



# The audit expectations gap and the role of audit education: the case of an emerging economy

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## Abstract

**Purpose** – The purpose of this paper is to investigate the effect of audit education in reducing the audit expectations gap (AEG) in an emerging economy, namely Bangladesh.

**Design/methodology/approach** – Mann-Whitney test results of questionnaire survey responses indicate the presence of a significant AEG between auditors, bankers, and students, especially in the area of audit responsibility.

**Findings** – The paper finds evidence that audit education significantly reduces the AEG, especially in the area of audit reliability. However, results also indicate that although the introduction of accounting scandal cases in the auditing curricula creates interest amongst the students, it also creates some unreasonable expectation regarding audit responsibility.

**Originality/value** – The paper contributes to the existing literature by presenting evidence of the effects of both traditional and case-based auditing education on reducing the AEG in an emerging economy context.

**Keywords** Expectation, Bangladesh, Auditing, Accounting, Education

**Paper type** Research paper

## Introduction

Since Schelluch (1996) first used a questionnaire survey to investigate the audit expectations gap (AEG) in an emerging economy context, a number of researchers have taken a similar route to investigate AEG. Many of the studies (such as Best *et al.*, 2001; Fadzly and Ahmed, 2004; Dixon *et al.*, 2006; Sidani, 2007, etc.) used similar questionnaires which enabled them to perform a cross-country comparison. A number of studies subsequently concentrated on identifying ways of reducing such a gap. A number of tools were identified, namely, improvement of quality of auditing; enhanced audit education at university and professional levels; modification of the language in the audit engagement letter; establishment of an oversight board, etc. The effect of audit education has been empirically tested (for example, Monroe and Woodliff, 1993; Pierce and Kilcommins, 1997, etc.). Hughes *et al.* (1998) found the use of auditing scandals in classroom teaching to be beneficial in reducing unreasonable expectations. In a recent paper, Porter and Gowthorpe (2004) suggested that the recent accounting scandals could be incorporated in university auditing curricula to provide students with some exposure regarding real life auditing. This could reduce the unreasonable expectations of the users.



In conjunction with mainstream audit research investigating the AEG, a parallel stream of research concentrated on identifying such a gap in emerging economies[1]. It is argued that emerging economies are different in terms of the growth and state of the auditing profession, the legal environment, and mode of teaching. All these could have a significant impact on perceptions of auditors and users of accounting information. Although a number of recent studies have explored AEG in an emerging economy context, the effect of education on the reduction of such gap has not been investigated[2]. We explore this gap in the AEG literature, first by providing additional evidence of the presence of AEG in emerging economies, using the case of Bangladesh, and then by investigating the effects of audit education on the AEG in an emerging economy context using both conventional and case-based auditing courses. Despite having a large population, Bangladesh still has a surprisingly low number of audit firms operating within the country (Karim, 2008), and audit fees are also significantly low. A number of recent World Bank reports (2001, 2003) have identified the poor state of the auditing profession; lack of proper recognition of the value of competent audit; poor monitoring of the auditing profession; and poor quality of audit education at tertiary level in Bangladesh, as reasons for generating low expectations from the auditors. This provides support for the use of Bangladesh for the purpose of this study. By providing evidence on the effect of an additional case-based auditing course on reduction of the AEG, we extend prior research in this area (for example, Monroe and Woodliff, 1993; Pierce and Kilcommins, 1997).

For the purpose of this study, three user groups were chosen: auditors, bankers, and university students. The questionnaire method is used as the research instrument. The respondents were asked questions regarding three aspects of audit, namely, auditor responsibility, audit reliability, and decision usefulness of audited financial statements. A seven-point likert scale was used to analyse the responses of these groups. A Mann-Whitney test was used to reveal the presence of gaps among these three groups. To test the effect of audit education on the AEG, we then sub-divided the students into three groups: the first group consisted of university students majoring in accounting who had not yet taken an auditing course (SG1); the second group of students had just completed their first course in auditing (SG2); and the third group was comprised of students of accounting from the same university, who had completed an advanced case-based course in auditing (SG3). We contribute to the existing AEG literature by providing evidence of the presence of AEG in Bangladesh, especially in the area of auditor's responsibility. Our findings reveal that conventional audit courses are effective in reducing such gap. In fact, the results indicate that after taking one conventional course in auditing, the expectations of the students are more reasonable than the auditors. We also find that although use of accounting scandals as course contents increased interest towards the subject, it also created some misconceptions regarding the role of auditors. Some of this misconception could be attributed to the fact that the cases used were from Western contexts, and ignored the socio-political and economic conditions of emerging economies.

The paper has been organised as follows: the next section provides a literature review regarding the AEG, with special focus on the emerging economy context, followed by a section that reviews prior studies investigating effects of audit education on the AEG. A subsequent section then presents the methodology adopted in this paper, followed by presentation of results and a discussion.

### The expectations gap in auditing

Ever since Liggio (1974) defined AEG as the “difference of expected performance perceived by auditors and users of financial statements” a number of researchers around the world have attempted to identify the existence of such a gap in their respective countries. A number of research instruments have been used in identifying AEG in different countries, the questionnaire survey being the most dominant[3]. In an attempt to detect the reasons for an AEG in New Zealand, Porter (1988, 1993) identified two components of the AEG. The first component was “reasonableness gap”, which she described as the “difference between what the society expects auditors to achieve and what they can reasonably expect to accomplish”. Thus, this component comprises the duties that society unreasonably expects auditors to perform[4]. The other component, the “performance gap” was referred to as the difference between the responsibilities society should “reasonably expect auditors to accomplish and what the auditors are perceived to achieve” (Porter, 1993, p. 50). This was further subdivided into “deficient standards gap”, i.e. the gap between the duties society reasonably expected of auditors and auditors’ existing duties as defined by auditing and accounting standards, the law and other regulations; and “deficient performance gap”, i.e. the gap between the standard of performance of auditors’ existing duties expected by society and auditors’ performance of those duties as perceived by society (Porter, 1993). Auditor’s existing duties were identified through an examination of the legal and professional framework within which auditors had to operate. A questionnaire survey was conducted to ascertain duties that should reasonably be expected to be performed by the auditors, and the society’s perception of auditors’ responsibilities. The questionnaire survey, conducted in New Zealand in 1989, revealed presence of a large expectations gap between auditors and members of the public.

In an UK context, Humphrey *et al.* (1992, 1993) examined the AEG regarding the role of auditors through a series of unstructured interviews, questionnaires and mini case studies. The studies revealed an insignificant level of differences regarding perceptions of the audit functions but significant differences between auditors and the respondents regarding their perceptions on the role of the auditors, indicating the presence of an expectations gap. Dewing and Russell (2002), in an attempt to identify an expectations gap between accountants and non-accountant fund managers in the UK, found that the UK fund managers were aware of the presence of an AEG and were particularly concerned with the duties and responsibilities of the auditors. Schelluch (1996) found that users were generally unhappy with the role played by the auditing profession, particularly with respect to audit independence.

Research in identifying AEG was initially confined to developed economy settings. Taylor and Simon (2003) acknowledged that despite the differences in the market for audit services between developed and developing economies, only limited attention has been given in this area. Wallace (1993) acknowledged that in emerging economies, audited information in the annual reports is even more important, due to the non-availability of other sources of information such as media releases, news conferences and reports of financial analysts, and also because of poor monitoring by regulatory bodies, compared to their counterparts in the developed economies. However, research identifying AEG in emerging economies have been few and far between. It is important to acknowledge that even within emerging economies, significant differences exist in terms of economic development and socio-cultural

environments. However, generally, these economies are characterised by poor legal and economic structures and weak markets.

Low *et al.* (1988) conducted a study on the AEG in Singapore. Significant differences were found in the areas of fraud prevention, guaranteeing the accuracy of the financial statements, effective use of government grants and management efficiency. One of the prominent features in research investigating AEG in emerging economies is the use of a similar questionnaire. The questionnaire format used by Schelluch (1996) was used in a number of studies, mostly in emerging economies. Table I summarizes the AEG studies in emerging economies using similar questionnaires.

Replicating Schelluch, Best *et al.* (2001) found the existence of a “very wide” AEG in Singapore. The study attempted at identifying differences in perceptions of auditors, bank loan officers and investors regarding auditor responsibility, audit reliability and decision usefulness of audited financial statements. The questionnaire survey found

Study	Sample size (N)	Respondent groups	Country	Principal findings
Sidani (2007) <sup>a</sup>	168	Auditors, non-accountant managers	Lebanon	“Reasonableness gap” uncovered
Dixon <i>et al.</i> (2006) <sup>a</sup>	112	Auditors, bankers, investors	Egypt	AEG identified in the area of auditors’ responsibility and reliability of audited statements
Desira and Baldacchino (2005)	174	Auditors, jurors	Malta	AEG identified mostly in the area of responsibility of the auditors. Some AEG was identified in the area of reliability of audited statements
Chowdhury <i>et al.</i> (2005)	41	Public sector auditors, members of the parliament, members of international funding agencies	Bangladesh	AEG identified mostly in areas of accountability and audit independence
Fadzly and Ahmed (2004) <sup>a</sup>	398	Auditor, broker, banker, investor, experimental	Malaysia	AEG identified mostly in the area of responsibility of the auditors. Some AEG was identified in the area of reliability of audited statements
Lin and Chen (2004)	198	Auditors, government, investors, management, educators	China	AEG identified in the area role of auditors, objectives of audit, and auditors’ role regarding fraud detection
Best <i>et al.</i> (2001) <sup>a</sup>	97	Auditors, bankers and investors	Singapore	AEG identified mostly in the area of responsibility of the auditors. Some AEG was identified in the area of reliability of audited statements

Note: <sup>a</sup>Studies replicating Schelluch (1996)

**Table I.**  
Questionnaire-based  
AEG studies in emerging  
economies

that significant differences existed regarding users' perceptions in the areas of auditor responsibility for fraud detection and prevention, maintenance of accounting records and auditor judgment regarding selection of audit procedures. Fadzly and Ahmed (2004) then used the same questionnaire to investigate AEG in Malaysia. The respondent group involved auditors, investors, bankers, brokers, and an experimental group. AEG was identified mostly in the area of audit responsibility. Dixon *et al.* (2006) replicated the study in Egypt. AEG was identified between auditors, bankers, and investors primarily in the areas of audit responsibility and reliability of audited financial statements. The use of similar questionnaires in Best *et al.* (2001), Fadzly and Ahmed (2004), and Dixon *et al.* (2006), therefore presents an opportunity to perform a comparative analysis. The current study uses a similar questionnaire.

### Effect of audit education on the AEG

Having identified the AEG, a number of researchers suggested ways of reducing the gap (for example, Porter and Gowthorpe, 2004; Shaikh and Talha, 2003, etc.). Recommended measures include increased monitoring of auditors' performance; improving quality control in the audit firms; enhanced education; discussing, establishing, and disclosing materiality standards in the audit report; modifying the language in the audit engagement letters; and creation of an independent audit oversight agency, etc. Porter and Gowthorpe (2004) recommended that increased education for auditors might be a good way of reducing the performance gap. It is suggested that further education should be required for all existing and trainee auditors to make sure that they understand their responsibilities under the corporations law. The auditors should also be made aware of the standard of work they are expected to perform (Porter and Gowthorpe, 2004, p. 96). The effectiveness of education as a means of reducing the AEG has been emphasized by a number of studies (for example, Sikka *et al.*, 1992; Humphrey *et al.*, 1992, etc.).

However, research in this area has been broadly inconclusive. Monroe and Woodliff (1993) investigated the effect of education on the AEG. The research used two groups of students, one having prior accounting background, and one without such a background. Both groups attended a 13-week long auditing course. The study found that the views of the students regarding audit responsibility and reliability of audited financial statements changed significantly after they took the auditing course. Pierce and Kilcommins (1997) extended the study by Monroe and Woodliff (1993) by performing two surveys among undergraduate students over the duration of a university semester. The students were divided into five groups according to year of studies and majors. The results were consistent with the findings of Monroe and Woodliff (1993) that the students who took either a module or a course in auditing had reduced their expectations. It was concluded that audit education is effective in reducing the gap, regardless of the extent of such education.

Gramling *et al.* (1996) studied whether the perceptions of undergraduate students regarding audit expectations changed due to an auditing course. The questionnaire survey involved views about auditors and the auditing process, auditors' role regarding audited financial statements and the client, views about parties to which the auditors have an obligation, and views about how successful auditors are in performing their duties. The results suggested that although the perceptions regarding some components of the audit process, and the roles and responsibilities of the auditors

changed due to completion of an auditing course, a significant AEG still existed between professional auditors and the students. Hussain (2003) replicated Gramling *et al.* (1996) in the context of Oman. In this emerging economy context, the study found that perceptions regarding audit expectations changed significantly in the area of the auditing process and auditors' role with respect to the audited financial statement and the client. From this, the study concluded that education did have an effect in significantly changing the perceptions of audit expectations. However, unlike Gramling *et al.* the study did not include auditors as a respondent group. Therefore, the results did not really indicate whether education had an effect in reducing the AEG.

The identification of a reasonableness gap in most of the prior studies (for example, Porter, 1993; Humphrey *et al.*, 1993; Sidani, 2007, etc.) indicates that society in general needs to be educated in order to form a reasonable expectation of the auditors' duties and responsibilities. Porter and Gowthorpe (2004) found that societies in both UK and New Zealand had unreasonable expectations of the auditors, especially in the area of auditors' duties and the extent of guarantee provided by audited financial statements. Hughes *et al.* (1998) state that one problem with audit education at university level is the perception that "auditing is boring" (p. 90). The study investigated the effects of using corporate scandals as a means of teaching auditing in classrooms. The study identified clear benefits of incorporating corporate scandals in auditing curriculum in terms of creating a sense of "realism" regarding the real-life auditing function amongst students. Porter and Gowthorpe (2004) mention that the reporting of accounting scandals in the media raises the public's awareness of auditing and provides an opportunity for the auditing profession to educate the public about auditors' responsibilities and what auditors may reasonably be expected to achieve.

This section has provided a general overview of AEG literature in both developed and emerging economy contexts. The next section will now introduce the state of auditing, and audit education in Bangladesh, the home country used for this research.

### **Auditing: Bangladesh scenario**

Auditing research in Bangladesh has been confined to very few empirical studies (for example, Karim and Moizer (1996) investigated determinants of audit fees; Imam *et al.* (2001) performed a study on audit delay[5]; Siddiqui and Podder (2002) on quality of bank audits; Habib and Islam (2007) on non-audit services, etc.). The lack of research in this area probably reflects the importance, or lack of it, of the auditing profession in the Bangladeshi economic scenario. Despite being a large country in terms of population (around 150 million in 2006), Bangladesh has a surprisingly small number of qualified professional (chartered) accountants.[6] Karim (2008) reports that there were only 171 audit firms in the country as at 30 June 2005. Among them, 110 firms were sole-traderships while 61 were partnerships. The majority of the partnerships (47) were two-partner firms while the highest number of partners that could be found in a firm was 7. At present, none of the Big 4 audit firms has an office in Bangladesh, although they have similar establishments in neighboring India, Pakistan, and Sri Lanka. However, all the Big 4 firms operate in Bangladesh through their Bangladeshi associate audit firms. Very recently, in February 2006, one of these associates received member firm status from KPMG.

Parry and Khan (1984) identified a dominant social group, an extended family system and problems with corruption as the principal cultural features of Bangladesh



which might have an influence on its accounting practices. They stated that the standard of audit reporting in Bangladesh was far from satisfactory due to the absence of a standardized form of wording. The study concluded that audit reports in Bangladesh were not serving its primary role of lending credibility to the accounts. Karim (1995) found that financial reporting in Bangladesh was characterized by a lack of transparency, adequacy, reliability, and timeliness. This was supported by Imam *et al.* (2001), who found that the audit firms in Bangladesh took a long time (mean 5.86 months) in issuing audit reports. Siddiqui and Podder (2002) found that audits in the banking sector in Bangladesh were not effective enough to report over statements of profit. Ahmed and Goyal (2005) stated that audit services in Bangladesh are not highly regulated and the demand for audit services derives mainly from legislative requirements such as the Companies Act. Karim and Moizer (1996) stated that the audit services market in Bangladesh was perceived to be a buyers market, with company management enjoying strong bargaining power over the appointment of an auditor. As a result, audit fees in Bangladesh were low.

Chowdhury and Innes (1998) conducted the only prior study on AEG in Bangladesh. This interview-based research explored whether or not an AEG existed in the public sector of Bangladesh between public sector auditors (referred to as the CAG auditors), members of the public accounts committee (PAC) in the parliament and international funding agencies. The interviewees' responses revealed important differences between the public sector auditors and the audit report users in such important areas as auditor accountability, auditor independence, auditor competence, truth and fairness of the reported information and the role of the performance audit. The study acknowledged that a number of perceived causes of the AEG were common to both the public and private sectors, such as fraud detection and auditor independence. Chowdhury *et al.* (2005) later extended this study by providing statistical evidence of the existence of such gap in the Bangladeshi public sector. The use of a seven-point likert scale enabled the authors to demonstrate significant differences in perceptions of 17 CAG members and 15 members of the PAC.

Although there have been a number of studies on different aspects of the auditing profession in Bangladesh, there has not been any study investigating the state of auditing education. In 2001, the World Bank (2001) conducted a financial accountability assessment of Bangladesh. The study incorporated the state of the auditing profession and audit education. The report identified that for a country of (then) 130 million, the supply of professionally qualified accountants was surprisingly low, even in comparison with other emerging economies. The report identified a number of reasons for this, including lack of adequate training facilities, lack of financial support for trainee auditors, and also, lack of demand for professional accountants. It was acknowledged that the job market did not differentiate between an MBA and a professionally qualified accountant. Also, the value of a competent audit was undermined. All these led to low expectations from the auditors:

The industrial and finance sectors, which are accountant-intensive, are still relatively small. Banks tend to use MBAs rather than professional accountants for financial analysis of projects (where this is done at all). More significantly, there is little appreciation of the value added by competent audit, and audit fees are correspondingly low. In the whole history of Bangladesh there has never been legal action against an auditor for professional negligence.

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This reflects low expectations and a lack of understanding of the significance of audit rather than high technical and ethical standards of auditors (World Bank, 2001).

The views were supported by another World Bank report in 2003 investigating the observance of codes in Bangladesh (World Bank, 2003). This report mentioned that one of the major concerns with the accountancy profession in Bangladesh was the inability of the profession to attract the best students. The report mentioned that University education in most public universities were conducted in Bengali, the national language, and consequently, students faced problems switching to English when appearing in the professional accounting examinations under the Institute of Chartered Accountants of Bangladesh (ICAB):

The better-educated students are not attracted to the profession, which suffers from a poor image, largely because of the inadequate quality of professional training. Also, without sufficient command of the English language, students are handicapped since the training materials are in English (World Bank, 2003, p. 5).

Also, the low passing rate and the fact that a professional qualification was not valued by the market (World Bank, 2001) contributed to the profession's failure in attracting top quality students. In addition to identifying the medium of teaching at the undergraduate level as a potential problem, the study also identified other limitations in accounting education at the undergraduate level:

Accounting courses in the bachelor's degree program do not include practical application of national and/or international accounting and auditing standards. Many accounting teachers lack the experience and adequate knowledge to teach either the theoretical or practical aspects of International Accounting Standards and International Standard on Auditing. Undergraduate-level teaching in accounting and auditing mainly focuses on elementary topics and application of some basic standards. The outdated curriculum and lack of appropriate literature leaves students without an applicable background for modern accounting and auditing. The academic programs do not challenge students to improve critical thinking (World Bank, 2003, p. 6).

Having identified the problems with accounting teaching at the university level, the report then proceeded to comment on training and education of professional accountants. It was identified that the ICAB lacked proper training facilities to help students develop adequate technical and functional skills, organizational and business management skills, interpersonal and communication skills, and skills in forming professional judgments. Also, the report identified that many instructors in ICAB-administered pre-qualification classes lacked adequate knowledge of the IFAC Code of Ethics for Professional Accountants (2005). The report found that professional ethics for accountants was not taught in pre-qualification educational programs. Also, the ICAB-developed training manuals for the qualifying examinations do not include recent developments in the many areas of accounting and auditing. Such out-of-date materials were not useful to students.

To summarize, the state of the auditing profession in Bangladesh is characterized by poor perceptions regarding decision-usefulness of audited financial statements (Parry and Khan, 1984); low levels of audit fees resulting from a "buyer's market" (Karim and Moizer, 1996); and poor demand for professional auditing qualifications (World Bank, 2003). The state of auditing education is constrained by the profession's inability to attract top quality students, poor quality of teaching in tertiary and



professional levels, and lack of teaching materials that are consistent with the socioeconomic environment of the country (World Bank, 2001, 2003). These unique features prevailing in this country may contribute to creating different levels of expectations regarding roles and responsibilities of the auditors in the minds of the users as well as the auditors. This sets the context for the study.

### Methodology

For the purpose of this study, four groups were selected. The first group comprised a sample of 115 professional accountants (Chartered Accountants, hereafter CAs) who held an undergraduate or masters degrees in accounting. The second group comprised a sample of 100 bank loan officers attending a course relating to bank management, who worked in different private banks in Bangladesh. As these loan officers frequently use audited financial statements in order to make credit decisions, their expectations of the auditing function would be very important. These groups are consistent with prior AEG studies in emerging economies (for example, Dixon *et al.*, 2006; Fadzly and Ahmed, 2004). The third group included a sample of 300 undergraduate students majoring in accounting at the University of Dhaka, Bangladesh's premier University. These are full-time undergraduate students without any breaks in their studies. Therefore, it is expected that their concepts of auditing and accounting would be more-or-less similar. Although students would not be the best representatives of the public or the society, the use of university accounting students and auditors with university degrees of accounting would help control for differences in perceptions arising from exposure to different levels of accountancy enable.

To test the effect of auditing education on the AEG, the student groups were then sub-divided into three categories: SG1 comprised 100 undergraduate students who had not yet taken an auditing course; SG2 included students who had taken one course in auditing; and SG3 included students who were at an advanced level compared to SG1, and had recently completed an advanced auditing course (in addition to the basic course that SG1 students took). The advanced auditing course mainly concentrated on audit procedures, audit independence, ethics, and professional liabilities of the auditors. Recent audit failures involving Enron, Worldcom, Xerox, and Palmalat were covered in detail in this course, and students were asked to make presentations on relating these cases to concepts of audit objectivity, ethics, and independence.

### Questionnaires

For the purpose of the study, the questionnaire method was applied. Previous studies measuring AEG have also used the questionnaire approach (for example, Humphrey *et al.*, 1993; Frank *et al.*, 2001; Dewing and Russell, 2002; Pierce and Kilcommins, 1997, etc.).

The final version of the questionnaires contained two sections. The first section (Section A) contained general questions about respondents. Respondents were asked about their job title and their experience (in number of years) as professionals. Respondents also replied to inquiries regarding their experience with their current employer. Section B comprised questions regarding perceptions of audit. A total of 12 questions were developed. Questions 1-6 were regarding auditor responsibilities; questions 7-10 were regarding reliability of audit, whereas questions 11 and 12 were regarding decision usefulness of audited financial statements.

For the purpose of this study, the seven-point likert scale was used (1, strongly agree; 4, no opinion/do not know; and 7, strongly disagree). Prior studies have used the likert scale for measuring the AEG in different countries (for example, Schelluch, 1996; Best *et al.*, 2001, etc.).

For a study such as this, the directions of the results are of utmost importance. Some of statements contained in the questionnaire may depict unreasonable expectations regarding audit responsibility and audit reliability. In such cases, significance of the results as well as direction need to be considered in order to identify the “reasonableness gap” as identified by Porter (1988).

*Response rates*

Questionnaires were distributed to 300 students from SG1, SG2, and SG3. Two hundred and eighty-five students responded voluntarily (93 from SG1, 93 from SG2 and 99 from SG3), and the remaining 15 did not return the questionnaires, making the response rate 95 percent. The questionnaires were sent to the 115 auditors through postal mail. The respondents were requested to reply as soon as possible for a meaningful contribution to the study. Within four weeks of posting, 36 responses were received, yielding a response rate of 31.30 percent. Among 100 bankers, to whom questionnaires were sent, 46 responded within four weeks, a response rate 46 percent. Therefore, the overall response rate was 71.26 percent. Table II presents the response rates.

**Results and discussion**

This section presents the results of the study. For ease of understanding, we will discuss the results in two sections: AEG results, and the effect of audit education.

*AEG results*

Table III presents the mean responses for the different groups of respondents. The means scores presented in this table indicates differences in views regarding different issues.

Table IV presents the results for AEG between auditors and bankers; and auditors and students. Panel A presents results for the responsibility statements. Significant AEG was identified between auditors and bankers regarding all the statements. Also, the students differed significantly from the auditors with regards to auditors’ responsibility in detection and prevention of fraud.

Both bankers and students had significantly different opinions from auditors with regards to detection of all fraud. It is worth mentioning that the auditing standards

Respondent group	Questionnaires sent	Questionnaires received	Response rate (%)
Auditors	115	36	31.30
Bankers	100	46	46.00
SG1	100	93	93.00
SG2	100	93	93.00
SG3	100	96	96.00
Total students	300	285	95.00
Total	515	367	71.26

**Table II.**  
Response rate

**Table III.**  
Mean responses  
(1, strongly agree; 3, no  
opinion; 7, strongly  
disagree)

	Auditors ( <i>n</i> = 36)		Bankers ( <i>n</i> = 46)		All Students ( <i>n</i> = 285)		SG1 ( <i>n</i> = 93)		SG2 ( <i>n</i> = 93)		SG3 ( <i>n</i> = 99)	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
1. The auditor is responsible for detecting <i>all</i> fraud	5.786	1.873	3.674	2.113	4.312	2.346	5.154	2.027	4.919	2.253	2.871	2.065
2. The auditor is responsible for soundness of internal control structure of the entity	5.000	2.277	2.512	5.496	5.496	1.935	6.055	1.734	5.566	2.046	4.892	1.838
3. The auditor is responsible for maintaining accounting records	6.786	1.134	5.047	1.772	6.647	1.449	6.758	0.923	6.576	1.356	6.611	1.821
4. The auditor is responsible for preventing fraud	5.500	2.009	3.372	2.116	4.163	2.434	4.110	2.359	4.444	2.425	3.946	2.517
5. The auditor is unbiased and objective	1.714	1.462	2.465	2.028	2.238	1.832	1.286	0.820	2.303	1.956	3.086	1.976
6. The auditor does not exercise judgment in The selection of audit procedure	5.714	1.823	4.372	1.823	5.642	1.889	6.077	1.621	5.495	1.955	5.366	1.993
7. Users can have <i>absolute</i> assurance that the financial statements contain no material misstatements	3.107	1.969	3.256	1.648	4.266	2.314	2.912	1.970	5.232	2.198	4.591	2.138
8. The auditor agrees with the accounting policies used in the financial statements	2.957	1.750	2.302	2.252	2.730	1.861	1.780	1.474	3.414	1.938	2.957	1.750
9. The extent of assurance given by the auditors is clearly indicated in the audit report	2.286	1.560	2.581	2.205	2.837	2.197	4.297	2.278	1.869	1.682	2.419	1.843
10. The audited entity is free from fraud	4.643	2.059	3.674	1.969	4.684	2.163	3.659	1.928	5.131	2.230	5.237	1.964
11. The audited financial statements provide an assurance regarding the performance of the entity	3.464	1.972	2.767	1.489	2.904	1.964	3.451	2.172	2.737	2.088	2.527	1.449
12. The audited financial statements are useful for making decisions	2.857	1.737	2.209	1.560	1.766	1.345	1.286	0.655	2.030	1.613	1.946	1.417

	AUD-bankers		AUD-students		Bankers-students	
	GAP	p-value	GAP	p-value	GAP	p-value
<i>Panel A: audit responsibility</i>						
1. The auditor is responsible for detecting <i>all</i> fraud	2.111	0.000***	1.474	0.001***	-0.638	0.115
2. The auditor is responsible for soundness of internal control structure of the entity	2.488	0.000***	-0.496	0.331	-2.984	0.000***
3. The auditor is responsible for maintaining accounting records	1.739	0.000***	0.138	0.364	-1.6	0.001***
4. The auditor is responsible for preventing fraud	2.128	0.000***	1.337	0.004***	-0.791	0.000***
5. The auditor is unbiased and objective	-0.751	0.095*	-0.523	0.157	0.227	0.000***
6. The auditor does not exercise judgment in the selection of audit procedure	1.342	0.002***	0.072	0.919	-1.27	0.000***
<i>Panel B: audit reliability</i>						
7. Users can have <i>absolute</i> assurance that the financial statements contain no material misstatements	-0.149	0.194	-1.159	0.537	-1.01	0.000***
8. The auditor agrees with the accounting policies used in the financial statements	0.655	0.054**	0.226	0.281	-0.428	0.000***
9. The extent of assurance given by the auditors is clearly indicated in the audit report	-0.296	0.435	-0.551	0.480	-0.256	0.000***
10. The audited entity is free from fraud	0.968	0.053**	-0.042	0.810	-1.01	0.000***
<i>Panel C: decision usefulness</i>						
11. The audited financial statements provide an assurance regarding the performance of the entity	0.697	0.126	0.560	0.102	-0.137	0.000***
12. The audited financial statements are useful for making decisions	0.648	0.100*	1.091	0.000***	0.443	0.002***

**Notes:** \* Indicates significant AEG ( $p < 0.10$ ) between auditors and respective respondent group; \*\* indicates significant AEG ( $p < 0.05$ ) between auditors and respective respondent group; \*\*\* indicates significant AEG ( $p < 0.01$ ) between auditors and respective respondent group

**Table IV.**  
Audit expectation gap

state the auditors are only responsible for detection of material fraud, and not all fraud (IFAC, 2003, ISA 200). While the auditors strongly disagreed with this statement (mean of 5.785), the degree of disagreement was less for the bankers (mean of 3.674) and for the students (mean of 4.312), the gap being statistically significant in both cases. This indicates the presence of unreasonable expectations. A significant difference in mean scores between auditors and bankers were identified regarding auditors' responsibility for soundness of the internal control structure, whereas the student groups had a similar opinion to that of the auditors. A significant AEG was also identified with regards to auditors' responsibility in maintaining the accounting records of the client, and again, such a difference can be attributable to unreasonable expectations from the part of the bankers, who to some extent, expected auditors to maintain the accounting records. A significant gap was identified between auditors and all the respondent

groups with regards to auditors' responsibility in preventing fraud. While the auditors strongly disagreed with the notion that they are responsible for preventing fraud, the level of disagreement was significantly different for the students and the bankers. The fifth question was regarding the objectivity of the auditors. The results reveal significant differences between the auditors, students, and bankers. While the auditors and students believed that the auditors are more-or-less, unbiased and objective, the bankers thought otherwise. The auditors and the bankers also differed significantly with regards to auditors' application of judgment in the audit process.

The results are consistent with prior studies on emerging economies (for example, Best *et al.*, 2001; Fadzly and Ahmed, 2004; Dixon *et al.*, 2006). Schelluch (1996) indicated the existence of a strong expectations gap associated with auditor's responsibilities for fraud detection in Singapore. Best *et al.* (2001) in another study on Singapore, also found the presence of an expectations gap in this area. Best *et al.* also found a significant gap in the area of auditor's responsibility of maintaining accounting records, which is consistent to the findings of this survey. The findings of this survey is in contrast with Bailey *et al.* (1983) who concluded that knowledgeable users placed less responsibility on auditors regarding the preparation of financial statements. Schelluch (1996) also did not find any expectation gap in this area of audit responsibilities. Best *et al.* found extremely negligent differences regarding perceptions of audit objectivity and bias in Singapore between bankers and auditors. This is consistent with the Bangladesh findings.

Table IV, panel B presents the questionnaire survey results regarding audit reliability. A significant AEG between auditors and bankers was found with regards to the statement regarding an audited entity being free from fraud. While the auditors disagreed with this notion (mean score of 4.6429), the bankers were much more positive regarding the audited entity being free from any fraud (mean score of 3.6744). The groups also differed significantly in their views of the auditors' agreement with the entities accounting policies.

Table IV, panel C presents results regarding decision usefulness of audited financial statements. Significant AEG was identified between auditors and both the student groups, indicating that the students have higher beliefs regarding the level of assurance provided by an audited statement. A significant gap was again identified regarding the usefulness of the audited financial statements in making decisions. It was found that auditors had significantly lower beliefs regarding the decision usefulness of audited financial statements than the students. Here, the responses of the students and the bankers are closer. This result is not consistent with prior studies. Best *et al.* (2001) found no significant difference in this area. On the other hand, Schelluch (1996) found that auditors actually had higher beliefs regarding the decision usefulness of audited financial statements.

Table IV also presents results for differences in views between bankers and students. The results indicate the existence of significant gaps between views of bankers and students in almost all aspects of audit responsibility, reliability and decision usefulness. As mentioned before, the direction of the gap identified in Table IV also has significant implications. Statements 1, 2, 3 and 4 (Table IV, panel A) ask questions regarding audit responsibility. However, the statements depict roles of auditors which are not really expected of them. Therefore, agreement with such statements would imply unreasonable expectations from the part of the user groups.

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The results presented in Table IV (panel A) indicate that bankers have a significant reasonableness gap with auditors (significant differences for all four statements) regarding audit responsibility. Also, the students have unreasonable expectations of the auditors regarding statements 1 and 4. The results, therefore, reveal existence of significant reasonableness gap in the area of audit responsibility.

*Effect of audit education*

Table V presents the results for the three student sub-groups: SG1, SG2, and SG3. Panel A presents the responsibility statements. It is interesting to note that the students' expectations regarding auditors' responsibilities in detection of fraud increased incrementally as they became more familiar with the audit practices. Especially, after completing the case-based course in auditing, the students seemed to have developed the (unreasonable) expectation that the auditors were responsible for detection of all frauds. The gap regarding soundness of internal control structure of the entity (statement 2) diminished as the students became more familiar with the auditing concepts. However, the auditing courses seem to have limited effects with regards to perceptions regarding auditors' responsibilities in preventing fraud, as all the student groups had significant differences in opinions from the auditors. The statement regarding auditors' objectivity and bias (statement 5) reveals some very interesting findings. Whereas SG1 expected auditors to be very unbiased and objective (resulting a significant AEG), the students seemed to be increasing skeptical about audit objectivity and bias as they became more familiar with auditing. Especially, after taking the case-based course in auditing, SG3 had significant AEG, this time the students having lower expectations compared to auditors. The results indicate that the use of accounting scandals in the advanced auditing course may have created a negative perception in the minds of the students regarding the objectivity and independence of the auditors.

Panel B reveals that audit education is quite effective in reducing the AEG with regards to audit reliability. Whereas SG1 had significant AEG relating to all four reliability statements, the gap was significantly diminished as the students took auditing courses. This is consistent with prior studies. The results also reveal that the SG2 students have more reasonable expectations regarding audit reliability compared even to the auditors, as indicated by the mean scores. This could be indicative of the poor quality of professional training of the auditors, as mentioned in the World Bank report (2003).

Panel C presents results for the responsibility statements. The results indicate that students had significantly different perceptions regarding the decision usefulness of the audited financial statements, and the perceptions did not change with incremental auditing courses. However, students seem to be demanding higher levels of assurance regarding the performance of the audited entities (statement 11).

Overall, the results indicate that audit education had some effect in reducing the AEG in Bangladesh, especially in the area of audit responsibility. However, introduction of the accounting scandal cases seem to have created doubts in the minds of the students with regards to audit objectivity and auditors' responsibilities with regards to detection and prevention of fraud. Such skepticism may have been created due to a number of reasons. First, compared to the other two student groups, SG3 are slightly more mature and experienced, and this could affect their perceptions of the



**Table V.**  
Effect of audit education  
on AEG

	AUD-SG1		AUD-SG2		AUD-SG3		SG1-SG2		SG2-SG3	
	GAP	p-value	GAP	p-value	GAP	p-value	GAP	p-value	GAP	p-value
<i>Panel A: audit responsibility</i>										
1. The auditor is responsible for detecting all fraud	-0.632	0.145	-0.867	0.065*	-2.915	0.000***	-0.235	0.453	2.048	0.000***
2. The auditor is responsible for soundness of internal control structure of the entity	1.055	0.010***	0.566	0.210	-0.108	0.798	-0.489	0.078	0.673	0.018**
3. The auditor is responsible for maintaining accounting records	-0.027	0.897	-0.210	0.456	-0.775	0.035**	-0.182	0.284	0.565	0.015**
4. The auditor is responsible for preventing fraud	-1.390	0.006***	-1.056	0.037**	-1.554	0.003***	0.335	0.337	0.498	0.164
5. The auditor is unbiased and objective	-0.429	0.051**	0.589	0.142	1.372	0.001***	1.017	0.000***	-0.783	0.006***
6. The auditor does not exercise judgment in the selection of audit procedure	0.363	0.317	-0.219	0.596	-0.349	0.410	-0.582	0.027**	0.129	0.650
<i>Panel B: audit reliability</i>										
7. Users can have absolute assurance that the financial statements contain no material misstatements	-0.195	0.019***	1.4843	0.1810	1.484	0.181	2.320	0.000***	0.641	0.042**
8. The auditor agrees with the accounting policies used in the financial statements	-1.177	0.000***	0.0000	0.7000	0.000	0.700	1.634	0.000***	0.457	0.089*
9. The extent of assurance given by the auditors is clearly indicated in the audit report	2.011	0.000***	0.1336	0.7290	0.134	0.729	-2.428	0.000***	-0.551	0.032**
10. The audited entity is free from fraud	-0.984	0.022***	0.5937	0.1680	0.594	0.168	1.472	0.000***	-0.105	0.730
<i>Panel C: decision usefulness</i>										
11. The audited financial statements provide an assurance regarding the performance of the entity	-0.014	0.976	-0.727	0.102	-0.937	0.007***	-0.713	0.022**	0.210	0.421
12. The audited financial statements are useful for making decisions	-1.571	0.000***	-0.827	0.020***	-0.911	0.006***	0.745	0.000***	0.084	0.702

**Notes:** \* Indicates significant AEG ( $p < 0.10$ ) between auditors and respective respondent group; \*\* indicates significant AEG ( $p < 0.05$ ) between auditors and respective respondent group; \*\*\* indicates significant AEG ( $p < 0.01$ ) between auditors and respective respondent group

outside world. Second, sometimes case-based studies may tend to be more subjective as these are likely to be more influenced by the views of the tutor. Discussions with the course tutors revealed that the students were quite interested in participating in lectures that covered the accounting scandals. This is consistent with Hughes *et al.* (1998) who report similar enthusiasm. The course teacher for the advanced auditing course also pointed out the problems that he encountered in teaching the cases:

I had a tough time teaching the Enron case. Though the students were very interested in the couple of lectures that covered the Enron case, and we had almost full attendance, they had problems understanding the case, especially, when it came to the mechanisms used by Enron, for example, the special purpose entities. These mechanisms are still too sophisticated for the Bangladeshi businesses to use, and the law also does not say much about these things.

This suggests that although the accounting scandals are very useful in creating interest, these probably need to be customized for teaching in developing economies, where such cases are still considered to be too sophisticated and complex, and may create misunderstandings. It is also important that the accounting educators are properly trained to deal with teaching materials that involve situations they may not be entirely familiar with. Responding to a query regarding why accounting scandals were chosen as cases, the tutor mentioned that these were picked because these were “phenomenal”, and would “attract students’ attention”. However, although the students might have been attracted towards these cases, it would have been difficult for them to relate to such cases, as these cases had already taken place, and in completely different economic and regulatory environments. Therefore, teaching accounting scandals as cases may not have been entirely appropriate under such circumstances. Perhaps, case-based auditing courses would have been more effective if the students could find a way of participating as if they were part of the audit team, and make decisions accordingly. Overall, the results seem to suggest that auditing education in Bangladesh is constrained, among other things, by lack to up-to-date and relevant teaching materials that are consistent with the socioeconomic environment of the country.

### Conclusion

The objective of this paper is to investigate the presence of AEG in an emerging economy setting. Using Bangladesh as a case, we also examine the effect of audit education, both traditional and case-based, in reduction of such a gap. The study reveals the presence of AEG in Bangladesh between auditors, students, and bankers. Consistent with prior studies, we find that the gap is most significant in the area of audit responsibility. However, in some cases, we find that the gap is due to unreasonable expectations of the user groups. This probably indicates that the users need to be educated regarding what to expect of auditors. Having set the case for audit education, we then proceed to examine the effect of education in bridging the gap. We find that conventional audit courses are effective in reducing such a gap, especially in areas of audit reliability. In fact, the results indicate that after taking one conventional course in auditing, the expectations of the students are more reasonable than the auditors. In addition to providing evidence of the effectiveness of audit education, such results also confirm the World Bank’s (2003) views regarding the poor quality of training in audit firms in Bangladesh. Our results compare well with prior studies investigating effects of audit education (for example, Monroe and Woodliff, 1993;

Pierce and Kilcommins, 1997, etc.), and contribute to the existing literature by providing evidence of effects of audit education in an emerging economy setting.

In providing evidence of the effects of audit education, we contribute to the existing AEG literature by examining the effects of taking an additional case-based course in auditing. We find that although the introduction of the accounting scandals in the advanced accounting curricula created interest in auditing, the students seemed to have developed some degrees of misconceptions regarding auditors' responsibility, especially with regards to detection and prevention of fraud. Also, the case-based auditing course made the students more skeptical regarding audit objectivity and independence. This could be because of the experience of the students, the subjectivity involved in teaching case-based courses, or the unfamiliarity of both the students and the tutors with the cases involved.

Overall, our findings seem to suggest that audit education is effective in reducing the AEG in an emerging economy context. However, for case-based courses to be effective, care should be exercised in making sure that both students and tutors are familiar with the cases, as the regulatory and economic environments in emerging economies are very different compared to the developed economies. Although the use of accounting students as a proxy for the public has enabled us investigate the effects of audit education, students cannot be construed as the most appropriate surrogate for capturing perceptions of the society. Therefore, future research may attempt to capture the effects audit education not only on students of accounting, but also on different stakeholder groups such as bankers, auditors, investors, etc. in emerging economy settings.

### Notes

1. The classification of an "emerging economy" is debatable. However, for the purpose of this paper, we use the term "emerging economies" to refer to countries listed as "emerging and developing countries" by the International Monetary Fund's World Economic Outlook report (IMF, 2008).
2. Hussain (2003) investigated the effects of audit education in reducing the AEG in Oman. However, the paper did not include auditors as a respondent group.
3. Other methods used involve experiments (for example, Aarington *et al.*, 1983) and grid interviews (for example, Ohman *et al.*, 2006).
4. Porter (1993) used the term "society" to denote population at large, including the auditees, but not the auditors. In this paper, we also use the term "society" to refer to members of the public excluding auditors.
5. Audit delay was defined as the "length of time from a company's financial year end to the date of the auditor's report" (Imam *et al.*, 2001, p. 129).
6. As in July 2006, the number of qualified chartered accountants was 806. This is low even in emerging economy standards. At the same point of time, Pakistan (almost equal in terms of population) had around 3,700 chartered accountants, while another neighboring country, Sri Lanka, much smaller in population size, had 2,700 chartered accountants. Another neighboring country, India, had 130,000 chartered accountants at the same point of time (*source*: South Asian Federation of Accountants, available at: [www.esafa.org](http://www.esafa.org))

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**Further reading**

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