

CHRISTIAN SERVICE UNIVERSITY COLLEGE

AUDITING AND THE EXPECTATION GAP. A CASE OF THREE SELECTED RURAL  
BANKS IN THE KUMASI METROPOLIS

PATRICK NTOW

ELMA OSEI DARKOAH

HENRY NTOW ADJEKUM

JOSEPHINE SARPONG

BRIGHT MANU

DISSERTATION SUBMITTED TO THE DEPARTMENT OF BUSINESS STUDIES,  
CHRISTIAN SERVICE UNIVERSITY COLLEGE, IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE AWARD OF A BACHELOR OF BUSINESS  
ADMINISTRATION.

JUNE 2012

### STATEMENT OF AUTHENTICITY

We have read the university regulations relating to plagiarism and certify that this report is all our own work and do not contain any unacknowledged work from any other source. We also declare that we have been under supervision for his report herein submitted.

Candidates Names

Signature

Date

PATRICK NTOW

.....

.....

ELMA OSEI DARKOAH

.....

.....

HENRY NTOW ADJEKUM

.....

.....

JOSEPHINE SARPONG

.....

.....

BRIGHT MANU

.....

.....

### **SUPERVISOR'S DECLARATION**

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by Christian Service University.

Supervisor's Name: Mr Stephen Alewabah

Signature..... Date.....

Head of Department's Name: Dr Kwaku Ahenkora

Signature..... Date.....

## **ABSTRACT**

This study discusses the auditor's independence and audit expectation gap. An independent auditor is essential because of the separation of ownership from the management; the independent factor is the foundation of the public accounting profession and upon its maintenance depends on the profession's strength and its stature. Auditors have been criticized by many as not been responsible especially in the detection of fraud in many organizations. This is due to the misunderstanding of the roles and function of auditors. The problem has become a burden for auditor as this creates a gap between them and their client and reduces the confidence that exists between them. These are all attributed to the fact that there is less education on the general public about the actual roles and function of an auditor. This study gives an insight into the various aspects of the subject matter and gives recommendations as to how this gap can be bridged or eliminated to bring all stakeholders of financial report together.

## **ACKNOWLEDGEMENT**

We thank God Almighty for the strength, support and guidance He has given us throughout our entire life especially during our time at Christian Service University College and above all for granting us knowledge and wisdom to do this project work.

Immense thanks goes to our supervisor Mr. Stephen Alewabah for his tangible support, constructive criticisms, guidance and counsel as he read through our scripts. God richly bless you. Thank you very much.

Special thanks to the corporate bodies such as the selected rural banks and the general public for the profound help given to us, thank you very much for all the support in the time when we needed you the most.

To all our friends who in one way or the other have supported our education and this project, we say a big thank you.

**GOD RICHLY BLESS YOU ALL!!!**

## **DEDICATION**

This work is dedicated to the Almighty God for his guidance and support throughout this work.

The next one goes to our individual families for being with us through it all. The final gratitude goes to Mr. Stephen Alewabah for his contribution towards the success of our work.

## TABLE OF CONTENTS

STATEMENT OF AUTHENTICITY .....	i
SUPERVISOR’S DECLATION.....	ii
ABSTRACT.....	iii
ACKNOWLEDGEMENT .....	iv
DEDICATION .....	v
LIST OF TABLES .....	ix
LIST OF FIGURES .....	ix
CHAPTER ONE .....	1
INTRODUCTION .....	1
1.0 Background of the Study .....	1
1.1 Statement of the Problem.....	2
1.2 Questions of the Research.....	4
1.4 Significance of the Study .....	4
1.5 Scope of the Research .....	4
1.6 Methodology .....	5
1.7 Organization of Research Report.....	5
CHAPTER TWO .....	6
LITERATURE REVIEW .....	6
2.0 Introduction.....	6

2.1 The Concept of Auditing .....	6
2.3 Definitions of Auditor Independence.....	7
2.4 Factors Affecting Auditor Independence.....	8
2.4.1 Conscious Inaccuracies .....	8
2.4.2 Unconscious Inaccuracies .....	8
2.5 Audit Expectation Gap.....	9
2.5 Components of the Expectations Gap.....	11
2.6 Eliminating Expectations Gap .....	13
2.7 Summary .....	16
CHAPTER THREE .....	18
RESEARCH METHODOLOGY.....	18
3.0 Introduction.....	18
3.1 Research Design.....	18
3.2 Data Requirement and Sources .....	19
3.6 Data Collection Methods .....	20
3.6.1 Primary data .....	20
3.6.2 Secondary Data .....	20
3.7 Method of Data Analysis.....	20
CHAPTER FOUR.....	21
DATA ANALYSIS.....	21



4.0 INTRODUCTION .....	21
4.1 ANALYSIS AND INTERPRETATION OF DATA.....	21
4.1.1 Age of respondents .....	21
4.1.2 Education level of respondents .....	22
4.1.3 Respondent's knowledge of auditing course.....	23
4.1.4 Auditing Experience .....	24
4.1.5 Respondents reading of an auditor's report .....	25
4.1.6 Usefulness of auditor's report in monitoring performance of entity.....	26
4.1.7 Usefulness of auditor's report in decision making.....	27
CHAPTER FIVE .....	33
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS .....	33
5.1 SUMMARY OF FINDINGS .....	33
5.2 CONCLUSION.....	34
5.3 RECOMMENDATIONS .....	35
5.4 BIBILOGRAPHY .....	36
5.5 APPENDIX.....	40
5.5.1 Calculation of Sample Size.....	40
5.5.2 Sample Questionnaire.....	41

## **LIST OF TABLES**

Table 1: Age of respondents of the general public

Table 2: Highest educational levels of respondents

Table3: Auditing experience

Table 4: Usefulness of auditor's report in monitoring the performance of an entity

Table 5: Responsibilities

## **LIST OF FIGURES**

Figure 1: Age of respondents of the three Rural Banks

Figure 2: Knowledge of auditing course

Figure 3: Reading of auditor's report

Figure 4: Cross tabulation of reading of auditor's report and frequency

Figure 5: Usefulness of auditor's report in monitoring in decision making of an entity

Figure 6: Functions of auditors

Figure 7: Cross tabulation of educational level and function of auditors

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Background of the Study**

The credibility of external auditors is increasingly being called into question in many countries around the world, as evidenced by widespread criticism and litigation directed against auditors (Porter, 1993). There is evidence that some of this criticism is based on society's lack of knowledge of company law and auditing standards and a misunderstanding of the fundamental role of the external auditor, which is an expectations gap. The expectation gap is considered to be one of the major issues confronting the accountancy profession in recent times. Users of corporate reports such as investors, journalists, politicians and others expect auditors to detect and report material fraud and irregularities, amongst other things. In response, the profession argues that the public misunderstands the role of the auditor, and that fraud detection and reporting is not a major audit objective. Such divergence in views and beliefs, have created a vacuum between auditors and users of accounting information or stakeholders. The vacuum between these two interest groups is what has been described as expectation gaps.

The expectation gap, signifying the difference between what the public expects from an audit and what the auditing profession prefers audit objective to be, has been a recurring issue in the auditing literature (Chandler and Edwards, 1996). The expectation gap has over the years attracted considerable institutional interests. These institutions include; the American Institute of Certified Public Accountants, 1978; Chartered Association of Certified Accountants, 1986a, 1986b and the Canadian Institute of Chartered Accountants, 1988 as it is considered to be a threat to effective corporate governance.

The literature on expectation gap according to Gwilliam, 1987, and Holt and Moizer 1990 has been fragmented as there are divergence views within the accounting profession in handling this gap. One major element of this body of literature relies upon questionnaires and opinion surveys to draw attention to the gap between the profession's preferred meanings of audit and the public's expectation (Lee 1970; Beck 1973; Arthur Anderson 1974).

Another element assumes that the meaning of audit is uncontested and fixed and that this can be deduced (or is self-evident) from a study of the content of audit reports (Baskin 1972; Estes and Reimer 1977, Dodd et al 1984). Upon all these differences on the views of expectation gaps, many have argued on the root cause of this gap and have attributed it to many issues. A number of commentators have attributed the gap to users' confusion (Lange 1987 and Radig 1987), widespread misunderstanding (Ellis and Shelley 1988), ignorance (Singleton-Green 1990a) and or lack of education (Amthowiz 1987, Cockburn 1986) on the profession and audit reports.

This thesis tries to review expectation gap in selected corporate organisation to ascertain how this phenomenon is being dealt with in terms of its occurrence, minimization or elimination.

### **1.1 Statement of the Problem**

If a survey were to be carried out within Ghana and members of the general public were to be asked to give a "true" or "false" answer to the statement: "The role of the auditor is to detect fraud and error in financial statement", it's obvious that most people would say true. In *Re Kingston Cotton Mills (No. 2)* [1896], L J Lopes of the Appeal court stated that the auditor was a watchdog but not a blood hound. This remark underlines the fact that the auditor's primary role is not the detection of fraud. The probable lack of clarity between users of financial statements,

the general public and auditors as relating to the proper definition of the role and definition of an audit is what contributes to the expectation gap.

The public's perceived expectations of the auditor's performance as opposed to their required standard of performance brought about the expectation gap.

Many members of the public are of the view that, the auditor should accept prime responsibility for the financial statements. Also, the auditor should be able to detect any form of fraud which might have been committed. They also expect a clean opinion of the auditor to guarantee the accuracy of financial statements and should give early warnings about the possibility of business failure.

However, in reality, the statutory and regulatory provisions require management as preparers of the financial statements and to be primarily responsible for their content, even though management may request the auditors to prepare them. An audit only provides reasonable assurance that financial statements are free from financial misstatements. Although auditors plan and conduct an audit with an attitude of professional skepticism recognizing that circumstances such as fraud may exist that will cause the financial statement to be materially misstated, an audit does not guarantee that fraud will be detected. Such public expectations of auditors which go beyond the actual standard of performance by auditors have led to the term "expectation gap". This gap has been a major concern to auditors since the greater the gap of expectations, the lower the credibility of the profession to users and vice versa. This means that efforts must always be made to ensure that there is minimal or complete elimination of expectation gap so as to enhance the operations of the auditors and the organisation as a whole.

## **1.2 Questions of the Research**

- ❖ Is the auditor responsible for preventing and detecting all fraud and error?
- ❖ Is the auditor responsible for any material weaknesses of the internal control system of the entity?
- ❖ Does the auditor's report guarantee the credibility of the financial statement?

## **1.3 Objectives of the Research**

- ❖ To find out the auditor's responsibility for preventing and detecting all fraud and error.
- ❖ To examine the auditor's responsibility for any material weaknesses of the internal control system of the entity.
- ❖ To establish the perceptions of people on the function and objectives of an auditor

## **1.4 Significance of the Study**

The misunderstandings and the confusion regarding public institutions audit's tasks and conditions are numerous. This is the reason why we have chosen to investigate whether an expectation gap exists between Auditors and the general public. The study is also to get an indepth knowledge of the various aspects of expectation gaps in the corporate institution which include its emergence, handling and management since this affects the growth and operations of organisations as well as all stakeholders.

## **1.5 Scope of the Research**

The project topics in under the framework of corporate organisation auditing and expectation of users or stakeholders. The research will consider auditing and public perceptions in three selected rural banks in the Kumasi metropolis.

## **1.6 Methodology**

Relevant information will be obtained from both primary and secondary sources. Primary sources will include field surveys with questionnaires administration, interviews and direct observations.

The Secondary data will be obtained from published and unpublished literature, internet sources, journals, newspapers, development oriented magazines among others. The information obtained from secondary sources will provide the theoretical framework within which the study will be carried out.

## **1.7 Organization of Research Report**

The research report will comprise five chapters. The first chapter is an introduction to the basic issues related to the study which include the statement of the problem; objectives of the study, and research methodology. The second chapter will be a review of relevant issues related to the study. These may include issues on the concepts of corporate institution auditing, emergence of expectation gap, financial transactions and management, policies and programmes on the resources, auditing styles etc.

Chapter three shall deal with research methodology which shall consist of the research design; source(s) of data; target population; sample and sampling procedures research instrument; research approach and data presentation.

The fourth chapter will contain the actual analysis of data collected from the field survey and presentation of findings and results.

The final chapter will also contain a summary of the study which would include findings, recommendations and conclusion.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter looks at various literatures on the research topic on various views and comments from other authors on how auditors' and their expectation gaps are handled. The relevance of this secondary data source is to give informed knowledge to supplement the primary data that will be gathered from the field.

#### **2.1 The Concept of Auditing**

In performing and understanding an audit, modern day auditors and parties with an interest in auditing rely upon interpretive frameworks to make sense of its meaning, auditing is practiced by individuals within particular social arrangements of accountability and its meaning are shaped within these (changing) arrangement. Meanings of audit are dependent upon groups of people whose consciousness is shaped by the discursive formations to be found in their own time. The meaning of audit has been associated with fraud detection, warning of impending bankruptcy, guaranteeing the accuracy of information and financial soundness etc. (Lee, 1970; Beck, 1973)

#### **2.2 Independence**

Without independence the auditor's opinion is suspect and it is this view that Gill and Cossoral (1996) have emphasized that independence is the cornerstone of the auditing profession. To add to this, other parties believe that without independence there is no need for both internal and external auditors. These parties' acceptance implies that the role of the auditor is that of an



independent instrument of social control within the corporate accountability process. To maintain independence under the many pressures of practice, an auditor must be alert to any deleterious influences on his planning, investigative, or reporting independence. The public perception of auditor independence is important because the apparent independence depends on society's perception of what could impair actual independence.

### **2.3 Definitions of Auditor Independence**

The concept of auditors' independence has proved difficult to define precisely. Schutze, (1994), however tries to outline the following definitions based on other authors' views. These are

- ❖ The conditional probability of reporting a discovered breach' (DeAngelo, 1981)
- ❖ The ability to resist client pressure (Knapp 1985)
- ❖ A function of character, with the attributes of integrity and trustworthiness being key' (Magill and Previts 1991)
- ❖ An absence of interest that create an unacceptable risk of bias (AICPA 1985)
- ❖ Independence is the main means by which the auditor demonstrates that he can perform his task in an objective manner (FEE 1995)
- ❖ Freedom from those pressures and other factors that compromise, or can reasonably be expected to compromise, an auditor's ability to make unbiased audit decisions' (ISB, 2000).

These respective definitions all reflect the importance of objectivity and integrity as the two key aspects of auditor independence (Dunmore and Falk, 2001).

## **2.4 Factors Affecting Auditor Independence**

The auditor's independence may be influenced by conscious inaccuracy or by unconscious inaccuracy in the reported information.

### **2.4.1 Conscious Inaccuracies**

The conscious inaccuracy may arise out of several factors such as,

- a) Close to his client;
- b) Dependency on the client for his livelihood;
- c) Driven by a desire of economic and social success;
- d) Close relationship with the client's executive;
- e) Blood relationship or marriage relationship with his clients;
- f) Acceptances of goods or services from clients directly or through his employees at confessional basis or free basis;
- g) Beholden to the Board of Directors for his re-appointment; and
- h) Competitive in audit market (Sucher and MacLulich, 2004)

### **2.4.2 Unconscious Inaccuracies**

The unconscious inaccuracy may also arise from several factors as below:

- a) The auditor may rely on branch manager.
- b) Rely on external confirmation while making his opinion on accounts such as confirmation from debtors, creditors, bankers etc.

c) Rely on the management for verification and valuation of assets to a greater extent.

Sometimes the possibility of varying interpretations of financial accounting practices may adversely affect Auditor independence. Battie et al. (1999) identifies four themes as obstacles to independence. They are:

1. Economic dependence of the auditor on the client
2. Audit market competition
3. The provision of non-audit services (NAS)
4. The regulatory framework

## **2.5 Audit Expectation Gap**

Audit is essentially entrusted with the task of reporting reality in financial statements and this reality is what the users of accounting information expect. However, the auditors may not check out the reality and this reality may fall short of user expectations. This shortfall in audit effectiveness is broadly labelled as audit expectation gap. Most of the time, financial statement users consider an auditor's report to be a clean "bill of health". Thus most users' expectation toward auditors is far more than what they should be. The expectation gap occurs when there are differences between what the public expects from the auditor and what the auditor actually provides. To guarantee on 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 their independence. This has lead many definitions of expectation gap. Below are some definitions by some authors.

- ❖ According to Pierce and Kilcommins (1995-1996)<sup>1</sup>, the audit expectations gap is when external auditors' understanding of their role and duties is compared against the expectations of user groups and the general public.
- ❖ Liggio (1974)<sup>2</sup> defines the audit expectations gap as the difference between the levels of expected performance as interpreted by the independent accountant and the user of financial statements.

The use of the audit profession as bench mark according to Ojo M. (February, 2006) provides a less subjective element and helps narrow expectations gap. She again explains that this would be a preferred definition and would also provide a more stable element of the expectations gap as the audit profession's expectations are more well-defined than the individual auditor's expectations. All these suggest that there have been diverse opinions on the issue of expectations gaps. However these discussions do not seem to be over as Liggio (1974) discusses expectation gaps in financial statements. He was concerned that since the late 1960 the accidentally profession had been under attack regarding the quality of its professional performance. He suggested two reasons for this: 'a greater willingness to hold others-especially professionals-accountable for perceived misconduct and the expectations gap as 'a factor of the levels of expected performance as envisioned by both the independent accountant and by the user of financial statements. The difference between these levels of expected performance is what he terms as the expectation gap.

---

<sup>1</sup> B Pierce and M Kilcommins ' The Audit Expectations Gap : The Role of Auditing Education' *Dublin City University Business School Research Papers 1995-1996* No 13

<sup>2</sup> C D Liggio 'The Expectation Gap : The Accountant's Waterloo' ( 1974 ) *Journal of Contemporary Business* Volume 3 No 3 at p 27

This definition was extended a little in the Cohen Commission's (1978) terms of reference. The commission was charged, inter alia, to consider whether a gap might exist between what the public expected or needed and what auditor could and should reasonably should. They did not allow for substandard performance. It is therefore proposed that the gap be appropriately entitled "the audit expectation performance gap". This would then be defined as the gap between society's expectation of auditors and auditors' performance as perceived by society.

Given this definition, the analysis indicates that the gap has two major components:

1. A Gap between what society expects auditors to achieve and what they can reasonably be expected to accomplish (designated the reasonableness gap).
2. A gap between what societies can reasonably expect auditors to accomplish and what they are perceived to achieve (designated the performance gap).

## **2.5 Components of the Expectations Gap**

Some commentators have attributed the expectations gap to users' confusion, widespread misunderstanding, ignorance and /or lack of education<sup>3</sup>. Porter<sup>4</sup> analyses the total expectations gap into three separate components; namely:

- ❖ Sub-standard performance ( contributing to 16% of total expectation gap),
- ❖ Deficient standards (50%) and
- ❖ Unreasonable expectations (34%).

---

<sup>3</sup> P Sikka A Puxty H Willmott and C Cooper ' The Impossibility of Eliminating the Expectations Gap : Some Theory and Evidence" December 2003 at p 2

<sup>4</sup> B Porter ' An Empirical Study of the Audit Expectation – Performance Gap' (1993) Accounting and BusinessResearch Vol 24 no 93 p 50

This he explains is due to the fact that deficient standards can easily be revised and it is therefore relatively easier to reduce this component of the expectations gap. The deficient standards component can be considered the most objective component whilst unreasonable expectations and sub-standard performance are the more subjective components. Even though unreasonable expectations are subjective, it still constitutes a significant proportion of the expectations gap and cannot be ignored.

He goes on to explain that sub standard performance should also not be ignored even though it constitutes just 16% of the expectations gap. After all possible measures have been taken to reduce this component it could be ignored. The sub standard performance element is a problem arising from individual auditors, deficient standards stemming from the audit profession whilst unreasonable expectations emanate from the public. An analysis of the individual components of the expectations gap this way helps to know and understand better how to deal with and reduce these problems creating the expectations gap. In particular, it provides knowledge as to where more efforts should be concentrated namely, the reforms of auditing standards (since this constitute half the problem).

The expectations gap is an issue for auditors as a greater “expectations gap” would lead to lower credibility, earning potential and prestige associated with their work. It is also an issue for the public and investors in particular since wealth creation and political stability in a capitalist economy depends significantly on confidence and accountability and external audit is supposed to provide such confidence and accountability<sup>5</sup>.

---

<sup>5</sup> P Sikka, A Puxty H Willmott and C Cooper ' The Impossibility of Eliminating the Expectations Gap : Some Theory and Evidence" December 2003 at pg 1

## **2.6 Eliminating Expectations Gap**

According to Sikka et al (1992), the nature of the components of the expectations gap makes it difficult to eliminate. Perceived performance of auditor is an element which is difficult to measure and changes constantly. It is however 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;

### ***1. Strengthening the monitoring of auditors' performance***

The apparent success of the monitoring of auditors' performance in effecting improved performance, suggests that this activity should be continued and strengthened, for example, through less leniency being granted where breaches of auditing or other professional standards are found, and more stringent sanctions being imposed when sub-standard performance is encountered.

### ***2. Improving the quality control in audit firms***

The monitoring of auditors' performance has helped to affect improved performance and to ensure that all auditing practitioners perform their work to a satisfactory standard on every audit; effective quality control systems within audit firms are needed. In the UK in September 2000, the Auditing Practices Board issued a revised Statement of Auditing Standards (SAS) 240: *Quality control for audit work*. This provides clear and exacting guidance on the quality control policy and processes audit firms are to implement. A revised International Auditing Standard 220: *Quality control for audit engagements*, which closely follows the UK's SAS 240, is in the

course of development and, once finalized, will be incorporated, in all its essential requirements, in New Zealand's auditing standards.

### ***3. Enhancing the education of auditing practitioners***

The research study carried out by the Institute of Chartered Accountant, Scotland in 2004 suggests that the enhanced education of auditors is required. According to their findings, auditors were found to have a 'knowledge gap' in respect of their existing responsibilities. It is therefore suggested that further education, possibly through compulsory professional development sessions, be required of all existing, as well as trainee, auditors about their responsibilities under statute and case law, *quasi*-governmental regulations and professional promulgations, and also about the standard of work.

### ***4. Introducing new auditing standards***

In order to narrow the deficient standards gap, auditing standards need to embrace the responsibilities that can reasonably be expected of auditors. As noted most of these involved auditors reporting either in the audit reports or to an appropriate authority, matters of concern such as fraud and / or other illegal acts encountered during an audit. Other areas for consideration include: examining and reporting on the effectiveness of auditors' internal financial controls; the reasonableness of financial forecasts included in annual reports; the adequacy of risk management procedures; and in the case of listed company auditors, the compliance with all corporate governance requirements.

If the auditing profession are willing to broaden its responsibilities through the issue of new and/or revised auditing standards to embrace these duties that can reasonably be expected of auditors, the audit expectation-performance gap would be narrowed significantly. However, it



seems that the willingness of the profession to accept any extended responsibilities is hampered by concerns about the perceived potential increase in exposure to legal liability rather than encouraged by the potential benefits to be gained from better meeting society's expectations and be thereby enhancing the value of the audit function in society.

### ***5. Educating society about the audit function and the work of the auditor***

The implementation of auditing education has been suggested as a means of reducing the expectations gap<sup>6</sup>. Audit education as it explains, would surely help reduce the expectations gap but would not on its own be sufficient to solve the problem of all components of the expectations gap. It goes on to say that audit education would partly solve the problem of unreasonable expectations but not address deficient standards and substandard performance. Porter adds that in order for audit education to be effective, society should be educated on duties which may reasonably be expected of auditors.

According to research findings of a study by the Institute of Chartered Accountants in Scotland on Audit Expectation-Performance Gap in the United Kingdom, societies in both the United Kingdom (UK) and New Zealand (NZ), need educating about the audit function and what auditors can reasonably be expected to achieve. However, given the apparent ineffectiveness of the long-form audit report introduced in both the UK and NZ during the early 1990s to educate financial statement users about the respective responsibilities of an auditor's directors and auditors for its financial statements, the level of assurance provided by the audit report, and the key elements of the audit process, it was not easy to identify the means by which education of society at large may be accomplished.

---

<sup>6</sup> ibid

One possible means they adopted was to use the opportunity afforded by an infamous fraud and/or unexpected corporate failure that reaches the media headlines to explain the audit function and the work of auditors. At present, when untoward company events occur, journalists, or others seeking to lay the blame at someone's door seem to raise uninformed questions (or allegations) about the relevant auditors' apparent failure to fulfill what the journalists or others presume to be their duties. The profession's usual response in such circumstances appears to be a formal and rather technical statement, by a senior representative, rebuffing the allegations. Such a statement does little to correct society's misconceptions about the audit function or to restore confidence in the profession.

Such occasions could be used to explain, in a non-technical, easily understandable language, the auditors' role in those particular circumstances – and placing those circumstances in the broader context of the audit function and the role and responsibilities of auditors in general. An alternative, and perhaps more effective way to educate society, is to seek opportunities to educate influential journalists, formally and informally, about the audit function and the work of auditors. If they begin to understand the work of the profession better, they may report adverse events affecting auditors in a more informed and less sensational manner.

## **2.7 Summary**

It is evident in the literature review that expectations gap exist and this is a major setback to the auditing profession. This gap as identified, come as a result of the perception of the public about the roles and responsibilities of auditors. Auditors are expected to perform certain task by the public but these have been seen as the exact responsibilities of auditors. Auditors are supposed to work under specified objectives and guidelines so this gap arises due to misconceptions and

misunderstanding between auditors and other stakeholders. It is in this view that a number of suggestions such as public education have been put forward as one of the tools or ways to reduce if not eliminated, the vacuum between stakeholders. This gives the assurance that expectations gap can be totally eliminated or reduced to the minimum.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter deals with the steps and approaches that were used in the research. This includes the research design, methods for data collection, and the various instruments that will be used in the data collection, sampling and sampling techniques and the target population for the research. This chapter outlines the systematic ways by which data was collected and analyzed to achieve the objectives of the research.

#### **3.1 Research Design**

The research design explains the organization and planning of the study. The study followed the scientific process which included the identification of the problem to be investigated, definition of research questions and objectives, the review of relevant literature for the contextualization and understanding of the topic, collection and analysis of the data and main findings and conclusions.

Analytical research was used for the purpose of the study to critically examine and evaluate facts and information already available in relation to audit expectation gap. The study again involved evaluating the duties, role and responsibilities of Auditors with regards to the preparation of financial statements and detection of fraud, error and irregularities in the books of accounts. It was designed to see if the auditor is responsible for any material weaknesses in the internal control structure of the reporting entities such as the banking sector.

### **3.2 Data Requirement and Sources**

Data on auditor's performance and other issues relating to auditing and challenges was required for this study. Data from other stakeholders such as the public, shareholders and other professional were also essential to this study.

### **3.3 Target Population**

The target population for the study included the following:

- Branch managers and auditors of the three selected rural banks
- Members of staff of the various banks
- Clients of these banks

### **3.4 SAMPLE AND SAMPLING PROCEDURES**

In the conduct of research for large populations, it is usually impossible to capture the views of every single member of the population. Thus, the usual practice is to select a sample of the population whose views on the research issues will serve as a measure for the entire population. The research worked within a 90% confidence level and 10% margin of error and therefore took a sample size of 94 respondents (see appendix for calculation).

### **3.5 RESEARCH APPROACH**

Many authors have written extensively with regards to the various approaches that can be used in research. In view of this, Holme and Solvang (1991) argued that, quantitative and qualitative are the two research methods that could be applied in research work. Bryman (2004) also explained the use of quantitative method as a research approach with regards to deductive approach. According to Bryman (2004), this method focuses on quantification in the gathering and analysis

of data and a deduction made between theory and the research. Bryman (2004) arguments are further backed by Saunders et al (2003) who explained that a deductive approach usually develops a theory and hypothesis and a research strategy is designed to test the hypothesis. However, Holme and Solvang (1991) stated that this particular method is applied when conducting a statistical research. Bryman (2004) further explained that, qualitative research develops a research approach and focuses on the use of inductive approach. According to Bryman (2004), the inductive approach compares the relationship between theory and the research with emphasis made on the generation of theories. With regards to the various approaches explained, both quantitative and qualitative data analysis methods were adopted in this study.

### **3.6 Data Collection Methods**

#### **3.6.1 Primary data**

The primary data sources are the information that was gathered from the field. This information was the data from all the stakeholders that were involved.

#### **3.6.2 Secondary Data**

The main secondary sources were collected from official statistics, scholarly journals, technical reports, dissertations, reference books and the internet. The method of collection was done through literature review.

### **3.7 Method of Data Analysis**

After the data was collected, it was organized and analyzed. Data was analyzed using descriptive statistics. Frequency tables were therefore drawn and data converted into percentages and graphs through the use of Microsoft excel and SPSS.

## CHAPTER FOUR

### DATA ANALYSIS

#### 4.0 INTRODUCTION

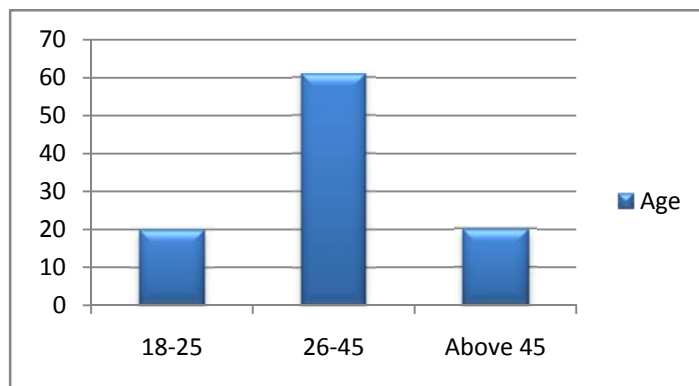
This chapter focuses on analysis and inferences made from data collected from the field which contains the various perception and knowledge about the roles and expectations of an Auditor in various institutions.

#### 4.1 ANALYSIS AND INTERPRETATION OF DATA

##### 4.1.1 Age of respondents

The chart and table below show the various age cohorts of workers of the banks and their clients (general public). Figure 1 shows the age distribution of workers of the banks and reveals that about 60.3% of respondents are in ages between 26-45 years with 18-25 years having 19.9%. Respondents above 45 years have a percentage of 19.8 of the total answer given by respondents. This shows how youthful and vibrant respondents in the banks are, because a total of 80% are in the age of 18 year to 45 years.

**Figure 1: Age of respondents of Workers of the Rural Banks**



*Source: Field Survey, 2012*

The survey also revealed a higher percentage of respondents from the clients (general public) falling within the age bracket of 18 to 45 year although about 50% are in the 26 to 45 years. This reveals that both respondents from the bank and the general public per their ages may have heard if not everything, a little about the roles and responsibilities of an Auditor. Table 1 shows the age distribution of respondents from the general public.

**Table 1: Age of respondents from clients (general public)**

<b>Age bracket</b>	<b>Frequency</b>	<b>Per cent</b>
18 – 25	25	35.0
26 – 45	35	50.0
45 and above	7	10.0
No answer	3	5.0
<b>Total</b>	<b>70</b>	<b>100.0</b>

*Source: Field Survey, 2012*

#### **4.1.2 Education level of respondents**

Educational levels of respondents were also studied to know the extent or level of their education and also to know how this level can influence the way interpretation of accounting information is done by each of the levels of education. It is evident from the table below that about 78% of respondents have attained tertiary level education whilst about 16% have attained education up to the secondary level. Only 6% of the total respondents said their level of education in at primary level.



**Table 2: Highest educational level of respondents**

<b>Educational level</b>	<b>Frequency</b>	<b>Per cent</b>
Primary	6	6.0%
Secondary	15	16.0%
Tertiary	73	78.0%
<b>Total</b>	<b>94</b>	<b>100.0</b>

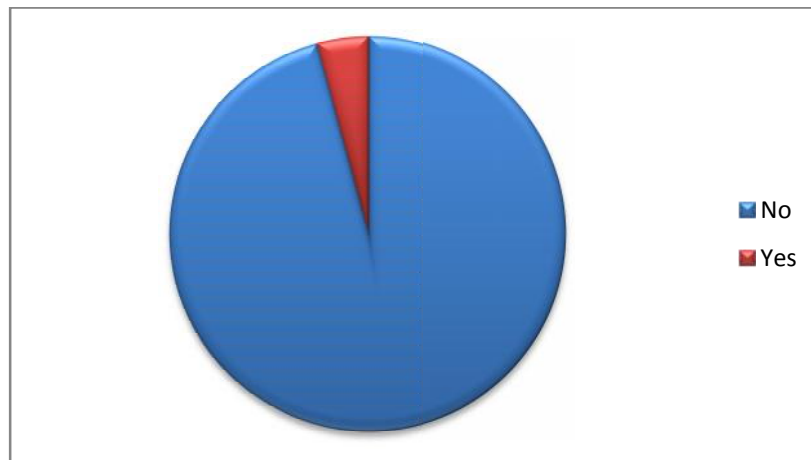
*Source: Field Survey, 2012*

#### **4.1.3 Respondent's knowledge of auditing course**

The study revealed that 95.8% of the respondents both clients (general public) and workers of the banks have not studied any auditing course and with only 4.2% saying yes to the question of “study of accounting”. This could be true because when a cross tabulation was done between the profession of respondents and their knowledge of auditing course, it was realised that about 92% of people who said they have studied or have knowledge about auditing are either auditors themselves, accountants or bankers.

This means that other professional in the 95.8% have not studied anything on auditing even though some may be working at the bank. This implies that when a person's work does not need the study of auditing, the person does not study it. Figure 2 below shows the graphical representation of answers by respondent on knowledge about auditing.

**Figure 2. Knowledge of auditing course**



*Source: Field Survey, 2012*

#### **4.1.4 Auditing Experience**

The study went on to ask questions on auditing experience from respondents. This was to find out whether any of the respondents have had an experience of auditing in terms of hearing of it or encountering an auditor. This revealed that about 87.6% of the total respondents said they have one way or the other had an encounter with an auditor and has heard some things about auditing. Only 12.4% said they have never heard anything on auditing. The table below shows the answers by respondents.

**Table 3. Auditing Experience**

Response	Frequency	Percentage
Yes	82	87.6
No	12	12.4
<b>Total</b>	<b>94</b>	<b>100</b>

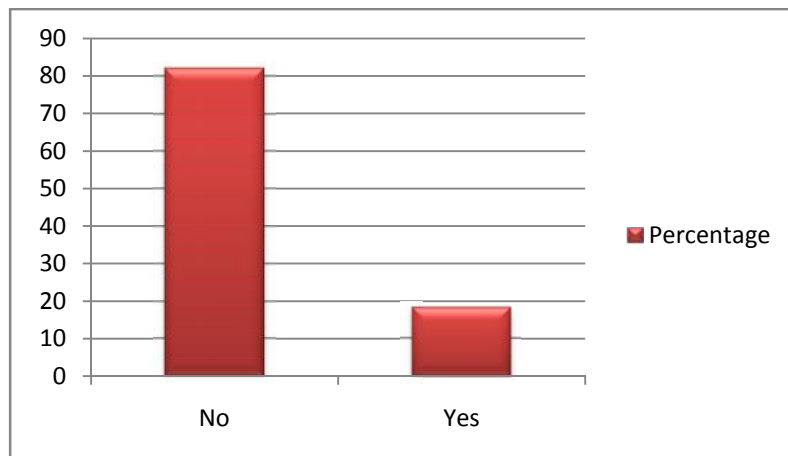
*Source: Field Survey, 2012*

This implies that, respondents can give their opinion on the roles and expectations of an auditor. It is upon this that further questions were asked to subsequently ascertain the various aspects of the survey.

#### **4.1.5 Respondents reading of an auditor's report**

Respondents were asked whether they have had the time of reading an auditor's report of any organization especially those that they have interest in. Amazingly, about 82% responded no to the question. What this implies is that, although they have had an encounter with an auditor and have heard things about the roles of auditors, they have not bothered to read any auditor's report. Only 18% said they have read and analyzed an auditor's report before. The figure below shows a graphical representation of the responds.

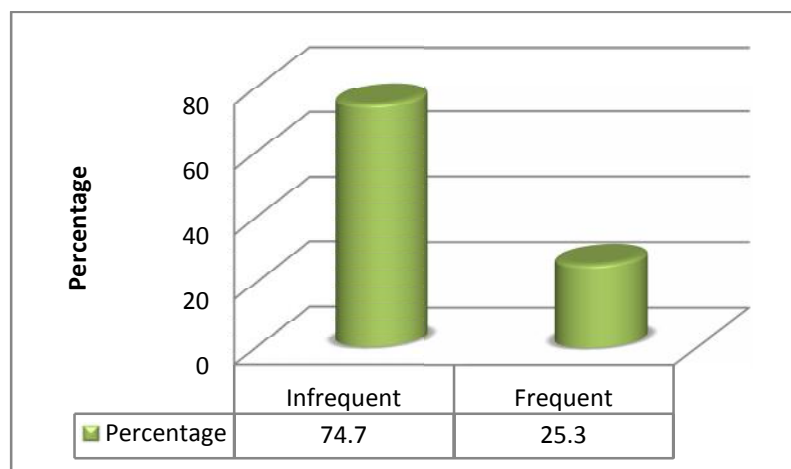
**Figure 3 Reading of Auditor's Report**



*Source: Field Survey, 2012*

To have an in depth knowledge on how well they read a report by an auditor, a cross tabulation was done between reading of auditor's report and the frequency with which they read it, the figure below shows the summary of the results.

**Figure 4 Cross tabulation of Reading of Auditor's Report and Frequency**



*Source: Field Survey, 2012*

It is seen from the above figure that about 74.7% responded that they don't frequently read auditor's report. These percentages are coming from those (18%) who said in figure 3 that they read reports by auditors. 25.3% of this total said they read auditor's and more frequently.

#### **4.1.6 Usefulness of auditor's report in monitoring performance of entity**

Every entity is expected to perform well in its operation and the work of an auditor is also expected to play a major role in achieving this objective. It is upon this view that respondents were asked question of the usefulness of an auditor's report in monitoring the performance of entity. Table 4 shows the responds of the various opinions expressed by respondents.

**Table 4 Usefulness of auditor's report in monitoring performance of entity**

<b>Response</b>	<b>Frequency</b>	<b>Per cent</b>
Agree	90	96.0
Not sure	2	2.0
Don't agree	2	2.0
<b>Total</b>	<b>94</b>	<b>100.0</b>

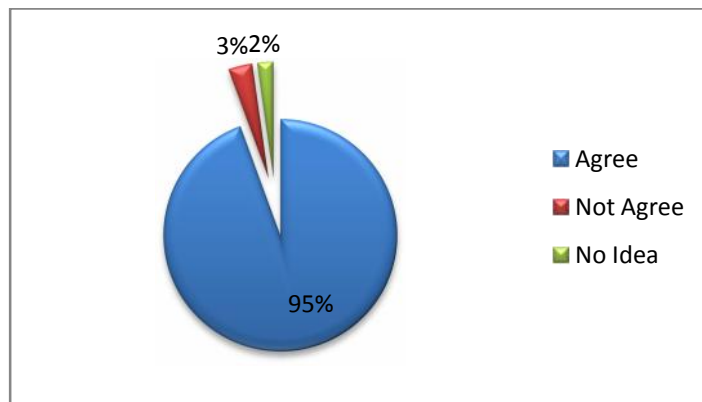
*Source: Field Survey, 2012*

The responds from the above table shows that, majority of about 96% agree that auditor's report is useful in the monitoring of the performance of an entity with on about 2% disagreeing to this fact. Another 2% of respondents said they have no idea on the relevance of auditor's report.

#### **4.1.7 Usefulness of auditor's report in decision making**

An auditor as given above plays an important role in the performance of an entity and this roles help in the decision making processes in the organisation. People were asked to give their opinion on the usefulness of auditor's report in decision making. Figure 5 shows the responds by people interviewed.

**Figure 5 Usefulness of Auditor's Report in Decision Making**



*Source: Field Survey, 2012*

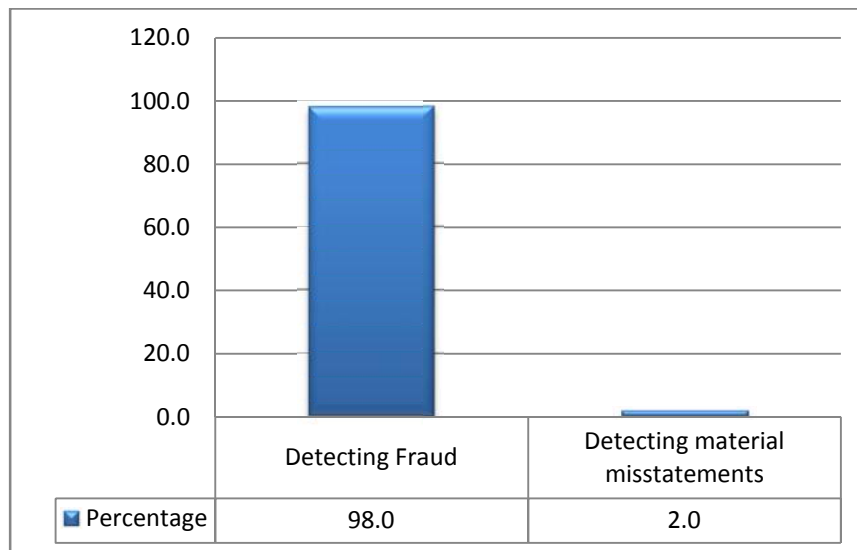
The above answers show that people really have idea of auditor's importance in the running and operationalization of business entities. This is because the answers give about 95% agreeing the usefulness of auditor's report in decision making in organisations with only 2% disagreeing to this fact.

The above interactions with respondents show that at least people have certain perception on the roles of an auditor in an organization. But the question is, 'do people really know the function of an auditor in an organization'? The following analysis gives perception of people on the roles and functions of an auditor in an organization.

#### **4.1.8 Function of an Auditor in an Organization**

The auditing profession states categorically what their functions are but do people or the general public know this? The chart below shows the responds of people interviewed on their perceived roles of auditors.

**Figure 6 Responds on the Functions of Auditors**

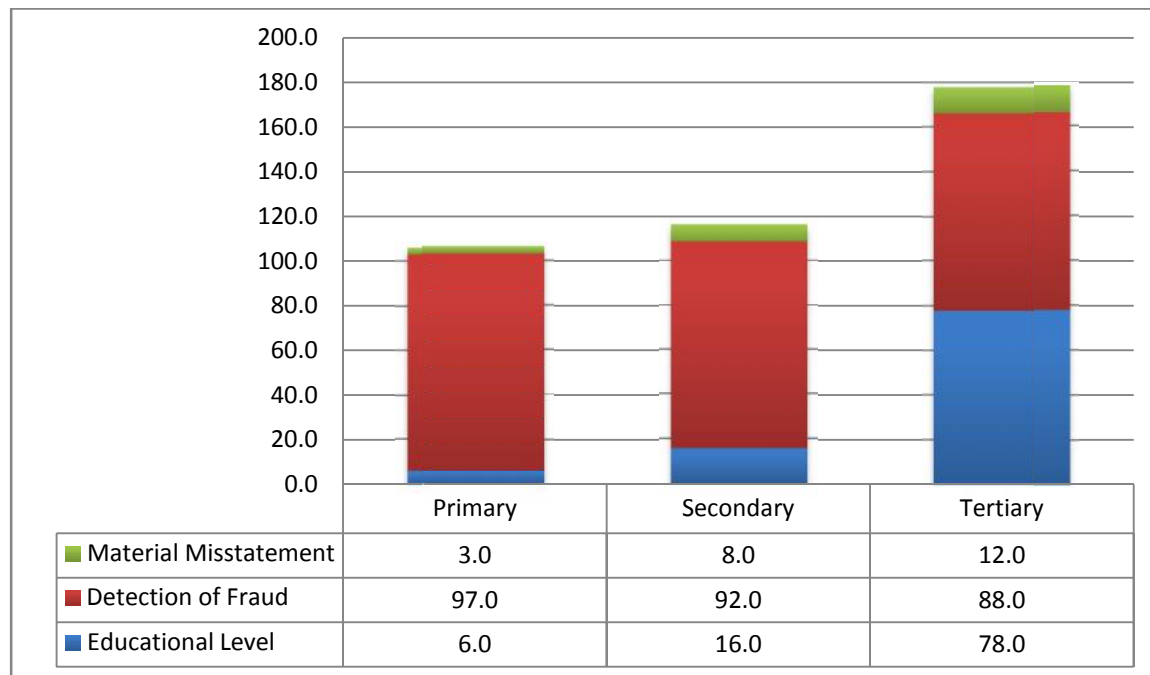


*Source: Field Survey, 2012*

It is obvious from the above responds that people do not know the actual function of an auditor in the running of an organization. From the previous analysis in this chapter, several opinions have been sought on people's encounter or knowledge on auditing or an auditor in the day to day activities of an organization and this final responds summarizes everything on their knowledge on the functions of an auditor or what they perceive to be their functions.

From the above figure, about 98% have the notion that, an auditor's function is fraud detection in financial reports while a minority of about 2% think their function is the detection of material misstatement. One could be tempted to think that this misunderstanding of the function of auditors may be as a result of respondents' educational background. This necessitated the need to find out if educational background or level has any correlation with these given answers. A cross tabulation was then done between educational level and the functions of auditors and the chart below gives the outcome.

**Figure 7 Cross tabulation of Educational Level and Functions of Auditors**



*Source: Field Survey, 2012*

The above figure shows the result of the cross tabulation of the level of education and function of an auditor. From the chart, the blue colour shows the various levels of education of respondents and it is seen that tertiary education dominates with 78% and gives a responds of 88% to the detection of fraud as the function of an auditor with 12% as material misstatement. People with educational level at the secondary level also gave 92% as detection of fraud with only 8% as material misstatement. Primary education which is the lowest in the level of education with 6% also said the function of an auditor is the detection of fraud with a percentage of 97. 3% of the people in the primary education level gave material misstatement as the function of the auditor.



The above analysis shows that irrespective of the educational level, majority of people do not know the actual functions of an auditor. This is the reason why about 98% of the people say detecting fraud is the core function of the auditing profession.

As if this wasn't enough, another set of question was posed to people to verify if indeed they do or don't know the functions of an auditor.

This time a question was asked on the set of people responsible for certain activities in an organization. The table below shows the questions and responds of interviewees.

The question posed to interviewees was to distinguish persons responsible in making sure that the appropriate accounting standards had been adopted and correctly used in constructing financial statements. Table 5 gives the results of answers given by people.

**Table 5 Responsibilities**

Professionals	Frequency	Percentage
Managers	32	34.0
Auditors	19	20.0
Accountants	43	46.0
<b>Total</b>	<b>94</b>	<b>100</b>

*Source: Field Survey, 2012*

The percentages in this tables reveals that indeed there is public misunderstanding of the roles of auditors and sometimes confuses with the roles of other professional like managers and accountants. Although the early years of twentieth century gives auditors the roles of detecting that the appropriate accounting standards are adopted and correctly in the preparation of financial

statements, the answers by our respondents reveals otherwise. 46% gives this function to Accountants while 34% and 20% goes to Managers and Auditors respectively.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 SUMMARY OF FINDINGS**

This chapter summarizes the outcome of the data analysis and outlines the major findings on the perceptions of the general public on the roles and functions of auditors with respect to what the auditing profession gives as the roles and functions.

The expectation gap was found wide particularly on the issues of the auditor's responsibilities for producing the financial statement and on omissions and misstatement reporting, fraud prevention and detection as well as the 100% examination in the audit procedures. To a lesser extent, an expectation gap was also found with regard to the auditor's responsibility for the soundness of the internal control systems, using the work of other auditor or experts and the responsibility of auditor in an annual report. This highlights the need to educate the public about the auditor's duties and responsibilities as well as about the limitations of the audit process.

The study again revealed that most people admit that auditors play a major role in the running of any organization but what seem to be the problem in the fact that people are not actually aware the functions. This can be attributed to lack of education by auditors to most of their client. The misunderstanding is what has been termed by many authors as expectation gap. The outcome of this study is not different from those perceptions of auditors responsibilities because irrespective of a person's level of education and his/her profession, there is little knowledge of the functions of an auditor.

## **5.2 CONCLUSION**

The concept of an Audit expectation gap suggests that the public expects auditors to act in ways which are different from what auditors themselves would expect to act. From the findings above, it could be concluded that a wide audit expectation gap exist in Ghana, in that users generally have higher expectations of audits and that most auditors would consider reasonable. (E.g. Epstein and Geiger, 1994) That is, the auditor is perceived by non-auditors more as a police man than a reporter of the state of a company's affair. This has contributed to the increased scale and frequency of litigation and misunderstanding against auditors. The persistence of a damaging expectation is not new and it seems to be growing to the detriment of the profession's standing with the public standards and this has become a burden for auditors as this gap tries to ruin their reputation in some extent.

Researchers and accounting professions have responded in one way or another, to the expectation gap. However, it must be noted that the expectation gap arises from a combination of excessive expectations and insufficient performance (Knutson, 1994). Steps must be taken to lower the public's expectation as well as to improve the auditors, performance. Misconceptions and differences in the expectation will persist unless effective and timely solutions are implemented.

### 5.3 RECOMMENDATIONS

Base on the analysis and the findings, the following points have been suggestion to serve as ways by which these gaps may be bridged to bring all stakeholders on one pedestal.

- The office of the Auditor General and accounting professional bodies such as the Institute of Chartered Accountants, Ghana (ICAG) should organize periodic seminars to educate institutions and the general public on the duties and responsibilities of the audit profession
- It's necessary on the part of corporate organizations to take advantage of Annual General Meetings as a platform to educate users of the financial statement the real functions of auditors so as to narrow the audit expectation
- Echoed to the suggestion by Koh and Woo (1998), knowledgeable users placed less responsibility on auditor than less knowledgeable users. As knowledge of users influences the size of the expectation gap, it is important that those audited financial statements' users who lack audit knowledge equip themselves with pertinent audit knowledge. Education is seen to be the most effective approach to narrow down the expectation gap.
- Just as an organogram shows the organizational structure of an organization, similar approach can be adopted to list the functions of the various professional in an organization with emphasis on auditors to education clients whenever they enter the gate of the organization.

## **5.4 BIBILOGRAPHY**

Alewabah Stephen. (2010) Audit and Investigation Lecture Notes.

American Institute of Certified Public Accountant (1978), Commission on Auditors' Responsibilities: Report, Conclusions and Recommendations (Cohen Commission), AICPA, New York.

American Institute of Certified Public Accountant (1978), Report on the National Commission on Fraudulent Financial Reporting (Treadway Commission), AICPA, New York.

Best, P.J., Buckby, S. and TAN, C. (2001), 'Evidence of the Audit Expectation Gap in Singapore', Managerial Auditing Journal, pp. 134-144.

Butler, S.A., Ward, B.H. and Zimbelman, M.F. (2000), The Expectation Gap: Auditors' and Investors' Perceptions of Auditors' Fraud Detection Responsibilities, US.

Cadbury Committee. (1992), Report of the Committee on the Financial Aspects of Corporate Governance, London.

Canadian Institute of Chartered Accountants (1998), Report of the Commission to Study the Public's Expectations of Audits (MacDonald Commission), CICA, Toronto.

Chandler, R. and Edwards, J.R. (1996), 'Recurring Issues In Auditing: Back to the Future?',

Accounting, Auditing & Accountability Journal, Vol. 9, No. 2, pp 4-29.

Frank, K.E., Lowe, D.J. and Smith, J.K. (2001), 'The Expectation Gap: Perceptual Differences between Auditors, Jurors and Students', Managerial Auditing Journal, pp 145-149.

Gay, G., Schelluch, P. and Baines, A. (1998), 'Perceptions of Messages Conveyed by Review and Audit Reports', Accounting, Auditing & Accountability Journal, Vol. 11, No. 4, pp 472-494.

Gay, G., Schelluch, P. and Reid, I. (1997), 'Users' Perceptions of the Auditing Responsibilities for the Prevention, Detection and Reporting of Fraud, Other Illegal Acts and Error', Australian Accounting Review, Vol. 7, No. 1.

H?jskov, L. (1998), 'The Expectation Gap Between Users' and Auditors' Materiality Judgements in Denmark', paper presented at the Second Asian Pacific Interdisciplinary Research in Accounting Conference 4-6 August, Japan.

Hronsky, J.J.F. (1998), Signs, Codes and Communication: The Semiotics of Audit Reports, Victoria.

Humphrey, C., Turley, S. and Moizer, P. (1993), 'Protecting Against Detection: The Case of Auditors and Fraud', Accounting, Auditing & Accountability Journal, Vol. 6, No.1, pp 39-62.

Innes, J., Brown, T. and Hatherly, D. (1997), 'The Expanded Audit Report - A Research Study

Within the Development of SAS 600', *Accounting, Auditing & Accountability Journal*, Vol. 10, No.5, pp 702-717.

Kneer, D.C., Reckers, P.M.J. and Jennings, M.M. (1996), 'An Empirical Examination of the Influence of the "New" US Audit Report and Fraud Red-flags On Perceptions of Auditor Culpability', *Managerial Auditing Journal*, pp 18-30.

Koh, H.C. and Woo, E. (1998), 'The Expectation Gap in Auditing', *Managerial Auditing Journal*, pp 147-154.

Lee, T. (1994), 'Financial Reporting Quality Labels - The Social Construction of the Audit Profession and the Expectations Gap', *Accounting, Auditing & Accountability Journal*, Vol.7, No. 2, pp 30-49.

Malaysia (2001), *Companies Act and Regulations*, Kuala Lumpur, MDC Publishers Printers Sdn Bhd.

Malaysia Institute of Accountants, (2001), *Malaysian Approved Standards on Auditing*, Kuala Lumpur.

Manson, S. and Zaman, M. (2000), *Auditor Communication in an Evolving Environment: Going Beyond SAS 600 Auditors' Reports on Financial Statements*, UK.



Noordin, H. (1999), 'Financial Reporting - Challenges and Emerging Issues for Media and Auditors', Akauntan Nasional, pp. 34-36.

Oppenheim, O. (1966), Questionnaire Design and Attitude Measurement, Heinemann, London.

Sullivan, J.B. (1993), 'The Impact of Auditing Research on Auditing Practice', Auditing: A Journal of Practice & Theory, Vol. 12, pp 1-2.

The Economist (1997), The Economist Numbers Guide: the Essentials of Business Numeracy, 3rd ed., London, Profile Books.

## 5.5 APPENDIX

### 5.5.1 Calculation of Sample Size

Formula for the selection of sample sizes

$$n = \frac{N}{1 + Nx^2}$$

$$n = \frac{1500}{1 + (1500)0.1^2}$$

$$= 93.75$$

Approximately 94

Where n= sample size

N= sample frame

$x$  = margin of error

### 5.5.2 Sample Questionnaire

CHRISTIAN SERVICE UNIVERSITY COLLEGE  
SCHOOL OF BUSINESS  
BUSINESS ADMINISTRATION (ACCOUNTING OPTION)

This research tool has been designed to collect data for a final year special study on Auditor and the Expectation Gap in institutions in the Kumasi Metropolis. Please be assured that all the information given will be treated with utmost confidentiality

---

#### Section A

Please tick the appropriate check box as shown

✓
---

1	Age	18-25	26-45	45-Over
2	Current Location			
3	Highest education level	Basic	Secondary	Tertiary
4	Position, Occupation			
		YES	NO	
5	Have you ever studied any auditing course?			
6	Do you have any auditing experience?			
7	Have you ever invested in business entities?			
8	Have you ever read an Auditor's Report?			
9	How often do you read financial reports?	Frequent	Infrequent	Never

## Section B

Please tick the appropriate check box as shown below

✓
---

		<i>Strongly agree</i>	<i>Agree</i>	<i>Disagree</i>	<i>Strongly disagree</i>
10	Auditors report is useful in monitoring performance of an entity				
11	Auditor’s report is useful for making decisions in an organization				
12	What do you think is the function of an auditor	a.		b.	
		Detecting Fraud		Material misstatement	
13	Who is responsible in making sure that the appropriate accounting standards had been adopted and correctly used in constructing financial statements	Managers	Auditors	Accountants	
		a.	b.	c.	