International Journal of Current Science Research and Review
ISSN: 2581-8341
Volume 05 Issue 03 March 2022
DOI: 10.47191/ijcsrr/V5-i3-06, Impact Factor: 5.825
IJCSRR @ 2022
www.ijcsrr.org

Investigation of Expectation Gap between Auditors and Investors in Bangladesh

Takrima Jannat
Lecturer, Faculty of Business Studies, Bangladesh University of Professionals

ABSTRACT: The goal of this study is to determine the variable(s) that is/are sources of audit expectation gap between auditors and individual investors (i.e., financial statement users) in Bangladesh. The variables used are Internal Control, Fraud Detection, Appropriateness in using accounting numbers and lastly Reliability. In this research the sample size was selected purposively, a total of 30 auditors were selected from different audit firms in terms of firm's size, revenue, and practices again a total of 30 investors were selected purposively. A structured format of questionnaire was used where the response options were predetermined to acquire information directly from auditors and investors. The questionnaires consist of two sections, first section collected demographic data and second section enclosed 12 semantic differential belief statements. Same questionnaire was given to two independent sample groups (auditors and investors) to identify expectation gaps. To identify the variable(s) that are the cause of the audit expectation gap, the statistical approach "Independent sample t-test" was used. The disparity between auditor and investor in two variables, internal control, and reliability, is discovered in this study. The reasons behind these gaps are lack of proper educational practices and lack of understanding regarding audit norms and practices. These gaps can be reduced by giving adequate knowledge, awareness, and fair practices by the auditors to the financial users.

KEYWORDS: Audit Expectation Gap; Audit Reliability; Internal Control.

1. INTRODUCTION

In any country the auditing 'expectation gap' is now a significant content for both investors and auditors. The auditing "expectation gap" refers to the difference between i) what investors believe the responsibilities of auditors to be and ii) what auditors believe their responsibilities are (AICPA 1993). Auditors are independent certified public accountants who examine the company's financial statements that a company's management team has prepared. During the audit time, auditors acquire an understanding of the company's internal controls and then put "auditing procedures," which include inspection of the company's different books and records, observations, inquiries, and confirmations. The auditors' job is to convey their thoughts on the fairness with which they report the financial situation, results of various operations, and cash flows in accordance with generally accepted accounting rules in all material ways. On the other hand, investors have higher expectations for distinct responsibilities of auditors in the following areas: disclosure of information, fraud, illegal operations, and unqualified opinions. Investors' expectations are the perception about what auditors should do when performing their audit responsibilities. An audit provides the public with additional confidence and promises beyond managements' own assertions that a company's financial statements can be relied on which is an important implication for investors in making investment decisions.

The audit expectation gap is defined as the discrepancy between the levels of expected performance as envisioned by both the user and the independent auditor of a financial statement. The 'expectation gap' in auditing is a major concern among independent auditors, and it has significant implications for the advancement of auditing standards and processes (Lin & Chen, 2004).

In many cases investors find themselves on the middle position between management and the investors. In the case for misleading accounting the company won't help auditors responsible for missing something in financial statements complied by its own executives. Investors might launch an action on behalf of the company, but still doesn't mean there is a moral obligation of care between the auditors and investors.

From the above discussion, investors' expectations are the perceptions about what auditors should do when performing auditing responsibilities. This research attempts to identify whether there are any expectation gaps lie between auditors and investors regarding auditor's responsibilities in term of internal control, fraud detection, and appropriateness in using account numbers and reliability. Here the endeavor is also to identify what are the functions or responsibilities performed by auditors that affect investors decisions and what are the investors' perceptions regarding auditor's responsibilities.

International Journal of Current Science Research and Review
ISSN: 2581-8341
Volume 05 Issue 03 March 2022
DOI: 10.47191/ijcsrr/V5-i3-06, Impact Factor: 5.825
IJCSRR @ 2022
www.ijcsrr.org

2. LITERATURE REVIEW

Several studies have been conducted to determine the audit expectation gap in various countries throughout the world. Most studies on this topic were conducted on behalf of the world's developed countries. Few research has been conducted in poor nations, particularly in Bangladesh. The word "audit expectation gap" was first discussed to audit literature by Liggio (1974). According to Liggio (1974) "The audit expectation gap has been defined as the difference between the levels of expected performance as envisioned by both the user of financial statement and the independent accountant" . The Cohen Commission (1978) in the United States of America expanded on Liggio's (1974) definition by examining if there is a gap between what the public wants or needs and what auditors can and should fairly hope to achieve. To close the audit expectation gap, researchers must determine: i) the responsibilities that society expects auditors to fulfill; ii) the responsibilities that are reasonable to expect auditors to fulfill; and iii) the extent to which society's reasonable expectations are met (or, more importantly, not met) by auditors (Porter et al. 2005).

Researchers investigated the differences in perceptions regarding auditor's fraud detection duties between auditors and users of accounting information . Several studies revealed significant difference between auditors and users of accounting information in different countries. The study revealed significant difference between such perceptions. A comprehensive study in Malaysia was also conducted. In Malaysia, a survey of 100 auditors and corporate managers is done to supplement the findings of Fadzly and Ahmed (2004). The purpose of this research is to see if there is a knowledge gap between auditors and managers. This research also investigates if there is a "deficient performance gap" between them (Heang, Mohamad, & Ojo, 2008).

Dixon, Woodhead, and Sohliman (2006) conducted comprehensive research in Egypt. The purpose of this study is to see if there is a gap in audit expectations between auditors and financial statement users in Egypt. Best and Buckby, as well as Fadzly and Ahmed, employed the same three criteria in their studies. Audit responsibility, audit reliability, and the utility of audited financial statements were the three elements. The study used a semantic differential instrument, which has previously been used by Schelluch (1996), Best et al. (2001), and Fadzly and Ahmed 2004, to measure the messages presented through audit reports (2001). (2004). In Bangladesh, Siddiqui and Nasreen (2009) focused on recognizing the persistence of a gap in audit expectations. They discovered how audit education affects audit expectations. In a growing economy, there is a gap. The quantitative investigation was carried out using a questionnaire. The survey focused on three dimensions of auditing: audit responsibility, audit dependability, and the decision utility of certified financial statements. Three groups were chosen for this study: the first group included a sample of 115 professional accountants, the second group included a sample of 100 bank loan officers, and the third group included a sample of 300 undergraduate accounting students from the University of Dhaka. There was a discrepancy in audit expectations in all three domains, with perceived variances being the most pronounced in auditor responsibility.

Through a series of unstructured interviews, questionnaires, and short case studies, Humphrey et al, 1993 investigated the audit expectation gap in the United Kingdom on the role of auditors. The study found a small but significant discrepancy in their beliefs of auditors' roles, indicating the presence of an expectation gap. To close the audit expectation gap, researchers must determine: I the responsibilities that society expects auditors to undertake, ii) the duties that are reasonable to expect auditors to perform, and iii) the extent to which auditors satisfy society's reasonable expectations (Porter et al. 2005). As a result, Porter advises that more comprehensive research of the audit expectation gap be undertaken, allowing the many mechanisms of the audit expectation gap to be recognized. Furthermore, he contends that the expectation gap should be referred to as the "audit expectation-performance gap," because it corresponds to the difference between society's expectations of auditors and society's judgments of auditor performance. The audit expectation performance gap, according to Porter (1993), has two fundamental mechanisms:

- **Reasonable gap**- • Reasonable gap—the difference between what the public expects auditors to do and what they can reasonably expect to do.
- **Performance gap**- The difference between what the public can reasonably expect auditors to accomplish and what auditors are seen to achieve is known as the performance gap.

The goal of this research is to see if there is a knowledge gap between auditors and managers. This research also investigates if there is a "deficient performance gap" between them (Heang et al., 2008). Chowdhury (Bangladesh) and Innes & Kouhy (Scotland) conducted extensive research in 2005. The public sector audit expectations mismatch between the Comptroller and Auditor General's (CAG) auditors in Bangladesh and the users of the CAG reports, particularly the Parliament's Public Accounts Committee (PAC) and international funding organizations, is investigated in this study (IFAs). From the literature evaluations, this study will focus on the following research gaps: I instead of bankers, company investors, or other financial statement users, this study will focus on individual investors. ii) This research will focus on the following auditor tasks: internal control, honesty and fairness, fraud detection, supervision obligations, and applicability.

3. RESEARCH OBJECTIVES

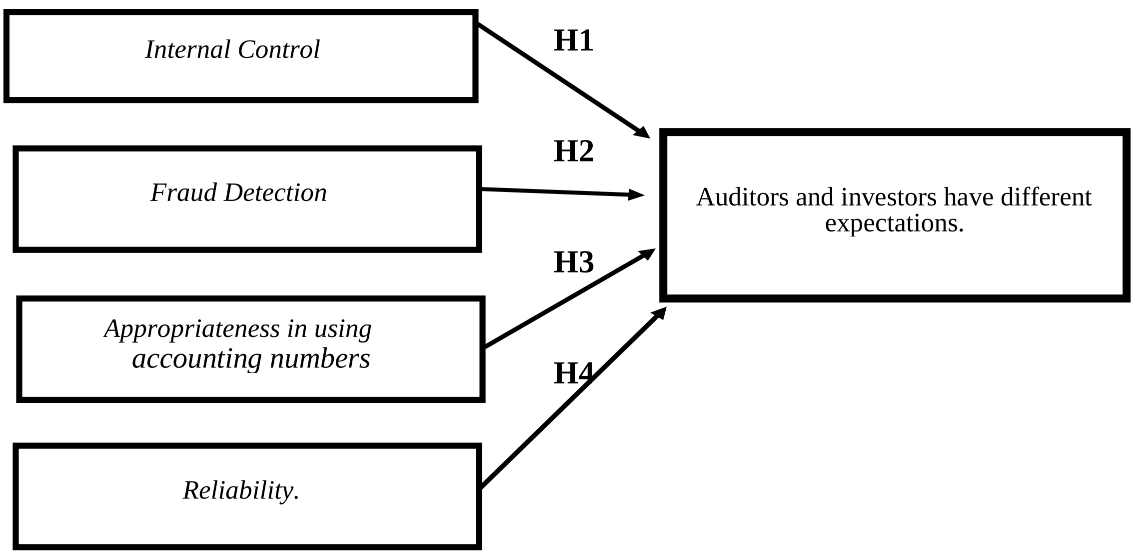
The study's main goal is to see if there are any present expectations mismatches between auditors and investors' perceptions of auditor obligations. The study looks into the responses to the following four research questions in particular.

- What are auditors' responsibilities in terms of influencing investor decisions?
- Do the responsibilities of auditors and the expectations of investors perfectly align?
- What types of auditor tasks do not align with investor expectations?
- What types of auditor obligations correspond to investor expectations?

4. METHODOLOGY

The purpose of this study is to explore the factors that cause an audit expectation gap between auditors and individual investors. The study approach, research design, target population, research variable, sampling techniques and sample size, data collection method, questionnaire design, research hypothesis, and statistical tools are all included in this methodology section. The researcher has employed a quantitative research method in this case. To obtain information directly from auditors and investors, a good, organized questionnaire style was employed, with the response possibilities predetermined and pre-scaled. To identify expectation gaps, the same questionnaire was presented to two separate sample groups (auditors and investors). The methodology also aids in obtaining a credible assessment of the expectation gap and allows for valuable comparisons between auditors' findings and investors' expectations. This study used a descriptive research approach in quantitative research. This study's target population was separated into two groups. First group was the auditors of Chartered Accountant Firms in Bangladesh; Second group was the individual investors in Bangladesh. In this research the sample size was selected at random, a total of 30 auditors will be selected from different audit firms in terms of firm's size, revenue, and practices again a total of 30 investors will be selected randomly. The significance level was determined using the t-test in SPSS. The power and significance of the test constituted the basis of the research design because the instrument generates ratio data.

Research Model:



The research hypotheses for this research are:

H1: The factor that causes the audit expectation gap between auditors and investors is audit internal control.

H2: The factor that causes the audit expectation gap between auditors and investors is audit fraud detection.

H3: The issue that causes the audit expectation gap between auditors and investors is audit appropriateness in employing accounting numbers.
H4: The factor that causes the audit expectation gap between auditors and investors is audit reliability.

5. DATA ANALYSIS

The study's main goal is to find the variable(s) that cause the audit expectation gap between auditors and individual investors (financial statement uses).

5.1 Hypothesis testing

Table 5.1 Group statistics of Factors

Factors	Occupation	N	Mean	Std. Deviation	Minimum	Maximum
Internal control	Auditors	30	3.7667	0.42024	3.14	4.57
	Investors	30	0.4105	0.06390	2.16	4.1
Fraud Detection	Auditors	30	3.7479	0.33916	2.75	4.9
	Investors	30	3.7108	0.31095	3.09	4.5
Appropriateness in using accounting numbers	Auditors	30	3.6234	0.3101	2.67	4.8
	Investors	30	3.5903	0.2905	2.57	4.5
reliability	Auditors	30	3.8903	0.3401	3.11	4.8
	Investors	30	0.5105	0.07070	3.52	4.52

Table 5.1 declares the occupation, number of observations, mean, standard deviation, minimum and maximum values. The total numbers of observations are 60 which is made of 30 auditors and 30 investors. The Independent Samples T Test compares the two group means, in fraud detection and appropriateness in using accounting numbers of factors; there are no significant differences in mean between auditors and investors. In reliability and internal control factors, significant differences occur in mean between auditors and investors.

Table 5.2. Independent Sample t-test

Factors	Between Auditors and Investors
Internal control F-value CI (95%) P-value	 0.041 [-.10381;0.55227] **(0.004)**
Fraud Detection F-value CI (95%) P-value	 .489 [0.0991;0.1918] **(0.151)**
Appropriateness in using accounting numbers	 .399
F-value CI (95%) P-value	[0.0771;0.1817] **(0.364)**
Reliability F-value CI (95%) P-value	0.039 [-.10271;0.45217] **(0.003)**

International Journal of Current Science Research and Review
ISSN: 2581-8341
Volume 05 Issue 03 March 2022
DOI: 10.47191/ijcsrr/V5-i3-06, Impact Factor: 5.825
IJCSRR @ 2022
www.ijcsrr.org

In terms of the internal control factor, Table 5.2 shows that the significance value level for the Fdistribution is less than 0.05, indicating unequal variances for both groups, and the confidence interval is —.10381 to 0.55227, indicating that there is a significant difference between the two group means. The significance value level for the F-distribution is greater than 0.05, which is 0.151, indicating that both groups have equal variances, and the confidence interval is 0.0991 to 0.1918, indicating that there is no significant difference between the two group averages. The significant value for the F-distribution is greater than 0.05 in the Appropriateness in Using Accounting Numbers component, which is.399, indicating identical variances for both groups with a confidence interval of 0.0771 to 0.1817. Again, this shows that there is no statistically significant difference between the two group means. The significance value for the F-distribution is less than 0.05, which is 0.003, indicating uneven variances for both groups and a confidence interval of 10271 to 0.45217, which simply implies a significant difference between the two group averages.

6. RESULTS

Based on the above findings, it can be stated that there is evidence of expectation gaps between auditors and investors in the selected samples. We can conclude that H2 and H3 are rejected based on the significance of the t-test, implying that there is no expectation gap between auditors and investors in terms of fraud detection and appropriate use of accounting numbers. On the other hand, H1 and H4 hypotheses are accepted which mean there is the evidence of expectation gap between auditors and investors expectation in terms of internal control and reliability.

7. CONCLUSION AND RECOMMENDATIONS

The findings of this study corroborated the findings of the researcher (Best at al., 2001), who found a gap in accountability factors between auditors and users of financial statements. Schelluch's (1996) study found nearly identical results, indicating that a gap exists between them. It is possible to conclude from the overall data that there is an expectation gap between auditors and individual investors in terms of internal control and reliability.

- The main reason for occurring expectation gap between auditors and investors in terms of internal control is auditors are not capable of controlling internal influence of management. To reduce this gap every accounting professional should be free from internal influences of management, governing board in order to make their work unbiased.
- One of the reasons for occurring expectation gap between auditors and investors in terms of reliability is that investors believe that auditors do not disclose or reported every item of importance for investment. For reducing this gap auditors should emphasis all the information, item, idea or smallest details which are important for individual investors.

In Bangladesh different sectors of business are moving toward better return and profitability and increase wealth of its organization. Currently before making any investment decision all individual investors read the financial statement of the company in which they are going to invest. The individual investors become more reliance if the financial statements is audited. But sometimes some gaps exist between auditors and investors because of the differences in perceptions of auditors responsibilities and the investors believe about auditors responsibilities should be. Accounting professionals should be more careful about their responsibilities and need to take opinions from the different financial statement users.

8. SURVEY INSTRUMENT

Section A

1. Do you have accounting qualifications and experience ?

◊ Qualifications regarding accounting yes ____ No ____

◊ Experience regarding accounting Yes ____ No ____

If the answer is yes,

1- 4 yrs ______

5 - 10 yrs ______

Over 10 yrs ______

International Journal of Current Science Research and Review
ISSN: 2581-8341
Volume 05 Issue 03 March 2022
DOI: 10.47191/ijcsrr/V5-i3-06, Impact Factor: 5.825
IJCSRR @ 2022
www.ijcsrr.org

2. What is your occupation?
Bank job ______
Stockbroker ______
Auditor ______

financial analyst ______

Shareholders ______

Others ______

3. How long have you been in your current position?
1 - 5 yrs ______
6 - 10 yrs ______
Over 10 yrs ______

4. Do you want a copy of the analyzed results/reports sent to your address? Yes _______ No_______

Section B

A seven-point scale is used in the following statements. Your answer closest to the statement on the left is one (1), while your response closest to the statement on the right is seven (7).

Factors statements	**Measurement scale**	**Factors statements**
Internal Control		**Internal Control**
1. Audit design that auditors produce are appropriate or effective for investors.	1 2 3 4 5 6 7	1. Audit design that auditors produce are not appropriate or effective for investors.
2. Auditors are responsible for the soundness of the internal control structure of the entity.	1 2 3 4 5 6 7	2. Auditors are not responsible for the soundness of the internal control structure of the entity.
3. Auditors can control internal influence of management	1 2 3 4 5 6 7	3. Auditors are not capable of controlling internal influence of management
Fraud Detection		**Fraud Detection**
4. There are no misstatements or managerial fraud in the financial statements.	1 2 3 4 5 6 7	4. The financial statements are misstatements or management fraud in the financial statements.
5. The financial statements are free of misstatements and there is no intention to hide employee fraud.	1 2 3 4 5 6 7	5. The financial statements are full of misstatements and there is a intention to hide employee fraud.
6. There are no illegal operations are conducted by the audited firm.	1 2 3 4 5 6 7	6. There are illegal operations are conducted by the audited firm.
Appropriateness in using accounting numbers		**Appropriateness in using accounting numbers**
7. Auditors financial statements represent the economic reality of transactions.	1 2 3 4 5 6 7	7. Auditors financial statements do not represent the economic reality of transactions.
8. Every item of importance to investors has been reported or disclosed.	1 2 3 4 5 6 7	8. Every item of importance to investors has not been reported or disclosed.
9. Auditors present financial statement with proper accounting numbers.	1 2 3 4 5 6 7	9. Auditors present financial statement with improper accounting numbers.

Reliability 10. The assurance given by the auditor is clearly pointed. 11. The financial accounts present a clear and accurate picture. 12. The creature is not susceptible to trickery.	1 2 3 4 5 6 7 1 2 3 4 5 6 7 1 2 3 4 5 6 7	**Reliability** 10. The assurance given by the auditor is not clearly point out. 11. The financial statements do not present a clear and accurate picture. 12. The creature is susceptible to trickery.

REFERENCES

1. American Institute of certified Public Accounts (AICPA) (1992), "Statement of position regarding mandatory rotation audit firms of publicly help companies", SEC Practice Section, Division for CPA Firms.
2. Azham Md. Ali, Lee Teck Heang, Rosli Mohamad, Marianne Ojo (2008) "Internship and Audit
3. Expectation Gap among Undergraduate Students in University Utara Malaysia", Journal of Financial Reporting and Accounting, Vol. 6 Iss: 1, pp.55- 74.
4. Best, P.J., Buckby, S. and Tan, C. (2001), "Evidence of the audit expectation gap in Singapore", Managerial Auditing Journal, Vol. 16 No. 3, pp. 134-44.
5. Chowdhury, R.R., Innes, J. and Kouhy, R. (2005), "the public sector audit expectation gap in Bangladesh", Managerial Auditing Journal, Vol. 20 No. 8, pp 893-908.
6. Cohen Commission. (1978). Report of the Commission on Auditor Reasonability's: Conclusions and Recommendations. New York: American Institute of Certified Public Accounts.
7. Dixon, R., Woodhead, A.D. and Sohliman, M. (2006), "An investigation of the expectation gap in Egypt", Managerial Auditing Journal, Vol. 21 No. 3, pp. 293-302
8. Fadzly, M.N. and Ahmed, Z. (2004), "Audit expectation gap: the case of Malaysia", Managerial Auditing Journal, Vol. 19 No. 7, pp. 897-915.
9. Humphrey, C., Moizer, P., Turley, S. (1993), "The audit expectations gap in Britian: an empirical investigation", Accounting and Business Research, Vol. 23No.91A, pp.395-411.
10. Lin, J.Z. and Chen, F. (2004), "An empirical study of audit 'expectations gap' in the People's Republic of China", International Journal of Auditing, Vol. 8 No. 2, pp. 93-116.
11. Liggio, C.D. (1974), "The expectation gap: the accountants Waterloo", Journal of Contemporary Business, Vol. 3 No. 3, pp. 27-44.
12. Porter, B., (1993), "An empirical study of the audit expectation-performance gap", Accounting & Business Research, Vol. 23 No. 93, pp. 49-68.
13. Porter, B., Simon, J. & Hatherly, D. (2005). Principles of external auditing. John Wiley & sons, Ltd.
14. Schelluch, P. (1996), "Long-form audit report messages: Further implications for the audit expectation gap", Accounting Research Journal, Vol. 9, pp. 48-55.
15. Siddiqui, J., Nasreen, T., Choudhury, A., (2009) "The audit expectations gap and the role of audit education: the case of an emerging economy", Managerial Auditing Journal, Vol. 24 Iss: 6, pp.564-583.

Cite this Article: ***Takrima Jannat (2022). Investigation of Expectation Gap between Auditors and Investors in Bangladesh. International Journal of Current Science Research and Review, 5(3), 640-646***