

## **CHAPTER V**

### **SUMMARY OF CONCLUSIONS AND SUGGESTIONS**

#### **INTRODUCTION**

Audit function is the most important to see the accuracy of the transaction of every business transaction. Therefore the management is taken the audit process regularly. To see the quality and credibility of financial reporting regular audit is so essential. Financial reporting devoid of authentication by the auditors definitely leads to a high level of incredibility and a low level of quality resulting in lower usefulness of financial statements to users. It is also important to note that the absence of audit opinion is more dangerous than the presence of a perfunctory audit. Hence audit is all-pervasive and its very presence itself spurs the growth of economic activities in smoother ways. However, the audit process persists with the expectation gap, which is nothing but the difference between what audit does and how much audit should do.

#### **THE FOCUS**

The focus of the present study was on investigating the level of audit expectation gap based on the perceptions of 848 sample respondents selected on stratified random sampling basis from Iran. The test of audit expectation gap was visualized to be conducted by making a comparative analysis of the perceptions of auditor group, investor group, financial analyst group and a group of educated public consisting of 227 auditors, 214 investors, 201 financial analysts and 206 educated public on the basis of fundamental hypothesis that there were significant perceptual differences between various groups. The study included the perceptions of auditors, investors, financial analysts and educated public on five dimensions of the audit expectation gap: responsibility of external auditors; audit ethics; financial reporting commitment and audit effectiveness; and auditor independence.

## **MAJOR FINDINGS**

The major findings of the study have been presented under (i) Profile of Respondents; (ii) Universal Findings; (iv) Group Differences; and (v) Testing of Hypotheses.

### **(i) Profile of Respondents:**

(1) The respondents numbering 848 were almost equally distributed in the groups of auditors, investors, financial analysts and educated public at 227, 214, 201 and 206 respectively and their percentages stood at 26.77, 25.24, 23.70 and 24.29 respectively.

(2) More respondents were youth and they numbered 525 representing 61.91 per cent of the total number of respondents as against adults numbering 323 and representing 38.09 per cent.

(3) The number of graduates stood at 685 representing 80.78 per cent, master degree holders numbered 150 representing 17.68. More number of graduates was investors numbering 195 followed by educated public, auditors and financial analysts are 188, 178 and 124 respectively.

(4) There were 644 literate respondents representing 75.94 as against illiterates constituting 204 and representing 24.06 per cent.

(5) There were 572 respondents representing 67.45 per cent having the experience in auditing as against 276 respondents representing 32.55 per cent without audit experience.

(6) From the viewpoint of equity investment of respondents, there were 476 investor respondents representing 56.13 per cent and there were 372 non investor respondents representing 43.87 per cent with no equity investment.

(7) Regarding the reading habit of annual corporate reports, there were 301 respondents regularly reading the reports and representing 35.50 per cent only against 547 respondents representing 67.50 per cent with occasional reading.

(8) Almost 536 respondents representing 63.21 per cent perceived high importance to audit report in the financial statements as against low importance perceived by 312 respondents representing 36.79 per cent.

(9) There were 512 respondents representing 60.38 per cent having a high belief in audit report as against 336 respondents representing 39.62 per cent having low belief.

(10) Almost 602 respondents representing 71.00 per cent were high believers in financial statements as against 246 respondents constituting 29.00 per cent having low belief status.

(11) Almost 610 respondents representing 71.93 per cent were high believers in company profile as against only 238 respondents constituting 28.07 per cent having lower belief status.

(12) Regarding directors' profile, 588 respondents constituting 69.34 per cent were found to be high believers as against low believers numbering 260 and representing 30.66 per cent.

## **(ii) Universal Findings:**

### **(A) Universal analysis between all participants**

(1) The actual grand mean was 2.54 for the three levels. The expected grand mean value was 3.33. There was an expectation gap of 0.79, in auditor's responsibility in measuring financial performance. Here the table showed that the auditors impossible to conduct 100% examination of financial statements with the expectation gap of 0.75.

(2) The actual grand mean value of all the level was 2.90 and at expected grand mean the value given was 3.50, having a difference of 0.60 as expectation gap for auditor responsibility in controlling financial aspect. This table was also showed that auditors were not preventing frauds and errors in financial statements here respondents were assigning 2.64 to actual level and 3.31 to expected level with the gap of 0.60.

(3) The responsibility of auditors in financial misstatement was assigned the actual grand mean of 2.72 and expected grand mean stood at 3.56 showing the expected gap of 0.84. Here the respondents were expecting more on detecting illegal acts by the management, reporting all detected frauds and thefts to the relevant authority, detecting any deliberate distortion on financial information with the expected gap of 0.90, 0.94 and 0.81.

(4) The detection of frauds and errors was given the least mean value of 2.58 at actual level and least mean value of 3.51 at expected level showing highest expectation gap of 0.93. It showed that the respondents were more keen on this function.

(5) The auditors must follow right procedures before authenticating financial statements. It was proved through the mean value; the actual mean value was 2.83 and the expected mean value 3.63 with expected gap of 0.80.

(6) The respondents perceived the actual professional appearance moderately with the grand mean value of 3.27. At the expected level with regard to the professional appearance it was high as evidenced by the grand mean value of 3.96 showing an expectation gap of 0.69.

(7) It was also evidence that as a person of independence was given highest actual mean value of 3.36 and expected mean value of 4.17, it has resulted in being the highest among other items. In the paired difference highest difference of 0.81 was given to as a person of independence.

(8) Auditors role in protecting of shareholders were most important while conducting audit it was proved that through the mean values, the actual mean value was 2.71 and the expected mean value was 3.60 with the expectation gap of 0.89.

(9) The level of loyalty was checked with two components. At the overall level the actual mean was 2.29 for the variables indicating the level of loyalty was less and it was expected to increase to moderate level with the value of 3.25 with a gap of 0.96.

(10) Ethical conduct of the auditors with four components. The respondents perceived the various levels which are as an upholder of tax laws, as an ethical person and as a person insisting on evidence. At grand mean value the actual ethical conduct stood at 3.05 and the expected levels were 3.74 for the entire variables and the expectation gap stood at 0.69. Regarding as a socially responsible person the respondents were expected high by assigning the mean value of 3.94 as against to the actual mean value of 3.06 with the gap of 0.88. It shows that the auditor must see the benefit of educated public while conducting audit.

(11) The overall professional commitment towards valuation process of auditors at actual level was measured at 2.97 and at expected level it was 3.37 having an expectation gap of 0.4. It was shown that respondents were moderately expecting these functions.

(12) The sample respondents' expectation was high in case of research and development cost as it was 3.46 as against to the actual mean value was 2.58 the expectation gap was found to be the high 0.88. The moderate gap was assigned by the respondents towards expense recognition and revenue recognition with the gap of 0.69 and 0.65 respectively.

(13) The professional commitment of auditor towards social obligation was assigned a moderately low level of perception with the actual grand mean value standing at 2.82 and the expected grand mean value at 3.20 with a gap of 0.38. The similar opinion has given towards purchase of raw materials, fixed assets and favoring their own contractor with the gap of 0.49, 0.52 and 0.22 respectively.

(14) The no expectation by the respondents towards artificial boosting of financial performance the expected level assigned by the respondents only 2.69 as against to the actual level was 2.82. The gap was only 0.13

(15) Auditors obligations towards reducing manipulative practices in attract retain foreign direct investment the respondents assigned expected mean value of 3.21 as against to the actual mean value was 2.64 with a gap of 0.57. Regarding social equity 0.49, similarly it was followed by tax avoidance and evasion.

(16) The highest expectation gap was highlighted in conducting more frequent periodical audit and the gap between actual expected mean values stood at 1.01. It was followed by continuous audit, audit of all transactions and audit of financial statement only with the gap of 0.59, 0.58 and 0.46 respectively.

(17) The levels used to analyze the perceptions of the respondents were physical verification of all assets and all inventories. The actual grand mean value of deficiency in physical verification stood at 2.92 and the expected mean value was 3.4 with an expectation gap of 0.48.

(18) Moderate expectation gap found in deficiency level of regulatory measures. The overall actual mean of selected variable indicating the deficiency level in regulatory measures stood at 2.98 and the expected mean value of 3.40 and the expectation gap was 0.42.

(19) The respondents were expecting more punitive measures for auditors for having concealed the management frauds the respondents assigned the expected mean value was 3.83 and actual mean value 2.84 with the gap of 0.99. But the respondents were expecting moderately regarding peer review and auditor rotation through empanelment list with the gap of 0.5 and 0.38 respectively.

(20) Regulatory influence on role of auditors was tested with the respondents with four levels. The actual and expected mean values at grand mean values were high with the values of 3.24 and 3.74 with an expectation gap of 0.5.

(21) The respondents expected highest in accountability of auditors in audit imposes accountability by assigning moderately high value of 3.92 and the actual value assigned was 3.18 with an expectation gap of 0.74. They also opined that audit has reduced the falsification or alteration of accounting records or the other documents with an expectation gap of 0.57 in which the actual mean value assigned was 3.05 and the expected mean value was 3.62.

(22) Relevance of audit and role of auditors with regard to worthiness was assigned the actual grand mean value of 3.16 and at expected level it was 3.42 with an expectation gap of 0.26.

(23) It was observed that highest gap of 0.66 was given to audit market competition in factors affecting independence of auditors, in which the actual mean value being 2.91 and the expected mean value was 3.57. The next factor affecting independence of auditors was receiving payment for non-audit services which was given an actual mean value of 2.54 and the expected mean value of 2.93 resulting an expectation gap of 0.39. At the grand mean level the actual value was 2.69 and the expected value was 2.84 with an expectation gap of 0.15.

## **B. Group Perceptions:**

The major findings of the group perceptions have been presented under (a) Auditors Vs. Investors; (b) Auditors Vs. Financial Analysts; and (c) Auditors Vs. Educated Public.

### **(a) Auditors Vs. Investors:**

The findings of the perceptions on audit expectation gap by auditors and investors have been presented below:

(1) Auditors' responsibility in measuring financial performance containing three variables at actual grand mean level both in auditors and investors had a difference of 0.45, but the investors were expecting high from auditors. The auditors assigned only 2.30 expected mean values as against the expected value of investors at 3.75 with the large expectation gap of 1.45.

(2) Regarding auditor responsibility in prevention of frauds and errors, investors were expecting more from auditors with the expectation gap of 2.42. Similarly, safeguarding the assets of the company had the expectation gap of 1.15.

(3) The responsibilities of auditor in producing the financial statements were evidenced to have the higher expectation gap of 1.03 in investors and it was the lowest at 0.23 in auditors.

(4) The expectation gap was the highest with 1.29 in investors with regard to detecting illegal acts by the management.

(5) The expectation gap was the highest with 1.43 in investors with regard to detecting frauds and errors.

(6) There was a high expectation gap among investors at 0.99 with regard to certifying accuracy of financial reports.

(7) The investors were expecting more independence to auditors by assigning expected mean value 3.96 of as against the actual mean value of 2.88 with the gap of 1.08. Regarding independence, the auditors assigned the lower gap of 0.25.

(8) The expectation gap was the highest with 1.01 in investors with regard to auditor as a person of objectivity.

(9) Moderately expectation was high from investors regarding auditor as a person of judgment and person of relevant skills with the gap of 0.76 and 0.81 respectively.

(10) Auditors moderately regarded themselves as protectors of shareholders with the gap of just 0.30, but the expectation gap was the highest with 1.69 in investors. Similarly, investors perceived the gaps of 0.94 and 0.81 with regard to auditors signaling corporate crisis.

(11) The investors expected that the auditor should be loyal to them by assigning the expected gap of 0.76.

(12) The investors expected that the auditor should protect the interest of investors as a policeman, as a watchdog, and as a detective with the expectation gap of 0.95 as against to the auditors perceiving the gap at only 0.13.

(13) With regard to socially responsible role of auditors, the investors perceived a higher expectation gap at 1.26 as against a lower value of 0.15 by the auditors.

(14) With regard to as an ethical person of auditors, the investors perceived a higher expectation gap at 1.02 as against a lowest value of 0.03 by the auditors.

(15) Regarding ethical role, investors perceived a gap of as against the lowest value of 0.06 by the auditors.

(16) The professional commitment towards valuation process was perceived with the moderate expectation gap of 0.66 as against a lower value of 0.37 by the auditors.

(17) The investors perceived a gap of 1.23 as against a lower value of 0.36 by the auditors.

(18) Regarding professional commitment towards income measurement investors were expected a gap of 1.02 as against a lower value of 0.24 by the auditors.

(19) Regarding professional commitment towards social obligation, investors perceived a moderate gap of 0.61 as against a lower value of 0.26 by the auditors.

(20) The investors expected more from auditors regarding obligations of auditors on purchase of raw materials and fixed assets resulting in a gap of

0.64 and 0.66 respectively as against the auditors perceiving lower expectation gap of 0.19 for both the variables.

(21) There were no expectations among both the respondents regarding obligations of auditors in artificial boosting of financial performance because the expected mean value was less than the actual mean value. The expected grand mean value of auditor and investor were 2.92 and 2.64 and the actual grand mean value was 3.19 and 2.81 respectively.

(22) The investors expected the gap at 0.75 towards reducing manipulative practices as against a lowest value of only 0.03 by the auditors.

(23) The auditors perceived more frequent periodical audit than investors with an expectation gap of 1.18 as against a moderate value of 0.60 by the investors.

(24) Regarding the deficiency levels of audit in measuring the functional areas almost similar expected levels of auditors and investors were found. The auditors expected a gap of 0.58 as against the gap of 0.57 by the investors.

(25) Regarding the deficiency level in physical verification of all assets and inventories, the investors expected a moderate gap of 0.75 as against the no expectation gap by auditors.

(26) With regard to directors of the audited company to be held liable for any misrepresentation of the facts, the investors expected high gap of 0.81 as against the lowest gap of 0.22 by the auditors.

(27) The perception by the investors on auditor rotation had an expectation gap of 0.71 with no gap perceived by the auditors.

(28) The perception by the investors on peer review had an expectation gap of 0.99 with no gap perceived by the auditors.

(29) Auditors assigned less value at the expected level to accounting standards improving auditing quality, whereas the investor assigned more at expected level than actual level with a gap of 0.75.

(30) Auditing standards increasing audit quality was found to have perceptual differences between auditors and investors with a gap of 0.23 and 0.89 respectively.

(31) Accountability of auditors was perceived with a higher gap of 0.94 by the investors.

(32) From the point of view of worthiness of auditors, the investors perceived a gap of 0.38 with no gap perceived by auditors.

(33) Audit market competition had the highest expectation gap of 1.33 by auditors and lower expectation gap of 0.47 by auditors.

(34) Investors neglected receiving payments for non-audit services and auditors had a difference of 1.34 between actual and expected mean values.

**(b) Auditors Vs. Financial analysts:**

(1) Regarding cent per cent examination in audit procedure, the auditors perceived an expectation gap of only 0.25 as against the financial analysts perceiving a gap of 0.98.

(2) Financial analysts perceived the gap of 0.94 as against only 0.04 with regard to the responsibilities of auditor in producing the financial statements.

(3) While giving assurance that company is in good financial health, auditors had lowest gap of 0.57 and the financial analysts had a gap of 0.72.

(4) Financial analysts identified higher expectation gap of 1.02 with regard to the responsibility of prevention of frauds and errors.

(5) Auditors perceived less responsibility in prevention of errors and frauds who assigned more value at actual level than at expected level.

(6) In enforcing effectiveness of internal control on audit quality, financial analysts had more difference of 0.82 than auditors who had a difference of 0.23.

(7) Auditors opined that they were performing fully their responsibility in detecting illegal acts by the management and the financial analysts had a difference of 1.01 insisting that auditors should assume more responsibilities.

(8) In reporting all detected frauds and thefts to the relevant authority, financial analysts expected more than the auditors having a difference of 1.11.

(9) If financial analysts identified the highest expectation gap of 1.19 with regard to detection of frauds and errors as a component of professional responsibilities of auditors, the auditors perceived a lower expectation gap with 0.09.

(10) For certifying the accuracy of financial reports, auditors had less difference of 0.12 and the financial analysts had a difference of 0.66.

(11) The highest expectation gap was evidenced by the financial analysts with regard to the auditor as a person of independence and the gap stood at 1.09.

(12) Financial analysts perceived a higher expectation gap of 0.69 with regard to the professional traits of auditors and the auditors opined that they were already performing their duties as in professional traits.

(13) If the expectation gap by financial analysts was the highest at 1.18 with regard to auditor acting as a protector of shareholders, the auditors perceived that they were already protecting the shareholders with more than what actually they did.

(14) From the viewpoint of auditors acting as agents of management, the auditors perceived a lower expectation gap of only 0.13 as against 0.43 by the financial analysts.

(15) ) The expectation gap with regard to the protective role of auditors as a policeman was found to be negligible in case of auditors, but the financial analysts perceived a higher expectation gap of 0.88.

(16) The financial analysts found the higher expectation gap of 0.79 with regard to auditors as watchdogs of the company.

(17) The role of auditors as detectives was perceived at lower level by auditors with a difference of 0.20 but the financial analysts perceived a higher difference of 0.77.

(18) The auditors upholding ethical standards on tax laws were found to have an expectation gap of 0.75 from financial analysts as against 0.21 from auditors.

(19) Auditors acting as socially responsible persons had an expectation gap of 1.01 from financial analysts as against 0.26 from auditors.

(20) The ethics in auditors was evidenced to have an expectation gap of 0.80 from financial analysts as against lower perceptions only at 0.29.

(21) Regarding the professional commitment of the auditors in the valuation process, financial analysts perceived a higher expectation gap at 0.48 than that of the auditors with 0.09.

(22) With regard to valuation of fixed assets, auditors perceived that they performed more than the expected and the financial analysts perceived the gap at 0.58.

(23) The professional commitment of auditors in income measurement was found to have an expectation gap of 0.78 from financial analysts as against only 0.24 from auditors.

(24) The professional commitment towards social obligation was found to have an expectation gap of 0.75 from financial analysts as against no expectation gap from auditors.

(25) With regard to purchase of raw materials, the financial analysts perceived a moderate expectation gap at 0.58 as against a lower value of 0.19 by the auditors.

(26) With regard to purchase of fixed assets, the financial analysts perceived a moderate expectation gap at 0.70 as against a lower value of 0.19 by the auditors.

(27) Similar opinion was found with regard to obligations of auditors on fiscal and social accounting. The financial analysts perceived a moderate expectation gap at 0.45 as against a moderate expectation gap at 0.36 by auditors.

(28) The deficiency level of audit of all transactions was found to have an expectation gap of 0.65 from financial analysts as against only 0.19 from auditors.

(29) With regard to audit of financial statement, only the auditors agreed moderately with the gap of 0.73 as against a lower expectation gap of 0.32 by financial analysts.

(30) With regard to continuous audit, financial analysts agreed moderately with the gap of 0.70 as against a lowest expectation 0.20 by auditors.

(31) With regard to more frequent audit, auditors perceived higher gap of 1.18 as against a lower expectation 0.47 by financial analysts.

(32) Regarding physical verification of all assets, the expectation gap perceived by the financial analysts stood at 0.63 as against a lower difference of only 0.19 by the auditors.

(33) From the viewpoint of suggestions to reduce deficiency levels, financial analysts perceived moderate expectation gap of 0.77 with no expectation gap from auditor.

(34) Regarding accounting standards improving auditing quality, financial analysts perceived a moderate expectation gap of 0.71 and no expectation gap from auditor.

(35) Regarding accounting standards improving auditing quality, financial analysts perceived moderate expectation gap of 0.71 as against lower expectation gap of 0.23 by auditor.

(36) From the viewpoint of relevant role of auditors regarding accountability, financial analysts perceived moderate expectation gap of 0.47 with no expectation from auditor.

(37) Regarding the role auditors' worthiness of audit opinion based more on oral statements than on documentary evidence, financial analysts perceived moderate expectation gap of 0.52 as against lower expectation gap of 0.13 by auditor.

(38) Regarding auditors worthiness, financial analysts perceived moderate expectation gap of 0.66 as against lower expectation gap of 0.23 by auditor.

(39) From the viewpoint of auditor independence, financial analysts perceived lowest expectation gap of 0.06 as against lower expectation gap of +0.70 from auditors indicating that there was no audit expectation gap.

### **(c) Auditors Vs. Educated Public:**

(1) With regard to auditors' responsibility in measuring financial performance educated public perceived high expectation gap of 1.15 as against a lower expectation gap of 0.18 by auditors.

(2) Regarding auditors' responsibility in prevention of frauds and errors, educated public perceived high expectation gap of 1.05 and no expectation gap from auditors.

(3) From the viewpoint of auditors' responsibility in controlling financial aspect, educated public perceived moderate expectation gap of 0.38 with no expectation from auditor.

(4) Regarding the auditors' responsibility in financial misstatement, educated public expected more from auditors with the expectation gap of 1.05 as against a lower expectation gap of 0.27 by auditors.

(5) From the viewpoint of auditors' responsibility on professional discipline, educated public perceived high expectation gap of 0.98 with lower expectation gap of 0.16 from auditors.

(6) Regarding professional appearance of auditors, educated public expected more from auditors with high expectation gap of 0.91 as against no expectation gap from auditors.

(7) With regard to auditor as a person of judgment, educated public perceived expectation gap of 0.67 as against a lower gap of 0.20 by auditors.

(8) With regard to auditor as a person of relevant skills, educated public perceived expectation gap of 0.0.79 with no expectation from auditors.

(9) Regarding auditors' role in safeguarding stakeholders' interest, educated public perceived high expectation gap of 0.92 and auditors opinion was almost same regarding actual and expected values.

(10) Regarding the auditors and their level of loyalty, educated public perceived moderate expectation from auditor with the expectation gap of 0.71 and no expectation from auditors.

(11) In protective role of auditors, educated public expectation was very high with a gap of 0.80, but the auditors opined they were already playing protective role and expected nothing.

(12) The ethical conduct of auditors was perceived at substantially higher level assigning actual grand mean value of 3.59 with their expectation on the higher side with the mean value of 3.65 resulting in lowest expectation gap of 0.14. But the educated public had a high level of expectation with an expectation gap of 0.84 with actual grand mean value of 2.98 and the expected grand mean value of 3.82.

(13) Regarding professional commitment towards valuation process, auditors perceived that their commitment level should be reduced in areas of valuation of fixed assets and depreciation accounting. But the educated public expected higher commitments from the auditors with a gap of 0.75 and 0.71 in the above said areas.

(14) In professional commitment towards income measurement, educated public expected more professional commitment towards measurements process as indicated by the expectation gap of 0.84 as against 0.24 by auditors. Highest degree of expectation gap of 1.12 was found

between auditors and educated public at expected level for expense recognition.

(15) Regarding professional commitment towards social obligation's auditors perceived that they were already performing their role enough and had assigned less value than the actual value at expected level. But the educated public had a moderate gap of 0.61.

(16) From the view point of obligations of auditors in artificial boosting of financial performance, it was observed that the auditors assigned the grand mean value of 3.19 at actual level indicating that there were no such practices by the auditors to help the management to boost the accounts artificially and they also assigned the grand mean level of 2.92 at the expected level of obligation indicating that it was not at all an obligation and the auditors never colluded with management to boost the accounting figures.

(17) Educated public also perceived that the actual level of obligation in reducing manipulation in the accounting figures by the management was less and the actual grand mean value stood at 2.71 as against the expected value of 2.58.

(18) Deficiency level in measuring the functional areas was perceived by auditors and assigned the actual grand mean value of 3.19 for the level of deficiency in auditor with expectation being assigned the mean value of 3.77 with a gap of 0.58.

(19) The educated public expected the level of deficiency by assigning actual grand mean value of 2.83 with expected weighted points of 3.46 and the expectation gap was found to be 0.63.

(20) In physical verification of assets, auditors perceived that it was highly difficult to verify all the assets and inventories in the normal course of audit. But the educated public perceived that there was low level of physical verification of assets and inventories with the actual grand mean value standing at 2.88 and the expected mean value of 3.72 with a gap of 0.84.

(21) From the view point of regulatory measures to reduce deficiency levels in audit process, it was evidenced that the auditors and the educated public assigned higher weighted points and respective actual grand mean value standing at 3.20 and 2.97. However the educated public assigned the higher value with the expected mean value of 3.54 with no expectation gap in

the perceptions of auditors, such expectation gap stood at the mean value difference of 0.57.

(22) Highest expectation gap was found with a mean difference of 0.91 between auditors and educated public at expected level regarding adherence to current audit standards by auditors.

(23) Regarding suggestions to reduce deficiency levels, auditors assigned more weighted point with the actual mean value of 4.05 as against the educated public who assigned 2.71 with an expectation gap of 1.34. At expected level of grand mean, auditors assigned a mean value of 3.88 as against the educated public who assigned a mean value of 3.62 with least expectation gap of 0.26.

(24) Auditors assigned highest mean value for auditor rotation both at actual and expected level with the mean values of 4.29 and 3.81 with a gap of 0.48 and the educated public assigned mean value of 2.79 and 3.53 respectively with a higher gap of 0.74.

(25) With regard to regulatory influence on role of auditors, both auditors and educated public perceived that auditing standards increased the audit quality by assigning a mean value at actual level of 4.47 and the educated public assigning the value of 3.02 and at the expected level 3.65 and 3.78 respectively. The educated public perceived a higher gap of 0.80.

(26) Auditors assigned highest mean value at actual level 4.44 to the role of auditors that audit enforced recording of transaction with substance. But the educated public assigned the mean value of 3.07 for audit reducing the falsification of accounting records.

(27) Regarding relevance of audit and role of auditors in worthiness, by the auditors perceived moderately at high level with actual grand mean value of 3.65 and expected grand mean value of 3.52 indicating a very low expectation gap of 0.14.

(28) The highest expectation gap of 0.43 at expected level was found between auditors and educated public on auditing increasing the application of appropriate accounting polices for better preparation and presentation of financial statements.

(29) With regard to factors affecting independence of auditors on economic dependence of the auditor on the client both perceived the same level of opinion.

## TESTING OF HYPOTHESES

Using the data presented in the thesis, hypotheses formulated at the beginning of this study being carried out, the following testing of hypotheses has been made:

H1: Auditors perceive lower audit expectation gap than the other groups.

Groups	AEG Value
Auditors	-0.07
Investors(-0.65)-(-0.7)	-0.58
Financial Analysts (-0.55) -(-0.07)	-0.48
Educated Public(-0.55) -(-0.07)	-0.48

Source: Table 4.108.

The auditors were found to have lower expectation gap than the other respondent groups. Hence the hypothesis is **ACCEPTED**.

H2: Investors perceive a higher level of audit expectation gap than financial analysts and educated public.

Groups	AEG Value
Investors	-0.65
Financial Analysts	-0.55
Educated Public	-0.55

Source: Table 4.108.

Considering the audit expectation gap perceived by all the three groups, investors perceive higher expectation gap. Hence the hypothesis is **ACCEPTED**.

H3: Reasonableness gap is higher than performance gap.

Type of the Gap	Gap Value	Difference
Reasonableness Gap	-0.30	-0.02
Performance Gap	-0.28	

Source: Table 4.108.

Since there is no substantial difference between reasonableness gap and performance gap and only a small difference is there, both the gaps play almost similar roles. Hence the hypothesis **REJECTED**.

H4: Deficient performance gap is higher than deficient standards gap.

Type of the Gap	Gap Value	Differences
Deficient Performance	-0.21	-0.14
Deficient Standards	-0.07	

Source: Table 4.108.

Deficient performance gap plays a major role in performance gap than the deficient standards gap. Hence the hypothesis is **ACCEPTED**.

H5: Auditor responsibility causes higher expectation gap than the other components of audit process.

Components of Audit Process	Gap Value
Auditor Responsibility	-0.98
Audit Ethics	-0.76
Financial Reporting Commitment	-0.57
Audit Effectiveness	-0.62
Auditor Independence	+0.01

Source: Table 4.108.

The value of audit expectation gap is mainly influenced by all the four components of audit process with the expectation of auditor independence. Hence the hypothesis is **ACCEPTED**.

H6: Auditors perceive lower deficient standards gap in all components of audit process.

<b>Component of Audit Process</b>	<b>Deficient Standards (Value)</b>
Auditor Responsibility	-0.10
Audit Ethics	+0.08
Financial Reporting Commitment	-0.01
Audit Effectiveness	+0.25
Auditor Independence	-0.58

Source: Table 4.108.

Since auditors perceive deficient standards in all dimensions of audit process with different levels of expectations gaps, the hypothesis is **ACCEPTED**.

H7: Investors perceive the highest level of audit expectation gap in all components of audit process.

<b>Component of Audit Process</b>	<b>Gap Value</b>
Universe	-0.58
Auditor Responsibility	-1.15
Audit Ethics	-0.87
Financial Reporting Commitment	-0.61
Audit Effectiveness	-0.66
Auditor Independence	+0.03

Source: Table 4.108.

Since investors perceive audit expectation gap in all dimensions of audit process with different levels of expectations gaps, the hypothesis is **ACCEPTED**.

H8: Deficient performance is perceived at a higher than deficient standards in performance gap in all components of audit process.

Components of Audit Process	Gap Value in Deficient	
	Standards	Performance
Universe	-0.07	-0.21
Auditor Responsibility	-0.10	-0.08
Audit Ethics	-0.08	-0.51
Financial Reporting Commitment	-0.01	-0.18
Audit Effectiveness	+0.25	-0.91
Auditor Independence	-0.58	+0.63

Source: Table 4.108.

Since respondents perceive higher levels of performance gap in all the components of audit process than those of deficient standards the hypothesis is **ACCEPTED**.

H9: Deficient performance is caused more by auditor independence and audit ethics than by auditor responsibility and financial reporting commitment.

Group	Deficient Performance Gap
Universe	-0.21
Auditor Responsibility	-0.08
Audit Ethics	-0.51
Financial Reporting Commitment	-0.18
Audit Effectiveness	-0.91
Auditor Independence	+0.63

Source: Table 4.108.

Deficient performance is mainly the result of audit effectiveness, auditor independence and audit ethics as indicated in the expectation gaps, the hypothesis is **ACCEPTED**.

H10: Audit effectiveness causes higher level of performance gap than other components of audit expectation gap.

<b>Components of AEG</b>	<b>Performance Gap</b>
Auditor Responsibility	-0.18
Audit Ethics	-0.26
Financial Reporting Commitment	-0.19
Audit Effectiveness	-0.66
Auditor Independence	+0.05

Source: Table 4.108.

The performance gap from audit effectiveness is the highest at 0.66. Hence the hypothesis is **ACCEPTED**.

H11 Lower the expectation gap in auditor independence lower the audit expectation gap.

<b>Dimensions</b>	<b>AEG (Universal Perception)</b>
Auditor Independence	+0.01
Auditor Responsibility	-0.98
Audit Ethics	-0.76
Financial Reporting Commitment	-0.57
Audit Effectiveness	-0.62

Source: Table 4.108.

There is a positive relationship between auditor independence and audit quality. In other words, if there is lower level of independence, expectation gap is higher and vice-versa. However, we find no expectation gap in auditor independence but we find expectation gap in auditor responsibility, audit ethics, financial reporting commitment and audit effectiveness. This conclusion is either ambiguous or amazing. It needs a re-examination totally. Hence the hypothesis is **REJECTED**.

## **SUGGESTIONS TO IMPROVE AUDIT QUALITY**

The following suggestions are recommended to reduce audit expectation gap thereby increasing the audit quality:

- (i) Deficient standards gap should be reduced by introducing more stringent audit standards through amendments to the Companies Act in Iran;
- (ii) Audit ethics should be imparted to all sections of society including the auditors;
- (iii) The scope of financial reporting commitment should be enhanced by making auditors responsible for complete verification of the financial reporting process adopted by the management; and
- (iv) The feasibility of mandatory implementation of audit rotation and peer review may be examined seriously to improve audit quality.

## **SCOPE FOR FURTHER RESEARCH**

The concept of audit expectation gap entails the immense scope for empirical research in Iran. In view of the present study focusing only on perceptual differences on audit expectation gap in investor, financial analysts and educated public vis-à-vis auditors, the following areas for further research on the problem may be taken up:

- (i) The reasons for a high level of auditor independence in Iran may be seriously examined from the viewpoint of whether Islamic culture influences the existence of such a high level of auditor independence perceived in the present study;
- (ii) The feasibility of comprehensive audit in place of sample audit presently adopted throughout the auditing world may be studied taking the case study of Iran;
- (iii) An explorative study of audit ethics in Iran is another potential area of research; and
- (iv) A cross-country study of audit expectation gap may be taken of on the assumption that culture influences strongly on the expectation gap.

## **THE EPILOGUE**

Audit is moving away from the private domain to the public domain resulting in the adoption of public interest concept. The spur for this phenomenon comes from corporate social responsibility and corporate governance, which are required to change the management style from self-interest to social interest. The medium through which this realization is to be achieved is to be founded on audit quality improvement. The players in this process consist of the accounting profession, the government, the corporate management and the general public. A concerted effort is to be strategically devised to bring in a paradigm shift in audit philosophy to improve the credibility of audit opinion thereby injecting credibility in financial reporting to be used by relevant decision makers. The only hope is to make auditors more responsible towards society, in which they thrive with respect by upholding the professional values.