

A Review and Identification of Aspects that Contribute towards Creation of Audit Expectation Gap, a Step towards Narrowing This Gap

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Abstract

Bridging of something requires a gap, and Audit expectation gap still exists since the time it was identified in 1970s, and to cover a gap requires identification of areas which needs to be covered, specially the areas which are the reason of creation of this gap. This paper attempts to expand the literature by identifying the factors which result in creation of this gap through a comprehensive review of literature, specially focusing the key countries in which studies are made regarding audit expectation gap as well as to highlight the groups among which the audit expectation gap exists, so that all necessary aspects should be taken into necessary consideration, and necessary attempts should be made to cover it. It is revealed that audit expectation gap exists due to difference of opinions about the factors like auditors' role with respect to company and financial statements, audit knowledge, auditor's attitude towards their profession, audit process, auditors' independence, fraud detection, importance of auditing, preparation of financial statements, performance of company, parties to whom auditors are responsible, prohibitions and regulations of audit firm, reliability of financial reports and usefulness of financial statements among auditors, accountants, bankers, brokers, creditors, directors, educators, government, investors, journalists, jurors, shareholder, students and government. Various policy implications are also discussed herewith.

Keywords: fraud, auditors, accountants, auditors' responsibilities, expectations

Introduction:

As resolving an issue demands to identify the reasons of problem clearly, this paper attempts to have a comprehensive look in literature in order to highlight the all aspects and factors that contributes towards creation of this gap, as well as the groups which were focused in different countries while conducting the studies regarding expectation gap, So that we have a clear picture of all problems as well as all groups among which this gap exists to bridge this gap.

Audit expectation has a long history, it was firstly identified in 1970s, and the word expectation gap was first ever used by (Liggio, 1974). And Porter (1993) says that this gap arises when auditors fail to meet the expectation of stakeholders. So, studies were conducted in many countries to identify whether this gap exists there or not, this gap can arise on any issue on which auditors and respective stakeholders have different opinions, as said by Lee and Ali (2008) this gap may be due to deficit performance of auditors due to unreasonable expectations of stakeholders. But in order to reduce this gap it is important to highlight the key factors, the areas which are important and that contributes towards creation of this gap(Gay, Schelluch, & Baines, 1998).

Identified aspects and focused groups:

An expectation gap arises when the auditors and users of financial statements have different perceptions about the roles and duties of auditors(Koh & Woo, 1998).Consequently, this gap was found in different manners in different countries among different groups depending upon the type of study conducted, for example in Australia this gap was identified among auditors, accountants, directors, creditors, shareholders and students on the issues of auditor's role with respect to company, reliability of financial statements and performance of

company (Monroe & Woodliff, 1994). While in Britain this gap was identified among views of auditors, directors, investors, bankers and financial journalists on the issues of audit process, auditor's role with respect to company and financial statements, parties to whom auditors are responsible and Prohibitions and Regulations of Audit Firm (Humphrey, Moizer, & Turley, 1993).

Different researchers develop different frameworks in their countries to find the existence of audit expectation gap; they also focus different groups of people in which they think that there may be an existence of expectation gap among them. Lin and Chen (2004) in China concluded from their study that an audit expectation gap exists among Auditors, Government, investors, management and educators on the issues of Importance of Auditing, fraud detection, responsibilities of auditors and auditors' independence. Dixon, Woodhead, and Sohlman (2006) in Egypt also concluded that a gap exists among Auditors, investors and bankers on the issues of auditors' responsibilities, maintenance of accounting records, auditing process, reliability of audit reports and usefulness of audit. In Malaysia gap was found on the issues of auditing process, parties to whom auditors are accountable, role of auditors with respect to financial statement and audited client on the issues related prohibitions and regulations of audit firm among Auditors, accountants and educators (Mohd Ariff, Rosmaini, & Hanafi, 2008).

In Iran as Pourheydari and Abousaiedi (2011) found the gap on the issues of responsibilities of auditors with respect to financial statement, fraud detection and perception about financial statements among auditors, investors, bankers and brokers. In Singapore gap was also found among auditors, bankers and investors on the issues of responsibilities of auditors with respect to financial statement, fraud detection and usefulness of financial statements (Best, Buckby, & Tan, 2001). In USA gap was found on the issues of audit knowledge, auditors' role, fraud detection and attitude of auditors towards their profession among auditors, jurors and students (Frank, Lowe, & Smith, 2001). And in India the expectation gap was found on the issues of auditing process, parties to whom auditors are accountable, role of auditors with respect to financial statement and audited client on the issues related prohibitions and regulations of audit firm among Auditors, accountants, bankers and journalists (Saha & baruah, 2008).

Identified aspects:

Where ever in the world study was conducted on investigation of audit expectation gap, results of studies provided evidence on existence of this gap among different groups on different issues, as the issues which were the reason of this gap are describes in following table with respect to countries.

Table 1.1 aspects that contribute towards this gap

Country	Issues, factors and aspects	Reference
Australia	A1,R1,P2	(Monroe & Woodliff, 1994)
Britain	A1,A2,A5,P3,P4	(Humphrey et al., 1993)
China	A2,A6,I1,F1,	(Lin & Chen, 2004)
Egypt	A1,A2,A5,R1,U1	(Dixon et al., 2006)
Iran	A2,F1,P1	(Pourheydari & Abousaiedi, 2011)
USA	A3,A4,F1	(Frank et al., 2001)
Malaysia	A1,A2,A5,P3,P4	(Mohd Ariff et al., 2008)
Singapore	A2,F1,U1	(Best et al., 2001)
India	A1,A2,A5,P3,P4	(Saha & baruah, 2008)

A1: Auditors' role with respect to company **A2:** Auditors' role with respect to financial statements **A3:** Audit knowledge **A4:** Auditor's attitude towards their profession **A5:** Audit process **A6:** Auditors' independence **F1:** Fraud detection **I1:** Importance of auditing **P1:** Preparation of financial statements **P2:** Performance of company **P3:** Parties to whom auditors are responsible **P4:** Prohibitions and regulations of audit firm **R1:** Reliability of financial reports **U1:** Usefulness of financial statements.

As it is clear from the Table 1.1 that there are similarities as well as the differences on aspects that contribute towards this gap in different countries depending upon the type of conceptual frame work or research design adopted by that country. This may also depend upon the groups which you are focusing that in what sense and in what manner they perceive the existence of audit expectation gap depending upon the academic literature survey of that country

Focused groups:

Different type of groups were focused by researchers of countries as described above, along with auditors some researches focused accountants and educators (Mohd Ariff et al., 2008). But some focused auditors along with bankers and investors (Dixon et al., 2006), as described in detail in Table 1.2.

Table 1.2 focused groups

Country	Focused groups	Reference
Australia	G1,G2,G5,G6,G13,G14	(Monroe & Woodliff, 1994)
Britain	G1,G3,G6,G9,G10	(Humphrey et al., 1993)
China	G1,G7,G8,G9,G12	(Lin & Chen, 2004)
Egypt	G1,G3,G9	(Dixon et al., 2006)
Iran	G1,G3,G4,G9	(Pourheydari & Abousaiedi, 2011)
USA	G1,G11,G14	(Frank et al., 2001)
Malaysia	G1,G2,G7	(Mohd Ariff et al., 2008)
Singapore	G1,G3,G9	(Best et al., 2001)
India	G1,G2,G3,G10	(Saha & baruah, 2008)

G1: Auditors **G2:** accountants **G3:** bankers **G4:** brokers **G5:** creditors **G6:** directors **G7:** educators **G8:** government **G9:** investors **G10:** journalists **G11:** jurors **G12:** management **G13:** shareholders **G14:** students

Aspects with respect to focused groups:

In countries like Britain, Malaysia and India factors that contribute towards creation of this gap were same but the groups which were focused in their studies were different as described in Table 1.3.

Table 1.3 Aspects with respect to focused groups

Country	Issues, factors and aspects	Focused groups	Reference
Britain	A1,A2,A5,P3,P4	G1,G3,G6,G9,G10	(Humphrey et al., 1993)
Malaysia	A1,A2,A5,P3,P4	G1,G2,G7	(Mohd Ariff et al., 2008)
India	A1,A2,A5,P3,P4	G1,G2,G3,G10	(Saha & baruah, 2008)

Details of key words used in this table are described briefly in Table 1.1 and Table1.2

Factors that are described in above table are identical in each country, but the groups which were focused are totally different, referring to Table 1.1 it is clear that there are also similarities in the factors which are identified in different countries,

So, from this we can draw a conclusion that each factor has its own significance, and if study regarding a particular factor is not conducted in a particular country, it does not mean that audit expectation gap regarding that factor does not exist there, for the sake of further exploration of literature we can see the focused groups with respect to aspects that contribute towards creation of this gap.

Focused groups with respect to aspects:

In the countries like Britain, Egypt, Iran and Singapore the groups which were focused were same but the factors on which gap was identified were different as described in following Table1.4

Table 1.4 Focused groups with respect to aspects

Country	Focused groups	Issues, factors and aspects	Reference
Britain	G1,G3,G9,G6,G10	A1,R1,P2	(Humphrey et al., 1993)
Egypt	G1,G3,G9	A1,A2,A5,R1,U1	(Dixon et al., 2006)
Iran	G1,G3,G9,G4	A2,F1,P1	(Pourheydari & Abousaiedi, 2011)
Singapore	G1,G3,G9	A2,F1,U1	(Best et al., 2001)

Details of key words used in this table are described briefly in Table 1.1 and Table1.2

From the proceedings of Table 1.4 it is clear that groups are similar in the mentioned countries but factors are not, as well as from Table 1.2 it can also be seen that some groups were similar but some were not with the groups of other country while conducting a research.

So, from the above discussion it can be concluded that every focused group has its own significance .And if a group is not focused while conducting a research in a country ,it does not mean that audit expectation gap does not exist in that particular group.

Conclusion and future recommendations:

Each and every factor that contributes towards existence of audit expectation gap has its own significance irrespective of the matter whether study is conducted regarding that factor or not, if study is not conducted in a specified country regarding a factor, it does not mean that gap regarding that factor do not exist there. As it was revealed that Fraud detection is the aspect that occurs most frequently almost in every country. So, special attention should be given to minimize this aspect as it contributes a lot towards this gap as compared to other factors. And a comprehensive model should be made to remove other factors such as auditors' role with respect to company and financial statements, audit knowledge, auditor's attitude towards their profession, audit process,

auditors' independence, fraud detection, importance of auditing, preparation of financial statements, performance of company, parties to whom auditors are responsible, prohibitions and regulations of audit firm, reliability of financial reports and usefulness of financial statements in order to bridge this gap.

Focused groups has also their importance, the groups among which this gap occurs such as auditors, accountants, bankers, brokers, creditors, directors, educators, government, investors, journalists, jurors, shareholder, students and government. Every group has its own significance and if a study regarding a specified group is not conducted in a country it does not mean that audit expectation gap does not exists among that group.

Every factor and every group is important, and in order to bridge this gap such a framework should be prepared which focuses all factors as well as all groups, instead of focusing a specified group or a specified factor.

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