AUDIT EXPECTATION GAP IN THE PUBLIC SECTOR IN ROMANIA

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Theme – It is know that the large public and auditors hold different beliefs about the auditors’ duties and responsibilities. In this conditions audit expectation gap represents that level of expectation that remains uncovered. In this study paper, audit expectation gap represents the difference between the achievements of public auditors and the expectations that general public (students) have beyond those responsibility.

Purpose – The evolution of audit expectation gap has been examined in various countries, but the extent of the concept has not been investigated so much in public area. This study attempts to assess the perceptions of possible future auditors, students, regarding the existence of expectation gap in public area.

Literature review – A review of the literature identifies many researches who define the concept since was given the first definition of audit expectation gap as the difference between the levels of expected performance and the results that auditors give, but just a few analysis the public area using students’ knowledge to understand the perception of future users of accounting information or potential bidders of accounting information.

Methodology – This paper represents the beginning of a broader study that will be part of the doctoral thesis entitled “Organization and exercise of public audit in Romania”, started in 2009 at University Babes Bolyai from Cluj Napoca, coordinated by PhD Professor Matis Dumitru. The aim of this paper is to explore the findings of an empirical study, made on 352 students, were the primary data used were obtained through a questionnaire technique regarding the audit expectation gap in the public sector in Romania, looking into future to obtain responses using a larger respondent group.

Findings – A reasonableness gap was uncovered, there is a gap between the expectation of students regarding the public auditors’ profession and their results and there are differences between level of knowledge of the students regarding the statements in audit and the expectation gap. Also there is a significant difference in perceptions of the role of the public auditor in respect of fraud detection. The research will be extended to other users of accounting information (accountants, executives, managers, bankers) to see their understanding of the role of external public auditors, this we consider

Originality/value – This paper adds evidence to the important debate about expectation gap from a region that has had little coverage. In Romania are just a few information regarding the importance of education in reducing the audit expectation gap in public area. We try to draw attention in two sectors that are left one side, education and public domain. A correlation between these two, in the context of audit expectation gap will give some answers absolutely necessary.

Keywords: audit, audit expectation gap, expected performance, education.

JEL: M42

Introduction.
Financial scandals that took place both in the 90s as well as in the contemporary period have led to a decline of trust in bankers, managers, professionals and institutions responsible for supervising and regulating the economic activity. The growing demands of the market determine
the regulatory bodies to find ways of improving the economic activity and performance so as to enhance the lost confidence in the professional accountants as a consequence of the economic collapse. The risk, the error or bad performance should be minimised to ensure a fast and sustainable growth. Porter (1993, p.50) argues that the recent increase in criticism of against auditors is due to the failure of auditors to meet society’s expectations. The failure of living up to societal expectations has implicated the notion of “audit expectation gap”. Reforms have been established in the auditing, accountability and the field of expectation gap, substantial efforts have been made to complete the guiding methodologies and procedures in order to support the professional accountants and empirical research has been also conducted trying to improve the activity, but, little attention has been given to public sector.

Public institutions are important because they give credibility to the government and a reasonable assurance that the assets of the government are protected; the reporting is transparent and the financial operations comply with the ethical characteristic. Taking responsibility, establishing priorities, an achieving and efficient use of resources, all these are necessary, while a way of implementing theme is represented by the decentralization of the control activity so as the managers of departments to be held responsible for the management of allocated funds.

External public auditor shall define a person employed with the Court of Accounts who carries out specific audit activities in the public sector and shall refer to the specific position as external public auditor. The position of external public auditor shall be a public interest one and has a special status due to the assignments and competences, responsibilities, complexity, risks, incompatibilities and interdictions that arise in the enforcement of the law and of the regulations of the Court of Accounts, drawn up in accordance with the law.

What does it mean in this conditions audit expectation gap? In the context of crisis represents the difference between what auditors should have done and the consequences that we are living. In the context of companies is the difference between the expectation of the managers and the result of audit report, and in our paper represents the antithesis between the results from “The Public Report of the Court of Accounts” that we have found on the website of Court of Accounts, the expectation that we have from external public auditors and the expectations results of the future users of accounting information, the students from University of Oradea.

**Literature Review**

The concept “Audit Expectation Gap” was defined into literature by Liggio (1974, p.27) as the difference between the level of expected performance “as envisioned by the independent accountant and by the user of financial statements.” Going further in 1978 the Cohen Commission extended the definition taking into account if a gap may exist between what the public needs or expects and what auditors are expected to accomplish. Porter (1993, p.50) defined the concept like: “the gap between society's expectations of auditors and auditor's performance, as perceived by society.” He divides the audit expectation-performance gap in two major components:

- Reasonable gap, represents the difference (“between what society expects auditors to achieve and what they can reasonably be expected to accomplish”) and
- Performance gap, represents the difference (“between what society can reasonably expect auditors to accomplish and what they are perceived to achieve”).

Performance gap is also subdivided into deficient standards gap, and represents the difference (“between the duties which can reasonably be expected of auditors and auditors’ existing duties as defined by the law and professional promulgations”) and deficient performance gap represents the difference (“between the expected standard of performance of auditors’ existing duties and auditors’ perceived performance, as expected and perceived by society”).
Regarding the existence and the evolution of audit expectation gap, a series of studies reported it, but few were done relating the development in the public sector examining the students’ perception. Some relevant papers about audit expectation gap with the implication of students are:

Baron et al (1977) investigated in USA the differences between auditors and users of accounting information regarding the perceptions in auditor’s fraud detection duties and the study revealed significant difference between the perceptions.

In UK Humphrey et al (1992, 1993) examined the audit expectation gap regarding the role of auditors revealed an significant difference between auditors and respondents regarding their perceptions on the role of auditors, indicating the presence of an expectation gap. Also Dewing and Russel (2002) found presence of an audit expectation gap.

Monroe and Woodliff (1994) examined the effect of education on students’ perceptions of audit reports in Australia and they found that auditing students’ beliefs regarding the responsibility of auditors, the reliability of financial information and assurance about the future prospects of the company changed significantly with knowledge. It was found that more knowledgeable students assume a much lower level of responsibility of the auditor, less confidence on the reliability of financial statements and assurance over the future prospects of the company.

Pierce and Kilcommins (1996) addressed the effect of auditing education over reduction of the expectation gap. A questionnaire survey was conducted with undergraduate students in Ireland. The study suggested a significant reduction in the misunderstanding of audit regulations by students who have studied at least a single course on auditing.

Frank et al (2001) investigated the perceptual differences between auditors, jurors and students. Results revealed a large divergence in perceptions of auditors and jurors regarding their expectations of the auditing profession. However, the accounting students responded in a manner consistent with the practitioners. From this, the study concluded that accounting students had apparently adopted many of the views of the profession and considered themselves as members of the profession.

The above discussions portray that the prior studies emphasized on the expectation gap among the users of accounting information, managers, officials, jurors and students etc. Different studies were conducted in USA, UK, Ireland, Singapore, Saudi Arabia, Bangladesh etc. This study has focused on the present gap between the auditors’ performance and the students’ expectations regarding this and whether there is role of auditing education in lessening this gap.

In 2009 Javed Siddqui investigates the effect of audit education in reducing the audit expectations gap in an emerging economy, and finds evidence that audit education significantly reduces the AEG, especially in the area of audit reliability.

Gary S. Monroe in 1993 examines the effect of education on students’ perceptions of the meaning of audit reports and the responsibilities and duties of auditors and the results of the study suggest that education may be an effective approach to narrowing or eliminating the audit expectation gap.

Rehana Fowzia in 2010 makes an empirical study on audit expectation gap: role of auditing education in Bangladesh and investigate whether there is evidence that the provision of auditing subject as part of business degree programmes contributes to narrowing that part of the audit expectation gap which results from a misunderstanding of audit regulations.

**Methodology of the study**

To achieve the objective of the study we have selected 352 students (license program, master and distance learning) from Faculty of Economics, University of Oradea, divided into three groups. In the first group were included students from license and distance learning that have finished the audit course last semester, into second group there are students from same programs of study...
which are still studying in the moment of writing but they will finish soon, and the third group, consist in master students which completed advanced audit classes. We have choose among from final year students to obtain representative results. Student from distance learning were choose because the most have a higher level of employment 10 years, in this case practical experience is relevant, and the average age is 35 years. The master students have high level of knowledge in audit, also some work experience, they are final year students in master. And the last group, the students from license programe were choose to avoid subjectivity and because they have made an intensive course in audit.

The data used were obtained through a questionnaire technique formed from 10 questions regarding the auditor’s independence, auditor’s responsibilities and the credibility (useful) of the audit report. To provide relevant information to the public sector, and to achieve our objective, in classes was analyzed “The Public Report of the Court of Accounts” for 2009 which provided all the necessary information and related results in public sector. According to the 2009 Activity Plan of the Court of Accounts 1,924 cases were settled, of which 1,267 financial audit missions, 246 performance audit missions and 411 control activities. Also the public entities which the Court of Accounts exercises its competence on by specific activities amount to 10,639, and 1,778 of such entities, that is 17% of the total number, were audited in 2009.

A 7 point Likert scale has been used, ranging from: 1 = Strongly agree to 7 = Strongly disagree. The questions were designed based on a detailed review of data based, regarding the findings from another papers (Barron et al, 1977 in USA; Humphrey et al, 1992, 1993 in UK; Schelluch, 1996 in Singapore; Stirbu Dan, 2010 et al in Romania).

Data were collected throughout all the students, the questionnaire were given to classes, in the second semester of the universal year and the response rate was on averaged 67%, because not all the students were in class at the moment of survey, or they didn’t want to take part on survey.

<table>
<thead>
<tr>
<th>Students categories</th>
<th>Sample sent</th>
<th>Answers received</th>
<th>% response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Master (1)</td>
<td>174</td>
<td>101</td>
<td>58.04%</td>
</tr>
<tr>
<td>License (2)</td>
<td>200</td>
<td>153</td>
<td>76.5%</td>
</tr>
<tr>
<td>Distance learning (3)</td>
<td>150</td>
<td>98</td>
<td>65,53%</td>
</tr>
</tbody>
</table>

The responses, in terms of percentage, have a high rate, the highest percentage is at license, 76.5% but for us the most representative are those from master 58.04 % because they have completed advanced audit classes and distance learning because the level of employment and the experience in labor is much higher.

Findings and discussions
The questionnaire consists of 10 statements regarding the auditor’s independence, responsibilities and the credibility of the audit report. For the selected statements we reviewed international published articles, audit standards and manuals and the information that we found on website of “Romanian Court of Accounts” which helped us to give some expected values to identify the gap between our expected value and those that we received from the survey.

Table 2 Perceptions of Students regarding the statements
Table 1 provides details of the results of the mean responses concerning the ten statements associated with the independence, responsibility of external public auditors and the credibility in public report. In this table, an audit expectation gap (indicated by significant differences) was detected between the second group and the other two in relation to the auditor’s independence, responsibility and audit report. Expectation gap is found for detection of fraud (statement 7), the auditor’s responsibility for reporting deliberate distortion of financial information. (statement 4), the auditor’s assurance that the entity is free from fraud and error (statement 9) and the auditor’s experience of ensure that accounting standards are met (statement 10). The results indicate that the students have more higher expectation on the work of auditors, and also indicate difference between the understanding of activity.

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean values 1</th>
<th>E.G</th>
<th>Mean values 2</th>
<th>E.G</th>
<th>Mean values 3</th>
<th>E.G</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public auditor’s independence</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The public auditors’ interest might impact on the activities they conduct.</td>
<td>2.33</td>
<td>1.33</td>
<td>3.42</td>
<td>3.58</td>
<td>1.75</td>
<td>0.75</td>
</tr>
<tr>
<td>The public auditor can be involved in the activity of the entity.</td>
<td>6.14</td>
<td>0.86</td>
<td>4.36</td>
<td>2.64</td>
<td>6.32</td>
<td>0.68</td>
</tr>
<tr>
<td>The audit team shall consist of one external public auditor.</td>
<td>5.12</td>
<td>1.88</td>
<td>4.36</td>
<td>2.64</td>
<td>5.65</td>
<td>1.35</td>
</tr>
<tr>
<td><strong>Public auditor’s responsibility</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The public auditor is responsible to report deliberate distortion of financial information.</td>
<td>5.76</td>
<td>1.24</td>
<td>4.76</td>
<td>2.24</td>
<td>5.65</td>
<td>1.35</td>
</tr>
<tr>
<td>The public auditor is responsible for directing the internal control system.</td>
<td>6.14</td>
<td>0.86</td>
<td>5.25</td>
<td>1.75</td>
<td>6.32</td>
<td>0.68</td>
</tr>
<tr>
<td>The public auditor is responsible for development of the financial statements of the company.</td>
<td>6.14</td>
<td>0.86</td>
<td>5.25</td>
<td>1.75</td>
<td>6.32</td>
<td>0.68</td>
</tr>
<tr>
<td>The public auditor has the responsibility to detect all fraud and error in the financial statements.</td>
<td>5.65</td>
<td>1.35</td>
<td>3.42</td>
<td>3.58</td>
<td>5.70</td>
<td>1.30</td>
</tr>
<tr>
<td><strong>Credibility in public audit report</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The audited financial statements provide an assurance about the performance of the entity.</td>
<td>3.45</td>
<td>3.55</td>
<td>2.55</td>
<td>4.45</td>
<td>4.65</td>
<td>2.35</td>
</tr>
<tr>
<td>Users can have absolute assurance that the entity is free from fraud and error.</td>
<td>5.65</td>
<td>1.35</td>
<td>4.04</td>
<td>2.94</td>
<td>6.32</td>
<td>0.68</td>
</tr>
<tr>
<td>The public auditors have to ensure that accounting standards are met.</td>
<td>6.03</td>
<td>0.97</td>
<td>4.36</td>
<td>2.64</td>
<td>6.15</td>
<td>0.85</td>
</tr>
</tbody>
</table>

E.G – expectation gap
Table 3 Descriptive Statistics on Expectation Gap among three groups

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Sum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected score</td>
<td>10</td>
<td>1.00</td>
<td>7.00</td>
<td>58</td>
<td>5.8000</td>
<td>2.5298</td>
</tr>
<tr>
<td>1st group</td>
<td>10</td>
<td>2.33</td>
<td>6.14</td>
<td>47.41</td>
<td>4.7410</td>
<td>1.8244</td>
</tr>
<tr>
<td>2nd group</td>
<td>10</td>
<td>2.55</td>
<td>5.25</td>
<td>41.77</td>
<td>4.1770</td>
<td>0.8534</td>
</tr>
<tr>
<td>3rd group</td>
<td>10</td>
<td>0.68</td>
<td>2.35</td>
<td>54.83</td>
<td>5.4830</td>
<td>1.4134</td>
</tr>
</tbody>
</table>

On average the expected score about public auditor’s independence, responsibility and credibility in public audit report according to us is 5.80 with standard deviation being about 2.53. The first group who finished the audit subject obtained mean score 4.74 and it means the expectation gap is 1.06. The second group who did not finished audit subject has got 4.17 mean score; it means the expectation gap is 1.63. The third group who has learned both audit and advanced audit subjects achieved mean score 5.48; it means the expectation gap is 0.32. It is apparent that the expectation gap among the groups exist and also is becoming significant according to the role of audit education.

This study suffers from several limitations. The scope of the study was limited to only 352 potential respondents. More compelling evidence may have been obtained using a larger respondent group.

Conclusions

The audit expectation gap is detrimental to the auditing profession as it has negative influences on the value of auditing and the reputation of auditors in the modern society. Regarding the nature and scope of audit practices there has been considerable debate about audit expectation gap, define like the differences between what auditors actually do and what third parties think auditors do or should do in conducting the audit practice. According to some researchers, the nature of the expectation gap may be reduced but never eliminated. This paper focuses on the expectation gap from public sector and demonstrates the existence of it, also believes that for reducing such a gap a possible way is audit education, as we have seen that the gap is smaller for group who finished advanced audit classes. The audit expectation gap needs to be addressed from a number of different perspectives in order to eliminate deficient performance by auditors to widen the scope to encompass reasonable expectations and reduce expectations where they are deemed to be unreasonable.

Bibliography

Journal articles

**Articles in newspapers:**