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The Audit Expectations Gap: The Role of Auditing Education

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THE AUDIT EXPECTATIONS GAP: THE ROLE OF AUDITING EDUCATION

ABSTRACT

There is now considerable evidence of a gap when external auditors' understanding of their role and duties is compared against the expectations of various user groups and the general public regarding the process and outcome of the external audit, i.e., an audit expectations gap. Conflicting views have been expressed regarding the role of auditing education in narrowing this gap. This study was carried out to investigate whether there is evidence that the provision of auditing courses as part of third level business degree programmes contributes to a narrowing of that part of the audit expectations gap which results from a misunderstanding of audit regulations. The study was therefore not concerned with issues relating to the setting or content of audit regulations, but with the communication and understanding of regulations.

A survey questionnaire was completed by five different groups of students at the start of the academic year and by the same five groups again towards the end of the year (n = 818). Each of the groups had studied either a full course in auditing, a module of auditing, or no auditing at all during the period. The results from the study indicated a significant reduction (at the .05 level) in all elements of the misunderstanding gap for those groups who had studied either a module or a course in auditing during the period but not for any of the other groups. Additional analyses were conducted to investigate specific elements of the misunderstanding gap. Implications for the profession, educational institutions and future research are discussed.

INTRODUCTION

The credibility of external auditors is increasingly being called into question in many countries around the world, as evidenced by widespread criticism and litigation directed against auditors (Porter, 1993). There is evidence that some of this criticism is based on society's lack of knowledge of company law and auditing standards and a misunderstanding of the fundamental role of the external auditor, i.e., an expectations gap. One possible means of reducing this expectations gap is to improve knowledge and understanding of the auditor's role and responsibilities through the provision of auditing education. The purpose of this study is to investigate whether the expectations gap is reduced by the provision of auditing courses as part of third level business degree programmes.

THE AUDIT EXPECTATIONS GAP

The phrase "Audit Expectations Gap" was first introduced into the literature over twenty years ago by Liggio (1974). It was defined as the difference between the levels of expected performance "as envisioned by the independent accountant and by the user of financial statements" (p.27). Tweedie (1987) set out the extent of the problem as follows:

"The public appears to require (1) a burglar alarm system (*protection against fraud*).....(2) a radar station (*early warning of future insolvency*).....(3) a safety net (*general re-assurance of financial well-being*).....(4) an independent auditor (*safeguards for auditor independence*).....and (5) coherent communications (*understanding of audit reports*)" (p.20).

He concluded:

"Given these concerns it is clear that the basic tenets of an audit are being mis-understood" (p.21).

Recognition within the Profession

The expectations gap has been recognised by the auditing profession as an issue of fundamental importance. The Commission on Auditors' Responsibilities (AICPA, 1978) was established to investigate the existence of such a gap and concluded :

“After considerable study of available evidence and its own research.....such a gap does exist” (p.xii).

The Canadian Institute of Chartered Accountants established the MacDonald Commission to study the public’s expectations of audits. The Commission presented its final report in 1988, and concluded that the public is largely ignorant of the extent of the responsibilities entrusted to auditors and that some of the most knowledgeable segments of the public feel that their expectations are not being fulfilled. In the UK, the Auditing Research Foundation (1989) identified the expectations gap as one of the priority areas for investigation.

In 1991, the Institute of Chartered Accountants in Ireland established an independent commission to study the expectations gap. The commission presented its final report in 1992 and concluded that there was evidence of an expectations gap which should be addressed as a matter of priority. In Australia, the ASCPA and the ICA published a major research study in 1994 highlighting the need to address issues related to the expectations gap.

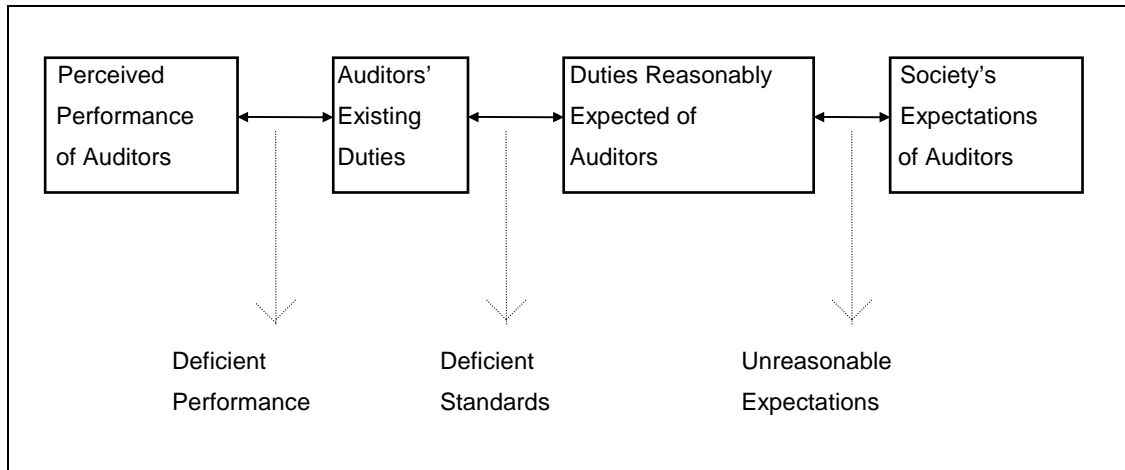
There is, therefore, widespread recognition within the profession of the existence of a significant audit expectations gap and the need to take urgent and effective action to address that gap.

Components of the Expectations Gap

Porter (1993) concluded that earlier definitions of the audit expectations gap were excessively narrow in that they failed to recognise the possibility of sub-standard performance by auditors. She highlighted the importance of considering the full extent of the audit expectations gap, and argued that this can only be done by comparing society’s expectations of auditors against the perceived performance of auditors. Viewed in this way, the gap can be widened either by an increase in society’s expectations (some of which can be unreasonable) or a deterioration in perceived auditor performance (sub-standard performance arises where the auditor fails or is perceived to fail to comply with legal and professional requirements). Conversely, the gap can be narrowed either by a reduction in society’s expectations or an improvement in perceived performance.

This overall expectations gap, or shortfall between society's expectations and perceived performance, can usefully be analysed into three components, as depicted in Figure I.

Figure I: Elements of the Audit Expectations Gap (adapted from Porter, 1993)



Arising from the results of a major survey of interest groups in New Zealand, Porter concluded that the total expectations gap could be analysed into its separate components as depicted above, and that such an analysis was a useful means of addressing the problem of how to narrow the gap. That study concluded that 16% of the total gap arose from sub-standard performance, 50% from deficient standards and 34% from unreasonable expectations.

Narrowing the Gap: Possible Approaches

It has been argued (Gloeck and de Jager, 1993; CACA, 1992; Sikka et al., 1992) that because of the nature of the expectations gap it will possibly never be entirely eliminated. It is generally recognised that there are different kinds of expectations gap (Singleton-Green, 1990), and that the problem can only be successfully addressed through a combination of measures. For example, the APB (1991) argued:

“Given the nature of the expectation gap, no one initiative is likely to be sufficient to bridge it at any one point in time or to eliminate it altogether” (p.125).

A number of different approaches have been suggested as possible ways of narrowing the gap. Innes, Brown and Hatherly (1991) concluded that an expanded audit report offered scope to inform users of what auditors actually do and thereby reduce the gap between the perceptions of users and auditors. The Auditing Research Foundation (1989) had earlier found that the auditor's report was considered to be one of the cornerstone issues in attempting to address audit users' expectations.

This view was endorsed by the Institute of Chartered Accountants in Ireland (1992), in concluding that much of the misunderstanding in relation to audits and auditors could be resolved by a more informative audit report. The MacDonald Commission (1988) recommended that, in addition to a more explicit audit report, a statement of management's responsibilities for the financial statements should be included in the annual report, and furthermore that audit committees should report annually to shareholders.

Other possible means of reducing the expectations gap have also been suggested. Examples include broadening the role and responsibility of auditors in the areas of fraud (Humphrey et al., 1992; Sikka et al., 1992) and illegal acts (MacDonald Commission, 1988), and strengthening the perceived independence of auditors (Moizer, 1991; ICAI, 1992; Sikka et al., 1992).

The Role of Auditing Education: Conflicting Arguments

The provision of auditing education has also been suggested as a possible means of addressing the expectations gap. Conflicting arguments have been presented, however, regarding the likelihood of auditing education succeeding in reducing the gap.

Some of the proponents of audit education see education as having a fundamental role to play in resolving user misconceptions regarding the role and responsibilities of external auditors (Beck, 1973; Mednick, 1986; Brindle, 1990; Darnill, 1991). Others have argued that one obvious way to narrow the gap between the profession's understanding of its responsibilities and users' expectations is to better educate the public on the limitations of an audit (Mednick, 1986; Moir, 1989). However, Porter (1993) asserted that society must be educated on the duties which may reasonably be expected of auditors if the unreasonableness gap is to be eliminated. The only

empirical study to date on the effects of audit education on the audit expectations gap was the experiment conducted by Monroe and Woodliff (1993). They examined the effects of professional education on undergraduate audit students' beliefs about the messages communicated through audit reports, and concluded that:

“...it appears certain that education is an effective approach (to addressing the audit expectations gap)” (p.74)

but that consideration needs to be given to the appropriate type of education.

An alternative viewpoint has also been presented in the literature. The MacDonald Commission (1988) expressed the view that education is unlikely to be effective in reducing the gap. Although the Commission found that the public is largely ignorant about the roles and responsibilities of auditors, it concluded that for the most part, public expectations are reasonable and achievable. The profession should therefore endeavour to meet those expectations by taking measures to strengthen the independence and professionalism of auditors and improve financial disclosure.

Sikka et al. (1992) argued that the gap can only be effectively addressed by the profession taking action to widen the responsibilities of auditors:

“educating and informing the public about the purpose and limitations of the audit is the profession’s wish to narrow the expectations gap on its own terms rather than accept the meanings favoured by other constituencies” (p.27).

This viewpoint was shared by Gloeck and de Jager (1993) who argued that education was the profession’s desire to retain the status quo regarding auditors’ roles and responsibilities and the plea of “don’t expect too much (but of course pay us well!)” is both self-serving and ineffective (p.20).

While this argument undoubtedly carries some validity, it seems to ignore the unreasonable expectations of users (Porter, 1993) and the fact that education and improved communication offer opportunities for reducing those expectations. Gloeck and de Jager concluded, however, that provided the profession engages in effective procedures to broaden the responsibility of auditors where appropriate, there would be a benefit to be derived from “opening existing processes (such as determining

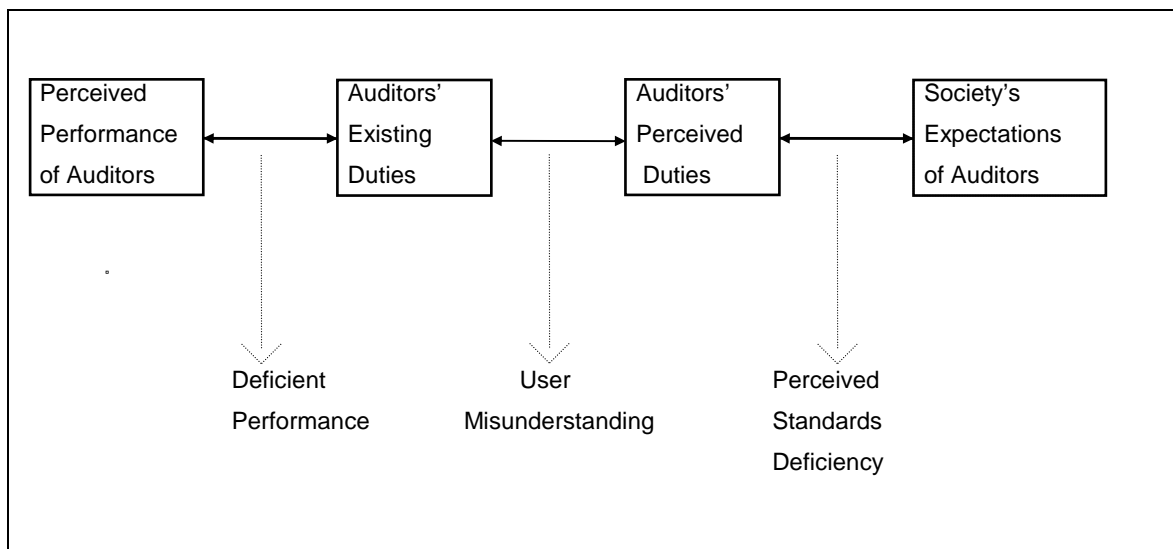
generally acceptable auditing standards and the educational processes) to involve users in them” (p.30).

Humphrey et al. (1993) concluded that the historical resilience of the audit expectations gap points to something more than just an ignorance gap, suggesting that scope exists for the profession to respond more actively to the views and demands of those relying on the audit function. The implication of this is that education may not be effective in addressing all of the elements of the audit expectations gap but that it has a role to play in the reduction of the misunderstanding element of the gap.

The Role of Auditing Education: User Misunderstanding

A consistent finding from previous studies is the presence of user misunderstanding regarding the roles and duties of auditors. User misunderstanding can be set in the overall context of the audit expectations gap as presented in Figure II. The User Misunderstanding Gap is concerned with misconceptions concerning the existing role and duties of external auditors. As such, it is clearly distinguishable from the normative question concerning the roles and responsibilities which auditors should have (Perceived Standards Deficiency), and from the operational question concerning how well auditors’ performance is perceived to comply with existing regulations (Deficient Performance).

Figure II: Audit Expectations: User Misunderstanding



Note: Lack of knowledge is not confined to the User Misunderstanding Gap, but has also been shown to contribute to both deficient performance (Robinson and Lyttle, 1991; Porter, 1993) and perceived standards deficiency (Porter, 1993).

This study focuses on the User Misunderstanding Gap and the extent to which this gap can be narrowed through the provision of auditing education. It is recognised, however, that the User Misunderstanding Gap may also be affected by any change in existing duties brought about by new or revised regulations.

Elements of the User Misunderstanding Gap Investigated in the Study

The study investigates four elements of the user misunderstanding gap: (i) Duties; (ii) Ethical and legislative framework; (iii) Liability; and (iv) Audit report. These elements were selected based on a review of previous literature on the audit expectations gap as discussed below.

Included in the duties' component was the auditor's responsibility in relation to fraud and error. Robinson and Lyttle (1991) found the expectations gap to be widest in relation to the detection and reporting of fraud. Humphrey et al (1992) noted that "fraud has been an important element in the debate on audit expectations throughout the history of the statutory audit" (p.12). A second category of duties identified in the study included accounting duties such as the preparation of accounts, selection of appropriate accounting policies and the maintenance of proper books of account. Such duties were identified by the 1963 Companies Act as directors' responsibilities. The APB (1993) stated that auditors should include in their report a reference to a description of directors' responsibilities when set out in the financial statements or an adequate description of such responsibilities if not included in the financial statements. The results from the study undertaken by Monroe and Woodliff (1993) showed that audit education resulted in less responsibility being assigned to auditors and more to management for maintaining records and safeguarding assets (p.68). The final group of duties included under this heading was described as 'other duties' and included items such as guaranteeing the financial soundness of the entity, ensuring that the company is run efficiently and confirming that its activities are not damaging to society. Beck (1973) found considerable support for the view that the audit is designed to give assurance on the efficiency of management and the financial soundness of the company. Robinson and Lyttle (1991) found a high expectation among users that it is

the duty of the auditor to give warning of impending company collapse. ICAS (1993) noted that:

“there have been demands in recent years for companies to be subject to an audit of their social behaviour” (p.19).

The second element of the user misunderstanding gap, i.e., ethical and legislative framework, included issues dealing with auditor independence, auditor appointment and audit regulation. Humphrey (1991) noted that:

“if any topic can be classified as going to the heart of the audit expectations debate, it is the issue of auditor independence” (p.14).

Humphrey et al (1992) identified auditor independence as a key element of the audit expectations gap. Sikka et al (1992) argued that one of the steps to be taken by the profession to reduce the expectations gap is "reforms relating to auditor independence" (p.29). Directly related to the independence issue is auditor appointment and the role of directors and senior management in that appointment. Mitchell et al (1991) argued that:

“the legal fiction is that auditors are hired and fired by shareholders, the practical reality is that auditors are hired and fired by the directors” (p.25).

The final issue addressed in this element of the misunderstanding gap was audit regulation. Gloeck and de Jager (1993) argued that

“the process of self-regulation contributes materially to enlarging the expectations gap”(p.17).

Sikka et al (1992) stated that

“as a first step towards reducing the expectations gap, auditing standards and hence audit objectives should be shaped by open, democratic, accountable bodies, independent of the accountancy profession and the DTI” (p.29).

The third element of the user misunderstanding gap, addressed by this study, is auditor liability. In Ireland, should auditors fail to perform their duties under the Companies Acts with reasonable skill and care, they will be liable to the company for any damages which it may sustain as a result of their negligence. In addition, in light of current case law, a duty of care is owed by the auditors where it can be shown that the opinion of the auditors was given with respect to a particular transaction and with the intention that a particular person(s) should rely on it. The ICAI (1992) noted that:

“it would appear that at present, apart from statutory duties, there is no definitive test for determining the extent of any additional liability of auditors in negligence in respect of a company's financial statements, and that each case must be determined on its own merits by reference to the proximity of the relationship between the parties at a particular time” (p.88).

The position in the U.K. is different due to the landmark case of *Caparo v Dickman* and others in 1990 which, according to Mitchell et al (1991), has led to an environment where “auditors have no incentives to meet social needs or even to act as effective watchdogs” leaving “shareholders and the public powerless” (p.26). Gloeck and de Jager (1993) argued that the *Caparo* case added a liability gap to the audit expectations gap, because the public does not know to whom the auditor is liable. Humphrey et al (1992) noted that:

“the difficulty for auditors with the *Caparo* judgement is that it has led people to wonder whether auditors can be held liable for anything to anyone” (p.17).

However, as noted by the ICAI Report (1992), the weight of the *Caparo* decision case must be treated with some caution given that there has not been any case in Ireland yet in which this more restrictive approach to the recognition of duties of care has been adopted.

The final element of the user misunderstanding gap identified in this study relates to audit report issues. Humphrey (1991) noted that:

“the expectations gap has often been framed in terms of a codification problem in that if users better understood the code being used by auditors to report their

opinions, they would more accurately understand the messages intended by the various forms of audit reports” (p.13).

The ICAI (1992) argued that:

“an important contribution towards improving users' understanding of the audit process can be made through the audit report” (p.89).

Humphry et al (1992) asserted that:

“audit reports are significant in the context of the expectations gap, not only because they are a direct source of differing beliefs about auditing, but also because of the suggestion that they should be used as an educational tool to alter expectations” (p.37).

THE STUDY

Research Questions

The overall question which the study sought to address was whether there was any evidence that the provision of auditing courses as part of third level business degree programmes contributed to a lowering of the audit expectations gap, and in particular, that component of the gap related to user misunderstanding. In addition, the study sought to measure specific elements of the user misunderstanding gap and to investigate the impact of auditing education on those elements.

Data Collection

A survey questionnaire was completed by five different groups of students at the start of the academic year and again towards the end of that year. The five groups were comprised of business studies - year one students and accounting and finance - years one, two and three students, with year three split according to whether students were taking the elective course in Auditing. The total number of completed questionnaires from the survey conducted at the start of the academic year was 428, and 390 completed responses were obtained at the end of the year.

The questionnaire contained a number of correct and incorrect statements regarding current regulations governing external auditors. Participants were requested to indicate on a five point scale the extent of their agreement or disagreement with

each statement. Ordering of statements followed no particular pattern, but statements were designed to address the four general areas discussed above, i.e., (i) Duties, (ii) Ethical and legislative framework, (iii) Liability and (iv) Audit report. A pilot study was completed in advance of the main survey using a separate group of third year accounting and finance students from the previous year.

Measurement

A score of 5 was assigned to the response which showed the best understanding of audit regulations, i.e., a 'strongly agree' response to correct statements or a 'strongly disagree' response to incorrect statements. Other responses on the scale were scored according to their proximity to that response, with a score of 1 being assigned to the response indicating least understanding of audit regulations.

A misunderstanding gap was then computed for each respondent by deducting their score for each statement from a maximum score of 5. Thus a misunderstanding gap ranging from 0 to 4 was computed for each response. An overall misunderstanding gap was computed for each respondent by adding the gaps for every statement. A separate misunderstanding gap was also computed for each of the main components of the misunderstanding gap.

RESULTS

Demographic Details

Table 1 presents details regarding the survey which was conducted at the start of the academic year. Survey questionnaires were distributed on a surprise basis, and the number of respondents represents a typical attendance for each of the groups.

There was therefore no reason to suspect any form of non-response bias.

The demographic details shown in Table 1 were requested in order to investigate whether they were in any way related to respondents' misunderstanding of regulations governing auditors. Results of t tests indicated no significant difference between students who had studied accountancy for Leaving Certificate and those who had not. There was also no significant difference between those respondents who had regular contact with a practising auditor and those who did not.

However, results did indicate a significantly better understanding of audit regulations by those respondents who had gained some work experience in either accountancy

or audit related work compared to those who had not. The difference was significant for the overall gap (sig = .001) and for each of the four elements (at the .01 level), with the exception of Gap C, i.e., Liability.

The other variable showing evidence of a significant difference was career intentions. Respondents who expressed the intention of pursuing a career in chartered accountancy also showed a significantly better understanding of audit regulations than those who did not. The difference was significant for the overall gap (sig = .000) and for each of the four elements of the gap (sig = .000).

Table 1: Survey Respondents (Autumn 1994): Demographic Details

Group	Total		BAAF I		BAAF II		BAAF III - Auditing		BAAF III - No Auditing		BBS I	
Total n	428		112		93		47		43		133	
	#	%	#	%	#	%	#	%	#	%	#	%
<i>“Did you study Accounting for the Leaving Certificate?”</i>												
No	84	19.6	10	8.9	6	6.5	6	12.8	4	9.3	58	43.6
Yes	344	80.4	102	91.1	87	93.5	41	87.2	39	90.7	75	56.4
<i>“Have you had Work Experience of the following kinds?”</i>												
Work not related to Accounting*	336	78.5	94	83.9	70	75.3	45	95.7	35	81.4	92	69.2
Work related to Accounting*	102	23.9	12	10.7	20	21.6	18	38.3	21	48.9	31	23.3
Work related to Auditing*	17	3.9	2	1.8	2	2.2	4	8.5	3	7.0	6	4.5
<i>“Do you wish to become a Qualified Accountant?”</i>												
No	136	31.8	20	17.8	15	16.1	6	12.8	2	4.6	93	69.9
Yes - Chartered (ACA)	129	30.1	34	30.4	38	40.9	32	68.1	19	44.2	6	4.5
Yes - Certified (ACCA)	5	1.2	-	-	3	3.2	1	2.1	-	-	1	0.8
Yes - Management (CIMA)	19	4.4	2	1.8	2	2.2	-	-	6	14.0	9	6.8
Yes-but undecided between ACA, ACCA, CIMA	139	32.5	56	50.0	35	37.6	8	17.0	16	37.2	24	18.0
<i>“Have you regular contact with a practising auditor or trainee auditor (e.g., friend or relation)?”</i>												
No	322	75.2	89	79.5	73	78.5	33	70.2	35	81.4	92	69.2
Yes	106	24.8	23	20.5	20	21.5	14	29.8	8	18.6	41	30.8

* These responses are not mutually exclusive and are not therefore expected to total 100%

Overall Misunderstanding

The overall misunderstanding gap was computed by adding response scores for all 86 statements contained in the survey questionnaire. As each response was scored on a scale of 0 - 4, the available range for the overall score for each respondent was therefore 0 - 344. Mean overall scores for each of the five groups at the beginning and end of the academic year are shown in Table 2.

Table 2: Mean Scores for Overall Misunderstanding Gap (Available Range 0 - 344)

Group	Overall Misunderstanding Gap		Sig (Note 2)
	Autumn (Note 1)	Summer (Note 1)	
BBS I	172.5	166.9	.049
BAAF I	169.8	163.7	.075
BAAF II	156.9	126.0	.000
BAAF III (No Auditing)	129.8	127.0	.570
BAAF III (Auditing)	116.0	86.6	.000

Notes

1. Autumn shows results of survey at the start of the academic year; summer relates to the survey at the end of the academic year.
2. Results of t test on mean scores from the two surveys for each group.
3. Groups were as follows:

BBS I = First year Business Studies students (no auditing)

BAAF I = First year Accounting and Finance students (no auditing)

BAAF II = Second year Accounting and Finance students (one module of auditing)

BAAF III = Third year Accounting and Finance students (No auditing)

BAAF III = Third year Accounting and Finance students (Auditing)
(a full course in auditing)

Both first year groups provided evidence of poor understanding of audit regulations at the start of the year, but both achieved some improvement during the course of the year. Neither group studied auditing during the year but both groups studied similar business related courses including accounting. The BAAF II and BAAF III (Auditing) groups both studied auditing during the year and both showed evidence of a significant improvement (at the .001 level) in understanding of auditing regulations. Finally, the BAAF III (No Auditing) group showed only a very small improvement at the end of the year.

Elements of the Misunderstanding Gap

The survey questionnaire addressed the four major areas in which the literature has highlighted user misunderstanding of regulations relating to external auditors, and contained a number of statements relating to each of those areas as follows: (i) Duties (27 statements), (ii) Ethical and Legislative Framework (26 statements), (iii) Liability (10 statements), and (iv) Audit Reports (23 statements). It was therefore possible to analyse the overall misunderstanding gap for each respondent into these four elements. By dividing the gap in each area by the number of questions in that area, it was possible to compare the extent of the gap in each of the four areas. A ranking of the four areas according to the extent of the gap in each area is shown in Table 3.

Table 3: Ranking of the Four Elements of the Misunderstanding Gap (Rank 1 = greatest gap)

	Gap A		Gap B		Gap C		Gap D	
	Aut	Sum	Aut	Sum	Aut	Sum	Aut	Sum
BBS I	1	2	3	1	2	3	4	4
BAAF I	1	1	2	3	3	2	4	4
BAAF II	1	2	3	3	2	1	4	4
BAAF III (No Aud.)	1	1	3	2	2	3	4	4
BAAF III (Aud.)	1	1	3	3	2	2	4	4

Notes

1. Gap A = Duties (27 statements)
 Gap B = Ethical and Legislative Framework (26 statements)
 Gap C = Liability (10 statements)
 Gap D = Audit Reports (23 statements)

2. Autumn shows results of survey at the start of the academic year; summer relates to the survey at the end of the academic year.

A notable feature of these rankings was the high degree of consistency found in the Autumn survey. For all five groups, the widest gap was found for Duties and the narrowest gap for Audit Reports. For all groups except BAAF I, the gap for Liability was wider than for Ethical and Legislative Framework. Rankings produced from the Summer survey showed that for all groups, Audit Reports remained the area where the misunderstanding gap was narrowest, and for three of the groups, Duties continued to show the widest gap.

Table 4: Mean Scores for Overall Misunderstanding Gap and Four Specified components

	Gap A (Range 0 - 108)			Gap B (Range 0 - 104)			Gap C (Range 0 - 40)			Gap D (Range 0 - 92)			Gap O (Range 0 - 344)		
	Aut	Sum	Sig	Aut	Sum	Sig	Aut	Sum	Sig	Aut	Sum	Sig	Aut	Sum	Sig
BBS I	56.56	53.61	.021	51.02	51.88	.375	20.07	19.60	.317	44.66	43.11	.117	172.5	166.9	.049
BAAF I	55.50	53.33	.084	52.21	49.17	.015	19.43	18.99	.413	42.77	41.58	.287	169.8	163.7	.075
BAAF II	53.19	42.18	.000	46.24	37.60	.000	19.44	16.24	.000	38.26	31.25	.000	156.9	126.0	.000
BAAF III (No Aud.)	44.14	43.60	.759	37.58	38.89	.543	15.05	15.00	.952	33.00	33.16	.915	129.8	127.0	.570
BAAF III (Aud.)	41.30	32.10	.000	33.11	27.22	.024	13.62	11.67	.014	27.98	20.71	.001	116.0	86.6	.000

Notes

- Gap A = Duties (27 statements)
 Gap B = Ethical and Legislative Framework (26 statements)
 Gap C = Liability (10 statements)
 Gap D = Audit Reports (23 statements)
 Gap O = Overall Misunderstanding Gap (86 statements)
- Available Range is a function of the available range for each statement (i.e., 0 - 4) multiplied by the number of questions.
- Autumn shows results of survey at the start of the academic year; summer relates to the survey at the end of the academic year.
- Significance levels refer to results of t test on mean scores from the two surveys for each group.

Using the same four components of the misunderstanding gap, a comparison was carried out between the mean scores from the Summer survey and those arising from the Autumn survey, as shown in Table 4.

These findings show that although changes in the overall misunderstanding gap follow a pattern which is consistent with prior expectations, changes in the individual components of the misunderstanding gap do not always follow the same pattern. For example, the BBS I group showed a notable improvement in understanding concerning auditors' duties and a slight disimprovement in their understanding of the auditor's ethical and legislative framework. The other first year group i.e., BAAF I, showed evidence of a significant improvement in understanding of the ethical and legislative framework but little improvement in other areas. The two groups who studied auditing showed a significant improvement in understanding across all four areas. Finally, the BAAF III (no auditing) group produced evidence of a small improvement in overall terms and showed a slight disimprovement in their understanding of two areas, i.e., ethical and legislative framework and audit reports.

Further analysis was possible for two of the four elements of the overall gap, i.e., Gap A (duties) and Gap B (ethical and legislative framework), where specific areas of audit regulation were separately identifiable.

Gap A: Duties. Statements regarding auditors duties related to three areas, i.e., (i) fraud, illegal acts and errors, (ii) accounting related duties and (iii) other. By dividing the mean score in each area by the number of items in that area, a ranking was produced based on the degree of misunderstanding in each area, as shown in Table 5.

Table 5: Ranking of the Three Components of the Misunderstanding Gap for Duties (Rank 1 = greatest gap)

	Gap A1		Gap A2		Gap A3	
	Aut	Sum	Aut	Sum	Aut	Sum
BBS I	1	1	2	2	3	3
BAAF I	1	1	2	2	3	3
BAAF II	1	1	3	3	2	2
BAAF III (No Aud.)	1	2	3	3	2	1
BAAF III (Aud.)	2	1	3	3	1	2

Notes

1. Gap A1 = Duties regarding fraud, illegal acts and errors (8 statements)
Gap A2 = Accounting related duties (8 statements)
Gap A3 = Other duties (11 statements)

2. Autumn shows results of survey at the start of the academic year; summer relates to the survey at the end of the academic year.

These rankings suggest that duties relating to fraud, illegal acts and errors tend to be the least understood of auditors' duties, even among students of auditing.

A comparison of mean scores from Autumn and Summer surveys for the misunderstanding gap in relation to duties, and each of its component parts is presented in Table 6.

Of the two first year groups, BBS I students showed a greater improvement in their understanding of auditors' duties than their BAAF I counterparts. The only exception to this was in relation to Gap A2 (accounting related duties), where BAAF I students showed better improvement. The better rate of improvement by BBS I students may be explained, at least in part, by the fact that this group generally showed evidence of a wider gap, thereby providing greater scope for improvement.

A further notable feature is the fact that the other group not studying auditing, i.e., BAAF III (no auditing), showed a significant improvement in their understanding of auditors' duties regarding fraud, illegal acts and errors (Gap A1), but their understanding of all other duties showed a disimprovement. Finally, the two groups studying auditing, i.e., BAAF II and BAAF III (auditing), showed a significant improvement in their understanding of regulations governing all components of auditors' duties.

Table 6: Mean Scores for Duties Misunderstanding Gap: Overall Gap and Three Specified Components

	Gap A (Range 0 - 108)			Gap A1 (Range 0 - 32)			Gap A2 (Range 0 - 32)			Gap A3 (Range 0 - 44)		
	Aut	Sum	Sig	Aut	Sum	Sig	Aut	Sum	Sig	Aut	Sum	Sig
BBS I	56.56	53.61	.021	18.15	16.86	.020	17.00	16.76	.669	21.34	19.89	.025
BAAF I	55.50	53.33	.084	17.85	18.23	.446	16.39	15.23	.058	21.31	19.94	.050
BAAF II	53.19	42.18	.000	18.26	14.74	.000	14.23	11.09	.000	20.71	16.45	.000
BAAF III (No Aud.)	44.14	43.60	.759	14.91	12.88	.014	11.23	12.00	.242	18.00	19.02	.299
BAAF III (Aud.)	41.30	32.10	.000	12.57	9.93	.001	11.13	8.78	.006	17.60	13.14	.000

Notes

1. Gap A = Duties (27 statements)
 Gap A1 = Duties regarding fraud, illegal acts and errors (8 statements)
 Gap A2 = Accounting related duties (8 statements)
 Gap A3 = Other duties (11 statements)
2. Available Range is a function of the available range for each statement (i.e., 0 - 4) multiplied by the number of questions.
3. Autumn shows results of survey at the start of the academic year; summer relates to the survey at the end of the academic year.
4. Significance levels refer to results of t tests on mean scores from the two surveys for each group.

Gap B: Ethical and Legislative Framework

Statements regarding the auditor's ethical and legislative framework related to three areas, i.e., (i) independence, (ii) appointment and (iii) other. By dividing the mean score in each area by the number of items in that area, a ranking was produced based on the degree of misunderstanding in each area, as shown in Table 7.

Table 7: Ranking of the Three Components of the Misunderstanding Gap for Ethical and Legislative Framework (Rank 1 = greatest gap)

	Gap B1		Gap B2		Gap B3	
	Aut	Sum	Aut	Sum	Aut	Sum
BBS I	3	3	2	2	1	1
BAAF I	3	3	2	2	1	1
BAAF II	2	3	3	1	1	2
BAAF III (No Aud.)	3	3	2	2	1	1
BAAF III (Aud.)	3	2	2	3	1	1

Notes

1. Gap B1 = Independence (5 statements)
Gap B2 = Appointment (11 statements)
Gap B3 = Other (10 statements)
2. Autumn shows results of survey at the start of the academic year; summer relates to the survey at the end of the academic year.

The rankings indicate that the areas of the ethical and legislative framework which give rise to the highest levels of misunderstanding are those included under the 'Other' category. This category contained statements regarding a number of issues, including the setting of auditing standards, advertising of audit services, setting and disclosure of audit fees, and discharging of auditor responsibilities. Auditor independence tended to be the least misunderstood area of the ethical and legislative framework.

A comparison of mean scores from autumn and summer surveys for the misunderstanding gap in relation to ethical and legislative framework, and each of its component parts is presented in Table 8.

**Table 8: Mean Scores for Ethical and Legislative Framework Misunderstanding Gap:
Overall Gap and Three Specified Components**

	Gap B (Range 0 - 104)			Gap B1 (Range 0 - 20)			Gap B2 (Range 0 - 44)			Gap B3 (Range 0 - 40)		
	Aut	Sum	Sig	Aut	Sum	Sig	Aut	Sum	Sig	Aut	Sum	Sig
BBS I	51.02	51.88	.375	8.93	8.82	.664	21.45	21.92	.442	20.65	21.45	.113
BAAF I	52.21	49.17	.015	9.32	8.89	.154	21.89	20.46	.057	21.00	19.83	.038
BAAF II	46.24	37.60	.000	8.86	5.73	.000	18.40	16.75	.048	18.88	15.03	.000
BAAF III (No Aud.)	37.58	38.89	.543	6.21	6.71	.327	14.91	16.47	.222	16.47	16.44	.975
BAAF III (Aud.)	33.11	27.22	.024	5.09	5.80	.208	14.15	10.60	.011	13.87	11.72	.105

Notes

1. Gap B = Ethical and Legislative Framework (26 statements)
 Gap B1 = Independence (5 statements)
 Gap B2 = Appointment (11 statements)
 Gap B3 = Other (10 statements)
2. Available Range is a function of the available range for each statement (i.e., 0 - 4) multiplied by the number of questions.
3. Autumn shows results of survey at the start of the academic year; summer relates to the survey at the end of the academic year.
4. Significance levels refer to results of t tests on mean scores from the two surveys for each group.

The two first year groups, i.e., BBS I and BAAF I, produced contrasting findings. The BAAF I group commenced the year with a greater misunderstanding of the ethical and legislative framework than their BBS I counterparts. However, they achieved a significant improvement during the course of the year and showed evidence in the Summer survey of a better understanding than the BBS I group (who actually disimproved). The other group who did not study auditing, i.e., BAAF III (no auditing), showed evidence of a deterioration in their understanding of the ethical and legislative framework.

Both groups who studied auditing, i.e., BAAF II and BAAF III (auditing), showed evidence of a significant improvement in understanding over the course of the year. However, an interesting feature of the findings is a disimprovement in understanding of the regulations governing auditor independence by the BAAF III (auditing) group. This is a surprising result, given the overall improvement shown by this group and also the fact that a very significant improvement was achieved at BAAF II level in relation to understanding of regulations governing auditor independence

DISCUSSION

This study was designed to address one specific component of the audit expectations gap, i.e., the misunderstanding gap. It specifically excluded two other important components of the expectations gap as depicted in Figure II, i.e., deficient performance and perceived standards deficiency. The findings do not, therefore, relate to those two areas which were excluded from the scope of the study. The possibility exists that audit education could have an impact on one or both of these areas, but since the study was not designed to address this, no attempt is made to extend the findings into those areas.

The central finding from the study is that the evidence suggests a significant reduction in misunderstanding of audit regulations by those students who have studied either a full course or a single module in auditing. Although other students achieved significant improvements in some specific areas, changes in their overall levels of understanding were considerably less than those achieved by the groups who studied auditing.

A notable feature of the findings was the fact that the BAAF II group, who studied only a single module of auditing, achieved significant improvements in their

understanding of all areas of audit regulation covered by the study. The data suggest that these improvements are not merely short term in nature for the purpose of completing an examination syllabus, but are relatively permanent. This applies not only to students who demonstrate a particular interest in auditing, either by selecting the elective auditing course in final year or by expressing an intention of pursuing a career in chartered accountancy, but also to other students who show no particular interest in auditing. The benefits of auditing education in bringing about a reduction in the misunderstanding gap are not therefore contingent upon a specific interest in auditing either as a subject or a career.

For those who do elect to study auditing in third year, a very considerable further improvement in understanding is achieved, across all areas of audit regulation included in the study. It can justifiably be argued that these students have a particular interest in auditing, since they elected to study the optional course in third year and that this interest may of itself create considerable motivation to develop their understanding of regulations governing auditors. Nevertheless, the scale of improvement is impressive, particularly since the findings suggest that a significant improvement was already achieved in the previous year of study.

The duties of auditors stood out as the least understood area of audit regulations. Within this, duties regarding fraud, illegal acts and errors were least understood. Although the level of understanding improved as a result of studying a module or a course in auditing, this area continued to be the least understood, even after completion of the course or module.

Many previous studies highlighted this area as a major contributor to the expectations gap. For example, in reference to the area of fraud detection Humphrey et al. (1992) concluded: "this aspect of the expectations gap is the one with the longest history" (p.82). Findings presented by Robinson & Lyttle (1991) showed not only that the audit expectations gap was widest in this area, but also that almost half of the auditors studied considered the detection of fraud as one of their duties. Given that some auditors misunderstand their responsibilities, it is not surprising that some users are confused. Sikka et al (1992) argued that: "the deeply embedded 'common sense', upon which the demand for auditing services was originally based, has meant that established meanings of audit (fraud detection) have not been (yet) expunged from the public's consciousness" (p.25), which suggests that no matter

what action is taken to inform them otherwise, the public will continue to assume that auditors are responsible for fraud detection.

The current findings provide support for this argument and indicate that in certain areas such as fraud, education may have only a limited impact on the expectations gap. This may suggest that the interpretation of regulations is influenced by respondents' perceptions of what constitutes reasonable expectations of auditors. The implication of this is that, although education can make a significant contribution to narrowing the expectations gap, there is a need to supplement it with other measures.

An interesting finding emerged in relation to the ethical and legislative framework, presented in Table 8. Although the BAAF III (Auditing) group achieved a significant reduction in this element of the misunderstanding gap (i.e., Gap B), the group recorded a disimprovement in one specific component, namely Independence (Gap B1 in Table 8). This was the only area in the entire study where a group recorded a disimprovement following completion of an auditing module or course. The specific items for which disimprovements were recorded related to ownership of shares in a client company, restrictions on fees and restrictions on the appointment of officers and employees of a company as its external auditors. Although the overall disimprovement for Independence was not statistically significant, the findings suggest that, while education may be beneficial in narrowing the misunderstanding gap, it needs to be supplemented with other relevant measures.

As already indicated, two general categories of students showed evidence of a significantly better understanding of audit regulations than others. These were the students who had gained some previous work experience in an audit/accounting setting and those who expressed a wish to become chartered accountants. The higher levels of understanding shown by these groups are likely to be related to their particular interest in, and greater exposure to the auditing environment.

The possibility that this effect could confound the results of the study was considered. This was felt extremely unlikely, given that these groups were consistently included in both autumn and summer surveys. However, in order to investigate the possibility, the analyses were re-performed after splitting respondents into two groups: (i) those who did not express a wish to become chartered

accountants and who had no work experience in an auditing/accounting environment (n = 424) and (ii) those who showed signs of a previous interest in auditing, either through relevant work experience or an expressed intention to pursue a career in chartered accountancy (n = 394). Respondents included in category (ii) above commenced the year with a significantly better understanding of audit regulations. The analysis showed, however, that for both categories (i) and (ii), the results were consistent with those produced by the original analyses. In both cases, a significant improvement in understanding occurred only when a module or course in auditing was studied. This is an important finding as it confirms that a significant reduction in misunderstanding was not confined to those respondents who showed evidence of a particular interest in working in an auditing/accounting environment but was also achieved by those who showed no such interest.

Implications of the Findings

The findings have implications for the auditing profession and for educational institutions.

From the point of view of the profession, it is important to recognise that education alone is not an adequate response to the expectations gap. This applies in particular to expectations which are reasonable and achievable but unmet by existing audit regulations. In these circumstances, auditing education is likely to be seen as nothing more than an attempt to avoid addressing difficult areas of audit regulation by promoting acceptance of a deficient set of regulations.

The positive impact of auditing education evidenced by the findings from this study is unlikely to be realised in practice unless the profession also responds to reasonable expectations. Viewed in the context of a package of measures designed to address the various components of the expectations gap, education clearly has an important role. Effective communication of auditing regulations is a legitimate aspiration of the profession and auditing education is an effective means of achieving this. Education will, however, be largely ineffective in addressing the expectations gap unless it is accompanied by a willingness on the part of the profession to address reasonable expectations of users.

From an education perspective, the findings suggest that there may be considerable benefits to be derived from introducing a module of auditing into third level business

programmes, many of whose participants will become users of audited financial statements. Many of those programmes already include modules and courses on financial accounting, which can contribute to a general impression of accountancy as an exercise characterised by precision and accuracy. Even a relatively short module in auditing, specifically directed towards the areas of greatest misconception such as auditor duties, could play an important role in reducing misunderstanding of auditing regulations.

As for other areas involving regulation, including financial accounting standards, this does not imply in any way that educators must fully accept or subscribe to auditing regulations. Constructive criticism can be instrumental in bringing about desirable changes in regulations. Criticism which is based on misunderstanding and unreasonable expectations, however, is more easily dismissed and unlikely to be of benefit.

CONCLUSION

It was not the intention of this study to form a judgement on the adequacy of existing audit regulations or on the culpability of the profession for failure to widen the scope of the audit and thereby encompass to a greater extent the expectations of users. The study recognised that any such moves by the profession to broaden the scope of the audit are unlikely of themselves to eliminate the expectations gap, since as Porter (1993) pointed out, many expectations of users are unreasonable and therefore cannot be met by any expansion of regulations. The issue of how to effectively educate users to understand audit regulations is therefore an important area of research in itself and constituted the focus of this study.

To suggest that audit education will achieve little more than indoctrination of users into the profession's interpretation of auditors' responsibilities seems to underestimate users. Understanding of regulations does not imply acceptance of those regulations. On the contrary, it provides a basis for a more accurate and critical evaluation of those regulations, and confers on the user a greater degree of credibility.

Audit education may have a wider role to play in addressing the expectations gap than that in relation to the misunderstanding gap, which was the focus of this study. Specifically, it may be an effective approach to reducing or eliminating unreasonable

expectations and thereby address the perceived standards deficiency. Future research could usefully be directed towards this area.

The audit expectations gap needs to be addressed from a number of different perspectives in order to eliminate deficient performance by auditors, widen the scope to encompass reasonable expectations, and reduce expectations where they are deemed to be unreasonable. There will be a continuing need, however, to dispel misunderstanding of the auditor's role as enshrined in audit regulations, regardless of any progress that may be achieved in those other areas. In this respect audit education can be viewed as having a positive and worthwhile contribution to make as part of a series of measures to address the audit expectations gap.

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