African Journal of Business Management Vol. 6(23), pp. 7031-7041, 13 June, 2012
Available online at http://www.academicjournals.org/AJBM
DOI: 10.5897/AJBM12.382
ISSN 1993-8233 ©2012 Academic Journals

Full Length Research Paper

Audit expectations gap and corporate fraud: Empirical evidence from Iran

Fatemeh Saeidi

Department of Economy, Science and Research Branch, Islamic Azad University, Boroujerd, Iran.
E-mail: Fsaeidi64@gmail.com. Tel: 00989194797047.

Accepted 24 April, 2012

The purpose of this study was to investigate the existence of the audit expectations gap concerning auditors' responsibilities for preventing and detecting fraud among auditors, financial managers and investors. The survey instrument was a questionnaire used in Hassink et al. (2009) with minor modifications, according to auditing standards and auditing profession in Iran. The questionnaire consisted of 34 statements, which was divided into four groups: fraud definition (Questions 1 to 10), auditors' responsibility for detecting fraud (Questions 11 to 22), auditors' responsibility for further investigating suspicions of fraud (Questions 23 to 28), and reporting detected fraud to the supervisory board and society (Questions 29 to 34). Questionnaires were distributed among respondents. Finally, 147 questionnaires were collected. The significance of the gaps was measured using Independent-sample t-tests. The survey results provided evidence of an audit expectations gap among three groups of respondents regarding auditors' responsibilities for preventing and detecting fraud.

Key words: Audit expectations gap, fraud, auditors, business managers, investors, auditing standards.

INTRODUCTION

The auditing profession has faced challenges related to the auditors' responsibilities, especially the role of auditors in preventing, detecting, and reporting fraud cases. The audit profession minimizes its role in fraud detection, and expresses that is the responsibility of management (Hassink et al., 2009). By denying responsibility for fraud detection, auditors intend to guard themselves against claims (Humphrey et al., 1993). Lawrence Dicksee, in what is often considered to be the first auditing text-book, argued that "The detection of fraud is a most important portion of the auditor's duties… Auditors should, therefore, assiduously cultivate this branch of their functions…" (Dicksee, 1892). However, there were other views that privileged other meanings of audit, such as correctness of financial statements. Montgomery's auditing (published in 1912), which was based on Dicksee's book, considered detection of fraud and errors to be a secondary audit objective. Nevertheless, by the beginning of the twentieth century, detection and reporting of fraud continued to be considered as a major audit objective (Sikka et al., 1998). As a result of changes in the role of auditors, "audit expectations gap" has been arisen. It refers to the differences between what the public and financial statement users expect from an audit and what the profession actually provides (Ojo, 2007). As a whole, the accounting profession has been very reluctant to accept they have any specific responsibility for fraud (Hayes, 2006). We are motivated to study corporate fraud because whenever it happened, financial managers were involved. We defined corporate fraud as a scandal involving unethical behavior in accounting, and it includes intentional financial misrepresentations (for example, falsification of accounts) and misappropriations of assets (for example, theft of inventory) (American Institute of Certified Public Accountants, 2002), that refer to management and employee fraud, respectively.

The existence of an audit expectations gap has been confirmed for the US (AICPA,1978; Epstein and Geiger, 1994; Schelluch, 1996; McEnroe and Martens, 2001), the UK (Humphrey et al., 1993; Porter and Gowthrope, 2001), Australia (Gay et al., 1997; Monroe and Woodliff, 1993), Ireland (Robinson and Lyttle, 1991), New Zealand (Porter, 1993), South Africa (Gloeck and de Jager, 1994), Denmark (Højskov, 1998), Singapore (Best et al., 2001), Malaysia (Fadzly and Ahmed, 2004), China (Lin and

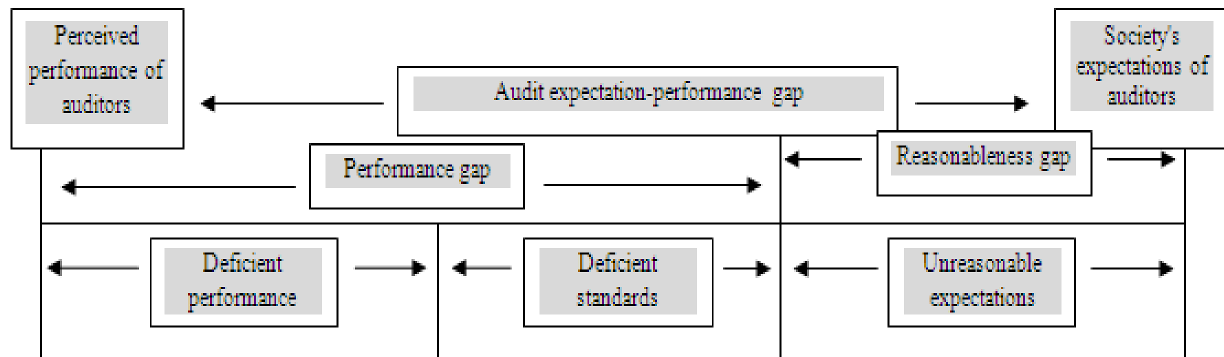

Figure 1. Structure of the audit expectation-performance gap. Source: Porter, 1993: 50; 1) Duties defined by the law and professional standards; 2) Duties which are cost-beneficial for auditors to perform.

Chen, 2004), Barbados (Alleyne and Howard, 2005), Egypt (Dixon et al., 2006), Lebanon (Sidani, 2007), Saudi Arabia (Haniffa and Hudaib, 2007), and the Netherlands (Hassink et al., 2009). The accounting profession argues that one cause of the expectations gap is the public's failure to appreciate the nature and limitations of an audit (Epstein and Geiger, 1994). A common response in order to reduce the gap is to set out more auditing and accounting standards (Humphrey et al., 1993). Another alternative is to educate the public about the responsibilities of auditors (Hassink et al., 2009). Accordingly, decreasing the gap can increase effectiveness and efficiency of an audit for users.

Therefore, the purpose of this study is to investigate the existence of the audit expectations gap among auditors, financial managers and investors in Iran; moreover, we specifically intend to assess the reasonableness gap, deficient performance gap and deficient standards gap with respect to the role of the auditors related to corporate fraud according to categories proposed by Porter. As we know, such study has not been carried out in Iran yet. For the purpose of measuring the audit expectations gap, survey method was applied; hence, we used questionnaires and conducted interviews whenever they were necessary. Consequently, main question of this research is to investigate whether there is a significant difference between auditors expectations and two other groups, investors (as a group of users of audited financial statements), and financial managements (who are directly responsible for preparing financial statements). As we know management is responsible for financial statements and auditor is responsible for expressing an opinion of these statements. Management has no auditing standards of its own. The standards indirectly apply to management, but the bulk of the attention on the expectation gap –until recently- has been on audit failures and not the failures of management. That changed after Enron and the resulting internal control reforms in the form of the Sarbanes- Oxley Act (Hayes, 2006). Answering to this question can increase effectiveness and efficiency of independent audit in Iran.

The sociology and criminology literature describes fraud perpetrators as ‘‘trust violators.’’ In other words, trust violators are people you would not normally suspect of committing fraud. Specifically, Cressey (1973) explains, ‘‘Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in the situation verbalizations which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property’’ (Ramamoorti, 2008; Albrecht et al., 1984).

The remaining aspects of the paper are organized as follows: a general overview of the audit expectations gap with special focus on corporate fraud; research design; the empirical results; summary and conclusions; limitations and recommendations.

Background and hypotheses development

Liggio (1974) introduced the term *“Audit Expectations Gap”* as the difference between levels of expected performance which was understood by the independent auditor and perceived by users of financial statements (Koh and Woo, 1998; Siddiqui et al., 2009; Sidani, 2007).

Porter (1993) proposed that the gap could be subdivided into two separate components namely *reasonableness gap and performance gap*; furthermore, the performance gap is subdivided into two components: *deficient standards gap* and *deficient performance gap*. Porter conducted an empirical study in New Zealand among auditors, officers of public companies, financial analysts, auditing academics, lawyers, financial journalists and members of the general public. The finding showed that 50% of the gap is concerning deficient standards, 34% resulting from society's unreasonableness expectations, and 16% from auditors' deficient performance (Dixon et al., 2006). Figure 1

indicates the structure of the audit expectation-performance gap as suggested by Porter. Porter (1993) defined the expectations gap as ‘the gap between society's expectations of auditors and auditors' performance, as perceived by society”. She proposed that the gap could be subdivided into two separate components namely *reasonableness gap* (“between what society expects auditors to achieve and what they can reasonably be expected to accomplish”) and *performance gap* (“between what society can reasonably expect auditors to accomplish and what they are perceived to achieve”); Furthermore, the performance gap is subdivided into two components: *deficient standards gap* (‘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* (“between the expected standard of performance of auditors' existing duties and auditors' perceived performance, as expected and perceived by society”).

Sweeney (1997) lists some areas where differences in expectations exist: going concern, fraud, management performance, independence, and due care. Empirical studies confirm the existence of an expectations gap in some areas such as: the auditor's duties and role, the auditor's independence and the non-audit service (Dixon et al., 2006). In this study main focus is on the role of auditors for fraud detection. Researches into audit expectations gap have proven existence of such a gap in the context of fraud detection (Hassink et al., 2009; Haniffa and Hudaib, 2007; Sidani, 2007; Dixon et al., 2006; Alleyne and Howard, 2005; Fadzly and Ahmed, 2004; Lin and Chen, 2004; Best et al., 2001; Frank et al., 2001; McEnroe and Martens, 2001; Epstein and Geiger , 1994; Lowe, 1994; Humphrey et al., 1993; Low, 1980).

Related researches into expectations gap can be divided into different groups. Some studies investigate whether the gap exists in the studied region, some studies compare the expectations of auditors with users, and some of them propose appropriate remedies for the issue. The aim of this study is close to the first category.

Chandler et al. (1993) reviewed the development of the audit functions between 1840 and 1940 in the UK. They found that statement verification was the primary objective in relation to public company in the period 1830 to 1860, and that more emphasis was placed on fraud detection in the late nineteenth century. The primary audit objective reverted to statement verification, at the beginning of this century; however, by the beginning of the twentieth century, fraud detection continued to be a most important portion of the auditor's duties.

In the UK, Humphrey et al. (1993) examined the expectations gap in auditors' role in detection of fraud. The results revealed a significant difference between auditors and the respondents with respect to their perceptions on the role of auditors. However, the study indicated an insignificant level of difference on the subject of the audit functions.

Epstein and Geiger (1994) conducted a survey of investors on the level of assurance they believed auditors should provide in conjunction with error and fraud. The survey results show that public in general held auditors to a higher level of assurance. They suggested that such a gap can be narrowed through educating the public about the duties and limitations of an audit.

According to Baron et al. (1977) auditors and users of accounting reports have significantly different beliefs concerning auditors’ responsibilities for detecting irregularities and illegal acts.

Low et al. (1988) examined the audit expectations gap between auditors and financial analysts in Singapore. The study indicated that financial analysts' perceptions of fraud prevention and detection responsibilities of auditors are much higher than those that the auditors view as their duties.

Best et al. (2001) found evidence of a very wide expectations gap in Singapore regarding users' perceptions in the areas of auditor's responsibilities for fraud detection and prevention.

Dixon et al. (2006) examined the existence of an audit expectations gap between auditors and financial statement users in Egypt. They uncovered such a gap in the areas of auditors’ responsibilities for fraud detection.

Haniffa and Hudaib (2007) found that auditor's responsibilities for fraud detection and reporting is highly expected by all users except finance directors, who do not believe this to be part of their responsibility.

A significant expectations gap was uncovered by Sidani (2007) in Lebanon. The auditors' understanding of their profession compared with the users' perceptions is very different, especially in respect of fraud detection.

Hassink et al. (2009) conducted a survey concerning the role of the auditor in corporate fraud cases between financial managers and auditors in the Netherlands. The results provide clear evidence of a significant expectations gap in conjunction with fraud detection and the responsibilities of auditors with respect to fraud.

We presumed audit expectations gap exist in Iran. This study lays emphasis on the opinions of auditors, investors, and financial managers in conjunction with the auditors’ responsibilities for detecting fraud in Iran.

Financial managers have a direct responsibility concerning fraud in their organizations. In addition, they are familiar with the auditing process. According to previous researches, financial manager’s expectations are much closer to those of auditors than those of the other respondents (Haniffa and Hudaib, 2007; Lin and Chen, 2004). Thus, our first hypothesis is:

H_1: There is an expectation gap between auditors and financial managers concerning auditor’s responsibility in detecting fraud.

Bankers (Best et al., 2001; Hassink et al., 2009) and

Table 1. Response rates and demographic details of respondents.

Parameter	Auditor	Financial managers	Investor
Number of sent questionnaires	90	43	30
Number of usable questionnaires	77	41	29
Mean age of respondents	37	36	42
Mean years of experience in current position	4	6	6
Mean years of experience in accounting	5	4	5
Education (%)[a]			
Bachelor degree	43	71	38
Master degree	57	29	48
Other[b]	-	-	14

a) 91% of auditors, and 28% of investors had educated in accounting. All financial managers had educated in accounting. b) For investors, the "other" category in relation to education included Ph.D. degree.

investors (Fadzly and Ahmed, 2004) are the two most studies user group; consequently one of our respondents are investors. Investment companies in Iran are in their infancy stage. Most of their investment experts are educated in accounting, or they have some years of experience in accounting profession. However, we asked them to answer in the position of investors. So the second group of respondents is investors.

H_2: There is an expectation gap between auditors and investors concerning auditor's responsibility in detecting fraud.

According to Porter analyses, we will analyze confirmed gap into its three components namely "reasonableness gap", "deficient performance gap", and "deficient standards gap".

METHODOLOGY

Survey instrument

Auditors' responsibility regarding fraud cases is a high-profile subject, which is worthy of more discussion. The most common research method on the audit expectations gap is survey method (Beasley, 1996). In order to investigate the existence of such gap in Iran, we used questionnaire using a Likert scale. The questionnaire used in this study is almost similar to that used in Hassink et al. (2009) with minor modifications, according to auditing standards and auditing profession in Iran (Iran has adopted International Standard of Auditing 240). We used Iranian experts' opinion to adjust research questionnaire.

The survey questionnaire comprised of two parts. Part one contained several demographic data related to participants' qualification, experience, age, gender, and education. The second section consisted of 34 statements, which are divided into four groups: fraud definition (Questions 1 to 10), auditors' responsibility for detecting fraud (Questions 11 to 22), auditors' responsibility for further investigating suspicions of fraud (Questions 23 to 28) and reporting detected fraud to the board of directors and society (Questions 29 to 34). In this part, participants were asked to response by using a seven- point Likert scale, with 1 indicating "strongly disagree", 4 "neutral", and 7 "strongly agree". The contents of the draft questionnaire were discussed with several experts in auditing and some adjustments were made. Its reliability was measured based on Cronbach's alpha which resulted more than 75% for the three groups of respondents. With respect to moral considerations questionnaires were distributed nameless and the respondents were told that their responses will be kept only as statistical results.

Survey samples

The research sample was divided into three groups include: auditors (*n=90;* employed in Iranian Audit Organization and Trust Worthy Audit Firms), financial managers (*n=43*; The highest official financial managers of manufacturing companies listed in Tehran Stock Exchange (TSE)), and professional investors (*n=30*; Investment experts employed in investment companies listed in Tehran Stock Exchange (TSE)). Auditors are divided into two groups in Iran, auditors employed in audit organization which is governmental and auditors employed in private audit firm. The survey samples are certified accountants who are employed in Audit Organization and Trust Worthy Audit Firms, because these firms have higher authority in Iran. Auditors are selected to represent the opinion of the audit profession. Financial managers are selected because they are responsible for the financial reporting process. Investors are selected to represent the users of audited financial reports. The audited information is used in the decision-making process on the assumption that it is reasonably complete, accurate, and unbiased (Iranian Auditing Standard Committee, 2010).

Questionnaires were distributed to 90 auditors. Eighty-two completed questionnaires were returned, of which 77 turned out to be useful for data analyses. The response rate for this group is 85.5%. The questionnaires were distributed to 43 financial managers. They completed 41 questionnaires thoroughly, making the response rate 95.3. The questionnaires were distributed to 30 investors. Twenty-nine useful questionnaires were collected, yielding a response rate of 96.6%. Therefore, the total response rate was 90.1 which is an acceptable rate. Table 1 shows the response rates and demographic characteristics of survey respondents. Table 1 presents that the experience and education of the participants regarding accounting is high. These levels of experience mean that they are actually aware of auditing process.

Table 2. Results of hypotheses testing.

Hypothesis	t	Result
H_1: There is an expectation gap between auditors and financial managers concerning auditors' responsibility in detecting fraud.	9.416	Financial managers' expectations are higher than auditors' regarding auditors' responsibilities for detecting fraud.
H_2: There is an expectation gap between auditors and investors concerning auditors' responsibility in detecting fraud.	-12.391	Investors' expectations are higher than auditors' regarding auditors' responsibilities for detecting fraud.

Table 3. Results of the study for each category of questionnaire.

Variable	Mean				Result
	Whole sample	Auditor	FMs[a]	Investor	
I. Fraud definition	5.46	5.38	5.36	5.81	There is a significant difference between the definition given by auditors and investors.
II. Auditors' responsibilities for:					
a. Fraud detection & prevention	4.73	4.05	5.52	5.43	The results indicate both FMs and investors have higher expectations than auditors.
b. Further investigation any suspicion of fraud	5.71	5.61	5.73	5.95	There is no significant gap among 3 groups of respondents.
c. Reporting fraud	5.14	4.88	5.10	5.88	There is a significant difference between auditors and investors regarding auditors' responsibilities for reporting fraud.

a) FMs: Financial managers.

Thus, results of this study are more reliable than those include participants without any accounting experience. The results in Table 1 indicate that the mean years of experience in current position for financial managers and investors is 6, and for auditors is 4. Both auditors and investors have 5 years of experience in accounting; financial managers have 4 years of experience in accounting. The mean year of experience in accounting is important because it might affect respondents' expectations. As Table 1 shows, all respondents had university education. Auditors got 43% bachelor degree and 57% master degree, whereas more than 70% of financial managers have bachelor and less than 30% of them have master. 88% of investors have bachelor, 48% have master and 14% have Ph.D.

The average age of auditors was 37, compared to 36 for financial managers and 42 for investors. On average, financial managers and investors had 4 and 5 years of experience in dealing with auditors, respectively. Auditors had also 5 years of experience, on average.

The effect of demographic variables on the responses to the survey was analyzed using Kruskal - Wallis Test. This analysis indicated that the level of education and years of experience had no effect on their responses. Although, previous studies (Hassink et al., 2009; Siddiqui et al., 2009) have verified the effect of education on the respondents' answers.

EMPIRICAL RESULTS

According to T-tests both hypotheses were confirmed. Table 2 presents the results of our findings. Table 2 shows the results of using T-tests for the hypotheses. It briefly indicates that both groups (financial managers and investors) had higher expectations than auditors.

The results of these two hypotheses agree with findings of Haniffa and Hudaib (2007), Hassink et al. (2009), Dixon et al. (2006), Fadzly and Ahmed (2004), Best et al. (2001), and Schelluch (1996) in relation to existence of an expectation gap with regard to auditor' s responsibility for preventing and detecting fraud.

As earlier mentioned, the statements of questionnaire were classified into 4 groups. Results of the study for each group are provided in Table 3. According to Table 3 the expectations gap between auditors and respondents in three categories, fraud definition, fraud detection, and fraud reporting, is significant. As we can see, financial managers' expectations are much closer to those of auditors than those of investors except for auditors' responsibilities for fraud detection and prevention. Table 3 indicates that in relation to fraud definition there is no significant gap between auditor and financial managers, but the results for investors and auditors show that investors' perceptions are higher than auditors.

With regard to auditors' responsibility for fraud detection and prevention, the results show significant

Table 4. Definition and types of fraud.

Statement	Mean[a]			T-tests[b]		Type of gap	Gap confirmed?	
	Auditor	FMs[c]	Investors	Auditors vs. FMs	Auditors vs. investors		FMs and auditors	investors and auditors
Which statements do you consider as fraud?								
1.Theft of organizational property	4.61	5.73	5.83	5.09	4.87	Performance	Yes	Yes
2. Intentional non-compliance with financial reporting legislation	5.61	5.85	5.76	1.148	0.614	Performance	No	No
3. Intentional non-compliance with organizational guidelines	5.30	5.90	5.72	2.78	1.72	Performance	Yes	Yes
4. Intentional non-compliance with GAAP	5.08	5.93	5.83	3.08	2.93	Performance	Yes	Yes
5. Intentional violation of laws	5.21	5.85	5.72	2.57	1.80	Performance	Yes	Yes
6. Intentional misleading third parties	6.30	5.90	5.97	-2.15	-1.65	Performance	Yes	Yes
7. The risk that management violates internal controls	5.87	5.88	5.86	0.43	-0.39	Performance	No	No
Which is more important?								
8. Managerial fraud is more serious than employee fraud	6.03	5.85	5.76	-0.95	-1.27	Performance	No	No
9. External fraud is more serious than internal fraud	3.95	3.19	5.79	-4.11	8.21	Performance	Yes	Yes
10. Fraud with personal gain is more serious than fraud with organizational gain	5.90	3.49	5.83	-12.49	-0.34	Performance	Yes	No

a) Mean scores based on 7-point Likert scale; b) Significant level at $p \leq 0.05$; c) FMs: Financial managers.

disagreements between both groups (Auditors and financial managers; Auditors and investors).

There is no significant gap between responses on the issue of auditors' responsibility for further investigation any suspicion of fraud, and they relatively agreed to further investigation.

Investors were more strongly in favor of reporting fraud. Financial managers' opinion on reporting fraud is close to auditors'.

Tables 4 and 5 present the mean of responses, and the level of the expectations gap regarding fraud definition and the auditors' responsibilities with respect to fraud. The significance of expectations gap was assessed using T-tests. Significant gaps were divided into the performance gap, the reasonableness gap or the standards gap. Duties which are defined as auditors' duties in auditing standards, but auditors

Table 5. Auditors' responsibilities.

Statement	Mean[a]			T-tests[b]		Type of gap	Gap confirmed?	
	Auditor	FMs[c]	Investors	Auditors vs. FMs	Auditors vs. investors		FMs and auditors	Investors and auditors
Auditors' responsibilities for detecting fraud								
11. Management is responsible for maintaining accounting records	6.74	5.80	5.90	-6.55	-5.39	Performance	Yes	Yes
12. Management is responsible for detecting fraud	5.96	4.71	2.45	-6.74	-18.85	Performance	Yes	Yes
13. Auditor is responsible for detecting fraud	5.36	5.88	5.90	2.51	2.72	Performance	Yes	Yes
14. Management is responsible for preventing fraud	6.64	5.95	6.14	-4.94	-3.20	Performance	Yes	Yes
15. Auditor is responsible for preventing fraud	1.78	3.85	2.76	12.29	4.76	Performance	Yes	Yes
16. Audited financial statements are free from intentional falsification	3.18	5.66	5.79	10.88	9.97	Performance	Yes	Yes
17. Audited financial statements are free from unintentional falsification	2.43	5.78	6.17	17.35	16.63	Performance	Yes	Yes
18. Audited financial statements are free from material biased accounting estimations	3.54	5.88	6.10	9.75	8.88	Performance	Yes	Yes
19. Auditors should detect material fraud in the case of collusion	3.00	5.83	5.86	12.88	11.51	Reasonableness	Yes	Yes
20. Auditors should detect non-material fraud in the case of collusion	2.69	5.70	5.89	12.43	11.61	Reasonableness	Yes	Yes
21. Auditors should detect material fraud in the case of no collusion	4.83	5.95	6.28	4.57	5.27	Performance	Yes	Yes
22. Auditors should detect non-material fraud in the case of no collusion	2.51	5.20	5.90	10.60	12.03	Reasonableness	Yes	Yes
Auditors' responsibilities for further investigations suspicion of fraud								
23. Management fraud with a highly probable material effect on the accounts	6.13	6.22	6.24	0.49	0.57	Performance	No	No
24. Employee fraud with a highly probable material effect on the accounts	5.90	5.98	6.07	0.45	0.90	Performance	No	No
25. Management fraud with an uncertain effect on the accounts	5.66	5.76	5.90	0.46	1.01	Performance	No	No
26. Employee fraud with an uncertain effect on the accounts	5.61	5.71	5.83	0.49	0.93	Performance	No	No
27. Management fraud with no material effect on the accounts	5.36	5.37	5.97	0.01	2.61	Performance	No	Yes
28. Employee fraud with no material effect on the accounts	5.01	5.34	5.72	1.52	2.85	Performance	No	Yes

do not consider that their responsibilities can be classified as performance gap. The standards gap indicates the responsibilities that are not expected of auditors by their profession rules, but which society might reasonably expect from them (Hassink et al., 2009). Reasonableness gap indicates duties which can reasonably be expected auditors to achieve and what society expects auditors to achieve (Porter, 1993). For easy understanding, we will discuss the results on the subject of fraud definition and the auditors' responsibilities in two separate sections.

Table 5. Continued.

Auditors' responsibilities for reporting fraud								
29. Auditors should report non-material fraud to society	1.49	2.12	5.62	4.26	25.35	Standards	Yes	Yes
30. Auditors should report material fraud to society	5.71	5.76	5.90	0.23	0.87	Performance	No	No
31. Auditors should report material fraud to the supervisory board	5.88	5.93	5.97	0.23	0.38	Performance	No	No
32. Auditors should report material fraud detected during statutory audit to the supervisory board	6.05	6.10	6.11	0.27	0.25	Performance	No	No
33. Auditors should report material fraud detected during voluntary audit	5.83	5.61	5.90	-1.17	0.29	Standards	No	No
34. Auditors should report material fraud detected during management advisory services	4.31	5.10	5.83	3.23	5.34	Standards	Yes	Yes

a) Mean scores based on 7-point Likert scale; b) Significant level at p ≤0.05; c) FMs: Financial managers.

Fraud definition

The questionnaire was classified into 4 groups in which mean score of responses was considered as indicator of that group. Table 4 presents the statistical results for definition and seriousness of types of fraud and the expectations differences between auditors and financial managers; and auditors and investors. Table 4 concerns the way auditors, financial managers and investors defined fraud and how seriously they take various types of fraud. As we can see it is clear that financial managers and investors are more likely than auditors to consider these acts as fraud. According to porter these gaps can be classified as performance gap.

A significant difference in mean scores between auditors and financial managers were identified regarding definition of fraud, except for 3 (statements 2, 7, and 8).

Financial managers are more likely than auditors to consider these items as fraud: theft of organizational property, intentional non-compliance with organizational guidelines, intentional non-compliance with generally accepted accounting principles (GAAP), intentional non-compliance with organizational rules, and intentional misleading third parties.

In addition, they consider internal fraud more serious than external fraud and fraud with organizational gain more serious than fraud with personal gain; on the contrary, auditors consider fraud with personal gain more serious than fraud with organizational gain.

The results show significant gap regarding fraud definition between auditors and investors, except for 4 (Statements 2, 7, 8, and10).

Investors are more likely than auditors to consider these items as fraud: theft of organizational property, intentional non-compliance with organizational guidelines, intentional non-compliance with GAAP, intentional non-compliance with organizational rules, and intentional misleading third parties.

They also agreed with the statement 9 “external fraud is more serious than internal fraud”.

Auditors' responsibilities

Auditors’ responsibilities for preventing and detecting fraud

As Table 5 indicates the mean scores of the 3 groups of respondents for statement 13 “auditor is responsible for detecting fraud” are strongly higher than for statement 15 “auditor is responsible for preventing fraud”. It may derive from the fact that auditor is not responsible for maintaining accounting records; so, auditor is not responsible for preventing fraud. Both investors and financial managers had significantly higher expectations of auditors with regards to detection of non-material fraud in the case of collusion (mean score of 5.89, 5.7, respectively). While auditors strongly disagreed with this statement (mean of 2.68). Such gap exist for statements 19, 21, and 22. Auditing standard (International Standard on Auditing, 200) states that auditors are only responsible for detecting material fraud. It would not be cost-beneficial to have such expectations of auditors. So, the reasonableness

Table 6. Confirmed expectations gap.

Variable	Mean				Results
	Whole sample	Auditor	Financial managers	Investor	
I. Fraud definition	5.46	5.38	5.39	5.81	There is a significant difference between the definition given by auditors and investors
II. Auditors' responsibilities for					
a. Fraud detection and prevention	4.73	4.05	5.52	5.43	The results indicate both financial managers and investors have higher expectations than auditors.
b. Further investigation any suspicion of fraud	5.71	5.61	5.73	5.95	There is no significant gap among 3 groups of respondents
c. Reporting fraud	5.14	4.88	5.10	5.88	There is a significant difference between auditors and investors regarding auditors' responsibilities for reporting fraud

gaps were identified in relation to statements 19, 20, 22, and a significant performance gap was confirmed regarding statement 21. Table 5 provides the average scores, and the level and significance of the expectations gap with respect to the responsibilities of auditors regarding fraud detection, fraud prevention, and reporting detected fraud. Responses to Questions 14 and 15 shows that financial managers and investors consider preventing fraud as management's responsibility and not auditor's responsibility. Responses to Questions 16, 17 and 18 indicate that both groups (financial managers and investors) in general believe that audited financial statements are free from intentional and unintentional falsifications, and also from material biased accounting estimations. International Standard on Auditing (ISA) 200 requires the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance. However, it is not an absolute level of assurance because there are inherent limitations of an audit (ISA 200, 2006).

Financial managers and investors appear to have unreasonable expectations of auditors when it comes to detecting fraud. They agreed on the statements 19, 20, 21 and 22. They believe that auditors should detect non-material fraud, while auditors disagree to these statements. Both groups of respondents (financial managers and investors) also feel strongly that auditors should detect fraud in the case of collusion. Collusion takes place when a group of people commit fraud and work together to hide it in order to misleading auditors. In accord with ISA 240 auditors are expected to detect material fraud. However, in the case of collusion, even material fraud can be rendered undetectable (ISA 240, 2010). According to prior researches (Hassink et al., 2009; Siddiqui et al., 2009) providing the general public more information about auditors' responsibilities, as stated in auditing standards, can narrow this gap.

Auditors' responsibilities for further investigate any suspicions of fraud

Table 6 shows that mean scores of 3 groups of respondents are very close. However, investors had higher expectations of auditors when it comes to further investigate any suspicions of fraud with no material effect on the accounts both management and employee fraud. According to Table 6, the most existing significant gaps are regarding auditors' responsibilities for detecting and reporting fraud. In addition, investors' expectations from auditors are much higher than financial managers'.

Auditors' responsibilities for reporting fraud

It seems that investors do not care about the materiality of the fraud when it comes to reporting it to the supervisory board or society. They even expect non-material detected fraud should be reported. Auditors strongly disagreed with

statement 29 “reporting non-material fraud to society”, (mean of 1.49). Financial managers also disagreed with this statement, although not as strongly, (mean of 2.12). All 3 groups of respondents express close opinions with respect to statements 30, 31, 32, and 33. However, a significant standards gap was found regarding statement 34 “auditors should report material fraud detected during management advisory services to the supervisory board” (a mean score of 4.31, 5.10, and 5.83, respectively. Auditors, financial managers, and investors).

SUMMARY AND CONCLUSIONS

The objective of this study was to identify whether an audit expectations gap exists in professional environment of Iran as well as to compare the extent of the gap to the findings of similar prior studies in all over the world. Whereas earlier researches regarding expectations gap have been done in difference regions of the world, as we searched, this is the first research of its kind to be done in Iran. The survey instrument used in the study was almost similar to that developed by Hassink et al. (2009) in the Netherlands. We made minor modifications according to auditing standards and auditing profession in Iran. This research investigated existence of the audit expectations gap between auditors and financial managers, and auditors and investigations. The significance of the gaps was measured using T-tests. Confirmed gaps were divided into their components that is, performance gap, reasonableness gap, and standards gap.

The survey results provide evidence of an “audit expectations gap” in relation to fraud definition and auditors' responsibilities in detecting and reporting fraud between auditors and financial managers, and auditors and investors. A brief summary of the results are given in Table 6. According to our findings financial managers' opinion is very close to auditors’. This has been verified in previous researches (Haniffa and Hudaib, 2007; Lin and Chen, 2004). Our results compare well with previous studies investigating existence of audit expectations gap (Sidani, 2007; Hassink et al., 2009).

The most important issue related to fraud is the understanding of the causes of such a tricky behavior. Fraud involves intentional acts and is perpetrated by human beings using deception, trickery, and cunning that can be broadly classified as comprising two types of misrepresentation: *suggestio falsi* (suggestion of falsehood) or *suppressio veri* (suppression of truth).

As Ramamoorti and Olsen (2007) have argued: ‘‘Fraud is a human endeavor, involving deception, purposeful intent, intensity of desire, risk of apprehension, violation of trust, rationalization, etc. So, it is important to understand the psychological factors that might influence the behavior of fraud perpetrators. The rationale for drawing on behavioral science insights is evident from the intuition that one needs to ‘think like a crook to catch a crook.’ Many business professionals, especially those in the financial arena, tend to discount behavioral explanations. But as the incidence of fraud continues to grow, placing the spotlight on behavioral factors may be an important approach not only to fraud detection but to deterrence as well.’’ In other words, when discussing the topic of fraud, we must inevitably bring in the human factor (Ramamoorti, 2008).

LIMITATIONS AND RECOMMENDATIONS

One limitation of this study is that a selected group of respondents were included in the sample, and the proportion of any of these groups may not properly reflect the ratio of these three groups in reality. Second limitation is that, investment companies have been established during last decade in Iran, so they are not experienced enough in relation to auditing process. Another limitation of the study is inherent to all questionnaire studies. Research based on questionnaires must allow for dilution of the results by socially desirable behavior and a non-response bias.

There are two groups of audit firms in Iranian context: private audit firms and audit organization, a governmental organization that has obligation to audit financial statements of governmental companies as well as other companies. However we did not separate these firms. In other words, in this study we surveyed the expectation gap of Iranian auditors, without regarding to these categories. So it is proposed studying expectation gap of two groups of auditors employed in audit organization and private audit firms. Additionally, the research on factors that can reduce the expectation gap between different groups is useful. The investigation of expectation gap about fraud between other groups of stakeholders like students and teachers of accounting and auditing fields also is proposed for future research.

REFERENCES

AICPA (1978). Commission on auditors’ responsibilities: Report, conclusions, and recommendations (The Cohen Commission). New York: American Institute of Certified Public Accountants.

Alleyne P, Howard M (2005). An exploratory study of auditors’ responsibility for fraud detection in Barbados. Managerial Aud. J., 20(3): 284-303.

Baron CD, Johnson DA, Searfoss DG, Smith CH (1977). Uncovering corporate irregularities: are we closing the expectation gap? J. Account., 144: 243-250.

Beasley MS (1996). An Empirical Analysis of the Relation between the Board of Director Composition and Financial Statement Fraud. Account. Rev., 71: 443-465.

Best P, Buckby S, Tan C (2001). Evidence of the audit expectation gap in Singapore. Managerial Aud. J., 16(3): 134-144.

Chandler R, Edwards J, Anderson M (1993).Changing perceptions of the role of the company auditor, 1840-1940. Aud. Bus. Res., 23: 443-459.

Dicksee L (1892). Auditing: A Practical Manual for Auditors, Gee & Co. Pub. VIII- 305 .

Dixon R, Woodhead AD, Sohliman M (2006). An investigation of the expectation gap in Egypt. Managerial Aud. J., 21: 293-302.

Epstein M, Geiger M (1994). Investor views of auditor assurance: Recent evidence of the 'expectation gap'. J. Account., pp. 60-64.
Fadzly MN, Ahmed Z (2004). Audit expectation gap: The case of Malaysia. Managerial Aud. J., 19(7): 897-915.
Frank KE, Lowe DJ, Smith JK (2001). The expectation gap: perceptual differences between auditors, jurors and students. Managerial Aud. J., 16: 145-149.
Gay G, Schelluch P, Reid I (1997). Users' perceptions of the auditing responsibilities for the prevention, detection and reporting of fraud, other illegal acts and errors. Aus. Account. Rev., 7: 51-61.
Gloeck JD, de Jager H (1994). The audit expectation gap in the republic of South Africa. Brooklyn, South Africa: University of Pretoria.
Haniffa R, Hudaib M (2007). Locating audit expectations gap within a cultural context: The case of Saudi Arabia. J. Int. Account. Aud. Tax., 16(2): 179-206.
Hassink HFD, Bollen LH, Meuwissen RHG, de Vries MJ (2009). Corporate fraud and the audit expectations gap: A study among business managers. J. Int. Account. Aud. Tax., 18: 85-100.
Hayes AA, (2006). Huddle, Huddle, Toil and Trouble: A time to re-examine the curse of the expectation gap. J. Gov. Financial Manag. 55(4): 68-70.
Højskov L (1998). The expectation gap between users' and auditors' materiality judgements in Denmark.http://www3.bus.osaka cu.ac.jp/apira98/archives/pdfs/36.pdf. (Paper presented at the 2nd Asian Pacific Interdisciplinary Research in Accounting Conference in association with Accountin.Aud. and Accountabil. J. at The Osaka City University, Japan, August 4-6) [Accessed in June, 2006].
Humphrey C, Moizer P, Turley S (1993). The audit expectations gap in Britain: An empirical investigation. Account. Bus. Res., 23: 395-411.
International Standard on Auditing 200: Objective and General Principles Governing an Audit of Financial Statement (2006). Paragraph 18, IFAC, New York, pp. 1-16.
International Standard on Auditing (UK and Ireland) 240 revised. The auditor's responsibilities relating to fraud in an audit of financial statements (2010). Paragraph 6, pp. 1-39.
Iranian Auditing Standards setting Committee (2010). Accounting and Auditing Principles And Regulations 200. Paragraph 8. Tehran, Audit Organization Pub., 1-662.
Koh HC, Woo E (1998). The expectation gap in auditing. Managerial Aud. J., 13(3): 147-157.
Lin ZJ, Chen F (2004). An empirical study of audit 'expectation gap' in the People's Republic of China. Int. J. Aud., 8: 93-115.
Low AM (1980). The auditor's detection responsibility: is there an 'expectation gap? J. Account., 150: 65-70.
Low AM, Foo SL, Koh HC (1988). The expectation gap between financial analysts' and auditors – some empirical evidence. Singapore Accountant, 4: 10-13.
Lowe DJ (1994). The expectation gap in the legal system: perception differences between auditors and judges. J. Appl. Bus. Res., 10(3): 39-44.
McEnroe JE, Martens SC (2001). Auditors' and investors' perceptions of the expectation gap. Account. Horiz. 15(4): 345-358.
Monroe GS, Woodliff DR (1993).The effect of education on the audit expectation gap. Account. Financ., 33: 59-76.
Ojo M (2007). Eliminating the Audit Expectations Gap: Reality or Myth? J. Forens. Account. 8(1&2). Electronic copy available at http://ssrn.com/abstract=1407199.*
Porter BA (1993). An empirical study of the audit expectation–performance gap. Account. Bus. Res., 24(Winter): 49-68.
Porter BA, Gowthorpe C (2001). The audit expectation–performance gap: Some new evidence from the United Kingdom. In Paper presented at the National Auditing Conference, Leicester. UK: University of Leicester.
Ramamoorti S (2008). The psychology and sociology of fraud: Integrating the behavioral Sciences component into fraud and forensic accounting curricula. Issues Account. Educ., 23(4): 521-533.
Robinson J. Lyttle J (1991). The audit expectations gap in Ireland (Auditing Practices Review Committee). Dublin: The Institute of Chartered Accountants in Ireland.
Schelluch P (1996). Long-form audit report messages: Further implications for the audit expectation gap. Account. Res. J., 9: 48-55.
Sidani YM (2007). The audit expectations gap: evidence from Lebanon. Manager. Aud. J., 22(3): 288-302.
Siddiqui J, Nasreen T, Choudhury-Lema A (2009). The audit expectations gap & the role of audit education: the case of an emerging economy. Managerial Aud. J., 24(6): 564-583.
Sikka P, Puxty A, Willmott H, Cooper C (1998) The Impossibility of Eliminating the Expectations Gap: Some Theory and Evidence. Crit. Perspect. Account., 9: 299-330.