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## An Assessment of Audit Expectation Gap in Ghana

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### Abstract

Audit expectation gap is the difference between what the public expect auditors to do and what auditors do. Given the significance of the expectation gap, it is not surprising therefore that a number of studies have shown concern for the expectation gap problem. But it appears no studies have been conducted in Ghana in relation to Audit Expectation Gap. Therefore the study sought to assess the existence of audit expectation gap in Ghana. The study adapted the instrument used by Best, Buckby and Tan (2001) and Bogdanoviciute (2011). The sample size was twenty auditors and twenty stockbrokers. Convenient and purposive sampling techniques were used. The instrument used for data collection was questionnaire. The study found that there exist expectation gap in Ghana, particularly concerning auditor responsibility relating to fraud detection and prevention, and soundness of internal control structure of the audited entity. The researchers recommend that the audit profession and regulators should formulate such standards, rules and regulations that shall adequately guide the auditors to fulfill the reasonable expectations of various user groups.

**Keywords:** Audit Expectation Gap, Auditing, Fraud, Reducing Audit Expectation Gap, Contributing Factors

### Introduction

Fraud detection was considered the primary objective of audit process until approximately the middle of 20th century. Chandler, Edwards and Anderson in 1993 concluded that the main objective of auditing has changed from fraud detection to 'verification of financial statements'. This is because the audit profession wanted to avoid legal suits by businesses and the general public. The conclusion by Chandler, Edwards and Anderson (1993) have also confirmed by Hassink *et al.*, 2009 (cited in Saeidi, 2012), as they indicated that the audit profession has reduced its role especially in the area of fraud detection and made that the responsibility of management. According to them, such shift in audit objectives and responsibilities has created dissatisfaction of companies' stakeholders, including shareholders, current and potential investors, creditors etc. This resulted in expectation gap as the stakeholders expected more from the auditing profession than what the auditing profession do (Saeidi, 2012).

Although fraud detection has been taking out of the primary objectives of the auditing profession, the 5<sup>th</sup> Global Economic Crime Survey by PricewaterhouseCoopers (2009) reports

that fraud remains a pervasive business risk and almost every firm is subjected to occupational fraud in their daily businesses, leading to huge losses for businesses and society.

As the stakeholders become dissatisfied with the work of the audit profession, their confidence in audited financial statements will erode with time if nothing is done to remedy the situation. Best, Buckby and Tan (2001) claim that society's trust is the 'heart-beat of a profession'. Hence, if such trust disappears or is eroded in any way, the outcome is likely to involve skepticism and the depletion of value attributed to such profession.

Recently, much attention has been paid to control issues and systems in order to narrow the audit expectation gap, however, the actual level of fraud and financial damages has not decreased (KPMG, 2009). A major issue of fraud detection is related to the difficulty of identifying the fraud soon after it occurs. Quite often fraud is well hidden from auditors, investors and other stakeholders and might only be discovered by chance (Plesis & Koornhof, 2002). Also, Zikmund asserts that new rules and regulations followed by auditors when performing audit contain terms like "reasonable", "material", "professional skepticism", whose meaning differ from auditor to auditor (Zikmund, 2008). Moreover, the duties of auditing are misunderstood by users, as 'users believe that an unqualified opinion means that the entity has foolproof financial reporting' (Salehi & Rostami, 2009).

On the other hand, users' expectations go beyond the responsibility required by the professional regulations and standards, presenting subject of misconceptions especially in terms of auditors being able to provide absolute assurance about the accuracy of financial statements and in turn create a gap between auditors' and users' expectations of the audit functions.

Given the significance of the expectation gap, it is not surprising therefore that a number of studies have shown concern for the expectation gap problem (Humphrey, Moizer, & Turley, 1993; Koh & Woo, 1998). In this regard, the existence of an audit expectations gap has been confirmed for the US (AICPA, 1978 and McEnroe & Martens, 2001), the UK (Humphrey, Moizer & Turley, 1993; Porter and Gowthrope, 2001), Singapore (Best, Buckby & Tan., 2001), Malaysia (Fadzly and Ahmed, 2004), Egypt (Dixon *et al.*, 2006), and Nigeria (Adeyemi and Uadiale, 2011). As audit expectation gap has been empirically established to exist in the above mentioned countries, it appears no studies have been conducted in Ghana in relation to Audit Expectation Gap. Therefore, the objective of this study is to assess the existence of the audit expectations gap in Ghana from the view point of auditors and stockbrokers.

## Literature Review

### ***Definition of Audit Expectation Gap***

According to Ojo (2006), the issue revolving round the expectations gap debate relates to the different and inconsistent meanings attributed to the definition of an audit by users of financial statements, the public and the audit profession.

The "expectations gap" is the difference between what the public and users of financial statements perceive the role of an audit to be and what the audit profession claim is expected of them during the conduct of an audit (Ojo, 2006).

Pierce and Kilcommins (1996 cited in Ojo, 2006) defined the audit expectations gap as when external auditors' understanding of their role and duties is compared against the expectations of user groups and the general public.

Liggio in 1974 (cited in Adeyemi & Uadiale, 2011) defined the audit expectations gap as the difference between the levels of expected performance as envisioned by users of a financial statement and the independent accountant.

### ***Empirical Evidence of Audit Expectation Gap***

Baron et al (1977) investigated the differences in perceptions regarding auditor's fraud detection duties between auditors and users of accounting information in USA. The study revealed significant difference between such perceptions.

Low et al (1988) conducted a study on the audit expectation gap in Singapore. Significant differences were found in the areas of fraud prevention, guaranteeing the accuracy of the financial statements, effective use of government grants and management efficiency.

Humphrey and Turley (1992) examined the audit expectation gap in UK regarding the role of auditors through a series of unstructured interviews, questionnaire and mini case studies. The studies revealed an insignificant level of differences regarding perceptions of the audit functions but significant difference between auditors and respondents regarding their perceptions on the role of auditors, indicating the presence of an expectation gap.

Schelluch (1996) found that users were generally unhappy with the role played by the auditing profession, particularly with respect to audit independence. There was very wide expectation gap in Singapore.

Best, Buckby and Tan in 2001 found an expectation gap which was quite wide particularly in relation to the level and nature of auditor's responsibilities. They found the gap to be particularly wide on the issues of the auditor's responsibilities for fraud prevention and detection, and the auditor's responsibilities for maintenance of accounting records and exercise of judgment in the selection of audit procedures.

Hudaib and Haniffa (2002) investigated the presence of a "perceptions gap" in Saudi Arabia. It was found that divergence in opinions on the official and expected roles of auditing and issues related to audit environment in-between the various groups were apparent. The role of education in affecting the audit expectations gap was investigated by a number of studies.

Nasreen (2006) also conducted a study on students of Bangladesh. She considered two groups of students, first group did not do audit course and second group did one audit course. Findings revealed that students who completed one audit course still had unreasonable expectation regarding auditor's responsibility for detecting and preventing fraud and audit assurance. Major differences were also found in decision usefulness of audited information area.

Salehi and Azary (2008) found that there is deep expectation gap between auditors and bankers. This is as a result of bankers' unawareness of auditing functions. They also found that the bankers have reasonableness expectations from auditors.

Bogdanoviciute (2011) conducted an empirical study in the Lithuania; it was found that there exist expectation gap among auditors in relation to roles and responsibilities of auditors specifically on fraud prevention and detection, assurance and usefulness of the audited financial statements. The study also found that there is extensive audit expectation gap in Lithuania, mostly due to different expectations regarding fraud detection and legal liabilities towards third parties involved.

Adeyemi and Uadiale in 2011 conducted a survey in Nigeria to examine the extent of expectation gap in Nigeria. The study revealed that there exist expectation gap in Nigeria as

respondents indicated that the existing duties and responsibilities of auditors are not clearly defined and are inadequate and the expectation gap was found to be wide particularly on the issues of the auditors' responsibilities on fraud detection as significant number of the respondents believed that auditors' responsibilities should be widened.

Dana (2011) also conducted a study in the public sector in Romania with students as the respondents. The study found that there exist audit expectation gap in Romania.

Saeidi (2012) investigated the existence of audit expectations gap among auditors, financial managers and investors in Iran. The results show there is evidence of an audit expectations gap in relation to fraud definition and auditors' responsibilities in detecting and reporting fraud between auditors and financial managers, and auditors and investors.

### ***Factors Contributing to Audit Expectation Gap***

Humphrey (1997) report that audit expectation gap exists mainly because of the subjective nature of terms and concepts in auditing such as the true and fair view, reasonableness, materiality, adequacy, reliability and relevance which are not defined precisely in the Accounting and Auditing Standards but are left for the auditors' judgment.

According to Lee and Ali (2008a), the existence of audit expectation gap can be attributed to complicated nature of an audit function; conflicting role of auditors; retrospective evaluation of auditors' performance; time lag in responding to changing expectation; and self-regulation process of the auditing profession. They assert that audit expectation gap is detrimental to the auditing profession as it has negative influences on the value of auditing and the reputation of auditors in the modern society.

Lee and Ali (2008b) further add that the expectation gap is also influenced by the dynamic objective of auditing and role of auditors, where contextual factors such as socio-economic environments, critical historical events, courts or even technological developments play an important role.

Epstein and Geiger in 1994 (cited in Saeidi, 2012) argued that one of the causes of the expectations gap is the public's failure to appreciate the nature and limitations of an audit.

Bogdanoviciute, (2011) attributes the causes to over-expectations of users of financial statements regarding the functions of the auditor and lack of knowledge about auditor's role and responsibilities

### ***How Audit Expectation Gap can be Reduced***

According to Sikka *et al* (1998), the nature of the components of the expectations gap make it difficult to eliminate. This is because, the perceived performance of auditors is an element which is difficult to measure and make changes constantly. They assert however that, it is possible to substantially reduce but not totally eliminate.

A number of suggestions have been put forward as a means of narrowing the expectations gap. These include: An expanded audit report which offers scope to inform users of what auditors actually do; broadening the role and responsibility of auditors in the areas of fraud, illegal acts and strengthening the perceived independence of auditors.

They also recommended the implementation of auditing education as a means of reducing the expectations gap. This was agreed to by Hassink *et al* (2009 cited in Saeidi, 2012), when they recommended the public should be educated on the responsibilities of auditors.

Adeyemi and Uadiale (2011) also suggested that the existing duties and responsibilities of auditors should be clearly defined and widened to include fraud detection.



## **Methodology of Research**

The population of the study comprised all users of financial statements in Ghana. Non probability sampling method was used in carrying out the study. The sampling techniques used were both purposive and convenience. Purposive sampling technique was used in selecting the user group to represent the users of financial statements. The obvious advantage of purposive sampling is that the researcher can use his skill and prior knowledge to choose respondents (Ogunbameru, 2004, cited in Adeyemi & Olowookere, 2011).

Convenient sampling technique was used in selecting the respondents who responded to the questionnaires. Convenient sampling was used because it was based on availability and willingness of respondents to fill the questionnaires.

The sample consisted of respondents (auditors and stockbrokers) from Greater Accra region. The respondents representing auditors were selected from the Central Business District of Accra. This is because it is where most auditing firms could be found.

Again, the stockbrokers were chosen through list of brokerage companies that trade on the Ghana Stock Exchange. This was because, most of the stockbrokers work for these companies and as such it was through those companies that the stockbrokers could be found. Fifty (50) questionnaires were distributed to each of the respondent group. Out the fifty (50) questionnaires sent out to each respondent group, thirty (30) were returned from the auditors and thirty five (35) from the stockbrokers. Out the returned questionnaires twenty (20) usable ones were used for each of the groups.

The study was based on primary data. The primary data was through a questionnaire. Questionnaires are often used as part of a survey strategy to collect descriptive and explanatory data about attitudes, beliefs, behaviours and attributes (Buame, 2006 cited in Akafo, 2012). Questionnaire was used since it was cheaper and guaranteed anonymity. Items on the questionnaire sought respondents' views on objectives of the study. The questionnaire was divided into two parts. Part A collected data about the demography of respondents and part B was based on the objective of the study.

The questionnaire was based on the instrument used in the studies by Best, (Buckby and Tan, 2001; Bogdanoviciute, 2011). The questions were all closed ended. The questions were designed based on the five point Likert scale. The questionnaires were personally administered to the respondents. The respondents were required to indicate the extent of their agreement or disagreement with each of the statements on a score of one (1) to five (5). A score of one (1) represented strong disagreement with the statement, while a score of five (5) represented strong agreements. This type of scaling was suggested when items are to be judged on a single dimension and arrayed on a scale with equal interval (Alreck and Settle, 1995).

The data collected were analysed descriptively with the help Statistical Package for Social Sciences, (SPSS Version 14.0).

## **Results and Discussion**

### ***Demography of Respondents***

The gender of the respondents comprised 72.5% males and 27.5% females. Also, the work experience of the respondents consisted, 60% had experience of 5 years and below, 30% were between 6 years and 10years, whiles between 11 – 15 years were 7.5% and 16 years and above also were 2.5%.

### ***The Existence of Audit Expectation Gap***

The perception of respondent groups on the existing duties and responsibilities of auditors revealed the following outcomes. The auditor's responsibility towards detection of frauds in the financial statements saw 45% of auditors disagreeing to the statement and 45% also agreeing to the statement. Therefore this shows that among auditors, it is not clear whether auditors know for a fact that it is not their primary objective to detect fraud in the financial statement. On the other hand, in relation to stock brokers, it is clear that they believe auditors are responsible to detect all frauds in the financial statements as agreed by 65% of stockbrokers. This shows that there is an expectation gap in relation to detection of fraud by auditors. This confirms the findings by Best, Buckby and Tan (2001) who found similar expectation gap in Singapore.

Again, it was found that 45% of auditors disagreed that the auditor is responsible for the soundness of internal control structure of the entity as against 50% who agreed. This means that auditors believe that they are responsible for the soundness of internal control structure of the entity they audit. With respect to stockbrokers, it was a split response as 35% agreed that the auditor is responsible for soundness of internal control structure while another 35% disagreed. It can therefore be said that there exist an expectation gap between auditors. This also confirms the findings of Best, Buckby and Tan in 2001.

Also, it was found that 80% of auditors agreed that the audit performed by the auditor is to ensure fairness and completeness of the financial statement presentation as against 20% who disagreed. It can be said that auditors are clear about this responsibility. In relation to stockbrokers, 95% agreed that the audit is to ensure fairness and completeness of financial statement presentation. It can be seen that there is no expectation gap in relation to this responsibility by the auditor as confirmed by (Bogdanoviciute, 2011).

There is clear evidence that both auditors and stockbrokers are clear that it is not the duty or responsibility of auditor to maintain accounting records. This is confirmed by 85% and 80% disagreement by auditors and stockbrokers respectively on the responsibility of the auditor to maintain records. This is contrary to the findings by (Best et al., 2001).

Moreover, there is evidence that there is no expectation gap among auditors and stockbrokers on the responsibility of management in producing financial statements. This is backed by 95% of auditors and 85% of stockbrokers. This also confirms the findings by Best, (Buckby and Tan, 2001).

More so, it was found that there is no expectation gap between auditors and stockbrokers in relation to the auditor not exercising judgment in the selection of audit procedures. This was confirmed by 75% disagreement that the auditor do not exercise judgment in the selection of audit procedures by auditors and 65% disagreement by stockbrokers. This is contrary to the findings by Best, Buckby and Tan in 2001.

Again, there is no gap or differences in the responsibility of the auditor as been unbiased and objective. This is backed by 95% agreement by auditors and 70% agreement by stockbrokers. This confirms the findings of Best, Buckby and Tan.

### **Conclusions**

To conclude, the research indicated there are several over-expectations of users of audited financial statements regarding the attest function. While external auditors play a vital role, the deterrence and detection of fraud is, however, not only auditor's responsibility. According to the auditing standards, the primary responsibility for fraud prevention and detection rests with the management of the company (IFAC: IAASB, 2009 cited in

Bogdanoviciute, 2011). An auditor, however, in accordance with ISAs is responsible for 'obtaining reasonable assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error' (IFAC: IAASB, 2009 cited in Bogdanoviciute, 2011). Additionally, the study provided some evidence that auditors themselves do not have the same perceptions in relations to role and responsibilities of the auditors. The analysis indicated that issues in relation to fraud prevention and detection are one of the most uncertain even for auditors.

Finally, it can be concluded that audit expectation gap exist in Ghana in relation to the auditor's responsibility, specifically, in relation to fraud detection and soundness of internal control structure of the audited entity.

### Recommendations

The researchers recommend that the audit profession in Ghana educate their members on the duties and responsibilities of auditors. It is also incumbent on the profession and the regulators to frame such standards, rules and regulations that shall adequately guide the auditors to fulfill the reasonable expectations of various user groups. Again the audit profession should educate users of financial statements about the duties and responsibilities of the profession so as to clear all doubts in the minds of the users. Lastly, since the study was limited to only stockbrokers as users of financial statements, the results may not reflect the view of all users of financial statement. It is therefore recommended that other studies be conducted to include many users of financial statements such as financial consultants, bankers, etc to see the extent of expectation gap in Ghana.

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