



## Perception of users of audited financial statements on various factors related to auditor and audited financial statements

Kinjal Mistry<sup>1</sup>, Dr. Jayendrasinh Jadav<sup>2</sup>

<sup>1</sup>(Ph.D. research scholar, S. D. School of Commerce, Gujarat University and Assistant Professor, St. Xavier's College (Autonomous), Ahmedabad)

<sup>2</sup>(Registrar, Gujarat Sahitya Academy, Gandhinagar)

Corresponding Author: Kinjal Mistry

**ABSTRACT:** The present study is conducted with an objective to know the differences in perception among the various users of audited financial statements with respect to different aspects related to audited financial statements and auditors. For the purpose of this study data have been collected using structured questionnaires distributed among different users of audited financial statements in India and the results of the ANOVA performed on the data collected from the samples indicates that there is a significant difference in the perceptions of users related to responsibilities, independence and role of external auditors.

**KEYWORDS:** Audit perceptions, Audited financial statements, Users of audited financial statements, Audit expectation gap

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### I.INTRODUCTION

In the company form of organisation the proprietorship and its management lies with the two separate groups. The investors of the organisation are known as proprietors of the organisation whereas the selected group of executives performs managerial duties in the interest of the proprietors. This prompts a requirement for organisation directors to answer to its proprietors and other asset suppliers on the monetary part of their movement. In this process the question of the validity, reliability and correctness of the financial reports presented by the managers emerged, subsequently auditors came into the picture. The primary function of external auditors is to attest to the fairness of the financial statements of a company (Salehi 2011).

There are various discernments pervasive in the general public in regards to what audited financial statements conveys to its users and what are the roles and responsibilities of the statutory auditors. This might bring about disappointment among the different users explicitly when the organisation couldn't perform well. As per Power (1993), "when innocent parties suffer losses as a consequence of fraud or the economic collapses of apparently healthy companies, the processes of blame allocation are set in motion." A business failure is always deciphered as an audit failure (Almer and Brody 2002). This shows that there is some distinction in what is generally anticipated from the external auditors and what they provide which is named as an audit expectation gap.

The word "Audit Expectation Gap" was coined by Liggio in 1974. It has been defined as the difference between the performance expected by the auditors and the users of financial statements (Liggio 1974).

The different researchers have recognized and explored the presence of various kinds of audit expectations gap regarding various aspects of auditors and audited financial statements like, reliability and usefulness of audited financial statements, roles, obligations and independence of auditors, etc. in different nations. In India additionally a couple of studies have been attempted to concentrate on the audit expectation gap. This paper attempts to distinguish the distinctions in perception among the various users of audited financial statements with respect to different aspects related to audited financial statements and auditors.

## **II. LITERATURE REVIEW**

There are various researchers who have attempted to know the differences in perceptions of auditors, accountants and users of audited financial statements as an audit expectations gap and furthermore have attempted to break down the degree to which such perception differences exist in other places in the world. A couple of them are referenced here in this review.

Devi A. and Devi S.. (2014) have conducted a study to identify the factors that can be considered as causes of Audit expectation gap which the auditors and users of financial statements perceive. A questionnaire used to collect data from the sample of 259 auditors, treasury fund managers and investors. The result of Independent sample t-test and paired sample t-test performed indicates the existence of gap between auditor and investor in two variables that are Reliability and Usefulness of audited financial statement.

Kangarluie S. and Aalizadeh A. (2017) have conducted a study to investigate the audit expectation gap for some privately held firms in Iran by distributing questionnaires among 318 auditing officials and management of some privately held firms. The result of K-S test and Levene's test performed to analyse the collected data had shown meaningful difference between management and audit group's perceptions in terms of the auditors' roles and responsibilities.

Kangarlouei S. J. et al. (2012) have undertaken a study to identify the gaps between users of audit reports and independent auditors about the features of independent auditors and also to offer a solution to reduce it. The results of Kruskal-Wallis test, ANOVA and Tukey post hoc test performed on data collected from 144 auditors, managers and shareholders of the firms listed on TSE indicates the existence of significant differences between users of audit reports and independent auditors about the features of independent auditors.

Lowe J. (1994) has examined and compared judicial and auditors' attitudes toward the auditing profession and to determine whether differences existed by collecting data from 71 Judges and 78 Auditors through questionnaire and the results of Mann-Whitney test and T-test revealed that Judges systematically expected more from auditors than auditors believed they provide.

Adeyemi S. B. and Uadiale O. M. (2011) have conducted a study to provide evidence on the existence of audit expectation gap in Nigeria, by investigating the perception of 162 selected stakeholders. The result of the ANOVA performed on collected data found a wide expectation gap particularly on the issues of the auditors' responsibilities on fraud detection as a significant number of the respondents believed that auditors' responsibilities should be widened in this regard.

McEnroe J. E. and Martens S. C. (2001) have tried to determine the existence of an expectation gap by directly comparing audit partners' and investors' perceptions of audit responsibilities involving various dimensions of the attest function by collecting data from 117 accountants and 147 investors through the questionnaire. The findings of the study shows an existence of an expectation gap between two parties, which would be categorised as "reasonableness gap" according to Porter's (1993) classification scheme.

Even in India Mahadevaswamy G. H. and Salehi M. (2008) have conducted a study with an objective to investigate the existence of an audit expectation gap and to find similarities and differences in responsibilities of audit expectation gap among auditor and investor between two countries, and to measure the magnitude of auditor responsibility. The survey found the existence of an audit expectation gap in the responsibility of the auditor as well as comparison of the data of both India and Iran. There were not many differences in the responsibility of the auditor in both the countries and the result also showed that both the management and auditors are equally responsible in producing financial statements.

## **III. RESEARCH METHODOLOGY**

The objective of this study is to know the differences in perception among the various users of audited financial statements with respect to different aspects related to audited financial statements and auditors.

For the purpose of this study, perception of different users on various factors like, responsibilities of external auditors, reliability on audited financial statements, usefulness of audited financial statements, independence of auditors, obligation of auditors and role of auditors have been collected by distributing structured questionnaires among 1148 users of audited financial statements (i.e. brokers/sub-brokers, traders, Portfolio/fund managers) in India. Total 162 usable questionnaires received back resulting in 14.11% response rate.

In this research the primary data collection method is used. A structured questionnaire used in this research to collect required information from the sample consists of two sections. The first section collected demographic information of the respondents and the second section consists of various statements using a five-point likert scale and the collected data have been analysed by performing ANOVA using a statistical software SPSS.

#### IV. DATA ANALYSIS

In this study to identify the differences in perception among various users of audited financial statements, collected data is analysed using a statistical tool ANOVA. The factors covered under this study are responsibility of external auditors, reliability on audited financial statements, usefulness of audited financial statements, independence of auditor, obligations of auditors and role of auditors.

##### 4.1 RESPONSIBILITY OF EXTERNAL AUDITOR

H0 = There is no significant difference in the perception regarding the responsibility of external auditors among users of FSs

**ANOVA**

Responsibility of Auditors

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4.044	4	1.011	2.463	.047
Within Groups	64.447	157	.410		
Total	68.491	161			

Figure 1: Result of ANOVA on responsibility of external auditors

Here, the p value is 0.047 which is less than 0.05, the level of significance, indicates that we fail to accept H0. So, there is a significant difference in the perceptions of various user groups relating to responsibilities of external auditors.

##### 4.2 RELIABILITY ON AUDITED FINANCIAL STATEMENTS

H0 = There is no significant difference in the perception regarding the reliability of audited financial statements among users of FSs

**ANOVA**

Reliability on audited financial statements

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3.523	4	.881	2.171	.075
Within Groups	63.697	157	.406		
Total	67.220	161			

Figure 2: Result of ANOVA on reliability on audited financial statements

Here, the p value is 0.075 which is more than 0.05, the level of significance, indicates H0 is accepted. So, there is no significant difference in the perceptions of various user groups relating to reliability on audited financial statements.

##### 4.3 USEFULNESS OF AUDITED FINANCIAL STATEMENTS

H0 = There is no significant difference in the perception regarding the usefulness of audited financial statements among users of FSs

**ANOVA**

Usefulness of audited FSs

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.713	4	.678	1.692	.154
Within Groups	62.930	157	.401		
Total	65.643	161			

Figure 3: Result of ANOVA on usefulness of audited financial statements

Here, the p value is 0.154 which is more than 0.05, the level of significance, indicates H0 is accepted. So, there is no significant difference in the perceptions of various user groups on the usefulness of audited financial statements.

##### 4.4 INDEPENDENCE OF AUDITORS

H0 = There is no significant difference in the perception regarding the independence of external auditors among users of FSs

**ANOVA**

Independence of auditors

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	21.294	4	5.323	5.497	.000
Within Groups	152.029	157	.968		
Total	173.323	161			

Figure 4: Result of ANOVA on independence of external auditors

Here, the p value is 0.000 which is less than 0.05, the level of significance, indicates we fail to accept H0. So, there is a significant difference in the perceptions of various user groups relating to independence of external auditors.

#### 4.5 OBLIGATIONS OF AUDITORS

H0 = There is no significant difference in the perception regarding the obligations of external auditors among users of FSs

**ANOVA**

Obligation of auditors

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.541	4	.635	1.135	.342
Within Groups	87.862	157	.560		
Total	90.403	161			

Figure 5: Result of ANOVA on obligations of external auditors

Here, the p value is 0.342 which is more than 0.05, the level of significance, indicates H0 is accepted. So, there is no significant difference in the perceptions of various user groups relating to obligations of external auditors.

#### 4.6 ROLE OF AUDITORS

H0 = There is no significant difference in the perception regarding the role of external auditors among users of FSs

**ANOVA**

Role of auditors

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4.964	4	1.241	3.380	.011
Within Groups	57.636	157	.367		
Total	62.599	161			

Figure 6: Result of ANOVA on role of external auditors

Here, the p value is 0.011 which is less than 0.05, the level of significance, indicates we fail to accept H0. So, there is a significant difference in the perceptions of various user groups relating to roles of external auditors.

### V.FINDINGS AND CONCLUSION

The purpose of this study is to know the differences in perception among the various users of audited financial statements with respect to various aspects related to audited financial statements and auditors roles and responsibilities.

The data collected from the samples have been analysed using a statistical test ANOVA and the results of the study indicates that there is a significant difference in the perceptions of various groups of users related to responsibilities, independence and role of external auditors only. There is no significant difference in the perceptions of various groups of users related to other factors like reliability on audited financial statements, usefulness of audited financial statements and obligations of external auditors.

The results of this study helps in identifying and reducing the differences in perception of various user groups with respect to various aspects related to auditing work and the roles and responsibilities of external auditors. Since the primary data has been utilised for this study, all the limitations of the primary data source also exist in the study. The future research can be conducted focusing on a particular area and also perceptions of auditors and users can also be investigated.

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