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Audit Expectation Gap in Auditor Responsibilities: Comparison between India and Iran

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Abstract

Purpose – This study aims to investigate the existence of an audit expectation gap and to find similarities and differences in responsibilities of audit expectation gap among auditor and investor between two countries, and to measure the magnitude of auditor responsibility.

Methodology - The data for the present study has been collected from auditors and investors being sample respondents of the study. To collect information from respondents, the seven-section questionnaire was prepared and distributed to sample respondents. Sample respondents were chosen from different parts of India and Iran.

Findings – The results found that wide audit expectation gaps in both the countries in the area of auditors' responsibilities exist. There were no much differences between the opinion of auditors as well as investors in both the countries.

Limitations – This study covers only the responsibility area it has not covered any other areas like, role, effectiveness, independence etc, and also only auditor and investors were approached to extract the data.

Keywords: Audit, Auditor, Responsibilities, Audit Expectation Gap

1. Introduction

The history of auditing is to a large extent determined by the history of accounting. Ancient cultures of Mesopotamia, Egypt, Greece and Italy show evidences of highly developed economic systems. But the economic fact during these periods was limited to the recording of single transactions. Bookkeeping, as a support mechanism for the determination of profit or wealth or as a decision support system for achieving profit maximization was basically unknown.

The attitude of profit maximization emerged only at the end of the middle ages, with the emergence of large merchant houses in Italy. Trading was no longer the domain of the individual commercial travelers. It was now coordinated centrally at the luxurious desks of the large merchant houses in Venice, Florence or Pisa making communication vital. It was also found that entering merely one aspect of the transaction paved the way for heavy embezzlement of cash, which was found difficult to trace in the ordinary course of business. Therefore, the system of double entry bookkeeping was first described by an Italian monk Luca Pacioli in his book Summa de Arithmetica, Geometria, Proportioni et Proportionalita, dated 20 November 1494.

However, the introduction of double-entry bookkeeping was not enough for the emergence of today's auditors. The onset of industrial revolution in Great Britain around 1780 led to the emergence of large industrial companies with complex bureaucratic structures. Gradually, the need to look for external funds in order to finance further expansion on one hand and the divorce between ownership and management on the other gained importance. The result has been the growth in sophisticated securities markets and credit-granting institutions serving the financial needs of large national and increasingly international corporations.

The flow of investor funds to the corporations and the whole process of allocation of financial resources through the securities markets became dependent to a very large extent on reports made by management. At the present juncture, one of the most important characteristics of these corporations is the fact that their ownership is almost totally divorced from their management. Management has control over the accounting systems of these enterprises and is not only responsible for the financial reports to investors, but also has the authority to determine the precise nature of the representations that go into the reports.

To increase the confidence of investors and creditors in financial statements, they are provided with an independent and expert opinion on the fairness of the reports. An auditor provides this opinion. Initially, company audits had to be performed by one or more stockholders, who were designated by the other stockholders as their representative. The auditing profession quickly emerged to meet market place needs and legislation was soon required to permit persons other than stockholders to perform the audits, giving rise to the formation of auditing firms. These developments resulted in demand for the services of specialists in bookkeeping and in auditing. Thus the institutionalization of audit as a profession was then merely a matter of time.

2. Concept of audit

Etymologically, the word 'audit' is derived from the Latin word, 'audire,' which means 'to here' (Chambers English Dictionary: 1988, 89). Thus in the beginning, the word 'audit' was meant 'to hear' and auditor literally meant a "hearer". The hearing function by the auditor was then aimed at declaring that the accounts kept by the management and the financial statements prepared by them were 'true and correct'. And his function was to give assurance against fraud and intentional mismanagement. Gradually, this hearing function of the auditor was transformed into verifying function. Hence the principal purpose of independent auditing now is to form an opinion on the accuracy, reliability and fairness of representations in the financial statements of enterprises, and to make this information available to external users. Accordingly, the main object of audit also transformed thus making the auditor declare that the accounts prepared by the companies as revealed by their financial statements were "true and fair."

Littleton (1933:260) was of the view that early auditing was designed to verify the honesty of persons charged with fiscal, rather than managerial responsibilities. In the nineteenth century, the role of auditors have been directly linked to management's stewardship function (Flint: 1971) with stewardship being regarded in the narrow sense of honesty and integrity. But the verifying function was on sampling basis because of the burgeoning volume of business activity.

The International Auditing Practices Committee (IAPC: 1980) defines auditing as "… the independent examination of financial information of an entity, whether profit oriented or not, irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon."

According to Chow (1982), controlling the conflict of interests among firm managers, shareholders and bondholders is a major reason for engaging auditors.

2.1 Auditor responsibilities

The primary responsibility of an auditor is to verify whether the financial statements exhibit a true and fair view of state of affair of the business and their secondary responsibility is the prevention and detection of errors and frauds. The primary responsibility for the prevention and detection of fraud and error rests with both those charged with governance and the management of an entity in spite of the fact that financial statements are the representations of the management. While discharging their duties in accomplishing these two audit objectives, there are also other responsibilities that emerge for the auditors to perform. There seems to be a negative relationship between responsibilities of auditors and audit expectation gap in the sense that higher the responsibilities assumed by the auditors, lower the audit expectation gap. Further, the empirical evidences on audit expectation gap have revealed that one of the major causes for audit expectation gap in many countries is that there are differences in perceptions about the role and responsibilities of auditors with regard to accounting frauds.

3. Audit expectation gap

There are users who expect auditors to perform some of the audit procedures while performing the attest function like penetrating into company affairs, engaging in management surveillance and detecting illegal acts and/or fraud on the part of management. It is these high expectations on the part of users of financial statements that create a gap between auditors' and users' expectations of the audit function. In addition, the users also place the responsibility for narrowing the gap on auditors and others involved in preparing and presenting financial statements.

Some of the relevant definitions on audit expectation gap are presented below.

Liggio (1974) defined it as the difference between the levels of expected performance as envisioned by the independence accountant and by the user of financial statements.

The Cohen Commission (1978) on auditors' responsibility extended this definition by considering whether a gap may exist between what the public expects or needs and what auditors can and should reasonably expect to accomplish.

According to Guy and Sullivan (1988:36)], there is a difference between what the public and financial statement users believe accountants and auditors are responsible for and what the accountants and auditors themselves believe they are responsible for.

Godsell (1992) described the expectation gap as "which is said to exist, when auditors and the public hold different beliefs about the auditors' duties and responsibilities and the messages conveyed by audit reports."

Jennings et al., (1993), in their study on the use of audit decision aids to improve auditor adherence to a 'standard', are of the opinion that the audit expectations gap is the difference between what the public expects from the auditing profession and what the profession actually provides.

Monroe and Woodliff (1993:62) defined audit expectation gap as "the difference in beliefs between auditors and public about the duties and responsibilities assumed by auditors and the messages conveyed by audit reports."

4. Objectives and methodology

The following are the objectives of the study.

To find similarities in responsibilities of audit expectation gap among auditor and investor between two countries;

To find the difference in responsibilities of audit expectation gap among auditor and investor between two countries; and

To measure the magnitude of auditor responsibility.

The data for the present study has been collected from both primary and secondary sources. Primary data on corporate audit expectation gap was collected from auditors and investors being sample respondents of the study. To collect information from respondents, the seven-section questionnaire was prepared and distributed to sample respondents. Sample respondents were chosen from different parts of India and Iran. In India the total number of sample respondents chosen for the study was 950 consisting of 300 auditors and 650 investors. The selection of 300 auditors was based on every fifteenth member from the alphabetically arranged names of chartered accountants enrolled in the southern Indian Regional Committee (SIRC). The selection of the investors numbering 650 was made by personally contacting them on their arrival to do the business in Bangalore Stock Exchange (BSE) and identifying them by oral questions on whether they invested frequently or regularly through initial public offerings. Such visits to BSE took place between February 2006 and June 2006. Out of 950 questionnaires administered to both the groups of respondents, through mail and personal contact, only 225 completed questionnaires were returned with an overall responses rate of 23.68 percent. The number of responses from the auditor group stood at 90 forming 30.00 percent response rate and 135 from investor group forming the response rate of 20.77 percent. Thus auditors consisted of 40.00 per cent of the respondents as against 60.00 per cent of the investors.

In Iran the sample respondents were chosen from Tehran city the capital of Iran, as this city has a larger number of investors in equity capital of Iranian corporate sector and traders in stock exchanges of the country on one hand and a large number of auditors working as professionals in the city. The total number of sample respondents chosen for the study was 1200 consisting of 600 auditors, 600 investors The selection of 600 auditors was based on every fourth member from the alphabetically arranged names of chartered accountants enrolled in the Iranian audit organization and the selection of the 600 investors, identifying the investors by oral questions on whether they invested frequently or regularly through initial public offerings. Such visits to TES took place between March 2006 and June 2006. Out of 1200 questionnaires administered to both the groups of respondents, through personal contact, only 441 completed questionnaires were returned with an overall responses rate of 36.75 per cent. The number of responses from the auditor group stood at 227 forming 51.47 per cent response rate, 214 from investor group forming the response rate of 48.53 per cent.

The questionnaire was designed to ensure that the precise data required would be collected from respondents to achieve the objectives of the present study. The questionnaire consisted of two sections. The first section contained data relating to demographic variables of the sample respondents and the second section contained the perceptions of sample respondents on the actual level of auditor responsibilities and the expected level of auditor responsibilities. The respondents were required to tick their perceptional levels on five-point Likert's scale with five as strongly agree, four as agree, three as moderately agree, two as disagree and one as strongly disagree on both the actual level and the expected level. The results of audit expectation gap taking the actual and expected level of perceptions between auditors and investors were analyzed by using Mann-Whitney test were used to find significant level.

5. Review of literature

The responsibility of auditors is 'an amalgamation of public policy consideration' (Chung, 1995) as a result of the deregulation movement demands for the profession to protect the public interest has grown rapidly. In addition, business operations have become much more complex owing to global competition and large-scale industrial restructuring. The investing public has increasingly relied on auditors to monitor and assure the reliability of financial reporting. The 'expectation gap' emerged as the profession has failed to react (Gwilliam, 1992; Francis, 1994). As posited by Power (1998), the 'expectation gap' is derived for a loose coupling between the idealization of auditing and the actual audit practices. However, the 'expectation gap' in relation to auditor's responsibility is mainly a time lag effect.

The responsibility debate has positively affected the development of auditing standards and practices in the developed world. By identifying society's need over time, the debate has enabled the profession to realize 'a duty to continuously asses auditing standards in light of the expectations concerns and criticisms of others and develop new standards to bring the auditors' responsibility and performance closer to public expectation' (Porter, 1996). In the USA, the AICPA, though reluctant to extend auditor's responsibility for fraud detection, has made continuing efforts to revise auditing standards in the last two decades to accommodate changing public expectations (Dye, 1993; Kinney and Nelson, 1996; Barnett et al., 1998; Reinstein and Coursen, 1999). Similar efforts have been made in the UK and other countries (Pong and Whittington, 1994; Porter, 1996; Innes et al., 1997).

The responsibilities of auditors and the expectation gap always go together. The expectation gap is due to over-expectations of the auditing function. The profession has challenged this viewpoint on the grounds that audits are designed to assure the conformity of financial statements with GAAP and fraud prevention and detection should be the responsibility of management who bear a legal obligation for truthful financial reporting [Nair and Rittenberg, (1987); Goldberg, (1988); CICA, (1988); Martens and McEnore, (1991); Chapman, (1992).

Auditors have long been asked to detect errors or frauds (Brief, 1975). The history of the development of the auditor's responsibilities concerning the detecting and reporting of fraud and error have shown their construction to be dependent on the reactions and lobbying efforts of the audit profession (Humphrey, 1991). In similar manner, Humphery et al., (19930 noted that auditor's responsibilities concerning fraud have been a recurrent problem as it is clear that public's expectations on this issue is not satisfied.

Guy and Sullivan (1988) made an overview on issue of the nine new standards of Auditing Standards Board. An issue was raised in America about the responsibilities of auditors for uncovering fraud and illegal acts and whether they had taken enough steps for evaluating going concern, by members of congress, financial writers, judges and members of leading accounting firms. In 1987, the ASB issued for comment 10 exposure drafts of professional standards. After reviewing nearly 1200 comment letters, the ASB approved issuance of nine new statements on auditing standards. The expectations gap statements on auditing standards are grouped under four statements, such as (i) Detection of fraud and illegal acts, (ii) More effective audits, (iii) Improved external communications and (iv) Improved internal communications. The authors conclude that if the existing audit expectation gap is too narrow the new standards should bring the auditor's responsibility and performance closer to public expectations.

Auditors have an existing duty to detect material theft of corporate assets by non-managerial employees, which escapes the internal control net, but providing the report such theft to the company's management that is generally where their responsibility ends (Porter, 1990).

The profession's continuing attempts to avoid fraud detection responsibility were motivated to protect its self-interest in order to deflect public pressure and reduce auditor's legal liability (O'Sullivan, 1993; Tidewell and Abrams, 1996).

Another remarkable study on auditor's responsibilities involving various dimensions of the attest function was made by McEnroe et al. (2001), who found that investors had higher expectations for various facts and assurances of the audit than did auditors in the following areas: disclosure, internal control, fraud, and illegal operations.

The literature survey also evinces the fact that any discussion about responsibility of auditor's centers around his responsibilities towards detection of fraud in spite of the fact it has been relegated the second place. In addition, SAS 82 also specifies clearly that it's not the responsibility of auditor to detect and prevent error and fraud, but the users of financial statements still perceive the major responsibility as only the detection of fraud. There is also a wealth of information supporting this viewpoint as any amendment to the existing auditing standards or the inclusion of any new provisions center around the prevention and detection of fraud as the responsibility of auditors.

The empirical study by Humphrey (1991) with reference to England was an extension of the above studies and the main conclusions included expectations gap in auditors' role in fraud detection; the extent of auditors' responsibility to this party; the nature of balance sheet valuation; threats to auditors' independence; and auditors' ability to cope up with risk and uncertainty. He also adds "If any topic can be classified as going to the heart of the audit expectations debate, it is the issue of auditor independence."

Humphrey et al. (1992) identified auditor independence as a key element of the audit expectations gap. The authors identified the main elements of the expectations gap: independence; whom auditors were responsible to; practical abilities; the commercial nature of auditing; and responsibility for detecting fraud.

Monroe and Woodliff (1993) examined the effect of education on students' perceptions about the responsibilities of auditors. It was found that there were no differences between auditing and marketing students at the beginning of the semester about auditors' responsibilities. They believed that auditors had more responsibility and management had less responsibility for the prevention and detection of fraud, and safeguarding assets. But, at the end of semester the auditing students believed that auditors assume a much lower level of responsibility, but there was little change in the marketing students' beliefs.

Monroe et al. (1994) conducted a classical study on the audit expectation gap taking the case study of Australia. The results of the study suggested that there were significant differences between old reports and new reports, which were significant to auditors. The major areas of differences in perceptions studied in this research included responsibility factor, prospects factor and reliability factor. It was found that (i) the modified wording in the new reports had a significant impact on beliefs about the nature of an audit and auditors and management; (ii) the modified wording eliminated some of the differences but also created some new differences between auditors and various user groups; and (iii) the differences in perceptions were much smaller for sophisticated users than naive users.

The research also suggested that educating the users was one of the approaches to raise the sophistication level of users to reduce the differences in perceptions. Further, the research indicated that wording changes did change beliefs about the messages communicated through audit reports. In other words, audit report wording should become more specific, if the gap was to be decreased.

Best et al. (2001) examined the evidence in support of the long form audit report for audit expectation gap in Singapore. The study extended research on the audit expectation gap in Singapore regarding (i) responsibility, (ii) reliability, and (iii) decision usefulness statements.

The study provided some insight into the nature and extent of the audit expectation gap in Singapore. Evidence was found confirming the existence of a moderate gap. Out of sixteen areas, a significant area of gap concerned the auditors responsible only for detecting all frauds and the auditors not responsible for preventing them. In addition, there was evidence that investors believed that auditors had some responsibility for ensuring an entity of sound internal controls.

Lin and Chen (2004) found that the beneficiaries believed the auditors were responsible for the truthfulness and reliability of financial statements, detecting and reporting errors and frauds, liable for fraudulent or misleading information contained in prospectus disclosure and disclose in the audit report the uncovered frauds, inefficiency or irregularities more than management.

Fadzly et al. (2004) identified the responsibilities of auditors as one of the factor in the areas, which could cause gap between auditors and investors. In his study, he formulated eight statements on responsibility such as the issues of fraud detection and prevention, accounts and financial statements preparation, auditor’s objectivity, internal control, scope of auditor’s legal responsibility and auditor’s culpability in fraud-related business failure. The study proved that the users believed that auditors were responsible for all the above said statements. The largest extent of difference was found in the responsibility to prepare financial statements. Brokers and investors expected auditors to prepare financial statement instead of management (directors).

The study by Siddiqui and Nasreen (2004) focused on identifying the existence of an audit expectations gap in Bangladesh. Students of accounting were chosen as a knowledgeable representative group of the society. The questionnaire consisted of statements regarding three aspects, viz., audit responsibility, audit reliability and decision usefulness of audited financial statements. The mean responses of the two groups were then compared. Audit expectations gap was found in all the three aspects: perceptual differences being widest in the area of auditor responsibility. The findings of this study suggests the existence of a much wider expectation gap between auditors and other societal groups in Bangladesh, as these clusters possess lesser knowledge in auditing than the students of accounting.

The study made by Dixon et al. (2006) in Egypt focused on seven statements of responsibilities like issue of fraud detection and prevention, internal control, scope of auditors legal responsibility, financial statement preparation, auditors objectivity and audit procedures. The auditors as well as the users were in agreement and had strong beliefs that management must have responsibility for producing financial statements. And the users believed that auditors were responsible in the remaining areas. It showed the auditors were responsible in most of the areas.

6. Survey results: responsibility of external auditors

The perceptional differences between auditors and investors with regard to the responsibilities of external auditors have been analyzed under (a) Auditors’ Responsibility in Measuring Financial Performance; (b) Auditor responsibility in controlling financial aspect; (c) auditors responsibility in financial misstatement; and (d) auditors responsibility on professional discipline.

6.1 Auditors’ Responsibility in Measuring Financial Performance

Insert table No.1

Table 1 highlights the results of perceptions of the two countries’ respondents towards responsibilities of external auditors of India and Iran in measuring the financial performance of client companies. There were 225 respondents of India and 441 respondents of Iran were chosen. This is based on the three variables identified and presented in the table. Regarding responsibilities in producing financial statements the both the respondents of India assigned lower actual mean value of 1.17 by auditors and 1.42 by investors. But Iranian respondents were assigned at moderate level at actual mean value of 2.40 by auditors and 2.53 by investors. Here the gap was low in both the cases which stood at 0.25 and 0.13 respectively. In expected level the auditors assigned same values as assigned at the actual level of both countries. But investors expected more from auditors in both the countries by assigning 3.87 by Indians and 3.86 by Iranians with a gap of 2.60 and 1.54 respectively. In conducting 100% examination in audit procedure Indian investors had a wide gap of 2.30 and on the contrary Iranian investors had a gap of 0.91. But at expected level there was a gap of 2.03 between auditors and investors of India for the same factor. Auditors' responsibility in giving assurance that the company is in good financial health there is moderate gap between Indian auditors and Iranian auditors which stood at 0.61 and 0.73 at the actual and expected mean level. On the contrary, the Indian investors had a gap of 1.76 and the Iranian investors had a gap of 1.20 for the responsibility of auditors in giving assurance that the company is in good financial health. At the grand mean level Indian investors had a highest gap of 2.16 and the Iranian investors had a gap of 1.18 insisting more responsibility on auditors.

The test showed that there were significant differences between the perceptions of the auditors and investors for both actual and expected level on giving assurance that company is in good financial health in the both countries, both the level of producing financial statement of India and expected level of Iran and both the level of conducting cent per cent examination in audit procedure in Iran and expected level of India, ($p<0.05$). But there were no significant in perceptional differences existed between these two groups of respondents on the actual level of producing financial statement in Iran and conducting cent per cent examination in audit procedure in India ($p>0.05$). This result holds good for both assumed and un-assumed equality of variances.

Insert Table No.2

Auditors' responsibility in controlling financial aspect was depicted in the Table 2 with statistical values of three variables. In the variable maintaining accounting records by the management Indian auditors had assigned an actual mean value of 3.72 whereas, Indian investors assigned an actual mean value of 3.27. Similarity will be found in case of Iranian study where the auditors assigned an actual mean value of 4.44 and the investors assigned an actual mean value of 2.70. In the responsibility of safeguarding the assets of the company Indian auditors assigned an actual mean value of 3.39 and for which the Indian investors assigned an actual mean value of 2.85 which indicates that the Indian auditors are believed that they are discharging their responsibility in maintaining the assets of the company sufficiently. But the Indian investors had an expectation gap of 1.65 in that aspect. Same expectation was there in case of Iranian investors also who had an expectation gap of 0.89. In case of responsibilities for prevention of fraud and errors auditors of both the countries believed that the auditor had assumed significantly more responsibility and assigned lesser mean value at actual level than the mean value at expected level. On the contrary investors of both India and Iran had an expectation gap of 1.85 and1.32 respectively. The Indian investors had a gap of 1.54 and Iranian investors had a gap of 1.07 at grand mean level stating that the auditors should assume still more responsibilities in controlling financial aspects. On the contrary the professionals of India and Iran had a gap of 0.37 and 0.40 respectively stating that they are performing their responsibility in financial aspects sufficiently. The responsibility of auditors in preventing frauds and errors had a highest gap of 2.42 at the expected level between auditors and investors of Iran among all the variables. . The grand mean level of Indian investors were assigned 2.88 at actual grand mean level and 4.42 at expected grand mean level with an expectation gap of 2.14, which shows investors are expecting high responsibility in financial aspects of the company from the auditors .

In significant levels showed that there were significant differences between the perceptions auditors and investors among all the variables (<0.05). but there were no significant difference between auditor and investor in the expected level of maintaining accounting records by the management in both the countries (>0.05).

Insert Table No.3

Table 3 presents the responsibility of auditors in financial misstatement with the statistical results of four variables. The sole statutory responsibility of auditor is to express an opinion on financial statements are fairly presented in accordance with an appropriate disclosed basis of accounting. The investors of both India and Iran had the same opinion. The Indian investors assigned an actual mean value of 2.82 and an expected mean value of 4.44 with an expectation gap of1.62. The Iranian investors assigned an actual mean value of 2.56 and an expected mean value of 3.59 with an expectation gap of 1.03. In the responsibility of detecting illegal activities by the management auditors of both countries had lesser gap than the investors since the auditor is not a legal expert. On the contrary the investors of both the countries expected more than the actual position that the auditor should assume the responsibility of detecting illegal activities with an expectation gap of 2.38 by Indian investors and 1.29 by Iranian investors. In the responsibility of Reporting all detected frauds and thefts to the relevant authority auditors of both the countries had the same opinion who assigned same mean values at actual level as they are the first line of defense along with the directors, against management fraud and they don't had much expectation at expected level. Whereas, the Indian investors assigned actual mean value of 2.51 and an expected mean value of 4.47 with an expectation gap of 1.96. The Iranian investors assigned actual mean value of 2.33 and an expected mean value of 3.68 with an expectation gap of 1.35. In the responsibility of detecting any deliberate distortion of financial information auditors of Iran assigned a lower mean value of 1.61 at actual level and 1.91 at expected level and on the contrary auditors of India assigned 3.49 at actual level and 4.43 at expected level. But the investors of both the countries had assigned a moderate value at actual level and at expected level believing that it is the responsibility of auditors in detecting any deliberate distortion of financial information .

The test showed there were significant differences between the perceptions of the auditors and investors for both actual and expected level of detecting illegal acts by the management and Detecting any deliberate distortion of financial information of India and Iran, actual level of Iran and expected level of India on enforcing effectiveness of internal control on audit quality and the actual levels of India and Iran on reporting all detected frauds and thefts to the relevant authority($p<0.05$). But no significant perceptional differences existed between these two groups of respondents on the expected level of India and the actual level of Iran on enforcing effectiveness of internal control on audit quality and the expected levels of India and Iran on reporting all detected frauds and thefts to the relevant authority($p>0.05$).

Insert Table No.4

Table 4 highlights the perceptions of auditors and investors of India and Iran in responsibility of auditors on professional discipline. Both Indian and Iranian auditors assigned a mean value of 3.16 and 2.21 respectively at actual level and a mean value of 4.01 and 2.36 respectively at expected level with an expectation gap of 0.85 and 0.15 respectively showing perceptional difference between both the auditors. But the investors of India and Iran believed that it is the responsibility of auditors in detection of errors and frauds with a highest expectation gap of 0.79 and 1.62 respectively at expected level. In the variable of responsibility in Right procedures followed before authenticating financial statements Indian auditors had an expectation gap of 0.71 and on the contrast Iranian auditors had an expectation gap of 0.29. Whereas the Indian investors had an expectation gap of 1.64 and the Iranian investors had an expectation gap of 1.04 on the variable of responsibility in Right procedures followed before authenticating financial statements? In the responsibility of certifying accuracy of financial reports both Indian and Iranian auditors assigned in similar manner with mean values of 3.73 and 3.17 at actual level and a mean values 3.94 and 3.29 of at expected level. On the contrary the investors of both the countries had high expectation regarding the responsibility of auditors in certifying accuracy of financial reports with an expectation gap of 1.50 and 0.99 respectively. Expectation gap at moderate level was found at grand mean level between auditors and investors of both countries.

The test showed there were significant differences between the perceptions of the auditors and investors for both actual and expected level of detection of frauds and errors, Certifying accuracy of financial reports in both the countries and both level of Iran and the actual level of India on right procedures followed before authenticating financial statements ($p<0.05$). But no significant perceptional differences existed between these two groups of respondents on the expected level of India on right procedures followed before authenticating financial statements ($p>0.05$).

7. Conclusion

This survey found the existence of an audit expectation gap in the responsibility of auditor as well as comparison of the data of both India and Iran. There were no much differences in the responsibility of auditor in both the countries. But in certain areas like responsibility in producing financial statements, conduct of cent per cent examination, giving assurance that company is in good financial health and detecting any deliberate distortion of financial information differences of opinion were found in actual mean level of auditors. Regarding the significance level similar results were obtained except responsibility in producing financial statements in Iran at actual level, conduct of cent per cent examination in audit producers in Indian at actual level there was no significant difference between auditor and investors perceptions. An opposite significance level can be seen in the statement of enforcing effectiveness of internal control on audit quality at expected level in India and at actual level in Iran. Right procedures followed before authenticating financial statements was assigned no significance at expected level in India. But there was a significant difference at both the level in Iran. Mainly the result showed that both the management and auditors are equally responsible in producing financial statements.

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Table 1. Auditors' responsibility in measuring financial performance: auditors vs. investors

Sl. No.	Level of Auditors' Responsibility in	Country	Status	Respondents	Mean value	Mean Differences	Sig.*
1	Producing the financial statements	India	A	Au-90	1.17	-0.25	0.001
				In-135	1.42		
			E	Au-90	1.27	-2.60	0.000
				In-135	3.87		
		Iran	A	Au-227	2.40	-0.13	0.179
				In-214	2.53		
			E	Au-227	2.44	-1.54	0.000
				In-214	3.98		
2	Conduct of 100% examination in audit procedure	India	A	Au-90	2.07	-0.12	0.412
				In-135	2.19		
			E	Au-90	2.46	-2.03	0.000
				In-135	4.49		
		Iran	A	Au-227	1.63	-0.87	0.000
				In-214	2.50		
			E	Au-227	1.88	-1.53	0.000
				In-214	3.41		
3	Giving assurance that company is in good financial health	India	A	Au-90	1.72	-1.29	0.000
				In-135	3.01		
			E	Au-90	1.83	-2.93	0.000
				In-135	4.76		
		Iran	A	Au-227	2.33	-0.35	0.001
				In-214	2.68		
			E	Au-227	2.56	-1.32	0.000
				In-214	3.88		
Grand Mean		India	A	Au-90	1.65	-0.56	
				In-135	2.21		
			E	Au-90	1.85	-2.52	
				In-135	4.37		
		Iran	A	Au-227	2.12	-0.45	
				In-214	2.57		
			E	Au-227	2.30	-1.45	
				In-214	3.75		

*Significance, Note: Au = Auditors, In = Investors, A = Actual, E = Expectation

Table 2. Auditor responsibility in controlling financial aspect: auditors vs. investors

Sl. No.	Level of Auditors' Responsibility in	Country	Status	Respondents	Mean value	Mean Differences	Sig.*
1	Maintaining accounting records by the management	India	A	Au-90	3.72	0.45	0.001
				In-135	3.27		
			E	Au-90	4.28	-0.09	0.447
				In-135	4.37		
		Iran	A	Au-227	4.44	1.74	0.000
				In-214	2.70		
			E	Au-227	3.94	0.24	0.661
				In-214	3.70		
2	Safeguarding the assets of the company	India	A	Au-90	3.39	0.54	0.001
				In-135	2.85		
			E	Au-90	3.96	-0.54	0.000
				In-135	4.50		
		Iran	A	Au-227	2.37	-0.50	0.000
				In-214	2.87		
			E	Au-227	2.61	-1.15	0.000
				In-214	3.76		
3	Prevention of frauds and errors	India	A	Au-90	2.80	0.27	0.011
				In-135	2.53		
			E	Au-90	2.76	-1.62	0.000
				In-135	4.38		
		Iran	A	Au-227	2.18	-0.48	0.000
				In-214	2.66		
			E	Au-227	1.56	-2.42	0.000
				In-214	3.98		
Grand Mean		India	A	Au-90	3.30	0.42	
				In-135	2.88		
			E	Au-90	3.67	-0.75	
				In-135	4.42		
		Iran	A	Au-227	2.30	-0.42	
				In-214	2.74		
			E	Au-227	2.70	-1.11	
				In-214	3.81		

*Significance, Note: Au = Auditors, In = Investors, A = Actual, E = Expectation

Table 3. Auditors responsibility in financial misstatement: auditors vs. investors

Sl. No.	Level of Auditors' Responsibility in	Country	Status	Res.	Mean value	Mean Differences	Sig.*
1	Enforcing effectiveness of internal control on audit quality	India	A	Au-90	3.74	0.92	0.000
				In-135	2.82		
			E	Au-90	4.50	0.06	0.551
				In-135	4.44		
		Iran	A	Au-227	2.38	-0.18	0.083
				In-214	2.56		
			E	Au-227	2.61	-0.98	0.000
				In-214	3.59		
2	Detecting illegal acts by the management	India	A	Au-90	3.10	0.74	0.000
				In-135	2.36		
			E	Au-90	4.14	-0.60	0.000
				In-135	4.74		
		Iran	A	Au-227	4.25	1.75	0.000
				In-214	2.50		
			E	Au-227	4.57	0.78	0.000
				In-214	3.79		
3	Reporting all detected frauds and thefts to the relevant authority	India	A	Au-90	3.58	1.07	0.000
				In-135	2.51		
			E	Au-90	4.46	0.01	0.871
				In-135	4.47		
		Iran	A	Au-227	3.54	1.21	0.000
				In-214	2.33		
			E	Au-227	3.83	0.15	0.422
				In-214	3.68		
4	Detecting any deliberate distortion of financial information	India	A	Au-90	3.49	0.70	0.000
				In-135	2.79		
			E	Au-90	4.43	0.32	0.030
				In-135	4.11		
		Iran	A	Au-227	1.66	-0.85	0.000
				In-214	2.51		
			E	Au-227	1.91	-1.84	0.000
				In-214	3.75		
Grand Mean		India	A	Au-90	3.48	0.86	
				In-135	2.62		
			E	Au-90	4.38	-0.06	
				In-135	4.44		
		Iran	A	Au-227	2.96	0.49	
				In-214	2.47		
			E	Au-227	3.23	-0.46	
				In-214	3.69		

*Significance, Note: Au = Auditors, In = Investors, A = Actual, E = Expectation

Table 4. auditors' responsibility on professional discipline auditors vs. investors

Sl. No.	Level of Auditors' Responsibility in	Country	Status	Respondents	Mean value	Mean Differences	Sig.*
1	Detection of frauds and errors	India	A	Au-90	3.16	0.27	0.031
				In-135	2.89		
			E	Au-90	4.01	-0.79	0.000
				In-135	4.80		
		Iran	A	Au-227	2.27	-0.28	0.043
				In-214	2.55		
			E	Au-227	2.36	-1.62	0.000
				In-214	3.98		
2	Right procedures followed before authenticating financial statements	India	A	Au-90	4.03	0.98	0.000
				In-135	3.05		
			E	Au-90	4.74	0.05	0.416
				In-135	4.69		
		Iran	A	Au-227	3.70	1.31	0.000
				In-214	2.39		
			E	Au-227	3.99	0.56	0.000
				In-214	3.43		
3	Certifying accuracy of financial reports	India	A	Au-90	3.73	0.53	0.000
				In-135	3.20		
			E	Au-90	3.94	-0.76	0.000
				In-135	4.70		
		Iran	A	Au-227	3.17	0.29	0.018
				In-214	2.88		
			E	Au-227	3.29	-0.58	0.000
				In-214	3.87		
Grand Mean		India	A	Au-90	3.64	0.59	
				In-135	3.05		
			E	Au-90	4.23	-0.50	
				In-135	4.73		
		Iran	A	Au-227	3.05	0.45	
				In-214	2.60		
			E	Au-227	3.12	-0.64	
				In-214	3.76		

*Significance, Note: Au = Auditors, In = Investors, A = Actual, E = Expectation