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Review

Audit expectation gap: Concept, nature and trace

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Audit expectation gap is not a new phenomenon in auditing literature. It somewhat gives a bad reputation to external auditors. This paper addresses the nature and different dimensions of audit expectation gap around the world. The author comes to the conclusion that this kind of gap should be reduced by the auditor himself, by improving audit responsibilities, educating various users, and mandating new standards.

Key words: Audit, responsibility, expectation gap.

INTRODUCTION

There has been a paradigm shift in the structure of business organizations in the sense that small entities employing a handful of family members have been transformed into vast multinational companies staffed by thousands of employees. Such growth has been made possible by mobilizing financial resources from many thousands of small investors through the financial markets and credit granting by the financial institutions to the growing companies (Barzegar and Salehi, 2008). As companies have grown in size, their management has passed from shareholder-owner to small groups of professional managers. However, this gigantic growth of company has been accompanied by the increasing separation of ownership interests and management functions. As a consequence, a need has arisen for company managers to report to the organizations, owners and other providers of funds such as banks and other lenders on the financial aspects of their activities. In this process of accounting, there is a gap between the managements of enterprises and end-users of published financial reports, regarding their authentication, reliability and correctness of financial reporting. The link between shareholders and lenders on one hand and management on the other is established through financial statements, which need auditing with the assurance that they are reliable and credible through authentication based on professional code of ethic regulation. In a nutshell, the auditor plays a centrifugal, as well as a centripetal role in the accounting world. The primary function of external auditors is to attest to the fairness of the financial statements of a company (Rulund and Lindblom, 1992). Audited financial statements are used by different users for various purposes. For example, creditors and shareholders may rely upon audited financial statements to obtain a view of the financial result of a company to guide their investment decision (Merchant, 1985). Audited financial statements are also important to the management of a company, since the information that they contain is used by owners and/ or board of directors to evaluate, and often to compensate its officers (Murphy, 1985; Scott et al., 1993; Lambert and Larcker, 1987). The divergence between external user's and management's use of financial information in an inherent conflict over financial information, results in an inherent conflict over financial statement presentation. In other words, the agency theory that will arise in general to the auditor's role is the resolution of this inherent conflict of preference for financial statement information (Gaa, 1991). Society requires the auditors to resolve this conflict to the benefit of the external users of financial statements (Beaver and Demski, 1974; Gaa, 1993; May and Sundem, 1976). Adams and Evans (2004) observe that there is much debate about whether social, ethical and sustainability accounts and reports should be audited, and if the quality and usefulness of audit or assurance statements published in the reports have to be dated. Assurance statements should address the questions: does this report give an account of the company and its performance on which readers can rely? Is the report complete, accurate, honest and balanced in its portrayal of the organization? Audit is concerned with the way an organization performance has been reported. Stakeholders should be able to rely on the information in audited reports in making their decisions about investments, products and services, employment, where to live and other issues that may affect them directly. However,

Table 1. Synonyms of audit concept.

Concept	Synonym
Inquiry	Inquest
Exploration	Examination
Inquisition	Inspection
Research	Scrutiny
Study	Analysis
Probe	Account for
Review	Survey
Report on	Check out

because of the recent scandals at national and international dimensions, the credibility of audit practice became undermined. In addition, these scandals had severely damaged the business section. At the bankruptcy of World Com, 40% of employee plans consisted of World Com stock. When the company went bankrupt, employees lost $ 775 million in interest benefits (Jacobius, 2002). The events of scandals not only caused an erosion of confidence in the capital market but also created what Whittington and Pany (2004: 10) call a “crises of credibility” for the accounting profession. A profession that was once highly regarded and whose members were one of the most credible was now shrouded by mistrust and skepticism. Raiborn and Schorg (2004) describe the growing distrust in the auditing profession as “a cancer that is metastasizing”. With the demise of Enron, over $ 70 billion of investors’ money and 4500 jobs were lost (Elkind and Mclean, 2006). Arthur Andersen, Enron external auditor, was charged with obstruction of justice related to the destruction of Enron documents (Berkowitz, 2002). Surprisingly, accountants who were highly regarded for maintaining high ethical standards were accused of participating in criminal behavior. Auditors who were once held in high were now viewed as ineffective and complacent (Beasely and Hermanson, 2004). Furthermore, after those scandals, a fundamental change in the way audits are performed was needed to win back the public’s trust (Tackett et al., 2004).

AUDIT

Brief definition

Littleton (1933) was of the view that early auditing was designed to verify the honesty of persons charged with fiscal, rather than managerial responsibilities. He identified two types of early audits; firstly, public hearings of the results of government official and secondly, the scrutiny of the charge-and–discharge accounts. “Both types of audit were designed to afford a check upon ‘accountability’ and nothing more. It was in effect a case of examining and testing an account of stewardship (Littleton, 1933).

In the nineteenth century, the role of auditors was directly linked to management’s stewardship function (Flint, 1971) with stewardship being regarded in the narrow sense of honesty and integrity. But the verifying function was on sampling basis because of the burgeoning volume of business activity. This functional shift in auditing from ‘true and correct view’ to ‘true and fair view’ caused a paradigm shift in the audit process (Salehi, 2008). This also caused a change in audit opinion from ‘complete assurance’ to ‘reasonable assurance’. As observed by Chow (1982), controlling the conflict of interests among firm managers, shareholders and bondholders is a major reason for engaging auditors. In recent years, according to Salehi et al. (2009), the concept of audit has enlarged to include the following also as set out in Table 1.

In essence, auditing is an independent function by means of an ordered and structured series of steps, critically examining the assertions made by an individual or organization about economic activities in which they are engaged and communicate the results in the form of a report to the users.

Many writers (Kell et al., 1986; Defliese et al., 1988; Cook and Winkle, 1988; Robertson and Davis, 1988; Gil and Cosserat, 1996; Pound et al., 1997; Gill et al., 1999; Gull et al., 1994; Gill et al., 2001) agree with the definition given by American Accounting Association (AAA) (1973), which defines auditing as "a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.” Arens et al. (1997) define auditing as "the process by which a competent, independent person accumulates evidence about quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria."

Mautz and Sharaf (1986) define auditing as being “…concerned with the verification of accounting data, with determining the accuracy and reliability of accounting statements and reports.” "A systematic process” connotes a logical and organizing series of procedures. Both these definitions identify auditing as a system comprising of inputs, processing and outputs, which are a set of logically structured and organized series of procedures to ensure that all critical elements are addressed.

The definitions by AAA and Arens et al. (1997) include "objectively obtaining and evaluating evidence" and "competent independent person." The implication is that the auditor must be qualified to understand the criteria used and competent to know the types and amounts of evidence to accumulate for examination to reach proper conclusions on one hand and must possess an independent attitude to objectively obtain and evaluate results without bias, or prejudice on the other.

Established criteria are standards against which the assertions or management presentations are judged. Gill and Cosserat (1996) point out that "criteria should be specific rules prescribed by a legislative body, budgets and other measures of performance set by management or an identified financial reporting framework established by the standard setting and regulatory organizations."

The audit process is to inform readers of the degree of correspondence between quantifiable information and established criteria. "Communicating the results to interested users" in AAA's definition and "the final stage in the audit process is the audit report- the communication of the findings to users" in the definition by Arens et al. (1997) imply that the results with the audit opinion should reach those who use the auditors' report. Include shareholders, management, creditors, government agencies and the public. Lastly, both definitions focus on the subject of audit opinion from the viewpoint of "quantifiable information" and "economic actions and events to ascertain the degree of correspondence between those assertions and established criteria".

Need for auditing

The demand for audit arises from the potential conflict of interest that exists between stakeholders and managers. The contractual arrangement between these parties normally requires that management issue a set of financial information that purports to show the financial position and results of operations of the entity. A brief analysis of the theories advocating the need for auditing gives rise to contractual arrangement under: (a) policeman theory; (b) credibility theory; (c) moderator of claimants' theory; (d) quasi-judicial theory; (e) theory of inspired confidence; and (f) agency theory.

Policeman theory

This was the most widely held theory on auditing until the 1940s (Hayes et al., 1999). Under this theory, an auditor acts as a policeman focusing on arithmetical accuracy and on prevention and detection of fraud. However, due to its inability to explain the shift of auditing to, 'verification of truth and fairness of the financial statements,' the theory seems to have lost much of its explanatory power.

Credibility theory

This theory regards the primary function of auditing to be the addition of credibility to the financial statements. Audited financial statements are used by management (agent) in order to enhance the principal's faith in the agent's stewardship and reduce the information asymmetry.

However, Porter (1990) concludes, that "audited information does not form the primary basis for investors' investment decisions". On the other hand, it is often asserted that financial statements have a function of confirming message that was previously issued (Hayes et al., 1999).

Moderator of claimants' theory

Under this theory, it is important that all vital participants in an organization continue to contribute. In order to continue these contributions, it is important that each group believes it receives a fair share of the company's income by giving an opinion on the various interests represented in the amounts shown therein.

Quasi-judicial theory

In this theory, the auditor is regarded as a judge in the financial distribution process (Hayes et al., 1999). However, Porter concludes that (i) an auditor's decisions and decision process are not publicly available; (ii) the doctrine of precedence/consistency is not guaranteed in auditing; and (iii) an auditor's independence differs from a judge's independence because of the different reward system involved.

Theory of inspired confidence

This theory was developed in the late 1920s by the Dutch professor Theodore Limperg (Hayes et al., 1999). Limperg's theory addresses both the demand for and the supply of audit services. According to Limperg, the demand for audit services is the direct consequence of the participation of outside stakeholders in the company. These stakeholders demand accountability from the management, in return for their contribution to the company. Since information provided by management might be biased, a possible divergence between the interest of management and outside stakeholders, an audit of this information is required. With regard to the level of audit assurance that auditor should provide, (the supply side), Limperg adopts a normative approach. The auditor's job should be executed in such a way that the expectations of a rational outsider are not thwarted. So, given the possibilities of audit technology, the auditor should do everything to meet reasonable public expectations.

Agency theory

Agency theory analyses the relationship between two parties: investors and managers. The agent (that is, managers) undertakes to perform certain duties for the principal (that is, investors) and the principal undertakes to reward the agent (Jensen and Meckling, 1976).

According to this theory, the role of the auditor is to supervise the relationship between the manager and the owners. A gap expectation occurs when the distribution of the responsibility is not well defined. The responsibility of every part is well defined in the regulation. The manager and the owners have to realize that the auditor does not have responsibility of the accounting, but only see that the auditing is done properly (Andresson and Emander, 2005).

It is argued that in a corporation in which share ownership is widely spread, managerial behavior does not always maximize the returns of the shareholders (Donaldson and Davis, 1991). The degree of uncertainty about whether the agent will pursue self-interest rather than comply with the requirements of the contract represents an agent risk for an investor (Fiet, 1995).

Given that principals will always be interested in the outcomes generated by their agents, agency theory demonstrates that accounting and auditing have an important task in providing information and this task is often associated with stewardship, in which an agent reports to the principal on the companies' events (Ijiri, 1975). The demand for auditing is sourced in the need to have some means of independent verification to reduce record keeping errors, asset misappropriation, and fraud within business and business organization. However, a survey conducted by Wahdan et al. (2005) revealed that the auditors believe that the auditor's work would be used as a guide for investment, valuation of companies, and sometimes in predicting bankruptcy.

According to Hermanson et al. (1993), there are four conditions in the business environment which create a demand for an independent audit. They are: conflict of interest, consequence, complexity and remoteness.

i. Conflict of interest: A company's financial statements are prepared by its directors and these directors are essentially reporting on their own performance. Users of the financial statements want the statements to portray the company's financial performance, position and cash flows as accurately as possible. However, they perceive that the directors may bias their report so that it reflects favorably on their management of the company's affairs. Thus it can be seen that there is a potential conflict of interest between the preparers and users of the financial statements. The auditors play a vital role in helping to ensure that directors provide, and users are confident of receiving information which is a fair representation of the company's financial affairs.

ii. Consequence: If users of a company's financial statements base their decisions on unreliable information, they suffer serious financial loss. Therefore, they wish to be assured that the information is reliable and safe to act upon. In this condition, auditor's works add credibility to financial statements and users of them have peace of mind, when audited financial statements are giving the real picture of company.

iii. Complexity: As the information communicated has become more complex, users of information have found it more difficult, or even impossible, to obtain direct assurance about the quality of the information received. As companies have grown in size, the volume of their transactions has increased. As a result of these changes, errors are more likely to creep into the accounting data and the resulting financial statements. Additionally, with the increasing complexity of transactions, accounting systems and financial statements, users of external financial statements are less able to evaluate the quality of the information for themselves. Therefore, there is a growing need for the financial statements to be examined by an independent qualified auditor, who has the necessary competence and expertise to understand the entity's business, its transactions and its accounting system.

iv. Remoteness: Remoteness is caused by the separation of the user of the information and the information source. It prevents the user from directly assessing the quality of the information received. In other words, as a consequence of legal, physical and economic factors, users of a company's external financial statements are not able to verify for themselves the reliability of the information contained in the financial statements. Although for example, if they are major shareholders in company, they have de facto right of access to the company's books and records.

Audit expectation gap

Many users misunderstand the nature of the attest function, especially in the context of an unqualified opinion. Some users believe that an unqualified opinion means that the entity has foolproof financial reporting. Some feel that the auditor should not only provide an audit opinion, but also interpret the financial statements in such a manner that the user could evaluate whether to invest in the entity. There are also users who expect auditors to perform some of the audit procedures while performing the attest function like penetrating into company affairs, engaging in management surveillance and detecting illegal acts and/or fraud on the part of management. It is these high expectations on the part of users of financial statements that create a gap between auditors' and users' expectations of the audit function. In addition, the users also place the responsibility for narrowing the gap on auditors and others involved in preparing and presenting financial statements.

Various studies have confirmed the existence of the audit expectation gap. Prior literature in audit expectation gap evinces that the expectations gap between auditors and financial statement users has existed for the past hundred years. The audit expectation gap has become a topic of considerable interest worldwide, for research in general, and in the advanced countries like the U.S, the U.K, New Zealand, Germany, Singapore, Malaysia, India, and Iran in particular for the last thirty years. This is due to the occurrence of series of corporate failures, financial scandals and audit failures in these advanced countries and their subsequent impact on other countries' audit profession. The literature available on audit expectation gap and related matters evinces the extent to which the auditing environment has become litigious.

The widespread criticism of and litigation against auditors indicates that there is a gap between society's expectations of auditors and auditor's performance as perceived by society. The majority of research studies indicate that the audit expectation gap is mainly due to users' reasonable expectations of audits as well their as unrealistic perceptions of the audit profession's performance. According to these studies, the differences may be attributable to users' misunderstanding of what is reasonably expected from an audit, and of the actual quality of the audit work. Although a number of explanations for the existence and persistence of the audit expectation gap appear in the literature, references to users' misunderstandings of the role, objectives and limitations of an audit, inadequate audit standards and deficient auditor performance capture the main essence of its causes. This results in users' dissatisfaction with auditor's performance that undermines confidence in the auditing profession and the external audit function.

The term 'expectation gap' is commonly used to describe the situation whereby a difference in expectation exists between a group with a certain expertise and a group, which relies upon that expertise. The public perception of an auditor's responsibility differs from that of the profession and this difference is referred to as the expectation gap. The term has been used not only in the accounting literature, but also in other fields, for example, to describe the perceptions of the information systems industry relating to the academic preparation of graduates (Trauth et al., 1993); difference in expectations of advertising agencies and their clients with respect to campaign values (Murphy and Maynard, 1996); differences in relation to various issues associated with corporate environmental reporting on one hand and the clash between auditors and the public over preferred meanings of the nature, objectives and outcomes of an audit (Sikka et al., 1998) and (Deegan and Rankin, 1999) the gap in banks between the transaction-audit approach that evolved during the industrial age and the information age (Singh, 2004), and a financial reporting expectation gap (Higson, 2003).

Most of the times, financial statement users consider an auditor's report to be a clean bill of health. Thus, most users' expectation towards auditors is far more than what it should be. Expectation gap occurs when there are differences between what the public expects from the auditor and what the auditor actually provides. The expectation gap is the gap between the auditor's actual standard of performance and the various public expectations of auditor performance. According to Percy (2007) Public expects that: (a) the accounts are right; (b) companies will not fail; (c) companies will guard against fraud and error; (d) companies will act within the law; (e) companies will be competently managed; and (f) companies will adopt a responsible attitude to environmental and societal matters. However, the concept of audit expectation gap is writ large with many issues. Hence, the concept has been delineated further under (i) genesis of the concept; (ii) definitions; (iii) the rising gap; (iv) target groups; (v) the sources and components; (vi) the structure; and (vii) illustrating porter's model.

Genesis of the concept

The term audit expectation gap emerged during the 1970s (Humphrey et al., 1993). For the last thirty years, audit expectation gap has become the topic of considerable interest to worldwide contemporary in the area propelled by litigious audit environment. However, this is not surprising given that the expectations gap between auditors and financial statement users has existed for the past hundred years (Humphrey et al., 1993).

Definitions

The most relevant definitions on audit expectation gap are presented thus:

i. Liggio (1974a) defines it as the difference between the levels of expected performance as envisioned by the independent accountant and by the user of financial statements. The Cohen Commission (1978) on auditors' responsibility extended this definition by considering whether a gap may exist between what the public expects or needs and what auditors can and should reasonably expect to accomplish.
ii. According to Guy and Sullivan (1988), there is a difference between what the public and financial statement users believe accountants and auditors are responsible for and what the accountants and auditors themselves believe they are responsible for.
iii. Godsell (1992) described the expectation gap as "which is said to exist, when auditors and the public hold different beliefs about the auditors' duties and responsibilities and the messages conveyed by audit reports."
iv. Jennings et al. (1993), in their study on the use of audit decision aids to improve auditor adherence to a 'standard', are of the opinion that the audit expectations gap is the difference between what the public expects from the auditing profession and what the profession actually provides. Monroe and Woodliff (1993) defined audit expectation gap as "the difference in beliefs between auditors and public about the duties and

responsibilities assumed by auditors and the messages conveyed by audit reports."

v. According to AICPA (1993), the 'audit expectation gap' refers to the difference between what the public and financial statement users believe the responsibilities of auditors to be; and what auditors believe their responsibilities are.

vi. Epstein and Geiger (1994) defined audit expectation gap as: "differences in perceptions especially regarding assurances provided between users, preparers and auditors".

vii. The ASCPA and ICAA (1994) observe that the term 'expectation gap' should be used to describe "…the difference between expectations of the users of financial reports and the perceived quality of reporting and auditing services delivered by the accounting profession."

A perusal of these definitions reveals that the expectation gap may refer to any one or all of the following: (i) difference in perceptions on actual performance and expected performance of auditors; and (ii) existence of these perceptional differences in auditors, accountants or users of financial statements and the society independently and also comparatively. At present, the focus of comparative analysis of audit expectation gap is attempted by considering the perceptions of (i) society and auditors; (ii) accountants and auditors; and (iii) investors and auditors simultaneously.

Most users' expectations towards auditors are far more than what it should be and it arises when there are differences between what the public expects from the auditor and what the auditor actually provides. Tweedie (1987) set out the extent of the problem as follows: "the public appears to require (1) a burglar alarm system (protection against fraud) (2) a radar station (early warning of future insolvency) (3) a safety note (general reassurance of financial well-being) (4) an independent auditor (safeguards for auditor independence) and (5) coherent communications (understanding of audit reports)". To guarantee an efficient control to the shareholders and to the general public, the auditors have to meet stringent requirements both with regard to their professional knowledge and with regard to their independence on these lines: (i) auditors should be accepting prime responsibility for the financial statements, that they certify financial statements; (ii) a clean opinion guarantees the accuracy of financial statements, that auditors perform a cent per cent check; (iii) auditors should be given early warning about the possibility of business failure; and (iv) auditors are supposed to detect fraud. Such public expectations of auditors, which go beyond the actual standard of performance by auditors, have led to the "expectation gap".

The rising gap

The interest in audit expectation gap is of recent origin in empirical research and Darnill (1991) attributes to this slow pace of interest in it as "a general lack of public interest in the work of the auditor." However, Tricker (1982) observes that the expectations gap has been represented as the result of a natural time lag in the auditing profession identifying and responding to continually evolving and expanding public expectations.

The studies by Dejong and Smith (1984) and Hooks (1992) emphasize that the profession's refusal of performing the fraud detection duties had fuelled the expectation gap. Hence the interest in audit expectation gap is propelled by the recent corporate failures, which are essentially the result of fraudulent audit processes evidenced in the scandals of Enron, WorldCom, Texaco, and etc. The failure to check the frauds and prevent the impending bankruptcies through an effective audit program has culminated in the interest on audit expectation gap in recent years. Further, Kelly and Mohrweis (1989) observe that judicial litigants often appear to apply as a standard, the concept that an audit is a comprehensive check on a corporation's financial activities. As a result, the audit expectation gap has occupied the prime position in financial reporting arena. However, a business failure is often interpreted to be an audit failure regardless of the level of procedures and tests performed by the auditor. Further, Sikka et al. (1992) contend that the 'expectation gap' is an outcome of the contradiction of minimum government regulation and the profession's self-regulation, especially, the profession's over-protection of self-interest, which has widened the 'expectation gap', this statement is also supported by Giacomino (1994) and Chandler and Edwards (1996).

Martinis et al. (2000) views audit expectation gap by examining the extent to which lower levels of user cognizance of the role, objectives and limitations of an audit are associated with unreasonable audit expectations and perceptions. It was found that the audit expectation gap prevailed where respondents had relatively little business work experience and no university qualifications. To conclude, the much-quoted statement by Humphrey (1991) as to whether the auditor is 'a watchdog or a bloodhound' still continues to be the central issue in audit expectation gap.

Target groups

Leaving apart the society as a target group to analyze the perceptional differences on audit expectation gap by the researchers, there is widespread difference in identification of the target groups for the study.

In the early years of research on audit expectation gap, Bailey et al. (1983), for example, studied the problem from the viewpoint of more knowledgeable users and less knowledgeable users with the premise that auditors were more knowledgeable than the public. The same results were obtained by Salehi et al., (2009).

Singleton (1990) too confirmed that there was an expectation gap between the profession and the users of accounts. But one of their interesting findings was that there was also an expectation gap within the profession because accountants themselves lost sight of what on earth they are trying to do with accounts.

Monroe and Woodliff (1994) were also of the same opinion that there were significant differences between the auditors and each of the user groups. In their study, they considered auditors as the most sophisticated group, the accountants, creditors and directors as the intermediate group and the shareholders and students were considered to be the least sophisticated group. There were significant differences between the user groups with the creditors and accountants being significantly higher than the directors, students and shareholders.

Beelde et al. (1999) identified that perceptions existed in internal auditors and external audits. The aim was to find out whether certain perceptions could be associated with a certain target group and whether the perceptions between the various target groups differ.

The sources and components

The expectation gap has been attributed to many numbers of different causes: 1) the probabilistic nature of auditing; 2) the ignorance, naivety, misunderstanding and unreasonable expectations of non-auditors about the audit function; 3) The evaluation of audit performance based upon information or data not available to the auditor at the time the audit was completed; 4) The evolutionary development of audit responsibilities, which creates time lags in responding to changing expectations; 5) Corporate crises which lead to new expectations and accountability requirements; or 6) The profession attempting to control the direction and outcome of the expectation debate to maintain the status quo (Shaikh and Talha, 2003).

The Canadian Institute of Chartered Accountants (1988) sponsored a study on the public's expectations of audit (the MacDonald Report). The commission developed a detailed audit expectation gap model that analyzed the individual components of the expectation gap into unreasonable expectation, deficient performance and deficient standard, this model is presented in Figure 1. Based on Figure 1, three components of the expectation gap can be identified as follows:

(1) Reasonableness gap: A gap between what the society expect auditors to achieve and what they can reasonably be expected to accomplish. Such a gap exists because of misunderstanding of users, users' over expectations, uneducated users, miscommunication of users, and miss-interpretation of users and unawareness of users from the audit practice limitations.

(2) Deficient standards gap: A gap between the duties, which can reasonably be expected of auditors, and auditors existing duties as defined by law and professional promulgations. Kinney (1993) states that one of the major causes of the profession's expectation gap is the difference between what the standards of the profession provide and what users might desire. In addition, such a gap existed because of lack of sufficient standards to covering all of audit practices or the existence of the insufficient standards for audit responsibilities, detection of fraud and illegal acts. In short, the deficient standards gap is only because of insufficient or poor standards to audit functions.

(3) Deficient performance gap: A gap between the expected standard of performance of auditors existing duties, and performance as expected and perceived by society (Porter et al., 2003). Such a gap also confirmed by scholars and researchers in a lot of countries. The main reasons of such a gap may be classified as follows: Non-audit services practicing by auditors, self-interesting auditors and economical relationship with clients, unqualified auditors, and dependent auditors. Several reasons for audit expectation gap is as shown in Figure 2.

Defliese et al. (1988) point out that it is important to appraise the realism of public expectations and perceptions when the profession seeks remedies to the expectation gap. If the reasonable expectations of the public are not met by the existing professional standards or the profession's performance falls short of its standards, the standards and/or the performance should be improved. But if the public has unreasonable expectations or their perceptions of performance are mistaken, the profession should attempt to improve the public understanding. It is the professional bodies, and legal responsibility to determine the auditors' responsibility to achieve the reasonable public expectations. Monroe and Woodliff (1994) and Woodliff (1995) pointed out that one of the components of the expectation gap is the difference between the expectations of users and the reasonable standard of auditing which the auditing profession can be expected to deliver (unreasonable expectations gap).

The debate about the audit expectation gap consistently centers on a number of perennial issues. Three major ones are: (a) the nature and meaning of audit report messages; (b) early warning by auditors of corporate failure; and (c) the auditor's responsibility for the detection and reporting of fraud.

A study carried out by the Institute of Chartered Accountants of Scotland found that users expect audited financial reports to provide them with assurance (Gill and Cosserat, 1996) that: the financial statements are right; the company will not fail; there has been no fraud; the company has acted within the law; the company has been competently managed; and the company has adopted a responsible attitude to environmental and societal matters. Furthermore, the study found that users expect the independent auditor to be:

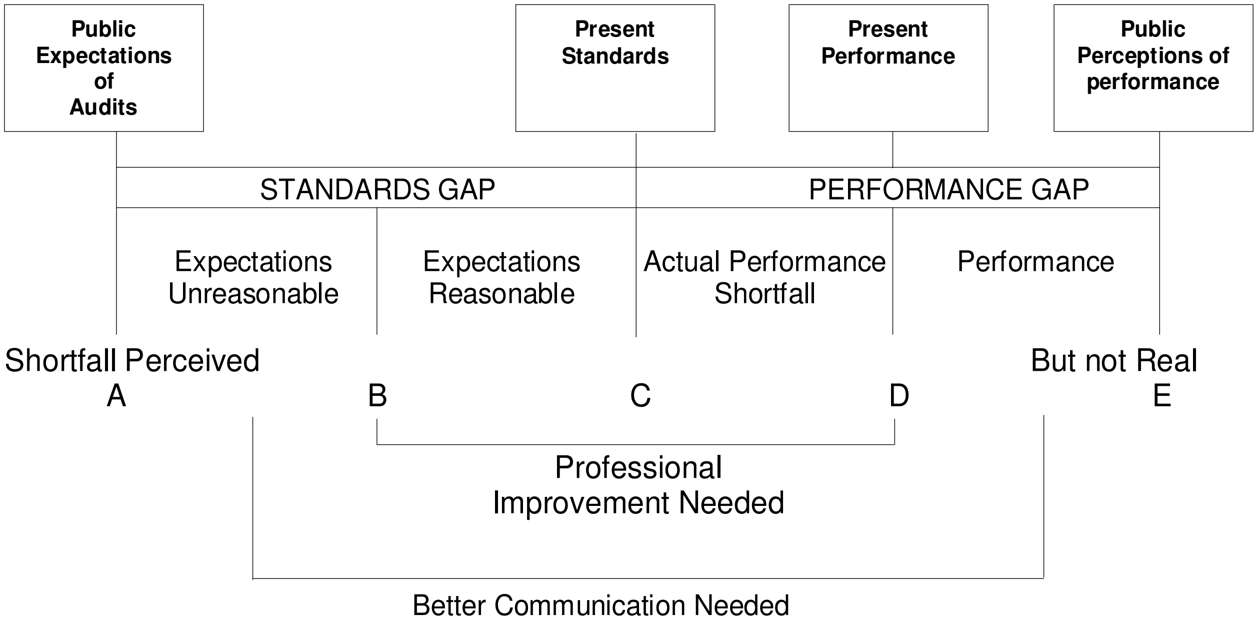

Figure 1. Components of the Audit Expectations Gap. The figure represents the full gap possible between the highest expectations of audits (point A) to public perceptions of what audits actually seem to provide (point E). Point C represents auditor performance and financial information quality called for by present standards. The line segment A to C represents public expectations that go beyond existing auditing and accounting standards. The line segment C to E represents public perceptions that auditor performance or audited financial information falls short of what is required by existing standards. Source: Adapted from MacDonald Commission (1988).

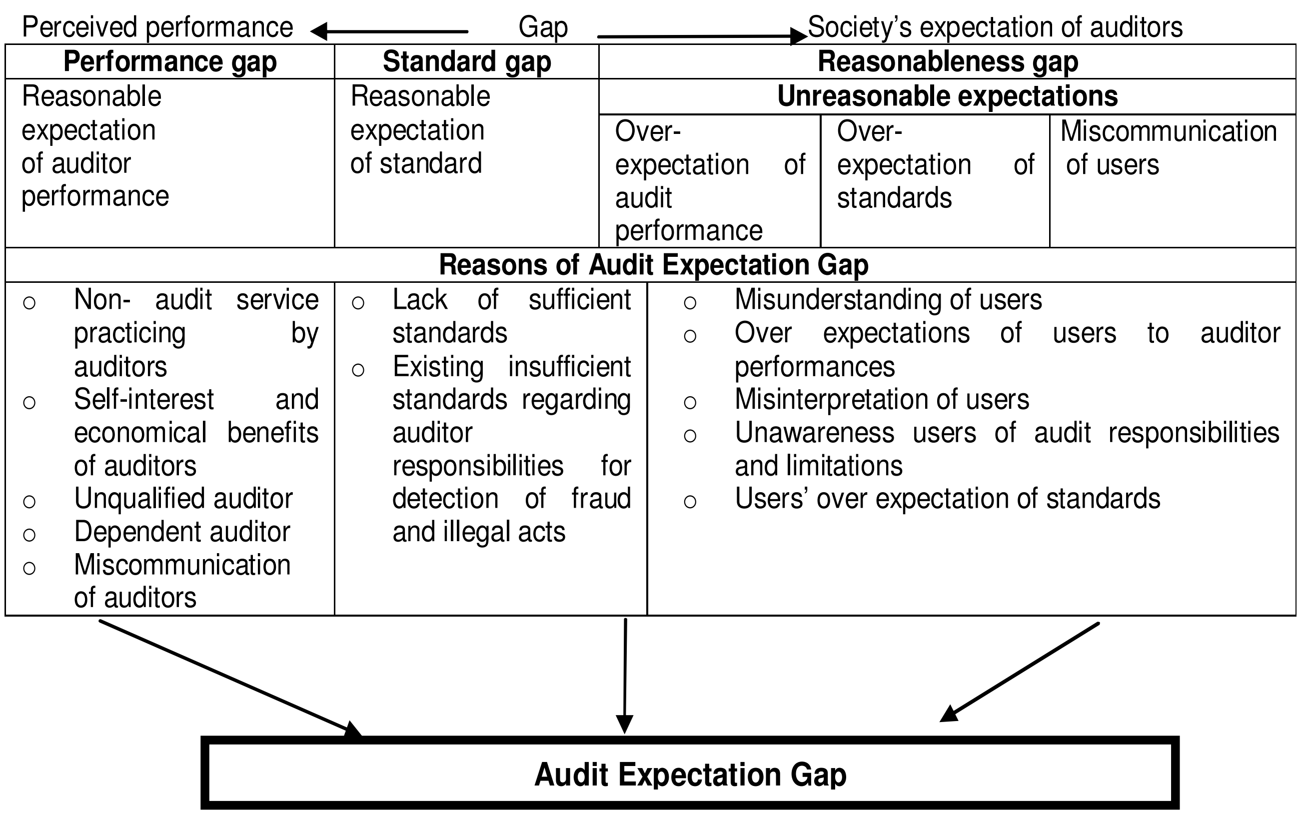

Figure 2. Reasons of audit expectation gap (Salehi, 2007).

i. Independent of the directors of the company being audited;
ii. Responsible for reporting to a third party (shareholders) if they suspect that the directors are involved in fraud or other illegal acts;
iii. Accountable to a wide range of stakeholders; and to be financially liable if they fail in any of their duties.
The users of the audit report should understand that audits are carried out in accordance with prescribed standards and provide them with an opportunity to review those standards for themselves. It is the law makers' responsibility whether that is the legislator or the courts to determine whether these standards are adequate.

The literature on the concept and definitions of audit expectation gap thus reveals that expectations are found with regard to the following duties of auditors: (a) giving an opinion on the fairness of financial statements; (b) giving an opinion on the company's ability to continue as a going concern; (c) giving an opinion on the company's internal control system; (d) giving an opinion on the occurrence of fraud; and (e) giving an opinion on the occurrence of illegal acts. Any lacunae in performing any of these duties by auditors thus result in an audit expectation gap (Hayes et al., 1999). It is also important to note that rendering of the opinions by the auditor is the end product of auditing after completing the audit process, which is a comprehensive concept by itself. A full-fledged concept of auditing envisions responsibilities of auditors, ethical level of auditors, and professional commitment towards financial reporting measurement, regulatory stipulations and auditor independence.

REVIEW OF LITERATURE

Over the last two decades, the Anglo Saxon world has experienced a spate of corporate failures such as financial scandals and audit failures, which have placed the audit agenda of the accounting profession, regulators and the public (Dewing and Russel, 2002). Given the recent financial reporting scandals (Enron, WorldCom, Parmalat, etc.), financial reporting and audit practice are once again at a crossroad. These conditions may be widening the audit expectation gap.

The studies on audit expectation gap bring out the nature of audit expectation gap prevailing in different countries of the world. These studies bring out the differences in perceptions of the audit expectation gap amongst the different sections of the society. The foundations for research in audit expectation gap were laid down in the seminal works of Lee (1970) and Beck (1974), who investigated the duties which auditors were expected to perform. Most of the studies ascertain that the auditors and the public's views of the roles and responsibilities of auditors can be obtained through the questionnaires. Liggio (1974a) visualized the changing role of auditors at the initial stages. Then, he pioneered the concept of audit expectation gap (Liggio, 1974 b).

In the USA, Baron et al. (1977) examined the extent of auditors' detection responsibilities with respect to the material errors, irregularities and illegal acts. They attempted to establish whether there were any differences in the perceptions regarding the auditors' detection and disclosure duties between the auditors and users of accounting reports- financial analysts, bank loan officers and corporate financial managers. They found that auditors and users of accounting reports had significantly different beliefs and preferences on the extent of auditors' responsibilities for detecting and disclosing the irregularities and illegal acts. In particular, users held auditors to be more responsible for detecting and disclosing irregularities and illegal acts than the auditors believed themselves to be.

Low (1980) examined the expectation gap in Australia. The extent of auditors' detection and disclosure responsibilities concerning the errors, irregularities and illegal acts as perceived by auditors and a non-auditor group was investigated. It was found that both groups differed significantly in their perceptions of the extent of auditors' detection and disclosure responsibilities and that an expectation gap existed between the two groups. This finding is consistent with that of Beck (1974), who reported that shareholders had higher expectations of auditors than what most auditors would consider reasonable.

Low et al. (1988) examined the extent of the expectation gap between auditors and financial analysts on the objectives of a company audit taking the case study of Singapore. The results indicated that both groups perceived the traditional objectives of the audit (that is, expressing an opinion on financial statements) as one of the primary audit objectives. However, besides this objective, respondents possessed an array of beliefs as to what they considered as audit objectives. Financial analysts perceived an audit as setting a seal on the accuracy of the financial accounts of the company. Further, their perceptions of fraud prevention and detection responsibilities of auditors were more demanding than those that the auditors believed they themselves should possess.

Lowe (1994) compared the perceptions of auditors and judicial litigants regarding their expectations of the auditing profession. It was found that an expectation gap existed between the auditors and judicial litigants and that judges systematically expected more from auditors than auditors believed they provided.

Humphrey et al. (1992) conducted a survey to gather evidence on opinions and perceptions of auditing from a wide variety of groups. The survey found that there was no significant difference in perceptions concerning whether accounts should comply with the company laws or accepted accounting practices, but there were significant differences relating the auditors' roles. Generally, the auditors saw themselves as more restricted than other groups. One interesting aspect to note was that 71% of auditors disagreed that the balance sheet provided a

Table 2. Investors perception of audit assurance: Finding of Epstein and Geiger.

Statement	Error (%)	Fraud (%)
No assurance necessary	1.67	2.51
Reasonable assurance	51.05	26.36
Absolute assurance	47.28	71.13

Source: Epstein and Geiger (1994).

fair presentation of the company financial position, while 58% of financial directors and 81% of users felt the other way round.

In another survey, Humphrey et al. (1993) examined the expectation gap in UK by ascertaining the perceptions of individuals of audit expectations issue through the use of a questionnaire comprising a series of mini-cases. The survey revealed a significant difference between auditors and the respondents- representing some of the main participants in the company's financial report process- in their views on the nature of auditing. The results confirmed that an audit expectation gap existed, specifically in areas such as the nature of the audit function and the perceived performance of auditors. The critical components of the expectation gap were found to include auditors' fraud detection role, the extent of auditors' responsibilities to third parties, the nature of balance sheet valuations, the strength of and continuing threats to auditors' independence, and aspects of the conduct of audit work (for example, auditors' ability to cope with the risk and uncertainty).

Porter (1993) investigated the audit expectation gap In New Zealand by breaking the gap into two parts: the performance gap and the reasonableness gap. She conducted the research using a mail survey sent to two groups affected by the work of external auditors. The two groups were (1) the 'financial community' groups, including auditors, firm offices, financial analysts, and auditing academics, and (2) the general public groups, including lawyers, financial journalists, and members of the general public. From the results of her study, Porter identified that more than 20.00% of the general public perceived the auditors should perform ten duties but they were identified by the financial community as not cost effective and/or economical for the auditors to perform. These duties included reporting to the regulatory authorities and disclosing in the audit report the theft of company assets by non-managerial employees, guaranteeing that the audited firm was solvent and the audited financial statements were accurate, detecting and disclosing in the audit report the illegal acts not directly affecting the company's accounts, reporting the breaches of tax laws to the tax authorities, examining and reporting the fairness of the non-financial information and the efficiency and effectiveness of the firm's management, and verifying every transaction of the audited firm. This empirical research helped the researcher with identifying various components of audit expectation gap, which constituted reasonableness, deficient standards and deficient performance. It also provided the means to estimate the relative contribution of the duties to their respective components and of the components to the overall gap between society's expectations of auditors and auditors' perceived performance.

Gloeck and De Jager (1993) measured audit expectation gap in the Republic of South Africa. The participants of this survey were investors and auditors, in which the survey revealed that there was an audit expectation gap and that there were three main areas of concern: the lack of independence of auditors, uncertainties regarding the role of auditors particularly in regard with the fraud and going-concern issues, and dissatisfaction with the compulsory audit of small owner-managed companies. Almost 60 per cent of financially knowledgeable respondents were of the opinion that the auditor was strongly influenced by the management of the company which he or she audit.

McInnes (1994) reviewed the findings of Gloeck and De Jager and found the existence of audit expectation gap. Epstein and Geiger (1994) opined on the shift in auditing profession in terms of its basic functions and the primary audit objectives from the investors' perspective. The researchers observed that CPAs as professionals must continually assess public reaction to their stated role in financial reporting as well as in determining the public's perceptions of the type and level of assurances believed or desired to be provided by auditors. The data for the study were collected through a national survey conducted among the investors representing individuals from all the 50 states of the United States to gather information on various aspects of financial reporting issues. Two separate questions were asked of investors, the first was on what level of assurance they believed auditors should provide to detect material misstatements as a result of errors and frauds. The researchers anticipated a typical response of reasonable assurance. However, investors held auditors to a much higher level of assurance. The survey asked what level of assurance the auditors felt the investors should provide in detecting material misstatements as a result of errors and frauds. The results are presented in Table 2.

These findings certainly suggest that an expectation gap exists between what auditors and investors perceive as the level of assurance that should ideally be provided by the auditors. Epstein and Hill (1995) elaborated on the findings of Epstein and Geiger (1994) concerning the expectation gap. They found that less sophisticated investors were more likely to expect absolute assurance than more sophisticated investors, although a large percentage of both types of investors expect absolute assurance. This study implied that the unsophisticated investors expected a higher amount of assurance concerning the misstatements due to the errors than the sophisticated investors. However, the auditors found no significant differences due to frauds; an overwhelming number of both types of investors, namely, sophisticated and unsophisticated, wanted an absolute assurance against this type of misstatement. Epstein and Hill (1995) concluded that:

1. Investors expected greater amount of assurance concerning the frauds and errors than the auditors could provide.
2. There seemed to be a general lack of understanding concerning the differences in the auditors' ability to detect a misstatement due to the frauds and errors.
3. Investors did not grasp the difficulty of detecting material misstatements due to the frauds or the cost of doing so.

Based on these findings, they made two suggestions: i) auditors need to educate the public about the difficulties and costs related to detecting frauds, and ii) auditors need to increase both the quality and quantity of their audit services in an effort to provide the investors with a greater level of assurance.

Monroe and Woodliff (1994) conducted a classical study on the audit expectation gap taking the case study of Australia. The study aimed at identifying the differences between financial report users and auditors about their perceptions of the messages communicated through the audit reports. The data for the study were collected through a mailed questionnaire administered to auditors, accountants, creditors, directors, shareholders and students. The questionnaire directly addressed the existence and nature of the audit expectation gap. The research instrument used for the study carried semantic differential scales for different categories of the respondents stated earlier.

The results of the study suggested that there were significant differences between old reports and new reports, which were significant to the auditors. The major areas of differences in perceptions studied in this research included the responsibility, prospect and reliability factors. It was found that (i) the modified wording in the new reports had a significant impact on beliefs about the nature of an audit and auditors and management, (ii) the modified wording eliminated some of the differences but also created some new differences between auditors and various user groups, and (iii) the differences in perceptions were much smaller for sophisticated users than naive users.

The research also suggested that educating the users was one of the approaches to raise the sophistication level of users to reduce the differences in perceptions. Further, the research indicated that wording changes did change beliefs about the messages communicated through audit reports. In other words, audit report wording should become more specific if the gap were to be decreased.

Chung (1995) surveyed on how varied levels of auditors' confidence resulted in an audit expectation gap and the inadequacy of which led to inadequate performance by auditors. He was of the opinion that the auditors' confidence was not a contributor to the audit expectation gap. An over-confident auditor may be dangerous as over confidence might result in an inefficient audit. The objective of the auditor was to make the most accurate decision possible after considering all the facts. Anyone who suffers a financial loss as a result might sue an auditor who expresses an inaccurate opinion on a set of financial statements that he has examined. In addition to making accurate decisions, the confidence of the auditor in his decision was also important. If auditors were over-confident, this might reduce the value of their audit opinions and the effectiveness of the profession. If they were under-confident, they might take longer to make decisions.

The survey was conducted between two groups of auditors from the Big-Six public accounting firms in the United States. In the first administration of the experiment, thirty two auditors were selected based on availability, willingness to participate and on the condition that they had at least two years of experience. In the second administration, twenty six auditors were selected on the same basis. These two groups received training before undertaking the experiment. The first group of auditors showed a mixture of under-confidence and good calibration (the relationship between confidence in one's decision and the accuracy of the decision), whereas the second group showed a mixture of good calibration and over-confidence. When the results of the two groups were aggregated and analyzed, a tendency towards under-confidence was witnessed. While this was not as dangerous as being over-confident, there were still implications for the profession. The reasons for the inefficiency and under-confidence of auditors were (i) the conservative nature of the training they received, (ii) their past experiences, and (iii) the legal liability that any negligence they may expose. However, the author expressed his concern that it was better to be inefficient than ineffective.

The study also suggested that if one could understand the relationship between audit decision confidence and audit decision accuracy, it would increase one's understanding of the audit expectation gap. The profession in general and the audit firms in particular can direct their training programs towards making auditors better calibrated.

Schelluch and Green (1996) found that the expectations gap detected in prior research studies dealing with auditors' responsibilities appeared to be reduced over time with the introduction of the long-form audit report. Differences in beliefs between auditors and users (company secretaries and shareholders) appeared to be reduced in areas specifically addressed in the wording of the expanded report. However, the expectation gap continued to exist after the introduction of the long-form audit report in relation to the financial statement reliability. This finding indicated the continued difficulties being experienced by users in understanding the audited financial statements. The study also indicated that users were generally unhappy with the role played by the auditing profession particularly with respect to the auditor independence and the level of value (that is, credibility) added to the financial statements from the auditing process.

Another area that is less explored when one studies audit expectation gap is the concept of materiality. In ISA No. 25 (subject matter 320), audit materiality is defined as follows: information is material if its omission or mis-statement could influence the economic decision of user point rather than being a primary qualitative characteristic which information must have if it is to be useful.

This definition of materiality in auditing is due to a demand for efficiency on the one hand and credibility on the other, which can often draw the auditor in opposite directions. This has been explored by Hojskov (1998) who surveyed the expectation gap between the users and auditors with reference to Denmark. The participants in the survey were 13 financial analysts, who representedprofessional investors/advisors, and 11 State authorized public accountants 'Danish CPAs' of listed companies. The financial analysts were all involved in share analysis and had on an average six years of experience in this area. Participants had only limited, but varied knowledge of the topic prior to the survey, but this grew during the course of the survey. The survey was based on the same survey questions for both financial analysts and auditors. Financial analysts were asked whether the errors must be considered material for their share price recommen-dations, that is, whether they thought the price would be influenced. Auditors were asked whether after assessing the financial statements they regarded the errors as material that is, whether they thought this would influence the decisions, which users make on the basis of the financial statement. The survey was based on four examples of publicly listed companies, all of which were assumed to be known to the participants.

It was confirmed that the two groups in Denmark had no knowledge of each other's materiality levels. Hence Hozskov's conclusions indicated the need for standards at least for auditors in order to ensure a degree of uniformity. Lowe and Pany (1993) surveyed auditors and potential jurors to test for differences in expectations concerning the auditor's role, knowledge of the audit process, and general attitudes toward the audit pro-fession. The jurors' subjects were drawn from a municipal juror pool. The auditors were participants in a two-week audit training seminar for the senior. The researchers used an eight-question survey scale to test perceptions, which the subjects answered using an eleven point scale (0 to 10) anchored at 'strongly disagree' and 'strongly agree'. The authors found large differences between the two groups in the areas of responsibility for the financial statement information, the necessity for sampling transactions, and the auditors as an insurer against large stockholders' losses, a public watch dog and an active pursuer for fraud.

Noordin's (1999) study is important for two reasons. Firstly, the result of this study might affect the process of setting auditing standards, that is, either the existing standards must be modified or new audit standards must be framed. This was because of the fact that an auditor's report was the only medium of communication that included the auditors' opinion regarding their audit work and their final opinion regarding the financial statements audited. Hence, in this sense, it is important to study the degree of usefulness of an auditor's report. These results in forcing the auditors to deliver a report in clearer terms that help reduce the expectation gap. Secondly, the results of his study are expected to affect the audit academic environment, and educating users regarding the knowledge of audit and auditors' report is essential so that users understand the essence of audit as well as the utility of an auditor's report. It was found that know-ledgeable users placed less responsibility on auditor than less knowledgeable users. He concluded that educatingthe audit users was an effective approach to narrow down the expectation gap.

The study was conducted with three main objectives: (i) to examine the existence of expectation gap between auditors and users in Malaysia, (ii) to ascertain the effectiveness of an auditor's report as a communication medium between auditors and users, and (iii) to under-stand in which area the users expect the most in order to overcome the gap. The study clearly indicated the presence of a wide expectation gap in Malaysia. The expectation gap was found wide particularly on the issues of the auditors' responsibilities on (i) omission and mis-statement reporting, (ii) detecting all frauds and errors, (iii) fraud prevention, and (iv) 100% examination of the audit procedures. To a lesser extent, an expectation gap was also found on (i) audited financial statements in an annual report, (ii) soundness of internal control, (iii) using the work of other auditor or expert, and (iv) producing the financial statements. This study also revealed that users who were having knowledge about the responsibilities and duties placed less responsibility on auditor than less knowledgeable users.

Best et al. (2001) examined the evidence in support of the long form audit report for audit expectation gap in Singapore. The study extended research on the audit expectation gap in Singapore by surveying auditors, bankers and investors. The study provided some insight into the nature and extent of the audit expectation gap in Singapore. Evidence was found confirming the existence of a moderate gap. Out of sixteen areas, a significant area of gap concerned the auditors responsible only for detecting all frauds and the auditors not responsible for preventing them. In addition, there was evidence that investors believed that auditors had some responsibility for ensuring an entity of sound internal controls.

Martinis et al. (2000) made an examination of the audit expectation gap in Singapore. The main objectives of their study were (i) to examine the extent to which lower levels of user cognizance of the role, objectives and limitations of an audit were associated with unreasonable audit expectations and perceptions, and (ii) to identify the extent of the gap with regard to the expectations and perceptions about the duties and responsibilities of auditors, fraud prevention and detection.

The extent of the audit expectation gap was measured by comparing non-auditors' expectations and perceptions regarding the role, objectives, and limitations of an audit with auditors' responses reflecting audit reality as prescribed in the profession's auditing standards. Audit expectation gap issues identified in this study were (i) the usefulness of audited financial statements for decision-making activities, (ii) the nature of an auditor's work, (iii) the duties and responsibilities of an auditor, (iv) the meanings of an 'unqualified' audit report, (v) the group responsible for preventing and detecting frauds, and (vi) the group most effective for preventing and detecting frauds.

The study suggested that the auditor profession is to take more pro-active stance, for example, a greater responsibility for educating the public on the role of auditors, the extension of the auditors' responsibilities to match users' expectations regarding the prevention and detection of frauds, and the ensuring of the continual existence and monitoring of audit quality, particularly as related to the minimization of corporate collapses resulting from business failure. The authors concluded that the audit expectation gap, although impractical, should be significantly reduced, if impossible to eliminate.

McEnroe et al. (2001) conducted a study on the auditors and investors' perceptions on the expectation gap in the United States. The study surveyed the public accountants and individual investors to obtain their perceptions on the extent to which an expectation gap did exist in various dimensions of the attest function. The findings of the study in relation to the expectation that all items were important to investors and creditors were disclosed, and they indicated that investors did not concur with the Panel on the Public Oversight Board (POB) that the public was not the auditor's true client. The appropriate action to reduce these expectations might be in the public education.

Hudaib and Haniffa (2002) conducted a survey on audit perception gap in Saudi Arabia. He found that the ideology and legal structure in the Saudi environment significantly affected the audit perception gap. In Saudi Arabia, there are two roles of an auditor, namely, acting as a judge and adhering to the current code of ethics included in the official documents. The auditors were not happy with the misconceptions attached to these two roles. Similarly, the various user groups also revealed their dissatisfaction with the current performance of these roles by the auditors. The profession is forcefully governed by their religious code of ethics. The auditors felt that they were lacking the capability in handling the cases under both systems of Secularism and Shari'ah. However, the users wanted the auditors to be involved in the detection of frauds because of the increasing number of companies in recent years experiencing losses resulting from frauds and mismanagement.

This study also highlighted that the practice of 'cherry-picking' regulations from western developed countries and the implementations of such rules without proper consultation with the practitioners created a gap in perceptions of Saudi Arabians. The tension between the Saudi Organization Certified Public Accountants (SOCPA) and other parties interested in the role of auditing too created a gap. Thus, the competing ideologies of western economic rationality vs. the Islamic rationality and their legal systems resulted in an uncomfortable relationship between the auditors and users.

Fadzly and Ahmad (2004) examined the perceptions on 'what the auditors were doing' by comparing their and the users' perceptions in Malaysia. The study addressed the expectation gap through the auditors' responsibilities, reliability of audit, and usefulness of audited financial statements. The empirical results indicated some significant differences in all the responsibilities except for the fact that the auditor was unbiased and objective among the auditors and users (brokers, bankers and investors). Statements on reliability dealt with the issues of the audited financial statements to see if they were true and fair, the extent of assurance provided by the audit, fraud within the audited entity, the auditors' trustworthiness and the effectiveness of audit reports in communicating the extent of assurance and audit work performed. The empirical results indicated that there were no significant differences in beliefs between the auditors and users except in the financial statements, which gave a true and fair view. Three statements on usefulness pertained to the use of the audited financial statements in decision-making, performance monitoring and assessing whether the entity was well managed. The empirical result indicated that there were no significant differences between the auditors and users except in their performance monitoring. The results of the study showed a wider expectation gap on the issue of the auditor's responsibility and a lesser expectation gap with respect to the reliability and usefulness of the audit.

Lin and Chen (2004) conducted an empirical study on audit expectation gap in China. The study investigated the rise of expectation gap and related the auditing issues under business and auditing environment in the country. There was an expectation gap with respect to the objectives of auditing function, auditors' obligation to detect and report frauds or irregularities, third-party liability of auditors, and the impact of governmental sponsorship on the credibility of the audit services. The auditors and audit beneficiaries were dissatisfied with the present status of auditor independence in China. They concluded that much must be done to improve the public accounting practices in China to bridge the expectation gap.

Vinten (2005) conducted a study on audit expectation gap. According to him, the auditors failed to meet the society's reasonable or unreasonable expectations, which resulted in undermining the confidence in the auditing profession. The objectives of this study were toinvestigate the structure, composition and extent of the audit expectation gap in England and New Zealand in 1989 and in 1999. The findings of the study showed that the extent of gap was much less (that is, less than 2.00%). However, the conditions of gap-components differed quite markedly in the two countries. In the United Kingdom, reasonableness, deficient standards, and deficient performance gaps constituted 50.00, 42.00 and 8.00% respectively, whereas in New Zealand, they constituted 41.00, 53.00 and 6.00% respectively. In 1989 in New Zealand, these gaps constituted 31.00, 58.00 and 11.00% respectively.

The study suggested the following measures to reduce the gap: (i) strengthening the monitoring of auditors' performance, (ii) improving the quality control in audit firms, (iii) enhancing the education of auditing practitioners, (iv) introducing new auditing standards, and (v) educating the society about the audit function and work of the auditor.

The findings of this report provided some insight into the society's expectations of auditors, the perceived standard of their work and the extent to which these expectations were not being fulfilled. The findings give recommendations on how auditors might better satisfy a society's expectations by narrowing the gap.

Dixon et al. (2006) opined that the expectation gap between the auditors and financial statement users in Egypt was disappointing. The study confirmed an expectation gap in the nature of the audit function, the perceived performance of auditors, their duties and roles, their independence and the non-audit services. The results indicated that there were significant differences between the auditors and users (bankers and investors) except for the statement that the auditor was not responsible for preventing fraud. The statements on reliability dealt with the issues of the extent of assurance provided by the audit, accounting policies, audited financial statements (to find out their accuracy), frauds within the audited entity and audit report effectiveness in communicating the extent of audit work performed. The results indicated that there were significant differences between the auditors and users excepting the extent of assurance provided by the audit and audit report effectiveness in communicating the extent of audit work performed.

In usefulness of the audited financial statements, three statements were used, namely, the audited financial statements in decision making, and, performance monitoring, and assessing whether the entity was well managed. The study indicated that there were no significant differences between the auditors and users in the statements excepting the performance monitoring. The results of the study showed a wider expectation gap on the issue of the auditors' responsibility and a lesser expectation gap with respect to the reliability and usefulness of audit.

A survey was conducted by Altwaijri (2006) regarding the expectation gap related to the internal auditors in Saudi Arabia. The data were collected through both telephone and face-to face interviews, whose participants were the academic staff, corporate managers, directors of internal audit departments, external auditors, governmental, and accounting bodies. The results revealed that several gaps existed among Saudi Arabia corporate auditors: (i) the gap between what corporate management believed the external auditors did when performing the independent audit and what their real task was, the gap between how the corporate management was expected to value its internal auditing and how the management appreciated its internal auditing in reality; (ii) the gap between how the audit clients within the corporate perceived the internal auditors and what the internal auditors real job was; (iii) the gap between what the business sector required the internal auditors and what internal auditors real requirement of qualification and background were, and (iv) the gap between the scope of the internal auditing as expected by the professional standards and what the internal auditors were really doing.

Swamy (2007) highlighted the dimensions constituting the broad spectrum of audit expectation gap in India: responsibility of external auditors; role of auditors; profession commitment; obligations of auditors; deficiency levels of audit; audit effectiveness, and auditor independence. The results reveal that there is an expectation gap in several aspect of audit function in India. A survey conducted by Salehi and Azary (2008) regarding fraud detection in Iran between bankers and auditors. The result of study revealed that there was a gap between two parties on auditors' responsibility on fraud detection. Bankers believed that auditors should detect all fraud. However, auditors did not such idea.

An empirical study was done by Swamy and Salehi (2008) in two countries namely, Iran and India regarding auditor's responsibilities. The results of the study showed that there was a huge gap in two countries between auditors and investors. Further the results revealed that Iranian investors had high expectation from Iranian auditors. By the way, on another study conducted by Salehi et al. (2009) on auditor independence in Iran, the results showed that investors' perception to independence in higher that auditors' perceptions on this matter, so there was a gap on audit independence.

CONCLUSION

The audit function is a crucial subject matter moving away from private domain to the public domain. This move is heralding a new era of audit revolution, which is spurred by increasing awareness of audit importance on one hand and innumerable financial reporting scandals on the other perpetuated with an unprecedented scale by the management in connivance with the auditors. This low state of audit importance is essentially caused by the attitude of perfunctory audit emanating from the regulatory framework itself. The core solution lies in increasing the level of auditor independence and auditor responsibilities with more punitive measures to reduce corporate reporting scandals thereby paving the way for increased audit quality through a reduction in the level of audit expectation gap. Further, auditing does not only merely entail the rendering of opinion but also verification of all documentary evidence and of adherence to the financial reporting principles adopted by the management with an ethical touch to the audit process. The review of literature on the audit expectation gap strongly supports the existence of 'a gap.' These expectation gaps are found to exist based on the perceptions of auditors *per se,* investors, lenders, financial analysts and society everywhere in the world between the auditors as conceptualized by (Salehi and Gowda, 2006). As auditing has been gaining much importance in recent times, stakeholders are becoming more intelligent and they expect auditors to protect their interests and expect the financial statements produced by the auditors lead them to right decisions. To reduce such a gap, the suggestion of what Titard et al. (2004) calls 'audit education' in colleges and universities will go a long way and also lower levels of corporate scandals, which are rampant the world over. Lastly, such a move to reduce audit expectation gap is certain to herald a new era of corporate governance and ethics.

On the whole, the literature survey on the perceptions of the audit expectation gap nature revealed that perceptional differences did exist between auditors and various user groups regarding the audit profession as a whole. This kind of gap should be reduced by the auditor himselff by improving audit responsibilities, educating various users, and mandating new standards.

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