2020; Na, Kang, and Kim, 2018). Moreover, an external auditor ensures the objectivity and fairness of a company’s financial statements. This specialist’s role in corporate governance is improving accountability, especially where shareholders and regulating bodies are concerned.

vi. Board of Directors

The board of directors is the highest authority in any corporation or other organization. The shareholders, who are ultimately responsible for the company's value, have elected these officials (Corporate Governance Regulations). The board's responsibility is to steer the company in the right direction by setting broad policies and acquiring the necessary material and labor resources to achieve those policies (Corporate Governance Regulations). Consequently, the board of directors is accountable for planning, executing, and monitoring the company's various corporate governance structures. As a result, it is crucial to the company's growth and survival (Naciti, 2019). Since it is responsible for the ultimate development and implementation of business policies, the board of directors has considerable influence over the performance of both internal and external auditors. The audit expectations gap may have an effect on the board of directors because the directors are ultimately liable for the company's policies.

vii. Expectations Gap

Some prominent accounting and fraud scandals and failures may have occurred because of the expectations gap in audit, as indicated above. It results from a misalignment between the auditor's duties and the user's expectations regarding the financial statements. Both the auditor and the user are at risk from this discrepancy. Previous studies have shown that the expectancies gap is a global phenomenon, and audit education has been found to be the most effective strategy for closing it (Al-Dhubaibi, 2020). However, corporate governance's internal regulations and rules can help close the gap as well.

The proposed study seeks to evaluate whether implementing such policies, particularly regarding the audit committee and board of directors, can similarly lead to the users of financial statements within these bodies to be better informed of the auditors’ responsibilities. From the internal and external auditors, the regularity, fairness, and accuracy of financial statements can further improve the users’ awareness of their roles and responsibilities. Therefore, the implementation of internal and external policies related to audits and the interaction between the four outlined mechanisms of corporate governance are expected to be negatively correlated with the audit expectations gap within a company.

Data Collection and analysis:

Primary data was used in the study, and it was gathered by administering a survey to auditors at the "Big Four" auditing companies in Saudi Arabia. Cronbach's alpha was determined to be a reliable statistic for gauging the test's internal consistency. Cronbach's alpha values for the individual scales used in the study varied from 0.656 to 0.838, as shown by the results. Since a result, the statistical analysis tool was consistent and reliable, as all values were more than 0.60.

The data from this study were analyzed using SPSS, a statistical program. Descriptive statistics include measures like mean, standard deviation, percentage, frequency, and relative weight. The multicollinearity coefficient was used to illustrate the importance of the correlation between the variables and to derive the coefficient of determination. The effects of each independent variable on each dependent variable were calculated using simple linear regression analysis, while the combined effects of all independent variables were calculated using multiple linear regression analysis.

1. Data Analysis and findings:

1.1. A description of the sample's demographic characteristics

Major, academic qualification, and number of years of experience were used to classify the identifying and demographic features of the individuals in the study sample. The following are the frequencies and percentages of the demographic variables of the study sample:

Table 1. Characteristics of the sample population

Variable	Demographic characteristics	Category	Frequencies	Percentage (%)
1	Academic qualification	PhD	6	20
		MSc	8	26.7
		Bachelor	16	53.3
		Diploma	0	0
		Total	30	100
2	Years of experience	5 years or less	2	6.7
		6–10 years	2	6.7
		11–15 years	8	26.7
		16 or more years	18	60
		Total	30	100
3	Major	Accounting	12	40
		Finance and Banking	0	0
		Business Administration	8	26.7
		Management Information System (MIS)	10	33.3
		Total	30	100

1. **Academic qualification:** Table 2 displays that 53.3% of respondents held a bachelor's degree, with 26.7% holding a master's. What this means is that the respondents are knowledgeable enough to answer the survey's questions.
2. **The number of years of experience:** Most of the respondents had more than 16 years of experience (60%). This indicates that most of the sample participants have great experience and can rely on the research results.
3. **Major:** Accountants formed the majority of the sample (40%), followed by MIS (33.3%). Business administrators were represented at 26.7%. This is a positive indication that the respondents have sufficient ability and know-how in the fields of accounting and MIS, suggesting that they have knowledge and know-how in internal auditing.

1.2. Analysis of the study questions

1.2.1. Descriptive analysis:

Descriptive statistics were used to assess how respondents felt about the study model's variables based on data collected addressing the impact of corporate governance measures on the expectations gap in the internal audit profession. This is what the analysis turned up:

Table 2. The study's variables' descriptive statistics

Variable	Mean	Relative weight	Standard deviation	Rank	Level of application
Internal Audit	4.532	90.64%	0.469	1	High
External Audit	4.261	85.21%	0.522	2	High
Audit Committee	4.241	84.83%	0.45	3	High
Board of Directors	4.205	84.10%	0.49	4	High
The General Scale	**4.294**	**85.89%**	**0.378**		**High**
Narrowing the expectation gap	**4.161**	**83.22%**	**0.417**		**High**

Table 2 displays that the average of the four governance mechanisms was 4.294, with a standard deviation of 0.378 and a relative weight of 85.89%. Mean score was 4.532, relative weight was 90.64 percent, standard deviation was 0.469, and application was very high for the internal audit, while the lowest score was 4.205, relative weight was 84.1 percent, and application was very high for the Board of Directors.

The reason for the internal audit being ranked first may be attributed to that it represents an independent and objective activity that carries out assurances, advisory services, and the improvement of daily operations characterized by governance, control, and follow-up in the field of risk management and control.

The standard deviation of the dependent variable, the expectations gap, was 0.417, the mean was 4.161, and the relative weight was 83.22 percent. When properly implemented, bridging the expectations gap demonstrates that the auditor has explained their role in identifying errors and that there is credible and trustworthy information regarding accounting issues in the financial statements.

1.2.2. **Study model suitability test:** In order to determine whether or not the data could be utilized for linear regression analysis and parameter testing, we carried out the numerous linear correlation and self-correlation tests that are listed below:

1.2.2.1. **Multicollinearity test:** This test suggests that R2 will be exaggerated due to a virtually perfect linear correlation between two or more variables. The hypothesis was tested by computing the Pearson correlation coefficient and variance amplification coefficient for each variable, as shown in the table below (Gujarati, 2004):

Table 3. The study's independent variables' correlation matrix

Number	Variable	1	2	3	4
1	**Internal Audit**	1			

2	**External Audit**	0.523**	1		
3	**Audit Committee**	0.592**	0.648**	1	
4	**Board of Directors**	0.504	0.506	0.546**	1

**** Statistically significant at (α ≤ 0.05)**

Table 3 indicates a 0.648 correlation between the audit committee and external audit, the two independent variables. All of the results of the correlation coefficient between the other independent variables were less than 0.80, indicating that there was no multiple linear correlation between the variables. Correlation coefficients above 0.80 suggest that the remaining variables in the sample are highly correlated with one another (Guajarati, 2004, 359).

The variance inflation factor (VIF) was created to avoid multiple linear correlations between independent variables. This ensured no multiple correlation in the sample.

Table 4. The results of multiple correlation tests on independent variables

Variable	VIF	Tolerance
Internal Audit	1.782	0.561
External Audit	1.883	0.531
Audit Committee	3.255	0.307
Board of Directors	1.666	0.600

Table 4 demonstrates that all variance inflation factor values were larger than one and fewer than ten, proving that multiple linear correlation between the study's independent variables was not a concern. The results show that the dependent variables in the study are not correlated with one another in a multiple linear fashion (Gujarati, 2004).

1.2.2.2. <u>**Autocorrelation:**</u> The absence of data from the self-correlation issue is a necessary condition for the regression. Correlation between the random error boundaries in the regression model is a hallmark of this problem, which manifests itself as bias in the estimated parameters and the predictive efficacy of the model. The results of the most used statistical test, the Durbin-Watson test, provide evidence for this. In this case, the value of the test can be rounded to within two decimal places of zero (0 and 4). If D-W is 2 or near to 2, then there is no autocorrelation (Gujarati, 2004, 496). The table below presents a brief overview of the study's null hypothesis's Durbin-Watson test results.

Table 5. Test of the autocorrelation problem

Hypotheses	Computed D-W value	Autocorrelation
H01	1.518	There is no autocorrelation
H01-1	1.511	There is no autocorrelation

H01-2	1.772	There is no autocorrelation
H01-3	1.469	There is no autocorrelation
H01-4	1.54	There is no autocorrelation

In all of the above-mentioned assumptions, we find that the variables' D-W values are very close to 2, indicating that there was no autocorrelation issue with the data. As a result, the boundaries of the regression's random error had no discernible relationship with one another.

Testing the study's hypotheses

The first major hypothesis is that (H01) introducing governance mechanisms with their aspects (internal audit, external audit, audit committee, board of directors) on narrowing the expectations gap.

For the purpose of verifying the first primary hypothesis, a multiple linear regression analysis was carried out. The following are the results:

Table 6: Results of evaluating how governance mechanisms impact the gap in expectations

The Dependent variable	Model Summery			ANOVA		Coefficient				
	R Correlation Coefficient	R^2 The Coefficient of determination	Adjusted R Square	F Calculated	Sig F	Statement	B	Standard error	T Calculated	Sig t
Expectation gap	0.595	0.354	0.3	6.453	0	Internal Audit	-0.136	0.139	-0.978	0.333
						External Audit	-0.016	0.129	-0.125	0.901
						Audit committee	0.659	0.196	3.358	0.002
						Board of Directors	-0.036	0.129	-0.28	0.781
						Regression constant	0.621	0.621	3.544	0.001

The 0.595 correlation value between the independent variables and the dependent variable highlighted in Table 6 is evidence of this positive relationship. The governance systems and the expectation gap were linked in a way that could be measured statistically. The F-value was calculated to be 6.453, and the significance level was found to be 0.000, which is considerably less than 0.05. While the expectation gap appeared to be explained by a variety of factors, the coefficient of determination was only 0.354, indicating that governance systems may be responsible for only 35.4% of the variance.

On the basis of the preceding, we reject the first major nihilism hypothesis and embrace the alternative: **“There is a statistically significant effect of implementing governance mechanisms with their dimensions (internal audit, external audit,**

audit committee, board of directors) on narrowing the expectations gap."

After implementing governance measures across all four dimensions, the researchers found that the expectations gap narrowed. Some departments tried their hardest to narrow the expectations gap by including a detailed description of the internal audit's purpose and mandate in a formal document called a "charter," but the internal audit charter and its accompanying governance mechanisms ultimately had little effect. Everything about this abides with the principles of professional ethics, the concept of internal audit, and the global standards for the practice of internal auditing. This is why the head of internal auditing established and is responsible for a wide-ranging quality assurance and improvement program for the auditing department as a whole. Due to erroneous accounting methods that were not sufficiently disclosed, companies' financial statements lacked trust and integrity.

The first sub-hypothesis: H01-1: There is no statistically significant effect of applying the internal audit on narrowing the expectations gap.

A simple linear regression analysis was utilized to examine the first sub hypothesis of the first main hypothesis. The following are the results:

Table 7. Evaluation of internal audit's impact on expectation gap

The Dependent Variable	Model Summery			ANOVA		Coefficient				
	R Correlation Coefficient	R^2 The Coefficient of Determination	Adjusted R Square	F Calculated	Sig F* indication level	Statement	B	Standard error	T Calculated	Sig t* indication level
Expectation Gap	0.313	0.098	0.080	5.420	0.024	Internal Audit	0.528	0.227	2.328	0.024

According to Table 7, the value of the correlation coefficient was 0.313. It's clear that internal audits can help close the gap between what people expect and what really happens. Coefficient of determination was calculated to be 0.098. This demonstrates that, everything else being equal, the internal audit dimension accounted for 9.8% of the variance in the expectation gap. In order to confirm the significance of the regression at the 0.05 level, the value of F was 5.420 at the level of confidence with a significance of 0.024.

On the basis of the preceding, we reject the first major nihilism hypothesis and embrace the alternative: **"There is a statistically significant effect of the application of internal review on the expectation gap."**

The researchers postulate that the internal audit charter manual provides a formal definition of the purpose and responsibilities of the internal audit activity in accordance with the definition of internal audit, the principles of professional ethics, and the international professional standards for the practice of internal auditing. In light of this, the internal audit manager conceived up and oversaw the implementation of a plan to check and improve the quality of internal auditing generally.

The second sub-hypothesis: H01-2: There is no statistically significant effect of applying the external audit on narrowing the expectations gap.

To test the second hypothesis and the second sub-hypothesis of the first main hypothesis, a simple linear regression analysis was applied. The results are as follows:

Table 8. The results of testing the impact of external auditing on the expectations gap

The Dependent Variable	Model Summery			ANOVA		Coefficient				
	R Correlation Coefficient	R^2 The Coefficient of Determination	Adjusted R Square	F Calculated	Sig F* indication level	Statement	B	Standard error	T Calculated	Sig t* indication level
Expectation Gap	0.441	0.194	0.178	12.044	0.001	External Audi	0.669	0.193	3.470	0.001

The value of the correlation coefficient was 0.441, as shown in Table 8. This suggests that there is a correlation between positive feedback from the outside world and the degree to which the actual experience differs from the desired outcome. The correlation coefficient was 0.194. This suggests that, everything else being equal, the external review dimension accounted for 19.4% of the variance in the expectation gap. Using a 0.001 significance level, the value of F was determined to be 12.044. Because of this, we may be confident that the regression is significant at the 0.05 level.

The Dependent Variable	Model Summery			ANOVA		Coefficient			
	R Correlation Coefficient	R^2 The Coefficient of Determination	Adjusted R Square	F Calculated	Sig F* indication level	Statement	B	Standard error	T Calculated
Expectation Gap	0.612	0.374	0.362	29.896	0.000	Audit Committee	1.079	0.197	5.468

Based on the foregoing, we reject the second nihilistic sub-hypothesis and accept the alternative sub-hypothesis: **"There is a statistically significant effect of applying the external review on the expectation gap."**

The study authors hypothesize that the company's compliance with applicable rules and regulations was verified by independent auditors. The external auditor was afforded full secrecy with respect to the dealers' information and did not disclose any of it, save under authorized circumstances.

The third sub-hypothesis: H01-3: There is no statistically significant impact of the audit committee's application on narrowing the expectations gap.

To test the third sub-hypothesis from the first main hypothesis, a simple linear regression analysis was applied. The results are as follows:

Table 9. The results of testing the impact of the audit committee on the expectations gap

Coefficient of correlation was 0.612, as seen in Table 9. To put it another way, the audit committee was positively correlated with the difference between expectations and reality. With a value of 0.374 for the determination coefficient, we can deduce that the audit committee dimension accounted for 37.4% of the total variance in the expectation gap, all else being equal. In addition, the value of F appeared to approach 29.896 at the 0.000 level of confidence, confirming the significance of the regression at the 0.05 level.

Based on the foregoing, we reject the third sub-null hypothesis and accept the alternative sub-hypothesis: **“There is a statistically significant effect of the application of the review committee on the expectation gap.”**

The researchers posit that the internal auditor followed up to ensure the extent of implementation of the correction required by the executive authority and in the manner that worked to reduce fraud in the financial statements. The absence of written and clear internal control and control systems for employees had a role in increasing fraud in the financial statements.

The fourth sub-hypothesis: H01-4: There is no statistically significant impact of the implementation of the board of directors on narrowing the expectations gap.

To test the fourth hypothesis of the fourth sub-hypothesis of the first main hypothesis, a simple linear regression analysis was applied. The results are as follows:

Table 10. The results of testing the effect of the board of directors on the expectations gap

The Dependent Variable	Model Summery			ANOVA		Coefficient				
	R Correlation Coefficient	R^2 The Coefficient of Determination	Adjusted R Square	F Calculated	Sig F* indication level	Statement	B	Standard error	T Calculated	Sig t* indication level
Expectation Gap	0.464	0.215	0.200	13.730	0.001	Board of Directors	0.750	0.202	3.705	0.001

The results displayed in Table 10 indicate that the value of the correlation coefficient was 0.464. This shows that there was a positive relationship between the board of directors and expectation gap. The value of the coefficient of determination 0.215, indicating that the board of directors’ dimension explained 21.5% of the variance in the expectation gap, while other factors remain constant. The value of F was found to reach 13.730 at the level of confidence with a significance of 0.001. This confirms the significance of the regression at the level of $\alpha \leq 0.05$.

Based on the foregoing, we reject the fourth sub-nihilism hypothesis and accept the alternative sub-hypothesis: **“There is a statistically significant effect of the application of the board of directors on the expectation gap.”**

The researchers posit that the board of directors followed the processes of disclosure of all material information in a manner that ensured that the information reached all concerned parties, thus limiting the manipulation operations. The board of directors also monitored the integrity of the financial statements issued by the company and made sure that it clearly reflected the fairness of the financial position and the resulting actions to prevent manipulation.

Discussion, conclusion

The preceding discussion of findings led to the following conclusions:

1. The first primary hypothesis test demonstrated that internal audit, external audit, the audit committee, and the board of directors all contribute to closing the auditing profession's expectations gap. The extent to which corporate governance instruments are utilized across all four dimensions will directly correlate to the degree to which the auditing profession's expectations gap is closed.

2. The implementation rate for corporate governance procedures was quite high, at 85.89%. There was an effort on the part of Saudi companies to adhere to the application of corporate governance mechanisms, with internal review receiving the highest weight (90.64 percent), followed by the application of the external auditor (85.21%), the implementation of the audit committee (84.83%), and the implementation of the board of directors (84.10%.

3. The performance of internal audits was given a substantial level of importance by the departments that were housed inside these companies. The manual for the internal audit charter includes a formal statement of the purpose of the internal audit activity as well as the responsibilities associated with it. This definition is in line with the established rules of ethics for the profession of internal auditing as well as the worldwide professional standards for the conduct of internal auditing. The companies' financial statements were plain and honest, despite the fact that there were a few issues with the bookkeeping.

The impact of internal auditing on narrowing the audit profession's expectations gap.

1. Internal reviews of corporate governance systems were applied by Saudi enterprises at a rather high percentage (90.64%).

2. An increasing number of Saudi businesses are beginning to recognize the value of internal audits. The internal audit charter guide specifies the aim and scope of internal auditing in accordance with the definition of internal auditing, professional ethics principles, and worldwide professional standards for the conduct of internal auditing. This helps the design and management of a comprehensive quality assurance and improvement program that employs several forms of internal audits.

3. The internal audit's role in corporate governance was initially established through a test of the null hypothesis, which found that the expectation gap was narrowed. The discrepancy between actual and expected audit quality was reduced as a direct result of the internal audit.

The external audit's impact on narrowing the auditing profession's expectations gap.

1. There was a high application of external audits from the mechanisms of corporate governance in the audit profession, with an application rate of 85.21%.

2. The external auditor enjoyed complete confidentiality about the dealers' information and did not disclose such information, other than in the circumstances in which it was permitted to disclose. The external auditor made sure that the company was operating in accordance with the laws and regulations.

3. Application of external assessments of corporate governance procedures was found to have an effect on reducing the expectations gap, supporting the second null hypothesis. It was shown that the expectation gap narrowed and the strength of the link increased at the same rate (44.1% more so the more frequently the external evaluation was used).

The impact of the audit committee's application on the narrowing of expectations gaps in the auditing profession.

1. There was an application of the audit committee of corporate governance mechanisms in the audit profession, with a high rate of application (84.83%).

2. The internal auditor followed up to ensure the extent of implementation of the correction required by the executive authority and in a manner that works to reduce fraud in the financial statements.

3. The final sub-hypothesis test demonstrated that the audit committee's implementation of corporate governance narrows the gap between expectations and reality. We detected a positive and robust connection between them (61.2%).

The impact of implementing a board of directors on the narrowing of expectations gaps in the auditing profession.

1. There is a high level of application by the board of directors of corporate governance in the audit profession, with an application rate of 84.10%.

2. The board of directors followed up on the processes of disclosure of all material information in a manner that ensured that the information reached all concerned parties, thus limiting manipulation.

3. The fourth sub-hypothesis test showed the existence of an effect of the board of directors applying corporate governance mechanisms on narrowing the gap of expectations. A positive and strong relationship was observed between them (46.4%).

Recommendations

1. Strengthening the independence of the internal auditor, defining his responsibilities, and evaluating his efficiency to limit fraud cases.

2. When deciding on audit fees, the auditors do so independently and objectively. Auditing firms should be given the resources they need to do their jobs effectively.

3. A reduction in financial statement fraud can be achieved by paying close attention to power imbalances in the audit committee and elsewhere. If an organization's internal auditor is to effectively play their part in preventing financial statement fraud, the company's board of directors must serve as the plan's foundation.

4. In order to reduce the possibility of financial statement manipulation, the board of directors should take great care to confirm the auditors' independence and make any helpful suggestions.

5. The nature of the industry being analyzed calls for a unique audit committee structure. To further assure users of the financial statements that they are fraud-free, the external auditor should issue further guarantees.

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