



The Expectation Gap of Auditor's Responsibility: Students' Perception

Ali Altuğ BİÇER¹, Mohamed ISSA² & Selin EROL³

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Abstract

This paper examined the students' perception of the auditors' responsibility in Turkey. The sample size was 110 students. The data were collected before and after taking the auditing course, to measure the difference in the students' perception. The data were analyzed using paired sample t-test to determine whether the mean difference between before and after the course was significant. The study resulted that there is a significant difference from students' perception in auditor's responsibility for preventing fraud, the auditor agrees with the accounting policies used in the financial statements, the audited entity is free from fraud and the audited financial statements provide assurance regarding the performance of the entity.

1. Introduction

The need for assurance caused a new position of audit services due to increasing complexity of economic life. The nature of auditing has transformed as a result of environmental alterations. External auditors are needed as an instrument to test the accountability of the company's management. In addition, external auditors are used to reduce the possibility of any kind of mistakes and intentional misstatements in the company's records and financial statements.

After the financial scandals such as Enron, World.Com and Xerox, the financial associations and other governmental authorities have made strict regulations on auditing practices in order to increase the public confidence (Siddiqui, Nasreen, and Choudhury-Lema, 2009).

However, there is a gap in the responsibility of auditors and society's expectation. It is believed that auditors must take responsibility beyond examining and testing the fairness of financial statements. Moreover, they should assist in detecting and reporting frauds or irregularities. (Holm, Langsted and Seehausen, 2012)

This paper sought to identify the students' perceptions in Turkey about auditor's responsibility. It would be proceeded by asking the students before and after taking the auditing course in undergraduate and graduate level. This paper

¹ Corresponding Author. ORCID: 0000-0002-5515-212X. Ph.D, Istanbul Commerce University, abicer@ticaret.edu.tr

² ORCID: 0000-0003-2464-2991. Ph.D, University of Benghazi, m.issa@uob.edu.ly

³ ORCID: 0000-0002-5924-0055. CPA, selin.erol@meritax.com.tr, selin.erol@meritax.com.tr

touched upon a new corner of perception about the auditors' responsibility and it was just students' perception, other studies have focused on audit beneficiaries or practitioners or comparing between students and auditors. This study just focuses on who they are currently audit trainees or they may be future auditors.

This paper was systematized as follows; the next part discusses the literature review regarding the auditors' responsibility from ISA's (International Standards on Auditing Standards) perspective and the previous studies related to the study topic. After that, it is about the research problem and methodology. Finally, it presents the practical part and discusses the results of the paper.

2. Auditor's Responsibility

Responsibility is the authority given to act within a defined field of operation. ISA 200 deals with the independent auditor's responsibility while performing audit. Moreover, the auditor must comply with the standards issued by IFAC (International Federation of Accountants) and accepted by the fellow practitioners as a professional responsibility.

ISA's provides all the standards that explain the auditor's responsibility about the auditor's report, the information in the documents and financial statements. Furthermore, it provides guidelines to the auditor to use his/her judgment in audit procedures to finalise the level of necessity and to provide his/her opinion.

The International Standard on Auditing (ISA) 200 (2009) determined and clarified the main management's responsibility to be distinguished from the auditor's responsibility and they are explained in the following points:

- Record the transactions and events according to laws, regulations or other authorities and prepare the financial statements with the applicable financial reporting framework.
- Have an appropriate internal control system to be able to prepare the financial statements without material misstatement, by reason of fraud or error.
- To provide the auditor to gain access to any data, facts, figures, statistics and every other kind of information that the auditor may request.

The auditor's main responsibility is to express an opinion on the financial statements. Moreover, the auditor may provide the management with suggestions about improving internal control and the content of the financial statements.

Standards such as ISA 315 and ISA 330, deal with the auditor's responsibility to identify and assess the risks of material misstatement. Thus, the auditor must acquire adequate audit evidence concerning the assessed risks of material misstatement; also, he/she can plan and perform additional audit procedures to act on these assessed risks.

ISA 240 adverts to the auditor's responsibility related to fraud in the financial statements. The auditor should keep his/her professional skepticism during audit for indications of fraud derived material misstatement. If auditor finds any evidence suggesting a possible fraud during his/her examinations he/she is responsible for reporting the fraud, furthermore, providing operational guidance for protection to the company. However, the auditor may properly plan and

perform audit procedures and yet does not detect a fraud derived material misstatement.

The standard ISA 240 defines the extension of auditor's responsibility to prevent and detect fraud but not as the main mission, also, the standard suggests about the need of professional skepticism to identify and assess the risks of fraudulent activity. The auditor should obtain sufficient and appropriate evidence about the fraud and make sure that the evidence is sufficient to assess the risks of misstatement due to fraud. In addition, the auditor must react timely to fraud or suspected fraud recognised during the audit mission.

The ISA720 made a new extension in the auditors' responsibility. The auditors must read and consider the other available data, information etc. to comprehend the entity and its environment in the full content. If there is any contradiction in the gathered information, then the auditor should report it according to the standard. Moreover, the auditor must express his/her opinion on the reliability of performance indicators defined in the data. Other data or information may include any operational reports prepared by key personnel, highlights of financial periods, financial ratio analysis, employment data etc.

2.1. Literature Review

Siddiqui, Nasreen, and Choudhury-Lema (2009) examined the audit expectations gap in three user groups were chosen amongst auditors, bankers, and university students. The questionnaire was the main tool to collect data in Bangladesh. The questionnaire was divided into three aspects regarding auditor responsibility, audit reliability and the decision of audited financial statements. The study resulted that the expectations of the students are more reasonable than the auditors. Moreover, the study resulted that the audit education helped to reduce the audit expectations gap, especially in the area of audit reliability. In addition, it was found that teaching accounting scandals in the course contents increased the interest towards the subject, yet it made some misconceptions regarding auditors' role.

Köse and Erdoğan (2015) studied the existence of audit expectations gap between auditors and the beneficiaries of the audit services. The data was collected via a designed questionnaire for that and it was distributed in Turkey. The samples were bankers and investment analysts as the primary user groups of audit services and auditors. The study resulted that there was both the unreasonable gap and the performance gap between auditors and beneficiaries. Moreover, an audit education and experience are both important factors that can reduce the unreasonable gap.

Zagera, Malis, and Novak (2016) examined the roles and the responsibility of auditors in preventing and detecting fraud. They used the questionnaire to collect the data for the practical part. Finally, the external auditors provided their estimation for encountering circumstances that indicated possible of fraud. They found that asset misappropriation was the most common form of fraud. While the fraudulent of the financial report did not show that much due to the greatest losses. Thus, it was found that the most common technique used to fraudulent financial reporting involved overstatement of assets.

Enes, de Almeida, da Silva, Carvalho and Simões (2016) studied the effect of the audit course on reducing the expectation gap. The sample of this study was students in higher education courses in management and accounting. The students were asked before and after having an audit course about their perception of auditors and the auditors' process to find the effect of the audit course. Finally, it was found that audit education does not reduce these differences in all the points. In addition, the course changed the students' perception of auditor's responsibility regarding the prevention and detection of errors and frauds.

Masoud (2017) studied the causes of the audit expectation gap in Libya by using a questionnaire spreaded amongst a sample of auditees, auditors, and audit beneficiaries both inside and outside the financial community and there was 431 sample was collected. Besides the questionnaire, there were interviews. The study resulted that there was an audit expectation-performance gap, which was a result of the following factors, deficiency standards and deficient performance gaps. Interviews resulted that the objectives of audit were not clear to the users in the Libyan business environment.

3. Research Problem

The issue of audit expectation gap and understanding the responsibility has been studied in different countries to investigate the reasons behind what the users expect auditors to be responsible about and what auditors actually responsible about. This misconception of actual responsibility of auditors leads to create a gap between auditors and financial report users.

In this paper would focus just on the students' perception of the auditors' responsibility. Thus, understanding students' perception about the auditor's responsibility is considered an important step in the implication of auditing practices. Exploring this issue could contribute to a better understanding of the students' perception to improve the quality of the course and prepare better future audit practitioners. Therefore, the main question of this research is, "What do students expect from auditor's report?"

3.1. Research Methodology and Hyptheses

To achieve the objectives of this study, the data were collected based on a questionnaire. In order to maximize the accuracy of data, the questionnaire was distributed over undergraduate and graduate students randomly in different universities in Turkey. The questionnaire was adopted from a previous study (Siddiqui, Nasreen, and Choudhury-Lema, 2009). However, the questionnaire sought to cover the following aspects of the auditors' responsibility, reliability and decision usefulness. The questionnaire used a Likert scale with a 5 point scale. The data were analyzed using paired sample t-test. To show the mean difference of the students' perception about the auditors' responsibility.

H0: There is no significant difference in the student perceptions about the auditors' responsibility between before and after taking the auditing course.

H1: There is a significant difference in the student perceptions about the auditors' responsibility between before and after taking the auditing course.

The reliability test is necessary to find the internal consistency of the items and to show how closely related a set of items in the sample size. Cronbach's alpha for the set of data resulted in 0.712 and it means that a good internal consistency (Nunnally and Bernstein, 1994).

4. Results and Discussion

This section presents the results of the study. The sample size was 110 respondents. The table (1) shows the general information about the respondents.

Table 1: General Information about the Respondents

Questions	Number of Respondents	Percentage
Gender:		
Male	69	62.7%
Female	41	37.3%
Age:		
21-30	65	59.1%
31-40	34	31.8%
41-50	10	9.1%
Education Level:		
Associate Degree	4	3.6%
Bachelor Degree	48	43.6%
Master Degree	56	50.9%
Doctorate Degree	2	1.8%
Professional Qualification:		
Internal Auditor	72	65.5%
CPA	36	32.7%
Certified Auditor	2	1.8%
Years of Experience:		
1-5 Years	61	55.5 %
6-10 Years	22	20%
11-15 Years	18	16.4%
16-20 Years	7	6.4%
Over 20 Years	2	1.9%
Working Status:		
Not Working	16	14.5%
Independent	10	9.1%
Own Business	74	67.3%
Accountant	10	9.1%

It shows in the table (1) that majority of the students were males and in the age of 21-30. In addition, majority of the students had experienced less than 5 years, but the 50.9 % of the students had a master's degree, in other words a higher level of education.

In the table (2), the means for all points, before and after the course, were close, except the means of these points; "The auditor is responsible for preventing fraud", "The auditor agrees with the accounting policies used in the financial statements" and "The audited entity is free from fraud". The results show big changes in the students' perception about the previous points before and after taking the course.

Table 2: Paired Samples Statistics

Questions			Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Before	The auditor is responsible for detecting all fraud	2.68	110	1.248	0.119
	After	The auditor is responsible for detecting all fraud	2.79	110	1.279	0.122
Pair 2	Before	The auditor is responsible for soundness of internal control structure of the entity	2.75	109	1.355	0.130
	After	The auditor is responsible for soundness of internal control structure of the entity	2.57	109	1.336	0.128
Pair 3	Before	The auditor is responsible for maintaining accounting records	1.65	110	1.097	0.105
	After	The auditor is responsible for maintaining accounting records	1.70	110	1.054	0.100
Pair 4	Before	The auditor is responsible for preventing fraud	3.43	108	1.306	0.126
	After	The auditor is responsible for preventing fraud	2.93	108	1.451	0.140
Pair 5	Before	The auditor is unbiased and objective	4.58	109	0.926	0.089
	After	The auditor is unbiased and objective	4.65	109	0.712	0.068
Pair 6	Before	The auditor does not exercise judgment in the selection of audit procedure	2.37	110	1.407	0.134
	After	The auditor does not exercise judgment in the selection of audit procedure	2.16	110	1.223	0.117
Pair 7	Before	Users can have absolute assurance that the financial statements contain no material misstatements	2.69	107	1.410	0.136
	After	Users can have absolute assurance that the financial statements contain no material misstatements	2.70	107	1.402	0.136
Pair 8	Before	The auditor agrees with the accounting policies used in the financial statements	3.30	109	1.273	0.122
	After	The auditor agrees with the accounting policies used in the financial statements	2.89	109	1.165	0.112
Pair 9	Before	The extent of assurance given by the auditors is clearly indicated in the audit report	4.12	110	0.916	0.087
	After	The extent of assurance given by the auditors is clearly indicated in the audit report	3.98	110	1.117	0.106
Pair 10	Before	The audited entity is free from fraud	3.34	110	1.265	0.121
	After	The audited entity is free from fraud	2.62	110	1.125	0.107
Pair 11	Before	The audited financial statements provide an assurance regarding the performance of the entity	3.91	109	1.068	0.102
	After	The audited financial statements provide an assurance regarding the performance of the entity	3.35	109	1.125	0.108
Pair 12	Before	The audited financial statements are useful for making decisions	4.21	109	0.695	0.067
	After	The audited financial statements are useful for making decisions	4.06	109	0.848	0.081

Table 3: Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	The auditor is responsible for detecting all fraud – The auditor is responsible for detecting all fraud	-0.109	1.086	0.104	-0.435	0.133	-0.663	108	0.482
Pair 2	The auditor is responsible for soundness of internal control structure of the entity – The auditor is responsible for soundness of internal control structure of the entity	0.183	1.916	0.183	-0.180	0.547	1.000	108	0.320
Pair 3	The auditor is responsible for maintaining accounting records – The auditor is responsible for maintaining accounting records	-0.055	1.543	0.147	-0.346	0.237	-0.371	109	0.712
Pair 4	The auditor is responsible for preventing fraud – The auditor is responsible for preventing fraud	0.500	2.021	0.194	0.114	0.886	2.571	107	0.012
Pair 5	The auditor is unbiased and objective – The auditor is unbiased and objective	-0.073	1.086	0.104	-0.280	0.133	-0.705	108	0.482
Pair 6	The auditor does not exercise judgment in the selection of audit procedure – The auditor does not exercise judgment in the selection of audit procedure	0.209	1.954	0.186	-0.160	0.578	1.122	109	0.264
Pair 7	Users can have absolute assurance that the financial statements contain no material misstatements – Users can have absolute assurance that the financial statements contain no material misstatements	-0.009	2.012	0.194	-0.395	0.376	-0.048	106	0.962
Pair 8	The auditor agrees with the accounting policies used in the financial statements – The auditor agrees with the accounting policies used in the financial statements	0.413	1.791	0.172	0.073	0.753	2.407	108	0.018

Pair 9	The extent of assurance given by the auditors is clearly indicated in the audit report – The extent of assurance given by the auditors is clearly indicated in the audit report	0.136	1.481	0.141	-0.0143	0.416	0.966	109	0.336
Pair 10	The audited entity is free from fraud – The audited entity is free from fraud	0.718	1.787	0.170	0.380	1.056	4.214	109	0.000
Pair 11	The audited financial statements provide an assurance regarding the performance of the entity – The audited financial statements provide an assurance regarding the performance of the entity	0.560	1.506	0.144	0.274	0.846	3.880	108	0.000
Pair 12	The audited financial statements are useful for making decisions - The audited financial statements are useful for making decisions	0.156	1.090	0.104	-0.051	0.363	1.494	108	0.138

In the table (3), it shows that there was difference between before and after taking the auditing course about “the auditor is responsible for preventing fraud”, “the auditor agrees with the accounting policies used in the financial statements”, “the audited entity is free from fraud” and “the audited financial statements provide an assurance regarding the performance of the entity”. Because the p-values of these points are less than 0.05. Therefore, we can conclude that there was a statistically significant difference in the students’ perception before and after taking the course about the previous points. Thus, we reject the null hypothesis about these points.

In addition, table (3) show that there was no difference between before and after taking the auditing course about “the auditor is responsible for detecting all fraud”, “the auditor is responsible for soundness of the internal control structure of the entity”, “the auditor is responsible for maintaining accounting records”, “the auditor is unbiased and objective”, “the auditor does not exercise judgment in the selection of audit procedure”, “users can have absolute assurance that the financial statements contain no material misstatements”, “the extent of assurance given by the auditors is clearly indicated in the audit report” and “the audited financial statements are useful for making decisions”. Because the p-values of these points are bigger than 0.05. Thus, we can conclude that there was no statistically significant difference in the students’ perception before and after the course on the previous points. Therefore, we fail to reject the null hypothesis about these points.

5. Conclusion

The study questionnaire sought to explore the difference of the students’ perception about the auditors’ responsibility. In addition, the study was mainly concentrated on three parts, they are the auditors’ responsibility, reliability and decision usefulness. To investigate the gap in the students’ perception before and after taking the course.

Therefore, the data provide enough evidence to conclude that there is a significant difference about ‘the auditor is responsible for preventing fraud’, ‘the auditor agrees with the accounting policies used in the financial statements’, ‘the audited entity is free from fraud and the audited financial statements provide assurance regarding the performance of the entity’.

These points that have changed in the students’ perception after taking the auditing course. It seems that they are related to fraud detection. Thus, the auditors’ role for detecting fraud has declined by students’ perception after taking auditing course.

6. Limitations

Although the study has reached its objectives, there were few limitations. First, this study was made in Istanbul, because it has the biggest number of universities in Turkey. Second, due to the time limit, the data of the study was collected from students who enrolled in auditing courses in Fall 2018. Moreover, not all universities offered auditing courses in this term. Third, since the questionnaire designed to measure the students’ perception towards the auditors’ responsibility with 12 points; it seems not to provide enough evidence of the students’

perception about all the auditors' responsibility. Thus, there is a certain degree of subjectivity can be found.

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