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Stakeholders' Perception on Auditors' Role and Its Impact on Audit Expectation Gap with Special Reference to Licensed Commercial Banks in Sri Lanka

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ABSTRACT

Purpose: This study was conducted to understand the stakeholder perception on auditors' role and its impact on audit expectation gap.

Design/Methodology/Approach: A sample of 457 shareholders, employees, customers, and auditors from different licensed commercial banks were selected for the study using the convenience sampling method. Information collected through questionnaires was analyzed using descriptive analysis and Mann Whitney U test.

Findings: The study revealed an audit expectation gap between auditors and the shareholders; the auditors and customers; and auditors and employees in the areas of audit responsibility, the usefulness of audited financial statements, audit education, and providing non-assurance services. However, this gap was not significant with regard to audit reliability among auditors and employees.

Practical Implication: The main reason behind this gap is the lack of proper education and understanding of the audit standards and audit practices. This gap can be reduced by giving adequate knowledge and awareness of audits to the stakeholders and the users of financial statements in general.

Limitations: The study considered the stakeholders of licensed commercial banks in Sri Lanka, whereas there are so many other financial institutions registered under the Central bank of Sri Lanka.

KEYWORDS

Audit expectation Gap, Stakeholders, Audit Education, Stewardship, Agency Relationship, Sri Lanka

JEL CLASSIFICATION

I. Introduction

Not like past decades, in this 21st century stakeholders of the organizations such as customers, employees, competitors, creditors, government, and the society are more concerned about the organizations and their performance than before. The reason for having an interest in the organization and its performance is different according to each stakeholder and their expectations from the organization and the amount of interest that they have in the organization.

In today's business world, most of the successful reputed organizations are private or public limited companies. Among those companies the owners or the shareholders and the management are two different parties, Therefore, an agency relationship is formed between the owners and the management of the organization, because the managers are acting like the agents of the principles and managing and using the shareholders i.e., owners fund to generate profits to enhance the shareholder's wealth. As a result of this agency relationship, managers are accountable to the shareholders. Therefore, the responsibility is kept with the managers and the Board of Directors to prepare the financial statements for every financial year and communicate to the shareholders about each year's performance. Thus, the managers are acting like the agents of principles there should be a conflict of interests between managers and shareholders. Because of this the owners of the organizations need clarifications from an independent third party, regarding the financial statements

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prepared by the management and the Board of Directors in accordance with the Sri Lanka Financial Reporting Standards & Sri Lanka Accounting Standards (SLFRS & LKAS) whether these financial statements are free from material misstatements, do they provide a true and fair view or not, also this is a statutory requirement under the provisions of companies act no 07 of 2007 in Sri Lanka. Therefore, the shareholders go for an external audit to ensure the financial information provided by financial statements are correct i.e. The financial statements give a true and fair view, and they are not materially misstated, which are used by not only owners but also different stakeholders such as customers, creditors, regulatory and government authorities, policymakers, employees to make their economic decisions.

When providing assurance services to their respective client, auditors are only capable and responsible to provide an opinion on the financial statements prepared by the management or board of directors, whether those financial statements give a true and fair view or not. But shareholders and stakeholders expect many more things from the auditors rather than the expression of an opinion, because of this an audit expectation gap is formed. The accounting profession has long faced the issue of an audit expectations gap; being the gap between the quality of the profession's performance, its objectives, and results, and that which society expects (Ali et al., 2007). In the broadest sense, the discipline of accounting includes auditing. However, accounting can be described as measuring and reporting the effects of the economic activities of individual entities.

The Cohen Commission (1978) on auditors' responsibilities, states that auditing, on the other hand, involves an independent examination to determine the propriety of accounting processes, measurements, and communication. Consequently, with the collapse of giants like Enron and WorldCom, innumerable changes have commenced in the guiding construction of statutory auditing since the enactment of the Sarbanes–Oxley Act in 2002, with the goal to reinstate confidence in the audit of financial statements (Akther & Xu, 2020). Also with the recent collapse of the Edirisinghe Trust Investments in Sri Lanka, the expectations of stakeholders are getting higher and the role of the auditors and their responsibility on financial statements remain unchanged, because of this a severe audit expectation gap is created and throughout this study, it is supposed to evaluate the factors that lead to creating audit expectation gap, what are the ways to reduce the audit expectation gap and what are the possible ways of reducing the expectation gap to uplift the stakeholders' confidence on the auditors and the audited financial statements among the stakeholders of commercial banks in Sri Lanka.

Recently, around the world so many corporate collapses had happened including in Sri Lanka Edirisinghe Trust Investment (ETI), The stakeholders of the bankrupted companies claimed that the auditors are directly responsible for those failures, auditors are responsible for the prevention and detection of frauds, preparation of accurate financial statements and all. (Samaraweera et al., 2021) Therefore, this study is conducted to understand and differentiate the auditor's responsibility and the managers' responsibility and what are the causes that lead to the creation of this expectation, gap and possible ways to reduce or eliminate this expectation gap.

This study is mainly focused on how the stakeholder's perception of the auditor's role affects the audit expectation gap among Licensed Commercial Banks in Sri Lanka. The study was conducted to find out answers for the research question, 'what are the causes and factors that crate an audit expectation gap between auditors and stakeholders (i.e., shareholders, employees, and customers) of licensed commercial banks in Sri Lanka in the aspects of audit responsibility, reliability, decision usefulness of audited financial statements, audit education and providing non-assurance services?'

Users of the audit report often have a misconception or misunderstanding of the audit deliverables. The ultimate objective of the audit report is to provide an opinion regarding the financial statements prepared by the management whether those financial statements give a true and fair view or not. The outcome of the study can be used by the auditors to mitigate the expectation gap by communicating with management and stakeholders about the purpose of appointing auditors and the responsibility of the auditors and management regarding the financial statements at the planning stage through an engagement letter. On the other hand, the stakeholders can use these outcomes to distinguish between the auditor's responsibility and management's responsibility regarding financial statements and what are the things that can be done by auditors and suppose to do so, and policymakers and standers setters can also use the outcome of this study.

According to the Central Bank of Sri Lanka, there are 24 local and foreign licensed commercial banks and 6 licensed specialized banks, among those 30 banks which are regulated by the Central bank of Sri Lanka I have only taken the licensed commercial banks. There are several stakeholders who are interested in business for the sake of different purposes but in this study, we only considered about three major stakeholders who are very important for the going concern of each organization, they are owners or shareholders, employees, and the customers.

The rest of the sections in this paper are structured as follows. A brief discussion of the literature and hypotheses development in the proceeding section. Section 3 discusses the methodology, and the empirical findings and conclusions of the study are presented in sections 4 and 5, respectively.

II. Literature Review and Hypotheses Development

Today accounting and auditing profession has been questioned what it is and what it is for. In the broadest sense, the discipline of accounting includes auditing. However, accounting can be described as measuring and reporting the effects of the economic activities of individual entities. Auditing, on the other hand, involves an independent examination to determine the propriety of accounting processes, measurements, and communication. Stated simply, the accountant prepares financial information; the auditor checks it. This distinction, however, cannot be made in practice. To perform his function, the auditor must continually evaluate accounting activities and presentations; he must be and is, trained as an accountant and an auditor. This joint nature extends to the profession. The term "accounting profession" is generally considered to embrace public accountants-those who offer their services to a variety of clients rather than to one employer. The primary function of public accountants is auditing according to The Cohen Commission (1978) on auditors' responsibilities.

The need for companies' financial statements to be audited by an independent external auditor has been a cornerstone of confidence in the world's financial systems. The benefit of an audit is that it provides assurance that management has presented a 'true and fair' view of a company's financial performance and position. An audit underpins the trust and obligation of stewardship between those who manage a company and those who own it or otherwise have a need for a 'true and fair' view (PwC, 2013). The audit has a clearly identified (and statutory) purpose which is to provide an independent opinion to the shareholders on the truth and fairness of the financial statements that are prepared by the board of directors. (Stakeholders Expectation on Audit, 2008). Statutory auditing is defined as a practice involving the organized production of statements (i.e., opinions) regarding the financial reports of some companies by a person or persons officially recognized by a state or government as being competent to carry out such audits (Baker, 2014).

Statutory auditing can be distinguished from the overall practice of public accountancy in that statutory auditing focuses on audits mandated by law and regulated by the state. While the avowed purpose for the regulation of statutory auditing is to protect the public interest, the way in which this purpose has been organized and articulated has varied from country to country (Baker, 2014).

All over the auditor's role is to express an opinion on financial statements, where the responsibility for preparation and presentation lies with the board of directors or the management of an organization, who are different and distinct from the owners and the interest and the objectives of the owners. Therefore, an agency relationship will arise. The users of financial statements, which means stakeholders expect more than the auditors can give. Therefore, a gap arises between stakeholders' expectations and the auditor's performance. Although users' expectations are generally reasonable, many users appear to misunderstand the role of the auditor and the nature of the service he offers. Therefore, it is recommended several changes are designed to improve communication of the auditor's work and of the respective roles of management and the auditor. As per The Cohen Commission (1978) on auditors' responsibilities, burden of narrowing the gap between performance and expectations falls primarily on auditors and other parties involved in the preparation and presentation of financial information.

Stakeholders are individuals or groups who have an interest in an organization's ability to deliver intended results and maintain the viability of its products and services. Stakeholders are very vital to a firm's mission and vision. And, firms are usually accountable to a broad range of stakeholders, including shareholders, who can make it either more difficult or easier to execute a strategy and realize its mission and vision. (Everett, 1986)

Accounting standards set out the requirements for the recognition, measurement, presentation and disclosure of transactions and events that are important to the financial statements. For example, International Financial Reporting Standards (IFRS) are issued by the International Accounting Standards Board (IASB) (PwC, 2013).

The annual report is a report issued by a company detailing its activities and financial performance during the preceding year. It includes the financial statements and may generally also include reports from those charged with governance (for example the chairperson of the board of directors), a review of the company's strategy and performance, information on risk management and governance, information for the shareholders and other information such as a corporate and social responsibility statement (PwC, 2013).

What specifically must be in the financial statements is governed by local law and regulation and standards such as international financial reporting standards, however, generally they must include a balance sheet (showing assets, liabilities, and equity), income statement, cash flow statement, and equity statement (showing changes in equity). These are typically also referred to as the primary statements. Usually, financial statements are accompanied by additional disclosures (PwC, 2013).

The auditor's appointment is generally and ultimately approved by the shareholders, but the auditors are paid by the company itself. The audit committee takes responsibility for overseeing the auditor's independence and performance, and for recommending to the company's highest governing body (typically the board) whether their reappointment should be put to the shareholders at an annual general meeting. The audit committee also reviews the audit fee to satisfy itself that it is competitive yet sufficient to ensure a proper quality audit can be performed. If a company is considering changing its auditors, the audit committee will take the central role, recommending to those charged with governance whether the auditor's appointment should be reassessed, and if so,

which other firm(s) should be considered for the role. This is typically conducted through a competitive tender process with multiple firms being considered. In addition to the audit committee's responsibility for reviewing the auditor's performance, there are several bodies such as regulators and standard setters who play a key role in the oversight of the audit profession and the monitoring of audit quality (PwC, 2013).

The expectation gap in audit is a topic that attracts attention: in any public debate about audit, the discussion soon turns to the expectation gap. This may give the impression that the expectation gap is a relatively new phenomenon. In fact, it has been an issue for nearly 50 years (Closing the Expectation Gap in Audit, n.d.). Liggio (1974a) defines it as the difference between the levels of expected performance as envisioned by the independent accountant and by the user of financial statements. The Cohen Commission (1978) on auditors' responsibility extended this definition by considering whether a gap may exist between what the public expects or needs and what auditors can and should reasonably expect to accomplish (Koh, 2014; Personal & Archive, 2006; Salehi, 2011; Siddiqui & Nasreen, 2009). There is a gap between society's expectations from the auditors and the performance or role of auditors. This is a prevalent matter in accounting and auditing. However, this gap has been accelerated by the collapse of Enron, WorldCom, Lehman Brothers, etc. which has left a severe effect on the reputation of auditors. Accounting and auditing are significant elements of any organization as they play key roles in the effective and efficient operation of an organization, capital markets, and the economy by adding reliability to financial information (Akther & Xu, 2020; Koh, 2014; Mojahid et al., 2018; Okafor & Otalor, 2013; Personal & Archive, 2006). Innumerable vicissitudes have commenced in the guiding construction of statutory auditing since the enactment of the Sarbanes Oxley Act (SOX) in 2002, where the goal was to reinstate confidence through the auditing of financial statements (Akther & Xu, 2020; Devi & Devi, 2014; Personal & Archive, 2006; Xu & Akther, 2019).

ACCA defines the expectation gap in audit in the broadest terms possible as 'the difference between what the public thinks auditors do and what the public would like auditors to do' (Closing the Expectation Gap in Audit, n.d.). They divided the expectation gap into three parts, defined and described as follows,

Knowledge gap

The 'knowledge gap' is the difference between what the public thinks auditors do and what auditors do. This recognizes a public misunderstanding about the audit and the auditor's role. Also, they indicate that the existence of a knowledge gap does not create a responsibility for auditors to do more.

Performance gap

The 'performance gap' focuses on areas where auditors do not do what auditing standards or regulations require. This could be because of insufficient focus on audit quality; the complexity of certain auditing standards; or differences in interpretation of auditing standards or regulatory requirements between practitioners and regulators. Audit firms are required to establish systems and processes to ensure quality in their engagements and the work done for the clients. As part of these processes, audit regulators regularly review files of completed audit engagements and audit reports to monitor that quality is being achieved.

Evolution gap

The 'evolution gap' exists in the areas of the audit where there is a need for evolution, taking into consideration the general public's demand, technological advances and how the overall audit process could be enhanced to add more value. Addressing the knowledge and performance gaps is, however, an important step in determining what needs to evolve in audit. This will help to avoid overregulation and inappropriate developments in auditing standards when the

real problems could be lack of knowledge or poor performance.

People consider about stakeholder expectations of audit in a broad sense, in practice, this can lead to confusion. Stakeholders have expectations both about what types of audited information organizations should provide and about the assurance aspects of audited information such as, what auditors do when they perform statutory audits, how they conduct those statutory audits. Hence stakeholder dissatisfaction might arise where expectations from either or both sets of expectations are not met (Stakeholders Expectation on Audit, 2008).

Accordingly, there are so many factors that affect and create the audit expectation gap and many past researchers have discussed the variables that affects and create the expectation gap, the significance of those identified variables, and the ways of mitigating the expectation gap to enhance the level of confidence of the information's that are provided by the financial statements to the various kind of stakeholders such as shareholders, employees, managers, suppliers, creditors, customers, banks and society as a whole.

Public confidence Is an important factor for the audit profession. When this confidence is damaged the auditor's function will have deteriorated. High morale and better ethics in the profession will help to re-establish the public faith in the audit profession (Mojahid et al., 2018). Accordingly, the audit profession is based on public confidence, if there is not any credence kept on the auditors' work there is no point in doing audits and incurring a significant amount as an audit fee.

Qualitative and regulatory changes in auditing; knowledge and methodological improvement in auditing and the expanded audit report will be able to reduce the expectation gap in auditing (Mojahid et al., 2018). Users have tremendous expectations regarding the auditor's role in fraud detection and countless researchers have revealed AEG in the areas of the auditor's responsibility for fraud detection (Akther & Xu, 2020).

Essentially, an auditor may function as an employee (internal auditor) or an independent professional (external auditor). Users of these entities' financial information, such as investors, government agencies, and the public, rely on the external auditor to present an unbiased and independent evaluation of such entities. safeguarding auditor's independence is a key priority not only for auditors but also for management and investors. In the global market of today, the government, creditors, institutional investors, lenders, regulators, stakeholders etc. rely on the information provided by the auditors on the credibility and reliability of the financial statements. Independence is fundamental to the credibility and reliability of an auditor's report and if the reports are not credible, the investor would have little confidence in them if auditors were not independent in both fact and appearance. (Issn et al., 2011). The result of previous research shows that the independence of an auditor affects the credibility of a financial statement. The purpose of an audit is to enhance the credibility of the financial statements by given reasonable assurance from an independent source that they present a true and fair view in accordance with an accounting standard. Independence is fundamental to the credibility and reliability of an auditor's report and if the reports are not credible, the investor would have little confidence in them if auditors were not independent in both fact and appearance. Simply it says that when the auditors maintain a high level of independence, they will be able to provide more accurate, credible, and reliable judgments where which will ultimately improve the reliability and the public confidence in financial statements which are prepared by the management or board of directors which will help to reduce the expectation gap (Akther & Xu, 2020; Issn et al., 2011; Xu & Akther, 2019). When auditors are involved in providing non-assurance services auditors' independence may be in threat in accordance with the

professional ethics and conducts (i.e., integrity, objectivity, professional competence and due care, confidentiality, and professional behavior) and it affects the audit expectation gap.

H_1: Auditors providing non-assurance services effect on audit expectation gap among stakeholders of licensed commercial banks in Sri Lanka

An expectation gap in Iran was found, particularly in relation to the extent and nature of auditors' responsibilities. The expectation gap was found to be particularly wide regarding the issue of auditors' responsibilities for fraud detection, soundness of the internal controls, and preparation of financial statements. To a lesser extent, an expectation gap was also found concerning auditors' responsibility for fraud prevention. No expectation gap was found regarding auditors' responsibilities for maintenance of accounting records, the exercise of judgment in the selection of audit procedures, and culpability in a fraud-related business failure and objectivity.

According to the viewpoint of bankers, an audit report has less importance, rather than a financial statement. Bankers have less attention to the audit reports. However, from the viewpoint of bankers and auditors, both have a higher belief that financial statements are very important. Both auditors and bankers have the same belief that the auditors are not responsible for the preparation of financial statements. Bankers said that the auditors are responsible for the prevention and detection of fraud whereas the auditors disagree with that statement. Moreover, the bankers have a strong belief that the auditors are more responsible for detecting illegal acts rather than managers (Salehi, 2016).

H_2: Audit responsibility affects audit expectation gap among stakeholders of licensed commercial banks in Sri Lanka

In addition to this, another small expectation gap was found the reliability of audits, audited financial statements, and usefulness of those audited financial statements and audits. These expectation gaps may result in a negative reputation for auditor's professions and some of these results in Iran are different from those of previous studies (Pourheydari & Abousaiedi, 2011)

H_3: Audit reliability affects the audit expectation gap among stakeholders of licensed commercial banks in Sri Lanka

H_4: Decision usefulness of audited financial statements affects audit expectation gap among stakeholders of licensed commercial banks in Sri Lanka

The lack of awareness about the auditor's role, audit procedures, and knowledge about audit will create a severe expectation gap in the field of auditing, to minimize this expectation gap public should be clearly educated and communicated about the role of auditors, their responsibilities, nature, and powers of the auditor authorities (Okafor & Otalor, 2013; Siddiqui & Nasreen, 2009).

H_5: Audit education affects audit expectation gap among stakeholders of licensed commercial banks in Sri Lanka

The auditing standards (i.e., materiality, audit risk) will set the ground to reduce the expectation gap (Personal & Archive, 2006) The usefulness of audited financial statements and the audit reliability are the factors, which is the factors that create an expectation gap between investors and auditors. Currently in Pakistan before making any investment, every organization even a single consumer read the financial statement of the company in which they are investing so users of the financial statement put more reliance if the financial statements are audited sometimes time gaps exist between auditors and users of financial statements because of difference in perception of auditor's duties and responsibilities in the mind of users. In the context of Pakistan, this gap exists between the auditors and the users of financial statements (Devi & Devi, 2014).

The auditor only has a secondary responsibility and must obtain reasonable

assurance that there is no fraud that leads to material misstatements in the financial statements. In addition, the risk that a material misstatement due to fraud remains undetected is greater than the risk that a material misstatement due to error remains undetected (Quick, 2020a).

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud, because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behavior which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings to influence the perceptions of analysts as to the entity's performance and profitability. An auditor conducting an audit in accordance with SLAuSs is responsible for obtaining reasonable assurance that the financial statements taken are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the SLAuSs (ICASL, 2014).

Here the relationship between audit responsibility, audit reliability, audit education, auditors providing non-assurance services, and audit expectation gap is addressed from three perspectives such as, between auditors and shareholders, between auditors and employees, and between auditors and customers.

The Independent variable is stakeholders' perception of the auditor's role, and the dependent variable is the audit expectation gap. The stakeholder's perception of the auditor's role is addressed in the perspectives of audit reliability, audit responsibility, decision usefulness of audited financial statements, audit education and auditors' ability on providing non assurance services.

III. Data, Sample and Methods

The target population for the study is shareholders, employees, and customers of the Commercial Banks in Sri Lanka. According to the Central Bank of Sri Lanka, there are 24 licensed commercial banks and 6 Licensed Specialized Banks in Sri Lanka, out of these banks 24 commercial banks have been selected for the study. Both permanent and temporary employees were taken into account in the study. Shareholders were taken into the study without any segregations like minor and major shareholders. Expect minor customers (i.e., customers who are less than 18 years old) and all other customers are considered. Due to the prevailing pandemic situation in the country and the health and safety measures taken by the government the convenience sampling method is used to select the sample.

A structured questionnaire which was previously used by Anila Devi & Shila Devi, 2014 in their study "Audit Expectation Gap between Auditors and Users of Financial Statements" (Devi & Devi, 2014). Questionnaire is designed as a five-point Likert scale anchored as 5 = strongly agree, 4 = agree, 3= no opinion, 2 = disagree, 1 = strongly disagree was used to collect data via both printed and electronic media (distributed via e-mails, social media). 800 questionnaires are distributed, which consist of 200 employees, 200 customers, 200 shareholders and 200 auditors. However, 457 responses were received reporting a 57.12% response rate.

Methods

Descriptive analysis, reliability, and validity tests are used for the purpose of analysis. Since the data is nonparametric, Mann Whitney U test is performed as an alternative test for the independent sample t-test to test the hypotheses and to arrive at the conclusion of the study.

IV. Findings and Discussion

Reliability Test

Table 1. Reliability Test

Variable	Cronbach's alpha result	No of items	Decision
Overall model	0.760	21	Alpha's score is greater than 0.7 therefore, acceptable, and reliable
Responsibility	0.725	8	Alpha's score is greater than 0.7 therefore, acceptable, and reliable
Reliability	0.720	4	Alpha's score is greater than 0.7 therefore, acceptable, and reliable
Decision usefulness	0.816	3	Alpha's score is greater than 0.7 therefore, acceptable, and reliable
Audit education	0.899	3	Alpha's score is greater than 0.7 therefore, acceptable, and reliable
Providing non assurance services	0.767	3	Alpha's score is greater than 0.7 therefore, acceptable, and reliable

Source: Author constructed

The Cronbach's alpha test on reliability measures the internal consistency or else the reliability of the measuring instrument (i.e., questionnaire). According to the above table 1 The alpha coefficient for the twenty-one items is 0.760 which is above 0.7, which indicates that items are relatively high consistent, reliable, and acceptable.

Table 2. KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.821
Bartlett's Test of Sphericity	Approx. Chi-Square	6598.074
	Df	210
	Sig.	.000

Source: SPSS

Sampling Adequacy Test

The sampling adequacy of the study can be measured by the Kaiser- Meyer- Olkin Measure of sampling adequacy. The KMO value of 0.821 indicates that the sample is adequate because the value is greater than 0.8. (Table 2)

Demographic Characteristics of the Sample

The sample comprises 457 valid responses and the responses were classified according to the demographic variable as below shown in Table 3.

Table 3. Demographic Characteristics

Variable	Count (N)	Percentage (%)
Gender		
• Male	231	50.5
• Female	226	49.5
Total	*457*	*100.0*
Province of living		
• Central Province	20	4.4
• Eastern Province	13	2.8
• Southern Province	43	9.4
• Western Province	233	51.0
• Northwestern Province	103	22.5
• Northcentral Province	22	4.8
• Uva Province	5	1.1
• Sabaragamuwa Province	18	39
Total	*457*	*100.0*
Age category		
• 18 – 25 years	331	72.4
• 26 – 35 years	84	18.4
• Above 35 years	42	9.2
Total	*457*	*100.0*
Having accounting / auditing qualification		
• Yes	333	72.9
• No	124	27.1
Total	*457*	*100.0*
Having accounting / auditing experience		
• Yes	274	60.0
• No	183	40.0
Total	*457*	100.0
Experience / qualification (time)		
• Less than 2 years	183	40.0
• 2 to 5 years	59	12.9
• 5 to 10 years	21	4.6
• Over 10 years	29	6.3
• No experience	165	36.1
Total	*457*	*100.0*
Stakeholder category		
• Shareholder	84	18.4
• Customer	140	30.6
• Employee	157	34.4
• Auditor	76	16.6
Total	*457*	*100.0*
How long have you been in the present category?		
• Less than 2 years		
• 2 to 5 years	270	59.1
• 5 to 10 years	80	17.5
• Over 10 years	50	10.9
Total	57	12.5
	457	*100.0*

Source: Author constructed

Sample of the study comprises with 457 respondents where 50.5% represented by male respondents and 49.5% by female respondents, 231 and 226 responses, respectively. Out of 457 respondents 50.5% represented by male respondents and 49.5% by female respondents, 231 and 226 responses, respectively.

Out of 457 respondents, 333 respondents 72.9% of the total sample have accounting or auditing qualifications whereas 27.1% of the population in these 124 respondents does not have any accounting or auditing qualifications. 60% of the sample 274 participants have accounting or auditing experience while 183 participants who represent 40.0% of the population don't have any accounting or auditing experience. 183 participants 40.0% of the total sample have experienced less than 2 years, 12.9% of the sample represented by 59 respondents who have experience of 2 to 5 years, 21 respondents have 5 to 10 years of experience which is 4.6% 0f the total sample and 6.3% of the total sample 29 respondents are respondents who have experience over 10 years. 36.1% of the population are categorized under the category of participants who are not experienced.

183 participants 40.0% of the total sample have experienced less than 2 years, 12.9% of the sample represented by 59 respondents who have experience of 2 to 5 years, 21 respondents have 5 to 10 years of experience which is 4.6% 0f the total sample and 6.3% of the total sample 29 respondents are respondents who have experience over 10 years. 36.1% of the 30 population 165 participants are categorized under the category of participants who are not experienced. 270 participants who represent 59.1% of the total sample is being in their present category for less than 2 years, while 17.5% in here 80 participants are in their present category for 2 to 5 years. 50 participants are being in their category for 5 to 10 years representing 10.9% of the total sample whereas 12.5% comprised of 57 participants are being in stakeholders for more than 10 years of time.

Skewness Test

Table 4. Skewness of Variables

Variable	Skewness result	Conclusion
Responsibility	0.159	Fairly systematic
Reliability	0.970	Moderately skewed
Decision usefulness	-0.232	Fairly systematic
Audit education	1.349	Highly skewed
Providing non-assurance services	0.257	Fairly systematic

Source: Author constructed

According to the above table 4, 3 variables are normally distributed and 2 variables are not normally distributed. The data set is considered as Non – parametric data, Therefore the further analysis is done by using Mann Whitney U test which is the alternative test for the independent sample t-test, which is initially performed for the non-parametric data.

Mann–Whitney U test

The significant p values in the Mann-Whitney-U test are regarded as the presence of an audit expectation gap.

Table 5. Test Results of the Mann-Whitney U Test

	Between auditors and shareholders		Between auditors and employees		Between auditors and customers	
	Z value	**P-value**	**Z value**	**P-value**	**Z value**	**P-value**
H_1: Auditors providing non-assurance services	-9.733	.000	-11.552	.000	-11.086	.000
H_2: Audit responsibility	-10.939	.000	-10.652	.000	-12.087	.000
H_3: Audit reliability	-2.970	.003	-.737	.461	-2.408	.016
H_4: Decision usefulness of audited financial statements	-3.961	.000	-8.732	.000	-8.599	.000
H_5: Audit education	-9.066	.000	-11.151	.000	-10.786	.000

According to the Mann Whitney U test, we can accept H_1, H_2, H_4, and H_5 respectively from the perspectives of auditors and shareholders, auditors and customers, auditors, and employees where the Mann Whitney U test Asymptotic Significance 2 tailed p-value is less than 0.05. But in the H3, we can only accept the perspectives of auditors and shareholders; and auditors and customers where the Mann Whitney U test Asymptotic Significance 2 tailed p-value is less than 0.05. However, the Mann Whitney U indicates that audit reliability does not affect the audit expectation gap between auditors and employees as the Mann Whitney U test Asymptotic Significance 2 tailed p-value is greater than 0.05.

Accordingly, in H_3, audit reliability is not a factor that creates an audit expectation gap between auditors and employees while audit reliability leads to creating an audit expectation gap between auditors and shareholders; and auditors and customers. Audit responsibility, decision usefulness of financial statements, audit education, and auditors providing non-assurance services are factors that lead to creating an audit expectation gap between all three categories.

V. Conclusion

Responses comprised 457 valid responses, 84 from shareholders, 140 from customers, 157 from employees, and 76 from auditors, respectively. According to the Cronbach alpha reliability test, the test result is 0.760 which is greater than 0.7 which indicates that the data is reliable and according to the KMO value, the value is 0.821 which is greater than 0.8 which indicated that the sample is adequate, acceptable and reliable. With the result of the skewness test, the skewness of audit responsibility, reliability, decision usefulness, audit education, and providing non-assurance services are 0.159, 0.972. -0.232, 1.349, and 0.257 respectively which means that the data set is not normally distributed. Therefore, the Mann-Whitney U test is performed which is an alternative nonparametric test for the independent sample t-test.

Audit reliability is not a factor that creates an audit expectation gap between auditors and employees. Apart from that perspective, we can accept all hypotheses H_1, H_2, H_3, H_4, and H_5 respectively, which is in accordance with the previous research findings. (Akther & Xu, 2020; Best et al., 2001; Devi & Devi, 2014; Kumari et al., 2017; Mojahid et al., 2018; Okafor & Otalor, 2013; Olojede et al., 2020; P0rasanna Manatunga, 1994; Quick, 2020b; Rezaee, 2004; Salehi, 2011; Siddiqui et al., 2009; Woodliff, 2009; Xu & Akther, 2019).

Accordingly, audit responsibility is a factor that creates an audit expectation gap between auditors and shareholders, employees, and customers, respectively. Audit reliability is the factor that create an audit expectation gap

between auditors and shareholders and customers but not with employees. However, decision usefulness of the financial statements, audit education and auditors providing non-assurance services are factors that lead to creating an audit expectation gap between auditors and shareholders, employees, and customers, respectively.

To reduce the audit expectation gap to an acceptable level the public knowledge on auditing and the auditor's role should be updated among the general public and stakeholders. To do this, audit education is the best way. Introducing more audit courses for the school and university level students and making the auditor more familiar with the society will help the public to understand the auditor's responsibility on financial statements and on the organization, the extent of the reliability of the auditor's work, decision usefulness of financial statements audited by auditors and the auditor's ability to provide non-assurance services. This understanding and knowledge will help the auditors and other stakeholders of the licensed commercial banks of Sri Lanka to reduce the audit expectation gap to an acceptable level whereas the audit expectation gap cannot be eliminated practically because of some inherent limitations such as agency theory, stakeholder theory, and stewardship theory.

Almost in all the cases, stakeholders have misunderstood the auditor's responsibility, audit reliability, decision usefulness of audited financial statements, and auditors' ability on providing non-assurance services. This misunderstanding leads to creating a huge audit expectation gap. Providing proper education to the stakeholders to identify and differentiate the management's responsibilities and auditors' responsibilities. Each party's responsibility should clearly communicate with the stakeholders to reduce the audit expectation gap to an acceptable minimum level by providing proper education to enhance the stakeholder's knowledge of auditing and assurance services where the expectation gap could be eliminated this time onwards.

However, this study was conducted for only the Licensed Commercial Banks whereas there are Licensed Specialized Banks and Licensed Finance Companies in the Sri Lanka financial system which are authorized by the Central Bank of Sri Lanka. There are various stakeholders for a financial institution such as shareholders, employees, competitors, policymakers, regulators, customers, suppliers, etc., and for this study, only the shareholders, employees, and customers were considered. Future researchers can expand their sample to all the stakeholders rather than selecting a specific group of stakeholders and can enhance the sector of study to financial institutions in Sri Lanka or to some other sectors such as manufacturing, food and beverages, etc.

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