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Understanding the Audit Expectation Gap : A Theoretical and Practical Perspective

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Abstract

Audit expectation gap meaning the difference between what the public expect auditors to do, and what auditors believe they are required to do, has become a major issue in the auditing profession. This gap is however compounded in circumstances where organisations are involved in financial scandals from which key players like Enron, WorldCom, Cadbury Nigeria Plc, and African Petroleum Plc are not exceptional whereby public trust in financial reporting and auditing credibility is affected. These scandals usually reveal massive fraud and management manipulation of financial information, and although, auditors are key company personnel involved in these schemes, they usually fail to act as the watchdog that they are expected to be. This paper aims to review the origin of the audit expectation gap, especially the potential effect on the auditing profession and financial statement users as well as economic uniformity. The paper aims at exploring the social misconceptions about the auditors and their work especially in the area of fraud detection Together, the paper reviews the auditing profession maintaining that it central tenet is the recognition of management's overall responsibility for corporate reporting. Analysing how that gap erodes confidence in the auditing profession especially at the backdrop and aftermath of global and regional financial meltdowns is the study's next level. Through literature review and examination of practices in the accounting field, the study establishes problems and possibility of the expectation gap by workers, partiality and independency of auditors and unreasonable demand of the public in financial reports. Thus, the research increases the need to reconsider the roles of auditors, increase public awareness, and ensure that society expectations match the auditors' capacity. These problems can be solved by means of changing the legislation, enhancing the cooperation between auditors and clients, and launching the campaigns that will help to reestablish the public confidence to the auditors and to protect the credibility of printed reports.

Keywords : Auditor, Audit Expectation Gap, Society, Firm.

Introduction

There is a widespread sentiment among the general populace and regulators that independent audits are not fully achieving their intended objectives. This tendency is particularly emphasized whenever there is a financial scandal, Gupta (2005). Whittington and Pany (2004) assert that these financial scandals have not only eroded trust in the capital market but have also engendered a "crisis of credibility for the auditing profession." According to Ajibolade (2008), major financial scandals have involved organizations such as Independent Insurance, Enron Corporation, BCCI, Tyco International, Global Crossing, WorldCom, and Arthur Anderson, among others. The Nigerian business community is similarly afflicted by various financial scandals, including Cadbury Nigeria Plc, African Petroleum Plc, and Lever Brothers. He stated that these financial embarrassments resulted from widespread fraud, in which accounting companies and professionals played a significant role through deceptive financial reporting, so misleading the public.

The recent expansion of the financial crisis and the management of accounts on both global and Arabic scales has heightened concerns among clients regarding the financial statements of investors, shareholders, and overall sentiment, thereby diminishing trust in the ability of auditing and accounting firms to safeguard their rights during such emergencies. The monetary group is obligated to the auditor to integrate their technical expertise, impartiality, neutrality, and independence, particularly in relation to the identification of fundamental errors affecting the accounts, and to prevent the issuance of misleading financial statements; Jarbou, Y. (2004). The distinction between the obligations and responsibilities anticipated by the general public (clients of financial statements) from auditors, and what the execution can reasonably deliver, is encapsulated by the term "expectations gap" (the disparity between public expectations of auditors and the actual understanding of their performance); Ghali, G. (2001).

The profession in numerous developed nations perceives a significant issue currently confronting the accounting profession, which fundamentally impacts clients' trust in the accuracy of financial statements and reports prepared by Chartered Accountants. The auditing profession has faced erroneous perceptions, one of which is the belief that auditors can provide absolute assurance on the accuracy of an organization's financial statements. As the profession has been contentious during the past decade. Bollen, Mertens, and Meuwissen (2005) assert that delineating societal expectations regarding the roles and responsibilities of evaluators is essential for aligning these expectations with inspector performance, so improving the profession's image. A significant area where the existence of an audit gap is particularly detrimental to the image and reputation of the auditing profession is to the role of auditors in fraud cases. The audit profession consistently downplays its role in detecting fraud and continues to emphasize the role of management. By rejecting responsibility for identifying misrepresentation, auditors aim to mitigate legal risk in order to protect themselves from litigation; Humphrey, Turley, & Moizer (1993).

From Historical Context to The Evolution of Audit and Auditors

External auditing plays a crucial role in enhancing the effectiveness and efficiency of the corporate environment by adding credibility to financial statements. Rezaee and Riley (2010). This certification is anticipated by the organization's partners, typically encompassing shareholders and several other entities, including tax authorities, banks, regulators, suppliers, clients, and employees. Audits are not legally mandated but are compulsory in several EU member states, as they reduce the costs associated with information asymmetry by increasing the probability that a significant error is identified by auditing systems (European Commission, 2010). Auditing is regarded as a social function, and the role of inspectors is subject to change according to societal needs and demands. Watchman, Simon & Hatherly (2005). The objectives and methodologies of auditors have undergone significant transformation over time and can be categorized into several phases; Lee and Ali (2008).

Auditing prior to 1840

Auditing can be traced back to ancient civilizations like as China, Egypt, and Greece. Lee and Ali (2008) claim that all inspection objectives before to 1840 resembled those of ancient civilizations, where outstanding audit personnel were required to guarantee that enterprises accurately recorded revenue and expenditure transactions. Remarkably, the term for the worker tasked with scrutinizing the transactions and monitoring fraudulent activity is derived from the Latin word "audire," which means to listen. Prior to 1840, auditors were dedicated to conducting meticulous validation of each transaction, with inspection methods that excluded any notion of testing or auditing. Ultimately, the primary objective of the audit during this period was to verify the authenticity of those charged with financial obligations.

Auditing from the 1840s to the 1920s

Contemporary insurgency established a new rationale for auditing practices (Chandler et al, 1993). The establishment of large manufacturing facilities and machinery production relied on a substantial amount of cash. The corporate sector was poorly regulated and overly theoretical, leaving speculators in urgent need of insurance. Porter (2005) stimulated the advancement of the audit profession and fundamental systems. According to Brown (1962) and Queenan (1946), during this period, assessors conducted comprehensive audits of transactions while paying less attention to internal controls. Furthermore, the concepts of materiality & auditing strategies emerged when auditors could no longer verify all transactions conducted by large corporations and enterprises. According to Porter's (2005) research, between 1840 and 1920, the primary responsibilities of inspectors were not clearly defined, and their focus was on detecting fraud and verifying financial records to assess the organization's solvency. According to Chandler (1993), there is evidence that inspectors operate within large enterprises, such as finance, security, and railroads.

Auditing from the 1920s to the 1960s

The rapid advancement of the capital business sector & the economic growth of the USA prompted a shift in the scope and purpose of auditing. According to Porter (2005), this progress necessitated convincing stakeholders in the financial market that the financial statements accurately and realistically represent the organization's fiscal status. Consequently, evaluators were asked to validate the financial statements prepared by company executives for their shareholders. The examiners anticipated assessing the accuracy and validity of the organizations' financial statements rather than preventing and detecting fraud and errors. Lee and Ali (2008). Porter (2005) asserts that the audit mostly focused on the following attributes:

- Internal Control of the Company
- Sampling Methodologies
- Verifiable through internal and external sources
- Focus on the authenticity and integrity of financial statements.

Auditing from 1960 until the 1990s

This era was distinguished by significant advancements in technology and economic development; nonetheless, auditors continued to play a crucial role. The crucial aspect was to enhance the reliability of financial data employed in the capital market. Leung (2004) indicates that the role of auditors has been consistent with previous periods. Porter (2005) asserts that auditing has continued to focus on advanced computing inspection tools to improve audit methodologies. Furthermore, all parties focused on audit-proof assessments and the application of risk-based inspections to concentrate on areas likely to contain errors. Furthermore, alleged one-stop stores were established. Leung (2004) suggests that, in addition to auditing services, inspectors commenced instructing audit clients on various services. Inspection from 1990 until the present. The overarching audit objective remained unchanged over time. The fundamental objective of an audit is to provide an assessment of whether the information presented in the financial statements accurately represents the true and fair view of the organization's financial status at a specific date. An audit is the independent evaluation and expression of opinion on an organization's financial statements by a designated auditor in line with relevant legislative obligations. An assessor may issue a qualified finding (the accounts do not provide a true and fair view) or an unqualified conclusion (no significant issues) according to the European Commission (2010). Statutory commitment, defined as a legally imposed responsibility, is essential for clients of audited financial statements, as they require assurance that an auditor has verified the organization's compliance with laws and regulations and maintained adequate records. The significant increase of directives and conditions has been influenced by corporate scandals and disappointments, such as the Enron and WorldCom debacles, which have necessitated investigations and public discourse regarding modifications in auditing practices. Leung (2004) indicates that several emotional ramifications may arise: auditors are increasingly concentrating on public interest, altering the audit relationship, ensuring the integrity of financial reports, segregating non-audit functions, and providing other advisory services. Nevertheless, audit procedures must prioritize risk assessment, fraud awareness, objectivity, and independence to meet the demands of users of audited financial statements; Lee and Ali (2008).

Function of Auditors

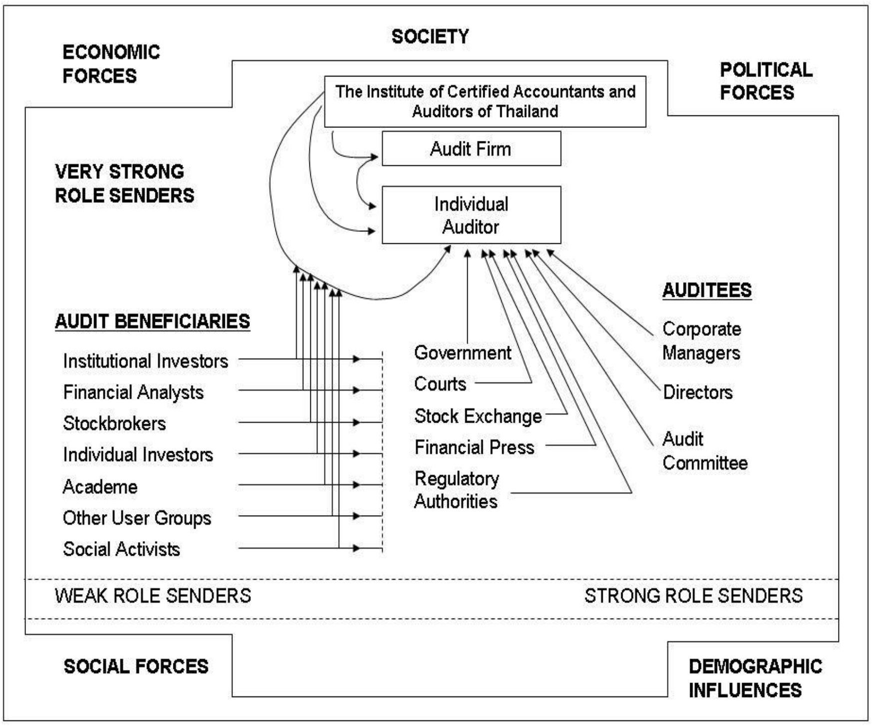
The function of auditors in financial reporting has been and continues to be a critical concern for the field of auditing. According to Leung, Coram, Cooper, Cosserat, and Gill (2004), auditing practice has undergone several significant developmental phases. During the mid-1990s, the primary function of external financial audits was the detection of fraud. Rezaee and Riley (2010). Over time, Lee and Ali (2008) assert that auditing practices increasingly emphasized a 'improving role', focusing on the practice and credibility of the information presented in financial statements; whereas Boynton, Jonson, and Kell (2005) state that, in addition to enhancing the reliability of financial statements, contemporary auditors provide several services, including reporting on anomalies, identifying corporate risks, and offering management advise on internal controls. Ultimately, auditors anticipated establishing the correlation between the organization's supervisors and the end consumers of disseminated financial reports via verification, reliability, and precision of financial reporting; Salehi and Rostami (2009).

Inspection is regarded as a social capability, and the responsibilities of evaluators are subject to change according to societal needs and demands. Porter, Simon, and Hatherly (2005). The objectives and methodologies of auditors have evolved significantly throughout the years and can be categorized into several phases; Lee and Ali (2008).

The primary responsibility of an auditor is to ascertain if the financial statements accurately and fairly represent the financial position of the business, while their secondary job involves the prevention and detection of errors and fraud. The fundamental responsibility for the prevention and detection of fraud and error lies with both those charged with governance and the management of an entity, despite the fact that the accounting records are the representation of management. In fulfilling their responsibilities to complete these two audit objectives, auditors also incur additional liabilities. There exists a negative correlation between the responsibilities of auditors and the audit expectation gap; specifically, as the requirements undertaken by auditors increase, the audit expectation gap diminishes. Moreover, the definitive evidence on the audit expectation gap has revealed that a primary cause of this disparity in various countries is the differing perceptions of auditors' roles and responsibilities concerning accounting fraud.

Porter (1990) presents the following examples of the several types of conflicting roles that auditors may encounter:

- **Inter-role conflict:** Auditors may function as both advisors to an organization's management and as external evaluators of the organization. These roles may generate conflicting expectations.
- **Intra-role conflict:** Auditors may face conflicting expectations from various stakeholders in the community related to their work as auditors. For example, the administration may expect that assessors would not reveal 'confidential information, such as concerns regarding the organization's viability in the audit report, as it believes these issues can be attractively resolved in the near future. Nevertheless, shareholders may anticipate that such data should be disclosed in the report of audit. Consequently, the auditor is subject to conflicting expectations.
- **Subjective role conflict:** Auditors may be pressured by their clients to conduct a thorough audit while also being compelled to reduce the time and cost associated with the audit.



Source: Adapted from Davidson (1975)

Figure 1: Role senders prescribing the role of external auditors

According to Davidson (1975), the auditor's function is subject to the influences of the regulatory expectations of many stakeholders in the public sphere (i.e., separate role senders) who have either a direct or indirect connection to the role position. He emphasizes that assemblies with expectations on the auditor's job are also fulfilling their responsibilities as dictated by the expectations of their respective social and professional member groups. Davidson asserts that diverse assemblies (e.g., management, shareholders, members of the public, and regulators of the accounting profession) may possess varying expectations of their auditor, which are also subject to periodic alteration based on their specific role requirements and the interplay of social, economic, and political forces within society. Davidson elucidates that 'the individual auditor is accountable to the role expectations of the associations to which he belongs' (i.e. the audit firm and professional organizations) 'and to the expectations of those for whom he provides direct or indirect services' (e.g. management, shareholders, the public, and regulatory bodies of the accountancy profession), thereby resulting in a 'multi-role, multi-expectation' scenario that consequently engenders issues of role conflict. Davidson asserts that role conflict arises due to conflicting expectations regarding the job of evaluators and underlying subjective discord, which consequently hinders the performance of auditors.

Audit Expectation Discrepancy

1. Origin of the Concept

The concept of the audit expectation gap emerged in the 1970s (Humphrey, 1993). Over the past thirty years, the audit expectation gap has become a subject of significant interest globally, driven by a contentious auditing environment. This is not surprising, considering that the expectations gap between auditors & financial statement customers has persisted for over a century.

The audit expectation gap is the disparity between the auditor's understanding of their function and the perceptions of financial statement users.There exists a disparity between the auditor's actions and the public's expectations, leading to the perception that the statutory objectives of the audit do not fulfill the societal needs of the populace. The functions executed by accountants are essential to the advancement and stability of the financial system, both globally and locally; Egbiki (2006).

2. Below are several pertinent definitions about the audit expectation gap

- Liggio (1974) defined it as the disparity between the anticipated performance levels envisioned by the autonomous accountant and the user of the accounting records.
- The Cohen Commission (1978) expanded this term by examining the potential disparity between the expectations or demands of the public populace and the realistic capabilities and responsibilities of auditors.
- Guy and Sullivan (1988) delineate a disparity between the responsibilities perceived by the general populace and financial statement users regarding accountants and assessors, and the responsibilities that accountants and auditors believe they hold.
- Godsell (1992) characterized the expectation gap as the phenomenon where evaluators and the general public possess differing beliefs regarding the auditors' responsibilities and the communications conveyed by audit reports.
- Jennings (1993), in their examination of the use of audit choice guides to improve evaluator compliance with a 'standard', conclude that the audit expectations gap represents the disparity between public expectations of the auditing profession and the actual services provided by the profession.
- Monroe and Woodliff (1994) defined the audit expectation gap as "the disparity in beliefs between auditors and the public regarding the responsibilities and duties anticipated of auditors and the information conveyed by audit reports."
- According to AICPA (1993), the 'audit expectation gap' refers to the disparity between the perceptions of the general public and financial statement users regarding the responsibilities of auditors, and the auditors' own understanding of their roles.
- Epstein and Geiger (1994) defined the audit expectation gap as: "discrepancies in perceptions specifically concerning the assurances provided among users, preparers, and auditors."

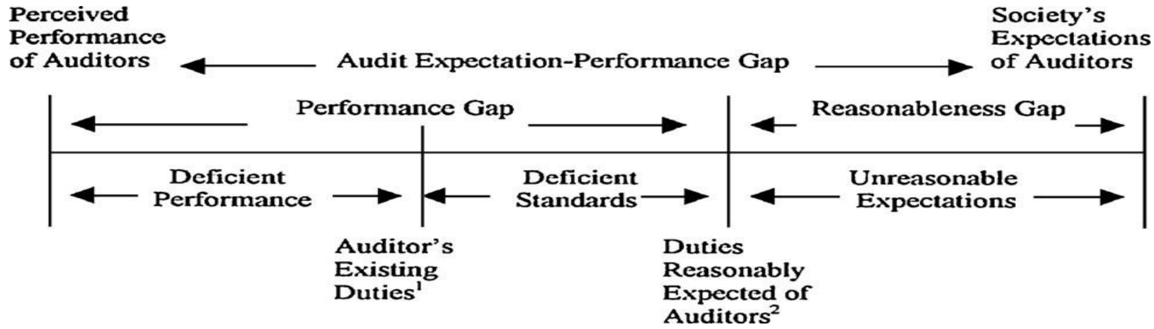
- The ASCPA and ICAA (1994) assert that the term 'expectation crevice' should be employed to describe "the disparity between the expectations of financial report users and the perceived quality of reporting and auditing services provided by the accounting profession."
- Whittington and Pany (2004) assert that financial scandals have not only eroded trust in the capital market but have also created a "credibility crisis" for the valuation profession.
- The existence of an audit expectation gap resembles a "metastasizing disease." Raiborn and Schorg (2004).
- Sikka (1998) emphasizes that the audit expectation gap is a detrimental challenge to the auditing profession, as "the greater the disparity in expectations, the diminished the credibility, profitability, and reputation associated with auditors' work."

The audit expectation gap is a fundamental issue in assessment due to the damage it has caused and continues to inflict on the essence of the auditing profession. Fadzly and Ahmed (2004). Baker (2002) asserts that open trust among a group of professionals is the "vital essence" of the profession. Consequently, if such conviction is betrayed, the expert competence is rendered ineffective, since it becomes futile. Porter (2005). According to Appah (2010), the widespread criticism of and legal actions against auditors indicate a disparity between the public's expectations of auditors & their actual performance as seen by the public. The significant significance of exploratory research suggests that the audit expectation gap mostly arises from users' rational expectations of audits and their unrealistic perceptions of the audit profession's performance. Abrema (2008) asserts that the expectation gap refers to the disparity between the auditor's actual performance standards and the varying public expectations of the auditor's performance. McEnroe and Martens (2001) assert that the auditing expectation gap refers to the disparity between (i) the perceptions of public and other financial statement users regarding auditors' responsibilities and (ii) the beliefs of auditors over their obligations. Ojo (2006) depicted audit expectation as the disparity between the perceptions of financial statement users and the anticipated responsibilities of the audit profession in conducting an audit. This appreciation must acknowledge both the expectations of the auditing profession regarding an audit and the auditor's perspective on the audit. Many members of the public believe that auditors should assume primary responsibility for financial statements; auditors verify financial statements; auditors' conclusions should guarantee the accuracy of financial statements; auditors should conduct a 99% verification; auditors should provide timely warnings regarding the potential for business failure, and auditors should prevent and detect fraud. These open expectations exceed the authentic performance standards set for auditors. According to the audit profession, management is entirely responsible for the content of financial statements; an audit should merely provide reasonable assurance that the financial records are free from serious misstatement; audits are only required to examine selected transactions. In the current day, it is unfavourable to verify all exchanges, and an audit does not guarantee the detection of fraud. Haniffa and Hudaid (2007) observed that one reason for the execution gap regarding auditors' roles and obligations is the inadequacy of the principles, a situation that arises when auditors are unprepared to fulfil the roles and duties expected by the public due to their lack of clear definition or incorporation into legal claims.

An expectation gap is detrimental to the evaluation profession, as emphasized by Robertson (1996). If auditors fail to recognize the public's expectations or to assess the extent to which they fulfil (or, more pertinently, fail to fulfil) those expectations, they will not only be susceptible to criticism and litigation, but if the shortcomings persist, public trust in the auditing profession will be eroded, leading to a perception of the auditing capacity as lacking integrity.

Evolution of the Audit Expectation Gap

Humphrey and Tyrley (1992) assert that certain indicators of the expectation gap may be traced to the eighteenth century alongside the emergence of organizations conducting evaluations, although Liggio (1974) introduced the term 'audit expectation gap' into the literature on auditing. According to him, the concept of the expectation gap illustrates the disparity between the anticipated performance "as envisioned by the independent auditor and the users of the financial statements. “Porter (1993) criticized the interpretations of Liggio (1974) and the Cohen Commission (1978) as overly restrictive. She demonstrated the comprehensive approach for assessing the gap, which comprised two primary components: the sensitivity gap and the execution gap.



Source: Porter (1993, p. 50).

Figure 2: Structure of the audit expectation–performance gap

He defined the expectations gap as: "the disparity between the public's expectations of auditors & the auditors' performance, as perceived by the public." This concept acknowledges the potential for unrealistic expectations from the public, as well as inadequate performance by auditors. Porter identified two significant aspects of the expectations gap: the reasonableness gap, which refers to the disparity between societal expectations of auditors' capabilities and what they can realistically achieve, and the performance gap, which denotes the difference between the public's reasonable expectations of auditors' outcomes and their perceived performance. Due to the execution gap, public expectations may diverge from the formal obligations imposed on auditors by their professional standards. Porter analyzed this distinction by categorizing the execution gap into the deficient standard gap, which refers to the disparity between the expectations of auditors and their current legal and professional obligations, and the deficient performance gap, which denotes the difference between the expected standard of auditors' current obligations and their perceived performance as observed by the public.This qualification is essential because each of the three responsibilities has its own specific remedy. Reasonableness gaps can be narrowed by clarifying to the public what can reasonably be expected from auditors.

The Discrepancy in Expectations Regarding Fraud

Concerning corporate fraud, the auditor's responsibility has long been a fundamental aspect of the expectations gap. Numerous authors have critically highlighted deficiencies in the auditor's role in detecting fraud. Alleyne and Howard (2005); Best et al. (2001); Dixon et al. (2006); Epstein and Geiger (1994); Fadzly and Ahmad (2004); Frank, Lowe, and Smith (2001); Haniffa and Hudaib (2007); Humphrey et al. (1993); Lin and Chen (2004); Lowe, D.J. (1994); McEnroe and Martens (2001); Sidani (2007). Previous studies often confine inquiries regarding fraud to singular assertions, such as "One function of an external auditor is to diligently search for fraud, regardless of its magnitude." The evaluator is responsible for identifying all instances of fraud. Best et al. (2001); Dixon et al. (2006); "A CPA must be responsible for identifying and reporting errors and fraud in an audit engagement;" Lin and Chen (2004).

Haniffa and Hudaib (2007) elucidated the auditors' responsibility in identifying material fraud, management fraud, and intentional misrepresentation of financial facts. They also examined the viewpoints of auditors and users regarding the necessity of disclosing substantial fraud in the audit report & whether any suspicion of fraud should be reported to the relevant authority. Nonetheless, these pronouncements are somewhat general, and a complex topic such as auditors' responsibilities concerning corporate fraud warrants more detailed discussion.

- To whom should the auditor disclose instances of detected fraud?
- What measures should be implemented to address management fraud rather than employee fraud?
- Does the materiality of fraud and the probability of its impact influence the auditor's responsibilities?
- What actions should the auditor undertake if the assessed organization refuses to implement corrective measures?

The disparity in audit expectations and auditors' efficacy in fraud prevention:

The importance of role theory lies in the fact that each individual inside an organization has a certain role to fulfil in meeting their job requirements. Roles also illustrate certain procedures necessary for the execution of particular duties. A pertinent example is to operate inside contexts governed by standards, where an individual's role is interrelated with the role set. This means that no role exists in isolation or independently from a group of roles. A role cannot exist apart of the role set that defines it. These criteria are explicitly associated with the internal auditor and the matter of fraud prevention. The model is expected to operate under socially established norms, which encompass public expectations for the evaluator to detect fraud, relevant case laws, and environmental factors that need equitable and transparent management of public resources in Nigeria. These principles clearly illustrate that the internal audit serves as a management function capable of preventing fraud within an organization, aligning with the expectations of audit report users; Oyadonghan (2006).

Robertson (1996) states that auditors assume responsibility for identifying material errors in financial statements; however, they are cautious about assuming liability for detecting all fraudulent activities and are particularly wary of accepting an obligation for public reporting. Consequently, a gap exists between the expectations of continuous users and what diligent auditors can accept. Internal auditors have failed the public due to their reluctance to accept or meet the reasonable expectations of their role. The audit expectation gap allows internal auditors to evade their responsibility for fraud detection; hence, Robertson (1996) states, "this divergence leads to claims even when auditors are performing adequately." The relevance of social capital is crucial in assisting auditors to unlearn the concept of the audit expectation gap.

Historical evidence reveals that ancient societies possessed rudimentary economic systems. Financial decisions in ancient societies were predominantly governed by traditional norms. Such standards were mostly determined by shared experiences and unforeseen circumstances. The ethics or norms were established by mechanical solidarity & coercion. Essia (2005). This assertion by Essia illustrates that such rules were established for specific situations and for the overall benefit of the populace. It further indicated that the enforcement of such rules may be coercive, automatically activated when circumstances necessitate or become a national threat. The extent of misuse of public assets in Nigeria necessitates neither lenient audit measures nor significant disassociation. Western auditing metrics were originally designed to address domestic concerns and aimed to achieve a shift in attitude with a sense of clarity and controlled direction; Matthews and Perera (1996). They lacked a model to emulate; they were the medalists. Their populace and the advancement of industry establish the conditions for their standards. They exhibit reduced degeneration alongside an enhanced life expectancy; humans are afflicted by destitution, exhibiting more degeneration and vulnerability to board fraud. Consequently, their internal audit responsibilities are limited to ensuring compliance with established accounting standards and maintaining consistency within their existing context. It is our responsibility to prevent, identify, and report fraud. Essia (2005) referred to this concept as "intuitive learning". He states, "Intuitive learning captivates individuals by providing a conducive environment for innovation, while adaptive thinking enhances both individuals and organizations in relation to pertinent creative contexts." He states that "aggregate advancement awareness is the empowering cognitive foundation for self-directed growth."

The Rationales Behind the Audit Expectation Gap

Several research have proven the existence of an audit expectation gap. These are located in the United States: Almer and Brody (2002); Jakubowski, Broce, Stone, and Corner (2002); McEnroe & Martens (2001), and in the United Kingdom. Dewing and Russel (2002); Porter and Gowthorpe (2004), Australia Schelluch and Gay (2006), Saudi Arabia; Haniffa & Hudaid (2007), Lebanon; Sidani (2007), Egypt. Dixon, Woodhead, & Sohliman (2006), Malaysia Fadzly and Ahmed (2004); China Lin & Chen (2004). An examination of this literature reveals that a limited number of variables influence the audit expectation gap. According to Shalkh & Talha (2003), the audit expectation gap is caused by the following reasons:

- the complex nature of auditing
- the ignorance, innocence, and unrealistic expectations of non-auditors
- corporate crises that have engendered new expectations

The profession seeks to manage the direction and outcome of the expectation gap discourse around the review, evaluation of audit performance, and the transformative enhancement of audit responsibilities that create delays in response time. Sikka, Puxty, Wilmot, and Cooper (1998), as cited in Salehi (2006), assert that there are two objectives underlying the audit expectations gap. The issue has arisen due to the discord between auditors and the general public regarding the preferred interpretations of auditing's nature, practice, and outcomes, as well as the disparity between minimal governmental regulation of the profession as well as its right to self-governance. Swift and Dando (2002) suggest that the audit expectation gap may have arisen due to several factors, including a lack of technical proficiency, the timeliness and relevance of auditor communication, insufficient independence of certification providers, and a diminished accountability to public interest within the legal framework. Haniffa & Hudaid (2007) asserted that the audit expectation gap in Saudi Arabia arises from deficiencies in standards; a discrepancy may also occur when society anticipates auditors to fulfill responsibilities beyond those mandated by law, yet which can be reasonably expected of them. Additionally, this gap may stem from contextual factors such as licensing policies, recruitment processes, political and legal frameworks, and prevailing societal values.

Lee, Ali, & Gloeck (2009) in their study of Malaysia assert that the causes of the audit expectation gap in Malaysia are a consequence of Unreasonable expectations arise from a combination of factors, such as clients misunderstanding and being unaware of the responsibilities of inspectors, the misinterpretation of audit objectives, and inflated expectations on auditors' performance from clients. Inadequate performance concerning auditors is attributable to factors such as the process of inspector appointment, low audit fees, competition for human resources, entry into the professional accounting community, and the deficient legislative framework governing auditors.

Adams and Evans (2004) assert that the audit gap arises from an over focus on the legitimacy of execution data, neglecting satisfaction and validity.

Mahadevaswany & Saleh (2008) indicated that one of the reasons for the audit expectation gap in various countries is the discrepancies in perceptions regarding the role and responsibilities of auditors concerning accounting fraud. Similarly, Hayes, Schilder, Dassen, and Wallage (1999) assert that expectations on the responsibilities of auditors include:

- Assessing the propriety of financial declarations;
- Assessing the organization's ability to continue as a going concern;
- Providing an assessment of the organization's internal control framework;
- Providing an opinion regarding the occurrence of fraud;
- Expressing an opinion on the occurrence of illegal activities.

Reducing the Audit Expectation Gap

The audit expectation gap & its potential remedies have been significant concerns for academic and professional organizations globally. Dewing & Russel (2002); Bostick & Luehlfing (2004); Ojo (2006); Lee, Ali, and Gloeck (2009). Some experts believe that due to the nature of the audit expectation gap and the factors that contribute to it, the issue may not be entirely resolved. According to Guy (1988) as cited in Lee, Aliand Gloeck (2009), the accounting profession's responses to the gap can be addressed through either prudent or beneficial approaches. The cautious response encompasses:

- Emphasizing the necessity to educate individuals and reassure them over the exaggerated public dissent concerning independent audit failures.
- Systematizing current practices to validate them.
- Endeavoring to manage the audit expectation gap debate while repeatedly advocating the viewpoints of the profession.

Conversely, the beneficial responses encompass:

- Highlighting an awareness of the audit's objective.
- Willingness to expand the scope of an audit.

Similarly, McEnroe & Martens (2001) suggest that "aligning activities to reduce the audit expectation gap might be found in public education". They presented two techniques for public education. Initially, include a standardized explanation of the purpose of the verification capacity in the annual report.

This may include a comprehensive overview of the definitive guidelines on auditors' responsibilities. Secondly, request auditors to provide a comparative analysis at the annual general meeting. This may include a question-and-answer session regarding the nature and scope of the audit. Furthermore, Lee, Ali, and Gloeck (2009) in a study conducted in Malaysia asserted that the audit expectation gap can be mitigated through the following measures:

- Facilitating complimentary classes consistently by the regulators of the accounting profession.

- Increased emphasis on educating the general populace of examination. This can be achieved by extensive communication.
- The use of an appropriate engagement letter to aid in instructing the inspectors.
- Shareholders' understanding of auditing can be improved by having inspectors elucidate the purpose of the audit's authentication function and what can reasonably be expected from auditors during the Annual General Meeting (AGM).
- Establishing an independent governmental office to oversee the utilization of the audit directive.
- Executing the pre-confirmation evaluation program for accounting proficient entities.
- Conducting an examination to ascertain societal expectations concerning the obligations of auditors, with the aim of identifying contemporary standards for inspectors. This would provide valuable data for the controllers to reassess the current legislation, so ensuring that the laws stay reasonably aligned with societal expectations.
- Instructing controllers to consistently review the existing regulations to ensure their relevance and appropriateness in accounting and auditing practices.

Techniques For Mitigating the Audit Expectation Gap

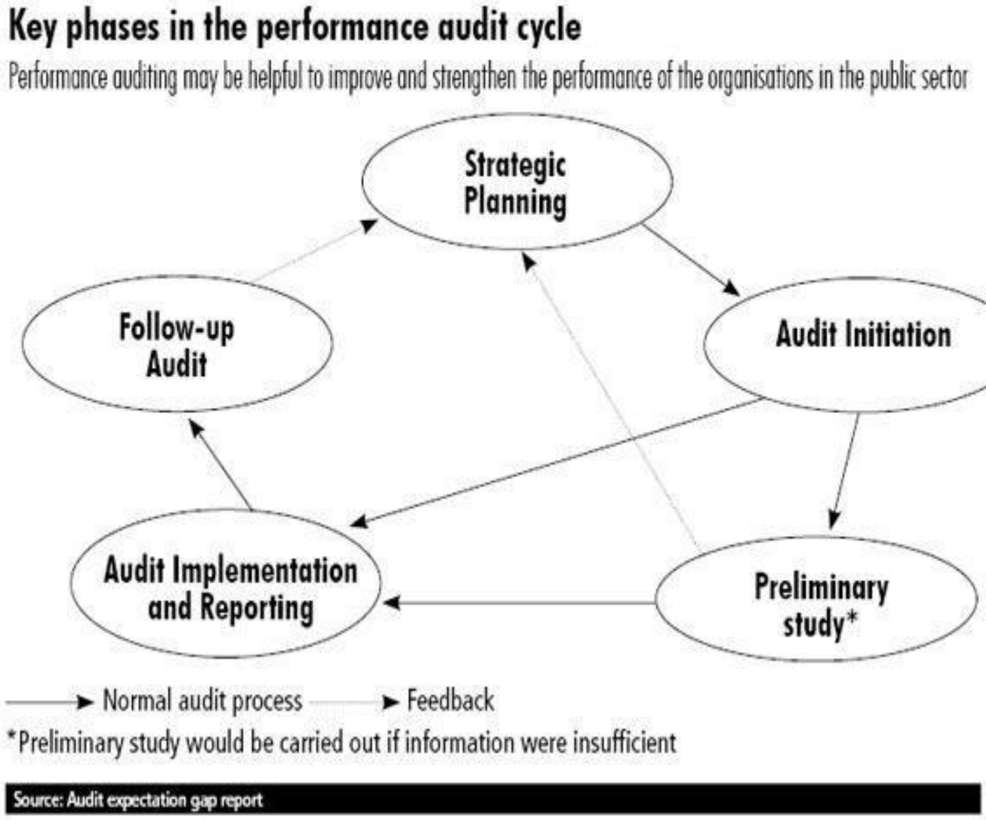


Figure 3: Methods in reducing Audit Expectation Gap

1. Education

Diverse research Bailey et al. (1994), Monroe and Woodliff (1993), and Gramling et al. (1996) have demonstrated that audit expectation gap may be mitigated through training. Monroe and Woodliff (1993) and Gramling et al. (1996) conducted a similar study in Australia and the USA to examine the effect of education on students' perceptions of the importance of audit reports and the roles and responsibilities of auditors. Monroe and Woodliff (1993) administered the exploratory instrument to two groups of students (final-year auditing students & final-year marketing students) at both the beginning and conclusion of a semester, as well as to auditors. The findings indicated that the students' perceptions of auditors' responsibilities and the reliability of financial information underwent significant changes over the semester. As the semester concluded, the assessing students believed that auditors had a much-diminished level of accountability; that financial information was reliable and that less assurance was placed on the company's future prospects than what was conveyed by the audit report. Notably, the exhibited students' responses varied on only a few dimensions over the three experiments and did not follow a consistent trajectory.

Other observational studies, such as those conducted by Bailey et al. (1983), revealed that more educated clients tend to impose fewer duties on auditors compared to their less informed counterparts. These results also indicate that better educated clients are less likely to seek verification from the auditor. Research findings indicate that training improves customers' understanding of financial statements in relation to the components of an audit process. This proposes that training can be employed to reduce audit expectation gap.

2. Comprehensive Audit Report

The audit expectation gap is expected to diminish when the public is satisfied with the auditors' performance. Humphrey (1993) asserted that the implementation of more structured systems during an audit improves auditors' performance. P. Puxty (1998) examined the efficacy of adopting structured and semi-structured approaches to information gathering in the auditing process. His investigation revealed that the use of structured and semi-structured audit methodologies during an audit may not necessarily benefit the audit firms. Overall, the investigations exhibit a lack of consensus regarding the efficacy of this strategy in reducing audit expectation gap.

3. Organized audit methodologies

The audit expectation gap is anticipated to diminish when the public expresses satisfaction with auditors' performance. Humphrey (1993) contended that employing more organized procedures throughout an audit enhances auditors' performance. P. Puxty (1998) investigated the efficacy of implementing structured and semi-structured data collection approaches in audit assignments. His research indicated that employing structured & semi-structured audit techniques throughout an audit may not be advantageous for audit companies. In summary, the investigations exhibit a lack of unanimity regarding the efficacy of this strategy in diminishing audit expectation gap.

4. Augmentation of auditors' tasks and improvement of auditors' performance

Humphrey (1993) proposed that audit expectation gap can be reduced by expanding the existing tasks and obligations of auditors. He claimed that the perceived quality of an audit can be improved through two primary methods: establishing an independent body to oversee the appointment of auditors and regulate audit fees; and expanding the statutory obligations of auditors. According to Humphrey et al. (1993), Almer (2002) posits that imposing additional responsibilities on auditors may mitigate the audit expectation gap, as the public's expectations are likely to be fulfilled when auditors are granted greater authority. According to him, the auditors' tasks should encompass: consistency reporting; evaluation of the internal control structure; direct reporting by auditors to controllers about fraud detection; and the involvement of auditors in interim financial data.

Conclusion

The various examinations rely on the research that explores the factors influencing the differing expectations between the public and auditors, and are based on the methodologies employed in Fadzly and Ahmad (2004), Lin & Chen (2004), Porter (1993), and Monroe and Woodcliff (1994). The examination also emphasizes problems related to the existing audit expectation gap & identifies potential areas for further investigation. No singular study is conducted in India; thus, the findings of this research will be crucial for stakeholders in the process of financial reporting, including auditors, the public, investors, creditors, accounting scholars, and other entities involved in audit regulation and decision-making.

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