Portuguese evidence of auditing expectation gap

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Despite there are numerous studies that analyze the differences of audit expectation gap, none have studied in a concerted manner, the main factors affecting it, or the situations mostly influencing the dissatisfaction of the users of financial statements users. Thus, besides analyzing the differences in audit expectation gap, we aim to analyze the dissatisfaction that the audit causes amongst the financial statements users, through the identification of the main factors that make up the expectation gap. In carrying out a global analysis, we are of the opinion that there is the need to analyse not only the opinion of the users of the financial information, but also the auditors, because of their technical knowledge they have and the auditing teachers for their academic aspect. As explained, it is necessary to do an in-depth study of the audit expectation gap and improve their levels of satisfaction. Thus the principal aim of this study is to find the causes that determine the expectation gap and which factors cause greater dissatisfaction, listing then the most relevant components. We aim to prepare an explanatory model that, starting from the variables identified by Porter (1991), will permit finding out which factor contributes most to the audit expectation gap.

Marco Teórico:
Porter (1991) identifies the following variables that influence the expectations and the dissatisfaction of the users of financial information. We will analyses the effects of the inadequate performance of the auditor, the auditing standards, the limitations of the audit, and the lack of knowledge that financial statements users have regarding the work of the auditor and what can be reasonably achieved by an audit. The principle research on audits establish that the audit expectation gap between the financial statements users and the auditors, are based mainly on the duties that the auditor should perform (Liggio, 1974, Guy & Sullivan, 1988, Jennings, Knerr, & Reckers, 1993, Lowe, 1994, Harris & Marxen, 1997, Wolf, Tackett, & Claypool, 1999). According to the literature (Porter, 1991) the areas of intervention of the auditors where the expectation is greater are the following: detection of mistakes and frauds, detection of illegal acts and the application of the going concern assumption. Thus, there are different studies and opinions regarding this matter, such as the ones that follow: it’s the responsibility of the auditor to actively look for indications of fraud (Knox, 1994), or, on the contrary, the auditors are not responsible for actively looking for indications of fraud (Hemraj, 2001); financial statements users believe that it is the duty of the auditor to detect frauds and mistakes (Willingham, 1975; McEnroe & Martens, 2001), while on the other hand, the auditors are of the opinion that this is not their responsibility (Epstein e Greiger, 1994, Best, Buckby, & Tan, 2001), but that of the administration of the enterprise, who have the duty to implement a system of internal control to permit prevention and detection of the of any frauds. In the same way that in relation to the detection of frauds and errors, the studies made by Davidson (1975) and of Farrel and Franco (1998), amongst others, conclude that there is equally controversy in relation to the responsibilities assumed by auditors in the detection of illegal acts, generating different expectations (Giacomino, 1994; Boyd, Boyd, & Boyd, 2001). Another element that assesses the performance of the auditor and that generates contradicting opinions, is the application of the going concern assumption (Sweeney, 1997). Studies show that the controversy in relation to the role of the auditor this matter is real. In fact the auditors show reluctance in speaking about this situation, because very often, the continuity of the business depends on third parties and an opinion expressing doubts about that continuity may accelerate or even cause, bankruptcy (Mutchler, 1995; Rodriguez, 1998). Due to opposing
points of view Knechel, Saltero, and Ballou (2001), argues that this is a situation results in an expectation gap. Both the studies of Monroe and Woodliff (1994), as well as of Gramling and Schatzberg (1996) and Hussein (2003), say that the expectation gap can be reduced by educating the financial statements users, pointing out to them the limitations and objectives of the audit considering the standards and regulations that rule the audit professionals. According to the research of Porter (1993) and of Gray and Manson (2001), the inadequate performance of the auditors is mainly due to the lack of knowledge, lack of experience and lack of independence of the auditor.

Método de investigação se pertinente:
This study centers its attention in two distinct groups: a) A group with technical knowledge: includes all people who have practical or theoretical knowledge about the function of the auditor. In this first group the following professionals are included: auditors, auditors of the Accounts Court and higher education teachers of accountancy and auditing; b) The group of financial statements users: includes all persons and entities that use audited financial information. In this group we include financial analysts, the enterprises listed on the Portuguese stock exchange and the insurance companies. In the preparation of the contents of the questionnaires we considered, on one hand, the professionals and the audit professors, since they have a greater knowledge of the issue, and on the other hand, the main users of financial information and audit reports. Of the 1549 questionnaires sent, of which 521, of which 496 were answered totally. Considering the observations found and the total number of unanswered questionnaires may cause distortions in the analysis results, we preferred to use those questionnaires answered totally. So our response rate was about 32%. We therefore estimate that the rate of reply of our study is acceptable in terms of the Portuguese market, and it is higher than the recommended minimum in the methodology of Malhotra and Grover (1998), which’s 22%. Due to shortage of studies on the factors that most influence the dissatisfaction with the audit, the contribution of this research comes not only from the study of the causes of the expectation differences in itself but also because it is the first audit dissatisfaction study in Portugal. We therefore believe that it’s important to assess the factors that, according to each of the analyzed groups, influence audit dissatisfaction the most and possible controversies that may exists so we proposed two models. To see if the proposed model is the best to explain the audit dissatisfaction, we saw the need to compare with the alternative model, considering the direct relationship with the audit dissatisfaction. Thus, the model that gets the highest determining coefficient (R2), within the acceptable indices of the quality of adjustment, will be the model that better explains the audit dissatisfaction.

Resultados e contribuições do trabalho para a área:
The aim of this study is to analyze two key issues. The first related with the identification of the causes showing the existence of differences of the expectation of the auditors, and the second referent to the factors that contribute most to the dissatisfaction of the users of financial information. As for the first point the study permitted us to see the differences in expectations between the financial statements users and the persons with audit technical knowledge are real. Of the factors listed by Porter (1993), as the ones that contribute more to the expectation gap, the study permitted us understand that the principle causes are related with the detection of errors and frauds, as well as the detection of illegal acts. As for the second premise, we found that, of all the considered factors that originate the dissatisfaction in financial statements users, inadequate performance of the auditor, lack of technical knowledge of the users of financial information and norms of audits, we arrive at the conclusion that the factor that most influences the dissatisfaction with the audit is the
inadequate performance of the auditor. We then analyze each of the proposed models, determining which of the two better explains the expectation gap and we found out that both models have better indices than the recommended and similar to each other, except in relation to the Chi-square of model II, thus we reject the void hypothesis of equality of the variance and co-variance matrix's observed and estimated, for a significance of 0.10. Both the p-value and the RMSEA show better values in model I than in model II. To find out which of the relationship coefficients are more significant, we applied the test t in each case. All the coefficients of the model are significant. The coefficient of cause between the going concern assumption and the inadequate performance is not shown, because it is set in the system. The relationship coefficient between the inadequate performance of the auditor and the dissatisfaction of the users is 0.81 (t=5.06), Therefore we can confirm that the inadequate development influences positively and significantly the dissatisfaction of financial statements users. In the same way, the lack of knowledge of financial statements users and the applicable audit limitations, results in their dissatisfaction. The first factor is the most important one. However the co-efficient is lower than 0.81 therefore we can say that the factor that most affects the dissatisfaction of the users of financial information is their lack of knowledge. Since the value of 0.81 is the higher of all coefficients we can say that financial statements users are correct when thinking that the factor that most influences audit dissatisfaction is the inadequate performance of the auditor. We also find that a coefficient of determination of 0.65, which is a considerable value, shows that the model can be used as a predicative model.

Referências bibliográficas: