

# The focus point of the audit expectation gap in the Republic of South Africa

JD Gloeck

H de Jager

## Abstract

The audit expectation gap has been the subject of many research projects in overseas countries. Recommendations and strategies for narrowing the gap in these countries have been based on empirical data. In the Republic of South Africa (South Africa), however, no empirical data has so far been gathered. This paper presents the findings of an empirical investigation in South Africa in which perceptions and opinions of financially knowledgeable persons regarding the audit function were compared to those of auditors. The development of the phenomenon, contributing factors, as well as methods of narrowing the gap are described as a background against which the expectation gap should be seen.

## Key words

*Accountability, audit appointment, audit expectation gap, audit of small owner-managed companies, auditing profession, auditor, auditor's independence, generally accepted auditing standards, reporting process, role of the auditor, statements on auditing standards.*

## 1. BACKGROUND AND RESEARCH METHODOLOGY

Various South African writers have confirmed that the auditing profession in this country is affected by the expectation gap (see Loots 1989: 50; Lubbe 1987: 5; Lubbe 1990: 7; Moir 1989: 38; Norton 1988: 2; Robson 1988: 356).

An examination of recent professional literature revealed that professionals in South Africa have written only a few semi-scientific articles on the expectation gap and often the articles are merely attempts to stimulate discussion on the topic. It is concluded that the auditing profession in South Africa is well aware of this phenomenon and acknowledges its occurrence here, but that, as far as can be established from publications on this topic, members of the profession have not yet taken cognisance of the problems that arise from it. This contrasts sharply with developments in countries such as Canada, the United States of America, Europe and New Zealand (see Macdonald 1988; AICPA 1978; Treadway 1987; Peat *et al.* 1984; Steen 1989; ICAEW 1992; ICAI 1991; ICAI 1992; Porter 1990).

It was against this background that research into the expectation gap in the South African context was undertaken. The research comprised a literature as well as an empirical study. The main aim of this paper is to identify the focus point of the local expectation gap against the background of the international scenario. The research strives to make a constructive contribution to enhancing the status of the auditing profession in South Africa. It will enable professional bodies, and more particularly the committees of these bodies, to concentrate their limited resources on the most relevant issues.

## **2. HISTORICAL DEVELOPMENT OF THE CONCEPT "AUDIT EXPECTATION GAP"**

Complaints about the auditor, his functions in the community, and his responsibilities have been traced as far back as 1883 (Healy 1991: 8). As far as can be established, the concept "expectation gap" was used for the first time in 1975 when Liggio (1975: 24) described it as follows:

"The expectation gap stems from differing expectation levels as to both quality and standard of the accounting profession's performance and what it is expected to accomplish."

During the latter half of the eighties the phenomenon gained greater publicity, especially after various influential commissions investigated the role of the auditor (see AICPA 1978; Treadway 1987; Macdonald 1988).

A study of the professional literature revealed that members of the auditing



profession in particular, emphasize that the expectation gap has arisen merely because of the ill-informed expectations of the public (Macdonald 1988: 29; Simunic 1991: 26). In this point of view, it is considered that the role of the auditor, his functions and responsibilities, are static and that all relevant issues have already been fully dealt with and resolved. An intensified advertising campaign by the controlling bodies is, for example, directed at explaining the limitations of an audit to the public and conveys the message that the public has to acknowledge the actual responsibilities of auditors, as clearly contained in the professions' statements on generally accepted auditing standards.

Since the end of the nineteen eighties research projects and research reports have at regular intervals expanded on the subject in the literature (see among others Peat, *et al.* 1984; Steen 1989; Porter 1990; ICAI 1991; ACCA 1992; ICAEW 1992; ICAI 1992).

It is clear that the concept "expectation gap" rests to a large degree on perceptions. To quote the words of a chartered accountant (Gaston 1987: 39):

"When it comes to credibility, it is the public's perception that matters. It isn't good enough to claim the public's expectations are unrealistic or its criticisms unfair. An expectation gap exists, and we can't afford to ignore it."

It has been maintained that dissatisfaction with the work of the auditor is growing worldwide. This dissatisfaction is manifest in increasing criticism of the auditing profession and in the increasing number of court cases against auditing firms (see Norton 1988: 2; Mitchell 1990: 21-22; Basson 1991: 12; Darnill 1991: 22 and Godsell 1991: 21-25).

In principle, the origin of the criticism and legal action lies in the high expectations that users have of the auditing profession. Should these high expectations not be met, criticism is voiced, or more direct action is undertaken, such as court cases against the firms concerned.

In most cases these dissatisfactions and law suits arise, not as a result of failure to fulfil clearly defined duties or statutorily required procedures (which the auditor was supposed to have fulfilled), but from the lack of consensus regarding more abstract concepts that are subject to individual interpretation, such as the validity and adequacy of auditors' responsibilities, professionalism, *et cetera*.

Various testimonies pointing to a steady acceleration of negative sentiment towards the auditing profession, have been found in the auditing literature:

"The auditing profession ignores at its peril the debate about its ability to deliver what the market wants." (Swinson 1991: 21).

"Whichever party wins the next election, accountancy is the next profession in the firing line...accountancy can no longer be allowed to get away with that cosy system of mafia policing itself which is the basis of self-regulation. The complete disregard for democracy, accountability, auditing standards and discipline has clearly demonstrated that the profession has not operated in the 'public interest' and indeed cannot." (Mitchell 1990: 21-22).

"The reputation of the profession has been further damaged by publicity arising from litigation against several firms of auditors and by the findings of official enquiries into corporate collapse. ... Auditors themselves have helped to create the expectation gap. The standard of their work has too often fallen short of reasonable expectations." (Godsell 1991: 25).

"Speculation is the enemy of confidence and in many ways the accountancy profession is just as dependent on public confidence as banks. What is the value of an audit report if the integrity of the auditor is questioned and the financial soundness of his practice is in doubt?" (Darnill 1991: 22).

More recently, in December 1992, the Committee on the Financial Aspects of Corporate Governance referred in their report (also known as the *Cadbury Report*) to the expectation gap. It is particularly interesting that the nuance is placed on the fact that role players have not yet begun to narrow the gap (Cadbury 1992: 40):

"An essential first step is to be clear about the respective responsibilities of directors and auditors for preparing and reporting on the financial statements of companies, in order to begin to narrow the 'expectations gap'." (Our underlining.).

It is concluded that the expectation gap with regard to the auditing profession is not a short lived phenomenon but one of sufficiently rigorous development that it is forcing the auditing profession and other role players to rethink the role that an auditor is supposed to play in the accountability process.



### 3. OTHER RESEARCH REGARDING THE EXPECTATION GAP

Tabulated below are the major research projects regarding the expectation gap that were identified.

TABLE 1	STUDIES IDENTIFIED	
Full title of study	Abbreviation	Country
The report of the Commission to Study the Auditor's Responsibility	AICPA (1978)	United States of America
Independent auditors as appraised by corporate executives and eight other groups	Peat, <i>et al.</i> (1984)	United States of America
Report of the National Commission on Fraudulent Financial Reporting	Treadway <i>et al.</i> (1987)	United States of America
Report of the Commission to Study the Public's Expectations of Audits	Macdonald (1988)	Canada
Audits and auditors - what the public thinks	Steen (1989)	United Kingdom
The audit expectation-performance gap and the role of external auditors in society	Porter (1990)	New Zealand
Client perceptions of the accounting profession	Dickson (1991)	South Africa
The audit expectation gap in Ireland	ICAI (1991)	Ireland
The audit expectation gap in the United Kingdom	ICAEW (1992)	United Kingdom
Eliminating the expectations gap	ACCA (1992)	United Kingdom
Report of the Commission of Inquiry into the Expectations of Users of Published Financial Statements	ICAI (1992)	United Kingdom
The report of the Commission on Financial Aspects of Corporate Governance	Cadbury <i>et al.</i> (1992)	United Kingdom

## **4. FACTORS CONTRIBUTING TO THE EXPECTATION GAP**

### **4.1 Introduction**

This study attempts to do more than merely name the contributing factors as identified in the professional literature; it attempts to systematically organise them. Categorising the factors facilitates greater insight into the causes of the phenomenon. Eight groups, which are briefly discussed hereunder, are identified. Distinctions between different groups are not absolute and certain factors can conceivably be placed in more than one category.

### **4.2 The role of the auditor**

The very fact that different theories regarding the role of the auditor exist, indicates that there is no generally accepted description of the role of the auditor. The fact that investors turn to auditors when financial loss is suffered, is indicative of uncertainty of the role that the auditor plays or is supposed to play.

It is maintained that the uncertain role of the auditor and the diversity of questions which arise from this uncertainty, together comprise the greatest single factor contributing to the expectation gap. But there are various other factors directly related to the uncertain role of the auditor.

Various authors such as Russell (1986: 62), Lubbe (1987: 5), Moir (1989: 38-39), Guy, *et al.* (1988: 37), Jenkins (1990: 22) and Godsell (1991: 21-25) consider the growing number of liquidations without the auditors having given due warning as an important factor causing the expectation gap.

The auditor's liability is inextricably related to the role of the auditor. The less clear the role of the auditor, the greater is the possibility that different parties will hold the auditor responsible for "something", and that the auditor will in all probability deny that he is responsible for it. This "liability" factor is probably the most conspicuous cause of the growing number of court cases against auditors (see Amhowitz 1987: 356-367; Craco, *et al.* 1987: 70-74; Mednick 1987: 118-122; Sack, *et al.* 1987: 94-96 and Banks 1991: 18-25).

"In the past 15 years, more suits have been filed against accountants than in the entire previous history of the profession." (Miller 1988: 75).



If the argument given here can be accepted as a starting point, it is possible to deduce that the role of the auditor has become very unclear in recent years. This point of view is supported by Amhowitz (1987: 358), a lawyer who exclusively defends auditing firms:

"In recent years one reads with increasing frequency of a crisis in the accounting profession. Depending on the context, the crisis is characterised as one of professional competence, one of public confidence in the accounting profession or one of the profession's fears about its own vulnerability. Although the emphasis of these three characterizations differs somewhat, they all reflect a single underlying notion - that the public accounting profession is somehow failing adequately to fulfil the role that society has come to expect it to play. Thus blooms the 'expectation gap'." (Our underlining.).

According to Cooke (1990: 23) the *Caparo case* (*Caparo Industries PLC v Dickman* [1990] 1 All ER 568) added a "liability" gap to the expectation gap, since the public does not know to whom the auditor is liable.

It would appear that court cases such as the *Caparo case* and the *Johnson-Matthey case* (Woolf 1988: 13) did not benefit the auditing profession, but rather contributed to an even more negative attitude towards it (Waller 1991: 55):

"The plight of the auditors was not helped a year ago when a House of Lords judgment, now the infamous *Caparo case*, confirmed what many had suspected was the case for some time; namely that auditors owe little duty or care to anybody, certainly not to those who make investment decisions on the basis of audited accounts."

The *ICAEW study* refers to commentary that the court case gave rise to the question of whether auditors were responsible to anyone at all (ICAEW 1992: 17). Even in professional circles there is evidence that auditors do not entirely agree with the judgement (*The Accountant's Magazine* 1990: 54).

### 4.3 Attitudes of the auditor

The independence required of an auditor is much more than merely a character trait, such as courtesy, honesty, integrity and many others that have to be part of the auditor's personality. It is this particular trait that is closely interwoven

with the conditions that indicate the need for an audit. The need for an independent person conducting an audit, arises from the potential conflict of interest between the owners of a company and the group (management) under whose stewardship the company has been placed (see Holms, *et al.* 1979: 4-5; Kell, *et al.* 1983: 4-11; Coopers & Lybrand 1985: 1; Taylor, *et al.* 1985: 1-10; Fraser, *et al.* 1986: 2-4; Woolf 1986: 1-7; Defliese, *et al.* 1987: 10-11; Anderson 1988: 4; Robertson, *et al.* 1988: 3-4; Ricchiute 1989: 8-9).

It should therefore be clear that a loss of independence on the part of the auditor would lead to dissatisfaction on the part of the users of the reporting process.

Various findings (see Johnson 1988: 118-121; English 1989: 47-51; Waller 1991: 55; Hudson, *et al.* 1992: 22) indicate that the performance of "other services" for audit clients is seen as a specific factor adversely influencing an auditor's independence.

#### **4.4 Standards in the reporting process**

Financial reporting and its associated expectations are closely linked to expectations held of auditors. It can even be said that certain aspects of the expectation gap are not attributable to the auditor, but to shortcomings in the financial reporting process itself.

The fact that the reporting requirements for large and for small companies are the same, including the requirement that the financial statements have to be audited, is a factor that contributes greatly to the expectation gap (Gee, *et al.* 1993: 82). Evidence has also been found, indicating that in South Africa there are problems attached to the auditing of small companies, for example: "It is general knowledge that many small companies, in fact, cannot be audited." (Lubbe 1990b: 6).

#### **4.5 Business considerations**

Auditing literature provides sufficient evidence that various factors normally found in competing businesses, are beginning to play an increasing role in auditing and audit firms (Aquila, *et al.* 1992: 67-69). Examples of these factors are:



- competition between auditing firms to gain auditing appointments (or not to lose them) (also see Waller 1990: 53);
- "low balling" with regard to audit fees;
- performing "other services" for a minimal fee in exchange for maintaining auditing appointments.

Beside the factors mentioned above, that can lead to a loss in quality (Macaskill 1989: 6-7), Darnill (1992: 110-111) identifies additional factors that can undermine the quality of auditing (which in turn leads to a widening of the expectation gap):

- recession is a serious issue in most of the countries where the expectation gap is evident;
- auditors are developing a "softer" attitude towards audit clients as a result of being aware that clients are not entirely satisfied with the role of the auditor;
- the merging of large companies often results in the cessation of certain large audit appointments which in turn places pressure on the auditing profession as a whole (*The Accountant* 1991: 1).

This situation influences the quality of auditing services.

Users of auditing services expect the auditor to deliver quality service, and should they be of the opinion that good work has not been delivered, it contributes to the expectation gap (Aquila, *et al.* 1992: 67). It was in this context that Porter in 1990 found through an empirical investigation into the ten duties (as identified by Porter) that auditors are expected to fulfil, that four were satisfactorily fulfilled from a quality point of view, while six were not (Porter 1990: 203-204). Furthermore Porter proves that the deficiency performance gap constitutes 16% of the total expectation gap (Porter 1990: 324). Taking into account that a portion of the unreasonable expectations of users (reasonableness gap - which constitutes 60%) can also be attributed to quality aspects, it becomes clear that the quality aspect of audit services can contribute significantly to the expectation gap.

Comparable findings were made in 1989 by the United States General Accounting Office (1989: 1) after an investigation into the quality of audits of eleven financial institutions which went bankrupt.

The advantages of and absolute necessity for high quality services, and particularly auditing services, is emphasised by many authors (see Hill 1988: 6-7; Nollet, *et al.* 1988: 36-38; Butler in an interview with Macaskill 1989: 7; Naden 1990: 20-21; Bedard, *et al.* 1991: 38-39; Sutton, *et al.* 1991 and Hudson, *et al.* 1992: 2). Just as in the case of "independence", perception plays a decisive role here, and auditors need to be seen to be delivering a high quality of auditing services.

Another "business factor" is auditors' seeming reluctance to include going concern qualifications in the audit report (Citron, *et al.* 1992: 337-345). Porter (1990: 217-219) also finds that this is an aspect that contributes to the expectation gap.

#### **4.6 Knowledge and education of the auditor**

Judging from the frequency with which dissatisfaction with regard to other aspects of the auditor's activities in the lay as well as professional press is expressed, it seems that the knowledge and education of auditors is an aspect that contributes to a lesser extent to the expectation gap - a conclusion which the *Macdonald Commission* (1988: 13) also shared.

Mautz and Sharaf (1961) maintain that the auditor is generally regarded as being competent. Criticism does however arise in cases where auditors act in areas in which they are not trained (Goodson 1990).

#### **4.7 The self-regulation process of the auditing profession**

The auditing profession's controlling bodies are frequently accused of the fact that the process by which self-regulation is applied, is not carried out openly, but behind closed doors (Anderson 1981: 48; Mitchell 1990: 21 and Witten 1990: 28). An appeal is made to the auditing profession for greater accountability.

It is in this regard that perceptions of the user group are important:



"The effectiveness of our self-regulation is not measured solely by how well we do the job, or by how many poor or illegal performers are weeded out; it is also judged according to how well the public thinks the self-regulation process is carried out. The question we must then ask ourselves, of course, is, can we maintain the public perception of effective self-regulation while simultaneously maintaining the secrecy of our disciplinary actions?" (Anderson 1981: 48).

"The professions disciplinary procedures are even more feudal. Occasionally, in secret meetings, from which its own membership, press and public are excluded, it suspends some individuals from membership. ... And what about the big fish? To date, no partner from any major firm has ever been barred from practice by the Institute, even though the same firms have been criticised by the DTI inspectors again and again. ... The Institute is completely dominated by the interests of major firms and their financial might." (Mitchell 1990: 21).

This perception is shared by Witten (1990: 28):

"The disciplinary process has to be more open in a profession based on self-regulation. Washing hands quietly in back rooms doesn't cut it anymore."

Yet the Institutes are of the opinion that the public ought to have greater confidence in their activities. Witten (1990: 28) summarises feelings about this in the following way:

"Is the 'trust me' approach to self-regulation good enough at a time when the public's attitude toward corporate and professional ethics is 'show me'? The old secretive way of dealing with the profession's internal problems lag behind the public's expectations and gloss over problems such as potential conflicts of interest that could affect the public directly."

The merging of large auditing firms has resulted in the professional bodies' being accused of no longer being fully representative (Aldous in an interview with Brady 1992: 15):

"...the Institute of Chartered Accountants in England and Wales is dominated by the senior partners of the Big Six so that it is becoming less significant."

That this criticism is not a rare exception is proved by the following quotation from the front page of *The Accountant* (Hancock 1992: 1):

"... this proves that the profession cannot regulate big firms. It shows that there is a need for the profession to be independently regulated. ... The ICAEW does not have the power or the money to properly regulate the giant multinational firms..."

Irrespective of dissatisfaction concerning the self-regulation process of the profession, increased accountability is being demanded of auditors. This is based on the auditor's social position in the reporting process, in short: his social accountability.

Even though the views of Mautz and Sharaf are these days frequently quoted by the auditing profession, the review of literature showed that relatively little attention is being paid to extended responsibilities towards the community (within the context of financial reporting), as proposed by Mautz and Sharaf as early as 1961 (1961: 197):

"As a profession, auditing has significant social responsibilities; unless it accepts these responsibilities it will no longer merit the status of a profession." (Our underlining.)

Evidence has been found in this country that the auditing profession shirks these responsibilities. In an address during the eighth congress of the South African Institute of Chartered Accountants (SAICA) in Durban the former executive president of the Johannesburg Stock Exchange identified the auditing profession as the guilty party (Norton 1988: 2).

In conclusion, the process of self-regulation and its attendant factors contributes materially to widening the expectation gap.

#### **4.8 Communication**

Users of financial statements are not satisfied with the means by which the auditor's findings are communicated. Gaston (1987: 38) can be quoted in this connection:

"Quite frankly, I believe the standard auditor's report does a poor communications job. It is always worded the same way, and has thus become 'boiler plate'. It contains arcane language even auditors have trouble understanding, let alone explaining to their critics."



A spokesperson for the auditing firm Arthur Anderson (1990: 1) adds:

"Recent research suggests that many users misunderstand the auditor's role and responsibilities, and the present report only adds to the confusion. ... There has been a renewed urgency in the auditing profession to find a report that improves the layman's understanding of the auditor's role."

Holt, *et al.* (1990) as well as the *Hatherly study* (Hatherly, *et al.* 1991) furnish empirical proof that the new format of the audit report (in which the responsibilities of directors are addressed and an explanation of the term "audit" is given) contributes to the expectation gap. Their findings carry weight by virtue of the scientific approach used.

#### **4.9 Other sundry factors**

Perceptions can make any factor, whether positive or negative in nature, an aspect contributing to the expectation gap.

#### **4.10 Conclusion**

A clear understanding and consensus of the role of the auditor is needed in order to understand and evaluate the reasonableness of perceptions that users of auditing services have of the auditing profession as well as claims by auditors regarding their responsibilities and function.

### **5. APPROACHES TO NARROWING THE EXPECTATION GAP**

#### **5.1 Introduction**

It can be said that because of the nature of the expectation gap and the factors that give rise to it, it will possibly never be eliminated entirely. The Chartered Association of Certified Accountants (ACCA 1992: 27) supports this view.

Yet, since becoming aware of the existence of the expectation gap, various attempts to narrow it have been made. These particular methods can generally be divided into eight categories, depending on the approach of the profession with regard to the gap.

## **5.2 The approach that focuses on increased marketing activities**

The profession worldwide is of the opinion that the gap exists because users of auditing services simply do not understand the work of the auditor and therefore have to be informed of the auditor's actual responsibilities and functions. According to advocates of this approach the solution to problems arising from the auditor's role, responsibilities and functions lies in better marketing strategies and explanation of aspects of auditing (without changing the *status quo*).

Inherent disadvantages of this approach (and attitude), are expressed by various authors and researchers (see Singleton-Green 1990: 62; Mitchell 1990: 21; Macdonald 1988: 29 and Simunic 1991: 26).

## **5.3 The approach which focuses on better communication**

This approach has to be very clearly differentiated from the previous one (increased marketing activities). The emphasis here is on communication - a concept which by its very nature is not based on one-sided explanations. A good example of this is the long form audit report in which meaningful information on the business enterprise and the auditor's findings are shared.

There are divergent opinions on the new format of the audit report. Both positive and negative comments could be found in the professional literature (see Roussey, *et al.* 1988: 44 and ACCA 1992: 27). Generally speaking the negative commentary is more scientifically motivated than the positive commentary.

## **5.4 The approach which focuses on improving the financial reporting process**

According to this approach the requirements of users are acknowledged in that the financial reporting process is adapted to meet their particular requirements. According to this approach the heightened accountability of parties dealing with the reporting process is implemented.

Examples of methods by which the above-mentioned approach can be applied include the removal of statutory audits for small, owner-managed companies, as well as improving and simplifying guidelines for generally accepted



accounting practice and the effective use of the audit committee (for more specific methods refer to English 1989b: 12; ICAI 1992: 106-107; Macdonald 1988: 139; Trites 1990: 45; Du Toit 1992: 26 and Knutson 1992).

### **5.5 The approach which focuses on increased accountability**

This approach implements the heightened accountability of parties dealing with the reporting process. Auditors should take on greater responsibility and be more accountable; this will result in another type of audit report, the restructuring of professional bodies and the profession as a whole and a greater emphasis on the auditor's role as an instrument of **social control**.

### **5.6 The approach which focuses on expectations of user groups**

This approach acknowledges users of the reporting process as the group which generally has the right to make demands of the process. It is an approach which is directed at the nature of the process from the user's point of view. Demands made of auditors, amongst others, are not made to pressurise them, but because the response desired is an integral part of the reporting process. Although these latter two approaches are directed to a certain degree at user requirements, and offer the user more, there are further issues at stake.

In an article in *Accountancy* (Humphrey, *et al.* 1991: 30) the researchers of the *ICAEW study* (The Expectation Gap in the United Kingdom) summarise their main findings (and the principle of this approach) as follows:

"The most appropriate way forward that we can see for the profession is for it to take more positive action to close the gap by actively responding to the views of those relying on the audit function."

This quotation refers to the approach dealt with in this section. Should users require the auditor to be more effective in detecting errors and fraud, then this will have to be incorporated in the professional standards and in this way narrow the expectation gap.

### **5.7 The approach which focuses on statutory solutions and greater external controls**

Reducing the expectation gap in this way comes about through increased

regulation by an independent regulatory body (Aldous - as quoted in an interview with Brady 1992: 14). Such an independent body should not be governmentally or state based, but must be composed of members of the profession, investors, user groups and other users of the reporting process. An apt name for it would be "**auditing body**". The essence must be: improved professional responsibility through "openness". "Protection of own interests" must not be a factor.

The existence of such a body is also seen as a move towards gaining greater acknowledgement of the commercial and practical realities of a market in which the provision of auditing services is controlled by a small group of large auditing firms (ICAEW 1992: vi).

Pressure to institute an investigation into the problems of self-regulation is increasing (see *Accountancy* 1991: 14; Godsell 1991: 28 and Cousins - as quoted in ACCA 1992: 27). This pressure can be attributed solely to the perception that the profession's own bodies do not have the capacity to apply self-regulation correctly (Witten 1990: 27-28). Against this background this development cannot easily be rejected.

### **5.8 The approach which focuses on internal activity by the controlling bodies**

This approach has as its premise the profession's ability to regulate itself and take corrective action. Various activities which relate to members of the profession are undertaken by the professional bodies, such as developing auditing standards. Examples of this are the reformulating of the auditor's responsibilities with regard to fraud and error, the internal review of other statements on issues such as the going concern aspect and introducing quality control programmes.

The main criticism of this approach is based on the argument that the product of such a development cannot be described as "generally accepted" due to the limited participation by users and even members of the auditing profession themselves.

An examination of the professional literature also supplied overwhelming evidence that the professional bodies have to exhibit greater accountability and especially allow outsiders to inspect processes managed by the professional



body concerned (see Anderson 1981: 48; Henderson, *et al.* 1988: 17-21; Goch 1989: 9; Mitchell 1990: 21-22 and Witten 1990: 28).

The establishment of effective quality control programmes by the professional bodies is a further aspect of this approach. These programmes, which could take various forms, are considered by numerous authors as a matter which should take highest priority (see Anderson 1981: 50; Macdonald 1988: 73-74; Mautz, *et al.* 1988: 56-63; *Journal of Accountancy* 1989: 101-106); it is however conspicuously absent or is not part of the main recommendations in more comprehensive studies such as the *ICAEW study*, the *ACCA study*, *Steen study*, *ICAI study* (1991) and the *Porter study*.

### 5.9 Conflict avoidance

According to this approach the expectation gap is narrowed by resolving any conflict situation in the reporting process. Good examples are the ban on providing "other services" to audit clients and the potential conflict situation between auditor and director with regard to the audit appointment, to stipulate a maximum percentage of total income which the auditor may derive from one single client or group of related clients, the stipulation that an auditor should offer the professional body reasons for his resignation or dismissal from an auditing appointment, and that a kind of "clearance certificate" would have to be obtained from the professional body before another auditor may accept the audit appointment (see ICAI 1992: 117; McHugh, *et al.* 1992: 11; O'Connor 1992: 17; Porter 1990: 355-356; Singleton-Green 1990b: 22).

Strengthening the auditor's independence as a necessary step to narrowing the expectation gap, is central to the work of many authors (see Hamilton-Harding 1988: 50; Steen 1989; Stevenson 1990: 32; Verschoor, *et al.* 1990: 42-47; ICAI 1991; ICAEW 1992 and ICAI 1992).

### 5.10 Conclusion

Although the different approaches cannot be demarcated by absolute boundaries, and although particular methods can be relevant to more than one approach, there are important fundamental differences between them.

The approaches each have a valid and functional role, **but** only with respect to individual issues and dependent on the point of view taken. Whenever the

expectation gap is breached, assumptions and goals should be clearly stated by the authority introducing corrective action. Effectiveness will be dependent on the degree to which action really is directed at fulfilling users' requirements.

## **6. EMPIRICAL RESEARCH METHODOLOGY AND RESPONSE**

### **6.1 Introduction**

It is against the above background that an empirical investigation was undertaken in South Africa to establish the expectations and perceptions of users of the reporting process on the one hand, and of auditors on the other.

The investigation of the audit expectation gap in South Africa comprised a literature study and an empirical study.

#### *6.1.1 Literature study*

The literature part consisted of an examination of the methodology of similar research projects (see section 3.). Particular attention was given to the population, sample size, questionnaire design (where applicable), as well as criticism and comments regarding the particular research methodology as published in various articles or by means of comments made by the researchers.

#### *6.1.2 Empirical study: choice of participants - first questionnaire*

After considering the findings of other studies, it was concluded that there would be no point in investigating and gauging the opinions of the man in the street on the auditing profession and profound questions affecting it. For the purpose of this study only those who can be described as financially knowledgeable were involved. This premise concurs with that of the latest study conducted by the Auditing Research Foundation of the Research Board of the Institute of Chartered Accountants in England and Wales (ICAEW 1992).

Participants in the investigation were asked questions concerning the auditing profession with particular reference to the expectation gap in South Africa. The questions were chosen on the basis of results yielded by the literature study. The questionnaire was designed to facilitate comparisons with studies conducted in other countries. Questionnaires were sent to the following persons:



- Company directors and chairpersons:** The *Financial Mail's* annual *Top 300 Companies* (1991), was identified as an appropriate first source in the selection of public companies, the directors and chairpersons of which were to be sent questionnaires. All directors and chairpersons of the first 100 companies were included in the investigation.
- Internal auditors:** All members of the Institute of Internal Auditors (South Africa) according to their membership list as published annually.
- Stock brokers:** Partners of auditing firms with addresses taken from Mc Gregor (1991: 12-14).
- Bank managers:** Managers of branches for which addresses were supplied by the relevant bank's public relations department. The banks in order of total capital (*Financial Mail Top 300 Company survey 1991: 205*), with number of branches in brackets were Standard Bank (494), Nedbank (237), First National (499), Bankorp (192) and Volkskas (342).
- Accountants:** Chartered Accountants who are not registered as being in public practice, but who are members of the SAICA. Members of this group are employed in a variety of positions within the business and financial sector, and include accountants, financial controllers, financial directors and other positions. Addresses were supplied by the SAICA.
- Other:** 23 persons who specifically requested a questionnaire.

All of the above can be described as financially knowledgeable.

### 6.1.3 Empirical study: choice of participants - second questionnaire

A second questionnaire, with corresponding questions as well as some questions that can only be answered from an auditor's point of view were sent to all persons registered as practising auditors with the Public Accountants' and Auditors' Board. Addresses were supplied by the SAICA. More detail regarding the participants is set out in Table 2 below.

TABLE 2		CATEGORY OF PARTICIPANTS IN THE STUDY	
TYPE OF GROUP		NUMBERS OF PERSONS	PERCENTAGE OF TOTAL
1	Directors	1 172	9,9
2	Internal auditors	1 052	8,9
3	Stock brokers	368	3,1
4	Chartered accountants	7 413	62,9
5	Bank managers	1 764	15,0
6	Other	23	0,2
<b>TOTAL - first empirical study</b>		<b>11 792</b>	<b>100%</b>
1	Members in public practice	4 303	100,0
<b>TOTAL - second empirical study</b>		<b>4 303</b>	<b>100%</b>
<b>TOTAL NUMBER OF QUESTIONNAIRES SENT OUT</b>		<b>16 095</b>	

## 6.2 Response rate

The effective response rate of the two empirical studies is set out in Table 3. The response rate refers to **usable** questionnaires only. Compared to similar studies and considering the sample size, which was substantially bigger than that of similar studies, the response rate was judged to be acceptable.

..... / Table 3



<b>TABLE 3</b>		<b>RESPONSE RATE OF COMPARABLE STUDIES</b>		
Name of study	Number of participants	Number of usable responses	Response rate percentage	
The audit expectation-performance gap and the role of external auditors in society <b>Porter study</b>	1 773	390	22	
The Audit Expectations Gap in the United Kingdom <b>ICAEW study</b>	2 445	935	38	
Audits and auditors - what the public thinks <b>Steen study</b>	2 093	879	42	
The audit expectation gap in Ireland <b>ICAI study</b>	1 637	442	27	
Independent auditors as appraised by corporate executives and eight other groups <b>Peat-Marwick study</b>	5 244	1 573	30	
Client perceptions of the accounting profession <b>Dickson study</b>	1 050	126	12	
Average of above mentioned studies	2 374	724	30	
The expectation gap with regard to the auditing profession in South Africa <b>This study (Gloeck study)</b>	16 095	5 844	36	

The number of responses to the questionnaires sent to financially knowledgeable persons and to members in public practice are 4 470 and 1 374 respectively (response rate of usable questionnaires: 37,1% and 31,9%).

## **7. FINDINGS OF THE EMPIRICAL INVESTIGATION**

### **7.1 Introduction**

A large database of information regarding the expectations of users and auditors themselves was compiled from the questionnaires returned. As the central point of this paper is to identify the focus of the expectation gap in South Africa, only the major issues identified are dealt with here.

### **7.2 Major findings**

It is clear that an expectation gap does exist in South Africa and that it focuses on **three** main issues:

- the lack of independence and objectivity of auditors;
- uncertainties regarding the role of the auditor;
- the dissatisfaction with the compulsory audit of small owner-managed companies.

### **7.3 The independence and objectivity of auditors in South Africa**

The auditor is required both in terms of the *Code of Professional Conduct* and the first general auditing standard to be independent and objective:

"In all matters relating to the assignment, an independent mental attitude must be maintained by the auditor." (SAICA June 1986: AU 010). (Our underlining.).

The word "must" is not generally used in the statements on auditing standards, however, this stronger, decisively prescriptive term is used as far as the independence requirement is concerned.

"A member should be honest, truthful and conscientious in his approach to, and in the performance of, his work. Relationships or interest, whether direct or indirect, which could adversely influence, impair or threaten his capacity to act with integrity and objectivity should be avoided.



When in public practice, a member should adopt an impartial view and should remain free from any influence, interest or relationship, whether direct or indirect, which could impair his professional judgement or independence. He should, accordingly both be, and seen to be, free of any interest which might be regarded as being incompatible with integrity or objectivity.

Independence is an essential quality..." (SAICA October 1990: ET 020). (Our underlining.).

Statements on auditing standards (SAICA December 1989: AU 120 - revised) add an important aspect:

"It is of the utmost importance to the profession that the general public retain confidence in the auditor's independence. This confidence could be affected by the general public's perception of the auditor's independence."

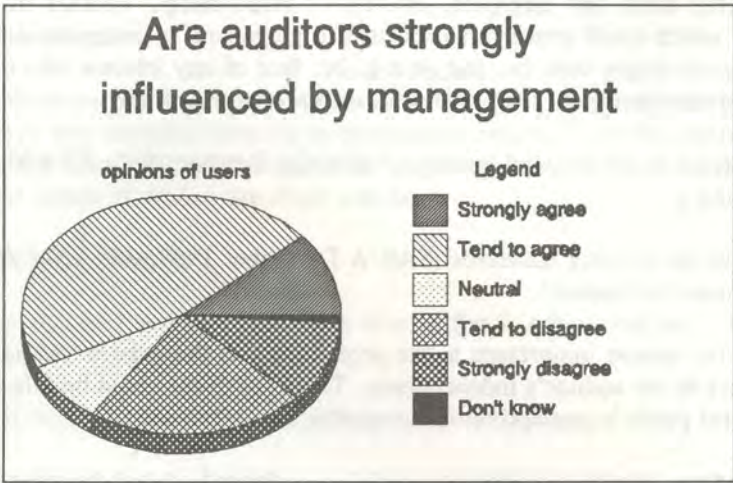
"The auditor should therefor not only be independent but be seen to be independent;" (Our underlining.).

It is crucial to note that the auditing profession has, as far as the requirements of independence and objectivity are concerned, accepted that the perception of users of auditing services is the yardstick by which these issues are appraised.

Against this background certain questions were put to financially knowledgeable persons as well as to auditors themselves.

As Figure 1 shows, 57,3% of financially knowledgeable persons are of the opinion that auditors are strongly influenced by management. It can be assumed that the percentage of respondents agreeing with the statement would have been higher if the word "**strongly**" had been omitted.

FIGURE 1



When the perceptions of South African users are compared with those in other countries, it becomes clear that the auditor in South Africa trails behind his overseas professional counterparts (refer to Figure 2).

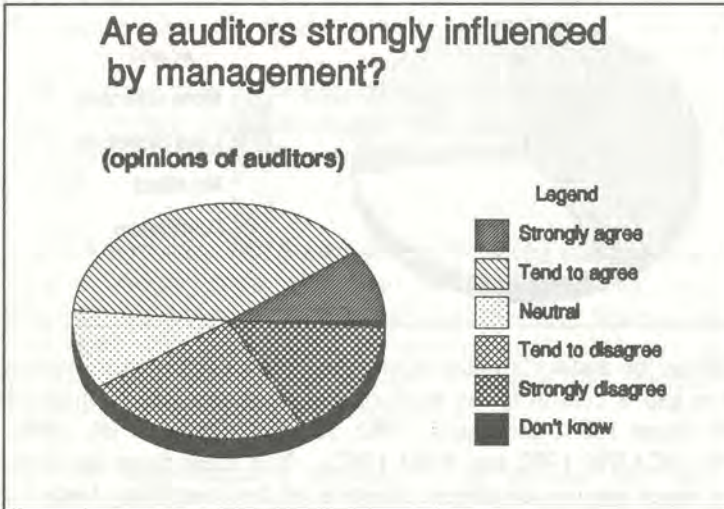
FIGURE 2





The question probing the independence requirement was also put to South African auditors themselves. When studying the responses, as shown in Figure 3, it is clear that a substantial percentage of auditors admit to deviation from standards in that 49% of auditors agree that they are strongly influenced by management.

FIGURE 3

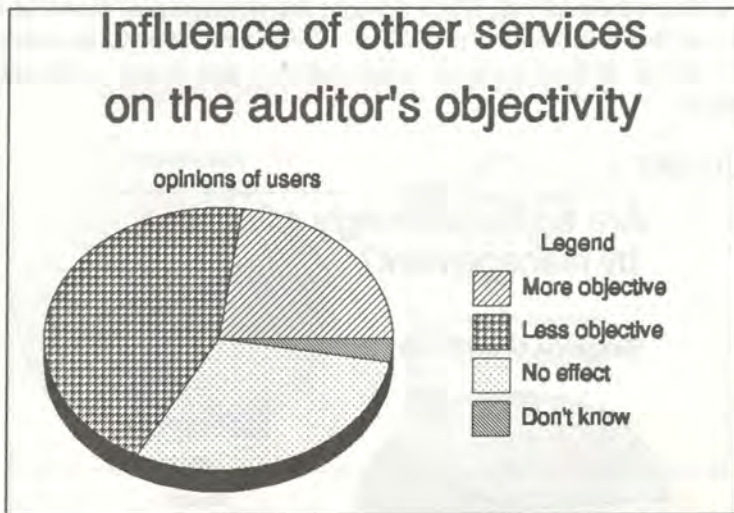


In an effort to identify factors that contribute to the shortcoming in independence and objectivity, the following question was put to financially knowledgeable persons: "Where auditors provide other services to their audit clients, what effect, if any, do you think it would have on how objective they are when conducting an audit."

Figure 4 shows that performing "other services" for audit clients contributes a great deal to the expectation gap. Although authors in the professional literature acknowledge the importance of "other services" because there is a need for them, problems arise because the potential for conflict of interests is not removed.

Various findings (see Johnson 1988: 118-121; English 1989: 47-51; Waller 1991: 55; Hudson, *et al.* 1992: 22) indicate that the performance of "other services" is seen as a factor adversely influencing an auditor's independence.

FIGURE 4



Strengthening the auditor's independence as a necessary step to narrowing the expectation gap is central to the work of many authors (see Hamilton-Harding 1988: 50; Steen 1989; Stevenson 1990: 32; Verschoor, *et al.* 1990; 42-47; ICAI 1991; ICAEW 1992 and ICAI 1992). It is clear from the above facts, that these issues require the urgent attention of the controlling bodies in South Africa.

Although it would appear that users have a need for "other services", the attendant problems which arise from encroachment on the requirement for independence should be the decisive factor. In the absence of meaningful, well-developed recommendations on how "other services" can be offered without negatively influencing the auditor's independence (as perceived by the user), it seems that the only solution is to place a ban on performing other services for the same audit client.

The effect of other services on the fundamental issues of professionalism, such as perceptions of independence and objectivity, is too large to disregard. With a view to the preservation of the auditing profession's current privileged position as the only group allowed to offer this particular service, the profession is being short-sighted in increasingly taking on other services together with audit work.



#### 7.4 Uncertainties regarding the role of the auditor in South Africa

Responses to questions put to the users of auditing services as well as to auditors indicate that the role of the auditor in South Africa is not clear.

- 27,7% of financially knowledgeable persons in South Africa expect the auditor to detect fraud of all kinds. This compares to 7,6% of auditors who indicated that they think it is their responsibility.
- 29,1% of financially knowledgeable persons in South Africa expect the auditor to actively search for fraud. This compares to 14,1% of auditors who indicated that they think it is their responsibility to actively search for fraud.
- When auditors were asked whether they believed that users of financial statements would agree with them on the fraud issue, only 26,2% responded affirmatively. 57,8% indicated that they believed that users do not agree with them and 16,0% were uncertain. This provides clear evidence that South African auditors recognise the existence of an expectation gap between themselves and users.
- Financially knowledgeable persons clearly indicate that they expect auditors to specifically warn readers of the financial statements of negative aspects contained therein. 80% of all respondents are convinced that the auditor should have this responsibility. However, only 58,8% of auditors hold the same view.
- There is consensus of opinion (76,7%) that the auditing profession should do more to warn investors of going concern problems within the business. Stockbrokers are the group which feel especially strongly about this: 86% of them want the auditor to do more about it. When taking into account that only 57,8% of auditors agree that they should do more about the going concern issue, it is clear that financially knowledgeable persons cherish greater expectations of auditors with regard to going concern problems within the business than auditors can currently fulfil.
- 90% of financially knowledgeable persons believe that the auditor ought to have the right to report serious matters to regulators if management does not do so. 80,6% of auditors indicate that they agree that the

auditor should have such a right. Although the difference in opinion between users and auditors is relatively small, auditors cannot, due to the current rules in the *Code of Professional Conduct*, satisfy expectations in this regard.

- An important contribution towards defining the role of the auditor was made by Porter (1990: 119-122). Porter developed a definition after evaluating existing theories. This definition by Porter, was included in the questionnaire to auditors for comment:

The role of external auditors in society is constituted by the attitudes, values and behaviour ascribed by relevant role senders to the social position occupied by auditors, that is, to the social position of a member of a recognised profession acting as an instrument of social control within the process of corporate accountability.

59,8% of auditors indicate some form of agreement with the definition, 15,8% take a neutral stand towards it, 7,1% tend to agree and 3,8% strongly disagree with the role of the auditor as described by Porter. 14,2% are not sure and do not express an opinion. In no other question did respondents express a higher degree of uncertainty. Although a core of respondents does agree, the result of this question provides further evidence that uncertainty exists regarding the role of the auditor.

The above points evidence the uncertainty surrounding the role that auditors should play, and furthermore highlight the situation that the role of the auditor,, as currently prescribed fails to fulfil the expectations of both financially knowledgeable persons and auditors themselves.

### **7.5 The dissatisfaction with the compulsory audit of small owner-managed companies**

The debate surrounding the abolition of the statutory audit of small owner-managed companies is not a new one.

This issue has already been subjected to empirical research in South Africa in the early eighties. In 1981, a survey by Pratt (1981: 283-241) showed that 25,8% were in favour of the abolition of the compulsory audit. A year later,

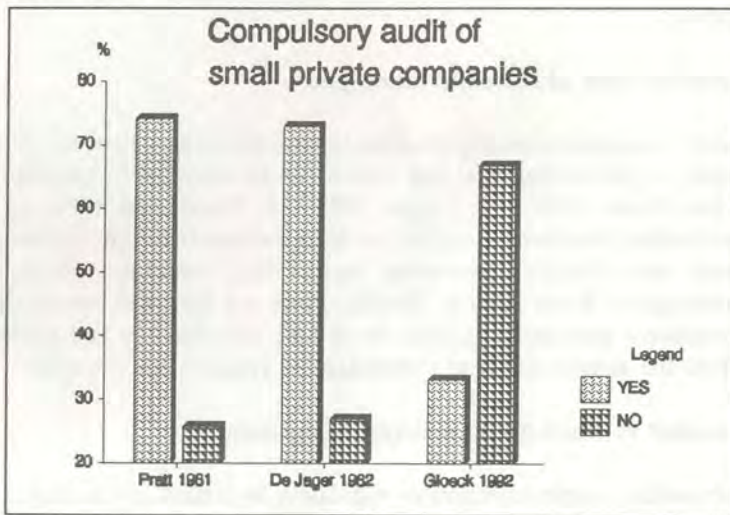


findings by De Jager (1982: 220-223) indicated that 27,0% of respondents were in favour of this proposal. In both the above mentioned surveys, the respondents can be described as financially knowledgeable.

In the investigation being reported in this paper, 64,1% of all financially knowledgeable persons and 75,4% of all auditors indicated that they were in favour of the compulsory audit being replaced by a limited review engagement.

This shows that in the last decade there has been a complete reversal of opinion in South Africa with regard to the abolition of the compulsory audit of private companies (refer to figure 5).

FIGURE 5



The following groups indicated an above average opinion in favour of the abolition:

- auditors of small practices (77,7%);
- one man practitioners (75,9%);
- shareholders of private companies (71,9%);

- directors of companies (70,3%).

The strongest message for the abolition of the compulsory audit of small owner-managed companies comes from the group that in all probability is most closely involved with these audits, namely the smaller auditing firm.

Analysis of the responses to various other questions showed that shareholders of private companies (many of whom fall into the category of "small, owner-managed") were generally more negative about the work of the auditor than shareholders of public companies, thus providing support for the argument that, apart from the aversion to the compulsory audit of small owner-managed companies, the issue is far more complex than is the case with the audit of larger entities.

### **7.6 Another facet of the expectation gap**

The expectation gap is normally described as the differences between that which users expect of the auditor and that which can be reasonably expected of the auditor (see Porter 1988: 12; Liggio 1975: 24; Macdonald 1988: 6). This definition implies that there is conflict or disagreement between the two parties. This study also identifies two other factors that contribute greatly to the expectation gap in South Africa. **Firstly**, there are the cases where user and auditor require a particular situation to obtain, but statutory and professional rules forbid the auditor to act as circumstances require, for example:

- the audit of small owner-managed companies;
- the auditor's right to report to regulators in certain circumstances.

**Secondly**, there are cases where the auditor and the user agree that there has been a deviation from standards. An example is the question of independence. Auditors and users agree that the requirements regarding this aspect are not met.

It was found that in South Africa the following issues do not materially contribute to the expectation gap:

- expectations which users have of auditors' technical skills and



competence;

- continuing education of auditors;
- the scope of audit tests;
- the general quality of audit services.

## 8. RECOMMENDATIONS FOR NARROWING THE EXPECTATION GAP IN SOUTH AFRICA

The main aim of this paper is not to make detailed recommendations aiming at narrowing the expectation gap, but to identify the focus point of the local expectation gap against the background of the international scenario.

It should, however, be emphasised that efforts to narrow the gap in South Africa must in the first instance be directed at eliminating and abating negative perceptions regarding auditors' lack of independence. As the independence issue clearly consists of many facets, an in-depth investigation into the independence of auditing firms would form the basis for specific actions in this regard.

As far as short term solutions are concerned, the auditing literature identifies several actions that can be taken to strengthen auditors' independence (see (Broadhurst 1987: 49; Gaston 1987: 40; Hamilton-Harding 1988: 50; Macaskill 1989: 7; Steen 1989; Stevenson 1990: 32; Verschoor, *et al.* 1990: 42-47; Cadbury 1992: 36-39; ICAI 1992: 117; O'Connor 1992: 17;).

**Secondly**, the role of the auditor should be clarified. Since the origin and existence of auditing is based on the requirements of users of the reporting process, the role of the auditor should be redefined, but with due consideration for the requirements and expectations of users.

Issues requiring special attention are the auditor's responsibility regarding fraud and going concern problems.

Various approaches to narrowing the audit expectation gap have been identified in section 4.. All these approaches do, to a major extent, attempt to clarify the

role of the auditor in the reporting process. It is therefore submitted that since the relationship between shareholder, director and auditor effectively need to be clarified, such a reevaluation of the role of the auditor cannot be done without taking into account the opinions and demands of users of the reporting process.

A pertinent example of an inappropriate response to this issue comes from a senior partner of a large international audit firm (Butler - in an interview with Macaskill 1989: 7):

"We have defined what we think our role should be and others have taken a different view - we are happy with the work we get from the role we have taken upon ourselves."

In order to be acceptable to all parties, the process by which the role of the auditor is redefined, should not be directly undertaken by the profession's controlling bodies. In addition, the process should take the form of a scientific investigation.

Should it result in the auditor's having to accept additional responsibilities, the auditing profession must decide in which areas additional rights or a wider mandate will be required to enable them to accept these responsibilities. Communication with users must ascertain their willingness to accept the conditions determined.

Only once this has been dealt with should the professional body undertake an extensive information campaign to communicate to users the role, responsibilities and functions of the auditor in the reporting process (as determined by *consensus*).

**Thirdly**, the audit of small owner-managed companies must be replaced by a limited review engagement.

Any other approach which is not primarily aimed at the above issues, will have an extremely limited effect on narrowing the audit expectation gap in South Africa.



## 9. CONCLUSION

The expectation gap in South Africa focuses on three aspects, namely the lack of independence of auditors, uncertainty regarding the role of the auditor and dissatisfaction with the audit of small owner-managed companies.

The structure of the profession delegates responsibility for instigating changes to the controlling bodies. It is therefore the particular responsibility of the controlling bodies to enforce the standards laid down with regard to objectivity and independence; it is the controlling bodies which have to introduce improved presentations of the audit report amongst members; it is the controlling bodies which have to make organised recommendations for amending laws to the legislature; and it is the controlling bodies which must take the initiative in narrowing the expectation gap. Current dissatisfaction amongst members in public practice with the conduct of the controlling bodies with regard to this matter (64% of auditors were of the opinion that the controlling bodies are not doing enough to narrow the expectation gap) is both indication and warning that there must be changes in the *status quo* and *modus operandi*.

Should the controlling bodies in their present forms not manage to effect a narrowing of the expectation gap, the establishment of an independent regulatory body will become unavoidable. Should the perception of a lack of independence amongst auditors persist, the profession will suffer consequences that will eventually lead to a loss of professional status and with it the privileged position of being allowed to carry out audits.

## **Bibliography**

- ACCA (The Chartered Association of Certified Accountants). 1992. *Eliminating the expectations gap*, London, The Chartered Association of Certified Accountants.
- Accountancy. 1991. *The 'mess' the profession is in*, Accountancy, September, 1991, p.14.
- AICPA (American Institute of Certified Public Accountants). 1978. *The report of the Commission to study the auditors' responsibility*, New York, American Institute of Certified Public Accountants.
- Amhowitz, H.J. 1987. *The accounting profession and the law : the misunderstood victim*, Journal of Accountancy, May 1987, pp.356-367.
- Anderson, R.H. 1981. *Auditing SRA systems: new uses for old standards*, CA Magazine, May 1981, pp.47-51.
- Anderson, R.J. 1988. *The external audit*, Second edition, Singapore, Pitman Publishing.
- Aquila, A. & Koltin, A.D. 1992. *How to lose clients without really trying*, Journal of Accountancy, May 1992, pp.67-70.
- Arthur Anderson. 1990. *The expectation gap - the revision of the auditor's report*, Trusted Business Adviser, March 1990, p.1.
- Banks, B. 1991. *Trial by numbers*, CA Magazine, November 1991, pp.18-25.
- Basson, D. 1991. *Ouditeure se dilemma...groot gaping tussen verwagtinge en werklikheid*, Finansies en Tegniek, 2 Augustus 1991, pp.12-13.
- Bédard, J. & Leblanc, L. 1991. *Preventive medicine*, CA Magazine, November 1991, pp.38-44.
- Brady, N. 1992. *Beholding the sunset for the grey men in grey suits*, The Accountant, January 1992, pp.14-15.



- Broadhurst, W.H. 1987. *How Estey would alter the auditor's role*, CA Magazine, March 1987, pp.46-50.
- Cadbury, A. 1992. *The report of the Committee on the Financial Aspects of Corporate Governance*, London, the Committee on the Financial Aspects of Corporate Governance and Gee and Co. Ltd.
- Citron, D.B. & Taffler, R.J. 1992. *The audit report under going concern uncertainties : an empirical analysis*, Accounting and Business Research, Volume 22, Number 88, Autumn 1992, pp.337-345.
- Cooke, R. 1990. *It takes two to do the audit tango*, Accountancy, October 1990, pp.23-24.
- Coopers & Lybrand. 1985. *Student's manual of auditing*, Third edition, London, Gee & Company (Publishers) Limited.
- Craco, L.A. & Cooper, D.E. 1987. *The Institute as amicus curiae : the key to the courthouse*, Journal of Accountancy, November 1987, pp.70-74.
- Darnill, A. 1991. *Facing up to the question of confidence*, Accountancy, February 1991, pp.22-23.
- Darnill, A. 1992. *The Auditor's dilemma*, Accountancy, June 1992, pp.110-111.
- Defliese, P.L., Jaenicke, H.R., Sullivan, J.D. & Gnospelius, R.A. 1987. *Montgomery's Auditing*, Tenth edition, New York, John Wiley & Sons.
- De Jager, H. 1982. *Die ouditverslag as konsentrasiepunt van die ouditeur se funksie*, Pretoria, Unpublished D.Com.(Acc.) thesis, University of Pretoria.
- Dickson, S.M. 1991. *Client perceptions of the accounting profession*, Johannesburg, Unpublished M.B.A paper, University of the Witwatersrand.
- Du Toit, A. 1992. *The Audit report: a disadvantage to the shareholders of a company*, RAUREK Buletin, September 1992, pp.23-27.
- English, L. 1989. *Experts' reports under fire*, Australian Accountant, February

1989, pp.47-51.

English, L. 1989b. *Professor Ray Chambers*, Australian Accountant, December 1989, pp.12-15.

Financial Mail. 1991. *Financial Mail special survey top companies*, Financial Mail, 26 July 1991.

Fraser, D.J. & Aiken, M.E. 1986. *Stetler's systems-based audits*, Third edition, Sydney, Prentice-Hall of Australia Pty. Ltd.

Gaston, S.J. 1987. *The profession's future : what's at stake and what it will take*, CA Magazine, April 1987, pp.36-40.

Gee, P. & Hare, S. 1993. *Small company reporting and the relevance gap*, Accountancy, March 1993, pp.82-83.

Gloeck, J.D. 1993. *Die verwagtingsgaping ten opsigte van die ouditeursprofessie in die Republiek van Suid-Afrika*, Pretoria, Unpublished D. Com.(Acc.) thesis, University of Pretoria.

Goch, D. 1989. *Certified accountants strike back*, The Accountant, April 1989, pp.8-9.

Godsell, D. 1991. *Auditors' legal liability and the expectation gap*, Australian Accountant, February 1991, pp.22-28.

Goodson, L. 1990. *What's wrong with this picture?* CA Magazine, August 1990, pp.20-28.

Guy, D.M. & Sullivan, J.D. 1988. *The expectation gap auditing standards*, Journal of Accountancy, April 1988, pp.36-46.

Hancock, C. 1992. *Institute is criticised for small fines on C&L men*, The Accountant, November 1992, p.1.

Hamilton-Harding, R.H. 1988. *Auditor unbound*, CA Magazine, September 1988, pp.50-54.



Hatherly, D., Innes, J. & Brown, T. 1991. *The expanded audit report - an empirical investigation*, Accounting and Business Research, Vol. 21, Number 84, Autumn 1991, pp.311-319.

Healy, A. 1991. *Probing the depth of the expectation gap*, The Accountant, August 1991, pp.8-14.

Henderson, M.S. & Mills, B.J. 1988. *Refine the rules*, Australian Accountant, November 1988, pp.17-21.

Hill, P.B. 1988. *Quality circles : another slant on accountability*, The Accountant, January 1988, pp.6-7.

Holmes, A.W. & Burns, D.C. 1979. *Auditing standards and procedures*, Ninth edition, Illinois, Richard D. Irwin, Inc.

Holt, G. & Moizer, P. 1990. *The meaning of the audit report*, Accounting and Business Research, Vol.20, No.78, 1990, pp.111-121.

Hudson, M., Smith, S. & Mowbray, R. 1992. *Quality control following audit regulation*, London, Institute of Chartered Accountants in England and Wales.

Humphrey, C., Turley, S. & Moizer, P. 1991. *An empirical dimension to expectations*, Accountancy, October 1991, p.30.

ICAEW (Institute of Chartered Accountants in England and Wales). 1992. *The audit expectations gap in the United Kingdom*, London, The Research Board of the Institute of Chartered Accountants in England and Wales.

ICAI (Institute of Chartered Accountants in Ireland). 1992. *Report of the Commission of Inquiry into the Expectations of Users of Published Financial Statements*, Dublin, Institute of Chartered Accountants in Ireland.

ICAI (Institute of Chartered Accountants in Ireland). 1991. *The audit expectation gap in Ireland*, A report commissioned by the Auditing Practices Review Committee of the Institute of Chartered Accountants in Ireland, Belfast, Institute of Chartered Accountants in Ireland.

Jenkins, B. 1990. *An auditor's guide to bridging the gap*, Accountancy,

October 1990, pp.22-23.

Johnson, R.D. 1988. *Attest engagements : the new frontier of auditing*, Journal of Accountancy, November 1988, pp.118-121.

Journal of Accountancy. 1989. *GAO report supports profession's effort on audit quality*, Journal of Accountancy, May 1989, pp.101-106.

Kell, W.G., Ziegler, R.E. & Boynton, W.C. 1983. *Modern Auditing*, Second edition, New York, John Wiley & Sons.

Knutson, P.H. 1992. *Financial reporting in the 1990's and beyond - a position paper of the Association for Investment Management and Research*, Philadelphia, Association for Investment Management and Research.

Liggio, C.D. 1975. *The expectation gap : the accountant's legal Waterloo?* CPA Journal, July 1975, pp.23-29.

Loots, J.A.J. 1989. *An evaluation of the applicability of comprehensive auditing in the South African context*, Pretoria, Unpublished D.Com.(Acc.) thesis, University of Pretoria.

Lubbe, D.S. 1987. *'n Professie op die kruispad*, Rekeningkunde SA, Januarie 1987, pp.4-7.

Lubbe, D.S. 1990. *The expectation gap - back to basics*, Internal Audit Review, June 1990, pp.4-9.

Lubbe, D.S. 1990b. *The expectation gap - part 2*, Internal Audit Review, August 1990, pp.4-7.

Macaskill, J. 1989. *The vindication of independence*, The Accountant, May 1989, pp.6-7.

Macdonald, W.A. 1988. *Report of the Commission to Study the Public's Expectations of Audits*, Toronto, The Canadian Institute of Chartered Accountants.

Mautz, R.K. & Sharaf, H.A. 1961. *The philosophy of auditing*, Sarasota,



American Accounting Association.

Mautz, R.K. & Matusiak, L.W. 1988. *Concurring partner review revisited*, Journal of Accountancy, March 1988, pp.56-63.

Mc Gregor, R. 1991. *Quick reference to the JSE*, Second edition, Kenwyn, Juta & Co. Ltd.

McHugh, G. & Stamp, B. 1992. *Big changes proposed in Ireland*, Certified Accountant, March 1992, pp.10-11.

Mednick, R. 1987. *Accountants' liability : coping with the stampede to the courtroom*, Journal of Accountancy, September 1987, pp.118-122.

Miller, S.H. 1988. *Avoiding lawsuits*, Journal of Accountancy, September 1988, pp.57-65.

Mitchell, A. 1990. *Auditing - last bastion of the closed shop*, Accountancy, November 1990, pp.21-22.

Moir, D. 1989. *The expectation gap - going concern or going, going, gone?* Accountancy SA, February 1989, pp.38-39.

Naden, J. 1990. *The SDA strategy for total quality*, The Accountant's Magazine, June 1990, pp.20-21.

Nollet, J. & Quevillon, R. 1988. *Building quality assurance in*, CA Magazine, June 1988, pp.36-40.

Norton, T. *Ongepubliseerde toespraak tydens die agste kongres van die Suid-Afrikaanse Instituut van Geoktrooieerde Rekenmeesters*, Durban, 1988.

O'Connor, P. 1992. *Bridging the expectation gap*, Accountancy Ireland, February 1992, pp.12-17.

Peat, Marwick, Mitchell & Co. 1984. *Independent auditors as appraised by corporate executives and eight other groups*, Princeton, New Jersey, Research Strategies Corporation & Opinion Research Corporation.

Porter, B.A. 1988. *New duties for auditors - narrowing the audit expectation gap*, Accountants' Journal, October 1988, pp.50-52.

Porter, B.A. 1990. *The audit expectation-performance gap and the role of external auditors in society*, Palmerston North, Unpublished D.Phil.thesis, Massey University.

Pratt, M.J. 1981. *The truth behind the small company audit debate*, The South African Chartered Accountant, May 1981, pp.237-241.

Ricchiute, D.N. 1989. *Auditing concepts and standards*, Second edition, Cincinnati, South-Western Publishing Co.

Robertson, J.C. & Davis, F.G. 1988. *Auditing*, Fifth edition, Texas, Business Publication Inc.

Robson, D. 1988. *The expectation gap - fraud and error*, Accountancy SA, November 1988, pp.356-360.

Roussey, R.S., Ten Eyck, E.L. & Blanco-Best, M. 1988. *Three new SASs: closing the communications gap*, Journal of Accountancy, December 1988, pp. 44-52.

Russell, G. 1986. *All eyes on accountants*, Time, April 1986, p.62.

Sack, R.J. & Tangreti, R. 1987. *ESM : implications for the profession*, Journal of Accountancy, April 1987, pp.94-100.

SAICA (South African Institute of Chartered Accountants). June 1986. *Generally Accepted Auditing Standards - AU 010*, Johannesburg, South African Institute of Chartered Accountants.

SAICA (South African Institute of Chartered Accountants). December 1989. *Independence - AU 120 - revised*, Johannesburg, South African Institute of Chartered Accountants.

SAICA (South African Institute of Chartered Accountants). October 1990. *Code of Professional Conduct - ET 020*, Johannesburg, South African Institute of Chartered Accountants.



- Simunic, D.A. 1991. *Bridging the gap*, CGA Magazine, November 1991, pp.24-29.
- Singleton-Green, B. 1990. *Auditors and the expectation gap*, Accountancy, April 1990, p.62.
- Singleton-Green, B. 1990b. *Audit independence - dodging mr Davies*, Accountancy, December 1990, p.22.
- Steen, M. 1989. *Audits and auditors what the public thinks*, London, KPMG Peat Marwick McLintock.
- Stevenson, K. 1990. *Advancing the cause*, Charter, October 1990, pp.30-33.
- Sutton, S.G. & Lampe, J.C. 1991. *A framework for evaluating process quality for audit engagements*, Accounting and Business Research, Vol.21, No.83, Summer 1991, pp.275-288.
- Swinson, C. 1991. *Time to take the bull by the horns*, Accountancy, February 1991, pp. 21-22.
- Taylor, D.H. & Glezen, G.W. 1985. *Auditing: integrated concepts and procedues*, Third edition, New York, John Wiley & Sons.
- The Accountant's Magazine. 1990. *A challenge to the accountancy profession*, The Accountant's Magazine, December 1990, pp.54-55.
- The Accountant. 1991. *Bank mergers bring audit losses*, The Accountant, September 1991, p.1.
- Treadway, J.C. 1987. *Report of the National Commission on Fraudulent Financial Reporting*, National Commission on Fraudulent Financial Reporting.
- Trites, G.D. 1990. *Read it in the annual report*, CA Magazine, December 1990, pp.45-48.
- United States General Accounting Office. 1989. *Report to the Chairman, Committee on Banking, Finance and Urban Affairs House of Representatives*, Washington D.C., United States General Accounting Office.

- Verschoor, C.C. & Liotta, J.P. 1990. *Communicating with audit committees*, Internal Auditor, April 1990, pp.42-47.
- Waller, D. 1990. *Time to get rid of true and fair?* The Accountant's Magazine, December 1990, p.53.
- Waller, D. 1991. *Making auditors feel valued*, CA Magazine, April 1991, p.55.
- Witten, M. 1990. *Guardians on guard*, CA Magazine, November 1990, pp.26-30.
- Woolf, E. 1986. *Auditing today*, Third edition, New Jersey, Prentice Hall International.
- Woolf, E. 1988. *The auditor in the dock*, The Accountant, November 1988, pp.12-13.

---

*JD Gloeck*  
*University of Pretoria*

*H De Jager*  
*University of Pretoria*