



## RESEARCH ARTICLE

## An Investigation of Audit Expectation Gap in the Malaysian Public Sector

Murugan Batumalai<sup>1</sup>, Maheran Zakaria<sup>2\*</sup>, Wan Zurina Nik Abdul Majid<sup>3</sup>, Paramasivan S/O Nadeson<sup>4</sup>

<sup>1</sup>Faculty of Business & Accountancy, Lincoln University, Kota Bharu, Malaysia

<sup>2,3</sup>Universiti Teknologi MARA, Kelantan, Malaysia

<sup>4</sup>Lincoln University, Petaling Jaya, Malaysia

### ARTICLE INFO

Received: May 9, 2022

Accepted: June 30, 2022

### Keywords

Expectation

Audit

Gaps

Auditor

Public

Performance

### \*Corresponding Author:

maher835@uitm.edu.my

### ABSTRACT

The Audit Expectations Gap (AEG) has arisen due to the difference between the public and auditor's perceptions about the auditor's duties and responsibilities. AEG is indeed an evolving concern that has gained worldwide interest. However, the broader the AEG, the higher the likelihood that the public will distrust the auditors, and even worse, it could arise lawsuits and thus jeopardize their reputation. Although auditors in the public sector hold greater responsibilities, most AEG's studies have focused on the private sector. Fascinated by the phenomenon, the objective of this study is to investigate the existence of audit expectation gaps in the Malaysian public sector. The researchers investigated the AEG concerning three audit concepts: performance audit, auditor's independence, and auditor's responsibilities in detecting and disclosing fraud. Based on purposive sampling, the researchers selected and interviewed 17 informants composed of eight auditors from the public sector and non-auditing professionals, comprising three Public Account Committee (PAC)'s members, three academicians, and three journalists. Employing Nvivo 12 software, the results indicated the existence of AEG between public sector auditors and non-auditing professionals over the three audit concepts. The discoveries support the theory of inspired confidence, stating that although auditors cannot betray the public expectation, the expectations cannot exceed what the audit can justify. Indeed, a concerted effort by all parties is crucial to mitigate the audit expectation gaps between the perceived performance of auditors and the unreasonable expectation of the public towards the profession. Hence, educating the auditing stakeholders on the statutory and professional roles of auditors will narrow down the gap, elevate the auditors' credibility and thus be relevant to society.

### INTRODUCTION

The unprecedented financial scandals and audit failures have smeared the reputation of the auditing

profession worldwide. As a result, many were upset and cynical about the substandard audit quality of the auditors. Even worse, the anecdotal incidents have

dramatically increased litigation against auditors. For instance, UK Financial Reporting Council (FRC) fined PwC £6.5 million for substandard auditing of the cloud computing firm, namely Redcentric (Shoaib, 2018). FRC also fined PwC £10.0 million due to the low audit quality of a collapsed department store, namely the British Home Store (BHS). In a similar vein, FRC fined PwC £5.1 million for poor auditing in RSM Tenon Group (Johnson, 2019).

Meanwhile, in the US, KPMG received a US\$6.2 million penalty from the US Securities and Exchange Commission (SEC) for its audit of Miller Energy. The US government asserted that the auditor of Miller Energy's 2011 financial statements gave a clean report even though the company misrepresented the worth of its assets (The Trusted Professional, 15 August 2017) (Shoaib, 2017). In another case, SEC charged PwC for improper professional conduct concerning 19 engagements of 15 companies registered with the SEC. The SEC also charged the auditor for violating the independence rules, and he paid USD 7.9 million for settlement (Shoaib, 2017).

Indeed, incidents of financial and audit failures do not only exist in the private sector; the public sector also experiences similar predicaments. For instance, in Malaysia, the national audit report was allegedly tampered with, concealing the financial malfeasances upon a top official's order, which resulted in the government suffering RM 42 billion in losses. This wrongdoing was perpetrated in a Malaysian government link company, 1 Malaysia Development Corporation (Lim, 2022).

The succession of audit failures has destroyed the public trust in the auditing profession, specifically in the public sector (Salehi et al., 2020). The public demanded the auditors align their services with the public's expectations. Indeed, the anecdote incidences lead to the accusation that the audit quality is far from fulfilling the public expectation. Even worse, the public alleged that the auditor was not independent and thus failed to protect their interest (Colley and Gaye, 2020).

Thus, those mentioned phenomena have aggravated the public's skepticism about whether any particular party influences the auditors in the auditor's independence. Also, the accusation arose that audit quality was below the expected level. As a result,

the notion of auditing as the most trustworthy task is now obscured by mistrust and skepticism. Consequently, many feel betrayed and accuse auditors of failing to meet societal expectations, leading to audit expectation gaps. Porter (1993) defined the audit expectation gap as the inconsistencies between the duties that society expects auditors to fulfill and those that society believes auditors accomplish. Thus, the existence of audit expectation gaps is detrimental. It deteriorates auditors' image and erodes public trust in the profession. Even worse, the negative publicity concerning audit failure will jeopardize the essence and sustainability of the auditing profession.

Although the audit expectation gap has become a prominent issue in the private sector (Astolfi, 2021; Coram and Wang, 2021; Dang and Nguyen, 2021), it is less likely to be investigated in the public sector. Since the public purse funded the public sector, auditors in the public sector have more demanding obligations. Thus, auditing focuses on determining whether the government departments and agencies use the funds allocated by the Parliament in a manner consistent with their purposes. Most significantly, the auditors must examine whether the government departments and agencies have implemented the programs economically, efficiently, and effectively to fit their objectives, known as a performance audit or value for money audit.

Although Malaysian auditors are less likely to encounter litigations as faced by those in advanced economies (such as in the UK and the US), they should not take the issues lightly. Moreover, as Malaysia aspires to be a developed nation by 2030, the expectation of the future society on the auditors' ability to protect the public fund may also increase. The society may less likely to tolerate and compromise with audit discrepancies. Diminishing audit quality will inflict rampant lawsuits and thus weaken society's trust on auditors. Aligned to the theory of inspired confidence, which postulates: despite that auditors have to meet the society's expectation, they cannot exceed what the audit can justify.

Nevertheless, auditors need support and trust from the public to sustain and be relevant. Hence, research is crucial to reduce AEG between the public and auditors' perceptions about the auditors' duties and responsibilities. Indeed, prior researchers have

examined AEGs in many countries, such as Nigeria (Aminu et al., 2022), Bangladesh (Akther and Xu, 2020; Reza and Khatun, 2020), Gambia (Colley and Gaye, 2020), Libyan (Abonawara, 2013) and New Zealand (Porter, 1993). As far as the researchers are concerned, even though the studies of AEG have become a worldwide interest, scarce have been investigated in the Malaysian context (Mat Daud, 2007).

To bridge the gap, this study investigates the existence of audit expectation gaps between the auditors' perceived duties and the public (non-auditing professionals) expectations of the auditors in the Malaysian public sector. Concerning this, the researchers structure the organization of this study as follows. Section one starts with an introduction and problem statements. Section two is the literature of prior studies. Section three details the methodology employed. Section four presents the results and discussion. Finally, the last section highlights implications, limitations, and suggestions for future studies before concluding.

## LITERATURE REVIEW

### **Audit in the Malaysian Public Sector**

The National Audit Department (NAD), headed by an Auditor General, is the main auditing body in the Malaysian public sector. Its primary responsibility is to offer the general public impartial and professional audit services. The Ministry of Finance mandates that the Auditor General must conduct an audit of the accounts in the public interest (Audit Act, 1957). Besides performing independent audits on account of the Federal Government, State Government, and Federal Statutory Bodies, he has to conduct a performance audit on the activities of the Ministry/Department/Agency and Companies under the Federal and State governments. The performance audit evaluates whether government departments and agencies carry out programs and activities economically, efficiently, and effectively (Reza and Khatun, 2020). Additionally, the law of Article 109 of the Federal Constitution protects auditors' independence from the influence of the government's executives.

### **AEG**

AEG is the disparity between what society expects of auditors and what they see as their performance. Colley and Gaye (2020) articulated that expectation gaps exist when the public and auditors have conflicting opinions about the auditor's obligations and responsibilities. Thus, there is a discrepancy between what the public anticipates from the audit profession and what the public receives. Ironically, the AEG has resulted in a critical, litigious environment that auditors face today (Xu and Akther, 2019).

In reality, auditing is the trust that society and stakeholders have in the audit's quality and the auditors' judgment. If the public distrusts the auditors, they will destroy their function, rendering auditing useless. Hence, to be relevant and secure stakeholder confidence, the audit profession should match its services to stakeholder expectations, a task that has so far been shown to be beyond the scope of the audit profession.

### **Underpinning Theory of the Study**

Three theories, including the policeman theory, role conflict theory, and theory of inspired confidence, can explain the public perception with regard to auditors' duties and responsibilities (Colley and Gaye, 2020). For example, the policeman theory posits that an auditor serves as a watchdog to search, discover and prevent fraud (Ittonen, 2010) for protecting the public. The auditor should keep an eye on its client's financial statements, and the public anticipates that the auditors will carry out their duties faithfully. The role of conflict theory states that conflict in perceptions occurs between auditors and the public when there are different demands placed upon the former duties (Katz and Kahn, 1978). Additionally, the theory of inspired confidence postulates that although auditors should not betray public expectations, they should not exceed what their audit can justify (Dang and Nguyen, 2021; Deepal and Jayamaha, 2020).

### **Audit Expectation Gap Components**

Porter (1993) divides AEG into performance and reasonableness gaps. The performance gap is the difference between what society can reasonably expect auditors to accomplish and what they are perceived to achieve. The reasonableness gap is the difference between what society expects auditors to reach and what they can reasonably expect to

accomplish (Lee et al., 2007). However, when the public expectations are higher than the standards demanded by auditors and when the auditors cannot meet such expectations, they are considered unreasonable. Therefore, as stated by Akther and Xu (2020), professional auditing bodies should educate users on the statutory and professional expectations from an audit to mitigate the AEG.

#### **Prior Research on Audit Expectation Gaps**

Several studies indicated the existence of AEG in the private and public sectors (Xu and Akther, 2019; Colley and Gaye, 2020; Salehi, 2016; Abonawara, 2013). For instance, Xu and Akther (2019) empirically examined the relationship between AEG and stakeholders' confidence in Bangladesh. The respondents comprised auditors, shareholders, investment and credit analysis, and legislation agencies. The researchers focused the AEG on auditors' responsibilities in detecting fraud and reporting for going concerns besides understanding of meaning and usefulness of audit reports. They discovered that AEG is negatively related to stakeholders' confidence as the higher the AEG, the lower the stakeholders' confidence is in the audit. Colley and Gaye (2020) investigated the existence of AEG from the perspectives of public sector auditors and non-auditing professionals in the Gambia. The researchers interviewed 13 informants using structured interview questions. They found that non-auditing professionals perceived the auditors' duties should include assurance of the efficacy of internal controls, fraud, and detection and prevention of fraud. Indeed, the non-auditing professionals expected the auditors to do these duties. In contrast, the auditors deny such duties and blame the public for the knowledge gaps.

Salehi (2016) articulated that many people misinterpret and consider an unqualified opinion as a promise of the audited entity's financial viability and ability to continue to operate (García-Hernández et al., 2022). On the other hand, Akther and Xu (2020) contended that the general public needs to be aware of the objectives of the audit report and the extent of work necessary for auditors to provide an audit opinion. They believe that the difference in AEG between auditors and the public is due to the latter misunderstanding and misinterpreting the auditors'

duties on audit reports.

Abonawara (2013) conducted a mix-method study to explore the possible existence of an AEG in the Libyan private sector. The researcher distributed 270 questionnaires followed by 15 semi-structured interviews. They investigated AEG over several issues, namely the auditing process, audited financial statements, objectives of the audit, auditor's responsibility, and assurance of future feasibility. Consequently, she found a discrepancy between audit expectations, leading to an unreasonableness gap and deficient standards gap in the Libyan private sector over several auditing issues.

#### **Research Questions**

The Malaysian public sector was the context for the study's investigation of the AEG with reference to performance audits. This study looks into the discrepancies between the auditors' perceived duties and the public (non-auditing professionals) expectations of the auditors in the Malaysian public sector. The study will also look into how non-professional auditing professionals and public sector auditors perceive the three selected audit concepts?

#### **METHODOLOGY**

This study is exploratory. It explores, investigates, and discusses the existence and nature of the AEGs between auditors and non-auditing professionals. It promotes concepts discovered from the informants' viewpoint depending on their understanding, views, and interpretation. This study adheres to the interpretivism or constructivism paradigm with a qualitative methodology (Cresswell and Miller, 2000). The researchers chose this approach because it fitted the research paradigm and was appropriate for achieving the study objective. This approach is preferable when looking for a novel solution based on social group views and traditions or when addressing concerns about meaning, human value, or hitherto unexplored social processes.

The study investigated the AEG regarding performance audits in the context of the Malaysian public sector. Following Mat Daud (2007), the researchers focused on three audit concepts: the purpose of audit performance, audit independence, and the responsibility of detecting and reporting fraud. Additionally, the researchers aimed to

investigate how public sector auditors and non-professional auditing professionals view the three selected audit concepts.

The researchers interviewed eight practicing public sector auditors who provided the National Audit Office auditing services. Also, they included non-auditing professionals consisting of three Public Audit Committee (PAC) members, three journalists, and three academicians. The PAC members comprised Parliament's members from ruling and oppositional parties. Their appointment is at the beginning of every Parliament. Their responsibilities include reviewing the Federation's financial records and ensuring that the government departments and agencies spend money allocated by the Parliament according to authorized public expenditures.

### **Data Collection**

The informants of this study consisted of auditors from the Malaysian NAD, non-auditing professionals composed of PAC members, academicians, and journalists. The researchers used the phenomenological method to investigate how the informants in a circumstance perceive the phenomenon. In the human realm, this typically entails obtaining deep data. Also, the researchers used inductive and qualitative techniques such as observation, conversations, and interviews, expressing them from the viewpoint of the informants. As a result, this approach is effective for deciphering subjective experience, learning about people's motivations and behavior, and clearing the clutter of widely accepted ideas and conventional wisdom (Khan, 2014). Hence, the study of a person's actual experiences in the world is the primary objective of the qualitative research method known as phenomenology.

### **Interview**

Interviewing is one of the most widely used qualitative methods using face-to-face conversation. Since it can yield a vast amount of data, a face-to-face interview is the most effective strategy. The researchers used an interview guide due to a variety of reasons. First, the researchers wanted to ensure that they would address all the essential aspects of the subject besides reducing ambiguity (Bell et al., 2022). Secondly, it guarantees that everyone who participated in the study understood the questions. Thirdly, using this

strategy allows the researchers to delve deeper into some topics by asking probing questions that are not initially part of the interview guide.

The researchers created a semi-structured questionnaire, requesting the informants to express their views on the performance audit, auditor's independence, and auditor's responsibility in detecting and reporting fraud. The researchers employed an interview protocol for conducting the semi-structured interviews. Each section of the questions comprised both broad inquiries and potential probing questions. Before finalizing the interview questions, the researchers consulted two academic experts and amended them according to their suggestions.

The interviews consisted of three parts. First, the researchers began with broad inquiries before asking the informants about their understanding of the performance audits. Then, the researchers asked about their views on auditor independence. In part two, the researchers also covered the impact of outside parties on auditors. Finally, part three inquires the informants to highlight their views on the auditor's responsibilities in detecting and reporting fraud. Several sub-questions would follow the main questions based on the informants' responses. Additionally, the discrepancy or expectation gap will enable the researchers to evaluate their findings and develop inferences.

Before the interview, the researchers wrote a formal letter to the Auditor General, seeking his approval for performing research in the National Auditor Department. After getting consent, the researchers identified auditors from National Auditor Department who have performed performance audits. The auditors were from two levels of management that were senior and junior. Initially, the researchers identified nine auditors. However, the researcher could not contact the two auditors because they were at an outstation. So, in total, the researchers spoke with eight auditors: three junior auditors, two Deputy Directors, and two Senior Auditors at the senior level. Also, three PAC members (two from government parties and one from the opposition party) agreed to participate. Additionally, the researchers interviewed three freelance journalists and three academicians from a public educational institution.

The researchers conducted interviews in both Malay and English according to the informants' preferences. Each interview took approximately 20-30 minutes. The first researcher recorded and transcribed the interview. He then translated the Malay transcriptions into English. To assure that the data were consistent and reliable, the second researcher reviewed the translated transcription before sending it to informants for remarks and agreement. The researchers used NVivo 12 to facilitate the analysis. Seventeen informants joined the study: eight public sector auditors, three PAC members, three academicians, and three journalists from the public.

The researchers explained the study objective and the rationale behind their selection before each interview. Also, the researchers encouraged them to ask questions to clarify a particular word or idea before the recording began. The researchers gave the informants a choice to respond in English or Malay, besides guaranteeing confidentiality and anonymity of their responses. The intention was to encourage the participants to express their ideas and opinions freely. As a result, six people out of the total decided to respond in English, while the others responded in Malay. The interviews ranged from 25 minutes to 1 hour and 30 minutes. Additionally, the researchers took two phases in analyzing the interview. In the first phase, the first researcher transcribed every interview recording and saved each transcript as a distinct Microsoft Office document template. Then, the second researcher transcribed the Malay interview transcripts into English. The second researcher then translated the English transcripts into Malay to ensure uniformity. Later, the researchers showed the transcripts to the informants and asked for their feedback and confirmation. Next, the researchers would identify, classify, and categorize the data to determine a broad pattern of the informants' opinions. Finally, the researchers imported the document template containing the raw data to obtain an overview of the informants' opinions and views on the three audit concepts.

## **DATA ANALYSIS**

The researchers followed the grounded theory approach in analyzing the data. Grounded theory is an

inductive form of qualitative research that develops new explanations and understandings of events by closely examining the facts. In this approach, the researchers continually compare each category to the other types, in which they could discover further similarities and form wider groups of themes.

The researchers employed NVivo 12 to organize, search and retrieve data. After transcribing the data, the researchers coded them at free nodes to group the data based on shared meaning, idea, or concept. The researchers thoroughly read each of the sentences before refining the nodes. It is a simple operation utilizing NVivo because the researchers could modify any sentence nodes created earlier. Besides, the researchers could develop categories from interconnected nodes.

Next, the researchers transferred all data and manually coded them. Initially, the researchers used free nodes (open coding) to establish data groupings and underlying themes. Later, the researchers looked for more significant and more general categories into which some of the summaries may belong after synthesizing all the data. Next, the researchers continually compared each node to all nodes as the NVivo grouped by a node to find similarities, differences, and broad patterns.

## **RESULTS AND DISCUSSION**

The purpose of this study is to examine the occurrence of AEG concerning performance audit, auditor's independence, and the auditor's responsibility in detecting and reporting fraudulent activities from the point of view of public sector auditors and non-auditing professionals.

### **Informants' Demographic Profiles**

The informants consist of seven females and 10 males. 15 informants were married, while the remaining two informants were single. Majority were aged between 41 to 50 years (8 informants), followed by 51 years and above (5 informants), and between 30 to 40 years (4 informants). In terms of the highest level of education, nine had a bachelor's degree, followed by six informants with a master's degree and three with a doctoral degree qualification. Finally, the informants consisted of three academicians, eight public sector auditors, three PAC members, and three journalists. Table 1 depicts the informants' demographic profile.

**Table 1: Informants' demographic profile**

	Frequency	%		Frequency	%
Gender			Marital Status		
Female	7	41.1	Single	2	11.7
Male	10	58.8	Married	15	88.2
Age			Level of Education		
30 to 39 years	4	23.5	Bachelor Degree	9	52.94
40 to 49 years	8	47.0	Master Degree	6	35
50 years and above	5	32.9	Ph.D	3	17.6
Profession					
Academician	3	17.6			
Public Sector Auditor	8	47.0			
PAC members	3	17.6			
Journalist	3	17.6			

*N* = 17 informants

### Reliability and Validity

In qualitative research, reliability refers to consistency or repetition of the process (Colley and Gaye, 2020). Reliability aims to ensure that the results are generalizable, transferable, and reliable. If another researcher carries them out under the same circumstances, it will generate the same result. To fulfill the reliability requirements, the researchers sent similar structured questions to all informants, including public sector auditors and non-auditing professionals. Indeed, the essence of validity appears as credibility, trustworthiness, authenticity, and rigor, whereby the findings are precise and exact from the perspectives of the informants, researchers, and readers (Cresswell and Miller, 2000).

The researchers organized the results according to three audit concepts: performance audit, auditor's independence, and auditor's responsibilities in detecting and reporting fraud and error.

### Performance Audit

Based on the results of the interviews, the researchers noted that the auditors were reasonably knowledgeable and clearly understood the performance audit objectives. For example, the senior auditors stressed that a performance audit determines if a government agency has run a program effectively, economically, and efficiently following the Audit Act of 1957. Indeed, all auditors understood the purposes of performance audits.

"To determine whether government agencies implement the programs effectively, economically, and efficiently (Auditor 2).

As was anticipated, the non-auditing professionals needed to gain knowledge of the purposes of performance audits. As a result, most of them could

not respond to queries, and some of their explanations needed to be more precise than the auditors. For example, one journalist responded that the purpose of the performance was to offer an audit opinion on the financial accounts akin to a financial audit.

The results showed that the auditors are aware of the purpose of the performance audit. According to them, a performance audit's goal is to strengthen the internal systems and controls of the auditee as well as to enhance public accountability. They also stated that the objective of the performance audit was to ensure that the program fit its purposes and value for money spent. On the other hand, other users provided various responses, from identifying anomalies to confirming the accounts to including the definition of performance audit.

"To see if there is any mismanagement or abuse of power by the officer" (Journalist 2).

"The objective is to ensure the government department follows the procedures when implementing the projects" (PAC 3).

"The purpose is to assure that the government departments and agencies adhere to necessary procedures" (Academician 1).

The results indicated the auditors and the non-auditing professionals highlighted different views on the objective of performance audit and are in tandem with the studies conducted by Xu and Akther (2019); Mat Daud (2007). Nevertheless, both PAC members and auditors were aware of the performance audit objectives; hence, there is no apparent gap between these two groups. However, there is a difference in the journalist's understanding. The purpose of the performance audit was less apparent to the other user groups than it was to the auditors and

PAC members. In conclusion, there needs to be more knowledge between auditors and non-auditing professionals regarding performance audit objectives.

#### **Auditor Independence**

One of the areas where the AEG is vulnerable is auditor independence. Thus, auditors must ensure that they are independent in fact and appearance.

"The constitution and audit Act guaranteed our independence. Nobody can interfere. We are free to decide on the project we want to audit, to report our finding" (Auditor 3).

"It clearly states auditors and audit institutions that undertake the audit must be independent and seen independent" (Auditor 7).

"I believe junior auditors were more independent than senior auditors since the latter would be accountable for the information in the report" (Academician 2).

"I am not concerned about the junior auditors. Instead, I worry about the senior auditors who decide what information goes in the report" (Academician 3). Some non-auditing professionals thought that the practice of hiring former government servants as auditor general would impair the independence and integrity of auditors.

Whether the management or other parties influence them, all senior and junior-level auditors stated that they would base their judgments on the evidence. However, a few senior auditors acknowledged that they were under pressure from upper management and government officials. As a result, they could not mention some issues in the audit report, particularly those relevant to national security. The findings are consistent with Colley and Gaye (2020), Conteh and Hamidah, (2021), Coram and Wang, (2021), which revealed that the Auditor General's independence is directly in conflict with administrative pressures.

The findings indicated a difference between the auditors' and the non-auditing professionals' opinions regarding the interference of outside parties. The results were congruent with the research of Xu and Akther (2019), which discovered that users believed auditors were prone to influence, especially from management. In contrast, auditors thought they were independent of outside influence.

#### **Responsibility for Detecting and Reporting Fraud**

All the auditors agreed that they were under no obligation to inform the appropriate agencies of any

fraud. In response to the query of whether an auditor is responsible for doing so, the NAD auditing standard states that auditors are not required to look for and report any behavior against the law or other rules. However, he must organize his work and keep an eye out for any indications of dishonesty.

In response to this query, the auditors unanimously agreed that it is not their duty to uncover fraud.

"Our responsibility is to analyze and test the existing internal control system to determine its adequacy. We will report the fraud if we have any suspicions. However, we are not in charge of identifying any potential fraud" (Auditor 7).

"The Act does not require us to uncover fraud" (Auditor 6).

Other non-auditing professionals believe that auditors are responsible for fraud detection.

"This is in their course of work already" (PAC 2).

"I thought this was their responsibility" (Journalist 1). Members of the PAC and other user groups have been outspoken in their criticism of the effectiveness of auditors in uncovering fraud. They believed this resulted from a weak audit mandate and substandard auditor performance. However, auditors do not carry out this duty as it is not a statutory obligation.

Although the auditing profession does not consider fraud detection their responsibility, non-auditing professionals appear to have high expectations of auditors to find fraud and anomalies. The results demonstrated the existence of a gap between the auditors and non-auditing professionals (Quick, 2020). According to the auditors, the latter groups allegedly misinterpret their obligations concerning the fraud detection exercise. Moreover, it is clear from current practice that public sector auditors cannot identify fraud unless suspected during the audit.

The findings are aligned with studies by Colley and Gaye (2020), Abonawara (2013), and Stranberg and Deepal and Jayamaha (2022), in which non-auditing professionals believed that auditors should look for fraud. If the auditors could not accomplish these duties, they were considered deficient in performance. The results also support the finding by Xu and Akther (2019). They hypothesized that one of the variables contributing to the public sector AEG is the auditor's responsibility for fraud detection. Therefore, it is plausible to infer from the available evidence that non-



auditing professionals from the public and private sectors believed that auditors should be responsible for identifying fraud.

On the issue of whether an auditor is responsible for reporting fraud, the auditors unanimously acknowledged that they are not under any obligation to report any fraud to the authorized agencies. However, the views differed between auditors and non-auditing professionals. For instance, a member of PAC viewed that the auditors did a good job reporting fraud, while others felt that they were not.

"Other agencies should be responsible for reporting fraud. Instead, we concentrate on improving the government departments' and agencies' weaknesses. We are not responsible for reporting fraud and uncovering people's mistakes" (Auditor 3).

"Auditors are not stern in reporting fraud. They fail in various situations" (Journalist 1).

"The auditor must have the courage to report and do so. He should not be afraid of criticism" (Academician 1).

"Auditors performed an excellent job in reporting" (PAC 2). "Perhaps, auditors want to avoid any upcoming issue, and they did not report in the audit report" (Journalist 2).

The findings concurred with the work of Akther and Xu (2020), Colley and Gaye (2020), and Abonawara (2013), that there is a noticeable difference of opinion between auditors and non-auditing professionals on the role of auditors in reporting fraud.

## CONCLUSION

The study's objective is to look into AEG's existence in Malaysia from the perspectives of public auditors and other non-auditing professionals. AEG examines performance audits, auditors' independence, and auditors' responsibilities in detecting and reporting fraud. The results indicated that the auditors and non-auditing professionals have different views concerning performance audits. Besides, the results revealed that the auditors perceived they were independent of any influence that could impair their judgment. On the other hand, non-auditing professionals perceived otherwise. Also, the results indicated that the non-auditing professionals perceived that detection and disclosing fraud are under auditors' responsibilities, which differs from

what the auditors perceived.

While the management is responsible for these duties, an auditor must express an opinion on the faithful and fairness of the accuracy of financial transactions and financial statements. Also, their responsibilities include assessing how adequate is internal controls in preventing or promptly identifying material misstatements.

The audit expectation gap is still an issue and hurts the auditing profession because the wider the gap, the less respect and trust the public relies on the auditors. As this phenomenon is crucial and sensitive to the audit profession, all parties, namely government, accounting, and the public, should play concerted efforts to narrow down the gap by elevating the public's understanding of the statutory and professional roles of auditors in the public sector.

## Practical Implications

Indeed, the auditors' poor performance and the unreasonable expectations of the non-auditing professionals are based on the foundation of AEGs. Therefore, to narrow the AEGs and dispel unrealistic expectations, the government and professional accounting bodies should educate the public to be more aware of the precise nature of auditing, the duties and responsibilities of auditors, and many messages in audit reports.

The study also provides implications to the government, NAD, and accounting professional bodies to empower auditors by providing them with sufficient audit training tailored to current situations. Also, the findings provide information about the AEG concerning performance auditing, auditor independence, and the auditor's responsibilities in identifying and disclosing fraud in Malaysia. As a result, researchers may better grasp these elements' applicability to auditors and non-auditing professional perceptions. This study will contribute new knowledge in improving performance audits in Malaysia. It provides the NAD with evidence of a broader picture of the acceptance and value of the performance audit as a monitoring technique in ensuring accountability and raising government agency performance.

Additionally, the findings of this research contribute evidence concerning the audit expectation gap relating to performing an audit in the Malaysian

context. A review of prior literature showed that prior research had investigated the perceptions of auditors and users in Western, African, and Middle East contexts, where the political and socio-economic factors are significantly different. As such, the findings will provide beneficial insights not only to Malaysia and other ASEAN countries but also to other developed and developing countries in minimizing the audit expectation gap by meeting the societal needs and thus reducing potential litigations against public sector auditors.

### **Theoretical Implications**

The study adds to the body of auditing literature by exposing the problems connected to the AEG in three audit concepts: performance audit, auditor independence, and the duty of detecting and reporting fraud. Besides, the investigation can determine the elements related to audit concepts. The researchers can use the discoveries as a starting point for researching audit expectation gaps or for better comprehending the aspects of the gap in the public sector.

Additionally, the study supports the validity of policeman theory, role conflict theory, and theory of inspired confidence that there are audit expectation gaps between the public sector auditors and non-auditing professionals over three auditing concepts.

### **Limitations and Suggestions for Future Research**

This study has identified several limitations and offered suggestions for future research. First, the researchers do not include auditors at the management level as they failed to obtain approval from several heads of government departments and agencies. Because of this, the study consists of the views of senior and junior auditors. To enhance the richness of the data, the researchers recommended future studies to include auditors at a higher level as they could provide more valuable insights into the duties of public sector auditors from the management's perspective.

Second, the results might have the potential of non-response bias due to the refusal of several PAC members to participate in the study. As a result, the data on how PAC members responded might need to accurately reflect what other non-participating PAC members perceive. To promote their participation, the researchers recommended

future studies to assure the PAC members of the importance of their involvement in ensuring that the government expenditure is spent economically, efficiently, and effectively.

Third, this study uses a qualitative approach to investigate and identify the AEG's presence in the Malaysian public sector. Employing this approach, the study only investigates the views of several informants; thus, it does not represent the entire population in Malaysia. To overcome the methodological issue, the researchers suggested that future studies use a quantitative survey method. In this method, the researchers can gauge how serious the AEG is between the auditors and non-auditing professionals in the Malaysian public sector.

Fourth, although financial and compliance audits are equally important, this research only investigates performance audits. To enhance understanding of AEG, the researchers suggested future research to examine the existence of AEG in other types of audits, such as financial statements and compliance auditing. Eventually, the findings will improve our understanding of AEG in two different forms of auditing.

### **Acknowledgment**

The authors would like to express gratitude to Lincoln University College and Universiti Teknologi MARA for supporting and funding the research. The gratitude also goes to all the informants who voluntarily participated in this research.

### **REFERENCES**

- Abonawara S; 2013. The development of auditing and the possible existence of an expectation gap in Libya. Huddersfield, UK: University of Huddersfield.
- Akther T, Xu F; 2020. Existence of the audit expectation gap and its impact on stakeholders' confidence: The moderating role of the financial reporting council. *International Journal of Financial Studies*, 8(1):1-25.
- Aminu B, Joshua O, Terzungwe N, Mohammed NA; 2022. Independence factors influencing audit expectation gap in listed deposit money banks in Nigeria. *Journal of Accounting and Taxation*, 14(1):1-12.

- Astolfi P; 2021. Did the international financial reporting standards increase the audit expectation gap? An exploratory study. *Accounting in Europe*, 18(2):166-195.
- Bell E, Bryman A, Harley B; 2022. *Business research methods*. Oxford, UK: Oxford university press.
- Colley L, Gaye TT; 2020. An investigation of audit expectation gap in the Public Sector in Sub-Saharan Africa: The Case of The Gambia. Kristianstad, Sweden: Kristianstad University.
- Conteh S, Hamidah H; 2021. Audit expectation GAP in The public sector of The Gambia. *The Indonesian Accounting Review*, 11(2):127-141.
- Coram PJ, Wang L; 2021. The effect of disclosing key audit matters and accounting standard precision on the audit expectation gap. *International Journal of Auditing*, 25(2):270-282.
- Cresswell J, Miller D; 2000. Getting good qualitative data to improve. *Theory into Practice*, 39(3):124-130.
- Dang TA, Nguyen DKN; 2021. Components constituting the audit expectation gap: The Vietnamese case. *The Journal of Asian Finance, Economics and Business*, 8(1):363-373.
- Deepal AG, Jayamaha A; 2022. Audit expectation gap: A comprehensive literature review. *Asian Journal of Accounting Research*, 7(3):1-12.
- García-Hernández B, Duréndez A, Rojo-Ramírez AA; Taylor & Francis; 2022. The audit expectation gap and strengthened independence standards in the European Union: Measuring the effects of the new EU directive. *Accounting Forum*, 46(3):264-286.
- Ittonen K; 2010. A theoretical examination of the role of auditing and the relevance of audit reports. Vaasa, Finland: Vaasan Yliopisto.
- Johnson K, PwC to pay \$7.9 million to settle U.S. SEC charges; 2019. <https://reut.rs/3fQc202>.
- Katz D, Kahn RL; 1978. *The social psychology of organizations*. New York, NY: Johan Willey.
- Khan SN; 2014. Qualitative research method-phenomenology. *Asian Social Science*, 10(21):1-14.
- Lee TH, Gloeck JD, Palaniappan A; 2007. The audit expectation gap: An empirical study in Malaysia. *Southern African Journal of Accountability and Auditing Research*, 7(1):1-15.
- Lim I, In court, former auditor-general says 1MDB was OSA during PM Najib's time, couldn't even be mentioned in govt meetings; 2022. <https://bit.ly/3EkpXEZ>.
- Mat Daud Z; 2007. The study of the audit expectations gap in the public sector of Malaysia. Stirling, Scotland: University of Stirling.
- Porter B; 1993. An empirical study of the audit expectation-performance gap. *Accounting and Business Research*, 24(93):49-68.
- Quick R; 2020. The audit expectation gap: A review of the academic literature. *Maandblad Voor Accountancy en Bedrijfseconomie*, 94:5-25.
- Reza MMU, Khatun A; 2020. Perception of audit expectation gap: A study on business students of Bangladesh. *World Journal of Vocational Education and Training*, 2(1):1-11.
- Salehi M; 2016. Quantifying audit expectation gap: A new approach to measuring expectation gap. *Zagreb International Review of Economics & Business*, 19(1):25-44.
- Salehi M, Jahanbin F, Adibian MS; 2020. The relationship between audit components and audit expectation gap in listed companies on the Tehran stock exchange. *Journal of Financial Reporting and Accounting*, 18(1):199-222.
- Shoaib A, PwC fined a record £5.1m by the FRC over RSM Tenon audit. *Accountancy Age online*; 2017. <https://bit.ly/300y396>.
- Shoaib A, PwC fined a record £ 10m over BHS audit; 2018. <https://bit.ly/2tRn6yx>.
- Xu F, Akther T; 2019. A partial least-squares structural equation modeling approach to investigate the audit expectation gap and its impact on investor confidence: Perspectives from a developing country. *Sustainability*, 11(20):1-21.