

**BRIDGING THE EXPECTATIONS GAP BETWEEN AUDITORS REPORTS AND THE REQUIREMENTS OF THE FINANCIAL COMMUNITY  
“AN EMPIRICAL STUDY KINGDOM OF BAHRAIN”**

**Dr. Haris Alani\***

Associate Accounting Professor .Head of Accounting & Finance Dept. Applied Science University, P.O. Box 5055 Jufair, Kingdom of Bahrain

---

**ABSTRACT:** *Auditing profession is facing challenges on several levels, namely the absence of confidence of the financial community of the reports prepared by them because such reports do not meet the requirements the and only focus on the interests of the owners, which led to frequent financial crises in the business environment. This research aims at identifying the factors that help to bridge the gap between auditors' expectations and requirements of the financial community at the Kingdom of Bahrain. Therefore, to achieve the goal of this study, a questionnaire has been designed and distributed to the parties related to bridging the gap between auditors and the financial community. To test the probabilities of the research, analytic descriptive statistics has been used. The study has concluded that the orientation of financial reports to make balance between the common interests for the parties shall help to bridge the gap between auditors and financial community and enhance the confidence between them. The statistical study has proved that there is statistical relation between auditors' reports and the requirement of the financial community which affects the expectations gap between them then recommendations were suggested to reform this fault.*

**KEYWORDS:** Bridging, Expectations Gap, Auditors Reports, Requirements, Financial Community

---

## **INTRODUCTION**

The controller's independence is considered the cornerstone in the audit process. for the extent of the confidence given by the data users to the financial auditor's report, which reflects on the reliability of the contained information, upon making decisions. The Kingdom of Bahrain is deemed one of the countries that have received excellent experience in the auditing field, which allowed the opportunity to more investigation by the researchers about the strength and weakness points in the performance of the auditor, for the purpose of enhancing confidence with the financial community, and thus bridging the expectations gap between them to avoid the financial crises in the future.

The expectations gap shall appear and expand whenever transparency and disclosure faded. This gap shall also exist due to the weakness of the balance between the interests of the relevant parties. When the auditor issued an unqualified opinion, that is not complying with the expectations of the financial community in certain cases and then there will be substantial deviations, which would lead to a collapse in the strategic goals of the business environment.

From the foregoing, the research has tended to investigate the factors that help to bridge the gap of expectations based on the views of the parties that give indications about the compatibility between the aims of the audit reports and the expectation by the financial statements users of the audit process.

**Problem of Study**

The research problem implies the discrepancy between the auditor expectations and the financial community ones, including all the beneficiaries of the service auditor, in addition to the lack of compatibility between the responsibility of the auditor and what shall be provided to achieve the financial community's desires, which lead to turning the goals away and losing confidence in the financial reports.

**Research Hypotheses:**

There is no relation in statistical significance between auditors' financial reports and the financial community requirements

**The Study Importance**

The research importance stems from the auditor's role in enhancing the confidence of the financial community to the financial statements, contained in the financial reports by paying attention and fulfilling the financial community requirements to bridge the gap that may arise between the provisions of the financial reporting and what the financial community is looking forward to.

**The Study Objective**

The research aims to make an attempt to direct the goals of auditors financial reports toward the goals and expectations of the financial community by bridging the gap between the expectations of the auditors financial reports and the requirements of the financial community.

**Study community and sample**

Research community consists of 28 external financial auditors in the special auditing offices, 126 companies included in Bahrain capital market, 132 members of financial analysts, 23 accounting and finance professors at the Faculty of Administrative Sciences in the Universities of Bahrain, 121 members from the auditing bureau and thus making a total of 430 community members, and a questionnaire was distributed to each member.

**THE CONCEPT OF THE EXPECTATIONS GAP**

An auditor is considered to be interested in verifying the financial lists of the economic institutions by giving his professional opinion about the data mentioned in the financial lists after gathering evidences related to internal indicators, as the auditor examines checks and makes sure that they are conforming with the accounting records and data (El Aloussy 2013). Consequently the auditor bears the responsibility of giving the technical opinion and he becomes the person to be relied on in knowing if work in the institution is going on the right track.

It is possible to say that are three main parties for the financial auditing process and they are as follows: the auditor, the institution subject to checking and the users of the auditors financial reports who may have expectations or specific desires that are inconsistent with the goals of the profession that is generally difficult to meet (Abdullah, 2010), and thus resulting in the occurrence of a gap known as the expectations gap.

The first time to use the term expectations gap was at the beginning of year 1974 when a committee (known as "Cohen") has been established by the American Institute of Certified Public Accountants (AICPA), the defined responsibilities of this committee are to make recommendations about the responsibilities of the auditors. The subject of the committee was about studying the expectations gap between what people need and what auditors should provide, after people increasing concern about the

criticism directed to quality level of the auditors performance and their failure to detect or disclose manipulators in general joint-stock companies.

The profession in both Britain and America in particular, has tried to address the subject of the gap and provides solutions that will contribute to the narrowing of the gap and thus the committees, complexes and various professional institutes have initiated to study the expectations gap and determine its causes and methods of treatment, including the Commission on the responsibilities of auditors in the United States known as the ( Commission on Auditors Responsibilities ) in order to study the responsibilities of the auditor and the extent of a gap in expectations . After four years of study.

*Through the available evidences and research to the following*

There is a gap in expectations between the performance of the auditors and the expectations of users of the report on the performance of the auditors and their responsibilities.

2 - The primary burden in bridging this gap is the responsibility of the auditors themselves. But the methods of the profession is mostly focused on educating the community about audit process and its objectives, nature and the responsibilities and duties of the auditor. (Humphrey et al., 1992 : 161 ).

The profession has focused mainly on one side of the gap, which is called a gap of ignorance, where the ignorance of the public about the nature of audit process and the duties and responsibilities of auditors was considered as the main reason behind the existence of the expectations gap. ( cooke, 1990 : 23).

Therefore, the focus of the profession in the process of addressing the gap and the attempt to narrow it was through educating the community about the role and responsibilities of the auditor and the nature of the audit process. The profession has used auditor's report for this purpose in many cases, by adding special paragraphs about the responsibilities of the auditor and the management.

Some studies have indicated that the main goal of the profession in this process is to reduce the responsibility of the auditors and the impact on the public perception regarding the audit process. And (Humphrey) also pointed out that the profession attempts to narrow the gap in different paragraphs were focused on the auditor's report by changing the language of the report.

But this approach does not help in solving the problem completely w. An analytical study carried out by ( Porter ) indicated that nearly 50 % of the expectations gap is due to the deficit in the auditing standards.

The profession may try to mitigate this gap by placing clear controls for audit process adhered by the auditors in order to minimize the situations where auditors appear unable to do their job efficiently and effectively. And there could be another strategy, through the pursuit of the profession to redefine expectations in a way that makes these expectations is less demand and less hardship, (Humphrey) has pointed out that although there is a gap regarding the extent of awareness of the role of the auditor and the audit process, but this gap is related to performance in major and the perceptions of society regarding the performance of the auditors. (Humphrey, 1991)

On the other hand (Lee) pointed out that if the auditors themselves are not fully aware of and understand the real role of the audit process and its importance in the community, how can we imagine that the other parties are aware of the role and importance of this? So the education of auditors has to be followed -up and they have to be informed n in the field of profession ( Thunaibat 0.2002 : 110). From the above mentioned the researcher finds that the expression of the expectations gap in audit process is used by some to refer to the variation in the scope of the duties and responsibilities of auditors and the interpretation of audit reports between the auditor and the community. it is also used by others to refer to the variation in the professional performance of auditing, in terms of quality and performance standards for performance which is expected to be achieved, more cover there are some who use it to refer to the variation in the understanding of the objectives of the audit, between the community and the profession.

Expectations gap can be defined as a variation or difference between what is being done, or what can be done by auditors and what should be or what is expected to be carried out by the auditors on the basis of society's expectations required of them and on the basis of generally accepted auditing standards.

Based on the foregoing, consideration could be given to the structure of the expectations gap in the auditing that it is possible to show the result of the difference between the performance of auditors and the external beneficiaries expectations of this performance or that there are deviations between the performance of auditors and auditing standards.

**The reasons of the emergence of the expectations gap and its breadth can be attributed to a combination of factors including:**

Lack of understanding the role of the auditor in the community. And The adequacy of the responsibilities of auditors. Uncertainty in the independence and impartiality of Auditors. the lack of professionalism of auditors. Lack of internal control system. The connection is not active in the audit process. Ongoing criticism of the auditor on the non-disclosure of the continuity of the facility. Differences and deficiencies in the interpretation of the meaning and content of auditors' reports.

12 - Non-compliance with the rules and conduct of the profession.

Finally, the researcher believes that the attempts by the profession to narrow or bridge the expectations gap have focused on one style which is the attempt to repudiate many of the responsibilities, if the profession really wants to succeed in reducing the gap, it has to accept the goals and responsibilities that the public feel necessary to achieve and to opt-out to it at the time of the audit, and as much as possible to meet the reasonable expectations of the community. Regarding this area you must keep in mind that the desires and wishes of the community expectations are not final and are renewable and have a kind of inconsistency, especially with the business communities.

Based on the above it can be concluded that it cannot be for the profession to continue, to receive the acceptance from the community and to perform its job effectively in the service of beneficiary parties unless it has in mind the ethics of the profession and a commitment to professional standards and has the ability to commit to them and the most important of these standards is the commitment to neutrality and independence and disclosure of the requirements of the financial community in the auditors reports.

**Components of the gap:**

Some researchers believe that the expectation gap components include the following levels( Ghali,2001).

*The first level:* the difference between the users of the financial lists and the auditor regarding the responsibilities that must be carried out by the auditor and they are called Attitude Gap.

*The second level:* the difference between the users of the financial lists and the auditor regarding the current responsibilities of the auditor and it is called Belief Gab.

*The third level:* the difference between the users of the financial lists and the auditor regarding the extent of efficiency in the implementation of the audit process and the level called Performance Gap(Hatherly et al., 1992:2). While (Porter) believes that the expectations gap in the auditing consists of the following components (Porter, 1993: 50).

**Reasonableness gap**

This is the difference between the expectations of the community or users of the financial lists of the auditors and what the auditor can perform reasonably.

**Performance Gap**

This is the difference between the reasonable duties expected by the community or users of the financial lists from the auditor and the auditor's actual performance. This gap can be divided into two components:

A - The gap between the duties that may reasonably be expected by the auditor and the auditor's duties in accordance with the auditing standards and that gap is called the inadequacy or lack of auditing standards.

B - The gap between the duties of the auditor in accordance with auditing standards and between his actual performances. This gap is called inadequate or lack of performance (Deficient performance).

*The financial community:* the financial community can be divided into three basic pillars as follows :

*Politicians:* Auditors performance could be beneficial to them, so if there is fundamental cheat in the structure of a society and the auditor cannot discover it, people will blame politicians for not guaranteeing or assuring the accuracy of the auditing process. The scale of the auditing process can get larger in response to the pressure imposed by people, and this may of course affect the auditing process expectations.

*Organizers:* they are the ones working for the interest of companies or Capital Market Organization or various specified destinations allocated by the companies' law or Capital law or by auditing bidding committee and financial reports committee in addition to accounting standards committee. It are also important to mention that the organization process has caused changes in relations by imposing duties and responsibilities on some people and giving rights to others, which consequently affected the auditing process expectations.

*Academic people:* academic people are given much attention in the past few years to activate the auditing process. There might be a debate about if some of the academic people can affect what civil people thinks about professional organizations and financial auditors, From what has been mentioned above it becomes clear that the expectations gap refers generally to the difference between what the financial auditors do, or what they can do, and between what they have to or what they are expected to do based on the community expectations.

The audit expectations gap consists of various gaps between auditors and each group of users or between auditors and general public. Groups of users and people are often referred to as the company stakeholders. So one can say that the auditing expectations gap is the difference between what financial auditors do or what they can do and between what they have to, or what they are expected to do, based on the community expectations. Therefore reasons for the occurrence of the expectations gap can be limited to three main reasons that are when identified, convenient solutions can be suggested, and they are as follow: reasons related to the deficiency of the financial auditors' performance, reasons related to deficiency in standards and reasons related to the community excessive expectations

**Prediction Analysis**

*First: Results related to the response of members of the research sample regarding the role of auditors in the narrowing of the gap:*

To know the responses of members of the research sample regarding financial reports Calculated averages , standard deviations have been extracted to indicate how the financial auditors, and the members of the research sample the Kingdom of Bahrain, respond regarding paragraphs related to this aspect, and their responses have been arranged according the standard deviation. Table (1) represents the results of the analysis.

*Second: Results of related to the response of members of the research sample regarding financial community:*

To know the responses of members of the research sample regarding financial community Calculated averages and standard deviations have been extracted to indicate how the investors, academic people and analysts, members of the research sample in Kingdom of Bahrain, respond regarding texts related to that

aspect, and their responses have been arranged according to the standard deviation. Table (2) represents the results of the analysis

***Third: There is no relation this statistical significance between financial auditors' reports and financial community at the Kingdom of Bahrain.***

To test the first thesis of the study Pearson Correlation Coefficient has been used to reveal the correlation between the financial auditors' reports and the financial community at Kingdom of Bahrain Under the simple regression analysis as shown in Table (3).

## CONCLUSION

Results of the analysis as per the table indicate that the text number 3 which state that “ When financial auditors do not get acquainted with the development that occurs in the business field, this could lead to tightening the gap” came in the first place for having the lowest value of coefficient of variation (12.7%) with a Calculated average (3.75) and standard deviation (0.75).In the second place came the text number 6 which states that “ Preparing the auditor's report briefly increases the expectation gap.” with a coefficient of variation (12.4%) and a Calculated average (3.90) and standard deviation (0.66).In third place, came the first paragraph which states: "The intervention of the administration adversely affect the independence of the auditor and his report " with a coefficient of variation of (13.2%) and the arithmetic average was (3.72%) and a standard deviation of (0.72).In the fourth place came text number 7 which states “Lack of understanding of the responsibility of the auditor and his report increases the expectation gap. ” with a coefficient of variation (13.1%) and a Calculated average (3.33) and standard deviation (0.76). ).In the fifth place came text number 4 which states “Contract with the auditors for a long time in the companies increases the expectation gap” with a coefficient of variation (14.2%) and a Calculated average (3.77) and standard deviation (0.75).

In the sixth place came text number 5 which states” Financial auditor should be more responsible for meeting the expectations of the reports users” with a coefficient of variation (14.2%) and a Calculated average (4.09) and standard deviation (0.66).In the last and seventh place came text number 2 which states” Ethical directions affect the sufficiency of disclosure in the auditor’s report.” with a coefficient of variation (14.8%) and a Calculated average (4.03) and standard deviation (0.85).

1. Results of the analysis as per the above table indicate that the text number 3 which states that “improving the communication process within the financial community environment tightens the gap” came in the first place for having the lowest value of coefficient of variation (11.2%) with a digital average (3.22) and standard deviation (0.68). In the second place came the text number 2 which states that “Preparing financial reports with accounting formula only make them complicated and difficult to be understood by the financial community” with a coefficient of variation (14.3%) and a Calculated average (2.80) and standard deviation (0.68). In the third place came text number 4 which states “Auditors financial reports which fail to discover the illegal actions widen the gap” with a coefficient of variation (14.5%) and a Calculated average (3.70) and standard deviation (0.98). In the fourth place came text number 1 which states” Over expectations of the financial community regarding the financial lists that can sometimes be unreasonable widen the gap” with a coefficient of variation (15.2%) and a Calculated average (2.70) and standard deviation (0.91). In the fifth and last place came text number 5 which states” The misunderstanding of the concept of a clean report from the financial community widens the gap” with a coefficient of variation (16.1%) and a Calculated average (3.96) and standard deviation (0.68).
2. The analysis results of the table show that there is a relation with statistical significance between the financial auditors reports and the requirements of the financial community at Kingdom of Bahrain, as the correlation coefficient value is (\*\*0.544) and it is considered of a statistical significance at the level of

( $\alpha \leq 0.01$ ). The results have also revealed that the financial reports have explained a (0.295) disparity in financial reports of financial auditors which leads to widening the gap between the financial community and the financial auditors. The analysis results of the previous table show that there is a relation with statistical significance between the availability of the analytical procedures and the prediction about the inability of the company to continue to carry out its usual work for the coming period, as the correlation coefficient value is (0.623) and it is considered to be of a statistical significance at the level of ( $\alpha \leq 0.01$ ). The results have also revealed that the availability of prediction about the company's inability to carry out its usual work for the coming period has explained a 388% of disparity which means that working on using the analytical procedures contributes to increasing the ability of predicting the company's inability to carry out its usual work for the coming period.

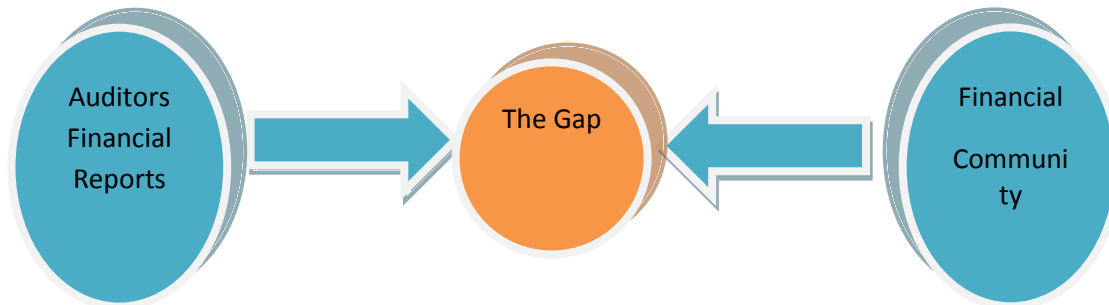
### RECOMMENDATIONS

1. Financial auditors should realize the importance of the financial community, and give it more priority than the company administration to decrease the gap.
2. Financial auditors should attend courses and workshops to create good means of communication with the financial community to decrease the gap.
3. The financial community should understand some important concepts as clean report, cheat and mistakes, and how responsible financial auditors are. This requires increasing awareness with the financial community by education which is the role of the accountants associations

### REFERENCES

- Althunaibat, Ali, *Auditing Expectations Gap Structure and Causes, Magazine of Managerial Sciences Studies*, Jordanian University, Vol. 30, Issue No 1, Garbaa Almoosel, Issue No 69, 2003.
- Alonkory, Hossam, *Expectations Gap Related to Meeting the Requirements of the Concerned Parties*, and How Affected is the Organizing and Practicing of the Financial Auditing Job in KSA under Contemporary Challenges, King Abdelaziz University, KSA
- Abdeen, Adnan Hamdy, *Financial Fraud: Causes, Methods of Detecting it, Methods of Preventing it*, First Edition. (Beirut, Lebanon: Lebanon Publishers Bookstore, 2008.
- Altamimi, Hady, *An Introduction to Auditing from Theoretical and Practical Aspects*, Wael Publishing and Distributing House, Amman, Jordan, Third Edition, 2006.
- Dahdouh, Hussein, *Alkady Auditing Advanced Accounting Theoretical Aspect and Practical Measures*, Amman, El Thakafa Publishing and Distributing House, (2009)
- Dahdouh, Hussein Ahmed, Alkady, Hussein Yousuf, *Auditing Advanced Accounting (Theoretical Aspect and Practical Measures)* El Thakafa Publishing and Distributing House, First Edition, 2009
- El Sukka, Ismail, *Expectations Gap in Auditing Environment*, a Field Study at KSA, Accounting Researches Magazine, Vol. 1, Issue No. 5, 2007.
- Garboua, Yousuf, *Accounting Assessments and the Problems Resulting from Using them and the External Auditor Attitude Towards it*, Elrafedein Development Magazine, Almoosel University, Issue No, an unpublished master thesis, Gaza Strip, 2003.
- Gharayba, Fawzy / Gaafar, Dawood "Meaning of Accounting Figures Based on the Data Available in the Joint Stock Companies – 233 Jordanian People", Yarmouk Researches Magazine, Vol. 4, Issue No. ((2). , (1988), Farahat, Nassif, *Auditing Expectations Gap, the Accountant*, Certified Accountant Magazine, Issue No. 39, 2009.
- Hugair, Mesbah, *Expectations Gap and Auditors Responsibilities from the Investors Point of View at Jordan*, an unpublished master thesis, Jordanian University, Oman.
- English References:*
- Gay, Schelluch, and Reid, *User Perceptions of the Auditing Responsibilities for the Prevention of Accounting Misstatements*, Australia, May 2007
- Fadzly, Mohammed Nazri and Ahmad Zauwiyah, *Audit Expectation Gap: The case of Malaysia Managerial Auditing* Journal Vol.19, No7, 2004
- Firth, Mical, & Smith, *Selection of Auditor Forms by Companies in the Issues Market* Applied Economics Feb 2002

## The Study Model



**Table 1.** Calculated averages and standard deviations indicating the response of members of the research sample regarding the texts related to the standard of financial auditors reports

Number	Text	Calculated average	Standard Deviation	Coefficient of variation	Ranking
1	Interference of Administration affects the fairness of the auditor and his reports negatively.	3.72	0.72	%13.2	3
2	Ethical directions affect the sufficiency of disclosure in the auditor's report.	4.03	0.73	%14.8	7
3	When financial auditors do not get acquainted with the development that occurs in the business field, this could lead to tightening the gap.	3.75	0.85	%12.7	1
4	Contract with the auditors for a long time in the companies increases the expectation gap.	3.77	0.75	%14.0	5
5	Financial auditor should be more responsible for meeting the expectations of the reports users.	4.09	0.83	%14.2	6
6	Preparing the auditor's report briefly increases the expectation gap.	3.90	0.66	%12.4	2
7	Lack of understanding of the responsibility of the auditor and his report increases the expectation gap.	3.33	0.76	%13.1	4



**Table 2.** Calculated averages and standard deviations indicating the response of members of the research sample regarding the texts related to the standard of financial community (Investors, academic people and analysts)

Number	Paragraphs	Calculated average	Standard Deviation	Coefficient of variation	Ranking
1	Over expectations of the financial community regarding the financial lists that can sometimes be unreasonable widen the gap	2.70	0.91	%15.2	4
2	Preparing financial reports with accounting formula only make them complicated and difficult to be understood by the financial community.	2.80	0.68	%14.3	2
3	Improving the communication process within the financial community environment tightens the gap.	3.22	0.58	%11.2	1
4	Auditors' financial reports which fail to discover the illegal actions widen the gap.	3.70	0.98	%14.5	3
5	The misunderstanding of the concept of a clean report from the financial community widens the gap.	3.96	0.67	%16.16	5

**Table3.** Simple regression between financial auditors reports and the financial community requirements at the Kingdom of Bahrain

Independent variable	Civil Community		
	Correlation Coefficient (R)	Determination Coefficient	Significance level
Financial auditors reports	**0.544	0.295	0.000