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Original Article

Audit Expectation Gap: Empirical Evidence from Bangladesh

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Abstract *- This article aims at finding the audit expectation gap among the four groups, namely, auditors, investors, general users of audit reports, and accounting academia, about the features of an independent auditor in Bangladesh. It is primary research based on the questionnaire. It finds that the minimum audit expectation gap exists between the users of financial statements and the independent auditors regarding the features of the auditor, as proved by the result of ANOVA. Also, the internal validity of the questions is proved by the test performed. Results are validated by the standard statistical software excel. It implies the awareness of the users of accounting reports audited by independent auditors and the features of independent auditors. It finds that users and independent auditors are alike in their perception of the features of independent auditors.*

Keywords *- Audit expectation gap, Features of Auditor, Bangladesh.*

I. INTRODUCTION

Recent scandals at the national and international landscape have not only undermined the credibility of the audit profession but also severely damaged the business operation. With the bankruptcy of World Com, employees lost $ 775 million in interest benefits, and 40% of employee plans consisted of the stock of World Com. According to the research of the Association of Certified Chartered Fraud Examiners (ACFE), out of 1,843 global occupational fraudulent activities that happened between January 2008 and December 2009, 25% of the fraud cases resulted in minimum losses of USD $1 million. The astonishing part is that frauds and mismanagement of those funds were not detected for at least 18 months since the mismanagement of funds had been initialized. This scenario is not surprising when PricewaterhouseCoopers, in the 5th Global Economic Crime Survey, 2009 made statement that even if audit procedures are duly followed with professional due care and proper safeguard, nevertheless, fraud remains a widespread business risk, and almost every firm is subjected to commit occupational fraud with an aim to show healthy financial figures to its stakeholders. Similarly, in 2009, KPMG acknowledges that although in recent times some considerable actions have been taken to control issues and systems to narrow the audit expectation gap, the actual magnitude of fraud and financial damages have not reduced to an expected level and even get worsen in a particular scenario.

In recent years the scenario is very much pronounced that Independent auditors have failed to deliver their perceived objectives fully with the auditing profession has been invariably placed in the spotlight. The misperception that people who do have any stake in the company should rely on its audited financial statements as a guarantee of its transparency to take a financial decision and that so auditors should be made accountable for any financial setback of the vested company always creates a vulnerable situation for the accounting profession.

Within the passage of time and the scope and nature of the audit, the main objective of auditing has changed from fraud detection to "verification of financial statements" (Chandler, Edwards, and Anderson, 1993). Many experts believe that the shift of the objective was an attempt to protect auditors from avoiding legal suits by businesses and the general public. Hassink et al. (2009), along with (Agyei et al., 2013), reported that the audit profession has shrined its activities in the area of fraud detection and transferred that particular responsibility to management. Further studies indicate that such shift in audit objectives and responsibilities over time has been the primary factor contributing to the dissatisfaction among stakeholders, including shareholders, current and potential investors, and ultimately finds the way of maximizing the gap between more expectations from the auditing profession and what the auditing profession actually does.

When disagreement and conflict of interest exist in terms of purpose and responsibility, performance will be negatively affected, and desired objectives will not be achieved. This situation prevails between the external auditors and the peoples' expectations. Therefore, if the perceived duties of the auditors can be streamlined with users' expectations and a sufficient and reasonable degree of independence can be assured, the present rate of the audit expectation gap will be reduced. In order to gain a deeper insight into this topic, the objective of this research paper is to identify the causes and the stereotypical nature of the audit expectation gap in Bangladesh after interpreting and evaluating the results of previous research studies, with the aim of finding feasible solutions for narrowing the expectation gap.

II. LITERATURE REVIEW

Several studies such as Bailey et al. (1983), Nair et al. (1987), and Anderson et al. (1998) find that users of financial statements attribute disproportionate responsibility towards including auditors responsible for the adequacy of the financial statements, creating the difference between what users of financial statements expect from the auditor and what the auditor actually provides.

Zidmund (2008) asserts that the meaning of the terms such as "reasonable", "material", "professional skepticism" used in the audit engagement differs from one auditor to the other. In addition, the meaning of auditing is often misunderstood by financial statements users, believing that an unqualified opinion certifies the accuracy of the entity's financial stability.

Dicksee (1892), in his formal auditing textbook, suggests that the scope of an audit covers the detection of fraud, technical errors, and errors of principle. Moreover, he further explained that fraud detection was the most key portion of the responsibilities of an auditor and that the auditor was perceived to ascertain the authentic state of the financial performance of the enterprise. However, Sikka, Puxty, Willmott, & Cooper (2003) considered detection of fraud to be a secondary audit objective.

Jedidi and Richard (2009) find that auditors embark on public interest, which is supposed to protect the action of the auditors, whereas their efforts are executed to protect themselves from audit failures and auditor litigations. Auditors use the expectation gap as an excuse to get away from any potential direct indictment and to promote auditing.

Fadzly and Ahmed (2004) believe that the audit expectation gap is a pressing issue in auditing for the damage it has incurred so far and continues to bring the probable failure of the auditing profession, whereas Baker (2002) claims that public confidence in a group of professionals is the nucleus of the audit profession and, if such confidence is lost, the professional trustworthiness is destroyed.

American Institute of Certified Public Accountants (AICPA) initiated the term expectation gap by establishing Cohen Commission (1978) to set a suitable code of ethics to guide auditor's responsibilities. The objective of the commission was to determine whether a considerable gap exists between public expectations in terms of what auditors are supposed to provide and what they actually do. A sub-commission under the supervision of the Senate was established in 1975 to set procedures to enhance the roles and responsibilities of auditors and public firms.

Hasas Yeganeh & Khalegi (2005) study the expectation gap between auditors and users of the audit service. They found more than average difference between auditor and users' perception concerning accreditation and attestation service. Similarly, Salehi & Nagilo (2008) surveyed the expectation gap and came up with the conclusion that although there are some similarities, a significant gap is found between auditors and bank employees concerning the duties of the independent auditors.

Salehi & Rostami (2009) study the expectation gap between auditors’ duties and users of auditors' service. They stated that educating the user and letting them know regarding the auditing objectives result in minimizing the expectation gap. In addition, the state of independence is negatively related to the expectation gap. Salehi et al.(2009) performed the same research and asserted that auditors independently play a critical role for the user of financial statements in the decision-making process, and most of the users don't have the deep extent of knowledge about the incidence of auditors in an audit engagement.

Pierce & Kilcommins (1996) conduct a survey among five different groups of students at the beginning and end of the year to justify whether education can minimize the audit expectation gap and highlighted that the expectation gap declined more than the expected level among students who have studied than who have not the audit fundamental concepts.

A significant gap has not been found in both countries in India and Iran when Mahadevaswamy & Salehi (2008) in a survey titled "audit expectation gap in auditor responsibilities between India and Iran". However, some differences are pronounced in some cases, such as providing financial statements, accrediting financial statements, and detecting fraud.

While investing the presence of a “perceptions gap” in Saudi Arabia, Hudaib and Haniffa (2002) conclude that opinion differences present on the official and expected roles of auditing and issues related to audit environment in-between the various groups were apparent.

In 2011, Adeyemi and Uadiale conducted a survey in Nigeria to examine the extent of the expectation gap in Nigeria. The study revealed that existing duties and responsibilities of auditors are not clearly defined and somewhat ambiguous, and the expectation gap was extensive on the issues of the auditors' responsibilities on fraud detection because a significant number of the respondents believed that auditors' responsibilities should be defined more than they actually do in the audit engagement.

Liggio (1974) first formulates the concept of audit expectation gap as to the difference between the levels of 'expected performance done by auditors and perceived by users of financial statements. Liggio’s definition was further elaborated by the Cohen Commission on Auditors ‘Responsibilities (CAR) in 1978, which defined the gap 'may exist between what the public expects and what auditors should be reasonably prescribed to accomplish. However, Porter considered the definition of Liggio’s and CAR’s too narrow to portray that auditors might not accomplish the expected performance level.

Gupta (2005) and Ojo (2006) find that public expectations from the independent financial audit should entail much beyond its present objective, nature scope. The so-called watchdog function of the auditors has been increasingly questioned in recent times.

Humphrey and Turley (1992) examine the audit expectation gap in the UK regarding the role of auditors through a series of unstructured interviews, questionnaires, and mini case studies. The studies conducted by Humphrey and Turley (1992) reveal an insignificant level of perception differences found in the audit functions.

III.AUDIT EXPECTATION GAP FRAMEWORK

This gap illustrates the difference between what the societies or users do expect from auditors and what auditors are reasonably expected to do in accordance with prescribed rules and regulations. The definition of the audit expectation gap provided by scientists and academicians has undergone considerable evolution over time. However, the Porter contribution was considered to be the maximum to identify the gap shifted from breaking its basic definition to illustrating the nature, structure, and cause of the audit expectation gap. Porter distinguished the audit expectation-performance gap in two basic elements.

A. First-Reasonable Gaps

The difference between what the public expects auditors to achieve and what auditors can reasonably be expected to accomplish is known as the audit expectation gap. The maximum gap arises from the unreasonable expectations of users. Auditors were supposed to provide absolute assurance in early 1990 with the aim to detect and prevent fraud. Although the level of assurance has changed from absolute to reasonable assurance afterward, the expectation of the public regarding the opinion provided by the auditors remained unchanged, creating a reasonable gap.

B. Second- Performance Gap

This gap is defined as the difference between what is reasonably expected by society and what is perceived to be achieved. It can be further broken down into two elements.

C. Deficient Standard Gap:

Deficient Standard Gap is the difference between what auditors are reasonably expected to do by the society (users) and what auditors are prescribed to do within the range of laws, standards, etc. Porter & Gowthope (2004) assert that even if some of the responsibilities that society or users expect are unreasonable, few are supposed to be reasonable to be performed by the auditors and hence, demonstrate the inadequacy in the standards.

D. Deficient Performance Gap

Deficient Performance Gap shows the failure of auditors to perform according to the responsibilities expected by society. A gap between the expected standard of performance of auditors' existing duties and performance as expected and perceived by society brings the performance gap. Akinbuli (2010) finds a parallel relation between the deficient performance gap and the 'rotten auditing gap' to illustrate the perceived underperformance of the auditors by the users.

Apart from the Porter model, so many factors have contributed to the underlying reasons for the audit expectation gap experienced between auditors and users. Sharhk and Talha (2003) suggest reasons such as the probabilistic nature of auditing, the misunderstanding and unreasonable expectation of users, the evaluation of audit responsibilities when information is not available, the professional endeavors to control the direction of the expectation gap, etc. Some other reasons that may be prevailing are unjustified expectations by users, audit procedure, and subjective nature of audit decision, etc.

IV. RESEARCH METHODOLOGY

The research was conducted in the fourth quarter of 2018 to know the audit expectation gap in the economic, social, and regulatory environment in Bangladesh. To make the research effective, we invited the active player of the economy. To collect descriptive and explanatory data about attitudes, beliefs, behaviors, and attributes, we found a logical and judgmental questionnaire to be more useful as part of a survey strategy. The questionnaire and survey method used is an extended version of that used by Best et al. (2001) in Singapore, Agyei et al. (2013) in Ghana, Salehi, and Azary (2008) in Iran, and Chowdhury et al. (2005) in Bangladesh. Both purposive and convenience sampling techniques were used in this survey. Here purposive sampling technique is used to select the maximum user groups who are the active users of financial statements. The objective of employing purposive sampling is to use skill and prior knowledge to choose and classify respondents. In addition, convenient sampling was used based on the availability and willingness of respondents to fill the questionnaires. The questionnaire used in this study consists of two parts. The first part contained demographic data. The second part contained 25 different general audit statements categorized under the subheads 1) Responsibility Statements; (2) Reliability Statements; (3) Decision usefulness Statements; (4) Audit Procedure Statements and (5) Ethics statements. The

population is divided into 4 groups 1-Investor who don't have any education knowledge about audit and who just invest money in the stock exchange through a Brokerage house, Group 2-Practitioners who have qualified the Chartered Accountancy degree and who are article students in ICAB, Group 3- Academician who belong to Accounting and finance background, Group 4-Diversified user who works as financial Consultant, banker, tax advisor, etc. To have the objective to have 40 respondents from each group, 100 questionnaires are distributed to each group, with the response rate varying from 45% to 50%. Likert’s scale questionnaire instrument is employed in this research by selecting the perceptional levels of respondents on a scale with strongly agree-5, Agree-4, Moderate-3. Disagree- 2 and strongly disagree-1.

V. ANALYSIS OF RESULT

A. Cronbach's Coefficient Alpha:

This particular test is performed to check the internal reliability of the questionnaires (Ahmad and Keshavarzi, 2013). The value of Cronbach's Coefficient Alpha for the questionnaires is found to be 0.9496. This can be concluded that the questionnaires of this study have a very high level of internal reliability (Peterson, 1994). The following mathematical equation is used to find the value of Cronbach's Coefficient Alpha.

$$\alpha = \frac{K}{K-1} \times \left(1 - \frac{\sum_{i=1}^{k} \delta_{yi}^2}{\delta_x^2}\right)$$

Where K= total number of items;

δ_x = Standard Deviation of observed total test scores;

δ_{yi} = Standard Deviation of component I for the current sample of subject or person.

B. Analysis of Variance (ANOVA):

ANOVA distributes the observed variance in a specific variable into components attributable to different sources of variation (Kangarlouei et al., 2012). In other words, it provides the statistical test of whether or not the means of several groups are the same and therefore generalizes the t-test to more than two groups. This survey involves single factor or one-way ANOVA analysis as it is useful to compare two or more sample means. The result of the ANOVA test is given in Table 1 below:

Table 1. ANOVA Test Result

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	1648.68	3	549.56	0.51	0.68	2.7
Within Groups	105139.28	96	1095.201			
Total	106787.96	99				

As the results prove, there exists no significant difference among the perception of the four groups regarding the features of Auditors. As F-value is within the limit of F-critical value and the P-value is more than 5%, this is clear that no significant difference in perception exists among the observed groups regarding features of the auditor that indicates the minimum level of the audit expectation gap. So, our H_0 is accepted.

VI. CONCLUSION

This empirical survey and the aforementioned discussions provide evidence of a minimum expectation gap regarding the features of independent auditors among the users of the audit report and independent auditors. It shows that there is no significant difference among the perception of users and auditors regarding the features of independent auditors. It also signifies the higher level of knowledge of the users of financial reports audited by the auditors about the audit and activities of the auditor. Also, the internal reliability of the questionnaires is proved by a high value of Cronbach's Alpha. Results of the tests performed in this survey put evidence in favor of the statement that auditors, managers, investors, and academia all have a similar view about the responsibilities, qualities, functions, ethics, and other basic features of independent auditors in Bangladesh. This can also be inferred from these discussions that users of the audited financial reports in Bangladesh put more reliance on the audit reports and the published financial statements though this result is contradictory with previous research (Chowdhuey et al. 2005)

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