



Causes a Gap Between the Expectations of Auditors and Users of Audit Reports

Fazel Tamoradi, Jaber Mohamad Mosaee

Department of Accounting, Ramhormoz Branch, Islamic Azad University, Ramhormoz, Iran.

Abstract

The present paper aims to study the expectation gap between the auditors and the users of financial information with regard to the financial reports assurance, decision-making profitability based on the audited financial information, and responsibility for such information. Expectation gap between the auditors and the users of financial reports is a factor, which results in the ambiguity in the auditors' role and users' perception of it. In this context, meticulous and viable research must be conducted so that this expectation gap can be reduced and removed. This necessity has provided a foundation for the implementation of the present study. In this view, the following assumptions are taken into account. A significant difference exists between the expectation of the users and that of the auditors in terms of auditing responsibility, assurance, and decision-making profitability. For analysis of the data and test of the assumptions, preliminary data have been collected using some questionnaire and research variables have thus been calculated. In the present study, with regard to the proposed assumptions, the t test with two independent samples has been applied. Statistical test results indicate the justification of the three above relations in the proposed assumptions in the present study. It is recommended that our findings should be applied by the specialists and researchers for elimination of such expectation gap.

Keywords: Expectation Gap; Credibility; Assurance; Responsibility; Decision-Making Profitability.

Introduction

According to the standards, audition is to be designed in such a way that a lack of significant distortion and falsification due to cheating or error in financial statements can be rationally ensured. Therefore, the purpose of auditing is not to find examples of cheating or abuses. These differences lead to the appearance of expectational gap between auditors and users of financial reports. As a result, it is clear that expectation gap between auditors and users of credibility role of auditors is a considerable issue, which requires precise and practical researches to be conducted. Such necessity makes the foundation for the implementation of the present study, where it is attempted to define and determine the explicit and implicit dimensions of expectation gap between auditors and users of credibility role of auditors as much as possible. With regard to the fact that a significant portion of the required information for the users are supplied, processed, and reported by economic institution managers, having partial assurance of the information quality seems to be of great importance.

Theoretically, the main reason for the existence of independent task of auditing is authentication. One method for a better understanding of auditing task and achieving similar expectations of this task is to move towards an explorative outlook of the basic concepts, no the basis of which the auditing task is founded. If auditors have no complete understanding of their role in the society, they cannot satisfy the societal demands and fail to survive as a long-term advantageous economic process based on an economic logic.

The purpose of the report, which is the final production of auditing activity, is to optimize the financial (economic) reporting through the increase in the credibility of the reported information. Such credibility is obtained based on the evidences and is thus verifiable. If auditing reporting cannot afford to give auditing results, then the objectives of

auditing are not realized and consequently the auditing has no economic value. In spite of the proficiency and capability of professional auditing, if the results obtained from the auditing are not provided for the information users through a viable format, the auditing activities are to some extent unsuccessful. The information provision task is effective when the information is communicated from one person to another. In other words, an individual through the use of symbols communicates the information, ideas, intentions, skills, etc. to another person by means of communicative devices. Any communicative system is composed of a series of parameters including transmitter, object, way of rendition, tools, receiver, and message effect. As the adequacy of each of these parameters is vital for the efficiency of the total system, weakness and incompetence of such parameters may also result in the destruction of information system.

Research Background

Through a paper entitled, "role of independent auditors in society, a new approach for reduction of expectation gap," Bozorg Asl has shown that continuous growth of the information requirements of the users has encouraged the auditors to take more responsibility in the society. Furthermore, it is essential that the auditors be prepared to implement the required stages so that a better understanding of the users can be achieved the inadequacies in reporting procedure can be compensated. He has also suggested that for reduction of expectation gap, instead of changing the structure of the current auditing reports, a supplementary educational record about the role and limitations of auditing as attached to the auditing report should be published.

Sedighi et al. have investigated the expectation gap of the auditors and the role of auditing instruction and have found some evidences that are indicative of the role of auditing instruction in the reduction of expectation gap, especially in terms of the credibility of financial information.

Dickson et al. have studied the expectation gap in Egypt. Their results have shown that a broad expectation gap exists between the auditors' responsibility for prevention of cheating, maintenance of the audited documents, and auditors' judgment on the selection of auditing methodologies in Egypt.

To a lesser extent, the expectation gap has been observed in the fields of auditing credibility, audited financial statements, and auditing profitability.

Sidani has considered the auditing expectation gap based on the results obtained from Lebanon and has found that there is a wide expectation gap between the auditors' understanding of their task and the understandings of the others towards the task. He has found significant differences in the expectations related to the perception of the auditing role in disclosure of misuses and deceptions.

Tek-Hiang et al. conduct a review study of the influential factors in the emergence of expectation gap, concluding that expectation gap is due to the complex nature of auditing mechanisms, paradoxical parts of auditing tasks, retrospective assessments of auditors' performances, time delay in responding to the changes in expectations and self-controlling procedure in the auditing tasks.

Nazri, Fazli, and Ahmad have studied the expectation gap in the country Malaysia. Based on their findings, they have stated that a deep expectation gap along with misperceptions about the auditing task and objectives can be observed in Malaysia.

Best et al. have examined the evidences of expectation gap appearance in responsibility in Singapore. They have found that the wide expectation gap in the auditing in Singapore is associated with the auditor's responsibilities in the revelation of misdoings and prevention of their reoccurrences, keeping safety of accounting documents, freedom of deception by companies and judgment of auditors in selecting the auditing mechanisms.

Research Hypotheses

Theoretical framework is a pattern applied by the researchers, so that the relations between different influential parameters in the problem can be hypothesized. In general, theoretical framework is associated with the relations between such parameters as the dependent, independent, mediatory, and modifying variables, which are considered to take a part in responding to and solving the problem.

Creation of such framework can be of great help in the hypotheses development, examination, and completion of the researcher's understanding of these hypothesis. For measurement of expectation gap of auditors and users of auditing credibility to the financial reports, the validity of the information listed in the financial statements is characterized, on the basis of which the auditor undertakes his credibility (i.e., making authenticated) task. These measurements involve responsibility, assurance-giving, and profitability of decisions, which are assumed to be as three independent variables throughout the present study. Dependent variable of our study include the expectation of the users and that of the auditors.

Hypothesis 1: There is a significant difference between the expectation of the users and that of the auditors in terms of the responsibility of the auditors.

Hypothesis 2: There is a significant difference between the expectation of the users and that of the auditors in terms of the credibility of the auditors.

Hypothesis 3: There is a significant difference between the expectation of the users and that of the auditors in terms of the profitability of the decisions of the auditors.

Research Variables:

1. **Expectation Gap:** Expectation gap is assumed to be the difference in the perception of the expected performance for the auditors and users of financial statements. Numerous factors contribute to the expectation gap of auditing, including different task perceptions, varied expectations about the performance of auditors, and differences in perspectives.
2. **Credibility:** The task of independent auditor and auditing is to authenticate or in fact to further validate the financial reports which are adopted by company managers to be used by the users of financial statements. By credibility, it means that financial statements can be accepted and relied based on the relative, rather than absolute, assurance.
3. **Independent Auditor:** Independent auditing involves a type of auditing performed by independent individual or groups not involved in the company or organization. In addition to the assessment of the correctness of financial statements and their corresponding attachments, independent auditing includes studies on the manner of the tasks performance, independent assessment of the financial results of the system operations and activities, as well as the established internal controllers.
4. **Assurance:** The aim of auditing is to give a rational, but not absolute, assurance about the normality of the financial statements and their invulnerability to the significant distortions. Auditing involves the investigation and evaluation of accounting system and related controllers and test of the deposits and transactions as a sample with emphasis on the important, vulnerable-to-distortion areas. In auditing, not all the one hundred percent of the deposits and transactions are controlled and the complete reliability of financial statements cannot be guaranteed.
5. **Profitability of Decisions:** The role of information in decision-making procedures is not completely defined. For economic decisions, some information is required for optimal allocation of the existing resources. One way to achieve such information is to make use of the yearly financial statements of the companies. In spite of the performed auditing, it cannot be surely stated that the information cited in financial statements are without any significant faults and mistakes. One reason for this is the existence of considerable figures for the correction of the errors associated with the previous years' financial statements. Clearly, this affects the appropriate presentation of financial status and results of organizational operations and consequently affects the obtained financial ratios.
6. **Responsibility:** Auditors are responsible for programming and implementation of the auditing procedures so that it can be reasonably ensured that the financial reports are without any considerable distortion and to show whether an example of errors and abuses exists in the reports. Due to the very nature of auditing documents and the cheating features, auditors can be reasonably assured of determination of all of the considerable distortions.

Research Methodology:

This study is essentially descriptive and correlative and has an applied entity. By descriptive, it means that the present study is focused on the description of the relations between research variables. It is also correlative since it investigates the degree of dependence of independent variables to the dependent variables. One of the correlation methods is the average-comparison method, which helps the researchers to measure and calculate the impact level of the variables. Information of statistical society has been analyzed based on three parameters as expectation of users and auditors in terms of responsibility for financial reports, expectation of users and auditors in terms of assurance of financial reports, and expectation of users and auditors in terms of decision-making profitability vis-à-vis the audited financial information. In the present study, the volume of the sample has been calculated using the "Kokran" relation. This relation has been applied to determine the number of samples. The method of calculation for the number of samples based on the said formulation is as follows.

$$n = \frac{NZ^2 \cdot p \cdot q}{(N - 1)e^2 \cdot p \cdot q}$$

where n is the volume of statistical sample, N is the volume of statistical society, Z is the value of normal variable corresponding to the considered reliability level for safety distance of 95% as equal to 1.96, P is the success probability (.5), $1-p=q$ stands for the failure probability (.5), and finally E is the permissible amount of error as equal to 5%.

$$n = \frac{500(1.96)^2 * .5 * .5}{(500 - 1)(.05)^2 + (1.96)^2 * .5 * .5} = \frac{480.2}{(1.2475) + (0.9604)} = 217.40$$

Due to the obtained value from the above-mentioned relation, a number of 250 questionnaires have been distributed, out of which 217 ones have been returned and thus the sample volume has been assumed to be 217.

In the present study, in accordance with the research nature, the main tool for gathering information is a standard questionnaire made up of 16 questions adopted from key paper, in which the scoring is performed based on the 5-item scale of likert. The options(a) to(f) cited in each questionnaire are corresponding to scales 1 to 5, respectively. The information related to the questionnaire due to the research variables is as follows.

Table 1: Variables, Criteria and Standard Value of the Questions in the Questionnaire

Variables	Number of questions (criteria)	Criteria values
Responsibility	7	1, 2, 3, 4, 5
Assurance	6	1, 2, 3, 4, 5
Decision-making profitability	3	1, 2, 3, 4, 5

A number of 250 questionnaires have been distributed, out of which 217 questionnaires have been returned. Then, the Cronbach's alpha coefficient has been calculated for the considered questionnaire using SPSS software. The results for each variable are separately obtained, as represented by the following table.

Table 2. Reliability of the Measuring Tool

Variables	Number of questions	Alpha value (α)
Responsibility	7	0.919
Assurance	6	0.939
Decision-making profitability	3	0.896

The test reliability for the total set of questions in the questionnaire has been calculated to be 89.6%, which is between zero and one due to the fluctuations in the Cronbach's alpha. The value greater than 70% is indicative of an optimal level of reliability. It can be stated that questionnaire's questions have quite adequately afforded to measure the problem under discussion. Therefore, the research shows a good and acceptable reliability.

Hypotheses Test

Hypothesis 1: There is a significant difference between the expectation of the users and that of the auditors in terms of the responsibility towards the financial information.

$H_0: \mu_1 = \mu_2 :$

There exists no significant correlation between the expectation of the users and that of the auditors.

$H_1: \mu_1 \neq \mu_2 :$

A significant correlation exists between the expectation of the users and that of the auditors.

Table 3: Comparison Test for the Average of the Expectation of Auditors and Users in Two Independent Societies in Relation to the Responsibility towards Financial Information.

Comparison Test for Averages							Variance Equality Test	
Safety distance of 95% for average differences		Average difference	Sig.(total)	Degree of freedom	T	Sig	F	
Lower Limit	Upper Limit							
-1.72412	-1.99617	-1.86014	.000	215	-26.954	.001	10.914	Variance equality assumption
-1.73037	-1.98992	-1.86014	.000	195.448	-28.269			Variance inequality

In the testing of this hypothesis, due to the meaningfulness of lon test with the significant level of 0.001, the results from the first row have been used for the interpretation of *t* test results. As indicated by Table 3 and *t* test results ($t=-26.954$ and $sig=0.001$), there exists a significant difference between the average expectation of the auditors and that of the users, and resultantly the first assumption of the present study (i.e., the difference between the expectation of the auditors and the users in terms of responsibility towards financial reports) can be verified.

Hypothesis 2: There is a significant difference between the expectation of the users and that of the auditors in terms of the credibility of the financial reports.

$H_0: \mu_1 = \mu_2 :$

There exists no significant correlation between the expectation of the users and that of the auditors.

$H_1: \mu_1 \neq \mu_2 :$

A significant correlation exists between the expectation of the users and that of the auditors.

Table 4: Comparison Test for the Average of the Expectations of Auditors and Users in Two Independent Societies in Accordance with the Credibility of the Audited Financial Information.

Comparison Test for Averages							Variance Equality Test	
Safety distance of 95% for average differences		Average difference	Sig. (total)	Degree of freedom	T	Sig	F	
Lower Limit	Upper Limit							
-1.94751	-2.27037	-2.10894	.000	215	-26.750	.0018	5.712	Variance equality assumption
-1.95341	-2.26448	-2.10894	.000	206.538	-26.732			Variance inequality

In the testing of this hypothesis, due to the meaningfulness of lon test with the significant level of 0.018, the results from the first row have been used for the interpretation of *t* test results. As indicated by Table 4 and *t* test results ($t=-25.750$ and $sig=0.000$), there exists a significant difference between the average expectation of the auditors and that of the users, and resultantly the second assumption of the present study (i.e., the difference between the expectation of the auditors and the users in terms of credibility of financial information) is verified.

Hypothesis 3: There is a significant difference between the expectation of the users and that of the auditors in terms of the profitability of the decisions with regard to the audited financial information.

$H_0: \mu_1 = \mu_2 :$

There exists no significant correlation between the expectation of the users and that of the auditors.

$H_1: \mu_1 \neq \mu_2 :$

A significant correlation exists between the expectation of the users and that of the auditors.

Table 5: Comparison Test for the Average of the Expectations of Auditors and Users in Two Independent Societies in Relation to the Profitability of the Decision Makings in Accordance with the Audited Financial Information.

Comparison Test for Averages							Variance Equality Test	
Safety distance of 95% for average differences		Average difference	Sig. (total)	Degree of freedom	T	Sig	F	
Lower Limit	Upper Limit							
-1.71602	-2.01603	-1.86603	.000	215	-24.520	.645	213	Variance equality assumption
-1.71666	-2.01539	-1.86603	.000	210.249	-24.627			Variance inequality

In the testing of this hypothesis, due to the meaningfulness of *t* test with the significant level of 0.645, the results from the second row have been used for the interpretation of *t* test results.

According to Table 5, interpretation of the *t* test results under the assumption of variance equality ($t=-24.627$ and $sig=0.000$) is indicative of the fact that zero assumption is rejected and the expression for inequality of expectation average in the two groups is accepted and considered to be at 5% error level.

According to the aforementioned results for safety distance of average differences of the two societies, it can be stated that the average of expectation for the users of decision-making profitability in accordance with the audited financial information is larger than the average of expectation of the auditors. Therefore, the present paper's assumption that there exists a considerable difference in the expectation of the users and that of the auditors in terms of decision-making profitability based on the audited information can be justified.

References

- [1] Bagherzadeh, S. (2000). *A Second Thought on the Role and Position of Auditing Committees in the Procedure of Financial Reporting Concerning the Partnership Corporations*. Auditor Magazine. No 9.
- [2] Bozorgasl, M. 1998. *Role of independent auditor in society: A new approach for reduction of expectation gap*. Magazine for Accounting and Auditing Investigation. 6th year. No 22, 23.
- [3] Chowdhury, Riazur R. et al., (2005), "The public sector audit expectations gap in Bangladesh", *Managerial Auditing Journal*, vol. 20, No. 8, pp. 893-908
- [4] Dewing Ian p. and Russell peter D. (2003) "UK Fund managers, audit regulation and the new accountancy foundation: towards a narrowing of the audit expectation gap", *Managerial auditing Journal*, Vol. 17, No. 9, pp.537-545.
- [5] Dixon and Wood head, A.D., (2006), "An investigation of the expectation gap in Egypt", *managerial Auditing Journal*, Vol. 21, No. 3, pp. 293-302.
- [6] Fadzly, Mohamed Nazir and Ahmad, Zauwiyal, (2004), "Audit expectation gap: The case of Malaysia", *Managerial Auditing Journal*, Vol. 19, No. 7, pp. 897-915.

- [7] Frank, Kimberly E., et al., (2001), " the expectation gap: perceptual differences between auditors, jurors and student", *Managerial Auditing Journal*, Vol. 16, No. 3, pp. 145-149.
- [8] Hassas Yeganeh, Y. (2005). Challenges in professional judgment on Auditing. *Official Accountant Magazine*. No 10, 11.
- [9] Hassas Yeganeh, Y., Khaleghi Baigi, A. (2003). Expectational distance between auditors and users of credibility service of independent auditors. *Magazine for Accounting and Auditing Investigation*. 11th year. No 35.
- [10] Koh, Hian Chye and Woo, E-Sah , (1998), " The expectation gap in auditing" *Managerial Auditing Journal*, Vol. 13, No. 3, pp. 147-154.
- [11] Rahmani, A. (2001). Evaluation of Financial Reporting Quality. *Auditor Magazine*. No 17.
- [12] Ravi, H. (1993). Auditing reports: Nature, Current Structure, and Future Outlooks. *Accounting Magazine*. No 95, 96
- [13] . Salehi, M. and Rostami, V., (2009), "Audit expectation gap", *International Journal of academic research*. Vol. 1, No. 1, 140-152.
- [14] Shaikh, Journal M. and Talha, Mohammad, (2003), "Credibility and expectation gap in reporting on uncertainties", *Managerial auditing Journal*, Vol. 18, No. 6-7, pp. 517-529.
- [15] Sidani, Yusuf Munir, (2007), "The audit expectation gap: evidence form Lebanon", *Managerial Auditing Journal*, Vol. 22, No. 3, pp. 288-302.
- [16] Sirani, M. et al. (2008). Effect of Experiment and Complexity of Issues in Auditing on the Auditor's Judgment. *Accounting Investigation Magazine*. No 55.
- [17] Talaneh, A., Nakhjavani, H. (1992). Decision-making procedure of the individuals using accounting Information. *Accountant Magazine*. No 83, 84.