

# [Expectations gap in auditing](https://assignbuster.com/expectations-gap-in-auditing/)

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Of late, there has arisen a concern that public and auditors have different beliefs about duties, responsibilities and messages conveyed by audit reports. Subsequent implication of the reporting auditors and well established corporate collapses have signaled audit expectation gap. As a result, public misperceptions have apparently caused legal liability crisis in the accounting profession. Audit expectations gap is an important issue concerned with independent auditing function and with potential implications in the process of developing auditing practices and standards.

Because of the global increase in demand for accounting applicability, the rise of expectation gap should be investigated and countered with sound measures. On a general perspective, there is a strong evidence of expectations gap in this field. This is realized when the role of external auditors is compared to the expectations of the general public and various user groups regarding outcomes and the process of the external audit. The difference in understanding of these two sides creates the audit expectations gap (Belkaoui, 2009, p.

22). After viewing the above arguments and prescriptions, expectation gap in auditing can be said to be the difference between the auditor’s actual performance and various expectation s of the public on auditor’s performance, as opposed to the requirements of their standard of performance. According to the expectations of the public auditors should certify financial statements, accept primeresponsibilityfor financial statements and also perform a 100% check, by guaranteeing the accuracy of financial statements.

In case of businessfailureauditors are expected by the public to give early warning as they are too obligated to detect fraud. Some of these expectations of the public are quite beyond their actual standards of performance, leading to the expectations gap. Thos is because the public expects a lot from auditors, more than what they are supposed to deliver within their limits. A disparity therefore occurs between what auditors believe to be their responsibility entailment or else whatfinancial statementusers and the public perceive to be the responsibilities of the auditors (Murray, 2000, p.

27). In the accounting literature, the notion of this divergence has received a lot of attention. A great percentage of research activities conducted around the world in corporate management and performance indicate that expectation gap in auditing exists. This is because investors have been noted to have higher expectations for assurances and various facets of the auditing process than the auditors themselves. Individual investors and public accountants have been surveyed to compare the perceptions and what they expect from one another.

The reason as to why attention is paid to the investors is because they are the main users of information in financial statements. They are also the most appropriate subjects that can be employed to represent financial and public financial statement users. Many studies have revealed that the expectation gap exist because investors need high expectations in facets and assurances in fraud, internal control, disclosure and illegal operations.

Public also expects auditors to act as watchdogs for the public The concern on this gap has raised alarm to accounting academics, the public, auditors and other parties involved in audit oversight and rule making. Potential efforts are being made to seek practitioners and users input to make clarifications and development in auditing standards and this render auditing process meaningful and trustworthy to the public (Pollitt, 1999, p. 21). In recent trends of auditing and accounting, the integrity of accounting process carried out by auditors is not sufficient, pointing out one indicator of prevalence of expectations gap.

It is the duty of auditors to ensure aggregate presentation fairness in preparing financial statements, with a clear unbiased judgment whether utilization of accounting principles has taken place appropriately to the prevailing circumstances. Auditors still are expected to evaluate the reasonableness of accounting estimates that are released by the entire management in the context of financial statements. Standard audit report is said encompass significant estimates from management department and accounting principles employed by the client.

In recent scenario, several auditing firms have been observed to provide wrong estimates to investors (Karim, 2004, p. 11). This has made several ventures to close, because of the reliance on false information. Manipulating financial statements is usually made to assure the investors or stakeholders that the company or enterprise is still on the right path. Sometimes, public expects auditors to control any challenge or threat in business operations by sensing it in advance, and developing measures to combat the effects, that may be detrimental to the venture, clients, investors and stakeholders.

Some market challenges can not be contained by the role of auditors. Such changes include effects due to forces of demand and supply, change in government regulations governing business operations, overall change in market prices and decline of economic status of the trading grounds. Under these circumstances, investors lay their hope in auditors, who may be highly limited to counter the vices. This is evidence that audit expectations gap exists and is it may not be eliminated in the near future (Abdolmohammadi, 2005, p. 18).

Auditing department is expected to provide full disclosure about the business operations to all stakeholders. The information provided by the auditors should be useful and real to potential and present creditors, investors and other users to enable them make rational credit, investment or other similar decisions. It is therefore important for this group of people to realize and recognize the importance or relevance of their information, as well as its impacts. It is therefore advisable for them to be cut off subordination of their judgment to other sectors.

They should instead avoid special interests which in turn warps their judgment subconsciously. This is a drive towards ensuring that financial position as well as net income is fairly presented and analyzed, thus giving people hope and potential future of their venture. In this context, independence implies lack of biasness or objectivity in the processes of making delicate judgments. Accuracy and fairness of information provided in the corporate auditing activities has soiled publics interest and trust in this accounting profession.

The actual figures pertaining to the status of the companies and corporatives are manipulated to serve special interests and purposes. This has been highlighted by the global public outcry on corruption and bribery activities (Power, 2007, p. 27). Auditors are expected by the public to be transparent, but may be instructed otherwise by the top authority of organizations to produce figures favoring their private interests. As a result, a wrong figure is given to public, giving them a false categorization of their venture and raising their expectations from their enterprise.

When the truth about the organization is learnt through the hard way, the public blame now rests upon auditors because the real revelation can not be made to them. This means the public does not understand auditors are under other head departments and equally poses specific functions as any other department. The public believes everything is under the jurisdiction of the auditors. This further widens the expectations gap between the public and auditors, an ideology that may be very hard to rub off from their minds (Hollingsworth, 2001, p.

17). The large society expects auditors to play a significant role as a reliable watchdog. For example in the United States, Supreme Court describes auditing independence as a public watchdog. Generally, public domain believes that auditors serve as advocates for clients and thus value of auditing can not be lost in their presence. Although watchdog prescription seems to be an apt description, the word suggests the degree of public interest sand responsibility attachment to auditors.

It is an operational indication of auditor client relationship. Internal entity’s control of any organization should be enhanced with the highest affordable effectiveness and efficiency. This promotes detection and determent of fraud, by emphasizing on full evolution of the internal controls. Acting like a watchdog means that every activity of move made by the organization or else in carrying out transactions, the absence of the public does not means injustice or unfairness prevails.

The public expects auditors to sound as alarms in case organizational management or authority happens to behave in manner that can harm them. It is why the public believes that investors and the public unqualified audit opinion are more relevant to the public than signal issued by other parts of management. On the other hand, the public does not understand that rules and regulations accompany corporations and serious hierarchy of power and duties jurisdiction exists. The lack of knowledge on the scope of mandates given to auditors widens the expectations gap.

According to the above coverage and revelation, it is logical to argue that the gap exists, and its expansion is attributed to both sides; the public and the auditors, because of lack of information (Karim, 2004, p. 11). Bibliography Abdolmohammadi Mohammad, 2005. The assessment of task structure, decision aids and knowledge base. Westport, CT: Quorum Books; pp. 18 Belkaoui Ahmed, 2009. Corporate social awareness and financial outcomes. Westport, CT: Quorum books; pp. 22 Hollingsworth Kathryn, 2001.

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