**The Audit Expectation Gap**

**Introduction**

The audit expectation gap is critical to the auditing profession because the greater the unfulfilled expectations from the public, the lower is the credibility and prestige associated with the audit work

The recent increase in criticism of and litigations against auditors is due to the failure of auditors to meet society’s expectations. The failure of living up to societal expectations has implicated the notion of “audit expectation gap”.

The “expectations gap” is the difference between what users of financial statements, the general public perceives an audit to be and what the audit profession claim is expected of them in conducting an audit.

In this respect, it is important to distinguish between the audit profession’s expectations of an audit on one hand, and the auditor’s perception of the audit on the other hand.

Apart from users of financial statements and the general public, an auditor may also perceive a somewhat different interpretation or worse still, fail to comply with the standards set by the audit profession.

If users of financial statements and the general public were educated to think that the auditor’s role embraces the detection and prevention of fraud, especially in relation to material items, the fraud and error detection role of an audit could be relatively objective.

However, the Auditing Practices Board cannot guarantee absolute objectivity since materiality “and” material significance are subjective concepts, which require further clarification.

Auditing is increasingly difficult and challenging, with new rules and regulations encouraging, if not requiring, auditors to enhance their efforts to detect fraud during an audit. Unfortunately, these rules and regulations contain terms like “reasonable,” “material,” “professional scepticism,” and “brainstorming,” whose meanings vary in the minds of different auditors.

Auditors face similar challenges when it comes to detecting fraud in an audit. In many instances, they are not sure how much effort must be made to uncover red flags for fraud.

More important, they do not always take the appropriate steps to uncover fraud once a red flag surfaces during an audit. Clients, judges, shareholders, and other parties, however, expect auditors to take steps to detect fraud during the audit.

They are often displeased when fraud goes undetected and is later uncovered by a tip or accident.

The expectation gap is driven by two variables: the auditor’s ability to detect fraud, and the auditor’s efforts to detect fraud. An auditor may possess the skills to detect fraud, but might choose to take shortcuts or disregard obvious signs of potential fraud. Or, an auditor might use a variety of techniques, but lack the experience to effectively uncover red flags. Both scenarios will broaden the expectation gap.

**Developing Fraud Detection Skills**

Fraud examiners rely on the following tools:

• Knowledge of specific fraud schemes and scenarios;

• Knowledge of applicable laws and regulations;

• Excellent communication skills; and

• Strong interviewing skills.

While auditors cannot be expected to develop these skills to the level of a fraud examiner, they should try to become more proficient through training, hands-on experience, reading the professional literature, brainstorming, and using fraud detection skills during the audit.

Training and awareness: All auditors should possess basic knowledge of fraud schemes in order to better position themselves to detect red flags during an audit. Auditors can start by developing a basic understanding of fraud schemes and scenarios, as well as the reasons why people commit fraud.

**Reducing the Gap**

The above prescriptions for increasing an auditor’s ability to detect fraud are undeniably arduous.

Fraud detection requires effort and the ability to work hand in hand. Ability is enhanced through experience, training, and effort. Effort is enhanced through solid audit plans, brainstorming, and ability.

The challenge to reduce the expectation gap stands before all auditors. While the profession has made great strides through legislation, regulation, and audit standards, it must apply this guidance within its own ranks, expending the effort and developing the ability to reduce this gap.

Auditors cannot be held responsible for uncovering all types of fraud. Collusive frauds and other intricate schemes are very difficult to uncover. This does not, however, give auditors a blanket excuse to refrain from looking for fraud. Developing the right mindset, embedding forensic procedures, and asking about fraud all increase auditors’ chances of finding it.

**Conclusion**

The auditing profession believes the increase in litigation against, and criticism of auditors can be traced to the audit expectation gap. The audit expectation gap is detrimental to the auditing profession as it has negative influences on the value of auditing and the reputation of auditors in the modern society. It is found that the existence of an audit expectation gap is due to complicated nature of an audit function; conflicting role of auditors; retrospective evaluation of auditors’ performance; time lag in responding to changing expectation; and self-regulation process of the auditing profession. Given such problematic factors that contribute to the existence of the expectation gap, it is neither the auditors nor users who should be blamed for the “audit expectation gap” crisis.



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| Performance gap | Standard gap | Reasonableness gap | | |
| Reasonable expectation of auditor performance | Reasonable expectation of standard | Unreasonable expectations | | |
| Over expectation of audit performance | Over expectation of standards | Miscommunication of users |
| Source: Adapted from Porter (1993). | | |  |  |