

The Role Quality of Auditing Services in Narrowing the Expectations Gap between Independent Auditors and Financial Statement Users

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Abstract: In this study, the role quality of auditing services has been shown in narrowing the expectations gap between what the public expects from the auditing services and the services provided by the auditors. Many people believe that the expectations gap is due a misunderstanding of the auditor's but the truth, that gap is the result of the auditor's reliance on personal judgment in performing the necessary procedures in the audits as a result of the lack of a clear framework for the auditing procedures according to the auditing concepts expressed in standards of the accounting and auditing. To achieve the objective of the research, the elements of achieving the quality of auditing services (quality of performance, auditing standards, professional responsibility) and the most important ways to narrow the expectations gap were studied. The statistical community in the research consisted of two parts: the first of the legal accountants who work in the offices of auditors and auditing companies in Iraq and the second of the beneficiaries of the auditing services. Based on search results, several conclusions were formulated, the most important of which are: despite the professional experience of external auditors, their reliance on personal judgment (mostly) and their breach of professional responsibilities have negatively affected their professional performance. Also, been formulating several recommendations, the most important of which are: The need for the criteria that govern the performance of the auditor and how to present his professional opinion impartially and honestly and to limit the personal judgment in the auditing procedures.

Key words: Quality of auditing services, expectations gap, international auditing standards, professional responsibility of auditors, personal judgment, quality of performance

INTRODUCTION

The auditing profession is a social function that serves many social groups. However, there has been increasing pressures and criticisms of the auditing profession as a result of the issuance of incorrect financial statements by some companies and increased lawsuits against auditors as a result of the failure of some of the major auditing firms to disclose cases of fraud and material errors in the financial statements or as a result of the gap between the real task of the auditing profession which is to provide the necessary professional care to obtaining the necessary evidence to express the neutral technical opinion in the sincerity and justice of the financial position of the company under review and between the expectations of the beneficiaries of the auditing services where the beneficiaries from the financial statements believe that the primary role of the independent auditing profession is to achieves the highest possible degree of reliability of the offer, the reliability in the financial statements in making the decisions, the fact of the financial position of the organization and its viability.

As the quality of the auditing services is considered one of the essentials that reduces the expectations gap, the International Auditing Standard No. 1 of 1949 was issued to control auditing quality, It includes nine principles that the auditing offices must consider: (Assign individuals to perform the work related to each auditing, counseling, follow up work assistants, appointment, continuous training, upgrade, customer acceptance and continuity of relationship with them, periodic inspection).

Based on the above and to importance quality of auditing services in narrowing the gap between independent auditors and users of financial statements, the research on the quality of auditing services has been conducted to narrow this gap by examining the opinion of individuals in the auditing offices in Iraq based on their professional role in the auditing process and the views of the beneficiaries of the auditing services regarding their trust in those services where:

Search problem: The search problem can be identified as follows: lack of confidence of the beneficiaries of the auditing services in the quality of these services. The

widening of the expectations gap as a result to differing judgments of the auditors regarding fair governance, reasonable assurance, concept of importance, validity, credibility because of not clearly determine that in the accounting and auditing standards.

Research hypothesis: To solve the search problem was based on two main hypothesis:

The first hypothesis: The auditors are based to elements quality of auditing services in the auditing procedures.

The second hypothesis: Public confidence in the quality of auditing services is narrow the expectations gap.

Research objectives: The research aims to: explaining the real reasons for the expectations gap in the Iraqi business environment. Explaining the impact of the quality of auditing services on the gap between the expectations of the beneficiaries of the auditing services and the services provided by the auditor within the limits required by the necessary professional attention.

Importance of research: The importance of the research stems from the importance of the auditing profession to the beneficiaries of its services in enhancing their confidence in the audited financial statements and meeting their reasonable expectations in the light of international auditing standards and narrowing the expectations gap.

Methodology of research: To achieves the objectives of the research has been used inductive method in the theoretical side of the research by reference to the Arab and Foreign sources related to the subject of research and the use of analytical and deductive approach in the application side by preparing a questionnaire to identify the answers of individuals sample research, conclusions on the impact of the quality of auditing services on the expectations gap and suggesting ways to narrow or reduce them.

MATERIALS AND METHODS

The theoretical framework of research:

Concept of the expectations gap: The Cohen Committee at the American Institute of Certified Public Accountants has identified the reason for the gap between the expectations of the public and the services to be provided by the auditors. This is the result of the beneficiarie's misunderstanding of the nature of the auditing

profession. The auditor's work is to detect legal and financial violations which is inconsistent with the auditors compliance with the standards of the profession (CAR., 1978).

The Association of American Accountants also identified the forecast gap as the difference between user's expectations of the financial statements and the actual performance of the auditors. In other words, the expectation gap in audit services is the distance between auditor's understanding of their responsibilities and the expectations of others about those responsibilities (Porter, 1993).

Definition of the expectations gap: The expectation gap was defined as: the difference between the actual professional performance of the auditing (in terms of quality) and what is required according to performance standards (Lissio, 1975).

Mednick (1986) defined it as the gap between the profession's understanding of its responsibilities in auditing and the expectations of users of those responsibilities (Mednick, 1986).

Humphrey and Pullay (1997) points out that the expectations gap is mainly due to the fact that the concepts expressed in the auditing such as fair judgment, reasonable assurance, concept of importance, validity and credibility were not explicitly determines in accounting and auditing standards but was left it to the personal judgment of the auditors. Of the definitions above: that the gap in expectations that represents the difference between audit services provided by auditors and what users expect from those services has exceeded the common perception that their causes (misunderstanding of the beneficiaries of the auditor's report on the nature, functions and objectives of the auditing) to (the difference in the personal judgment of auditors with respect to the basic concepts adopted in the audits) and the impact on the results of those processes and on the report of the references on which the beneficiaries depend in their decisions as well as poor public confidence in the quality of audit services provided where the quality of audit services is based on several factors including: quality of performance, auditing standards and professional responsibility and that the imbalance in any of these elements will negatively impact the quality of audit services and thus widen the expectations gap.

Quality of auditing services concept: The term quality refers to auditing services performed by the auditor at the required level in accordance with auditing standards and professional rules of conduct (Abdullah, 2002).

The quality of auditing services was also defined as: the services provided by the auditing offices to serve the objectives and needs of the user and maintain the reputation of the profession and develop them by following the methods that enable the auditor to perform his work fully in the light of professional standards recognized (Rizk, 2002).

Performance quality: The quality of performance is reflected in the added value resulting from improved service delivery procedures (Wilcox and Disceznal 1994). The quality of auditor performance depends on several factors, the most important of which are: scientific qualification, practical experience and familiarity with international and local auditing standards (Abu Hain, 2005).

In the field of scientific qualifications: the first study in the system of practicing the profession of auditing in Iraq No. 3 for the year 1999 its identified the scientific qualification that must be available in the practitioner of the auditing profession by:

- Higher diploma in accounts control or equivalent
- Graduate certificate in accounting (Master, PhD or equivalent)

And in the field of practical qualifications, the practice of the profession requires that the auditor has performed the audit work for at least 2 years after receiving the certificate in the Federal Auditing Bureau or under the supervision of an auditor.

With regard to familiarity with the international auditing standards which are binding on the auditor to carry out testing, analysis, examination and acknowledgment tasks to ensure that the risk of negligence or failure to take any necessary step to perform the audit service is reduced. This relative knowledge varies from one auditor to another as compliance with the standards due to its knowledge should meet the objectives set out in those standards. As many audit firms have been subject to legal provisions after the beneficiaries of the auditor's reports have filed complaints against them In the competent courts which confirms the lack of knowledge or commitment of some auditors to those standards.

As for the factors affecting the quality of the professional performance in the auditing are as follows: size of the auditing office, size of the client's institution, auditor's fees, auditor's continuity with the client, review and timing of the report, peer review and competition between auditing offices (Mohamed and Ibrahim, 1994).

Auditing standards: Auditing standards are defined as patterns to be followed in the auditing process when the auditor performs his or her task which logically derives from the assumptions and principles that support them. (William and Amerson, 1989).

It also been defined as a binding performance model that defines the general rules to be followed when performing the auditing (Shammari, 1994). To enable the auditor to express his opinion as to whether the financial statements have been prepared in accordance with a specific financial reporting framework .

When reviewing the international auditing standards, we find the standards most that significant impact on the quality of the auditor's performance is; Standards: 240 fraud and error, 400 risk estimating and internal control, 500 auditing evidence, 520 analytical procedures, 530 auditing samples and other selective testing procedures. But these standards do not specify the auditor procedures in a manner that not allow of the personal judgment of auditors though difference of mental potential and practical experience and the circumstances surrounding them where:

At the time the auditor cannot be considered responsible for prevention of fraud and error, the auditor should design the auditing procedures in such a manner as to obtain reasonable assurance that the information resulting from fraud or error which is material in the financial statements as a whole can be discovered. (International auditing standard 240)

For purpose planning for an auditing, the auditor has to evaluation the inherent risk at the level of the financial statements and concurrently with that evaluation, the auditor should evaluation the risk of the control for the purpose of determining the risks of non-discovery suitable for acceptance in the financial statements confirmations (International auditing standard 400).

Adequate and appropriate auditor evidence is influenced by several factors including: The auditor assesses the nature of the inherent risks at the level of the financial statements and the level of the account balance or range of transactions:

- Assessment of control risks
- Experience gained from previous audits
- The source and reliability of the information obtained

Confidence in the results of analytical procedures depends on the auditor's assessment of the risks resulting from the fact that the analytical procedures may diagnose the relationship as expected while the truth indicates that there are material errors (International auditing standard 520).

Preview notification occurs when the auditor's conclusion based on the sample basis different from the conclusion reached, if the entire community had been subjected to the same auditing procedures. The auditor may conclude that, in the case of an auditing test, the auditing risk is lower than it actually is or in the essential test case that there was no material error in the time when this bug actually exists, this type of risk affecting the effectiveness of auditing and is closer to that lead to inadequate auditing opinion (International auditing standard 530).

It is clear from the above that all these standards have given ample scope for the auditor's personal judgment without emphasizing the standardization of auditing procedures and the reliability of the information and experience resulting from previous operations in the audited entity varies from one auditor to another, therefore, a difference in the results reached by the audits occur and occur gap of expectations between what the beneficiaries expect from the audits report and what the recipes reached the results of the auditing.

Professional responsibility: Evaluation of the entities which using the published reports of the auditor of accounts depends on the ability of the auditor to assume professional responsibility towards the third party. The ability to assume responsibility is an important element for the auditor as his responsibilities help to serve many parties based on the results of his business (Al-Hussaini, 2011).

One of the most important of these responsibilities is provide the necessary professional care and which requires a level of performance should be achieves, this level from the professional responsibility represent the moral principles that should be enjoyed by the auditor to instill public confidence in his reports and the professional responsibility of the auditor is concentrated in several aspects, the most important (Monser, 2015):

Professional responsibility in the detection of fraud and errors (Registry errors, technical errors and procedural errors).

Professional liability in the detection of systemic errors which represents financial and accounting irregularities and violations of the public order of the state.

RESULTS AND DISCUSSION

The applied side of the research: Based on the theoretical research and to test the research hypothesis, two questionnaires were prepared: the first questionnaire included the most important elements on which the quality of auditing services is based and represent: quality of performance, auditing standards, professional responsibility where (50) questionnaire were distributed to a sample of auditors at the Iraqi Audit Offices, to know the extent achieved those elements.

The second questionnaire included several questions to find out the extent of the public's confidence in the quality of the auditing services and reflection that on the narrowing or widening of the expectations gap where (30) questionnaire were distributed to a sample of the public and in order to analyze the results of the two questionnaires, the following were adopted: arithmetic mean, standard deviation, statistic t-values, p-values, table t and the relative importance:

Analysis of the sample characteristics: Table 1 and 2 which provides an analysis of the research sample characteristics.

As shown in Table 1 the research sample consists of (50) auditors, all of them holding an auditor's certificate, 68% of whom received a master's and doctorate degree. The majority of the sample's age is more than 40 years and has more than 5 years of practical experience. This is a reasonable indication of the scientific and mental potential of the sample members to objectively answer the question paragraphs and the possibility of obtaining unbiased answers.

As shown in Table 2 that the research sample consists of (30) thirty individuals with Bachelor's and Master's degrees, most of them with the competence of

Table 1: Characteristics of the sample of the auditors

The particularity	-----The particularity details-----					
Scientific qualification	Higher diploma	9	Master (Arab institute)	27	PhD. (Higher institute)	16
Age	30-40	18	41-50	22	More than 50	10
Years of service in auditing offices	(1-5) years	10	(6-10) years	26	More than 10 years	14

Table 2: Characteristics of the research sample of users of the financial statements

The particularity	-----The particularity details-----					
Scientific qualification	Primary university certificate	18	Master (Arab Institute)	12	PH.D. (Higher Institute)	0
Specialization	Accounting	11	Auditing	7	Other	12
Age	30-40	8	41-50	15	More than 50	7
Years of service in auditing offices	(1-5) years	4	(6-10) years	11	More than 10 years	15

Table 3: The results of the questionnaire can be illustrated

The element	Mean	SD	t-values	p-values	t. table	Rel. imp. (%)
Performance quality						
Scientific qualification:						
All auditors working in the auditor's offices have a high diploma, master's or doctorate degree in auditing	3.16	0.86	1.307	2.0E-01	2.312	63.20
Practical habilitation						
All auditors working in the offices of auditors have at least 2 years of experience in the auditing work after receiving the certificate in the Federal Auditing Bureau or under the supervision of an auditor	3.48	0.73	4.617	2.8E-05	2.312	69.60
Knowledge of international standards						
All auditors working in the offices of auditors have the ability to understand and apply international standards of auditing	2.42	0.70	-5.838	4.2E-07	2.312	48.40
The element rate	3.02	0.88	0.276	7.8E-01	2.264	60.40
Auditing standards						
Auditing standards are not allow for auditors employees of the office of the auditor using the personal judgment in:						
Design auditing procedures to obtain reasonable assurance that information resulting from fraud or error which is material in the financial statements as a whole can be discovered	2.68	0.86	-2.608	1.2E-02	2.312	53.60
The assessment of inherent risks at the level of the financial statements as well as the assessment of auditing risks for the purpose of determining the risks of non-discovery appropriate for acceptance in the assertions of the financial statements	2.48	0.78	-4.662	2.4E-05	2.312	49.60
Assess the inherent risks to generate a conviction for the adequacy and suitability of evidences	2.66	1.18	-2.023	4.9E-02	2.312	53.20
The analytical procedures to diagnose relationships as expected to verify that there are no material errors	2.48	0.88	-4.149	1.3E-04	2.312	49.60
Selection of the sample representing the community subject to the audit procedures	3.20	0.63	2.214	3.2E-02	2.312	64.00
The element rate	2.700	0.92	-5.135	5.7E-07	2.255	54.00
Professional liability						
Auditors provide the necessary professional care despite:						
The lack of clarity of auditing standards in determining the procedures to be performed by the auditors away from personal judgment	2.58	0.83	-3.556	8.5E-04	2.312	51.60
The strong competition in the profession market	2.30	0.97	-5.081	5.9E-06	2.312	46.00
Weake of disciplinarian penalties for violated the rules of professional conduct	2.16	0.93	-6.361	6.5E-08	2.312	43.20
The owners of the companies refused to pay the appropriate fees to auditors	2.70	0.81	-2.605	1.2E-02	2.312	54.00
The element rate	2.43	0.91	-8.771	8.0E-16	2.258	48.70
Total rate	2.63	0.93	-9.729	7.2E-21	2.247	52.60

accounting, auditing, finance and banking. The majority of the sample age exceeded 40 years with more than 5 years experience. This is a reasonable indication of the scientific and mental capabilities of the sample members to answer objectively the paragraphs of the questionnaire and the possibility of obtaining them answers sound and clear.

Analysis of the questionnaire paragraphs

Elements quality of auditing services

The null hypothesis: Auditors are not based on elements quality of auditing services in auditing procedures.

Table 3 shows the computational mean of the performance quality index elements was greater than the mean (3) which indicates the compatibility of the responses with the scale movement. Also, the relative importance of respondents concerning the quality of performance was 60.40% which represents the percentage of respondents who believe that there is quality in the performance of auditors working in the auditor's offices, although, most auditors do not comply with international

auditing standards. Where the relative importance of their responses to the auditor's ability to understand and apply international auditing standards was 48.40%.

The computational mean of the audit criteria paragraphs was lower than the mean (3) which indicates that the answers are not compatible with the scale movement. And the relative importance for responses the research sample individuals to these paragraphs was 54.00%. This means that a large proportion of respondents support the fact that auditing standards have given auditors ample space for personal judgment.

The arithmetic mean of the components of the occupational responsibility index was lower than the mean (3) which indicates that the answers are not compatible with the scale movement. And the relative importance for responses the research sample individuals to the professional liability index was 48.70%. This means that a large percentage of the sample members support the fact that most auditors did not perform the necessary professional attention in the auditing.

Table 4: The results of the questionnaire can be illustrated

The element	Mean	SD	t-values	p-values	t. table	Rel. imp. (%)
Beneficiarie's confidence in the quality of auditing services						
Auditors have sufficient scientific and practical qualifications	4.100	0.481	12.535	3.1E-13	2.364	82.00
The auditor complies with the standards of the profession and relevant laws at all stages of the auditing process	2.433	0.971	-3.195	3.4E-03	2.364	48.67
The auditor reviews the financial statements of the companies in a professional and neutral manner which confirms the quality of the audit services	2.700	0.794	-2.068	4.8E-02	2.364	54.00
The Auditors provide the necessary professional care in carrying out the auditing procedures, especially with respect to the detection of fraud and error	2.000	0.830	-6.595	3.2E-07	2.364	40.00
The auditing standards determine the procedures to be performed by the auditor in an explicit and clear manner that is not subject to personal judgment which makes these procedures more objective	2.167	0.950	-4.805	4.4E-05	2.364	43.33
The auditor inform the beneficiaries of any changes that would have a material effect on the validity and fairness of the financial statements in the event that the management refuses to disclose them	2.533	0.819	-3.120	4.1E-03	2.364	50.67
The auditor adheres to justice with all parties that benefit from the published financial statements	2.500	0.974	-2.812	8.7E-03	2.364	50.00
The data authenticated by the auditor is correct and fair	2.500	0.630	-4.349	1.5E-04	2.364	50.00
Although, intense competition between auditor's offices but auditors maintain their independence when making decisions in audits	2.833	0.874	-1.044	3.1E-01	2.364	56.67
Total rate	2.641	0.995	-5.935	9.0E-09	2.245	52.81

In the final result, the above Table showed that the total mean was lower than the arithmetic mean (3) which gives evidence of the mismatch of the responses to the scale movement. This is supports the t-test to accept the null hypothesis that states: (Auditors are not based on audit quality elements in auditing procedures) wehere the total value of t was $-9.729 <$ the value of 2.247 and the value of p-value is $<5\%$ for all questions. In addition, the answers are very homogeneous, since, the value of the standard difference coefficient was very low for all questions, giving an impression of the reliability of the researchers in the decisions they make.

As for the relative importance of respondent's responses was 52.60% (Which is not good). This means that a large proportion of the respondents support that there are weaknesses in the quality of auditing services.

The widening of the expectations gap

Hypothesis H₀: There is no widening gap in expectations due to poor public confidence in the quality of auditing services.

Table 4 shows the arithmetic mean for the first paragraph of the questionnaire (the auditors have sufficient scientific and practical qualifications) was 4.1 which is more than the arithmetic mean (3), this indicates the compatibility of the responses with the measurement movement. while the relative importance of this paragraph is 82.00% suggesting to: that most respondents assert that auditors have adequate scientific and practical qualifications.

The total arithmetic mean for all paragraphs was less than the arithmetic mean (3) which indicates that the responses are not compatible with the scale movement. This is supported by the t-test to accept the null hypothesis which states: (Weak public confidence in the quality of auditing services was increased the

expectations gap) where the total t value which amounted to -5.935 was less than the t-value which amounted to 2.254 and the value of p-value was $<5\%$ for all questions. and the answers were very homogeneous where the value of the standard difference coefficient was very low for all questions, giving an impression of the reliability of the researchers in the decisions they make.

The overall relative importance of respondent's responses was 52.81% (Which is not good). This means that a large percentage of the respondents support there is a weak of public confidence in the quality of the auditing services which has widened the expectations gap.

CONCLUSION

Despite the professional experience of external auditors, their reliance on personal judgment (mostly) and their breach of professional responsibilities have negatively affected their professional performance.

The formulation of international auditing standards in the form that gave auditors ample room for personal judgment is to protect them-to a certain extent-from legal responsibility in the event of a breach of their audit functions.

Lack of knowledge of most auditors working in the offices of Iraqi auditors for International Auditing Standards and work out it and the lack of professional accountability of the auditors was an important reason in the lack of provide the necessary professional care by most auditors and reflected it negatively on the quality of auditing services.

The low quality of auditing services is a fundamental reason for the collapse of confidence in the sincerity and justice of the financial statements approved by the auditor.

As a result of the foregoing; the widening of the expectations gap between the expectations of the public of the quality of professional performance based on the quality elements of the auditing services and between the actual performance of the auditors.

RECOMMENDATIONS

The need for the criteria that govern the performance of the auditor and how to present his professional opinion impartially and honestly and to limit the personal judgment in the audit procedures.

Involving auditors working in the auditor's offices in specialized courses in the field of international auditing standards and subjecting them to the necessary tests, to rising of level the quality of professional performance and thus gain the confidence of the beneficiaries of auditing services.

Forming committees to monitoring the quality of auditing services provided by the auditor's offices and submit periodic reports to the Iraqi Accountants and Auditors Association and consider this as the basis of the annual evaluation.

Activating the role of professional organizations in the field of professional accountability for auditors when they do not provide the necessary professional attention and their violation of the rules of professional conduct.

It is not permissible to change the mandate of the auditor by the company's management only after obtaining the approval of the Iraqi Accountants and Auditors Association to support the independence and neutrality of the auditors.

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