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OPTIMAL MEASURES FOR MINIMIZING THE TAX AUDIT EXPECTATION GAP IN KENYA

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Abstract

***Purpose**:* The purpose of this study was to find out whether a tax audit expectation gap exists between the tax authority and corporate tax payers.

***Methodology**:* The study adopted a descriptive research design.

Findings: The study findings confirmed that, indeed, a tax audit expectation gap existed between corporate tax payers and the tax authority. In addition, better tax compliance standards, forensic accounting, I-tax implementation and user education were found to be important measures in narrowing this tax audit expectation gap.

Unique contribution to theory, practice and policy: The study will be of significance to the following stakeholders: users of financial information including the corporate tax payers, the creditors, customers and suppliers. The study will provide information as to what is termed reasonable and unreasonable expectations. The tax authority in Kenya and those in other countries will find this study useful as it will highlight the tax audit expectation gap and how it can be reduced by several measures notably better tax compliance standards, forensic accounting, I-tax implementation, educating members and enhanced compliance with International Accounting Standards (IAS) and International Standards of Auditing (ISA). The findings of this study will also inform policy making with regard to corporate tax payers as pertains to duties and roles of auditors, the educative role of management, the introduction of stringent reporting and the government's role in supervising the affairs of corporate tax payers. This study will be an invaluable addition to literature pertaining to corporate tax payers, and measures for reducing the tax audit expectation gap. Scholars who wish to further their education on the area of the expectation gap may use the findings of this study to do so.

Keywords: *Tax Audit Expectation Gap, Tax Authority, Corporate Tax Payers*

INTRODUCTION

Background

The audit expectation gap is critical to the auditing profession because the greater the unfulfilled expectations from the public, the lower is the credibility, earnings potential and prestige associated with the work of auditors (Lee & Azham, 2009).The audit expectation gap is a crucial issue associated with the independent auditing function and has significant implications on the development of auditing standards and practices. An Audit expectation gap can be of any kind such as a tax audit expectation gap, an operational audit expectation gap or a finance audit expectation gap (Lin & Chen, 2004). The auditing profession believes that the increase in litigation and criticism against the auditors can be attributed to the audit expectation gap. The audit expectation gap is defined as the difference between what the public expects from an audit and what the audit profession accepts the audit objective to be (American Institute of Certified Public Accountants, AICPA, 1992). The essence of auditing and its expectation gap is facing the problem of relevance in the world today (Appah, 2010). The users of audited accounts are at most times not satisfied with the work an auditor does and each of the users have their different ways and purposes in which they use the report of an auditor (Atu & Atu, 2010).

The audit expectation gap is detrimental to the financial reporting and auditing process, as the public may perceive the work performed by external auditors as unsatisfactory (Appah, 2010). Therefore, the audit expectation gap is crucial to the audit profession as it determines the value of auditing and the reputation of auditors in modern society. Porter and Gowthorpe (2004), quoted in Lee and Ali (2008), argued that, for decades, the auditing profession has been troubled with high levels of litigation and accusations. Such a problem has reached an unprecedented level as a result of the spectacular fall of well publicized corporations like Enron and WorldCom which led to the consequent litigation and collapse of the auditing firm Arthur Anderson (Gowthorpe, 2004). The authors also argue that the recent increase in criticism of and litigations against auditors is due to the failure of auditors to meet society's expectations.

The academic discourse on the audit expectation gap is extensive. Numerous studies have been carried out on the audit expectation gap, such as Lee, Gloeck and Palaniappan (2007) who carried out a study on the expectation gap in Malaysia. In their study, a questionnaire was administered to 1,400 respondents, who comprised auditors (200), auditees (400) and audit beneficiaries (800). The audit beneficiaries were represented by bankers (200), investors (200), brokers (200) and the general public (200). The auditees were represented by company directors (200) and accountants (200).The results of the study show different expectations exist between auditors and the users of audit reports with respect to the duties that should be performed.

Salehi and Rostami (2009), in their literature-based study of the international evidences of the expectation gap, quoted several articles and journals that concluded that the audit expectation gap exists. For instance, the study by Dixon, Woodhead and Sohliman (2006) confirmed the existence of an expectation gap in the nature of the audit function, the perceived performance of auditors, their duties and role, their independence and non-audit services. The study analyzed three factors namely, responsibility, reliability, and usefulness. The results of the study indicate that different expectations exist between the auditors and the users of their report with respect to the duties that should be performed.

Ali, Heang, Mohamad and Ojo, (2008) carried out a study on "Internship and Audit Expectation gap Among Undergraduate Students in University Utara, Malaysia.'' The study was meant to investigate whether academic internship programs could reduce the audit expectation gap in Malaysia. The results disclosed that there is a significant change in perceptions among students after the internship program. The study by Ali et al., (2008), was based on the findings of a more comprehensive study that was conducted by Fadzly and Ahmad (2004) to examine the audit expectation gap between auditors and major users of financial statements: bankers, investors, and stockbrokers. The study focused on the positive view of the expectation gap, which compared auditors' and users' perceptions on the duties of auditors. The study revealed that an audit expectation gap exists in Malaysia, particularly on issues concerning auditors' responsibilities. A wide gap was found regarding auditors' responsibilities in relation to fraud detection and prevention, to preparation of financial statements and accounting records, and to internal controls.

Prior literature shows a mismatch between taxpayers' objectives and risk preferences and tax professionals' objectives in preparing tax returns (Hite & Hasseldine, 2003). Tax professionals advocate auditing for purposes of tax minimization, whereas research shows that most tax payers seek accuracy as opposed to minimization (Collins, Milliron & Toy, 2010). Additionally, taxpayers view the tax audit as a failure on the part of the preparer; tax payers are more likely to change preparers when audited, yet tax preparers tend to get more aggressive with tax minimization measures as they gain more experience with audits and the Internal Revenue Service, IRS, (Schisler & Galbreath, 2011). Also, more expert tax practitioners have both the motivation and ability to be more tax aggressive (Jackson, Milliron, & Toy, 2008). Finally, some taxpayers may hire tax preparation services to shield themselves from direct interaction with the tax authorities in case of audit or to provide insurance against penalties and other sanctions (Nichols & Price, 2004).

In the case of Kenya, the scenario is similar whereby the tax authority has undertaken various measures to ensure tax compliance, such as acquisition of PIN numbers for tax payers for easier tracking and more seriousness in undertaking tax audits. However, the tax audit expectation gap still exists as the tax payers do not get satisfactory services from the tax authority in terms of tax refunds and accurate assessment of taxes. Similarly, the tax authorities do not experience ultimate tax compliance from the tax payers (Kenya Revenue Authority, Operations Report, 2007/2008).

It is evident from past studies that there exist measures that help to reduce audit expectation gap of whatever kind. For instance, Salehi, Rostami and Modagam, (2010) confirmed in their study that better standards in accounting help to reduce the audit expectation gap. Adrian, Lawrence and Cristal, (2009) assert that the forensic accounting process is a form of auditing with investigative skills with an in-depth knowledge and experience. Forensic accounting should be introduced into a company as a service which can be acquired when a fraud investigation is needed to be carried out (Bologna & Lindquist, 2007). Hamisi (2012) asserted that I-TAX provides a convenient and efficient way to improve revenue collection, transparency in fiscal administration and management of local and national tax authorities. Porter (1993) asserted that society must be educated on the duties which may reasonably be expected of auditors if the unreasonableness gap is to be eliminated. This study sought to address the tax audit expectation gap.

Statement of the Problem

According to International Tax Dialogue (ITD), (2010) revenue patterns in most countries show that a small number of corporate enterprises account for 80-90% of total tax revenue. Apart from being complex, from the revenue body's perspective, corporate taxpayers present major tax compliance risks due to various factors including: significant offshore activities; policies and strategies to minimize tax liabilities; a large portion of tax assessments resulting from audit activity of corporate taxpayers; and growing/significant differences between financial accounting profits and the profits computed for tax purposes (OECD, 2009). On the other hand, corporate tax payers complain about the lack of fair tax audit from the tax man. In addition, report show that, while the tax man is quick to demand tax compliance, he does not reciprocate with quick tax refunds (Boyle, 2004).

This status quo points to a growing tax audit expectation gap as corporate tax payers feel that the tax man (the tax authority) does not do his duty of proper and fair tax audit and also its duty as far as tax refunds are concerned (Boyle, 2004). This situation begs for a paradigm shift in the conduct of tax matters, hence the need for identifying factors that can help in reducing the tax audit expectation gap between corporate taxpayers and the tax authority.

This study tested for the existence of the tax audit expectation gap in Kenya and specifically whether better tax compliance standards, forensic accounting, I-tax implementation and user education can be used as measures to reduce the tax audit expectation gap.

General Research Objectives

The study assessed the measures for reducing the tax audit expectation gap between tax authority and corporate tax payers.

Specific Research Objectives

- To establish the existence of a tax audit expectation gap between the tax authority and corporate tax payers.
- To find out which measures can be used for reducing the tax audit expectation gap between the tax authority and corporate tax payers.

LITERATURE REVIEW

Audit Expectation Gap

The term "audit expectation gap" was first introduced to audit literature by Liggio (1974). He defined the audit expectation gap as the difference between the levels of expected performance as envisioned by both the user of a financial statement and the independent accountant.

The Cohen Commission (1978) in the United States of America extended Liggio's (1974) definition by taking into account whether a gap may exist between what the public expects or needs and what auditors can and should reasonably expect to accomplish. Porter (1993) claimed that the definition of audit expectation gap provided by Liggio (1974) and the Cohen Commission (1978) is too narrow as they fail to recognize that auditors may not accomplish "expected performance" (Liggio, 1974) or what they "can and reasonably should" (Cohen Commission, 1978). These definitions do not allow for sub-standard performance.

Porter (1993) argues that the recent increase in criticism of and litigation against auditors is due to the failure of auditors to meet society's expectations, whose failure in turn undermines confidence in the audit function. Limperg (1932, cited in Porter, Simon and Hatherly, 2005, p119) points out that the "audit function is rooted in the confidence that society places in the effectiveness of the audit and in the opinion of the accountant…if the confidence is betrayed, the function, too, is destroyed, since it becomes useless".

Hence, to narrow the audit expectation gap, it is necessary to ascertain: i) the duties society expects auditors to perform; ii) the duties that are reasonable to expect auditors to performance and iii) the extent to which society's reasonable expectations are satisfied (or, more pertinently, not satisfied) by auditors (Porter et al., 2005). In this study, to narrow the tax audit expectation gap it is necessary to ascertain; i) the duties the corporate tax payers expect the tax authority to perform; ii) the duties the tax authority expect the taxpayers to perform (tax compliance); and iii) the extent to which the taxpayers reasonable expectations are satisfied by the tax authority.

Components of the Audit Expectation Gap

Porter (1993), analyses the total expectations gap into three separate components, namely: sub-standard performance (16%), deficient standards (50%) and unreasonable expectations (34%). Due to the fact that deficient standards can easily be revised and it is therefore relatively easier to reduce this component of the expectations gap, the deficient standards component can be considered the most objective component whilst unreasonable expectations and sub-standard performance are the more subjective components. Even though unreasonable expectations are subjective, it still constitutes a significant proportion of the expectations gap and cannot be ignored.

Sub-standard performance should also not be ignored even though it constitutes just 16% of the expectations gap. After all possible measures have been taken to reduce this component it could be ignored. The substandard performance element is a problem arising from individual auditors, deficient standards stemming from the audit profession whilst unreasonable expectations emanate from the public. An analysis of the individual components of the expectations gap this way helps to know and understand better how to deal with and reduce these problems creating the expectations gap. In particular, it provides knowledge as to where more efforts should be concentrated namely, the reforms of auditing standards (since this constitutes half the problem) (Porter, 1993).

As such, Porter (1993) proposes that the study of the audit expectation gap should be structured in a more extensive way which allows the different components of the audit expectation gap to be identified. In addition, she claims that it is more appropriate to name the expectation gap "the audit expectation-performance gap" as it represents the gap between society's expectations of auditors and society's perceptions of auditors' performance.

Porter's (1993) structure of the audit expectation-performance gap has two major components, namely:1) Reasonable gap - the difference between "what the public expects auditors to achieve and what the auditors can reasonably be expected to accomplish" and 2) Performance gap - the difference between "what the public can reasonably expect auditors to accomplish and what auditors are perceived to achieve".

Reasonable Gap

Reasonable gap –this is the difference between "what the public expects tax men to achieve and what they can reasonably be expected to accomplish" (Porter & Gowthorpe, 2004). Empirical studies on the nature and structure of the expectation gap aim to elicit the actual as well as the perceived roles and responsibilities of auditors and attempt toun cover the factors contributing to the expectation gap (Zikmund, 2008).

Most of the studies ascertain the auditors' and the public's view of the roles and responsibilities of auditors through the use of questionnaire surveys. In the USA, Baron et al., (1977), found that auditors and users of accounting reports have significantly different beliefs and preferences on the extent of auditors' responsibilities for detecting and disclosing irregularities and illegal acts. In particular, users held auditors to be more responsible for detecting and disclosing irregularities and illegal acts than the auditors believed themselves to be. The following table illustrates the auditors' duties in dispute, as found in studies by different researchers

Performance Gap

The performance gap is further subdivided into: 1) Deficient standards - the gap between "what can reasonably be expected of auditors and auditors' existing duties as defined by the law and professional promulgation." 2) Deficient performance – the gap between "the expected standard of performance of auditors' existing duties and auditors' perceived performance, as expected and perceived by the public" (Porter &Gowthorpe, 2004).

Evidence of Tax Audit Expectation Gap

Christensen (2009) used preparers and clients from a large international accounting firm as survey participants. She sent surveys to 441 clients and the corresponding 31 tax preparers with a 54 and 100 percent response rate respectively. She found differences between client expectations and preparers' perceptions of those expectations had a direct impact on satisfaction. Overall, clients expect more tax planning advice and strategies, and they perceive the tax preparer as having a poor understanding of their desires. The two largest differences were in the clients' desire to avoid audit and in communication skills.

Schisler and Galbreath (2011) used attribution theory in an experimental setting to show how taxpayer-participants viewed an Internal Revenue Service (IRS) audit as failure on the part of the tax preparer, even if the audit outcome was favorable. Furthermore, the taxpayer-participants were less likely to return to that preparer after audit than if they were not audited, regardless of whether the outcome was favorable or not. In their study, taking an ambiguous deduction was part of the instrument for all participants, but the researchers did initially ask if the participants would be likely to take the deduction. No significant difference existed between those who would have taken the deduction and those who would not have when blame was the dependent variable. This shows taxpayers rely heavily on the recommendations of their tax preparers, and will consequently hold them responsible for the decisions made (Rien, 2014).

Better standards as Measure of in reducing the expectation gap

Ojo (2006) asserts that the International Standard on Auditing (ISA UK and Ireland) 320 establishes standards and provides guidance on the concept of materiality and how this relates to audit risk. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful - Materiality is based on professional judgment.

Further, Ojo (2006) argues that ambiguous wordings within accounting standards should be avoided and clearer definitions provided to give the auditor a better understanding about his duties. Post- Enron reforms which led to the Auditing Practices Board bearing the responsibility of setting standards on objectivity, integrity and independence should be responsible for setting standards on objectivity, integrity and independence. In addition, the board should improve the standard setting process and provide more consistency to the way standards are interpreted.

Ojo (2006) quotes Financial Reporting Council (FRC) annual report, 2005/2006 and argues that the year 2005 was a year of major change for many companies with the introduction of international accounting standards and new auditing standards. Public concerns about the continuing relevance of the "true and fair view" have been highlighted especially with the advent of the introduction of international standards on accounting and auditing in the UK. Responding to this, the FRC published a report in August2005 in which it concluded that the "true and fair view" continues to remain a cornerstone in the UK system of financial reporting (FRC annual report, 2005/2006).

Better Tax Compliance Standards as a Measure of Reducing the Tax Audit Expectation Gap

Zeithaml and Bitner (2000) identified five factors affecting clients' definition of adequate service. The first is transitory service intensifiers, that is, short-term factors increasing the desire for responsiveness and timeliness. For instance, in Kenya, the June 15, 2006 deadline for personal tax filing would be an example of this. Second, perceived service alternatives will affect client expectations of service quality. The expectation of good service increases when the taxpayer perceives many alternatives. This may include self-preparation. For clients with extremely complicated returns, there are fewer alternatives to having a particular provider, and they are likely to be more easily satisfied. Third is the customer's self-perceived service role. A taxpayer who is more involved in the interview and decision process will take more personal responsibility for satisfaction and be less critical of the tax preparer. Fourth, situation factors can influence expectations; for example, taxpayers are more likely to demand high quality service on routine items, but be more forgiving of one-time or unusual transactions they present to their tax preparer. Finally, predicted service plays a role in client expectations. Recent experience with a tax preparer or expectations developed from advertising influence a client's perception of adequate service (Zeithaml & Bitner, 2000).

Forensic Accounting as a Tool in Reducing the Expectation Gap

Forensic auditing aims at legal determination of whether fraud has actually occurred. In the process, it also aims at naming the person(s) involved (with a view to take legal action) (Crumbley & Apostolou, 2002).An auditor essentially intends to uncover significant deviations from Generally Accepted Accounting Principles (GAAP) and to verify that acceptable accounting and auditing practices have been used in the preparation of the financial statements. The forensic accountant takes a much more skeptical and proactive approach to uncovering fraud, not just verifying what is in the financial statements (Crumbley & Apostolou, 2002). Hence, the difference between the independent auditor and forensic accountant lies mainly in their objectives. The independent auditor generally assumes that the client has conformed to GAAP. The independent auditor also follows the guidelines set forth by the Generally Accepted Auditing Standards (GAAS). After the audit, they can recommend adjustments to enhance the fairness of the financial reporting (Conway & Rouse, 2002).

On the other hand, forensic accountants make no assumptions. The forensic accountant critically assesses the legitimacy of the company's financial transactions and conformity to GAAP. When there is alleged fraud, it is important to engage independent forensic accountants because the current auditors may encounter potential inherent conflicts (Conway & Rouse, 2002).

Adrian et al., (2009) conducted a study on the public acceptance and awareness of the forensic accounting services with an aim to improve the understanding in detecting and reducing accounting fraud cases in Malaysian companies. In the course of the study Adrian et al., (2009) developed a model that demonstrated the significance of accounting fraud in businesses. In his model, he argues that two variables affect the public acceptance of the use of forensic accounting in detecting frauds. These variables are public understanding of the role of forensic accountants and the perception on the implementation of forensic accounting in the investigation.

According to Adrian et al., (2009), the main problem or issue is the constant misunderstanding on the role and responsibility of the auditor as the public expects auditors to detect financial asset misstatement or even fraudulent activities from the financial statements. In a nutshell, the study by Adrian et al. (2009) argues that forensic accounting is an important tool in ensuring accountability and transparency in firms and government institutions. This study concluded that forensic accounting reduces the audit expectation gap by arguing that auditors with a forensic accounting background should be assigned specifically to investigate the company's financial statement. Hence the reduction of audit expectation gap in the area of the duty of an ordinary auditor to detect fraud and material misstatements.

Owojori and Asaolu (2009) undertook a literature based study on the role of forensic audit in solving the expectation gap problem in the corporate world. The authors argue that the failure of statutory audit to prevent and reduce misappropriation of corporate fraud and an increase in corporate crime has put pressure on the professional accountant and legal practitioner to find a better way of exposing crime in the business world. The study by Owojori and Asaolu (2009) intended to find out how the knowledge of forensic accounting can reduce corporate fraud and mismanagement. In conclusion, the authors argue that the services of a forensic accountant are critical and important in exposing and preventing fraud, corruption and mismanagement in both the private and public sector. Forensic accounting can therefore be looked at as a panacea to the problem of fraud bedeviling corporations (Chukwunedu & Okoye, 2011).

I-tax as a Measure of Reducing the Tax Audit Expectation Gap

Existence of a tax audit expectation gap has resulted to a lot of complexity among large taxpayers. This has presented a major tax compliance risk to revenue bodies, so considering their critical role in Revenue collection; it is the responsibility of tax administration to be a head of large tax payers in technology in order to curb cheating (Suluo, 2013). Evidence from Philippines shows that, the use of ICT for tax administration results into increased tax collection as well as modernization of administrative processes. For example, the new IT system in 11 pilot districts/cities revealed a gap of non-assessed tax liabilities of 3.2 Million Euro. It also used to take up to four hours to inform a (waiting) taxpayer about his tax bill. But with the new IT system, this waiting period was reduced to 3 minutes, including issuing a proper tax or payment receipt (Seelmann, 2011).

A good number of studies show that, the use of ICT is extremely beneficial to the Large taxpayer Department. For instance, Victor-Nyambo (2009) sought to determine the role of information and communication technology (ICT) in Taxation within the Large Taxpayer Department of the Tanzania Revenue Authority. The study findings revealed that, ICT helps to maintain consistent record keeping, timely access of such records, fast processing of returns which together improved the performance of tax revenue. By reducing the time taken to communicate with taxpayers and providing access to similar institutions around the world where lessons learned can improve the tax regime and tax administration; ICT assist to cut down postal delays and costs as well as plugging revenue loss at the Large Taxpayer Department. Furthermore, the use of ICT facilitates taxpayers' information to be stored at the Large Taxpayer Department and quickly retrieve it from computer systems whenever needed as evidence of tax paid, return filed, or otherwise. This serves to improve taxpayer compliance knowing that the department has correct and up to date records of business/ tax liabilities, correspondences and payments. Also, the use of ICT facilitates easy monitoring and evaluation, good planning and quick processing and accurate taxpayer return of income assessment. In this regard for example, instead of submitting tax return on income manually through hardcopy, one can submit it via ICT electronic filling followed by computer processing. This will not only speedup the process but will also economize the department's operational costs by sharing the costs with the taxpayer who will use their own resources to key in the information in the computer and send it via the internet while bearing the cost.

Ismail and King (2010) discovered a positive association between accounting management information system alignment and SME strategy and performance measures. In the Spanish case, Gil (2004) posits an indirect relationship between AIS and firms' performance via the varying strategies that may be adopted by companies. Despite of some authors who postulate that the direction of the cause-effect relationship is only that companies achieve a high performance when they can afford the implementation of certain technological developments (Damanpour & Gopalakrishnan, 2011).

User Education as a Measure of Reducing the Tax Audit Expectation Gap

Sakurai and Braithwaite (2011) found that 85 percent of taxpayers surveyed thought all their deductions were legitimate, even though over one third did not feel confident about their knowledge of tax matters. Seven percent had no idea if their deductions were legitimate or not because they left it up to someone else to do.

Koh and Woo (2008) carried out a literature-based study on the expectation gap in auditing. The authors base their arguments on the fact that studies have found evidence to support the belief that knowledge of the users influences the size of the expectation gap. Out of this study, the researchers proposed that one way to narrow the expectation gap is through increased public awareness of the nature and limitations of an audit. And to increase users' knowledge and awareness it is important to communicate the merits and limitations of an audit at every available chance (e.g. shareholder meetings).

Fowzia (2008) examined the role of audit education in narrowing the role of auditors in Bangladesh. Primary data was obtained through a structured survey questionnaire and a total of ten questions under the head of three factors (auditor's responsibilities, reliability of information attested by an independent auditor and decision usefulness of that information) were included in the survey questionnaire. In the study by Fowzia (2008), it was apparent that the expectation gap among the groups is becoming insignificant according to the role of audit education.

Lee et al., (2008) carried out a study on the practical training on the audit expectation gap taking into account a case study of the accounting undergraduates of the university Utara Malaysia. Their study investigates whether academic internship programs could reduce the audit expectation gap in Malaysia. The study showed that the internship programs could reduce the audit expectation gap. The possible reason for better evaluation of auditors' performance may be due to the fact that respondents could have gained a better insight into the performance of auditors during the internship period.

METHODOLOGY OF THE STUDY

The study used a descriptive research design and used primary data collected using questionnaires. This study used the stratified random sampling method. In order to assess whether unreasonable expectations exist in Kenyan tax audit engagements, the study analyzed responses from both tax managers and corporate tax payers using the Chi-square and the Fisher Exact test. In addition, a binary logistic regression model was used to test the significance of the influence of the independent variables on the dependent variable. The data was presented using tables, graphs and charts.

RESULTS OF THE STUDY

Response Rate

Findings in this study indicate that the successful reponses in the corporate taxpayers category are 80 percent. The unsuccesful reponses in the same category are 20 percent. The succesful responses in the tax man category are 83 percent while the unsuccesful responses are 17 percent.

In total, the succesful response are 80 percent while the unsuccesful response are 20 percent as shown on Table 1.

Table 1: Response Rate

Response rate	Successful	% Successful	Unsuccessful	% Unsuccessful	Total
Corporate Taxpayers	75	80%	19	20%	94
Tax Man	10	83%	2	17%	12
Total	85	80%	23	20%	106

Demographic Characteristics

The respondents were asked to describe their basic characteristics such as their gender, position, level of education, period of work in a given firm (in the KRA in the case of a tax man or a particular corporate company in the case of a corporate tax payer). Results showed that majority of respondents in this study are male as supported by 76.47 percent while the female respondents are 23.53 percent. According to study findings, 64.62 percent of respondents were university graduates, Post graduates were 30.77 percent and college graduates were 4.62 percent. Results also showed that majority of respondents are in the middle management at 92.94 percent, while the respondents in the top management were 7.06 percent. Further, results revealed that majority of respondents at 90.59 percent had been in the firm for 3 years and above while 9.41 percent had been in the firm for 1 to 2 years.

Descriptive Statistics

Study findings indicate that all corporate tax payers in the study hold AGMs. This is supported by a 100 percent response from cooperate tax payers. The results also showed that all the corporate tax payers presented audited accounts in the AGM. The finding is supported by a 100 percent response from corporate tax payers. In addition, the results revealed that a majority of the corporate tax payers discussed the audited accounts. This finding is supported by a majority affirmative response of 92 percent.

However, the majority of corporate tax payers indicated that there are issues in the audited accounts that AGM participants sometimes disagree with. This finding is supported by a majority affirmative response of 83 percent. The finding implies that, to a large extent, the corporate tax payers are not satisfied with the audited accounts and reports. The findings are presented in table 2 below.

Table 2: General Information on Tax Audit Expectation Gap

Column1	Row Labels	Cooperate Taxpayer	Grand Total	% Response
AGM	Yes	75	75	100%
Audited Accounts	Yes	75	75	100%
Discussing Accounts	Yes	69	69	92%
	No	6	6	8%
Issues in Accounts	Yes	62	62	83%
	No	8	8	11%

Not sure	5	5	6%

Tax Audit Expectation Gap Analysis

The measures of central tendency for the study variables, unreasonable expectations, substandard performance, deficient standards, better tax compliance standards, forensic accounting, I-tax implementation and user education are given in Table 3 below. The mean responses for unreasonable expectations is 3.91 indicating overall agreement to the statements that it is the duty of the tax auditor to prepare the company's accounting statements, to guarantee the complete accuracy of audited financial statements, to verify every accounting transaction, to prevent tax frauds in the company, to detect tax frauds in the company, and to plan the accounting and internal control. The standard deviation was 1.04 meaning that the responses were clustered around the mean response. These findings agree with those of Baron et al., (1977) who found that auditors and users of accounting reports have significantly different beliefs and preferences on the extent of auditors' responsibilities for detecting and disclosing irregularities and illegal acts. In particular, users held auditors to be more responsible for detecting and disclosing irregularities and illegal acts than the auditors believed themselves to be.

According to Table 3, the mean responses for substandard performance is 4.12 indicating overall agreement to the statements that the tax auditor underperforms in the area of detecting deliberate distortion of the figures in the company's financial statements, and in the area of reporting privately to the tax authority on the theft that has been committed by top managerial employees and middle managerial employees. The standard deviation was 1.04 meaning that the responses were clustered around the mean response. These findings agree with those of Porter and Gowthorpe (2004) whose empirical findings revealed that auditors are perceived to have underperformed in their various duties.

Table 3 further shows that the mean response for better tax compliance standards was 4.51 indicating overall agreement to statements such as better tax compliance standard improve the objectivity, integrity and independence of accounting reports. Similarly, it indicates an overall agreement to the statement that better tax compliance standards improve the understandability of tax requirements and also narrow the tax audit expectation gap among corporate taxpayers. The standard deviation was 0.96 meaning that the responses were clustered around the mean response. These findings agree with those of Ojo (2006) who quoted Financial Reporting Council (FRC) annual report, 2005/2006 and argued that the year 2005 was a year of major change for many companies with the introduction of international accounting standards and new auditing standards.

Statistics in Table 3 also show that the mean responses for forensic accounting was 4.51 indicating a general agreement to the statement that forensic accounting aids in detecting and preventing frauds among corporate taxpayers. Similarly, use of forensic accounting narrows the tax audit expectation gap between corporate taxpayers and the tax authority and also critically assesses the legitimacy of a company's financial transactions and conformity to GAAP. The standard deviation was 0.96 meaning that the responses were clustered around the mean response. These findings agree with those of Owojori and Asaolu (2009) who argued that the

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services of a forensic accountant are critical and important in exposing and preventing fraud, corruption and mismanagement in both the private and public sector.

Statistics in Table 3 also show that the mean for I-tax implementation was 4.51 indicating a general agreement to the statement that I-tax implementation enhances good planning and quick accurate processing of taxpayer return of income assessment, facilitates easy monitoring and evaluation, improves taxpayer compliance, lead to increased taxpayer satisfaction and narrows the tax audit expectation gap among corporate taxpayers. The standard deviation was 0.95 meaning that the responses were clustered around the mean response. These findings agree with those of Victor-Nyambo(2009) who sought to determine the role of information and communication technology (ICT) in Taxation among the Large Taxpayer Department Tanzania Revenue Authority. The study findings revealed that, ICT help to maintain consistent record keeping, timely access of such records, fast processing of returns which together improved the performance of tax revenue.

Statistic in Table 3 also show that the mean for user education was 4.50 indicating a general agreement to the statement that user education facilitates easy communication of merits and limitations of a tax audit to the stakeholders, eliminates misunderstandings on the duties of the tax man by the corporate taxpayer, narrows the tax audit expectation gap among corporate tax payers and influences the satisfaction of corporate taxpayers regarding the performance of the tax man. The standard deviation was 0.96 meaning that the responses were clustered around the mean response.

The results in Table 3 agree with the findings of Koh and Woo (2008) who carried out a literature based study on the expectation gap in auditing. The authors base their arguments on the fact that studies have found evidence to support the belief that knowledge of the users influences the size of the expectation gap. Out of this study the researchers proposed that one way to narrow the expectation gap is through increased public awareness of the nature and limitations of an audit. And to increase users' knowledge and awareness it is important to communicate the merits and limitations of an audit at every available chance (e.g. shareholder meetings).

Table 3: Measures of Central Tendency (means and standard deviations)

Variable	Observation	Minimum	Maximum	Mean	Std. Dev
Average Unreasonable	85	1	5	3.91	1.04
Average Deficient Performance	85	1	5	4.12	1.04
Average Better Standards	85	1	5	4.51	0.96
Average Forensic Accounting	85	1	5	4.51	0.96
Average I-tax Implementation	85	1	5	4.51	0.95
Average User Education	85	1	5	4.50	0.96

Existence of a tax Audit Expectation Gap

In order to test for the existence of the audit expectation gap two aspects were analyzed, that is, unreasonable expectations and substandard performance.

Unreasonable Expectations

One of the objectives of the study is to test whether the tax audit expectation gap between the tax authority and the corporate tax payers exists. To achieve this objective, it was important to test whether unreasonable expectations exist between the tax authority and the corporate tax payers. This was done by checking whether there exists a significant difference in both frequency and scores of response between them.

Chi Square and Fisher Test

Table 4 presents the Chi square tests and Fisher exact tests on all the six statements (1.It is the duty of the tax man to prepare the company's accounting statements; 2. It is the duty of the tax man to guarantee the complete accuracy of audited financial statements; 3. It is the duty of the tax man to verify every accounting transaction; 4. It is the duty of the tax man to prevent tax frauds in the company; 5. It is the duty of the tax man to detect tax frauds in the company and 6. It is the duty of the tax man to plan the accounting and internal controls). Measuring the perception of tax man duties by the corporate tax payers and responsibilities for the two groups returned P values of zero (0). A *P* value of Zero is interpreted to mean that there is a very low probability that the difference in the frequency of responses was due to chance. Considering the p value, a significant difference in frequency of responses between the two groups was found to exist. Consequently, unreasonable expectations existed between corporate tax payers and the tax authority. This implies that a tax audit expectation gap exists.

Table 4: Chi Square and Fisher Exact Test for Measures for Reducing Expectation Gap

Variable	Category	Strongly Disagree	Disagree	Moderately Agree	Agree	Strongly Agree	Total	Pearson Chi Square	Pr	Fisher Exact
Unreasonable(1)	Tax man	5	3	2	0	0	10			
	Corporate Taxpayer	7	10	5	14	39	75			
Total		12	13	7	14	39	85	20.91	0	0
Unreasonable(2)	Tax man	5	2	2	1	0	10			
	Corporate Taxpayer	3	6	0	19	47	75			
Total		8	8	2	20	47	85	43.336	0	0

Unreasonable(3)	Tax man	6	3	1	0	0	10			
	Corporate Taxpayer	5	10	9	17	34	75			
Total		11	13	10	17	34	85	27.827	0	0
Unreasonable(4)	Tax man	5	3	1	1	0	10			
	Corporate Taxpayer	3	3	4	18	47	75			
Total		8	6	5	19	47	85	35.655	0	0
Unreasonable(5)	Tax man	5	3	1	1	0	10			
	Corporate Taxpayer	2	3	5	9	56	75			
Total		7	6	6	10	56	85	40.09	0	0
Unreasonable(6)	Tax man	8	2	0	0	0	10			
	Corporate Taxpayer	5	8	3	8	51	75			
Total		13	10	3	8	51	85	39.496	0	0

Two Independent Sample Test

To complement the findings in Table 4, a two independent sample test was carried out on the six statements and its findings presented in Table 5. The difference in the frequency of responses between the corporate tax payers and the tax man assisted to establish whether unreasonable expectations exist between corporate tax payers and the tax authority. The test returned a P value of Zero (0) implying that there was a very low probability that the observed difference (-12.001) between the responses of corporate tax payers and the tax man was by chance. The study therefore found a significant difference in the mean responses between corporate tax payers and the tax man. This implied that unreasonable expectations exist between corporate tax payers and the tax authority. By extension, the finding implies the existence of a tax audit expectation gap.

Table 5: Two Independent Sample Test on Unreasonable Expectations

Category	N	Mean	Std. Dev	t	df	P value
Tax man	10	1.65	0.3282	-12.001	83	0.000
Corporate Taxpayer	75	4.2067	0.66035	-19.852	20.608	
Total	85	3.9059	1.04034			

Substandard Performance

In order to verify the existence of a tax audit expectation gap, it was important to test whether substandard performance contributes to the tax audit expectation gap. The two independent samples test checked whether there were significant difference in the mean responses between corporate tax payers and the tax authorityregarding the statements that the tax man underperforms in 1) detecting deliberate distortion of the figures in the company's financial statements and 2) reporting privately to the tax authority on the theft that has been committed by top managerial employees and middle managerial employees.

The findings of the t-test are presented in Table 6. The P value from the t test was Zero (0) implying that there was a very low probability (zero probability) that the differences in the mean responses between corporate tax payers and the tax authorityoccurred by chance. Consequently, the study concluded that there is a significant difference in the mean responses between the two groups.

Table 6: Two Independent Sample Test on Substandard Performance

Category	N	Mean	Std. Dev	t	df	P value
Tax man	10	1.7	0.63246	-14.956	83	0.000
Corporate Taxpayer	75	4.44	0.53246	-13.095	10.77	
Total	85	4.1176	1.03982			

Contribution of Unreasonable Expectations and Substandard Performance to the Tax Audit Expectation Gap

The results presented in Table 7 present the fitness of model used of the regression model in explaining the contribution of unreasonable expectations and substandard performance to tax audit expectation gap. Unreasonable expectations and substandard performance were found to be satisfactory variables contributing to the existence of a tax audit expectation gap. This is supported by coefficient of determination also known as the R square of 19.3%. This means that unreasonable expectations and substandard performance explain only 19.3% of the existence of a tax audit expectation gap. This implies that approximately 80.7% of the existence of a tax audit expectation gap is caused by other factors other than unreasonable expectations and substandard performance.

Table 7: Model of Fitness

Indicator	Coefficient
R	0.439
R Square	0.193

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant.

Table 8 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that unreasonable expectations and substandard performance are good predictors of existence of a tax audit expectation gap. This was supported by an F statistic of 9.754 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

Table 8: Analysis of Variance

Indicator	Sum of Squares	df	Mean Square	F	Sig.

Regression	3.797	2	1.899	9.794	0.000
Residual	15.897	82	0.194		
Total	19.694	84			

Regression of coefficients results in Table 9 shows that there is a positive and significant relationship between unreasonable expectations and substandard performance and existence of a tax audit expectation gap as supported by beta coefficients of 0.140, 0.000 and 0.081 respectively. This was also supported by p values of 0.000 for unreasonable expectations and 0.001 for substandard performance. This implies that a unit change of unreasonable expectations and substandard performance would result to an increase in tax audit expectation gap by 0140 and 0.081 units respectively. This is a clear indication that unreasonable expectations contribute to the existence of a tax audit expectation gap in a greater magnitude than substandard performance.

Table 9: Regression Coefficients

Variable	B	Std. Error	t	Sig.
(Constant)	1.078	0.168	6.412	0.000
Average Unreasonable Expectation	0.140	0.008	17.5	0.000
Average Substandard Performance	0.081	0.0075	10.8	0.001

Measures for Reducing the Tax Audit Expectation Gap

In order to find out which measures can be used for reducing the tax audit expectation gap between the tax authority and corporate tax payers, a binary logistic regression was used for analysis.

Binary Logistic Regression

Results in Table 10 reveal that better tax compliance standards were positive and statistically significant in influencing the services of the tax man. This was supported by a p value of 0.025. This implies that better tax compliance standards can help to narrow down the tax audit expectation gap. These findings agree with those of Zeithaml and Bitner (2000) who argued that the expectation of good service increases when the taxpayer perceives many alternatives which may include self-preparation. For clients with extremely complicated returns, there are fewer alternatives to having a particular provider, and they are likely to be more easily satisfied.

Results in Table 10 also reveal that forensic accounting was positive and statistically significant in influencing the services of the tax man. This was supported by a p value of 0.002. This implies that forensic accounting measures can help to narrow down the tax audit expectation gap. These findings agree with those of Owojori and Asaolu (2009) who sought to find out how the knowledge of forensic accounting can reduce corporate fraud and mismanagement. The study concluded that the services of a forensic accountant are critical and important in exposing and preventing fraud, corruption and mismanagement in both the private and public sector.

In addition, results in Table 10 reveal that I-tax implementation was positive and statistically significant in influencing the services of the tax man. This was supported by a p value of 0.038. This implies that I-tax implementation can help to narrow down the tax audit expectation gap.

These findings agree with those of Victor-Nyambo, (2009) who found out that, ICT help to maintain consistent record keeping, timely access of such records and fast processing of returns which together improved the performance of tax revenue. The findings also agree with those of Suluo, (2013) who found evidence from Philippines that the use of ICT for tax administration results into increased tax collection as well as modernization of administrative processes.

Further, results in Table 10 reveal that user education was positive and statistically significant in influencing the services of the tax man. This was supported by a p value of 0.026. This implies that user education as a tool can help to narrow down the tax audit expectation gap. These findings agree with those of Koh and Woo (2008) who carried out a literature based study on the expectation gap in auditing. The authors base their arguments on the fact that studies have found evidence to support the belief that audit knowledge of the users influences the size of the expectation gap. These findings also agree with those of Fowzia (2008) who examined the role of audit education in narrowing the audit expectation gap in Bangladesh. In the study, it was apparent that the expectation gap among the groups is becoming insignificant according to the role of audit education.

Table 10: Binary Logistic Regression

Variable	B	S.E.	Wald	df	Sig.	Exp(B)
Average Better Standards	1.455	0.648	5.038	1.000	0.025	4.285
Average Forensic Accounting	1.897	0.617	9.447	1.000	0.002	6.667
Average I-tax Implementation	0.61	0.699	0.76	1.000	0.038	0.544
Average User Education	1.109	0.498	4.963	1.000	0.026	3.032
Constant	-11.997	3.41	12.375	1.000	0.000	0.000

CONCLUSIONS

The study concluded that: a tax audit expectation gap exists between the tax authority and the corporate tax payers; unreasonable expectations contribute to the tax audit expectation gap between the tax authority and the corporate tax payers; the tax man's substandard performance contributes to the tax audit expectation gap between the tax authority and the corporate tax payers; introduction of better tax compliance standards, forensic accounting, I-tax implementation and user education can be useful measures in narrowing the tax audit expectation gap between the tax authority and the corporate tax payers. The study recommended that the Kenya Revenue Authority should maintain consistency in updating better tax compliance standards, use forensic accounting, implement I-tax and equip the corporate tax payers with taxation information so as to reduce the tax audit expectation gap.

RECOMMENDATIONS

Introduction of better tax compliance standards

The study recommends that better tax compliance standards should be promulgated by the Kenya Revenue Authority. This can be done in order to ensure that the corporate tax payers are satisfied with the authority's services. For instance, this can be done by engaging taxpayers in interview and decision making process which will in return make them take more personal responsibility on tax return preparations and be less critical of the tax man. Another way of improving the tax compliance standards can be through having predicted service. A recent experience with a tax preparer or expectations developed from advertising may be used to influence a client's perception of adequate service. Another way of improving the tax compliance standards can be use of deadlines.

Use of forensic accounting

The study recommends that forensic accounting should be introduced in Kenya Revenue Authority tax audit engagements and specifically in corporate companies. This will stem fraud in corporate companies and narrow the tax audit expectation gap. In addition, use of forensic accounting will improve the goodwill and the earning power of the tax authority.

I-tax Implementation

The study recommends that I-tax should be implemented by the Kenya Revenue Authority in its tax audit engagements and specifically in corporate companies. This will stem fraud in corporate companies and narrow the tax audit expectation gap. In addition, use of I-tax make the process of remitting taxes easier as well as improve the goodwill and the earning power of the tax authority.

User education

The study recommends that the corporate tax payers should be educated about the duties and the responsibilities of the tax man so that the unreasonable component of the tax audit expectation gap can be addressed. In addition, user education can help to increase public awareness of the nature and limitations of a tax audit.Such education should be carried out during the company's AGM. Similarly, this will reduce the number of unsuccessful litigations against tax men as these litigations are not only costly to these corporate companies, but also damage the goodwill of the tax man.

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