





PERCEPTION OF AUDIT EXPECTATION GAP: A STUDY ON BUSINESS STUDENTS OF BANGLADESH

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ABSTRACT

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This study objects to probe the audit expectation gap (AEG) among the business students from different public and private universities of Bangladesh. The study tries to explore the perception about the auditors' role and its deviation from the actual scenario contributing to an AEG. This article try to observe the extent of Business Students' ability to understand audit responsibilities, duties and auditor's role in preventing fraud and thus identify the concerns that lead to an expectation gap through a closed-ended structured questionnaire. Results indicate that satisfaction level of the respondent is low regarding the activities of auditors and they expect more engagement from them. Accurate attachment of international auditing rules, association with foreign firm and independence of audit engagement will be the probable solution to reduce this overall audit expectation gap. Moreover, respondent are highly acquainted with the fact that internal management and their overall strategic control for decision making is equally important to enhance the credibility of disclosed corporate information.

Contribution/Originality: This study contributes to the existing literature by providing the real view of the business students regarding the audit expectation gap from a developing country perspective. As these students will be the potential auditor and user of financial statement, their opinion to reduce this audit expectation gap will act a prominent role.

1. INTRODUCTION

“Audit Expectation Gap” (AEG) was a term that was first coined by [Liggio \(1974\)](#) where he had demarcated it as “A factor of the levels of expected performance as envisioned both by the independent accountant and by the user of the financial statements. The difference between the levels of expected performance is called the expectation gap”. The American Institute of Certified Public Accountants (AICPA) had induced a committee called the Commission on Auditor's Responsibilities (CAR) or The Cohen's Commission and it was there, the phrase by Liggio had become a common parlance. In 1974, under some threats of intervention by the government on the professionals' work, the commission has adhered to “consider whether a gap may exist between what the public expects or needs and what audits should reasonably expect to accomplish.”

However, several previous studies, all of which had evidenced that indeed, and there was a gap that existed. However, as per the definitions, there existed some major loopholes as the definition by Liggio was such that wider

term “the public” replaced the term “financial statement users”. Thus, came the term called the “performance - expectation gap” which focused on the gap between the societal expectation of the external auditor and the performance of that auditor.

The intention of doing this study is to determine the nature of audit expectancy gap that exists among the public university and the private university students.

In attaining this objective, the study objects to achieve an understanding of the followings.

- i. Try to find the differences in perception of the auditors’ roles and objectives.
- ii. The need for the better auditing services in Bangladesh.
- iii. The differences in responsibilities of the auditors and the clients and
- iv. To observed the independence of auditor.

Respondent’s opinion varies regarding the roles and objectivity of auditor and on average 50 percent were agree regarding the service given by the auditor. However, when the questions were about the duties of auditor then about 90 percent were in same position in giving their statement. In short, interviewed people do not give the optimum importance to the credibility of audited financial statements.

The following structure of this article is as follows. Second part starts with the prior empirical works followed by research methods. Fourth section will present analysis and findings and fifth part will extant with the concluding remark.

2. PREVIOUS LITERATURES

Over the years, there have been many studies, which used to identify the audit expectation gap. Numerous studies were done both in the background of developing and developed countries. In 1977, Baron et al analyzed the difference in perspective of both, the auditors and the users of the information, in case of the auditor’s fraud detection duties. Furthermore, during 1992 and 1993, several amorphous discussions, small event studies and Humphrey used questionnaires to explore the AEG in the UK. The primary focus of this study was on two groups, which included the auditors themselves and the respondents. Through this investigation, they found that there existed noteworthy variances in the replies by both the groups in terms of the perceived role of an auditor, thereby indicating an expectation gap.

Dewing and Russel had conducted a study in 2002 in the UK. The managers were acquainted regarding the AEG but were more anxious about the obligations and role of the auditors.

Techniques of scam preclusion, correctness assurance of financial statements, operative usage of endowments provided by government and proficiency level of management were the prominent areas for difference in AEG in Singapore and it was the study results of Low *et al.* (1988). Moreover, they concluded that the severity of this gap in their study zone is large.

In case of fraud detection and prevention, preservation of accounting records and auditor verdict concerning the selection of audit procedures, Peter *et al.* (2001) found that there had been substantial differences in the users’ perceptions. In Saudi Arabia, Hudaib and Haniffa (2002) had conducted their own research for the AEG. There were apparent differences in the perceptions of the official and expected roles of auditing and issues related to audit environment among various groups. In 1994, Epstein and Geiger had drawn the conclusion that a high level of audit assurance was to be demanded less by educated users.

McEnroe and Martens (2001) found that investing people require more information from the auditor in the field of disclosure, internal control, fraud and illegal operation regarding a company when they prepared for an unqualified opinion. Nevertheless, they settled that opinions provided by the auditors related to financial statements were not that much operative to lesson this gap among the parties. Investors wanted that auditor would play the role of watchdog for the public.

Pierce and Kilcommins (1996) had conducted an inspection with questionnaires on undergraduate students of Ireland which had addressed the effect of auditing education had contributed significantly on the reduction of the expectation gap.

Nair and Rittenberg (1987) found that user's insight about the relative errands of management and auditors will have a chance of changing by providing a detailed audit report. Therefore, they emphasized on the inadequacy of the audit report and also mentioned that extended one have the capacity of reducing the gap. This was in line with the outcome of the research conducted by Kelly and Mohrweis (1989) that edified that user's perception of the purpose and nature of an audit significantly reformed by phrasing adjustments in audit report.

Rosenthal *et al.* (1990) also explored the matter of audit reports among bankers and clinched that prolonged audit reports are more beneficial and understandable than the short form audit reports.

Holt and Moizer (1990) scrutinize AEG between accountants and a group he termed sophisticated users (persons who worked in stock broking firms, insurance companies, investment trusts, self-investing pension funds and bank).

Koh and Woo (1998) found that legal liability crisis in accounting profession was originated because of the misperception hold by the general people.

Audit opinion would provide "reasonable assurance" not the "complete assurance" because of the functional shift of auditor's responsibility of giving 'true and fair view' than that of 'true and correct view', found in the study done by Enofe *et al.* (2013). However, this paradigm shift cannot able to trigger an alteration in users' perception. However, they assume the auditors to accomplish activities such as captivating charge for any mistake or wrongdoing in the financial statements, do a 100% check instead of sampling check, audit reports would worked as the initial cautionary indications or needles of corporate anguish just to mention a few (Koh and Woo, 1998; Chukwunedu and Okoye, 2011).

Manson and Zaman (2001) investigated the perception difference among three respondents' group that included the auditors, the directors as the preparers of financial statement and users of the financial statement. They instituted significant variances prevailing on the reporting outline of auditors on the company and the auditors' verdicts in relation to deception and illegitimate entertainments. They also originated that auditors are unenthusiastic to go beyond the existing vow in articulating audit opinion in financial statements.

One of the more prominent ones was by Chowdhury and Innes (1998). They dug deep through investigating the AEG in the public sector through interviews. The main respondents were the public-sector auditors, the parliamentary members of the public accounts committee and international funding agencies. There were some significant variances found. The users believed the reports were made too long and contained unnecessary information since the auditors in the public sector delivered information of primarily financial and compliance nature even though the handlers were more concerned in executive performance linked data. The reason for the auditors doing so was the fortification of the general people's concentration but the users' opinions did not match with the auditors. There were discrepancies in independence as well. The auditors thought that they would not narrow to peripheral stimulus, nonetheless the users will not. The latter group thought that such was not the case because of the poor salary structure of the auditors and the government influence exerted on the auditors.

Nasreen (2006) did an investigation emphasizing the same issue on the students of Bangladesh. In that study, the two groups of students she had considered either had done the auditing course or had not done it. The overall findings were such that, even students with considerable knowledge about auditing had unreasonable expectations of audit assurance, fraud prevention and detection.

However, another study by Siddiqui *et al.* (2009) had been a research of the AEG exclusively in the extent of audit obligation. Auditors, students and bankers were the center point of this research. The main finding was that audit education did create awareness and audit reliability amongst students. However, when the students had

enough knowledge about the accounting scandals, there was an interest created amongst students and which is why there was an unreasonable expectation about the audit responsibility.

Lee *et al.* (2009) had stated that AEG is delirious to the financial reporting and auditing procedure. This is because the public may recognize the effort implemented by external auditors as inadequate.

Therefore, over the years, there have been many reports on AEG by various authors of different countries which stretched from USA to Bangladesh. The previous studies all concluded that there were significant differences in the audit expectation gap.

3. RESEARCH METHODS

The respondents of this study consisted of 108 business background students from different universities who were of various ages and genders. In order to carry out the study, authors used primary data with the total number of students being 108. Out of this, 56 of the participants had been public university students and 52 of the stated total belonged to private universities.

The dependent variable in this case was the AEG and there were various independent variables, which included perceptions about the auditors' responsibility, auditor's freedom and auditing services in Bangladesh.

This study used simple random sampling technique and a questionnaire using "Google doc" and the hyperlink sent to students from business studies background of different universities. There were 16 questions in the survey questionnaire.

For the purpose of the study, a 5-point Likert Scale was used for many of the questions presented in the questionnaire ranging from strongly disagree to strongly agree.

Respondents Profile:

Table-1. Respondents profile.

Particular	Amount in Number & Percentage
Public University	56
Private University	52
Total	108
Students attended auditing course	39%
Students not attended auditing course	61%
Total	100%

To find the gap between expected values according to International Standards on Auditing and observed values from the survey, analysis used descriptive statistics.

4. ANALYSIS AND FINDINGS

In order to identify if there was an impact of having done the auditing course, there was a question of whether or not students had taken up the auditing course at the university.

Overall, out of the 108 respondents, 42 students had done the auditing course at their university and 66 people had not.

4.1. Auditors' Roles and Objectives

First three questions highlighted what respondents perceived regarding the duties of auditors. The first question in this section explored the extent to which the respondent perceived the auditors to be *fully reliable enough to represent the truthfulness of the recorded accounts*.

In this case, out of the 108 respondents, a staggering number of 52 students had strongly agreed with the fact that auditors are expected to be fully reliable and truthful in their representation of the financial statements.

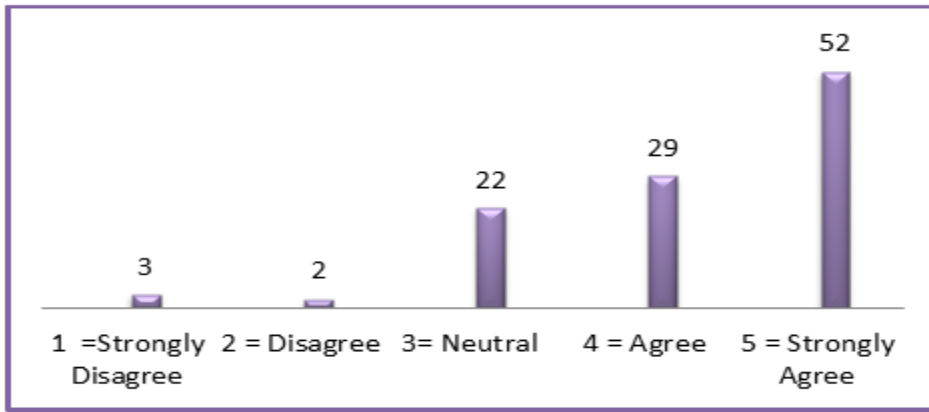


Figure-1. Auditors are reliable enough to represent the truthfulness of the recorded accounts.

This is because there cannot be a 100% assurance obtained from the auditors, as there may be material misstatements that exist outside the sample size considered by the auditors. While they are reliable to represent the truthfulness of the accounts, they did not hold, as 100% responsible as there remain some audit risks. These audit risks named as inherent risk, control risk and detection risk.

The next question of consideration was of whether the respondents thought that *the audited financial statements would guarantee the continuation of an entity*. Generally, auditing lends credibility to financial statements. However, auditors are observant and aware of the probability of its insolvency. Thus, neither aspect can guarantee those.

Although the statement of the question asked, removed from the expectations of that of the auditors, the overall results of the students again depict a high level of expectation gap.

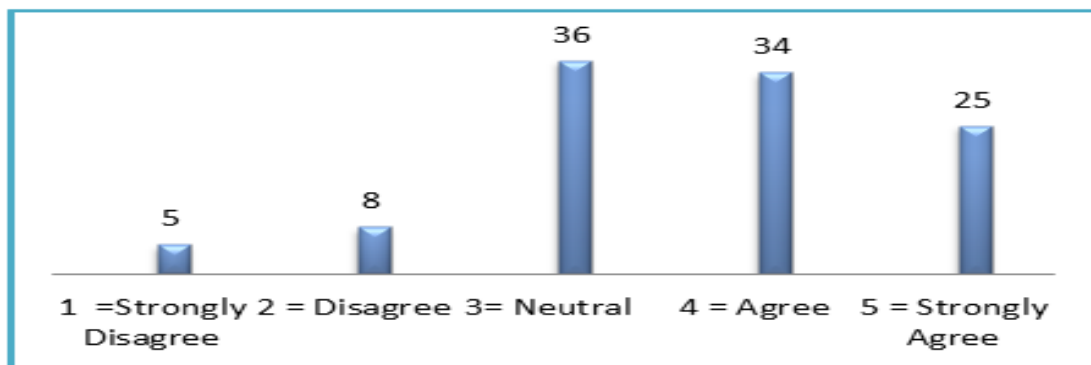


Figure-2. The audited financial statements would guarantee the continuation of an entity.

The following question in the study was whether the students agreed or disagreed with the statement that *auditors tested all items in the financial statement*. This statement is not entirely true from the perspective of an auditor because testing every single item would mean testing a huge population; hence, auditors usually use a sample that seems to have a material value. Overall, the students are far off from the assigned score, which creates huge expectation gap.

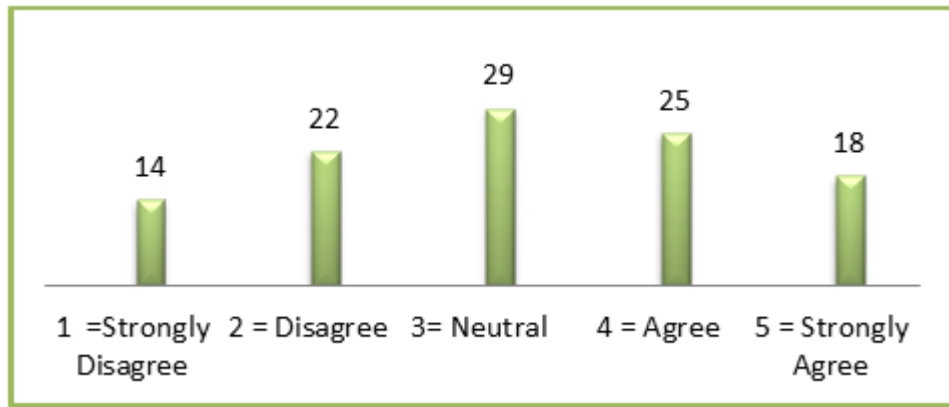


Figure-3. Auditors tested all items in the financial statement.

4.2. Auditor's Reliability

The asserted statement in this case was if *auditors have the ability to detect all errors*. Auditors acknowledge some responsibility to detect material fraud or errors, which affect the financial statements and they always put emphasis on the limitation of an audit in detecting errors or fraud.

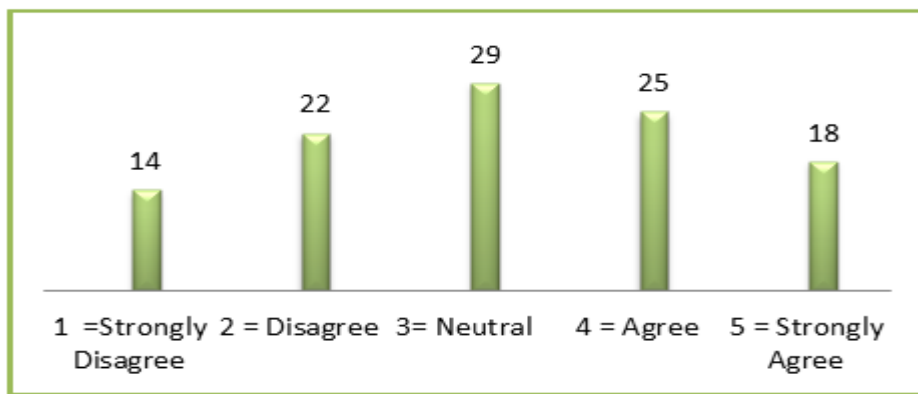


Figure-4. Auditors have the ability to detect all errors.

Apart from the 29 students who had a neutral opinion on the matter, 43 people had agreed or strongly agreed with the statement.

The auditors deliver absolute assurance regarding the exactness of the elements of financial statements; this was the next statement. Theoretically, auditors can never provide absolute assurance; they can only provide reasonable assurance.

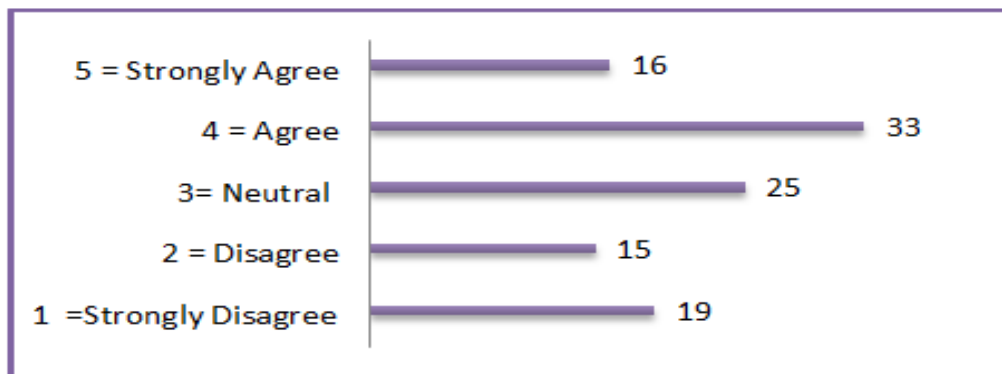


Figure-5. The auditors deliver absolute assurance regarding the exactness of the elements of financial statements.

About 49 out of 108 students show some form of agreement with the fact that there is an expectation of absolute assurance.

The final question in this section was “*Is the client’s internal management liable for the faithfulness and trustworthiness of the accounts?*”

International Standards on Auditing indicates that the auditor do not detain blamable for the accuracy of internal control systems of the entity. It is the onus of the management to ensure effective internal control structure of the organization. There seems to be almost no expectation gap in this case.

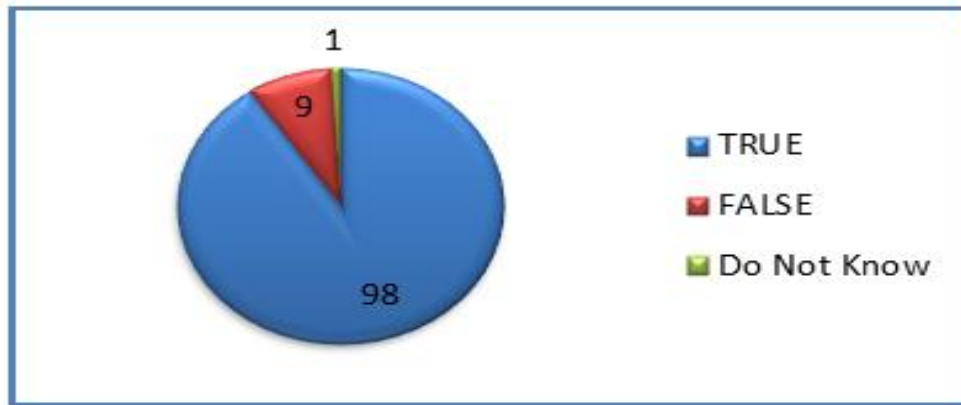


Figure-6. Is the client’s internal management liable for the faithfulness and trustworthiness of the accounts?

4.3. Auditor’s Freedom

The first statement for this section was “*A Chartered Accountant, who is associated with the accounts, must be questioned if any frauds or errors are detected in an audit engagement.*” Auditors have their limitations in recognition of fraud or illegal acts and their ability to echo them. Yet, they do acknowledge that duty to identify the unlawful deeds directly influence the accounts.

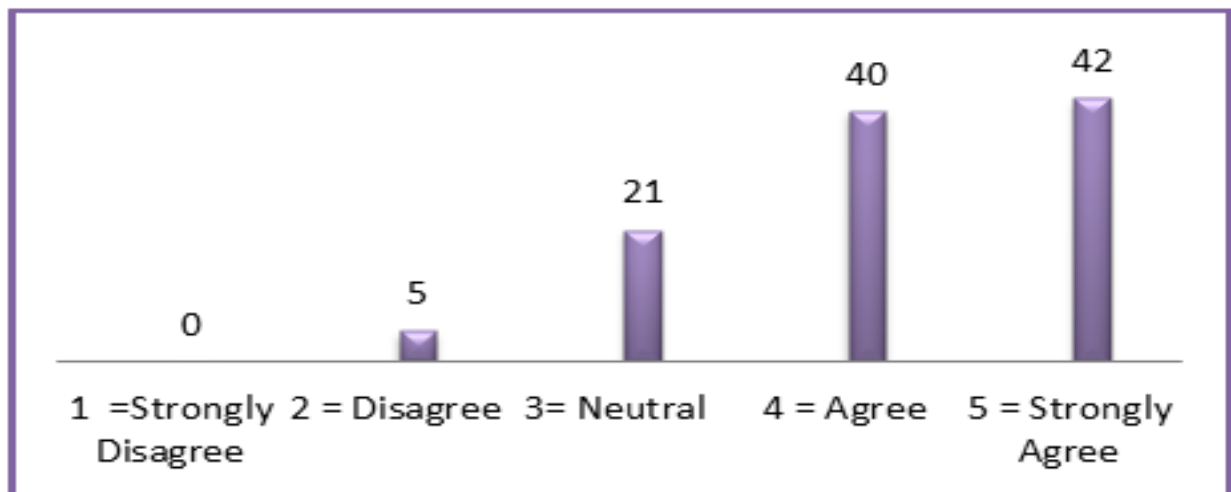


Figure-7. A chartered accountant, who is associated with the accounts, must be questioned if any frauds or errors are detected in an audit engagement.

As per the figure above, none of the students involved disagreed with the statement. 82 students of the 108, showed some form of agreement with the statement at hand.

The next statement in this section was *auditors should not hide any irregularities or material misstatements made.* As mentioned before, auditors acknowledge some obligation to notice material fraud, which affect the financial statements. They emphasize on the fact that fraud detection had some limitations and the report of that limitation is rare.

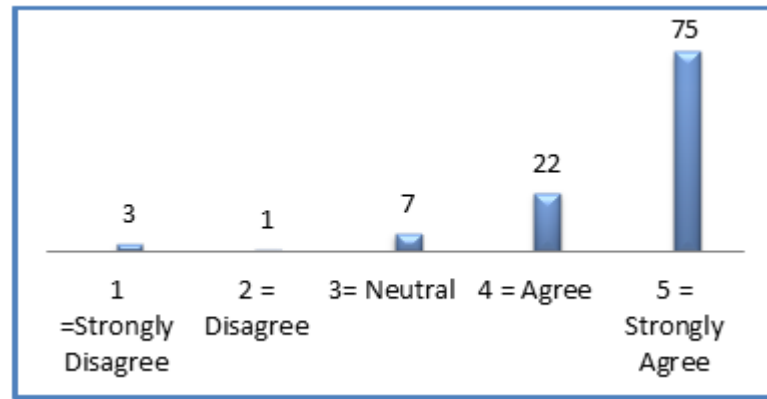


Figure-8. Auditors should not hide any irregularities or material misstatements made.

About 75 of the 108 respondents agreed with the statement, which emphasizes the fact that auditors should design the audit to deliver sensible assurance of perceiving material misstatements consequential from straight and material illicit acts.

The second two last questions in this section was in fact yet another statement: *An auditor should not bias and thus be free of any personal engagement with the firm.* Conferring to ISA- 200, the auditor should act in accordance with the Code of Ethics for Professional Accountants. According to Code of Ethics for Professional Accountants, a professional accountant should be impartial and should not permit predisposition or favoritism, conflict of interest or inspiration of others to outweigh neutrality. 79 of the stated 108 students had agreed with the statement.

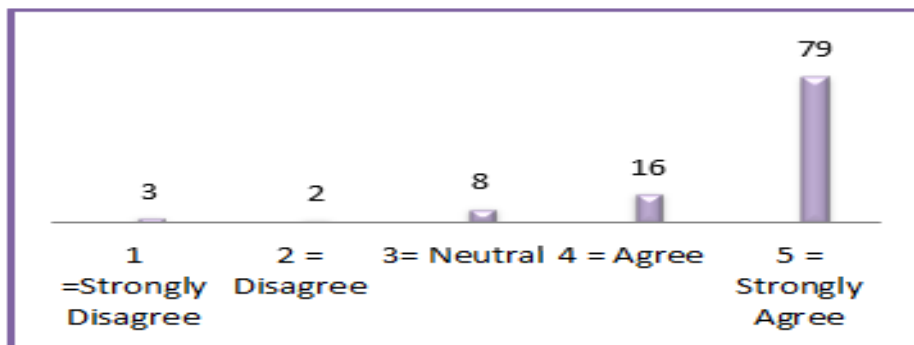


Figure-9. An auditor should not be biased and thus be free of any personal engagement with the firm.

The last question in this section was *“It is essential to evaluate the practice of independence and impartiality in audit engagement.”* The independent audit enriches poise by augmenting the operation done by the chief performers who have fluctuating duties for the financial statements.

There is a general agreement with the statement amongst all students; 60 students out of a 108 had agreed with the statement.

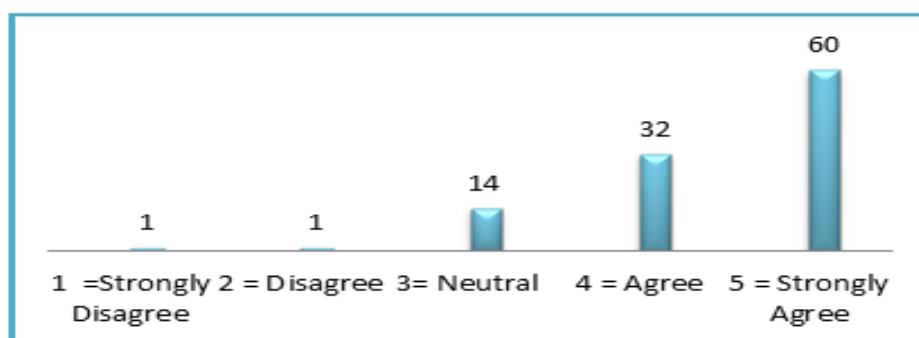


Figure-10. It is essential to evaluate the practice of independence and impartiality in audit engagement.

4.4. Auditing Services in Bangladesh

Entrance and association with foreign firms need to improve the superiority of accounting services in Bangladesh: this was the first question that had been included. Forty-two students strongly agreed to the statement enforcing that the entrance and engagement with foreign firms will in fact introduce fair policies and there will be a greater practice in terms of the code and conduct along the lines of the code of ethics.

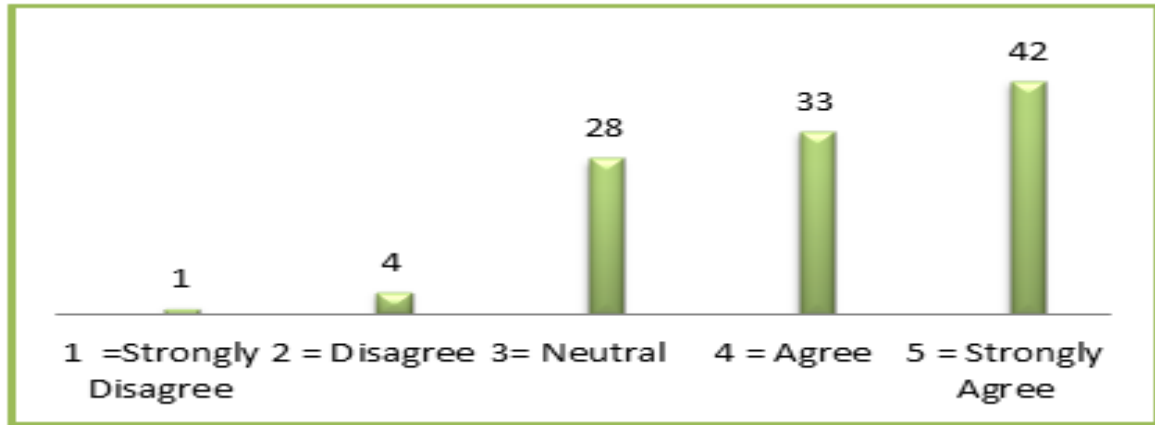


Figure-11. Entrance and association with foreign firms need to improve the superiority of accounting services in Bangladesh.

The last question posed the statement: *The international standards need to follow appropriately.* Total 74 students strongly agreed with the statement imposing the fact that all standards need to follow as set by the national and international bodies as these govern the policies. These standards have adopted in order to obtain a clean report. Any new standard introduced should follow as per the effective date of the policy.

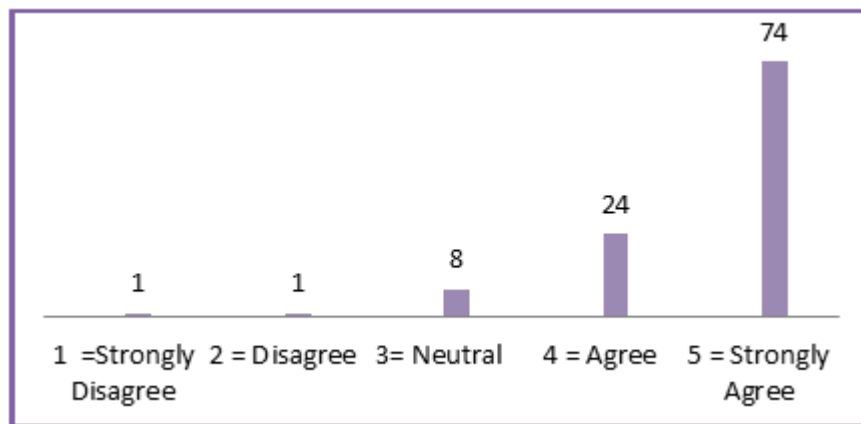


Figure-12. The international standards need to followed appropriately.

5. CONCLUSION

The findings reveal that while most students expect to be fully reliable on the auditors of the truthfulness of the accounts; however, in other questions like whether the essentials of intervention or engagement with foreign firms, the answers were coherent.

The AEG needs to taper down. This may be possible through the introduction of proper course materials for the students so that the understandability of the students can increase. The duties of the auditors should be well defined and described to the students. There are duties embodied in the various accounting standards, which need proper consideration. As for the duties of auditors, these should be clearly defined and be likeminded with the auditor’s role in the society. These duties must also be cost advantageous for auditors to execute.

The debate will remain on the scope and nature of the audit practice and duties and changes will come along accordingly, but it still highlights a responsibility bestowed upon practitioners to encourage the students by giving

them the proper knowledge, which the latter deserves. The gap will not reduce but with proper definitions of the roles and duties and the awareness of the society, in general, the gap can greatly reduce. Auditors to increase the opportunity to comprehend reasonable expectations and reduce expectations where they deemed to unreasonable should talk the AEG from a number of diverse viewpoints to eradicate underprovided contribution.

In Bangladesh, proper education of the audit expectation can be deemed through the practitioners; hence, the presence of this people in teaching the students of universities is very important.

In this article, students are the only respondent group and further expansion will be possible by taking some other group to investigate the perception gap among the opinion provided by those various groups of people. Further study also has the scope to find the impact of gender or ethical knowledge for formulating the opinion provided by the business students.

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