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INTRODUCTION

If the accounting is the language of business, the audit function becomes the syntax of this language in the sense that financial reporting by the management is done in an orderly way by observing the relevant reporting regulations thereby injecting the elements of quality and credibility in such reporting. 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. As no function is devoid of any flaw, the audit function has an inherent problem of flaw or deficiencies, which is designated as ‘audit expectation gap’. It is virtually the quantification of 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 225 sample respondents selected on stratified random sampling basis from Bangalore city, which is a hub of numerous national and international economic enterprises and also a center place of cross-cultural confluence. The test of audit expectation gap was visualized to be conducted by making a comparative analysis of the perceptions of auditor group and investor group consisting of 90 auditors and 135 investors on the basis of fundamental hypothesis that there were significant perceptual differences between auditors and investors. The study included the perceptions of auditors and investors on seven dimensions of the audit expectation gap: responsibility of external auditors; role of auditors; profession commitment; obligations of auditors; deficiency levels of audit; audit effectiveness; auditor independence and economic considerations. Further, all these seven dimensions were analyzed in terms of twenty-six components, which included ninety-four statements.
responses were elicited from the sample respondents in terms of actual level of audit effectiveness and the expected level of audit effectiveness for all the ninety-four statements on audit expectation gap. The statistical tools for analysis and interpretation of data included mean values, standard deviations, t-tests and Levene’s tests. Ranking method was also used to measure the audit expectation gap. Lastly, the responses from 225 sample respondents were analyzed from the viewpoint of perceptual differences between auditor group and investor group.

MAJOR FINDINGS

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

(i) Profile of Respondents:

(1) Majority of the respondents were adults and they numbered 137 representing 60.89 per cent of the total number of respondents as against youth numbering 88 and representing 39.11 per cent. The largest number of investors numbering 83 and representing 60.58 per cent of investor group and 36.89 per cent of total number of respondents were adults as against youth numbering 36 and representing 40.91 percent of youth and 16.00 per cent of total number of respondents as youth.

(2) The number of self-employed respondents stood at 130 representing 57.78 per cent and the employed respondents numbered 95 and they represented 42.22 per cent. On the whole, all auditors were self-employed and investors were largely employed and their number stood at 95 representing 75.37 per cent of investor group and 42.20 per cent of total number of respondents.

(3) Nearly, 175 respondents representing 77.78 per cent were in the high-income group as against 50 respondents representing 22.22 per cent falling under low-income group. All the 90 auditors were found in the high-income group and they represented 51.43 per cent of the high-income group and 40.00 percent of all the respondents. From the viewpoint of investors, there were 85 respondents representing 48.57 per cent of high-income group.
and 37.78 percent of all respondents as against investors under low-income group numbering 50 and representing 37.04 per cent of investors and 22.22 percent of all respondents.

(4) Majority of the respondents were found to have the non-diversified investment portfolio and their number stood at 170 representing 75.56 per cent of all respondents. Only 55 respondents representing 24.44 per cent had diversified investment portfolio. Similar patterns of investment portfolio holdings were evidenced in both auditors and investors. There were 67 auditors having non-diversified investment portfolio and their percentages stood at 74.44 per cent of auditors and 29.77 per cent of all respondents. There were 103 investors having non-diversified investment portfolio and their percentages stood at 76.30 per cent of investor group and 45.78 per cent of all respondents.

(5) Almost 134 respondents representing 59.56 per cent of all respondents were in the habit of reading the annual reports regularly as against 91 respondents representing 40.44 per cent having read the annual reports occasionally. There were 83 auditors representing 92.22 per cent of that group and 36.89 per cent of all respondents read the annual reports regularly. In the investor group, there were 84 respondents reading the annual reports occasionally and they represented 62.22 per cent of investor group and 36.00 per cent of all respondents. However, there were 51 investors reading the annual reports regularly and they constituted 37.78 per cent of investor group and 22.67 per cent of all respondents.

(6) Majority of the respondents numbering 134 and representing 59.56 per cent were high believers in the auditors’ report as against 91 respondents representing 40.44 per cent having been the low-believers. The number of high-believers in auditor respondents stood at 65 and their percentage was 72.22 of auditor group and 28.99 per cent of all respondents. However, the high-believers and low-believers were almost equally distributed in the investor group in the sense that 69 investors were high-believers in auditor’s report and their percentage stood at 51.11 per cent of that group and 30.67 per cent of all respondents and the low-believers numbered 66 and they constituted 48.89 per cent of investor group and 29.33 per cent of all respondents.
(7) Majority of the respondents numbering 139 and representing the 61.78 per cent were high-believers in financial statements of companies as against low-believers, whose number stood at 86 representing 38.22 per cent. Almost 60 auditors representing 66.67 per cent of auditor group and 26.67 per cent of all respondents were high-believers as against low-believers in the auditor group numbering 30 and representing 33.33 per cent of auditor group and 13.33 per cent of all respondents. From the viewpoint of investors, it was evidenced that 79 investors representing 58.52 per cent of investor group and 35.11 per cent of all respondents were high-believers as against 56 respondents representing 41.48 per cent of investor group and 24.88 per cent of all respondents falling in the category of low-believers in financial statements.

(8) Totally, there were 156 respondents having high-belief in the company profile and they represented 69.33 per cent of all respondents. As against this group, 69 respondents were low-believers in company profile and they represented 30.67 per cent of all respondents. With lower number of low-believers in both auditors and investors, the number of high-believers stood at 58 representing 64.44 per cent of auditors and 25.78 per cent of all respondents in the auditor group and 98 representing 72.59 per cent of investor group and 43.56 per cent of all respondents in the investor group.

(9) Majority of the respondents numbering 153 and representing 68.00 per cent of all respondents were low-believers in directors' profile and 72 respondents representing 32.00 per cent were high-believers. With high-believers forming a low majority in both the groups of auditors and investors, the low-believers numbered 58 representing 64.44 percent of that group and 25.78 per cent of all respondents on one hand and the low believers numbered 95 representing 70.37 per cent of investor group and 42.22 per cent of all respondents.

(ii) Universal Findings:

(1) The actual grand mean value for the six variables reflecting the auditors' responsibility in measuring financial performance was mere 2.40. However, the expected grand mean value stood at 3.54. Hence there was an expectation gap of 1.14. The responsibility of auditors in maintaining
accounting records by the management was assigned the highest weightage by the respondents and the actual mean value stood at 3.45. The lowest weightage was assigned to auditor's responsibility in producing the financial statements and the actual mean value stood at 1.32. The highest expectation gap in auditor's responsibility was evidenced in the conducting of cent percent of examination in the audit procedure and the mean value gap between actual weightage and expected weightage stood at 1.54. The least expectation gap was evidenced in the auditors responsibility of 0.58 towards eliminating earnings manipulation by the management and this indicated that the auditors were not at all concern in eliminating earnings manipulation.

(2) There are four responsibilities of auditors towards unearthing misstatements. The responsibility of auditors was assigned the actual weighted mean value of 2.97 towards unearthing the misstatements. The expected grand mean value stood at 4.42 indicating the mean value difference of 1.45. The responsibilities of auditors towards detecting illegal acts by the management was rating with the least actual mean value of 2.66 and the highest expectation was with respect to this variable with the mean value of 4.50. However, the expectation gap was the lowest with regard to detecting any deliberate distortion of financial information by the management and the expectation gap stood at 1.17.

(3) The actual level of functional knowledge in auditors was rated moderately at a higher level with the actual mean value of 3.42 and the expectation level was assigned the mean value of 4.45 and there was an expectation gap of 1.03 only. It was evidenced that the auditors had a high level of accurate knowledge in company law with the actual mean value of 3.60 and the respondents had a higher expectation on this knowledge by assigning the expected mean value of 4.78 with an expectation gap of 1.18. It was also evidenced that the auditors were not highly knowledgeable on functional aspects of an economy and the actual mean value was lowest at 3.08. However, the expectation gap was found to be the highest with regard to accurate knowledge about company law stood at 1.18. The least expectation gap was evidenced with regard to knowledge about clients business with an expectation of 0.84.
(4) For the three ethical responsibilities of auditors, the respondents assigned an actual mean value of 2.88 as against the expected mean value of 3.51 resulting in a moderate expectation gap of 0.64.

(5) The respondents perceived the actual professional discipline moderately with the grand mean value was 3.28. However, the expected level with regard to professional discipline was high as evidenced by the grand mean of 4.53. The right procedures followed before authenticating financial statements was assigned the actual mean value of 3.44 as against the expected mean value of 4.71 and this resulted in an expectation gap of 1.27.

(6) It was also evidenced that the detection of frauds and errors by auditors was assigned the least actual mean value of only 3.00 and the expectation was assigned the mean value of 4.48 resulting in the highest expectation gap of 1.49. Certifying the accuracy of financial reports was the second weighted actual mean value with the expected mean value of 4.40 resulting in the expectation gap of only 0.99.

(7) The actual level of professional traits possessed by the auditors was very moderate with the grand mean value of 3.29 only; while the expected level was assigned the grand mean value of 4.53. The overall expectation gap stood at 1.24. With respect to the impartiality quality, the expectation from the auditor was very high with a mean value of 4.79. The results also indicate on the whole that the professional traits should be the utmost priority for the auditors' profession.

(8) The actual grand mean value was 2.65 for all the variables indicating that the role-played by auditors was considerably less and it was expected to increase at least to a moderate extent (grand mean 3.99) with an expectation gap in mean value of 1.34.

(9) With the auditors role in safeguarding the stakeholders' interest hovering around the actual mean value of 2.63 in case of auditor acting as a protector of lender and 2.68 in case of auditor being a protector of shareholders, the highest expectation was rated with the mean value of 4.19 regarding auditor being the protector of shareholders and the highest expectation gap was found with regard to this variable with the gap in the mean value of 1.51. The t-test results showed that there were significant
(10) The level of loyalty with regard to maintaining of business secrets was perceived at a moderate level with an actual mean value 3.31 and the expected level was high with the mean value of 4.56 having an expectation gap of 1.24. The actual level of loyalty of an auditor was more than the expected level with their mean values standing at 2.77 and 1.64 with regard to auditor acting as an agent of management and this indicated that auditors virtually acted as the agents of management. In other words, the sample respondents felt that there was too much of auditor favoring the management and they expected that this role should be reduced.

(11) The actual grand mean value was 3.40 for all the three variables indicating that the social and cultural values of auditors were lower than the expected grand mean value of 4.63 resulting in the overall expectation gap of 1.23. The actual mean value in case of an auditor as a man of principles stood at 3.57 and the expectation from the respondents stood at 4.73 resulting in the expectation gap of 1.16.

(12) The sample respondents' expectation was high in case of auditor's role as a watchdog as it was 4.44. However, the actual mean value stood at 3.15 causing the expectation gap with the mean value of 1.29. The similar result followed in case of respondents' view on auditors as persons of integrity with an expectation gap of the mean value was 1.25.

(13) The respondents expected higher protective role of auditors, as their expectation was assigned the mean value of 3.48 when compared to the actual mean value of 2.29 and this resulted in expectation gap of protective role at 1.19.

(14) The respondents assigned the highest priority on auditor's role 'as an endorser of opinion' with the actual mean value and the expected mean value of 2.91 and 3.77 respectively and this indicated the least expectation gap of 0.86. The role of auditor as a policeman was assigned the least mean value of 1.72 as against the expected mean value of 3.21 resulting in the expectation gap of 1.50.

(15) The grand mean value for the actual ethical conduct stood at 3.29, whereas the expected level was 4.54 for all the four variables taken together. This resulted of the overall expectation gap was 1.25.
(16) The ethical conduct of auditors was found to be the least with regard to the auditors' social responsibility with the mean value of 3.15 and the expectation was assigned the mean value of 4.52. An auditor as an upholder of tax laws was also assigned the lower mean value of 3.18 and the expectation was assigned the mean value of 4.62 resulting in the highest expectation gap of 1.44. However, the least expectation gap was evidenced with regard to an auditor as a person insisting on evidence and the mean value gap stood at 1.06.

(17) The accounting measurement items included in the study were valuation of inventories, valuation of fixed assets and depreciation provisions. The overall professional commitment of auditors was rated with the mean value of 2.87 and the expectation was assigned the mean value of 4.23 resulting in the expectation gap of 1.35.

(18) The professional commitment towards depreciation accounting was assigned the highest mean value of 3.54 and the least was inventory valuation 2.54. However, the expectation gap was found to be the highest with regard to inventory valuation with the mean value gap of 1.45 and least was 1.17 with regard to depreciation accounting.

(19) The actual level of professional commitment towards income measurement was assigned the mean value of 3.24 as against the expected mean value of 4.32 and there was an expectation gap of 1.08. The professional commitment was found to be moderately high with the mean value of 3.48 each with regard to revenue recognition and expense recognition.

(20) The commitment level was found to be least with regard to the measurement of research and development cost with the mean value stood at 2.89. Further, the expectation was found to be highest with regard to expense recognition with the mean value standing at 4.41 and the least was research and development cost with expected mean value standing at 4.22.

(21) The expectation gap was found to be the highest with regard to research and development cost with the mean value difference of 1.38 and the least expectation gap was evidenced in case of revenue recognition with the mean value difference of 0.89.
(22) The professional commitment of auditors towards social obligation was assigned a moderately low level of perceptions with the actual grand mean value and expected grand mean value standing at 2.78 and 3.98 respectively and the expectation gap had the mean value of 1.20.

(23) The professional commitment towards provision for deferred taxation was assigned the highest mean value of 3.30 and the least commitment towards environmental reporting with the mean value of 2.12. The expectation towards provision for deferred taxation was rated highest with the mean value of 4.36. The lowest mean value assigned to environmental reporting with 3.58. However, the highest gap in professional commitment was evidenced in case of environmental reporting with the mean value gap of 1.46 and the least gap value of 1.06 with regard to provision for deferred taxation.

(24) The grand mean value for these purchase variables was 2.40, but the expected level was moderately high with the grand mean value of 3.33 resulting an expectation gap of 0.93. The highest expectation to reduce the malpractices by management was evidenced to be the purchase of raw material with the mean value of 3.64 and the lowest expectation was evidenced in favoring their own contractors with the mean value of 2.70.

(25) All the respondents perceived that the auditor was only moderately involved in boosting the artificial performance of the organization by way of loans or through subsidies and grants. This was evidenced by both the actual and expected grand mean values of 2.11 and 2.88 respectively with an expectation of 0.77.

(26) The obligation of the auditors with regard to social equity was assumed to be very low as evidenced by the mean value of 2.42, but the society expected that he should be having a moderate obligation about this principle as evidenced by the expected mean value of 3.46.

(27) The expected level of respondents towards obligation of auditors in reducing cyber crimes was assigned the expected grand mean value of 2.84, with an expectation gap of 0.78.

(28) The actual grand mean value for audit coverage value stood at 2.61 and the expected grand mean value was 3.73 resulting in the expectation gap of 1.12.
(29) The actual grand mean value of deficiency in physical verification stood at 2.06 as against the expectation of 3.57 causing the expectation gap of 1.52. The perception level of respondents was moderately low with regard to the actual duty of auditors in physical verification of the assets as evidenced by the actual mean of 2.04 for all assets and 2.08 for all inventories. But the expected level was more than the moderate level as evidenced by the mean value of 3.66 for the assets and 3.48 for all inventories.

(30) The faithful representation of audit process by auditors was assigned the overall mean value of only 3.52 as against the expected mean value of 4.44 resulting in the expectation gap of 0.92. The highest actual mean value among these variables was found to be in audit imposing accountability with 3.75 as against audit enforcing recording of transaction with substance with the mean value of 3.23. The faithful representation of audit reducing the falsification or alteration of accounting records was assigned the actual mean value of 3.36 as against the expected mean value of 4.41 resulting in highest expectation gap of 1.05. Further, the variable, 'audit imposing accountability' was assigned the highest expected mean value of 4.63.

(31) The worthiness of audit process was assigned the overall actual mean of 3.00 and expected mean value stood at 3.74 resulting in an expectation gap of 0.74. There was low level of actual perceptions about documentary evidence and willful misrepresentations of transactions as indicated by their actual mean values of 2.19 and 2.64 as against the expected mean values 2.43 and 3.38 respectively.

(32) The facilitators of audit effectiveness were assigned the actual grand mean value of 3.45 indicating that the sample respondents' perception in this regard was highly satisfactory. However, the expected level of the respondents was higher as evidenced by the expected grand mean value of 4.39 and expectation gap stood at 0.94.

(33) The overall actual mean for suggestions to improve audit effectiveness was 2.61, but the expectation was assigned the mean value of 3.78 resulting in the expectation gap of 1.18. The lowest actual mean value with regard to peer review stood at 2.41 and the expected mean value stood
at 3.99 resulting in the highest expectation gap of 1.58. The auditors' rotation through empanelment list was assigned the mean value of 2.67 as against the expected mean value of 3.42 resulting in the least expectation gap of 0.75. Even though, the peer review was assigned the lowest actual mean value of 2.41, the respondents perceived a higher expectation with the mean value of 3.99.

(34) Economic considerations did affect auditor independence and the level of auditor independence was assigned the actual mean value of 1.81, which indicated that the auditor independence suffered to the tune of 63.80 per cent. However, the respondents felt that this loss of auditor independence should be lowered and their expectation of auditor independence was rated with the mean value of 2.84 indicating that the auditor independence should be enhanced from the present mean value of 1.60 to 2.84.

(35) The most dominant factor affecting auditor independence was evidenced to be the economic dependence of the auditor on the client and this factor resulted in the auditor independence prevalent at the actual mean value of 1.60 and a reduction of the impact of this factor was suggested by the respondents by assigning the expected mean value of 2.33.

(36) It was also observed that the auditor independence did not suffer very much from audit market competition and receiving gifts and presentation from management, but they indicated that the auditor independence due to this factor stood at actual mean values of 1.93 and 1.92 respectively.

(iii) Ranking of Perceptions:

The following were the major conclusions based on the ranking of the perceptions: (a) Statements; (b) Components; (c) Dimensions; and (d) The Universe.

(a) Statements:

From the viewpoint of 94 statements, the following were the conclusions:

(1) The highest actual weightage was given to 'audit opinion to change from true and fair view to true and correct' with the mean value of 3.87, which was followed by 'audit imposing accountability,' 'audit increasing credibility of
financial statements,' 'audit increasing the application of appropriate accounting policies for better preparation and presentation of financial statements' and 'auditors having accurate knowledge about company law' by ranking them 2\textsuperscript{nd}, 3\textsuperscript{rd}, 4\textsuperscript{th} and 5\textsuperscript{th} respectively.

(2) As against this, the respondents assigned the least rank of seventy-five with regard to the physical verification of 'all assets' by the auditors in their audit process and this ranking was followed by auditors' responsibility in producing the financial statements, the level of auditor independence existing because of economic dependence of the auditor on the client, the level of auditor independence because of receipt of payment for non-audit services and the protective role of auditors as policemen along with the role of auditor in reducing alteration of computer data by management without visible evidence by the auditor himself with 74\textsuperscript{th} rank, 73\textsuperscript{rd} rank, 72\textsuperscript{nd} rank and 71\textsuperscript{st} rank respectively.

(3) The highest expectation was evidenced with regard to the auditor as a person of impartiality with 1\textsuperscript{st} rank, which was followed by the auditors accurate and functional knowledge about the company law, ethical responsibility of auditors in maintaining of high standards of professional conduct, auditor being a person of principles and auditor being a person of integrity with 2\textsuperscript{nd} rank, 3\textsuperscript{rd} rank, 4\textsuperscript{th} rank and 5\textsuperscript{th} rank respectively.

(4) The least expectation was evidenced in case of ethical responsibility of auditors towards the leakage of business secrets to company rivals with 77\textsuperscript{th} rank, which was followed by the loyalty level of auditors as agents of management, the level of auditor independence due to economic dependence of auditor on the client and also to audit market competition, worthiness of audit process, through audit opinion based more on overall statements than on documentary evidence and auditors responsibility in eliminating earnings management of the company's creative accounting with 76\textsuperscript{th} rank, 75\textsuperscript{th} rank, 74\textsuperscript{th} rank, 73\textsuperscript{rd} rank and 72\textsuperscript{nd} rank respectively.

(5) The expectation gap was found to be the highest with regard to the auditors responsibility in detecting illegal acts by the management while preparing the financial statements (-1.84), which was followed by the deficiency of audit in physical verification of all assets (-1.62), peer review to improve audit effectiveness (-1.58), auditors responsibility in conducting cent
percent examination in audit procedure (-1.54) and auditors responsibility in reporting all detected frauds and thefts to the relevant authority (-1.53) with 2\textsuperscript{nd} rank, 3\textsuperscript{rd} rank, 4\textsuperscript{th} rank and 5\textsuperscript{th} rank respectively.

(6) The least expectation gap was evidenced with regard to the auditors’ role in reducing the manipulative practices by management on tax avoidance and evasion (0.23) with 66\textsuperscript{th} rank, the worthiness of audit process being judged on the basis of audit opinion based more on overall statement than on documentary evidences (-0.24) with 65\textsuperscript{th} rank, the level of auditor independence prevalent due to audit market expectation (-0.47) with 64\textsuperscript{th} rank, obligation of auditors in reducing manipulative practices by the management in favoring their own contractors (-0.48) with 63\textsuperscript{rd} rank and also of checking auditors’ obligation in checking unauthorized access to computer facilities while and programmed by the auditor (-0.49) with 62\textsuperscript{nd} rank.

(b) Components:

The following were the major findings on 26 components, which included several statements in each of these components.

(1) Faithful representation in audit process on audit effectiveness was found to have the highest actual mean value of 3.52 which was followed by facilitators of audit effectiveness (3.45) with 2\textsuperscript{nd} rank, use of auditors functional knowledge as a component of responsibility of external auditors (3.42) with 3\textsuperscript{rd} rank, social and cultural values of auditors (3.40) with 4\textsuperscript{th} rank and ethical conduct of auditors (3.29) with 5\textsuperscript{th} rank.

(2) The least weighted component was auditor independence with the mean value standing at 1.81, which was followed by deficiency of audit in physical verification of assets (2.06) and also the obligation of auditors in reducing manipulative practices by the management with regard to cyber crimes (2.06) with 21\textsuperscript{st} rank, obligation of auditor in reducing manipulative practices by the management with regard to artificial boosting of financial performance (2.11) with 20\textsuperscript{th} rank, the protective role of auditor (2.29) with 19\textsuperscript{th} rank and auditors responsibility in measuring financial performance (2.40) with 18\textsuperscript{th} rank.

(3) The expectation was the highest with regard to social and cultural values with the mean value of 4.63, which was followed by ethical conduct of
auditors (4.54) with 2nd rank, professional responsibility of auditors (4.53) and professional traits of auditor (4.53) with 3rd rank, views on auditors functional knowledge (4.45) with 4th rank and faithful representation in audit process enhancing the audit effectiveness (4.44) with 5th rank.

(4) The lowest expected value was evidenced with regard to auditor independence with the mean value of 2.84 indicating that auditor independence was impossible to achieve given the strong influence of economic considerations. Similarly, the obligation of auditors in reducing manipulative practices by the management with regard to cyber crimes was also assigned the least expected mean value with 2.84 indicating that it was not the major issue for auditors in discharging their duties.

(5) The obligation of auditor in reducing manipulative practices by the management with regard to artificial boosting of financial performance was assigned the lower mean value of 2.88 with 22nd rank being given and this seem to highlight that the respondents did not perceive forcefully that artificial boosting of financial performance was not necessarily the obligation of auditors.

(6) The respondents perceived the fiscal and social reporting role of auditors at a very lower level by assigning expected mean value of 3.04 with 21st rank. Similarly, the loyalty level of auditors was also not very much appreciated by the respondents with the expected mean value standing at 3.10 with 20th rank.

(7) The highest expectation gap was evidenced in case of deficient audit level in physical verification of assets with the mean value of 1.51. In the decreasing order of expectation gap auditors responsibility in unearthing misstatements (-1.45), lack of professional commitment towards valuation process (-1.36), lower role of auditors in safeguarding stakeholders interest (-1.34), lower ethical conduct of auditors (-1.25) and lower professional traits of auditors (-1.24) were ranked 2nd, 3rd, 4th, 5th and 6th respectively.

(8) The least expectation gap was evidenced in case of loyalty level of auditors with the mean value difference of 0.06 which was followed by obligations of auditors in physical and social reporting (-0.41), ethical responsibilities of auditor (-0.63), worthiness of audit process (-0.74), deficient level of audit obligation (-0.75) and audit obligation in reducing manipulative
practices by the management with regard to artificial boosting of financial performance (-0.77), the ranks of which were 23\textsuperscript{rd}, 22\textsuperscript{nd}, 21\textsuperscript{st}, 20\textsuperscript{th} and 19\textsuperscript{th} respectively.

(c) Dimensions:

The major findings on seven dimensions covering 26 components with 94 statements were the following:

(1) Audit effectiveness was assigned the highest actual mean value of 3.17 and auditor independence was assigned the least actual mean value of 1.81 and their respective ranks were at 1\textsuperscript{st} and 7\textsuperscript{th}. The role of auditors, professional commitments, responsibility of external auditors, deficiency in audit levels and obligation of auditors were found to have the actual mean values of 3.01, 3.00, 2.92, 2.65 and 2.29 respectively with 2\textsuperscript{nd}, 3\textsuperscript{rd}, 4\textsuperscript{th}, 5\textsuperscript{th} and 6\textsuperscript{th} ranks respectively.

(2) The highest expectation was found to exist with regard to professional commitments with the mean value of 4.19 which was followed by role of auditors (4.15), audit effectiveness (4.09), responsibilities of external auditors (4.04), deficient audit levels (3.80), obligations of auditors (3.04) and auditor independence (2.84) with their respective ranks of 2\textsuperscript{nd}, 3\textsuperscript{rd}, 4\textsuperscript{th}, 5\textsuperscript{th}, 6\textsuperscript{th}, and 7\textsuperscript{th} respectively.

(3) The highest expectation gap was evidenced with regard to professional commitment with the expectation gap of 1.19 and the least expectation gap was evidenced with regard to the obligation of auditor with 0.75. In between these two extremities of gaps, the deficient level of audit (-1.15), role of auditors (-1.14), responsibilities of external auditor (-1.12), auditor independence (-1.03) and obligations of auditors (-0.75) were assigned the ranks of 2\textsuperscript{nd}, 3\textsuperscript{rd}, 4\textsuperscript{th}, 5\textsuperscript{th} and 6\textsuperscript{th} respectively.

(d) The Universe:

The three major findings covering all the statements in the questionnaire were the following:

(1) The actual level of perceptions on audit effectiveness stood at the mean value of 2.82 representing the effectiveness of audit process at 56.40 per cent only.
The respondents expected that this level of effectiveness should increase to the mean value level of 3.88, which represented the effectiveness of 77.60 per cent.

The expectation gap in terms of mean value stood at 1.06 representing a gap of 21.20 per cent of audit effectiveness.

(iv) Group Differences:

The following were the major perceptual differences between auditors and investors.

(1) If auditors assigned the actual mean value of 2.37 with regard to auditors’ responsibility in measuring financial performance the investors assigned a higher mean value of 2.42. However, the audit expectation gap was more in investor perception than in auditor perception with mean value gaps standing at 1.71 and 0.29 respectively.

(2) The responsibilities of auditor in producing the financial statements were evidenced to have the highest expectation gap of 2.44 in investors and it was the lowest at 0.10 in auditors.

(3) The auditors assigned the higher mean value of 3.48 as against the mean value of 2.62 assigned by the investors and the expectation gap from auditors stood at 0.91, which was lower than the perception of the gap at 1.82.

(4) The expectation gap was the highest with 2.38 in investors with regard to detecting illegal acts by the management.

(5) The expectation gap on auditors’ functional knowledge was found to be lower at 0.51 in case of auditors, but it was substantially higher at 1.38 in case of investors.

(6) If investors perceived the highest expectation gap by assigning the mean value difference of 1.66, the auditors perceived the lowest expectation gap of 0.47 with regard to the above statement.

(7) There was a moderate level of expectation gap with regard to the ethical responsibility of auditors and the gaps stood at 0.45 and 0.77 in case of auditors and investors respectively.
(8) The investors identified highest gap in testing the genuineness of evidence with the difference of 1.85 as against the auditors perceiving a moderate level of expectation gap at 0.71.

(9) With regard to professional responsibilities of auditors, there was a higher level of expectation gap at 1.68 from investors as against a lower level of 0.59 by the management.

(10) If investors identified the highest expectation gap of 1.91 with regard to detection of frauds and errors as a component of professional responsibilities of auditors, the auditors perceived a lower expectation gap with 0.86.

(11) Investors perceived a higher expectation gap of 1.17 with regard to the professional traits of auditors, the auditors recognized this gap very moderately with the difference of 0.53.

(12) The highest expectation gap was evidenced by the investors with regard to the auditor as a person of impartiality and the gap stood at 2.04.

(13) It was evidenced that the expectation gap with regard to auditor as an asserter was assigned the mean value difference of only 0.24 by the auditors, but the investors found a substantial level of expectation gap with 1.54.

(14) Regarding the auditors' role in safeguarding the stakeholders interest, audit expectation gap by the auditors was the minimum at 0.21, but it was substantially higher at 2.10 in case of investors.

(15) If the expectation gap by investors was the highest at 2.47 with regard to auditor acting as a protector of shareholders, the auditors perceived the lowest expectation gap of only 0.08 indicating almost no gap in this regard.

(16) From the viewpoint of auditors acting as agents of management the auditors perceived a lower expectation gap of only 0.31 as against 1.68 by the investors.

(17) With regard to auditors acting as persons maintaining business secrets the audit expectation gap was moderately recognized at 0.41, but the investors perceived a higher expectation gap of 1.80.
(18) With regard to social and cultural values of auditors, the investors perceived a higher expectation gap at 1.65 as against a lower value of 0.62 by the auditors.

(19) The investors found the highest expectation gap of 1.76 with regard to auditors as watchdogs of the company, but the auditors assigned the least expectation gap of 0.58.

(20) The expectation gap with regard to the protective role of auditors was found to be the lowest mean value gap of 0.28 in case of auditors, but the investors perceived a higher expectation gap of 1.80.

(21) If auditors perceived a lower expectation gaps with regard to various statements on the protective role of auditors, the investors had a higher level of expectation gap with regard to all the four statements on the protective role. To cite the investors perceived an expectation gap of 2.33 with regard to auditors acting as policemen as against the perceptions of auditors with the mean value of difference of only 0.24.

(22) The investors perceived a higher expectation gap with the mean value difference of 1.75 as against the perception by the auditors with the difference of 0.50.

(23) The auditors upholding ethical standards on tax laws was found to have an expectation gap of 2.10 from investors as against 0.46 from auditors.

(24) Auditors acting as socially responsible person had an expectation gap of 1.94 from investors as against 0.51 from auditors.

(25) The ethics in auditors was evidenced to have an expectation gap of 1.62 from investors as against a lower difference only at 0.38.

(26) The evidential reasoning was found to have an expectation gap of 1.33 from investors as against 0.67 from auditors.

(27) Regarding the professional commitment, the auditors in the valuation process, investors perceived a higher expectation gap at 1.83 than that of the auditors with 0.64.

(28) With regard to inventory valuation, the professional commitment of auditors was found to have the highest expectation gap with 1.93 as against only 0.74 from auditors.
(29) The professional commitment of auditors in income measurement was found to have an expectation gap of 1.46 from investors as against only 0.51 from auditors.

(30) The highest expectation gap in professional commitment with regard to the accounting for research and development cost was evidenced to be 1.81 from investors as against only 0.73 from auditors.

(31) The higher expectation gap in professional commitment with regard to the accounting for contingencies was found to be 1.56 from investors as against only 0.48 from auditors.

(32) The expectation gap with regard to social obligations of auditors was evidenced to be 1.62 from investors as against 0.56 from auditors.

(33) The highest expectation gap with regard to social obligation was found to be in environmental reporting with the perceptional mean value difference of 1.99 from investors as against only 0.66 from auditors.

(34) Expectation gap was also found to exist in verification of purchases with investors assigning the mean value difference of 1.37 as against auditors assigning the value of only 0.27.

(35) From the viewpoint of obligation of auditors in reducing the artificial boosting of financial performance, the expectation gap perceived by investors was found to be higher at 1.32 than that of 0.05 from the auditors.

(36) The perception on audit expectation gap from both auditors and investors was found to be lower at 0.24 and 0.51 respectively.

(37) Regarding the role of auditors in reducing cyber crimes, the auditors perceived almost no expectation gap with 0.06, but the investors perceived this expectation gap at 1.34.

(38) From the viewpoint of deficiency in audit level in measuring the functional areas of audit, investors perceived a higher expectation gap of 1.60 as against only 0.40 by auditors.

(39) The higher expectation gap was evidenced by investors with regard to the audit of all transactions with the mean value difference of 1.87 as against only 0.42 by the auditors.

(40) Regarding physical verification of assets the expectation gap perceived by the investors stood at 2.33 as against a lower difference of only 0.30 by the auditors.
(41) Regarding accountability of auditors, the investors perceived a higher expectation gap of 1.18 than the auditors with only 0.53.

(42) The audit function reducing the falsification or alteration of accounting records was found to have the highest expectation gap of 1.35 from investors as against only 0.61 from auditors.

(43) The audit function increasing the credibility of financial statements was perceived to have a higher expectation gap of 1.15 from investors as against only 0.42 from auditors.

(44) From the viewpoint of worthiness of audit function both auditors and investors recognize the expectation gap at a moderate level of 0.38 and 0.97 respectively.

(45) However, the audit function useful in minimizing the misappropriation of assets or theft was found to have the highest expectation gap of 1.54 when compared to 0.57 from auditors.

(46) With regard to facilitators of audit effectiveness the expectation gap was found to be 1.18 from investors as against 0.58 from auditors.

(47) Regarding accounting standards improving audit quality, the audit expectation gap was moderately low at 0.67 from auditors and 0.79 from investors.

(48) The question of professional auditors having professional conduct was found to have the highest expectation gap from investors with the mean value difference of 1.49 as against the lower expectation gap from auditors with 0.61.

(49) In tune with the above analysis, the question of auditing standards increasing the audit quality was found to have major differences in expectations between the auditors and investors with the gaps standing at 0.53 and 1.47.

(50) With regard to suggestions to improve audit effectiveness, if the auditors perceived a lower expectation gap of only 0.55, the investors perceived a higher expectation gap of 1.61.

(51) With regard to auditor independence, the auditors expected a lower expectation gap of 0.24 as against a higher expectation gap of 1.55 by the investors.
(52) The prospects of reappointment affecting auditor independence had the highest expectation gap of 2.02 in investors as against the lower gap perceived by the auditors with 0.41.

(53) With no expectation gap perceived by auditors in respect of economic dependence of auditor on the client, the investors perceived a higher expectation gap of 1.23.

(54) If investors identified receiving payments for non-audit services as having the highest negative effect on auditor independence, the auditors perceived a lower impact of this variable at only 0.20.

(55) Considering the perceptions of all respondents on responses solicited from sample respondents for all 94 statements, significant differences were found between actual levels and expected levels.

(56) Considering the actual level of audit effectiveness perceived by the auditors and the investors, there were no significant differences in perceptual levels with regard to the following statements: conduct of cent percent examination in audit procedure; auditors responsibility in maintaining accounting records by the management; auditor being a guarantor in the protective role; management favoring their own contractors in purchases; auditors role in helping management to avail loan facilities by artificial boosting of financial performance; and availing government subsidies and grants; reducing a possibilities of alteration of computer data without visible evidence by the management or by the auditor himself; deficiency levels in the audit of all transactions and all inventories; audit opinion to change from true and fair view to true and correct; audit becoming a boon to suppress willful misrepresentation of transactions of an entity's state of affairs; and improving audit effectiveness with audit rotation through empanelment list. There were significant differences between auditors and investors with regard to the other statements.

(57) No significant differences were evidenced between auditors and investors with regard to the expectation levels. These included: the auditors responsibility in maintaining accounting records by the management, enforcing effectiveness of internal control on audit quality, and reporting all detected frauds and thefts to the relevant authority; auditors accurate knowledge about company law; auditors having relevant skills; ethical
responsibility in testing the genuineness of evidence, ethical responsibility in reducing business secrets to the company rivals; responsibilities of auditors in following right procedures before authenticating financial statements; professional traits of auditors consisting of judgment, objectivity and expertise; loyalty level of auditors in maintaining business secrets; social and cultural values of auditors consisting of watchful nature, integrity and principles; auditors role in endorsing the opinions; auditor being a guarantor of fairness of financial statements; ethical conduct of auditors consisting of social responsibility and insisting on evidence; professional commitment in the valuation of fixed assets, depreciation provision, accounting for contingencies, accounting for pensions and accounting for deferred taxes; reducing manipulative practices by management with regard to social equity, tax avoidance and evasion, and checking unauthorized access to computer facilities and programme by the auditors; audit deficiency level with regard to audit of financial statements; the need for audit report on corporate governance; faithful representation in audit process with regard to audit imposing accountability, audit increasing credibility of financial statements and audit reducing the falsification or alteration of accounting records or any other documents; the suggestion of punitive measure for auditors for having concealed the management frauds; and auditor independence being affected by economic dependence of the auditor on the client, audit market competition and receiving gifts and presentations from the management. The other perceptions to the statements were found to have significant differences.

TESTING OF THE HYPOTHESES

The statistical test resulting in the conclusions that

(i) Professional auditors were more guided by the regulatory framework of audit process than by the purposive audit programme;

(ii) Audit focused more on attest function than on sideling the broader objectives of audit process;

(iii) Audit function focused more on subjective measurement than objective measurement in financial reporting resulting in the leeway for
management to manipulate the accounting policies to serve its own interest;

(iv) Audit function was guided more by management interest than by stakeholders' interest thereby reducing the usefulness of financial reporting;

(v) Investors perceived higher level of audit responsibility than auditors giving rise to a broader level of audit function;

(vi) Investors perceived substantially higher magnitudes of audit expectation gap than auditors did with auditors assigning lower expectation values to the responsibilities and higher expectation to the skills and traits;

(vii) Audit effectiveness was influenced more by faithful representation in audit process than by worthiness of audit process resulting in low level of audit usefulness;

(viii) Auditors perceived higher level of importance for their role in reducing the manipulative practices adopted by management in presenting the financial statements than the investors did high expectation gap from the investors; and

(ix) The auditors perceived a lower negative relationship between auditor independence and economic benefits as against higher relationship perceived by the investors resulting in higher expectation gap;

stand accepted; and

(i) The hypothesis that the obligations of auditors in reducing the manipulative practices by management were fulfilled to a substantial level evidenced lower expectation gap in auditors and higher expectation gap in investors

stands moderately accepted

SUGGESTIONS TO IMPROVE AUDIT EFFECTIVENESS

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

(i) The audit process should focus on purposive audit programme;

(ii) Audit rotation through empanelment list should be made legal by amending the Companies Act, 1956
with the objective of increasing the level of auditor independence;

(iii) To enhance auditor independence, the peer review should be introduced in the Companies Act;

(iv) The present punitive measures for auditors concealing the management frauds in manipulating financial reporting figures should be enhanced to achieve higher audit quality;

(v) The relevance of audit report on corporate governance should be debated seriously at the first stage and then introduced with legal status in the next stage; and

(vi) With accounting standards still continuing with a plethora of accounting policy choices in measuring revenue and expenses form the core of financial reporting, the professionals and the concerned the regulatory institutions should deliberate on how objectivity in financial reporting should be introduced so that the audit process becomes more objective.

SCOPE FOR FURTHER RESEARCH

The concept of audit expectation gap entails a largest scope for empirical research in India. In view of the present study focusing only on perceptional differences on audit expectation gap in investor vis-à-vis auditors, the following areas for further research on the problem may be taken up.

(i) The empirical research on audit expectation gap may be extended to cover the perceptional differences amongst financial analysts, bankers, stockbrokers and accounting educators in addition to the presently studied groups of auditors and investors at the national level on one hand and cross-country analysis on the other;

(ii) In view of audit function being a social issue, how different strata of society perceive audit expectation gap forms another potential area of research and this line of research may be extended to cover the target users mentioned above;

(iii) The empirical research on audit expectation gap may be taken up on an in depth basis covering any one of these dimensions: responsibilities of
external auditors; role of auditors; professional commitments; obligations of auditors; deficiency levels of audit; audit effectiveness; and auditor independence;

(iv) The impact of accounting standards on audit expectation gap forms another potential area of empirical research; and

(v) Experimental studies on audit expectation gap by eliciting the responses to the structured questionnaire before and after auditing being taught to the identified groups like students at different levels of education and different sections of society become another potential area of empirical researches with a view to bring the awareness of the importance of audit function in different sections of the society.

THE EPILOGUE

The audit function has evolved from the stage of merely hearing the rightness or wrongness of records of an entity to the stage of authenticating the accounting figures in the financial statements based on evidences. The attest function has been intensified through regulatory framework to enhance credibility, reliability, relevance and usefulness of financial reporting. With the increasing magnitude of business activities, the auditor is now constrained to render the opinion on financial statements based on sample evidences only. With all these, the audit show is continuing without a look at whether the attest function has been done after a thorough examination. Meanwhile, the audit function is being enlarged to include an examination of various socio-economic variables affecting the auditee. This trend is due to the different pressure groups pressing for a high quality of financial reporting. As a result, the auditor has been placed in a tight spot moving away from formal attest function to dynamic endorsing function covering the demands of various sections of the society. The already manifested audit expectation gap is likely to get intensified in future years to come with an indomitable task of authenticating the financial statements based on objectivity alone coupled with various socio-economic demands. The auditors are expected to mould their attest function into a socio-economic utilitarian function by minimizing the audit expectation gap and maximizing the utilitarian value function of the
society at large. Hence auditors continue to be at the center stage of the development process meeting the diversified demands from the different sections of the society. Finally, the role of auditor is moving from status of an 'economic animal' to a 'social animal' and he has to shed traditional values and work in the environment of social values to enhance his own status in the society thereby becoming the pillar of economic prosperity through his enlarged role.