The audit expectation gap in Thailand

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ABSTRACT

The audit expectation gap is denoted as the difference between what the public expects from an audit function and what the audit profession accepts the objective of auditing to be. The existence of an audit expectation gap is likely to be detrimental to the value of auditing and the well-being of the auditing profession as the contribution of auditing may not be fully recognized by society. This paper reports the findings of a questionnaire survey conducted to examine the audit expectation gap in Thailand. The study also analyzes the nature of the audit expectation gap in Thailand using Porter's (1993) framework. The study finds that an audit expectation gap exists with respect to 18 of the 42 duties of auditors examined. The analysis of the expectation gap shows that selected respondents consider 12 non-statutory duties of auditors to be 'unreasonable' expectations, while 12 duties are considered as 'reasonable' expectations of auditors. These 12 duties are classified as 'deficient standards'. The study also finds that two statutory duties are considered by the selected respondents to be 'deficient performance' by Thai auditors.

Key words

Audit expectation gap; deficient audit performance; deficient auditing standards; unreasonable expectations of audit; Thailand

1 INTRODUCTION

Due to the collapse of big corporations such as Lehman Brothers, Satyam, Enron and WorldCom, the auditing profession is experiencing high level of litigations and accusations against its professionalism (Porter & Gowthorpe 2004). Fadzly and Ahmad (2004:897) assert that the negative publicity as a result of the recent financial scandals could damage 'the essence of the auditing profession, i.e. [public] trust'. Barker (2002 cited in Odendaal & De Jager 2008:1) claims that society's trust is the 'heartbeat of [a] profession'. Hence, if such trust 'disappears or is eroded in any way, the outcome is likely to involve skepticism, and the depletion of value attributed to the audit will be exaggerated beyond what would otherwise be the case' (Houghton 2002:4). All in all, it can be observed that the auditing profession, 'which was once highly regarded and whose members were amongst the most credible of professionals, [has] now become shrouded by mistrust and skepticism' (Salehi 2007:3).

Power (1993:292) argues that the present 'litigation and credibility crisis' cannot be placed on the auditors' shoulders alone. This is because 'when innocent parties suffer losses as a result of fraud or the economic collapses of apparently healthy companies, institutional processes of blame allocation are set in motion.' Power (1993) explains that the problem of 'blame allocation' is due to the commonly held belief that members of the public may use the audited financial statements as a guarantee of the business's prosperity and viability. The accounting profession has labeled these misconceptions as the 'audit expectation gap' - a gap which denotes the differences between the auditors' and the public's perceptions of the aims of an audit function.

As in many other countries (e.g. Malaysia, Australia, UK and USA), the Thai Commercial Codes (Company Acts) require all financial statements of limited companies in Thailand to be duly audited by Thai auditors (Section 1197, Thai Civil and Commercial Codes). The Thai Securities Exchange Commission (SET 2009) also requires the Thai listed companies to be audited by Thai CPAs. Hence, the Thai auditors contribute tremendously towards the development of the Thai economy. For that reason, there is a need to conduct a study to examine what is expected of auditors in Thailand and to investigate whether or not an expectation gap exists in Thailand's business environment. The present study aims to investigate the perceptions among the auditors, auditees and audit beneficiaries on the issues exemplifying the audit expectation gap in Thailand. The study also ascertains the components of the audit expectation gap using Porter's (1993) framework. Porter (1993) and Deflies, Jaenicke and Hirch (1998) claim that in order to narrow the expectation gap effectively, the components of the gap need to be ascertained, as different components of the gap require different methods to narrow them.

The remainder of this paper is organised into the following sections. Section 2 discusses the issues exemplifying the audit expectation gap. Section 3 outlines the theoretical framework, and the research methods are discussed in Section 4. Section 5 presents the results of the study. Section 6 summarises the findings and highlights the implication of the findings. Section 7 outlines the limitations and recommendations of the study.

2 SELECTIVE LITERATURE REVIEW: THE ISSUES ON THE AUDIT EXPECTATION GAP

This section aims to provide an in-depth discussion of the issues pertaining to the audit expectation gap. Through a review of auditing literature (including Porter 1991; Lee 1993; Porter, 1993; Humphrey, Moizer & Turley 1992; Humphrey 1997; Troberg & Viitanen 1999), the following four definitive aspects of the audit expectation gap appear relevant in Thailand: (i) Duties of auditors to provide early warning signals of probable company failure; (ii) Duties of auditors to guarantee the solvency of a company and the accuracy of a company's financial statements; (iii) Duties of auditors to detect and report fraud and other illegal activities; and (iv) Duties of auditors to report matters of concern to relevant regulatory authorities. Porter (1991:5) regards these issues as the issues exemplifying the audit expectation gap.

2.1 Duties of auditors to provide early warning signals of probable company failure

Numerous studies, for example, Dewing and Russell (2002) indicate that the public expects auditors to provide an early warning of possible company failure. The possible reason for such an expectation may be due to the fact that an early warning of probable company failure would substantially reduce investors' risk.

It appears that the current practice of auditing falls far short of meeting the public's expectations of being given early warning of a company's failure. Lowe (2002 cited in Al-Qarni 2004:58) claims that 'auditing firms failed to warn in advance of financial problems at nearly half of the companies that sought bankruptcy-court protection during the past 18 months.' Lowe further adds that 'KPMG had the worst track record, failing to issue red flags, in the form of so-called going concern warnings, on more than half or 16 of the 28 companies it audited that subsequently filed for bankruptcy protection.' In the case of WorldCom, even though the international chairman of KPMG claimed that the accounting fraud occurred prior to KPMG taking over the audit assignment from Andersen, neither of these audit firms managed to provide an early warning of WorldCom's financial problem (Parker 2002 cited in Al-Qarni 2004:58).

Sikka (2008) pointed out that a similar situation existed in the case of Lehman Brothers, where the auditor, Ernst & Young, also failed to give an early warning of its impending bankruptcy, as a clean bill of health had been given to the company when it was in fact having an on-going financial problem. This in turn explains why auditors are accused of not providing reasonable quality in their auditing services, as the public expects a clean audit report to signify that the auditee is, and will continue to be viable (Humphrey 1997).

Generally, it is presumed that the financial statements of companies are prepared on the assumption that they are going concerns, unless there are reasons indicating the contrary. Although auditing standards emphasize that an unqualified audit report does not guarantee the future viability of an entity, the auditors are required to consider the appropriateness of management's use of the going concern assumption. The auditors are also required to consider whether there are material uncertainties about the entity's ability to continue as a going concern that need to be disclosed in the financial statements (refer to para 9, ISA 570).

Even though one may argue that having the auditors consider and report on the going concern status of the company under the present auditing standard, and this does not seem too far from the expectation of the public, in practice auditors are always faced with a dilemma. As explained by Lee (1993:123):

> If the auditor does not report such a matter [the issue of the solvency of the audit client], audit beneficiaries may be financially damaged when

> they rely on financial statements which do not warn about financial ill-health. On the other hand, specially reporting on the company's financial health may precipitate a financial crisis unnecessarily, thus damaging audit beneficiaries and, possibly, also the auditor because of subsequent litigation.

2.2 Duties of auditors to guarantee the solvency of a company and the accuracy of a company's financial statements

The high level of litigation and accusation against the auditors that have arisen in past decades in many parts of the world may indicate that the public is confused as to whether the duties of auditors includes guaranteeing the solvency of companies. According to Godsell (1991 cited in Chowdhury 1996:34), business failure has always been interpreted as an audit failure because the public perceives that a 'clean' audit report means audited accounts are completely accurate and the viability of the audited companies is assured. Hence, it is not surprising that it is difficult for society to accept that companies can fail shortly after having been issued with a clean audit report (Chowdhury 1996).

Porter (1990:16) argues that 'given the large volume of transactions of most economic organisations today, the nature of the audit process, and time and cost constraints, it is not feasible for auditors to undertake the type of examination which would be required if they were to guarantee the accuracy of the financial statements or the solvency of the entity concerned.'

Besides, given the inherent limitation of an audit, the emphasis of auditors' duties is always based on the concept of 'reasonableness' as opposed to providing 'absolute' assurance (PCAOB 2005). For example, ISA 240 (Revised) *The Auditor's Responsibility To Consider Fraud in an Audit of Financial Statements*, paragraph 20, states that:

> An auditor conducting an audit in accordance with ISAs obtains reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

It can be argued that since the concept of 'reasonableness' rather than 'absolute assurance' is stressed in an audit function, auditors are unlikely to guarantee the complete accuracy of a company's financial statements and/or its solvency. However, this may not be in line with the society's expectation which has always placed such an expectation on the role of auditors. Gietzmann, Ncube and Selby (1997:16) put forward the following explanation for the misconception that auditors are guarantors of the accuracy of a company's financial statements and its solvency.

> Typically, the benefits of audit are appraised in terms of the provision by an auditor of direct investigative acts to detect fraud or accounting misstatement. However, it should also be noted that shareholders have little direct information confirming whether or not auditors actually provide such services or at what level... Since shareholders typically find it most difficult to assess the performance of an auditor, given the partially unobservable nature of auditor tasks, the shareholders look for statistics which may be informative about auditor performance... [when] such statistic is the observed failure of a company which previously published a positive audit report. On observing unexpected financial distress [of companies], the shareholders infer that this increases the likelihood that the auditor did not perform audit duties diligently and hence may consider mounting litigation against an auditor. Thus, shareholders act as if the auditors gave an implicit guarantee that the company would not fall into financial distress shortly after producing a positive audit report.

2.3 Duties of auditors to detect and report fraud and illegal activities

The role of the auditor in detecting fraud and errors has been a controversial issue for decades. As noted by the Cohen Commission (1978 cited in Singh1989:7):

> No major aspect of the independent auditor's role has caused more difficulty for the auditor than questions about his responsibility for the detection of fraud. In the last ten years, a number of major frauds that independent auditors failed to detect have focused unfavourable attention on this aspect of the audit function.

Although that comment was made thirty years ago, it is argued that the nature and extent of the responsibility of auditors for the detection of fraud is an issue which continues to create controversy. This is apparent from a remark found in the recent Vision Paper (2006:12) that 'perhaps no single issue is the subject of more confusion, yet is more important, than the nature of the obligation of auditors to detect fraud.' Such confusion should not be a matter of surprise because, until the 1930s, the duties of auditors had always been associated with detection of fraud and errors (Porter, Simon & Hatherly 2005). However, as noted by Porter, Simon and Hatherly (2005), and Lee and Azham (2008a), the importance of fraud detection as an audit objective had steadily declined between the 1920s and 1960s. Instead, the objective for the present-day audit function has become merely to express an opinion on the truth and fairness of the financial statements.

The present duties of auditors in Thailand with regard to detecting fraud and errors are stipulated in paragraphs 21 and 24 of the current auditing standards ISA 240 (Revised) *The Auditors' Responsibility to Consider Fraud and Error*. Paragraph 21 of ISA 240 (Revised) stresses that:

> An auditor cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of such factors as the use of judgement, the use of testing, the inherent limitations of internal control and the fact that much of the audit evidence available to the auditor

> is persuasive rather than conclusive in nature.

However, paragraph 24 of the ISA 240 (Revised) requires that:

> The auditor should maintain an attitude of professional scepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience with the entity in regard to the honesty and integrity of management and those charged with governance.

Overall, auditors are held under the present auditing standards to provide a reasonable assurance that the financial statements taken as a whole are free from material misstatements. It should be obvious that the present requirement of auditors regarding the duties of prevention, detection and reporting of fraud and errors is in sharp contrast with the expectations of the public. Evidence of such disparities has been recorded in various research reports that investigated the audit expectation gap. For example, Gloeck and De Jager (1993) found that there is an expectation gap in South Africa between the users of the audit reports and auditors on auditor's responsibilities to detect and to actively search for evidence of fraud. In addition, this study revealed that most of the auditors in South Africa did not consider the detection of fraud as their responsibility, although 57.8% of them opined that the users of audit reports would disagree with them. The findings imply that auditors acknowledge that the fraud issue is a factor that contributes to the audit expectation gap in South Africa. Similar findings to those observed by Gloeck and De Jager are also found in other studies, including those by Lowe and Pany (1993), Monroe and Woodliff (1994), Troberg and Viitanen (1999), Best, Buckby and Tan (2001), Lin and Chen (2004), Desira and Baldacchino (2005), Fadzly and Ahmad (2004), Dixon, Woodhead and Soliman (2006), Sidani (2007) and Saha and Baruah (2008) where it was found that the public expects the auditors to detect fraud and errors as part of their auditing function, while auditors think otherwise.

2.4 Duties of auditors to report matters of concern to relevant regulatory authorities

According to Troberg and Viitanen (1999), the politicians, fraud investigation agencies, the financial press and others have expected auditors to report to regulatory authorities since the 1980's. Steen (1990 cited in Al-Qarni, 2004:61) claims that auditors should report serious matters and irregularities found in the course of an audit to the relevant regulatory authorities if management is reluctant or fails to do so. Similar sentiments were found to exist in a South African study conducted by Gloeck and De Jager (1993), where 90 percent of the respondents from the financially knowledgeable group expected auditors to perform such a duty of reporting irregularities to regulators when management failed to do so.

Al-Qarni (2004) claims that reporting to the regulators may pose practical problems because when auditors accept a responsibility to report to regulators any serious matter concerning their clients, such as fraud or illegal activities, the auditor must be sure and have evidence about such issues before reporting them. This is because acting without being in possession of such compelling evidence would risk sacrificing the public's confidence in the capability of auditors. Similarly, Porter and Cameron (1987 cited in Troberg & Viitanen 1999:41) claim that auditors are vulnerable to legal action for defamation if they reported their suspicions of fraud, but this did not ultimately lead to any conviction. Hence, auditors in public practice are likely to be in a dilemma. This is because they are required to comply with the legislation and auditing standards, while at the same time they may have to consider the likely consequences of reporting audit irregularities to the relevant regulating authorities, an action which may in turn jeopardize their personal interests or put their professional positions at risk.

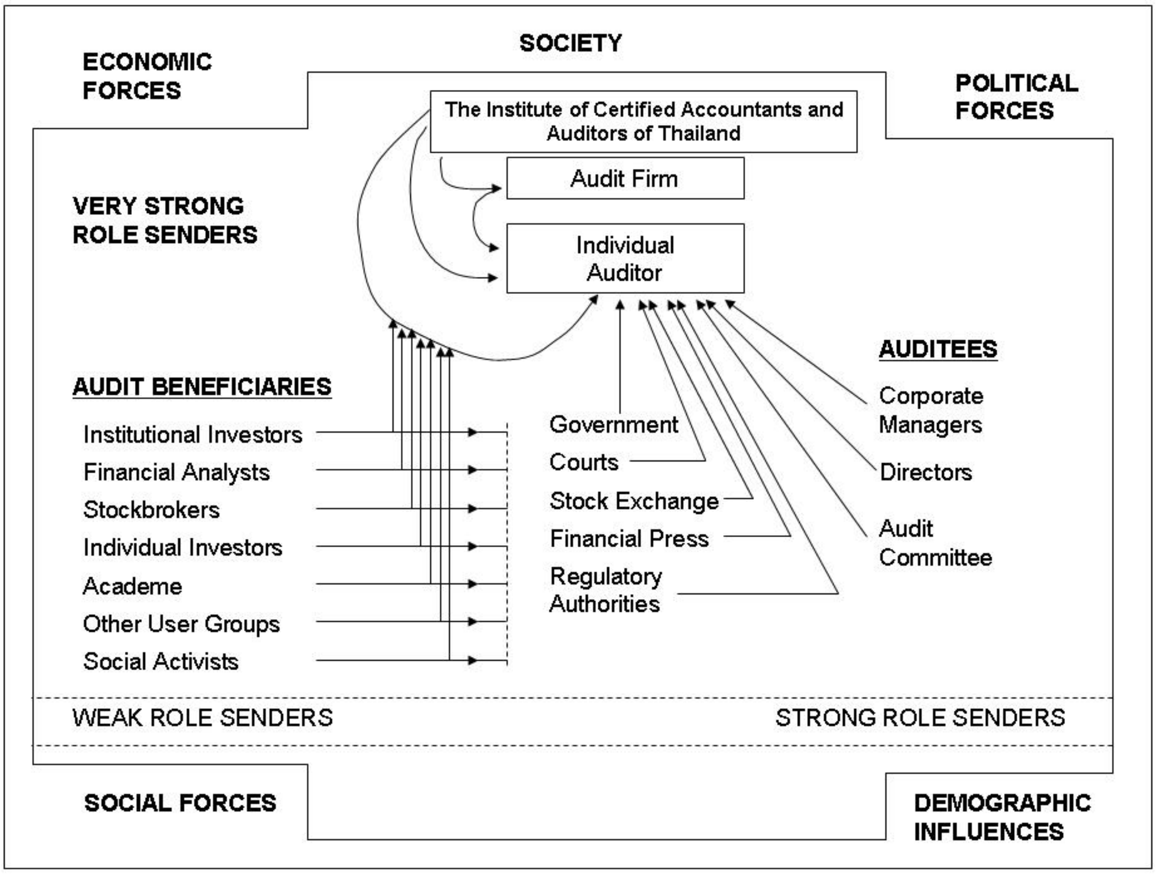
3 THEORETICAL FRAMEWORK

3.1 The theoretical foundation of the study

Role theory provides a theoretical explanation for the existence of an audit expectation gap. Based on role theory an auditor can be viewed as occupying a status or position as a profession in the social system. Due to the 'position' of a 'profession', auditors are required to comply with the prescriptions ascribed to them by society. 'Failure to conform to the ascribed role or to meet role expectations [may in turn] create the risk of social action to enforce conformity and to penalize nonconformity' (Davidson 1975:5).

According to Davidson (1975:5), 'the role of the auditor is subject to the interactions of the normative expectations of the various interest groups in society (i.e. different role senders) having some direct or indirect relationship to the role position.' Davidson provides a helpful diagram to demonstrate the complicated relationship of auditors in society, and this has been adapted to explain the Thai context as depicted in Figure 1.

Figure 1: Role senders prescribing the role of external auditors



Source: Adapted from Davidson (1975:6)

According to Davidson (1975:5), the role of the auditor is subject to 'the interactions of the normative expectations of the various interest groups in society (i.e. different role senders) having some direct or indirect relationship to the role position.' Davidson (1975:7) emphasizes that groups holding expectations on the auditor's role are also performing their role as required 'by the expectations of their respective social and professional constituent groups.' Davidson claims that different groups (e.g. management, shareholders, members of the public, and regulators of the accountancy profession) may hold varying expectations of their auditors, and these expectations may also be likely to change from time to time based on their own role requirements and the interaction of social, economic and political forces in society. Davidson explains that 'the individual auditor is subject to the role expectations of the organizations of which he is a member' (i.e. the audit firm and professional associations) 'and to the expectations of those for which he is providing direct or indirect services' (e.g. management, shareholders, members of the public, and regulators of the accountancy profession), and therefore finds himself in a 'multi-role, multi-expectation' situation which in turn gives rise to the problems of role conflict. Davidson argues that role conflict exists because there may be conflicting expectations on the role of auditors, as well as internalized subjective conflict, which in turn limits the performance of auditors.

Porter (1990:71-72) has provided the following examples of different types of role conflict that auditors may encounter:

- Inter-role conflict: Auditors 'may serve as both advisors to a company's management and as the company's external auditor.' These positions may cause conflicting expectations.
- Intra-role conflict: Auditors could be confronted by incompatible expectation from various groups in the society which have a relationship with their position as an auditor. For example, management might expect auditors not to reveal 'confidential information' such as problems in connection with the company's viability in the audit report as it believes it can be satisfactorily resolved in the near future. However, shareholders might well expect that such information should be disclosed in the audit report. Hence, the auditor is subject to conflicting expectations.
- Subjective role conflict: Auditors may be expected by their audit clients to conduct a quality audit but at the same time they are pressured to minimize time and cost of the audit.

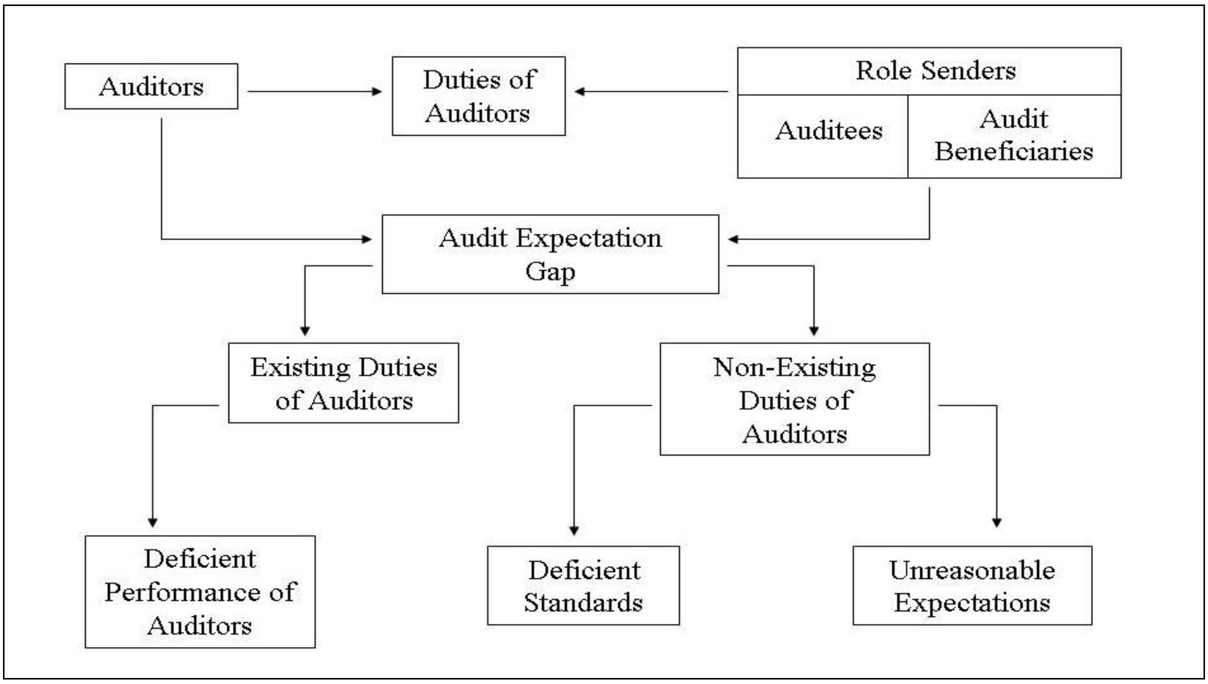
In short, given the conflict resulting from the multi-role expectations placed on auditors, it is of no surprise that the role expectations, as perceived by auditors, are different from the expectations held by interest groups in society. The audit expectation gap is the obvious outcome.

4 RESEARCH METHODS

4.1 Research framework

Based on the principles of role theory outlined in Section 3.1, the role of the auditors can be viewed in terms of the interactions of the normative expectations of the various role senders in society that have some direct or indirect relationship with the role position, as well as their own perceptions of that role. As such, it is suggested that there could be differences between the expectations of the auditors and of their role senders which in turn give rise to an expectation gap. For the purpose of this study, auditees and audit beneficiaries have been used as the auditors' role senders. Porter (1993) and Deflies, Jaenicke and Hirch (1998) claim that to narrow the expectation gap effectively, the components of the gap need to be ascertained, as different components require different methods to narrow them. Hence, if the results show the existence of the audit expectation gap, the nature of the gap will be further investigated using the three components of the audit expectation performance gap in Porter's (1993) framework. These are: (i) unreasonable expectation; (ii) deficient standards; and (iii) deficient performance. A diagrammatic representation of the research framework is shown in Figure 2.

Figure 2: Research framework



4.2 Survey instruments and sample selection

A questionnaire was administered to 1,000 respondents in Thailand. The respondents comprised auditors (200), auditees (400) and audit beneficiaries (400). The audit beneficiaries were represented by financial analysts (200) and brokers (200). The auditees were represented by management of companies (200) and accountants (200).

The questions asked in this questionnaire were compiled and refined based on the literature in this research area (e.g. Porter 1993; Troberg & Viitanen 1999; Porter & Gowthorpe 2004). There were two parts to the questionnaire. Part 1 examined 42 duties of auditors based on the legislation in Thailand as well as the often expected but not legislated duties of auditors. These un-legislated duties were drawn from the studies of Porter (1993); Troberg and Viitanen (1999); and Porter and Gowthorpe (2004) which in turn focused on the following roles: (i) duties of auditors to provide early warning signals of probable company failure; (ii) duties of auditors to guarantee the solvency of a company and the accuracy of a company's financial statements; (iii) duties of auditors to detect and report fraud and illegal activities; and (iv) duties of auditors to report matters of concern to relevant regulatory authorities. These non-existing duties of auditors are reviewed and discussed extensively in Section 2. The 42 duties of auditors are covered in 34 statements in the questionnaire.

Three questions were asked in two different sections in Part 1 with respect to the 42 duties of auditors mentioned above. In Section 1, respondents were asked to indicate whether the duties stated should, or should not be, the duties of auditors, or whether they were not sure. The options of 'yes', 'no' and 'not sure' were given. These options were coded as +1, -1 and 0. The objective of Section 1 was to determine the existence of an audit expectation gap. To ascertain the components of the gap, two additional questions were asked in Section 2. In Section 2(a), respondents were asked to indicate whether they considered the duties were, or were not, an existing duty of auditors, or whether they were not sure. The options 'yes', 'no' and 'not sure' were provided. Similar to Section 1 coding, they were also coded +1, -1 and 0. If respondents answered 'yes' to Section 2(a), respondents were directed to proceed to Section 2(b).

In Section 2(b), respondents were asked to assess the auditors' performance of their existing duties. Together with the option 'unable to judge' (coded as 0) to evaluate the auditors' performance, a three-point scale, labeled 'poorly', 'adequately' and 'well' was provided and they were coded 3, 2 and 1. Overall the approach of questionnaire design and coding in Part 1 are consistent with Porter (1993), Troberg and Viitanen (1999) and Porter & Gowthorpe (2004).

Part 2 of the questionnaire was used to gather personal information from the respondents for demographic analysis. It is important to note that apart from eliciting demographic information such as gender, ethnicity, level of education, accounting and auditing qualification and experience, to facilitate analysis of the study, respondents were also asked whether they used published audited financial statement for decision making; whether they had invested in stocks/shares during the past 12 months; and whether they were aware of what auditors do.

5 FINDINGS AND DISCUSSIONS

5.1 Demographic of respondent groups

The demographic data and results of the study are shown in the following tables.

Table 1: Demographics of respondents

	No. of survey	No. of responses received		Accounting qualification		Accounting experience		Awareness of auditors' duties	
Subject group			%	Yes %	No %	Yes %	No %	Yes %	No %
Auditors	200	66	33	100	0	33	67	100	0
Brokers	200	8	4	50	50	75	25	75	25
Financial analysts	200	24	12	0	100	18	82	50	50
Management	200	8	4	50	50	75	25	100	0
Accountants	200	22	11	64	36	64	36	64	36
Total	1,000	132	13	-	-	-	-	-	-

5.2 Audit expectation gap analysis

This section presents the findings of the questionnaire survey conducted to determine the extent and nature of the audit expectation gap in Thailand. Based on the research framework outlined in Section 4.1 the first step was to determine if there was in fact an audit expectation gap in Thailand. This was done by comparing the auditors' and their role senders' expectations on the duties of auditors. For the purpose of the study, a significance level of 0.05 was used. Once the gap had been identified, its nature and composition were further analysed in terms of Porter's (1993) framework. Specifically, based on the research framework, if an expectation gap was found relating to the non-existing duties of auditors, investigation was performed to ascertain whether such duties were 'unreasonable' or 'reasonable' expectations of auditors. On the other hand, if an expectation gap was found to exist relative to the existing duties of auditors, the competence of the auditors to perform such duties was assessed.

5.3 Reasonable and unreasonable expectation analysis

Porter (1993) asserts that from the auditor's point of view, in order for duties to be reasonably expected of auditors, their performance must be cost-beneficial. In the absence of a formal cost-benefit analysis, Porter's (1993) study used those duties identified by both the auditees and financial community audit beneficiaries as the duties that should be performed by the auditors. Porter (1993) claims this is an appropriate approach to surrogate the cost-benefit analysis as auditees and financial community audit beneficiaries are considered knowledgeable about the audit function and they hold opposing perspectives. She explains that the auditees are subject to the auditors' examination; consequently, they are likely to be cognisant of the costs involved in an audit. Hence, they are expected to limit the duties ascribed to auditors. On the other hand, audit beneficiaries rely on the auditors' work and they are likely to be conscious of the benefits which they wish to extract from auditors' efforts.

For the purpose of this research, the duties that satisfy the cost-benefit analysis are similar to those identified by Porter (1993). However, unlike Porter's (1993) study, the research used responses from audit beneficiaries that rely on the audit report in their decision making processes, and those responses from accountants who had previous working experience in auditing, to determine the duties that should be performed by the auditors. The basis on which the respondents were selected was two-fold. Firstly, only those audit beneficiaries who actually use audit reports were assumed to have benefited from the work of auditors. As such, they know what to expect from the auditors. Secondly, accountants are among the auditees who are in closest contact with the auditors. In addition, accountants with previous experience in auditing are even more familiar with the work of auditors and hence they are in a better position to identify what duties 'should' or 'should not' be performed by the auditors.

Based on Porter's (1993) study, a duty is considered reasonable to be performed by the auditors when a 'significant portion' (in Porter's view 20 percent or more) of an identified interest group signifies that such a duty should be performed. According to Troberg and Viitanen (1999:67) the cut-off point of 20 percent is rather low as it could lead to more duties unnecessarily contributing to the expectation gap.

They proposed a higher rate of 25 percent as they felt that this percentage constituted a 'qualified minority'. Hence, consistent with Troberg and Viitanen's (1999) view, a cut-off point of 25 percent was adopted in this study. In other words, for the purpose of this study, a duty is considered to be 'reasonably expected' of auditors when 25 percent or more of both the auditees and the audit beneficiaries are of the opinion that such a duty should be performed.

5.4 Deficient performance analysis

In the study, to evaluate the performance of the auditors the respondents were asked to rate their duties as either 'poorly', 'adequately' or 'well' performed. This is consistent with Porter (1993) and Troberg and Viitanen (1999). For the analysis of deficient performance of auditors, the responses of the auditees and audit beneficiaries were used and the responses of auditors were excluded. The exclusion of auditors' responses was to reduce the risk of bias in the results. For the purpose of this research, auditor performance was judged to be sub-standard when 25 percent or more of the respondents indicated that a particular duty was poorly performed. The basis used is similar to that of Troberg and Viitanen (1999).

6 NATURE AND COMPOSITION OF THE AUDIT EXPECTATION GAP IN THAILAND

Based on the methods of analysis of the nature and composition of the audit expectation gap outlined in Sections 4.2 – 4.4, the study reveals the following findings:

6.1 The findings of the audit expectation gap

The statistical chi-square test results presented in Table 3 indicates that an expectation gap does exist between the auditors and their role senders with respect to 18 of the 42 duties examined. The existence of an expectation gap across these duties implies that auditors and their role senders hold different expectations with respect to auditors' duties. The cross tabulation analysis of the responses shows that such a gap exists because most of the auditees and audit beneficiaries expected the auditors to perform these duties, while the auditors believed they should not. Hence, the findings generally support the theoretical explanation provided by role theory for the existence of an audit expectation gap. The theoretical explanation presented in Section 3.1, as well as the research framework in Section 4.1, suggested that the auditors' role senders (including management, regulators, institutional investors, analysts, etc.) may hold varying expectations of auditors when compared with the auditors' perceptions of their role. The findings of this study, based on the responses from various respondents including auditors, auditees and audit beneficiaries, confirm the validity of this theoretical expectation.

Besides demonstrating the existence of an expectation gap in respect of 42 percent (18 out of 42) of duties examined, the results also confirmed that auditors experience problems associated with 'role conflict' (i.e. inter-role conflict, intra-role conflict and subjective role conflict) as pointed out by Porter (1990) and discussed in Section 3.1 above. Even though the survey did not set out to examine the issues of role conflict directly, it can be argued that the presence of audit beneficiaries' and auditees' much wider-ranging expectations may well mean that auditors have been placed in a position of conflict in attempting to satisfy various needs and expectations, while at the same time attempting to uphold their high professionalism and to fulfill their duties (as required by Thai statutes and auditing standards) as auditors. The auditors are, in short, in a 'multi-role, multi expectations' situation as highlighted by Davidson (1975:7).

All in all, the results of the present study confirm those of the previous study by Boonyanet and Ongthammakul (2006) that the audit expectation gap exists in Thailand. Similarly, the present study also found that the auditees and audit beneficiaries have an expectation of auditors' duties that is far in excess of that of the auditors themselves. In a nutshell, the present study's results are consistent with most of the international studies such as Porter (1993); Dewing and Russell (2002); Lin and Chen (2004).

It can be argued that auditors may struggle to fulfill the expectations of auditees and audit beneficiaries in performing those non-existing duties for the following two reasons: (i) auditors may lack technical competency to perform such duties as they are not specifically trained to perform them, and (ii) auditors may find such duties not be cost-effective to perform, as audit clients may be reluctant to pay for services that are not currently required under Thai law and auditing standards.

As for the expectation gap found to exist with respect to those auditors' existing duties, the cross tabulation analysis shows that some of the auditors believe that they should not perform them, whereas the auditees and the audit beneficiaries expected them to do so. Such responses from some of the auditors may possibly be due to the fact that: (i) they may not be aware that such duties are currently required in Thailand; and (ii) they may realize that these are required duties but are of the opinion that these duties should not be performed by the auditors for various reasons including the fact that they are not cost-beneficial for auditors or that they are simply reluctant to accept the responsibility for performing such duties.

Table 3: The cross tabulation and chi-square test statistics on duties of auditors

	Role senders of auditors						Auditors			Chi-square
	Audit beneficiaries N=52			Auditees n=30			n=71 [66]			Test statistics (Note 1)
	No	Un-certain	Yes	No	Un-certain	Yes	No	Un-certain	Yes	
1. To prepare the company's financial statements	75	25	0	53	33	14	82	15	3	4.895
2. To guarantee the complete accuracy of audited financial statements	13	25	62	7	33	60	58	21	21	22.729*
3. To verify every accounting transaction	13	0	87	33	7	60	79	18	3	16.367*
4. To verify the accounting estimates in the financial statement	25	13	62	7	27	66	27	12	61	4.023
5. To state whether or not the audited financial statements give a correct picture of the company's financial affairs	0	25	75	7	20	73	27	30	43	12.032*
6. To prevent fraud and errors in the company	87	0	13	40	33	27	70	15	15	1.282
7. To detect all fraud and errors in the company	25	0	75	60	27	13	82	15	3	4.725*
8. To detect deliberate distortion of the figures (or other information) presented in the company's financial statements	25	0	75	7	27	66	43	18	39	10.143*
9. To detect theft (other than petty theft) which has been committed by:										
a) non-managerial employees	62	25	13	47	40	13	76	18	6	6.787*
b) company directors/senior management	62	25	13	40	40	20	67	24	9	8.721*
10. To report privately to a regulatory authority, such as the Securities Commission in Thailand and the Central Bank of Thailand, if during the audit it is discovered that:										
a) theft has been committed by non-managerial employees	37	25	38	27	40	33	73	18	9	6.497*
b) company directors/senior management has misappropriated company assets	25	13	62	7	53	40	64	18	18	12.675*
c) the information presented in the financial statements has been deliberately distorted	25	13	62	17	20	73	52	12	36	11.233*
11. To disclose the fact in the published auditor's report if during the audit it is discovered that:										
a) theft has been committed by non-managerial employees	37	38	25	40	33	27	58	9	33	5.531
b) company directors/senior management have misappropriated company assets	37	38	25	27	33	40	46	12	42	4.564
c) the information presented in the financial statements has been deliberately distorted	0	13	87	7	27	67	21	15	64	5.276
12. To report privately to a regulatory authority, such as the Central Bank of Thailand, if during the audit suspicious circumstances are encountered, suggesting that theft or deliberate distortion of the financial information may have occurred in the company	25	37	38	0	60	40	52	15	33	12.344*
13. To detect illegal acts committed by the company's management:										
a) which directly impact on the company's accounts (such as bribery and political payoffs)	13	37	50	20	33	47	64	15	21	15.206*

b) which DO NOT directly impact on the company's accounts (such as environmental laws and regulations and breaches of occupational safety)	13	37	50	40	40	20	43	24	33	14.532*
14. To disclose in the published auditor's report illegal acts committed by the company's management which are discovered during the audit:										
a) which directly impact on the company's accounts (such as bribery and political payoffs)	25	25	50	14	53	33	27	12	61	4.416
b) which DO NOT directly impact on the company's accounts (such as environmental laws and regulations and breaches of occupational safety)	25	50	25	27	40	33	43	24	33	2.813
15. To report privately to a regulatory authority such as the Central Bank of Thailand, if during an audit it is discovered that illegal acts have been committed by company officials	63	37	0	14	46	40	67	24	9	8.863*
16. To guarantee that a company whose financial statements have been given an unqualified ('clean') audit report is financially sound	75	0	25	40	14	46	76	21	3	14.486*
17. To report in the published auditor's report the compliance of audited financial statement to the Approved Accounting Standards and the Company Act in Thailand	37	13	50	7	27	66	27	18	55	5.955
18. To report breaches of tax laws to the tax authorities in Thailand	74	13	13	26	27	47	43	39	18	0.544
19. To plan the accounting and internal control system	0	0	100	27	33	40	18	18	64	1.609
20. To report in the auditor's report the efficiency and effectiveness of the accounting and internal control system	25	0	75	14	53	33	46	24	30	8.922*
21. To comply with Code of Ethics for professional accountant	0	0	100	0	33	67	19	12	79	4.544
22. To maintain confidentiality and safe custody of the audit working papers	0	0	100	7	33	60	0	12	88	1.711
23. To report in a published auditor's report on the impact (good and bad) which the company has on its local community	75	13	12	27	26	47	67	30	3	7.580*
24. To guarantee the solvency of the company	75	0	25	53	14	33	61	21	18	1.733
25. To report in the published auditor's report the future prospects of the company	87	0	13	80	13	7	76	21	3	1.927
26. Where the auditor has doubts about the solvency of the company under audit, to express such doubts:										
a) privately to a regulatory authority, such as Company Commission or the Central Bank of Thailand	87	13	0	27	47	26	58	18	24	5.778
b) in the published auditor's report	37	13	50	7	27	66	3	21	76	0.752
27. To express an opinion on the company's accounts to shareholders in a general meeting	0	13	87	33	20	47	27	18	65	1.990
28. To examine and report in the published auditor's report the efficiency and effect-tiveness of the company's management, its plans, policies and administration	75	12	13	67	13	20	67	24	9	0.678
29. To report in the published auditor's report on failures of auditors in obtaining all the information and explanation in forming their opinion on the company's accounts	0	0	100	13	27	60	3	12	85	1.001

30. To report in the published auditor's report on any deficiencies or failure on the manner proper accounting and other records (including registers) are kept by the company	0	0	100	7	33	60	0	12	88	0.867
31. To audit published quarterly company's reports	75	12	13	27	33	40	55	30	15	2.975
32. To examine and report in a published auditor's report on the fairness of financial forecasts included in the annual reports of companies	50	0	50	7	33	60	61	24	15	9.930*
33. To examine the other information in the company's published annual report (e.g. the director's statement) to determine the existence of material inconsistencies with the audited financial statements	63	0	37	47	33	20	30	24	46	1.577
34. To examine and report in the published auditor's report on the fairness of non-financial information contained in the company's annual report (e.g., information about employees, product and occupational safety records)	100	0	0	60	33	7	70	24	6	3.455

Note:

1 Chi-square test measures the degree of disagreement between the data and the null hypothesis.

H0: The expectation of the role senders and auditors are independent.
H1: The expectation of the role senders and auditors are dependent.

2 * Significance at the 0.05 level.

3 Existing duties of the auditors required by Thai legislation and Auditing Standards in Thailand: Questions 4, 5, 8, 10a, 10b, 10c, 11b, 11c, 12, 14a, 15, 17, 21, 22, 26b, 27, 29, 30, 33.

4 Non-existing duties of auditors
Questions 1, 2, 3, 6, 7, 9a, 9b, 11a, 13a, 13b, 14b, 16, 18, 19, 20, 23, 24, 25, 26a, 28, 31, 32, 34.

6.2 The findings of the 'reasonable' and 'unreasonable' expectations of auditors

Based on the responses of the 16 selected auditees and 30 audit beneficiaries, this section presents an analysis of the 'unreasonable' and 'reasonable' expectations of auditors. Table 4 shows that 12 of the non-existing duties were regarded as unreasonable to expect auditors to perform, while 12 were regarded as reasonable.

Also, as shown in Table 5, fewer than 25 percent of the selected auditees have regarded these 12 duties as those which should be performed by the auditors. This is possibly because the selected auditees have past experience in auditing. They may have found that these duties could not be performed in a cost effective manner by the auditors. In notable contrast more than 25 percent of the selected beneficiaries felt that these 12 duties should be performed by the auditors. Hence, based on the measurement criteria of cost-benefit analysis in this study, performance of these six duties were regarded as an 'unreasonable' expectation of auditors.

From Table 5 it may be seen that 12 non-existing duties were regarded as reasonable expectations of auditors as they satisfied the cost-benefit analysis criterion since more than 25 percent of the selected auditees and audit beneficiaries were of the opinion that they should be performed by the auditors. These duties are added to those classified as 'deficient standards' as they are reasonable expectations with regard to auditors, but are not required by current legislation and auditing standards. To satisfy society's expectation, future Thai legislation and auditing standards need to be extended to encompass these duties.

Sutton (2002) commented that the fall of Enron and WorldCom seriously affected the credibility of the audit function and which in turn placed auditors under the spotlight. This is most probably nothing new to the profession since it has been generally believed for many decades that the auditing profession has faced 'credibility' and 'reliability' crises. In view of the detrimental effects of such crises, Sutton opines that there is an urgent need for the auditing profession to maintain and restore society's confidence in the audit function. To provide some remedies to the 'credibility' and 'reliability' crises of the auditing profession, Sutton (2002:321-322) suggests the following steps be taken:

- 'Embrace a role that is fully in line with high public expectations.
- Tackle fraudulent financial reporting as a distinct issue with a distinct goal – zero tolerance.

- Accept and support necessary regulatory processes that provide comfort to investors and the public that the profession is performing all that it can to ensure it can prevent future failures in financial reporting'.

Sutton's comments and suggestions imply that the auditing profession should, to a significant extent, consider expanding their existing duties in order to meet the expectations of society. However, as highlighted by Lee and Azham (2008b) it is also important to note that the vast majority of the general public are indeed 'free raiders' of the audit function (i.e. they do not directly pay for the audit services), thus making it easy for them to insist that auditors carry out those duties that are not cost-beneficial to perform. Furthermore, one may also argue that due to the complicated nature of the audit function, the general public may face a challenge in attempting to understand the duties of auditors and the nature of the audit function. As such, the usefulness of their opinions in identifying the 'reasonable' and 'unreasonable' expectations of auditors is questionable. However, because of the stringent selection criteria applied to respondents in this present study, the determination of 'reasonable' and 'unreasonable' expectations of auditors should be seen as highly realistic, and should provide useful insights for the regulators of the auditing profession in Thailand. It is submitted that steps should be taken to educate society as to what constitutes 'unreasonable' expectations of the auditors, while future auditing standards and legislation should consider including those 'reasonable' expectations identified by the auditees and audit beneficiaries. This is because, according to Porter and Gowthorpe (2004:44), 'if auditors' responsibilities are to be aligned with society's reasonable expectations of them, auditing standards and legislation should be extended to encompass such responsibilities.'

Table 4: Analysis of expectation gap on non-existing duties of auditors

Non existing duties of auditors	Duty should be performed		Nature of the gap	
	Auditees n=16	Audit beneficiaries n=30	Unreasonable expectation	Reasonable expectation (Deficient Standards)
1. To prepare the company's financial statements	0	13	*	
2. To guarantee the complete accuracy of audited financial statements	63	60		*
3. To verify every accounting transaction	88	60		*
6. To prevent fraud and errors in the company	13	27	*	
7. To detect all fraud and errors in the company	75	13	*	
9. To detect theft (other than petty theft) which has been committed by:				
a) non-managerial employees	13	13	*	
b) company directors/senior management	13	20	*	
11. To disclose the fact in the published auditor's report if during the audit it is discovered that:				
a) theft has been committed by non-managerial employees	25	27		*
13. To detect illegal acts committed by the company's management:				
a) which directly impact on the company's accounts (such as bribery and political payoffs)	50	47		*
b) which DO NOT directly impact on the company's accounts (such as environmental laws and regulations and breaches of occupational safety)	50	20		*
14. To disclose in the published auditor's report illegal acts committed by the company's management which are discovered during the audit:				
c) which DO NOT direct impact on the company's accounts (such as environmental laws and regulations and breaches of occupational safety	13	33	*	
16. To guarantee that a company whose financial statements have been given an unqualified ('clean') audit report is financially sound.	25	47		*
18. To report breaches of tax laws to the tax authorities in Thailand	13	67	*	*
19. To plan the accounting and internal control system	100	40		*
20. To report in the auditor's report the efficiency and effectiveness of the accounting and internal control system	75	33		*
23. To report in a published auditor's report on the impact (good and bad) which the company has on its local community	13	47	*	

24. To guarantee the solvency of the company	25	33		*
25. To report in the published auditor's report the future prospects of the company	75	7		*
26. Where the auditor has doubts about the solvency of the company under audit, to express such doubts:				
a) privately to a regulatory authority, such as Company Commission or the Central Bank of Thailand	0	27	*	
28. To examine and report in the published auditor's report the efficiency and effectiveness of the company's management, its plans, policies and administration	13	20	*	
31. To audit published quarterly company's reports	13	40	*	
32. To examine and report in a published auditor's report on the fairness of financial forecasts included in the annual reports of companies	50	60		*
34. To examine and report in the published auditor's report on the fairness of non-financial information contained in the company's annual report (e.g., information about employees, product and occupational safety records)	0	7	*	

6.3 The findings of the 'deficient performance' of auditors

The results in Table 5 show that only two of the existing duties of auditors were perceived to have shown deficient performance. All in all, the findings of deficient performance on the part of auditors in the present study are consistent with the previous studies conducted by Cameron (1993) and by Porter and Gowthorpe (2004). Cameron (1993) found that the actual performance of auditors in New Zealand was generally perceived as falling below the expected levels. Similarly, Porter and Gowthorpe (2004), in their UK study indicated that six of the auditors' 13 existing duties were considered by society to be performed satisfactorily while seven were perceived to be performed deficiently.

It is important to acknowledge that there are other factors that have not been covered in this study and which may contribute to perceptions of deficient performance by auditors. For example, according to Boyle and Canning (2005:21) the threat to auditor independence is one of the factors that may give rise to the perception that auditors' performance is deficient. Gray and Manson (2000 cited Boyle and Canning 2005:21) claim that if auditors were left to review their own auditing work under the present self-regulatory framework, auditor independence is likely to be affected. This is because there is a lack of incentive for auditors to ensure audit quality exceeds the minimum level that the public will accept (Shaked & Sutton 1981). In addition, Sikka (1997 cited in Boyle and Canning 2005:21) asserts that fees earned by the provision of non audit services (NAS) may threaten auditors' independence as audit firms become more aggressive in selling their audit services (i.e. offering low audit fees), in order to gain access to more lucrative NAS. Hence, the provision of NAS is likely to cause auditors to be perceived as 'deficient' in their auditing services.

Table 5: Analysis of deficient performance of auditors on their existing duties

	Non-auditors n=84				
	Unable to judge	Poorly	Adequately	Well	Deficient performance
4. To verify the accounting estimates in the financial statement	40	14	41	5	
5. To state whether or not the audited financial statements give a correct picture of the company's financial affairs	17	12	64	7	
8. To detect deliberate distortion of the figures (or other information) presented in the company's financial statements	28	29	41	2	*
10. To report privately to a regulatory authority, such as the Securities Commission in Thailand and the Central Bank of Thailand, if during the audit it is discovered that:					
a) theft has been committed by non-managerial employees	66	10	7	17	
b) company directors/senior management has misappropriated company assets	67	19	12	2	
c) the information presented in the financial statements has been deliberately distorted	50	21	24	5	

11. To disclose the fact in the published auditor's report if during the audit it is discovered that:					
b) company directors/senior management have misappropriated company assets	74	17	7	2	
c) the information presented in the financial statements has been deliberately distorted	36	26	33	5	*
12. To report privately to a regulatory authority, such as the Bank Central Bank of Thailand, if during the audit suspicious circumstances are encountered, suggesting that theft or deliberate distortion of the financial information may have occurred in the company.	68	17	10	5	
14. To disclose in the published auditor's report illegal acts committed by the company's management which are discovered during the audit:					
a) which directly impact on the company's accounts (such as bribery and political payoffs)	48	21	17	14	
15. To report privately to a regulatory authority such as the Central Bank of Thailand, if during an audit it is discovered that illegal acts have been committed by company official	80	10	10	0	
17. To report in the published auditor's report the compliance of audited financial statement to the Approved Accounting Standards and the Company Act in Thailand	26	12	55	7	
21. To comply with Code of Ethics for professional accountant	26	12	48	14	
22. To maintain confidentiality and safe custody of the audit working papers	29	2	57	12	
26. Where the auditor has doubts about the solvency of the company under audit, to express such doubts:					
a) in the published auditor's report.	86	2	7	5	
27. To express an opinion on the company's accounts to shareholders in a general meeting	33	10	50	7	
29. To report in the published auditor's report on failures of auditors in obtaining all the information and explanation in forming their opinion on the company's accounts	26	12	52	10	
30. To report in the published auditor's report on any deficiencies or failure on the manner proper accounting and other records (including registers) are kept by the company	28	17	43	12	
33. To examine the other information in the company's published annual report (e.g. the director's statement) to determine the existence of material inconsistencies with the audited financial statements	69	10	19	2	

7 CONCLUSION

The growing list of financial scandals (e.g. Lehman Brothers, Satyam, Enron, WorldCom, etc) signifies that the audit of financial statements is once again at a crossroads (Sutton 2002), and the auditing profession is under close public scrutiny (Houghton 2002). It is clear that the auditing profession for the past decades has responded to this 'litigation and accusation' crisis by blaming and hiding behind the phrase 'audit expectation gap'. The notion of an 'audit expectation gap' means that the 'public expects auditors to act in ways which are different from what auditors themselves expect to act' (Koh & Woo 1998:152).

Despite considerable efforts that have been made (e.g. issuing the nine 'expectation gap' standards (SAS no. 53 through 61) in 1988 (Martens & McEnroe 1991) and re-emphasizing the auditors' responsibilities in detecting fraud by the issuing of two auditing standards in 2002 (ISA 315 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* and ISA 240 *The Auditor's Responsibilities to Consider Fraud in an Audit of Financial Statement*) (Cosserat 2004)), the report of the International Federation of Accountants (IFAC) in 2003 (Rebuilding Public Confidence in Financial Reporting – An International Perspective) indicated that the profession's attempts to eliminate the audit expectation gap have not been successful.

Given the pressure to reduce the litigation and criticism being leveled against the auditors, and to restore the public's confidence in the effectiveness of the audit function, it should be clear that further research on the audit expectation gap is needed. This is because effective solutions for the problem of the audit expectation gap can be better formulated if society's continually evolving and expanding expectations are identified. As remarked by Flint (1988:17):

> Audit is a social control mechanism for securing accountability. The onus is on auditors and audit policy-makers constantly to seek to find out what is the societal need and expectation for independent audit and to endeavor to fulfill that need within the limits of practical and economic constraints, remembering at all times that the function is a dynamic, not a static one.

The questionnaire study found that an audit expectation gap exists with respect to 18 of the 42 duties of auditors examined. The analysis of the expectation gap shows that selected respondents consider 12 non-statutory duties of auditors to be 'unreasonable' expectations, while 12 duties are considered as 'reasonable' expectations of auditors. These 12 duties are classified as 'deficient standards'. The study also found that two statutory duties are considered by the selected respondents to be 'deficient performance' by Thai auditors. It is believed that the analysis of the expectation gap would enable the auditing profession to take corrective action in narrowing the audit expectation gap in a more effective manner as knowledge of the structure and composition of the expectation gap provides insight into how the gap may be narrowed (Porter, Simon & Hatherly 2005).

All in all, the results of this study show the need for the parties with interests in the audit function in Thailand to take immediate action. With concerted efforts from all interested parties, the expectation gap problem can be reduced, bringing benefits to the nation. The delay in taking the necessary actions does not appear to be a good option considering Thailand is an open economy and a trading nation where trust in audited financial statements is crucial for further development.

8 LIMITATIONS AND RECOMMENDATIONS

This study suffers from several limitations. An overall response rate of 13% is considered less than satisfactory. The small sample from each of the subject categories may have affected the validity of data analysis. This study also did not examine demographic variables of the sample which may affect their perception of the nature and extent of audit expectation gap.

It is suggested to future researchers that the selection of larger respondent groups will enhance the credibility of the research findings when drawing inferences about the population. It may be interesting to find out if demographic factors such as sex, age, working experience and job position do influence the perception of an audit expectation gap among different sample groups. Finally, it is recommended that the present study be replicated in other countries to examine the similarities and differences in the nature and composition of the audit expectation gap. Such a comparative study would enable any cultural differences present in the existence of the audit expectation gap to be determined.

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