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THE 'KNOWLEDGE GAP' AND 'DEFICIENT PERFORMANCE GAP' BETWEEN AUDITORS AND CORPORATE MANAGERS

An Empirical Study in Malaysia

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This paper reports the findings of a questionnaire survey of "knowledge gap" and "deficient performance gap" conducted in Malaysia on auditors and corporate managers. A total of 47 auditors and 72 corporate managers in Klang Valley responded to the survey. The aims of the study are two folds. Firstly*, it ascertains the knowledge of the auditors and corporate managers of the auditors' duties as required by the Malaysian Companies Act 1965 and the Malaysian Approved Standards on Auditing.* Secondly*, it elicits the perceived performance of auditors in relation to these required duties. The results of the study indicate the existence of "knowledge gap" and "deficient performance gap" between auditors and corporate managers. Overall, the results indicate that: (1) the auditors in Malaysia are knowledgeable about their duties and (2) the corporate managers have limited knowledge of auditors' duties and they are less satisfied with some of the duties performed by the auditors.*

Keywords: audit expectation gap; deficient performance gap; knowledge gap; Malaysia

Introduction

The modern industrial economies are based on capitalism, a system of economy designed to allocate resources using market mechanisms. To ensure efficient allocation of resources in capitalist economy, credible information about the companies' operation should be made available for decision making process (Koo and Sim 1999). Such information can be obtained through the financial statements. Auditors employed by companies to audit the financial statements are therefore playing an important role in lending credibility to the information. This credibility is however called into question after some spectacular and well-publicized corporations (e.g. Enron and WorldCom in USA) collapsed shortly after an unqualified (i.e. clean) audit report was issued. The collapses of these companies have led to significant increases in criticism and litigation against the auditing profession. This current situation concurs with the view of Russell (1986) that the auditing profession throughout the world is facing a liability and credibility crisis.

The auditing profession in Malaysia, like in other countries, has also been involuntarily placed in a spotlight particularly when one of the listed companies, Technology Resources Industries Bhd. (TRI), was discovered to have issued fictitious invoices totaling nearly RM260 million in 1998 and 1999. The auditors of TRI, Arthur Andersen & Co, failed to detect and report the fraudulent transactions and did not qualify the financial statements of TRI for these two years (The Malay Mail 13 Sept. 2002). Lim (1993) asserts that the blame should not be placed on the auditors' shoulders alone as the nature and objectives of auditing are perceived differently by different parties. In line with Lim, Woolf (1985, p. 18) believes that "[auditors] as a breed has not become more negligent. The real problem is related to the palpable gap between our own perception of…auditing…and that of the public whom we serve."

The "gap" mentioned by Woolf is known in the auditing literature as the "audit expectation gap." The term "audit expectation gap" was first introduced to audit literature by Liggio (1974). He defined the audit expectation gap as the difference between the levels of expected performance as envisioned by both the user of a financial statement and the independent accountant. Cohen Commission (1978) extended Liggio's definition by taking into account whether a gap may exist between what the public expects or needs and what auditors can and should reasonably expect to accomplish.

Porter (1993, pp. 49-50), in "The Audit Expectation–Performance Gap," has structured the audit expectation gap in a much more extensive way. She asserts that the audit expectation gap should consist of different components. Such an approach of identifying the different components allowed the audit expectation gap to be analyzed in a more detailed manner. Hence, more effective solutions can be sought to close the different components of the gap to improve the perceived qualities of an audit. She defined the audit expectation gap as "the gap between society's expectations of auditors and auditors' performance, as perceived by society." It comprises of two components:

- Reasonable gap –the difference between "what the public expects auditors to achieve and what they can reasonably be expected to accomplish"; and
- Performance gap –the difference between "what the public can reasonably expect auditors to accomplish and what auditors are perceived to achieve."

The performance gap is further subdivided into:

- Deficient standards –the gap between "what can reasonably be expected of auditors and auditors' existing duties as defined by the law and professional promulgation."
- Deficient performance –the gap between "the expected standard of performance of auditors' existing duties and auditors' perceived performance, as expected and perceived by the public."

The audit expectation gap is detrimental to the financial reporting and auditing process, as the public may perceive the work performed by external auditors as unsatisfactory. Therefore, the audit expectation gap is crucial to the audit profession as they determine the value of auditing and the reputation of auditors in modern society (Wa and Selva 1993). Despite the importance of the audit expectation gap to the auditing profession, not many studies have been conducted to address this issue in Malaysia. At this point, the only published audit expectation gap study in Malaysia is Fadzly and Ahmad (2004). The substantial research findings (e.g. Lee 1970; 1983; Humphrey 1993; Esptein and Geiger 1994) may not be applicable in developing countries like Malaysia as these studies have provided findings on the audit expectation gap in the developed and Western countries such as the United States of America, United Kingdom, Australia and New Zealand. Therefore, their findings may be partly (or even wholly) affected by economic, social or legal factors unique to those countries in which the studies took place (Arrigton et al. 1983).

To complement the study of Fadzly and Ahmad (2004), a survey is conducted with 100 auditors and 100 corporate managers in Malaysia. The objective of the current study is to ascertain whether a "knowledge gap"[1] exists between the auditors and managers on the existing duties of auditors. In addition, the study aims to examine whether a "deficient performance gap,"[2] a component of audit ex-

[1] Knowledge gap – the gap between the knowledge levels of auditors as compared to corporate managers on duties of auditors.

[2] Deficient performance – the gap between the expected standard of performance of auditors' existing duties and auditors' perceived performance, as expected and perceived by the corporate managers.

pectation gap in the Porter's model, exists between the auditors and managers in Malaysia. It is hoped that the empirical evidence collected in the study will contribute a new insight into the audit expectation gap and enable future steps to be conducted to narrow the gap in a more comprehensive and rational basis.

The remainder of this paper is organized into four major sections. The first section summarizes the literature on audit expectation gap. The second section discusses the research methodology. The third section presents the results and implications. Finally, the concluding section summarizes the findings, highlights the limitation of the study and suggests directions for future research.

The Local Auditing Context in Malaysia

The Companies Commission of Malaysia regulates all companies which include public listed and private limited companies incorporated under the Malaysian Companies Act 1965 (MCA 1965). Section 169 (4) of the Companies Act 1965 requires every company incorporated under the Act to have its financial statements to be audited before they are presented at the annual general meeting. Section 9 of the Act further requires that the audit must be performed by an approved company auditor as defined under Section 8 of the Act. The Malaysian auditors are required to follow the Malaysian Approved Standards on Auditing (MASA) in the conduct of their audits. Any breach of or failure to comply with MASA could be considered as conduct discreditable to the profession, hence this could lead to disciplinary action against the auditors (Arens et al. 2003).

Prior Studies on Audit Expectation Gap

The audit expectation gap research literature is extensive. A significant number of studies have been conducted in many countries to investigate the nature and the extent of an audit expectation gap through the use of questionnaire survey. The aims for conducting these studies are to elicit the actual and the perceived roles and responsibilities of auditors and to identify the contributing factors of the expectation gap (Koh and Woo 1998).

Wa and Selva (1993) conducted a questionnaire survey to investigate the auditees' perceptions of their external auditors in Hong Kong. The research finds significant differences in expectation with regard to auditors' duties and responsibilities between auditors and auditees in Hong Kong. The study indicates that the auditees believe that the auditors are the best people to detect fraud and irregularities, despite the fact that auditees have been explicitly informed in the engagement letter, that the duty for the detection of fraud and irregularities rest with the management. This study also shows that an unqualified report has been perceived quite differently between the auditees and the auditors. This difference in perception of an unqualified audit report suggests that auditees do not understand the role of audit and work performed by auditors. For example, unqualified report implies the absence of fraud and error, future viability of the company, and efficiency and effectiveness of the management.

Porter (1993) study finds that 50 percent of the audit expectation gap in New Zealand is due to deficient standards, 34 percent is caused by society holding unreasonable expectations of auditors, and 16 percent is from perceived sub-standard performance by auditors. Humphrey et al. (1993) confirm the existence of an audit expectation gap in the UK. The critical components of the expectation gap include: i) the auditor's role with respect to fraud detection; ii) the auditor's responsibility to third parties; iii) the issues in balance sheet valuation; iv) the threats of auditors' independence, and; iv) the conduct of audit work in relation to the auditors' ability to cope with risk and uncertainty.

Low et al. (1988) conducted a survey to examine the perception of the auditors and financial analysts on the objectives of company audit in Singapore. The research reveals that there is an expectation gap between the auditors and financial analysts in the following areas: i) prevention of fraud, ii) guarantee of the accuracy of financial information, and iii) effectiveness in utilizing the government grants and levies. A later study conducted by Best et al. (2001) in Singapore finds that an audit expectation gap mainly exists in: i) the auditor's responsibilities for the detection and prevention of fraud, ii) the auditor's responsibilities in maintaining the accounting records and their judgment in the selection of auditing procedures.

Epstein and Geiger (1994) conducted a survey on various financial reporting issues among investors. The survey finds that: i) an expectation gap exists between auditors and investors on the level of assurance an audit provides, and ii) investors seek very high levels of financial statement assurance. Consistent with Epstein and Geiger's findings, McEnroe and Martens (2001) survey on individual investors also finds that investors have higher expectation in relation to: i) fraud and errors, ii) the effectiveness of internal control of the company, iii) disclosure in the accounting reports, and iv) illegal operations in the company.

At this point, the only published audit expectation gap study in Malaysia is Fadzly and Ahmad (2004). Based on the survey instrument of Best et al. (2001) and Schelluch (1996), this study examines the audit expectation gap in Malaysia among auditors and major users of financial statements: bankers, investors, and stockbrokers. The study focuses on the positive view of the expectation gap, which compares auditors' and users' perceptions on the duties of auditors. The study reveals that audit expectation gap exists in Malaysia, particularly on issues concerning auditor's responsibility. A wide gap found is regarding the auditor's responsibilities in fraud detection and prevention, preparation of financial statements and accounting records, and internal control. Overall, the findings in Malaysia are consistent with the previous study of Best et al. (2001) and Schelluch (1996).

The current study aims to complement the study of Fadzly and Ahmad (2004) on audit expectation gap in Malaysia by examining whether there is a "knowledge gap" and "deficient performance gap." The investigation of "knowledge gap" is important to complement the findings of audit expectation gap in Malaysia because research (e.g. Bailey et al. 1983; Epstein and Geiger 1994; Monroe and Woodliff 1993) find that the knowledge of users influence the size of the expectation gap. Such findings is also consistent with the assertion that expectations are derived from perceptions, which can be thought of the cognitive process by which individual give meaning to the environment (Ivancevich and Matteson 1987). Many factors can affect perception, for example knowledge gained from past experience and education, working experience and management position in the organization (Dearborn and Simmon 1958). Therefore, in order to have a comprehensive understanding of the existence of the audit expectation gap in Malaysia, the "knowledge gap" needs to be examined. Based on the model of Porter (1993), the "deficient performance gap," a component of audit expectation gap is also examined in this study. The "deficient performance gap" is examined because it reveals the level of satisfaction on work performed by the auditors. Such information will be very useful to the auditing profession as it enables the audit profession to improve on the areas that are perceived to be underperformed.

Research Methodology and Design

A survey is conducted in Klang Valley among the auditors and corporate managers to investigate the existence of the "knowledge gap" and the "deficient performance gap." The following hypotheses are tested:

The knowledge gap

H_0: *There is no association between auditors' and corporate managers' knowledge on the existing duties of auditors*

H_1: *There is an association between auditors' and corporate managers' knowledge on the existing duties of auditors*

The deficient performance gap

H_0: *There is no association between auditors' and corporate managers' perception on the quality of the performance of the auditors.*

H_1: *There is an association between auditors' and corporate managers' in perception on the quality of the performance of the auditors.*

Sample Selection

Using convenience sampling methodology, 200 questionnaires were handed to auditors and corporate managers in Malaysia. The corporate managers are used in the study because based on agency theory, the corporate managers are acting as an agent to manage the funds entrusted by the principals, and the auditors are employed to monitor the information provided by the managers to the principals (Fama and Jensen 1983). As such, the corporate managers are playing a significant role in the financial reporting system. In addition, not many research of audit expectation gap focused on corporate managers, therefore it is hoped that the findings from this study can contribute to the existing audit expectation gap literature.

Survey Instruments

The questionnaire in this study covers 26 items related to the legal requirements of auditors in Malaysia (section 174 of Malaysian Company Act 1965), the Malaysian Approved Standards on Auditing (MASA) and the duties of auditors suggested in the study of Porter (1993) which focused on the following roles: i) auditors as guarantors of the accuracy of a company's financial statements and/or its solvency, ii) auditors giving early warning of company failure, iii) auditors detecting fraud and reporting it to shareholders, iv) auditors discovering and disclosing illegals, and v) auditors reporting matters of concern to regulatory authorities.

Section (A) of the questionnaire is used to gather personal information from the respondents for demographic analysis, and Section (B) is used to investigate the "knowledge gap" and the "deficient performance gap" on the duties of the auditors. The questions in Section (B) comprise of two parts. The respondents will be asked to answer "Yes," "Uncertain" or "No" on the questions whether the duties are existing duty of an auditor. The objective is to test whether there is a "knowledge gap" between the auditors and corporate managers. If the respondents choose "Yes," the respondents are required to choose from a scale of 1 (poorly) to 5 (excellent) to indicate how well the auditors have the performed the duties. This is to determine the "deficient performance gap" between the auditors and corporate managers.

Statistical methods

To analyze the "knowledge gap" between auditors and corporate managers, the descriptive analysis, cross-tabulation analysis, chi-square test and t-test are applied. The respondents are required to answer "Yes," "Uncertain" or "No" on the questions whether each of the duties stated is an existing duty of an auditor. The answer for "Yes" is coded as "+1," the answer for "Uncertain" is coded as "0," and "No" is coded as "-1." The "knowledge gap' is summarized using mean, standard deviation and cross-tabulation on each of the questions asked. The hypothesis is analyzed using the chi-square on each of the questions asked and t-test is used to determine the overall existence of “knowledge gap.”

To test the second hypothesis on “deficient performance gap” between the auditors and managers; descriptive analysis, Mann-Whitney test and t-test are used. The respondents will rate the performance of the auditor from a scale of 1 (poor) to 5 (excellent) for each duty stated if the respondents believed that the duty is an existing duty of the auditor. However, the analysis of the performance of the auditors will be based only on the actual existing duties required by the Malaysian Company Act 1965 and Malaysian Approved Standards on Auditing (MASA). The responses for non-existing duties of the auditors will be ignored because the duties are not required by the Company Act and Auditing Standards. Thus, only the mean and standard deviation of the responses on the actual existing duties will be tabulated. The hypothesis is analyzed using the Mann-Whitney Test and the overall existence of the “deficient performance gap” will be tested using the t-test on the existing duties of auditors.

Findings and Discussions

Demographic of Respondent Groups

The survey questionnaires were handed to 100 auditors and 100 corporate managers. Response rate from the two groups and other demographic details are shown in Table 1 and Table 2. The results from Table 1 indicate that an overall response rate of 59.5 percent is a creditable result for this type of data collection method. Table 1 shows that 95.8 percent of the corporate managers do not have qualification and working experience in relation to accounting and auditing. However, 66.7 percent of the corporate managers have more than 10 years of working experience in the current position. On the other hand, 46.8 percent of the auditors are in the current position for more than 10 years and all the auditors have an accounting qualification. Thus, a fair understanding on the

Table 1. **Demographic of Respondents**

Subject Group	**No of survey sent**	**Responses received**		**Auditing experience**		**Accounting qualifications**	
		n	**%**	**Yes**	**No**	**Yes**	**No**
Auditors	100	47	47	47	-	47	-
Corporate managers	100	72	72	3	69	3	69
Total	200	119	59.5	50	69	50	69

Table 2. **Occupational Experience of Respondents**

	Working Experience				**Total**
	1-5 years	**6-10 years**	**11-15 years**	**>15 years**	
Manager	8 11.1%	16 22.2%	27 37.5%	21 29.2%	72 100.0%
Auditor	12 25.5%	13 27.7%	11 23.4%	11 23.4%	47 100.0%
Total	20 16.8%	29 24.4%	38 31.9%	32 26.9%	119 100.0%

work performed by the auditors could be expected from both types of respondents.

Knowledge Gap Analysis

Included in the 26 duties asked in the questionnaire, only 7 of the duties are required by the MASA and MCA (1965). These are shown in Table 3, together with the means and standard deviation of the responses for both respondent groups. The analysis of Table 3 suggests that overall both respondent groups recognize the existing duties of auditors required by the MASA and MCA (1965). However, the smaller absolute values of the means responses from the corporate managers indicate that, in general, the corporate managers are less accurate than the auditors in recognizing the existing duties of auditors.

The mean value of "1" from the responses of the auditors in relation to Q3, Q6, Q8, and Q17 in Table 3 implies that all auditors recognize these as the existing duties of auditors. However the value of mean for Q13, Q14 and Q21 is less than "1." This suggests that some of the auditors fail to recognize these as the existing duties of auditors. The cross tabulation analysis in Table 5 indicates that one of the auditors fail to recognize Q13 and Q21 as an existing duty of auditors and two auditors fail to recognize for Q13. Overall, the number of auditors that fail to recognize the existing duties of auditors is relatively small and this indicates that the Malaysian auditors are generally knowledgeable with regard to their existing duties.

The analysis of Table 4 indicates that overall, the auditors manage to recognize all of the 19 duties that are not required by the MASA and MCA (1965). However, a small number of auditors, as indicated by mean less than "-1" in Table 4, fail to recognize that Q5, Q7, Q9, Q10, Q11, Q12, Q15, Q18, Q19, Q22, Q23, Q24 and Q25 are the non-existing duties of auditors. Based on the results indicated in Table 4, it reveals that some auditors are confused particularly on their duties to report to the regulatory authority. The

MASA on fraud and error, AI700 Para 24, states that auditors should maintain confidentiality on irregularities found to a third party unless the duty is overridden by statute, law or by courts of law. It is stipulated in the MCA (1965) that the auditors should report to the Registrar on any breach or non-observance of any provision of the MCA (1965) unless they are unable to deal adequately by commenting in the audit report or bring the matter to the notice of the directors [MCA 174(8)(b)]. Therefore based on MASA and MCA (1965), it is generally believed that auditors have no specific legal responsibility to report breach or non-observance insofar as they believe the matter could be resolved through the ways specified in section 178(8)(b).

Table 3. **The Mean and Standard Deviation Values of Respondents on Existing Duties of Auditors**

	Position of the Respondents			
	Manager, N=72		Auditor, N=47	
	Mean	Std. Deviation	Mean	Std. Deviation
Q3. State whether financial statements fairly reflect the company's affairs	1.00	.000	1.00	.000
Q6. Express doubts in the audit report about the company's continued existence	.92	.325	1.00	.000
Q8.Detect deliberate distortion of financial information	.78	.481	1.00	.000
Q13. Disclose in the audit report misappropriation of company assets by company directors/senior management	.71	.568	.94	.323
Q14. Disclose in the audit report deliberate distortion of financial statements	.76	.489	.91	.408
Q17. Disclose in the audit report illegal acts which directly affect the company's accounts	.83	.475	1.00	.000
Q21. Examine the company's internal control	.35	.675	.91	.351

Table 4. **The Mean and Standard Deviation Values of Respondents Non-Existing Duties of Auditors**

	Position of the Respondents			
	Manager, N=72		Auditor, N=47	
	Mean	Std. Deviation	Mean	Std. Deviation
Q1. Prepare the auditee company's financial statements	-1.00	0.000	-1.00	0.000
Q2. Guarantee audited financial statements are accurate	0.17	0.839	-1.00	0.000
Q4. Guarantee the auditee company is solvent	0.50	0.751	-1.00	0.000
Q5. Report privately to a regulatory authority doubts about the company's continued existence	0.69	0.620	-0.98	0.146
Q7. Report breaches of tax laws to the IRB 0.204		0.46	0.691	-0.96
Q9. Report privately to a regulatory authority theft of corporate assets by non-managerial employees	0.00	0.671	-0.98	0.143
Q10. Report to a regulatory authority on misappropriation of company assets by company director/senior management	0.62	0.542	-0.96	0.204
Q11. Report privately to a regulatory authority on deliberate distortion of financial statements	0.57	0.668	-0.96	0.204
Q12. Disclose in the audit report theft of corporate assets by non-managerial	0.21	0.821	-1.00	0.000
Q15. Report privately to a regulatory authority suspicions of fraud	0.64	0.589	-0.72	0.498
Q16. Detect illegal acts by company officials which do not directly affect the company's accounts	0.08	0.884	-1.00	0.000
Q18. Disclose in the audit report illegal acts which do not directly affect the company's accounts	-0.29	0.777	-0.96	0.292

Continued from Table 4

	Position of the Respondents			
	Manager, N=72		Auditor, N=47	
	Mean	Std. Deviation	Mean	Std. Deviation
Q18. Disclose in the audit report illegal acts which do not directly affect the company's accounts	-0.29	0.777	-0.96	0.292
Q19. Report privately to a regulatory authority illegal acts uncovered in the company	0.17	0.671	-0.91	0.351
Q20.Examine and report on the fairness of non-financial information	0.33	0.671	-1.00	0.000
Q22. Examine and report on the efficiency and effectiveness of the company's management	0.14	0.698	-0.98	0.146
Q23. Audit published quarterly company reports	-0.31	0.573	-0.96	0.204
Q24. Examine and report on the fairness of financial forecasts	-0.46	0.670	-0.98	0.146
Q25.Consider and report on the company's impact on its local community	-0.81	0.432	-0.96	0.204
Q26. Verify every transaction of the auditee company	-0.46	.768	-1.00	.000

In view of the complication in MASA and MCA (1965) in relation to the controversial issue of reporting irregularities to regulatory party, some confusion among auditors could be expected.

The corporate managers fail to recognize 13 out of the 19 non-existing duties of the auditors. They are stated in Q2, Q4, Q5, Q7, Q10, Q11, Q12, Q15, Q16, Q19, Q20 and Q22 in Table 4 The value of mean is "0" in Q9 because 16 corporate managers have answered "yes," 40 have answered "uncertain" and 16 have answered "no." This is shown in the cross tabulation analysis in Table 5. Overall, the corporate managers recognize the existing duties of auditors but they fail to recognize duties that are not required by MCA (1965) and MASA. The results imply that the corporate managers have limited knowledge about the actual duties of auditors. As a conse-

Table 5. **The Cross Tabulation and The Chi-Square Test Statistics on Existing Duties of Auditors**

	Position of the Respondents						Chi-Square Test Statistics
	Manager, N=72			Auditor, N=47			
	Yes	No	Uncertain	Yes	No	Uncertain	
Q3. State whether financial statements fairly reflect the company's affairs	72	0	0	47	0	0	Cannot be calculated
Q6. Express doubts in the audit report about the company's continued existence	67	4	1	47	0	0	Not significant
Q8. Detect deliberate distortion of financial information	58	12	2	47	0	0	10.357*
Q13. Disclose in the audit report misappropriation of company assets by company directors/ senior management	55	13	4	45	1	1	8.195**
Q14. Disclose in the audit report deliberate distortion of financial statements	57	13	2	45	0	2	9.583*
Q17. Disclose in the audit report illegal acts which directly affect the company's accounts	63	6	3	47	0	0	6.356**
Q21. Examine the company's internal control	33	31	8	44	2	1	28.507*

***** Significant at 1% significance level**,**
******Significance at 5% significance leve1**,**
******* Significant at 10% significance level

Table 6. **The Cross Tabulation and The Chi-Square Test Statistics on Non-Existing Duties of Auditors**

	Position of the Respondents						Chi-Square Test Statistics
	Manager, N=72			Auditor, N=47			
	Yes	No	Uncertain	Yes	No	Uncertain	
Q1. Prepare the auditee company's financial statements	0	0	72	0	0	47	Cannot be calculated
Q2. Guarantee audited financial statements are accurate	32	20	20	0	0	47	60.289*
Q4. Guarantee the auditee company is solvent	47	14	11	0	0	47	81.699*
Q5. Report privately to a regulatory authority doubts about the company's continued existence	56	10	6	0	1	46	92.985*
Q7.Report breaches of tax laws to the IRB	41	23	8	0	2	45	82.876*
Q9. Report privately to a regulatory authority theft of corporate assets by non-managerial employees	16	40	16	0	1	46	65.542*
Q10. Report to a regulatory authority on misappropriation of company assets by company director/senior management	47	23	2	0	2	45	103.287*
Q11. Report privately to a regulatory authority on deliberate distortion of financial statements	48	17	7	0	2	45	86.162*
Q12. Disclose in the audit report theft of corporate assets by non-managerial	33	21	18	0	0	47	64.535*

Continued from Table 6

	Position of the Respondents						Chi-Square Test Statistics
	Manager, N=72			Auditor, N=47			
	Yes	No	Uncertain	Yes	No	Uncertain	
Q15. Report privately to a regulatory authority suspicions of fraud	50	18	4	1	11	35	71.304*
Q16. Detect illegal acts by company officials which do not directly affect the company's accounts	31	16	25	0	0	47	50.708*
Q18. Disclose in the audit report illegal acts which do not directly affect the company's accounts	14	23	35	1	0	46	31.917*
Q19. Report privately to a regulatory authority illegal acts uncovered in the company	23	38	11	1	2	44	70.213*
Q20.Examine and report on the fairness of non-financial information	32	32	8	0	0	47	90.392*
Q22. Examine and report on the efficiency and effectiveness of the company's management	23	36	13	0	1	46	72.514*
Q23. Audit published quarterly company reports	4	42	26	0	2	45	42.052*
Q24. Examine and report on the fairness of financial forecasts	7	25	40	0	1	46	25.443*
Q25.Consider and report on the company's impact on its local community	7	25	40	0	1	46	4.996***
Q26. Verify every transaction of the auditee company	1	12	59	0	2	45	22.798*

***** Significant at 1% significance level
******Significance at 5% significance leve1
******* Significant at 10% significance level

Table 7. **T-Test on "Knowledge Gap"**

Group Statistics

	Position of the respondents	N	Mean	Std. Deviation	Std. Error Mean
index	manager	72	62.7137	10.18904	1.20079
	auditor	47	27.8232	2.56292	0.37384

Independent Samples Test

		t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
index	Equal variances assumed	22.975	117	.000	31.88287	1.51863

quence, they are likely to expect the auditors to perform more than the actual requirement. Thus, the misconception is likely to cause an unreasonable expectation on the duties of the auditors.

The chi-square analysis in Table 5 indicates significant difference in knowledge of auditors and corporate managers on five of the existing duties of auditors (i.e. Q8, Q13, Q14, Q17 and Q21). Similarly, in Table 6 on non-existing duties of auditors, except for duties stated in Q1 and Q25, the chi-square analysis shows significant difference in knowledge between the auditors and corporate managers. An independent sample t-test was conducted to evaluate the hypothesis on "knowledge gap." The t-test in Table 7 [t (117)=22.975, p=0.00] further confirms the existence of the "knowledge gap."

Deficient Performance Gap Analysis

Porter (1993) defines "deficient performance gap" as the expected standard of performance of auditors' existing duties and auditors' perceived performance, as expected and perceived by the public. Based on the Porter's model, the "deficient performance gap" is a component of audit expectation-performance gap. The information on deficient performance gap is important to the auditing profession as it reveals the level of satisfaction among auditees and audit beneficiaries.

The analysis of mean values in Table 8 on auditors' performance shows that most of the auditors rate their performance above the satisfactory level. This is indicated in the mean value of more than 3 on all the existing duties of auditors. However

Table 8. **The Mean and Standard Deviation Values of Respondents on Performance on Existing Duties of Auditors**

	Position of the Respondents				Mann-Whitney Test
	Manager N=72		Auditor N=47Mean		
	Mean	Std. Deviation	Mean	Std. Deviation	
Q3. State whether financial statements fairly reflect the company's affairs	4.11	0.797	4.11	0.634	Not significant
Q6. Express doubts in the audit report about the company's continued existence	3.33	1.006	4.04	0.550	952.500*
Q8.Detect deliberate distortion of financial information	3.02	0.982	3.79	0.75	784.000*
Q13. Disclose in the audit report mis-appropriation of company assets by company directors/senior management	2.96	1.053	3.91	0.417	597.500*
Q14. Disclose in the audit report deliberate distortion of financial statements	3.11	1.129	4.07	0.751	686.000*
Q17. Disclose in the audit report illegal acts which directly affect the company's accounts	2.97	1.062	3.87	0.536	761.500*
Q21. Examine the company's internal control	2.91	0.765	3.73	0.694	333.000*

***** Significant at 1% significance level**, ****Significance at 5% significance leve1**,**
******* Significant at 10% significance level

Table 9. **T-Test on “Deficient Performance Gap”**

Group Statistics

	Position of the respondents	N	Mean	Std. Deviation	Std. Error Mean
Index	manager	72	12.5000	24.22261	2.85466
	auditor	47	64.0578	26.36475	3.84569

Independent Samples Test

		t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
index	Equal variances assumed	-10.960	117	.000	-51.55775	4.70436

the smaller mean values (i.e. <3) from the corporate managers show that the corporate managers are relatively less satisfied as compared to the auditors on the performance of the auditors. The dissatisfaction is particularly evident on existing duties stated in Q13, Q17 and Q21 where the mean value is less than “3.” The results reveal that corporate managers find deficiency in performance of auditors in relation to: i) disclosing the misappropriation of company assets which is done by company directors or senior management, ii) disclosing the illegal acts encountered during the audit which directly affect the company’s accounts in the audit report, and iii) to examine the company’s internal control.

The analysis of Mann-Whitney test in Table 9 shows the difference between auditors’ and corporate managers’ ratings on the performance of the auditors on the existing duties required by MASA and MCA (1965). The findings show that all existing duties except for duty stated in Q3, are rated significantly different between auditors and corporate managers. Likewise, the analysis of t-test in Table 9 shows that the corporate managers rated the performance of auditors (mean = 12.50) much lower than those rated by the auditors themselves (mean = 64.06). The existence of the “deficient knowledge gap” between the auditors and corporate managers is confirmed in the analysis where t (117) =-10.96, p=0.00**.** The existence of “deficient knowledge gap” implies that the Malaysian auditors generally regard the work performed by them at a higher standard as compared to the corporate managers.

Limitation

The study suffers the following limitations. The number of respondents in this study is limited to only 200 respondents (i.e. 100 auditors and 100 corporate managers) in the area of Klang Valley. More compelling evidence might have been obtained if the study manages to use a larger respondent group in the whole of Malaysia. While the response rate is credible, the risk of non-response bias remains.

The survey instruments were based on MASA, MCA (1965) and the suggested duties of auditors in Porter's (1993) study in New Zealand. The survey instruments were developed and data was collected before the implementation of the Anti-Money Laundering Act (2001) (AMLA) in 30 September 2004. The AMLA (2001) requires auditors to report to the Bank Negara if the auditors suspect or detect any suspicious transactions or unlawful activities in the clients' business. In view that the research was done before the AMLA (2001) is enforced; thus, the duties stated in Q15, Q18, Q19 are not considered as the existing duties of auditors for the purpose of this study. As a result, for a better reflection of the current situation, an additional research on the new duties of auditors is strongly encouraged.

Conclusion

The current study aims to complement the previous study of audit expectation gap in Malaysia by investigating whether there is a "knowledge gap" and "deficient performance gap." The investigation of "knowledge gap" is important in complementing the finding of audit expectation gap in Malaysia as the knowledge of the users will influence the size of the expectation gap. The "deficient performance gap," a component of audit expectation-performance gap (Porter 1993), is examined because it reveals the level of satisfaction on work performed by the auditors. The findings in the study will be very useful to the auditing profession as it contributes a new insight into the audit expectation gap in Malaysia, which in turn will enable future steps to be taken in a more comprehensive and rational basis to narrow the gap.

The results of the study show that both "knowledge gap" and "deficient performance gap" exist in Malaysia. The analysis of "knowledge gap" reveals that the Malaysian auditors are knowledgeable in their duties, although a small number of auditors are in error or uncertain in certain duties. In contrast, the corporate managers fail to recognize most of the non-existing duties of auditors. The corporate managers who are less knowledgeable on the duties of the auditors are likely to have misconception about auditing and unreasonable expectations of the auditors. Hence, the existence of "knowledge gap" between auditors and corporate managers would in turn provide a reason for the existence of audit expectation gap in Malaysia. The analysis of the "deficient performance gap" indicates that corporate managers find sub-standard performance on certain duties performed by the auditors. The existence of "deficient performance gap" also implies that the Malaysian auditors perceive the work performed by them at a higher standard as compared to the corporate managers. The information on "deficient performance gap" will be very useful to the auditors as it enables them to improve on the areas that have been perceived as sub-standard.

The existence of both "knowledge gap" and "deficient performance gap" are detrimental to the auditing profession as they will cause unreasonable expectation and dissatisfaction on works performed by the auditors. As such, the auditing profession and the accounting regulatory authorities in Malaysia should take reasonable steps to safeguard the value of auditing and to improve the reputation of auditors. Educating the users through better communication would be useful to correct the misconceptions about auditing which in turn could reduce the "knowledge gap" and the "deficient performance gap."

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