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**Internship and Audit Expectation Gap Among Undergraduate  
Students in Universiti Utara Malaysia**

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# Internship and Audit Expectation Gap Among Undergraduate Students in Universiti Utara Malaysia

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*The accounting profession has long faced the issue of an audit expectation gap; being the gap between the quality of the profession's performance, its objectives and results, and that which the society expects. Studies have been carried out worldwide to determine the effect of education in narrowing the audit expectation gap. Extending the knowledge acquired, this paper investigates whether internship program could reduce the audit expectation gap in Malaysia. Using a pre-post method, the research instrument adapted from Ferguson et al. (2000) is administered to the UUM's accounting students before and after completing an internship program. The results show a significant change in their perceptions after the internship program. However, changes in perceptions may not warrant an internship program as a means of reducing the audit expectation gap as misperceptions about the duties of auditors for fraud prevention and detection are still found among respondents. Nevertheless, an internship can still be used to complement audit education as it is an ideal way to expose students to professional issues and enables them to have a better insight of the actual performance and duties of auditors.*

**Keywords:** *Audit expectation gap, accounting internship, undergraduate, Malaysia*

## **Introduction**

The issue of “audit expectation gap” has been very significant to the accounting profession since the mid 1970s and continues to be debated on until today. In the 1970s and 1980s, massive corporate failures resulted in the accounting profession being severely criticized by the public. Auditors were then forced to battle with legal suits taken against them. Meanwhile, the mounting list of corporate failures and abuses, alleged audit failures, and lawsuits against prominent accounting firms generated concern outside the profession which subsequently resulted in the House Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce conducting a hearing or congressional investigation of the profession (Management Accounting, 1985). In defense, the profession defined the concept of audit expectation gap and focused public criticism on that concept.

The US accounting profession also responded to the scandals and criticism by appointing the Commission on Auditors’ Responsibilities (the Cohen Commission) in 1974 and in 1978. The Cohen Report concluded that there was an “expectations gap” between what auditors did and what the public expected of them. In 1987 Treadway Commission reported on how fraudulent financial management could be reduced and how auditors could reduce the “expectations gap” between themselves and the public (Moussalli, 2005). This was followed by the ASB’s release, in 1988, of nine “expectation gap” standards which were intended to reduce the expectation gap.

Despite the profession’s efforts to address the issue of audit expectation gap, the gap still exists. Even the new auditing standards on fraud cannot be expected to totally close the gap (Steinberg and Walker, 1997). Sikka et al. (1998) further explain that due to social conflict, the meaning of social practices, such as audits, are subject to continuous challenges and (re)negotiations and the gap between competing meanings of audit cannot be eliminated. As noted by Eden et al. (2003), criticism against auditors is renewed with every public corporation’s failure and each financial loss the public bears. Those crises then led to the enactment of the Sarbanes-Oxley Act 2002 that is said to be “the most sweeping reform ever to affect the accounting profession” (Castellano, 2002). As a result, accounting firms are now regulated entities.

In view of the detrimental effect of audit expectation gap to the auditing profession, various methods have been suggested in the literature to reduce the audit expectation gap. Education is one of the methods often recommended by researchers and practitioners as a means of reducing the audit expectation gap (Gramling et al., 1996). However, little is known about the effect of practical experience such as internship programs on the audit expectation gap.

## **Purpose of the Study**

The purposes of this study are:

1. To conduct a survey on students' view on issues pertaining to auditors and the audit process; the role of auditors; the groups to whom auditors should be responsible; possible prohibitions and regulations; and how successful auditors are at particular activities.
2. To determine whether there is a significant difference in students' view before and after their completion of the internship program.

## **Motivation and Significance of Study**

This study is carried out because of the importance of two main issues, audit expectation gap and internship, not only to the accounting profession but also to academics. In Malaysia, accounting internship programs are becoming more important. In fact, one of the key recommendations made in the Wan Zahid Higher Education Report<sup>1</sup> is for the industrial internship to be made compulsory under the planned national education policy (The Star, 29 April 2006). This is consistent with a proposition made by Kranacher (2006) that one of the several ways to ensure that the public's expectations – that all accountants are competent and ethical – are met is to require internship as part of the education process.

On the other hand, the series of corporate collapses in the US in the year 2002 again highlighted the existence of audit expectation gap. Similarly in Malaysia, most of the auditors cited “the audit expectation gap” and “auditors independence” as their major concerns (Mohamed and Muhamad Sori, 2002). Therefore, there is a need to investigate how this crisis can be dealt with in Malaysia especially considering the evidence that indicates a wide expectation gap and misconceptions about audit in Malaysia (Fadzly and Ahmad, 2004; Kasim and Mohd-Hanafi, 2005; Lee et al., 2007).

Finally, despite the importance of internship programs, no study has been undertaken to examine the effect of internships in reducing audit expectation gap. Earlier study merely investigated the effect of audit education in reducing audit expectation gap (Kasim and Mohd-Hanafi, 2005) and the benefits of internship to students (Minai et al., 2005). Additionally, Pierce and Kilcommins (1996) suggest that although education can make a significant contribution to narrowing the expectation gap, there is a need to supplement it with other measures. Therefore, this study seeks to provide evidence of another way of educating public on audit, which is through internship program.

## **Literature Review**

### **Audit Expectation Gap**

The term “audit expectation gap” was first introduced to audit literature by Liggio (1974). He defined the audit expectation gap as the difference between the levels of expected performance as envisioned by both the financial statement’s users and the independent accountant. The Cohen Commission Report 1978 extended the definition by taking into account whether a gap may exist between what the public expects and what auditors can and should reasonably expect to accomplish. Porter (1993) claims that both of these definitions are too narrow as they fail to recognize that auditors may not accomplish their “expected performance” (Liggio, 1974) or what they “could and reasonably should” (Cohen Commission Report 1978). Porter argues that the recent increase in criticism of and litigation against auditors is due to the failure of auditors to meet society’s expectations, whose failure in turn undermines confidence in the audit function. Hence, to narrow the audit expectation gap, it is necessary to ascertain: i) the duties society expects auditors to perform; ii) the duties that are reasonable to expect auditors to perform; and iii) the extent to which society’s reasonable expectations are satisfied by auditors (Porter et al., 2005). As such, Porter proposes that the study of the audit expectation gap should be structured in a more extensive way which allows the different components of the audit expectation gap to be identified.

Most of empirical studies on audit expectation gap used survey questionnaires to identify the nature of the gap; impacts of the gap; and how to reduce the gap. Different respondents have been used to elicit different opinions, for example, auditors, lawyers and judges (Lowe, 1994), jurors (Frank et al., 2001), investors (Epstein and Geiger, 1994), shareholders (Beck, 1974); various groups (Humphrey et al., 1993); chartered accountants, financial directors, investment analysts, bankers and financial journalists (Humphrey et al., 1993; Porter, 1993); financial directors and users of corporate financial statement (Benau et al., 1993; Humphrey et al., 1993). Most studies that looked into the nature of the gap found that the critical component of the audit expectation gap was the auditor’s role in relation to fraud detection (see, Best et al., 2001; De Beelde et al., n.d.; Epstein and Geiger, 1994; Humphrey et al., 1993). Humphrey et al. (1993) confirmed that the critical components of the audit expectation gap were the auditor’s role in relation to fraud detection; the extent of auditor’s responsibilities to third parties; the nature of Balance Sheet valuations; and independence and aspects of the conduct of audit work. This study has served as a model for similar inquiries in other countries such as Spain (Benau et al., 1993), US (Gramling et al., 1996), and Belgium (De Beelde et al., n.d.). Similarly, a study in Japan also shows that the problems lie in fraud detection, social responsibilities, auditor’s independence and auditor’s responsibilities (Yoshimi, 1994).

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Mohamed and Muhamad Sori (2002) revealed that the audit expectation gap exists in Malaysia. The gap arises from uncertainties concerning the actual role of auditor, client's satisfaction of auditors' services, lack of independence and objectivity in firms. Another study by Fadzly and Ahmad (2004) examined the audit expectation gap among auditors and major users of financial statements. The study revealed that an audit expectation gap exists in relation to fraud detection and prevention, preparation of financial statements and accounting records, and internal controls responsibilities.

In similar vein, Lee et al. (2007) used Porter's framework to examine whether an expectation gap existed among the auditors, auditees and audit beneficiaries in relation to auditors' duties. The study showed that the auditees and audit beneficiaries placed much higher expectations on auditors' duties as compared to what auditors perceived their duties to be. The analysis of the expectation gap indicated the existence of unreasonable expectation of the part of users; deficient standards of auditing in Malaysia; and deficient performance of auditors.

### **Internship**

To date, there has not been any study conducted to examine the effect of internship programs on the audit expectation gap. However several studies have been conducted to examine the effect of education on the audit expectation gap. For example, Monroe and Woodliff (1993) surveyed auditing students and marketing students at the beginning and end of a semester. The findings showed that the auditing students' beliefs about auditors' responsibilities and reliability of financial information changed significantly over the semester. In contrast, the marketing students' responses changed on only a few scales across the three factors and were not in a consistent direction.

Similarly, Gramling et al. (1996) examined the students' perceptions on the responsibilities of auditors. Data were obtained before and after the completion of an auditing course. Professional auditors' perceptions on the same issues were also obtained. The study found that an expectation gap existed between practising auditors and accounting students, even after these students had taken auditing course. Overall, these findings suggest an education role to reduce the audit expectation gap as education improves users' understanding of an audit process.

Although there is no study investigated the effect of internship program on the audit expectation gap, the benefits of internship programs are well documented. For example, Darnill (1991) suggests that universities should teach their students about the complexities of modern commercial life and the role played by accountants and auditors. Turner (2006) also suggests the colleges to require internships and bring more practical experience into the classroom as one of the principles to help the US state licensing board meet the expectations of the public.

In addition, the exposure draft issued by International Federation of Accountant (IFAC) on Practical Experience (para 8) highlighted that the practical experience enables trainees to integrate knowledge gained through formal education with experience in real work environment. This in turn helps them to develop their professionalism and competencies. Hence, it can be seen that academics, practitioners, and professional bodies have long recognized the benefits of an internship program for students, as it is an ideal way to expose students to professional issues. Consequently, this paper aims to investigate whether academic internship programs could reduce the audit expectation gap in Malaysia.

## **Data and Research Method**

The respondents of this study were UUM accounting undergraduates whose attendance of a six-month internship as a partial requirement of the program is made compulsory. Students are given priority to be attached to auditing firms although the commercial companies or government agencies are also permitted. The data were collected from the students who pursued their internship in auditing firms as in May 2005. As the study hopes to seek a change in students' perception towards audit profession, the two-step surveys were conducted. The first survey took place in May 2005 while the follow-up survey took place on January 2006, a month after their training ended.

The research instrument was adapted and modified from Ferguson et al. (2000) which originally consisted of eight parts. However, this study adopted only those questions from Part I to Part V. This is due to the fact that questions from Part VI to VIII are too complicated for students who have just undergone only a six-month internship program. It is believed that the validity of the questionnaire in this study is assured as it has been tested and validated by the previous research.

The questionnaire used in this study was divided into six parts. Part 1 solicits students' view about auditors and auditing process; part 2 examines the role of auditors; part 3 concerns on the groups that auditors should be responsible to; part 4 is based on propositions relating to possible prohibitions and regulations; part 5 asks students' views on how successful auditors were at particular activities; and finally part 6 requests students' demographic information. A seven-point Likert scale was used in the questionnaire with a "7" indicating "strongly agree" and a "1" indicating "strongly disagree".

Since the basic concept of an expectation gap concerns differences in opinions, the use of a questionnaire survey as a research approach is considered to be reasonably justified. Variation in the familiarity with the audit function is not really a problem as the purpose of the study is to identify where different perceptions about auditing exist, not the validity or authority of particular perceptions (Humphrey et al., 1993).

## Findings and Discussions

### Demographic of Respondents

Overall, 600 undergraduates pursued the internship program as in May 2005. However, the study only considered 374 students who were attached to audit firms. There were 255 respondents taking part in the first stage survey (pre-internship). As the training period ended, the fresh sets of questionnaires were redistributed to the same group of respondents which later generated 189 responses. Nevertheless, the final usable responses obtained were 117 (32%), as only the respondents who completed both sets of questionnaires were considered.

Table 1 shows that more than 90 percent of the respondents are Malay and followed by Chinese (18%). Seven of the respondents had undertaken audit work experience for a period of up to six months prior to the internship program. In view of this fact, no significant difference should therefore be expected from their responses as compared to those without audit work experience.

Table 1: Demographics of Respondents

n	Gender		Race				Prior working experience in audit industry		Period of experience	
	Male	Female	Malay	Chinese	Indian	Others	Yes %	No %	0 - 3 months	3 - 6 months
117	11 (9%)	106 (91%)	91 (77.8%)	22 (18.8%)	2 (1.7%)	2 (1.7%)	7 (6%)	110 (94%)	3 (43%)	4 (57%)

### Part 1: Views About Auditors and the Audit Process

Table 2, Panel (A) shows the responses on views about auditors and the audit process. A mean value of greater than "4" for 11 out of 13 statements indicates respondents' agreement to these 11 statements. Conversely, the respondents disagree that an audit is of very little benefit to a company (S6) and auditors do not understand the problems of business (S8). Prior knowledge about auditing makes the respondents to acknowledge the values of auditing and the auditors' capability to understand the business problems.

Surprisingly, respondents responded differently at the end of internship program with respect to 9 of the 13 statements. Significant differences are found on statements S2, S3, S4, S6, S7, S8, S9, S10 and S12. Overall, the results reveal that the internship program has influenced the perceptions of the respondents significantly in relation to the views of auditors and the audit process. The significant changes in perceptions are evidenced by the Paired T-test showed in Table 2 Panel (B).



T-Statistic in Table 2, Panel (A) also presents the changes in students' perceptions. A positive T-Statistic in statements S2, S8, S9, S10 and S12 indicates that respondents rated these statements at a lower rate after completing the internship. On the contrary, a negative T-Statistic was only found in statements S3, S4, S6 and S7. The manner of change in perceptions of the respondents implied that respondents had gained supplementary knowledge in addition to the auditing knowledge acquired from the university which helps them to have more critical judgment. This is evidenced by a greater or lesser extent of agreement particularly in statements S6, S7 and S8.

Table 2: Pre-Post Changes on Students' Views About Auditors and the Audit Processes

Panel (A). Individual Statement				
Statement	Pre	Post	t-Statistic	
S1 The quality of company audit has increased in recent year.	5.15	4.98	1.413	
S2 Too much is expected of auditors by the investing community.	5.08	4.79	2.315**	
S3 Auditors are too concerned with keeping company management happy	4.48	4.98	-3.298***	
S4 The auditing process is seriously weakened by imprecise accounting standards.	4.04	4.32	-1.898*	
S5 Auditors are too willing to settle negligence claims out of court.	4.17	4.33	-1.435	
S6 An audit is of very little benefit to a company.	3.02	3.45	-2.631***	
S7 Audits generally take too long to complete.	4.63	4.93	-2.158**	
S8 Auditors do not understand the problems of business	3.31	3.00	2.131**	
S9 Audits provide significant protection against fraud.	5.21	4.56	4.485****	
S10 Auditors should be identifying ways to improve management efficiency	5.54	5.14	3.487***	
S11 Auditors should report to shareholders on management efficiency.	5.34	5.18	1.324	
S12 Audit committees comprising non executive directors should improve auditors independence	5.23	4.98	2.143**	
S13 The quality of audit work is adequately regulated by the audit process	5.44	5.33	1.000	

  

Panel (B): Overall Results - Paired T-test				
Perception of the students	n	Mean	Std. Deviation	
Prior internship program	117	4.6762	0.49917	
After internship program	117	4.5267	0.51918	
	t	df	Sig. (2-tailed)	Mean Difference
Equal variances assumed	2.638	104	0.10	0.1495

\* Significant at  $p < 0.1$ , \*\*Significance at  $p < 0.05$ , \*\*\* Significant at  $p < 0.001$

The mean of responses increased from 3.02 to 3.45 upon completing the internship. This implies that respondents disagree to a lesser extent that an audit is of little benefit to a company (S6). Such responses may be due to the practical experience gained from the internship program allows them to have a more realistic view on the actual contribution of an audit to a company. Likewise, the mean for the statement that audits generally take too long to complete (S7) increased from 4.63 to 4.93. Probably, the internship program allowed the

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respondents to evaluate this statement more reliably as they were likely to experience an actual audit assignment during the period of internship.

In contrast, the mean for S8: auditors do not understand the problems of business, decreased from 3.31 to 3.00. This change may be due to the opportunity of being in contact with auditors during the internship, allowed them to have a closer observation of auditors' abilities and competencies in performing their duties. Consequently, more credible evaluation was given of this statement at the end of the internship program.

**Part 2: Views About Auditors' Roles**

Table 3 Panel (A) presents the responses on the aspects of the auditor's role. It shows that the respondents agree to all of the roles specified as the present responsibilities of auditors in connection to the financial statements and the audited firm.

Companies Act 1965 (Section 174) requires auditors to report to the members of the company on the accounts, ensure timely submission of the audit report, express an opinion on the truth and fairness of the financial statements, ensure

**Table 3: Pre-Post Changes on Students' Views About Auditors' Roles**

Panel (A): Individual Statement				
Statement	Pre	Post	t-Statistic	
The auditors' role with respect to audited financial statement of companies should be to ensure that				
S1 They comply with Generally Accepted Accounting Principles (GAAP)	5.91	5.89	0.159	
S2 They are consistent with conventional accounting practices	5.26	5.56	-2.254**	
S3 They contain no significant deliberate distortions.	4.61	4.97	-2.866***	
S4 They contain no significant accidental errors.	4.58	4.82	-1.58	
The auditors' role with respect to the audited company should ensure that:				
S5 All significant fraud is detected.	4.94	4.99	-0.325	
S6 A satisfactory system of internal control is being operated.	5.24	5.3	-0.467	
S7 The future viability of the company is not in doubt.	4.92	5.12	-1.586	
S8 The company is being run efficiently.	5.13	5.23	-0.911	
S9 The appropriate regulatory authorities have been informed of any significant malpractice.	5.07	5.27	-1.785*	
S10 The balance sheet provides a fair valuation of the company	5.31	5.51	-1.669*	
Panel (B): Overall Results - Paired T-test				
Perception of the students	n	Mean	Std. Deviation	
Prior internship program	117	5.0904	0.70424	
After internship program	117	5.2730	0.79077	
	t	df	Sig. (2-tailed)	Mean Difference
Equal variances assumed	2.213	114	0.029	0.18261

\* Significant at  $p < 0.1$ , \*\*Significance at  $p < 0.05$ , \*\*\* Significant at  $p < 0.001$

compliance with the requirements of the Act and applicable “approved accounting standards”. Further, Section 174 (8) of the same Act requires auditors to report to the Registrar on any breach or non-compliance of any provision of the Act. Additionally, auditors are also required to follow the Malaysian Approved Standards on Auditing (MASA) in conducting their audits. Any breach of, or failure to comply with MASA could be considered as conduct discreditable to the profession which could lead to disciplinary action against the auditors.

Other regulation, for example, the Anti Money Laundering Act (2001) requires auditors, accountants and company secretaries to report suspicious transactions of their clients to the Financial Intelligence Unit in the Bank Negara (Central Bank of Malaysia). While Section 50 of the Securities Industry Act 1983 requires auditors to report to the Securities Commission (SC) on any irregularities that are found during the course of the audit, which may jeopardise the funds or property of the shareholders.

A review of the present statutory requirements in Malaysia shows that only 6 statements represent the current existing duties of auditors in Malaysia. The auditors should ensure compliance with GAAP (S1), consistency with conventional accounting practices (S2), audited financial statements contain no significant deliberate distortions (S3) and significant accidental errors (S4), to inform appropriate regulatory authorities of any significant malpractice (S9), and the balance sheet provides a fair valuation of the company (S10).

The survey shows that, prior to internship, respondents failed to recognize several of the duties which are not presently required of auditors in Malaysia particularly on the detections of all significant fraud (S5), internal controls implementation (S6), the future viability of the company (S7) and the company is being run efficiently (S8). The findings further show that respondents differently to several statements on auditor’s roles after completion of the internship program specifically on S2, S3, S9, and S10.

Overall, the T-test result in Table 3 Panel (B) [ $t(114) = 2.213, p = 0.029$ ] shows that, there is a significant difference in opinions in relation to auditors’ roles prior to and after completion of the internship program.

### **Part 3: Views About Groups to Whom Auditors Should be Responsible**

This section elicits the opinions of respondents in respect of the parties whom auditors should be responsible. Arens et al. (2006) point out that, auditors can be liable to their clients and under certain circumstances to parties other than their clients under the common law and the statutory law in Malaysia. When auditors fail to carry out their duties competently, legal actions can be taken against them by various parties. Gramling et al. (1996) claim that under the common law and law of tort, auditors may be responsible to parties in privity

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(e.g. audit client), primary beneficiaries (e.g. a lender requiring an audit before providing financing), foreseen and limited classes (e.g. parties entitled to receive an audit report in fulfillment of some business transactions; shareholders and bondholders are not included), and foreseeable parties (e.g. investors).

Legal action can also be taken against auditors in Malaysia for violating the Securities Commission Act 1993 and Companies Act 1965. Under Section 57 of the Securities Commission Act 1993, any third party who purchased securities described in the registration statement may sue the auditor for material misrepresentation or omission in audited financial statements included in the registration statement. As under Section 46 of the Companies Act 1965, auditors are liable to pay compensation to persons who purchase shares or debentures on the faith of the prospectus (authorized by auditors) for any loss sustained by reason of untrue statements or willful non-disclosure of any matter which is material (Arens et al. 2006).

The results in Table 4 Panel (A) show that respondents consistently held auditors to be responsible all the specified parties i.e. existing shareholders (S1) potential shareholders, (S2), existing creditors (S3), and potential creditors (S4). Evidenced in Table 4 Panel (B) [ $t(115) = -0.400, p = 0.690$ ], there were no significant changes in the overall opinions among respondents prior to and after the completion of the internship program with respect to the parties to whom auditors should be responsible to.

Overall, the results suggested that despite the formal audit education in the university and the practical experience gained from the internship program, respondents held auditors to be responsible to the groups of people who are currently not acknowledged under the common law and statutory law in Malaysia. This in turn also indicated an unreasonable expectation among respondents of the auditors on this issue.

Table 4: Pre-Post Changes on Students' Views About Group to Whom Auditors Should be Responsible

Panel (A): Individual Statement				
Statement	Pre	Post	t-Statistic	
S1 Existing shareholders?	5.33	5.4	-0.439	
S2 Potential shareholders?	4.79	4.85	-0.377	
S3 Existing creditors?	5.23	5.27	-0.24	
S4 Potential creditors?	4.82	4.85	-0.217	
Panel (B): Overall Results - Paired T-test				
Perception of the students	n	Mean	Std. Deviation	
Prior internship program	117	5.0431	0.99579	
After internship program	117	5.0927	0.5070	
	t	df	Sig. (2-tailed)	Mean Difference
Equal variances assumed	-0.400	115	0.690	-0.04957

**Part 4: Views About Possible Prohibitions and Regulations on Audit Firms**

Table 5 Panel (A) presents the responses of the propositions related to the prohibitions and regulations on an audit firm. The results show that respondents' perceptions are consistent before and after the internship. They generally agreed to all the prohibitions imposed on the audit firms except for the provision of management advisory services to clients (S2). However, significant difference was found with respect to statements S3, S4 and S5 indicating that respondents agreed to these statements to a greater extent.

**Table 5: Pre-post Changes on Students' Views About Possible Prohibitions and Regulations on Audit Firms**

Panel (A): Individual Statement				
Statement	Pre	Post	t-Statistic	
S1 Prohibit its members from owning shares in its audit clients	5.21	5.31	-0.622	
S2 Not provide management advisory services to its audit clients.	3.67	3.8	-0.73	
S3 Not act primarily to make a profit.	4.47	4.79	-1.989**	
S4 Not be able to earn more than 15 percent of total income from any one audit client	4.16	4.54	-2.933***	
S5 Have a maximum tenure period for auditing a particular client	4.6	4.96	-2.913***	
S6 Have its audit methods checked by a professional standards body.	5.26	5.42	-1.469	
S7 Have its appointment and fee determined by a body independent of the client company.	5.1	5.13	-0.212	
S8 Have limited liability determined statute.	4.77	4.84	-0.59	
S9 Be subject to proportionate rather than joint and several liabilities.	4.71	4.82	-0.914	

  

Panel (B): Overall Results - Paired T-test				
Perception of the students	N	Mean	Std. Deviation	Std. Error Mean
Prior internship program	117	4.7040	0.68869	0.06658
After internship program	117	4.8712	0.68869	0.06658

  

	t	df	Sig. (2-tailed)	Mean Difference	Std. Error of Difference
Equal variances assumed	2.544	106	0.012	0.16719	0.06571

\* Significant at  $p < 0.1$ , \*\*Significance at  $p < 0.05$ , \*\*\* Significant at  $p < 0.001$

Under Section 10(a) of the Accountants Act 1967, the MIA is empowered to establish a code of conduct for the inculcation of sound professional practice and for the prevention of illegal dishonourable practices by members. This code of conduct, called MIA By-Laws (On Professional Ethics, Conduct, and Practice)<sup>2</sup>. Under the MIA By-Laws, auditors are not explicitly prohibited from any activities as prescribed in statements S1 to S9 (except for statement 1)<sup>3</sup>.

The significant difference in responses on post-internship which are found in statements S3, S4 and S5 suggests that respondents agree to a greater extent that primary objective of auditors should be providing quality auditing services instead of maximizing auditors wealth; auditors should not be financially over

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dependent on one audit client as this is likely to create threats to the independence of the audit firm; and audit rotation is essential. Finally, as shown in Table 5 Panel (B) [ $t(106) = 2.544, p = 0.012$ ], overall there are significant changes in opinions among respondents upon completing their internship program with respect to the propositions related to prohibitions and regulations on an audit firm.

Lastly, a greater extent of agreement to the prohibitions and regulations were reported after the completion of internship program. This is likely to suggest that, the internship exposures seem to result in respondents forming the opinion that the present regulations are not sufficient in maintaining the professionalism required in the auditing profession in Malaysia. As such, further regulations are needed to strengthen the audit practice in Malaysia.

### **Part 5: Views About How Successful Auditors are at Particular Activities**

The purpose of this section is to elicit the perceptions of respondents on auditors' performance. Results in Table 6, Panel (A) indicate that respondents perceive auditors as having performed well on all activities. These perceptions remain consistent after they had completed their internship program. Further, as shown in Table 6, Panel (B) [ $t(92) = 1.876, p = 0.064$ ], significant differences were found from the overall responses of the 19 performance attributes. Significant differences were found to exist on predicting future (S5), errors and irregularities detection and prevention (S8 & S9), reporting truthfully (S15), and limiting their own legal responsibility (S17).

The results in Table 6 Panel (A) also reveal that a positive T Statistic was found with respect to all of the five performance attributes. This indicates that respondents had rated the performance attributes at a low rate after they had completed their internship program. This is likely to suggest that respondents had gained a more realistic view of the competence of auditors. For example, based on the competition market auditors may find it difficult to report truthfully as they are financially dependent on audit clients. Moreover, as auditors faced significant increase in criticism and litigation in the present auditing environment, limiting their legal responsibility could also be unlikely.

In addition, respondents rated the performance of auditors at a lower rate and this could likely be explained by the fact that auditors are currently not required by statute to perform the duties of predicting the future viability of the company, and preventing and detecting of errors and irregularities of audited companies. As a result, respondents may not have been impressed by auditors' performance on these duties as per their observation during the internship program.

Table 6: Pre-post Changes on Students' Views About How Successful Auditors are at Particular Activities

Panel (A): Individual Statement				
Statement	Pre	Post	t-Statistic	
S1	Diagnosing problems.	5.31	5.22	0.699
S2	Prescribing remedies to problems.	5.4	5.18	1.858
S3	Acquiring information.	5.64	5.83	-1.652
S4	Coping with risk and uncertainty	5.34	5.25	0.728
S5	Predicting the future.	5.31	5.06	1.928*
S6	Marketing their services.	5.18	5.04	0.908
S7	Making a profit	5.26	5.22	0.282
S8	Detecting errors and irregularities	5.77	5.48	2.466**
S9	Preventing errors and irregularities	5.47	5.2	1.685*
S10	Complying with professional rules.	6.03	5.89	1.202
S11	Enforcing legal requirements	5.66	5.55	0.819
S12	Forming correct judgments.	5.56	5.56	0.00
S13	Acting independently without regard to self-interest.	5.48	5.44	0.26
S14	Communicating effectively.	5.8	5.79	0.061
S15	Reporting truthfully.	5.93	5.63	1.959*
S16	Being even-handed with the interests of others.	5.33	5.16	1.149
S17	Limiting their own legal responsibility.	5.41	5.05	2.396**
S18	Providing a useful service to clients.	5.84	5.78	0.386
S19	Providing a useful service to society.	5.74	5.55	1.3

  

Panel (B): Overall Results - Paired T-test			
Perception of the students	n	Mean	Std. Deviation
Prior internship program	117	5.610	0.667
After internship program	117	5.456	0.680

  

	t	df	Sig. (2-tailed)	Mean Difference
Equal variances assumed	1.876	92	0.064	0.154

\* Significant at  $p < 0.1$ , \*\*Significance at  $p < 0.05$ , \*\*\* Significant at  $p < 0.001$

### Implication on Audit Expectation Gap

This section intends to discuss the implications of these changes in perceptions on the audit expectation gap. Significant changes were found after the completion of an internship program on the perceptions of the respondents with respect to: i) issues about auditors and the auditing process (Section 1); ii) roles that should be played by auditors (Section 2); iii) prohibitions and regulations on an audit firm (Section 4); and iv) competency of auditors on various activities (Section 5). An analysis of the results shows an internship program may have the following implications on the audit expectation gap:

- i. Respondents, held auditors to be responsible for fraud prevention and detection; guaranteeing the viability of the business; and efficiency of the internal control. These duties are not currently required under Malaysian statutory law. Lee et al. (2007) assert that duties, for example, related to the

prevention and detection of fraud and errors are regarded as unreasonable expectation of auditors. Hence, this implies that misperceptions of the actual role of auditors are still found among respondents even when they have completed an internship program in an audit firm.

- ii. Respondents held auditors to be liable to potential shareholders and creditors after the completion of the internship program. This in turn indicated the existence of an expectation gap as it extended the actual scope of auditors' liabilities. Such responses were also likely to explain the phenomenon of the increase in the number of litigation cases against the audit profession in the past decades.
- iii. Respondents agreed to a greater extent after the completion of an internship program on the prohibitions and regulations of auditors. Such responses are likely to cause an expectation gap as it is unlikely for auditors to agree on the imposition of higher prohibitions and regulations against them.
- iv. Respondents recognized the competence of auditors in various activities to a greater extent after the completion of the internship program. The increased recognition of the competence of auditors after the internship program could imply that the deficient performance gap found in Lee et al. (2007) may be reduced through an internship program.

The discussion above shows no conclusive findings on the effect of an internship program on the audit expectation gap as it failed to correct some of the misperceptions of an audit. This also implies that an internship program is unlikely to be used as a method of eliminating the audit expectation gap although better recognition of auditors' competence was found among respondents after the completion of an internship program. However, an internship program may be used to complement audit education in a university as it enables students to have a better insight into the actual duties and performance of auditors.

## **Conclusion**

Increased litigation and criticism of the auditor denotes that auditors are facing a liability and credibility crisis (Russell, 1986). Lim (1993) and Woolf (1985) assert that the blame should not entirely be placed on the auditors as the nature and objectives of auditing are perceived differently between the public and auditors which have created an audit expectation gap. Audit expectation gap is critical to the auditing profession because the greater the expectation gap, the lower the credibility, earning potential and prestige associated with the work of auditors (Sikka et al., 1998). Hence, effective methods in reducing the gap are in dire need.

The audit profession believes that the expectation gap could be reduced over time through education. Studies have been carried out overseas and in



Malaysia to determine the effect of education in narrowing the audit expectation gap. Extending the knowledge, this paper investigates whether academic internship program could reduce the audit expectation gap in Malaysia. To achieve this objective, a research instrument adopted and modified from Ferguson et al. (2000) was administered on 117 UUM's students before and after an internship program.

The results show a significant change in perceptions among students after the internship program, with regard to auditors and the audit process, the roles of auditors, possible prohibitions and regulations, and how successful auditors are at particular activities. However, the changes in perceptions may not warrant a six-month internship program as a means of reducing the audit expectation gap due to the fact that the students still held auditors to be responsible for duties which are not present statutory requirement of auditors in Malaysia.

It is believed that longer internship program could be more effective in reducing audit expectation gap. This is because, given the complicated nature of auditing, the students may need more time to comprehend the issues of auditing and the duties of auditors. Furthermore, internship program is possibly a useful way to complement the formal audit education in a university as it is an ideal method of exposing students to professional issues and enables students to have a better insight into the actual performance and duties of auditors.

It is acknowledged that this study has some limitations. Firstly, the respondents are limited to those UUM's Accounting students; hence this may possibly limit the generalisability of the results. Secondly, even though the survey instrument used is similar to the previous study of Ferguson (2000), the particular concern is the use of the English language in the survey instrument. As for most Malaysians, English language is their second language; hence, this could have jeopardized the reliability of the results in this study as respondents may misinterpret the meaning of the survey questions.

This study can be extended by applying some multivariate analysis (e.g. factor analysis) to explore the possible latent structure (dimensions) of the questionnaire. Additionally, the use of structural equation models could test causal relationships among latent variables of this study. Lastly, it would be interesting for future research to be conducted in different countries in the region to assess any cross-cultural differences of internship program towards reducing the audit expectation gap.

## **Endnotes**

- <sup>1</sup> This is the independent committee commissioned to "study, review and make recommendations on the development and direction of higher education" headed by former Education director-general Tan Sri Dr Wan Zahid Mohd Noordin.

- <sup>2</sup> It was issued in January 2007 to replace the previous By-Laws known as MIA By-Laws (On Professional Conduct and Ethics)[Revised January 2002]
- <sup>3</sup> A member is prohibited under By-law section 290 from accepting appointment as auditors if he or she has any interest in shares of the company, direct or indirect.

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## **Legislations**

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