



Journal of Business

Volume 04, Issue 02, 2019: 01-11

Article Received: 07-08-2019

Accepted: 23-08-2019

Available Online: 18-09-2019

ISSN 2380-4041(Print), ISSN 2380-405X(Online)

DOI: <http://dx.doi.org/10.18533/job.v4i2.120>

An Investigation of Audit Expectation Gap in Bangladesh

Taslima Akther^{1,2} Xu Fengju¹, Md Ziaul Haque³

ABSTRACT

Massive Global corporate scandals, financial crisis and collapses of large entities have diluted the investors' confidence in the world's capital market. The auditing profession has also come under the spotlight, following the melodramatic flop of eminent companies without any prior warning signals and highlighted the miracle phenomena, the audit expectation gap (AEG). Based on a questionnaire survey with auditors and investors, this paper discovers significant audit expectation gap (AEG) in the areas of auditor's general responsibility, auditor's responsibility for fraud detection, auditor's responsibility for internal control reporting assessment, meaning of the audit report, and also auditor's responsibility for going concern reporting in Bangladesh. No expectation gap is emerged regarding the usefulness of audit report. Most of the gap has been referred as reasonableness gap, but it can lead the standard setters and the practitioners of audit profession to set higher standards of performance.

Keywords: Audit expectation gap (AEG), reasonableness gap, Bangladesh.

JEL classification: H83, M42.

This is an open access article under Creative Commons Attribution 4.0 License.

1. Introduction

Accountants establish accountability through external audit process, protect and promote the public interest, act as gate keepers (Coffee Jr, 2002; Dontoh, Ronen, & Sarath, 2013; Fox 2008; Sikka, Willmott, & Lowe, 1989). Massive Global corporate scandals, financial crisis and collapses of large entities such as Barings, HIH, Parmalat, Enron and Lehman Brothers have adulterated the investors' confidence in the world's capital market. The United States was bang by an upsurge of business failures during the year 2001 and 2002 and Enron and WorldCom were the utmost remarkable instances of these monetarist crisis. The staple purpose of gatekeeping is the melioration of the information dissymmetry amid stockholders and Enron and WorldCom are the diagnostic of insightful vicissitudes in the gatekeeping vocations and the atmospheres in which they maneuver as well as (Fox, 2008). Auditors flunked to play their role as liberated gatekeepers and specified upsurge to the monitoring initiatory, the Sarbanes-Oxley Act of 2002 and pursues encompass the delinquent by amplified directives and penalization, authorization of audit committees, and lessening the auditor's engrossment with the clientele (Dontoh, 2013). The auditing profession has also come under the spotlight, following the melodramatic flop of eminent companies without any prior warning signals

¹ School of Management, Wuhan University of Technology, Wuhan, Hubei- 430070, People's Republic of China. Email: taslima@ais.jnu.ac.bd

² Department of Accounting & Information Systems, Faculty of Business Studies, Jagannath University, Dhaka-1100, Bangladesh. Email: xufengju@whut.edu.cn

³ Ph.D. Fellow, University of International Business and Economics, China. Email: zia10093@yahoo.com

in audit reports and highlighted the miracle phenomena, the audit expectation gap (AEG). Generally, AEG indicates the divergent anticipations of what the public cravings from the audit and what the auditors cognizes their role to comprehend (Wolf, Tackett, & Claypool, 1999).

The collapse of the big companies have always been costly to the auditing profession in many ways, such as compromising the professional reputation, incurring high cost of litigation in order to settle down these cases in courts, and the possibility of taking increased responsibilities and the most importantly loosing stakeholders faith (Wolf, Tackett, & Claypool, 1999). However widespread criticism and litigation indicate that there is a gap between society's expectation of auditors and auditor's performance as perceived by the society (Porter, 1993). An audit judgment enunciates; amongst further matters that the financial statements are relinquish from substantial misstatements thus rears the queries whether preparers of financial statements, auditors and users group have the similar interpretation around the meaning of free from material misstatements (Boterenbrood, 2017). Stakeholders have conveyed apprehensions regarding the applicability of audits in today's business surroundings and the hitches in understanding the reasonableness and material trustworthiness of the audited financial statements. However, these stakeholders may be naive about the materiality, sampling techniques, the role of auditors in detecting fraud and error and the responsibility of Management. There is a gap between society's expectation of auditors and auditor's performance as perceived by the society. The AEG debate raised firmly on the agenda of accounting profession, regulators and the society, as the World has seen a wave of corporate scandals, financial crisis and audit failure (Humphrey, Moizer, & Turley, 1993). Ample debate is required on the action plan ensuring that both audits of financial statements and auditor reports are apt for the purpose (Green report on audit, European commission 2010).

Now the question arises what society can expect from audit of financial statements? Hence, the study objective is to assess empirically the presence of audit expectation gap in Bangladesh in the contemporary regime. This research is very pertinent because the regulators of audit profession assess people's perception towards audit and request annotations from the public and take actions according to their desires in developing audit reporting model to improve the value of audit (IAASB 2011, 2012, 2014, 2015; PCAOB 2011; Schelluch, P., & Green, W. 1996). The study escorts the regulators and the practitioners of audit profession, because each dimension of audit expectation gap may inform the regulators which gap actually exists and take the action plan to improve the current audit standard. The consequent segment of this paper presents as follows: A review of the related literature and hypothesis development in section 2, followed by a description of data and methodology in section 3. After that, section 4 includes results and section 5 discussions, and the section 6 conclusion.

2. Literature review and hypothesis development

2.1 A glimpse of the term Audit Expectation Gap (AEG)

AEG has been defined by various researchers from different dimension. Liggio (1974) delimited, Audit Expectation Gap (AEG) as the metamorphosis between the echelons of anticipated performance as expected by both the user of a financial statement and the liberated accountant. The Cohen commissions (1978) defined Audit Expectation Gap as the slit what the public expects or cravings and what auditors can and should realistically presume to execute. Conferring to the American Institution of Certified Public Accountants (AICPA, 1992), AEG is the breach concerning what the public and financial statement consumers believe auditors are responsible for and what auditors themselves believe their responsibilities are. Moreover, Porter (1991) came with a comprehensive definition of AEG and introduced the term reasonableness gap and performance gap.

a. Reasonableness Gap: The difference between what the public believes auditors to achieve and what they can practically be likely to achieve. This gap arises due to the misapprehension of users regarding the objective and scope of audit, lack of sufficient accounting and audit related familiarity, above expectation of users to auditor performances as well as obliviousness of users about audit responsibilities and limitations.

b. The deficient standards gap: The difference between what can sensibly be expected from auditors and auditors' existing duties as defined by the law and professional standards. This gap arises due to dissimilar perception regarding what duties reasonably can be expected from auditors' existing duties as defined by the law and professional promulgations. This can be further referred as failure of the standard setters to set available standards to define the auditors' standard performance.

c. The deficient performance gap: The gap between the expected standard of performance of auditors' existing duties and auditors' perceived performance, as perceived by the public. This gap arises due to the dissimilar perception about the expected standard of performance of auditors' existing duties prescribed in the existing laws and standards and auditors' perceived performance, as expected and perceived by society. This can further conferred as the failure of auditors to meet the society expectation based on their performance under the existing standards. Auditors providing consultancy services to the clients, conflict of interest between the auditors and clients, Long term tenure with the same clients are some of the areas where users may have expectation gap regarding the auditors' perceived performances.

The AEG has been centered on a number of issues such as the role and responsibilities of auditors, the

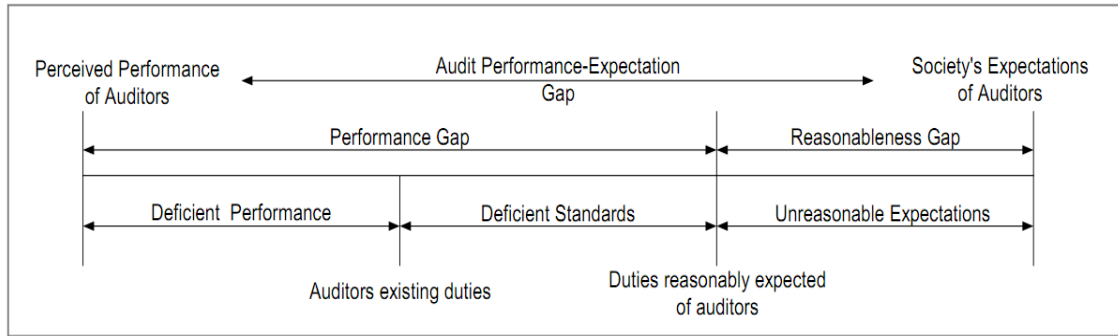


Figure 1. Structure of the audit expectation performance – gap

Source: Porter1993, p. 2.

audit quality, construction and instruction of the profession, the nature and connotation of the message transported by the audit report (Humphery 1992) as well as auditor's capability to converse altered intensities of assurance to users (Peter Schelluch & Gay, 2006). Moreover significant AEG was found in respect of Auditors independence and in respect of the short form of audit report (P Schelluch, 1996).

2.2 Hypothesis development

AEG has been acknowledged by numerous researchers from several factors such as auditor's responsibilities, responsibilities for fraud detection, auditor's scope, independence, usefulness of the auditor's report and so on. The expectation gap stanches since the divergent anticipations regarding the purpose of liberated audit amid the auditors and the extents where metamorphosis in anticipations generally upraises such as auditors responsibility for going concern, detection and prevention of fraud and illegal acts, auditors objectivity, and obligation of due care Sweeney (1997). Humphrey (1991) found the focal areas of audit expectations gap in the role of auditors to reveal deception, extortions to auditors' independence; and the aptitude of auditors to handle menace and ambiguity. However AEG construct could be bestowed with the following items:

2.2.1 Auditor's general responsibilities

There has been a noteworthy expectations gap amid what financial statement customers presume an audit is conveying and what the audit profession considers it is delivering and this gap befits awkward for auditors during the corporate catastrophic and special attention has been focused to the role of the auditor (Mock et al., 2012). The AEG has been bestowed with a number of issues such as the role and responsibilities of auditors, the characteristics and connotation of the message conveyed by audit report, audit quality and the framework and ordinance of the profession (Humphrey et al 1992). The primary objective of audit is to provide opinion on the financial statements prepared by the management whether those financial statements as a whole in all substantial reverences correspond to an applicable financial reporting framework and it enhances the degree of confidence of the intended users on the audited financial statements (ISA 200). Still users of financial statements perceive disingenuous discernment regarding the auditor's general responsibilities. Hence, we constitute our first hypothesis:

H1: There is an expectations gap between auditors and investors in relation to the performance of the auditors' general responsibilities.

2.2.2 Auditor's Responsibility for fraud detection

The users of corporate reports expect auditors to detect and report material fraud and irregularities, whereas the auditors argue that the society misunderstands the role of the auditor and fraud detection and reporting is not a major audit objective. As audit is a social practice it is subject to incessant challenges, the AEG can never be wiped out. Accommodating duties for reporting fraud to the regulators revive the common sense meaning of audit (Sikka et al., 1998). The statutory audit has always been considered as an important weapon against fraud and it provides a continuous protection against fraud. Auditors' responsibility for fraud detection is the most talked topic of all the time. Users have tremendous expectation regarding the auditor's role for the fraud detection and countless researchers has revealed AEG in the areas of auditors responsibility for fraud detection (Pourheydari & Abousaiedi, 2011), (Dixon, Woodhead, & Sohlman, 2006; Ruhnke & Schmidt, 2014; Siddiqui, Nasreen, & Choudhury-Lema, 2009). (Best, Buckby, & Tan, 2001; Lin & Chen, 2004). Moreover, users of the financial statements sited precise extraordinary anticipation regarding the auditors' obligations for deception inhibition and sleuthing (Stirbu, 2010). Hence, we constitute our first hypothesis.

H2: There is an expectations gap between auditors and investors in relation to the performance of the auditors' responsibilities regarding auditor's responsibility for fraud detection.

2.2.3 Auditor's responsibility for internal control reporting

Internal control is the process designed, implemented and maintained by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The auditor shall obtain an understanding of internal control relevant to the audit for assessing the risks of material misstatement (IAASB, 2009c). When an auditor releases an antagonistic view concerning internal control potency, specialists provide greater risk assessments of the company (Waller Shelton & Whittington, 2008) and stock returns risks are associated with the weaknesses in the internal controls (KIM, Yeung, & Zhou, 2013). Hence internal control reporting is a vital phenomenon and users have divergent views ambiances the auditors responsibility for internal control reporting and we hypothesize the following statement:

H3: There is an expectations gap between auditors and investors in relation to the performance of the auditors' responsibilities regarding internal control assessment.

2.2.4 Meaning and usefulness of the audit report

An audit report on the general purpose financial statements articulates a positive and unbiased opinion providing a high but not absolute level of assurance whereas the report on review engagement provides a moderate level of assurance, which is a lower level of assurance (Gay, Schelluch, & Baines, 1998). Reasonable assurance is an eminent degree of assurance and it is attained when the auditor has acquired abundant and applicable audit evidence to moderate audit risk to a reasonably small stage as well as due to the inborn precincts of an audit utmost of the audit evidence on which the auditor lures inferences and roots the auditor's opinion are cogent rather than decisive therefore reasonable assurance is not a perfect raze of assurance. Nevertheless, Users have multi-dimensional expectation regarding the level of assurance provided by the auditors, and somewhat they think that audit might provide guarantee about the fairness of the audited financial statements. Different stakeholder dialogues regarding the surfacing role of the auditor specify that an unmodified audit opinion offers investors with a standard or initial point for their decision-making processes. However, the envisioned meaning of the unmodified audit report is not vibrant mainly users have difficulty in accepting the basic notions in the audit report such as reasonable assurance, materiality, and sampling (Gray et al.2011).

Unmodified audit report provides users a considerably advanced glassy of confidence in the company's management, investment soundness, and achievement of tactical objectives although there are significant metamorphoses amid auditors and users in their understanding of the extensive memorandums transported such as roles, responsibilities, and conclusions of an audit (Asare & Wright, 2012). AEG was also found in the dependability and usefulness of the audit report (Mansur & Tangl, 2018; Nazri Fadzly & Ahmad, 2004; Best et al., 2001).

H4: There is an expectations gap between auditors and investors in relation to the meaning of the audit report.

H5: There is an expectations gap between auditors and investors in relation to the useful of the audit report.

2.2.5 Auditor's responsibility for going concern assessment

The worldwide financial crunch has renewed the issue from regulators, standard setters, and investors about the auditor's judgment and commentary on a company's capability to endure as a going-concern specially after the 2007 banking disaster the question raised , why numerous banks were in distress and that the world's financial organism was at risk, though there was only tiny or no warning regarding the matter (Carson et al., 2012). Management report on their company's ability to continue as a going-concern (FASB 2008, 2011), whereas auditors are required to issue a specific statement in auditor's report on the appropriateness of management's use of the going-concern assumption (IAASB 2012). Audit report is apparent to be expedient to the decision makers by furnishing substantiation that the entity will endure as a going concern and the financial reports do not enclose substantial misstatements (Asare & Wright, 2012). GC audit report is value relevant and it is more explanatory when it delivers innovative information, such as referring specific difficulties with financing. Moreover, a patron requires additional sentience around the auditors' obligation concerning sustainability, the going concern issues of the entity (Mansur & Tangl, 2018).

H6: There is an expectations gap between auditors and investors in relation to the performance of the auditors' responsibilities regarding going concern assessment.

3. Data & methodology

In this study a semantic differential instrument has been developed to measure the level of Audit expectation gap as previous research followed this method (Malhotra 1981, Gay, Schelluch, & Baines, 1998; Monroe & Woodliff, 1994; Schelluch & Gay, 2006; schelluah 1996; Monoroe & Woodliff 94, Asare 2012&Wright). The academic and professional literature and also the audit standards were reviewed to develop the instruments. The survey instrument included a paper questionnaire with the aim to reach the widest possible target groups.

The questionnaire consisted of two parts. Part 1 of the questionnaire contained questions related to demographic data and general questions to elicit information such as respondents' level of education and their experience about audit. Part 2, the main part of the questionnaire in terms of content, gathered information about auditors' functions. The reviewed literature revealed that while conducting analyses of the audit expectation gap, researchers surveyed a wide range of users of financial statements such as investors (Fadzly & Ahmad 2004), bankers (Best et al. 2001), financial directors; investment analysts (Haniffa & Hudaib 2007; Humphrey et al., 1993), educators (Lin & Chen, 2004), government officials; brokers (Fadzly & Ahmad 2004). Our study respondents include the general investors investing in the capital market. We select the investors randomly having the beneficiary owner account enlisted in the Dhaka stock exchange of Bangladesh. The auditors group have been selected randomly for the list available in the website of institute of chartered accountants of Bangladesh (ICAB). The selection criteria of auditor is that passing the final qualifying exam to hold the title associates of chartered accountants (ACA).

The intended questionnaire was pre-tested by 10 respondents as pre-testing the questionnaire with 5 to 10 respondents is apposite (Burns and Bush 2003). From the feedback in the pre-testing, some questions were modified. The questionnaire has been designed on the basis of a 5-point Likert scale anchored as 5=strongly agree; 4=agree; 3= no opinion; 2=disagree; 1=strongly disagree. The questionnaire entailed 20 questions. Three hundred respondents were approached, and 156 responses were received with 52% response rate. After removing the incomplete response, the final sample remained 130 usable questionnaires for the analysis. A reliability test of the data has been done in SPSS version 24 software, and the value of Cronbach's alpha was found to be 0.748 for auditor's general responsibilities, 0.907 for auditors responsibility for fraud detection, 0.745 for auditors responsibility for internal control, 0.723 for meaning of audit report, 0.664 for usefulness of audit report, 0.743 for auditors' responsibility for going concern reporting, 0.783 for provision of non-audit services and 0.723 for other assurance services. The acceptable values of alpha usually ranges from 0.70 to 0.95 (Tavakol and Dennick 2011). Here, Mann Whitney U test (Nachar, 2008) which is a non-parametric test, has been done to assess the differences in the two independent sample mean.

4. Results of the analysis

A demographic profile of the respondents and answer of some basic questions have been displayed in table 1. The result of the questionnaire survey are presented in both table 2 and table 3. The differences in the average mean responses and the mean responses for individual questions and also the significant p values in the Mann-Whitney-U test will be regarded as the presence of audit expectation gap. If the average means response, in some cases the mean response of individual question among two groups auditors and investors are almost similar, and the p value of the Mann-Whitney-U test is not significant, then we may recommend that no expectation gap exists in a particular areas.

Table 1.

Sample characteristics

Variable/Dimension	Frequency	Percentage
Respondents Groups		
Auditors	60	46
Investors	70	54
Total	130	100
Level of Education		
Graduate	44	34
Post Graduate	26	20
Professional Degree eg.ACA/FCA	60	46
Total	130	100
Accounting & Audit related Experiences		
01 to 03 years	15	12
04 to 06 years	72	55
07 to 09 years	36	28
10 years+	07	5
Total	130	100

Table 2

Mean responses

Respondent group	Auditors (n=60)		Investors (n=70)	
	Mean	SD	Mean	SD
<u>(H1) Auditor's general responsibilities:</u>				
1. The objective of audit is to provide guarantee about the accuracy of audited financial statements.	4.47	0.724	1.66	1.062
2. The auditor is responsible for safeguarding the assets of the company.	4.33	1.188	1.47	0.503
3. Auditor's role is to provide guarantee that the entity is financially sound.	4	1.496	1.5	0.504
Average mean response	4.27		1.54	
<u>(H2) Auditor's responsibility for fraud detection:</u>				
4. The auditor is primarily responsible for the prevention and detection of fraud and error of the entity.	4.63	0.486	1.47	0.503
5. Auditor can detect all misstatements due to fraud and error.	3.93	1.388	1.6	0.75
6. Auditor should disclose in audit report about the theft of company's assets by the managerial and non-manual employees.	3.93	1.326	1.61	0.728
7. Auditor should report to the tax authority about the noncompliance of tax laws by the company.	3.93	1.413	1.66	0.7
8. Auditor should be held responsible if the entity goes bankrupt due to fraud.	3.9	1.386	1.9	1.079
Average mean response	4.06		1.65	
<u>(H3) Auditor's responsibility concerning internal control assessment:</u>				
9. The auditor is responsible for the internal control structure of the entity.	4.18	1.142	2.31	1.368
10. Auditor is responsible for material weaknesses in the entity's internal control structure.	4.33	1.003	3.19	1.477
11. Auditors report about the weakness of internal control that could increase the opportunity of corporate corruption.	3.55	1.545	1.61	1.026
Average mean response	4.02		2.37	
<u>(H4) Meaning of audit report</u>				
12. Auditor provides reasonable assurance about the true and fair view of financial statements	3.77	1.294	1.59	0.602
13. Reasonable assurance means guarantee for the accuracy of the financial statements audited.	3.85	1.3	1.59	0.602
14. Unmodified opinion means the auditor does not conclude that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.	3.34	0.816	1.25	1.727
Average mean response	3.65		1.48	
<u>(H5) Usefulness of audit report:</u>				

15. Audit report is not useful for taking investment decision	4.67	0.752	3.73	0.833
16. The audit report is not useful for assessing whether the company is well managed or not.	4.7	0.788	3.64	0.817
17. Audited financial statements are not useful for monitoring the performance of the entity.	4.63	0.663	3.71	0.764
Average mean response	4.67		3.69	
<u>(H6) Auditor's responsibility for going concern assessment:</u>				
18. Auditor makes an assessment of an entity's ability to continue as a going concern.	4.73	0.446	1.61	0.687
19. The auditors can conclude that the company will continue as a going concern in the near future.	3.77	1.382	2.19	1.311
20. Auditor can forecast whether the entity has sufficient liquidity to operate through the next year.	3.87	1.295	1.69	0.772
Average mean response	4.12		1.83	

Table 1.

Assessment of Audit Expectation Gap (AEG)

Respondents Group	Auditors-Investors	
Statements of Differences	Z values	P values
<u>(H1) Auditor's general responsibilities:</u>		
1. The objective of audit is to provide guarantee about the accuracy of audited financial statements.	-9.06	0.00***
2. The auditor is responsible for safeguarding the assets of the company.	-9.33	0.00***
3. Auditor's role is to provide guarantee that the entity is financially sound.	-8.11	0.00***
<u>(H2) Auditor's responsibility for fraud detection:</u>		
4. The auditor is primarily responsible for the prevention and detection of fraud and error of the entity.	-10.17	0.00***
5. Auditor can detect all misstatements due to fraud and error.	-7.70	0.00***
6. Auditor should disclose in audit report about the theft of company's assets by the managerial and non-managerial employees.	-7.97	0.00***
7. Auditor should report to the tax authority about the noncompliance of tax laws by the company.	-7.61	0.00***
8. Auditor should be held responsible if the entity goes bankrupt due to fraud.	-6.83	0.00***
<u>(H3) Auditor's responsibility concerning internal control assessment:</u>		
9. The auditor is responsible for the internal control structure of the entity.	-6.48	0.00***
10. Auditor is responsible for material weaknesses in the entity's internal control structure.	-4.14	0.00***
11. Auditors report about the weakness of internal control that could increase the opportunity of corporate corruption.	-7.19	0.00***
<u>(H4) Meaning of audit report</u>		
12. Auditor provides reasonable assurance about the true and fair view of financial statements.	-7.96	0.00***

13. Reasonable assurance means guarantee for the accuracy of the financial statements audited.	-8.05	0.00***
14. Unmodified opinion means the auditor does not concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.	-7.59	0.00***
<u>(H5) Usefulness of audit report:</u>		
15. Audit report is not useful for taking investment decision	-0.27	0.79
16. The audit report is not useful for assessing whether the company is well managed or not.	-0.59	0.56
17. Audited financial statements are not useful for monitoring the performance of the entity.	-0.42	0.68
<u>(H6) Auditor's responsibility for going concern assessment:</u>		
18. Management makes an assessment of an entity's ability to continue as a going concern.	-10.14	0.00***
19. The auditors can conclude that the company will continue as a going concern in the near future.	-5.53	0.00***
20. Auditor can forecast whether the entity has sufficient liquidity to operate through the next year.	-7.76	0.00***

5. Discussion on the result

The result of H1 recommends that there exists a significant expectation gap between auditors and investors concerning the auditor's general responsibilities. The average mean response from, regarding auditors general responsibility is 4.27 of auditors, where 1.54 of the investors (see table 2). The p value is significant (see table 3) between auditors and investors regarding the performance of auditors general responsibilities. There exists significant differences among all the groups regarding the proclamation that the objective of an audit is to provide guarantee about the accuracy of audited financial statements, whereas according to (IAASB, 2009a), the objective of audit is to provide opinion and provide reasonable assurance on the accuracy of the financial statements. The mean response of question 1, "The objective of audit is to provide guarantee about the accuracy of audited financial statements" is 4.47 of auditors, where is 1.66 of auditors. Auditors group strongly disagree with the statement where investors group strongly agree. We refer this gap as reasonableness gap, because the present audit standards only allow the auditors to provide opinion on the financial statements prepared by the management and there is no reason to believe auditors opinion as a guarantee of the accuracy of the audited financial statements.

The result of H2, recommends that there exists a significant AEG concerning auditors responsibility for fraud detection. Investor group shows huge expectation regarding auditor can detect all misstatements due to fraud and error, the auditor should disclose in audit report about the theft of company's assets by the managerial and non-managerial employees and even auditor should be held responsible if the entity goes bankrupt due to fraud. The average mean response from, regarding auditors fraud detection responsibility is 4.06 of auditors, where 1.65 of the investors (see table 2). The p value is significant (see table 3) between auditors and investors regarding the performance of auditors responsibilities for fraud detection. According to (IAASB, 2009b) auditors can detect and prevent only the material misstatements and provides a reasonable assurance that those financial statements as a whole are free from material misstatements due to fraud and error. These indicate the presence of significant reasonableness gap among the users' group. However, auditors can apply more professional judgment and techniques and act more independently in case of performing fraud detection responsibility. However, users tremendous expectation regarding fraud detetction responsibilities may lead to modification in the existing auditing standards.

According to the result of H3, a significant AEG has been revealed regarding the auditors' responsibility for internal control assessment as users believe that auditors are responsible for the internal control system of the entity. The average mean response from, regarding auditors responsibility for internal control assessment is 4.02 of auditors, where 2.37 of the investors (see table 2). The p value is significant (see table 3) between auditors and investors regarding the performance of auditors responsibilities internal control assessment. According to (IAASB, 2009c), auditors only assess the effectiveness and efficiency of the internal control system of an entity and communicate if there are deficiencies in the internal control with the governing body (IAASB, 2009d).

Significant AEG has also been identified regarding auditors and investors perception on the meaning of audit report (H4). Most of the investors believe that auditors provide absolute assurance, whereas auditors can

provide merely a reasonable assurance on the accuracy of the financial statements and level of assurance varies according to the types of services provided by the auditors. The average mean response regarding the meaning of the audit report is 3.65 of auditors, where is 1.48 of investors. These also specify the presence of the reasonableness gap. Nevertheless, no significant AEG has been revealed in the areas of meaning and usefulness of the audit report. The average mean response regarding the usefulness of audit report is 4.67 of auditors, where is 3.69 of investors. The result of the H5 shows that both auditors and investors have the approximately same perception regarding the usefulness of audit report.

A noteworthy AEG has been identified concerning expectation for an entity's ability to continue as a going concern, H6. The average mean response regarding the auditors responsibility for going concern assessment" is 4.12 of auditors, where is 1.83 of investors. Auditors group strongly disagree with the statement where investors group strongly agree. This gap can be referred as reasonableness gap, but it can lead to a sensible performance gap also. Either auditor cannot resolve this gap for the deficiency in the standards or standards should be revisited to oversee the entity's ability to continue as going concern. Although going concern is the fundamental assumption in preparing the financial statement, auditors need to reassess the issue and users can expect signal in the audit report if there any significant deficiency is found in the entity's ability to continue as going concern. According to IAASB, (2009d), the auditors should obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption in the preparation of the financial statements; and conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and determine the implications of going concern issues for the auditor's report. The international auditing & assurance standard board (IAASB) has proposed an expansion of audit report and urged to disclose the opinion about going concern issues in a separate section. Management report on their company's ability to continue as a going-concern (FASB, 2008, 2011) whereas auditors are required to issue a specific statement in auditor's report on the appropriateness of management's use of the going-concern assumption (IAASB, 2012). However, importance has been given on the expansion of audit report and key audit matters and going concern issues should be mentioned into a separate section so that entity does not dissolve without any signals in the audit report (IAASB, 2015).

6. Concluding remarks

The study has explored significant audit expectation gap in the areas of auditors general responsibility, auditors responsibility for fraud detection, meaning of audit report, auditor's responsibility for going concern assessment. Although reasonable assurance is a high level of assurance most of the users expect for absolute assurance as they assume audit provides a guarantee instead of providing only an opinion. Most of the gap has been refereed as reasonableness gap because investor's perception varies significantly those of the auditors and is not included in the scope of the current audit standards. Our research result is more confront with (Ruhnke, K., & Schmidt, M. (2014), where a study in Germany revealed that users perceive audit of financial statements as a tool for fraud detection and a technique for assessing the going concern of the entity. However, the recent audit standards urge for the expansion of the audit report and provide more information to meet the users' expectation. Reasonableness gap arise due to the unreasonable expectation of the society and it is more dangerous, as it can spoil the auditors' professional dignity and significance of the audit profession. Although these findings cannot be generalized with other parts of the world but it's an attempt to generate a bit similar views regarding the audit expectation gap phenomenon all over the world. This study will guide the policy makers and audit regulators regarding the implementation of audit standards and ethical requirements. Establishing audit standards should reflect the users' expectation to serve their interest to maintain the ultimate purpose of auditing. If the audit regulatory initiative doesn't focus the users expectation those regulation will create no benefits. Future research may collaborate more users group such as creditors, regulatory agencies, and others stakeholders related to audit to explore the audit expectation gap in a wide range.

Conflict of interest statement: No conflict of interest is reported by authors.

References

- AICPA, (1992). Statement of position regarding mandatory rotation audit firms of publicly held companies SEC Practice Section, Division for CPA Firms. AICPA, New York, NY.
- Asare, S. K., & Wright, A. M. (2012). Investors', auditors', and lenders' understanding of the message conveyed by the standard audit report on the financial statements. *Accounting Horizons*, 26(2), 193-217.
- Best, P. J., Buckby, S., & Tan, C. (2001). Evidence of the audit expectation gap in Singapore. *Managerial Auditing Journal*, 16(3), 134-144.
- Boterenbrood, R. (2017). The Audit Expectation Gap between Companies and Their Auditors: An Exploratory Study. *Global Business Review*, 18(5), 1124-1133.

- Carson, E., Fargher, N. L., Geiger, M. A., Lennox, C. S., Raghunandan, K., & Willekens, M. (2012). Audit reporting for going-concern uncertainty: A research synthesis. *Auditing: A Journal of Practice & Theory*, 32(sp1), 353-384.
- Coffee Jr, J. C. (2002). Understanding Enron: "It's About the Gatekeepers, Stupid". *The Business Lawyer*, 1403-1420.
- Cohen Commission. (1978). *The Commission on auditors' Responsibilities: Report, Conclusions and Recommendations*. Manuel F. Cohen, Chairman. New York, NY: AICPA.
- Dixon, R., Woodhead, A., & Sohlman, M. (2006). An investigation of the expectation gap in Egypt. *Managerial Auditing Journal*, 21(3), 293-302.
- Dontoh, A., Ronen, J., & Sarath, B. (2013). Financial statements insurance. *Abacus*, 49(3), 269-307.
- European Commission. (2010). *Green paper audit policy: Lessons from the crisis*. Available at: <http://ec.europa.eu/internal_market/auditing/reform/index_en.htm>.
- Financial Accounting Standards Board. (FASB). 2008. *Proposed Statement of Financial Accounting Standards, Going Concern*. File Reference No. 1650-100. Norwalk, CT: FASB.
- Financial Accounting Standards Board. (FASB). 2011. *Disclosures about Risks and Uncertainties and the Liquidation Basis of Accounting*. Norwalk, CT: FASB.
- Gay, G., Schelluch, P., & Baines, A. (1998). Perceptions of messages conveyed by review and audit reports. *Accounting, Auditing & Accountability Journal*, 11(4), 472-494.
- Gray, G. L., Turner, J. L., Coram, P. J., & Mock, T. J. (2011). Perceptions and misperceptions regarding the unqualified auditor's report by financial statement preparers, users, and auditors. *Accounting Horizons*, 25(4), 659-684.
- Haniffa, R., & Hudaib, M. (2007). Locating audit expectations gap within a cultural context: The case of Saudi Arabia. *Journal of International Accounting, Auditing and Taxation*, 16(2), 179-206.
- Humphrey, C., Moizer, P., & Turley, S. (1993). The audit expectations gap in Britain: An empirical investigation. *Accounting and business research*, 23(sup1), 395-411.
- Humphrey, C., Moizer, P., & Turley, S. (1992). The audit expectations gap—plus ça change, plus c'est la même chose? *Critical Perspectives on Accounting*, 3(2), 137-161.
- KIM, J. B., Yeung, I., & Zhou, J. (2013). Material weakness in internal control and stock price crash risk: Evidence from SOX Section 404 disclosure. Paper presented at the 2013 Annual Meeting of American Accounting Association.
- Liggio, C. D. (1974). Expectation gap-accountants legal Waterloo. *Journal of contemporary business*, 3(3), 27-44.
- Lin, Z. J., & Chen, F. (2004). An empirical study of audit 'expectation gap' in the People's Republic of China. *International Journal of Auditing*, 8(2), 93-115.
- Mansur, H., & Tangl, A. (2018). The Perceptions of Credit Officers towards External Auditors: A Case Study from Jordan. *Accounting and Finance Research*, 7(1), 237.
- Merritt B. Fox, *Gatekeeper Failures: Why Important, What to Do*, 106 Mich. L. Rev. 1089 (2008). Available at: <http://repository.law.umich.edu/mlr/vol106/iss6/9>
- Mock, T. J., Bédard, J., Coram, P. J., Davis, S. M., Espahbodi, R., & Warne, R. C. (2012). The audit reporting model: Current research synthesis and implications. *Auditing: A Journal of Practice & Theory*, 32(sp1), 323-351.
- Monroe, G. S., & Woodliff, D. R. (1994). An empirical investigation of the audit expectation gap: Australian evidence. *Accounting & Finance*, 34(1), 47-74.
- Nachar, N. (2008). The Mann-Whitney U: A test for assessing whether two independent samples come from the same distribution. *Tutorials in Quantitative Methods for Psychology*, 4(1), 13-20.
- Nazri Fadzly, M., & Ahmad, Z. (2004). Audit expectation gap: The case of Malaysia. *Managerial Auditing Journal*, 19(7), 897-915.
- Porter, B. (1991). Narrowing the audit expectation-performance gap: a contemporary approach. *Pacific Accounting Review*, 3(1), 1-36.
- Porter, B. (1993). An empirical study of the audit expectation-performance gap. *Accounting and business research*, 24(93), 49-68.

- Pourheydari, O., & Abousaiedi, M. (2011). An empirical investigation of the audit expectations gap in Iran. *Journal of Islamic Accounting and Business Research*, 2(1), 63-76.
- Ruhnke, K., & Schmidt, M. (2014). The audit expectation gap: existence, causes, and the impact of changes. *Accounting and business research*, 44(5), 572-601.
- Schelluch, P., & Gay, G. (2006). Assurance provided by auditors' reports on prospective financial information: implications for the expectation gap. *Accounting & Finance*, 46(4), 653-676.
- Schelluch, P., & Green, W. (1996). The expectation gap: the next step. *Australian accounting review*, 6(12), 19-23.
- Siddiqui, J., Nasreen, T., & Choudhury-Lema, A. (2009). The audit expectations gap and the role of audit education: the case of an emerging economy. *Managerial Auditing Journal*, 24(6), 564-583.
- Sikka, P., Puxty, A., Willmott, H., & Cooper, C. (1998). The impossibility of eliminating the expectations gap: Some theory and evidence. *Critical Perspectives on Accounting*, 9(3), 299-330.
- Sikka, P., Willmott, H., & Lowe, T. (1989). Guardians of Knowledge and Public Interest: Evidence and Issues of Accountability in the UK Accountancy Profession. *Accounting, Auditing & Accountability Journal*, 2(2).
- Stirbu, D. A. (2010). Current controversy on audit functions. *Annals of DAAAM & Proceedings*.
- Sweeney, B. (1997). Bridging the expectations gap-on shaky foundations. *Accountancy Ireland*, 29, 18-20.
- Tavakol, M., & Dennick, R. (2011). Making sense of Cronbach's alpha. *International journal of medical education*, 2, 53.
- Accounting Horizons*, 10(4), 76.
- Waller Shelton, S., & Whittington, O. R. (2008). The influence of the auditor's report on investors' evaluations after the Sarbanes-Oxley Act. *Managerial Auditing Journal*, 23(2), 142-160.
- Wolf, F. M., Tackett, J. A., & Claypool, G. A. (1999). Audit disaster futures: antidotes for the expectation gap? *Managerial Auditing Journal*, 14(9), 468-478.
- Public Company Accounting Oversight Board (PCAOB). 2011. Concept Release on Auditor Independence and Audit Firm Rotation. Washington, DC: PCAOB.
- IAASB,(2011). Enhancing the value of auditor reporting: Exploring options for change. Available at: http://www.ifac.org/sites/default/files/publications/exposure-drafts/CP_Auditor_Reporting-Final.pdf.
- IAASB. (2012). Invitation to Comment: Improving the Auditor's Report. New York, NY: International Federation of Accountants. New York, NY: IAASB.
- IAASB, (2014).A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality, IFAC. Available at: <https://www.ifac.org/publications-resources/framework-audit-quality-key-elements-create-environment-audit-quality>
- IAASB. (2015). The New Auditor's Report: Greater Transparency into the Financial Statement Audit. Available at www.iaasb.org/auditor-reporting
- IAASB, (2009a). Overall Objectives Of the Independent Auditor And The Conduct of an Audit in Accordance with International Standards on Auditing,ISA200. New York, NY: IAASB.
- IAASB, (2009b). The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements,ISA240. New York, NY: IAASB.
- IAASB, (2009c). Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment, ISA315. New York, NY: IAASB.
- IAASB, (2009d). Going Concern, ISA570. New York, NY: IAASB.