

THE IMPACT OF AUDIT EDUCATION ON PERCEPTIONS OF DEFICIENT AUDITOR PERFORMANCE

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ABSTRACT

There is now considerable evidence available as to the role that audit education can play in the reduction of the audit expectation gap. The majority of this evidence is directed at the unreasonableness element of the gap and has focused on reducing user misunderstanding regarding the audit process through education. However, there is a lack of evidence regarding the impact of audit education on the deficient performance gap. This gap has been defined as the difference between the existing duties of auditors and the performance of those duties as perceived by society. This study attempts to address this weakness by investigating whether exposure to auditing modules influences students' perceptions of the performance of duties by auditors. Results indicate that those respondents exposed to the greatest amount of audit education were also the groups most sceptical of the duties performed by auditors. Education is seen as removing a certain level of professional mystique surrounding auditing by providing students with the necessary skills to scrutinise and evaluate the audit process.

INTRODUCTION

The auditing profession around the world has in recent years been subject to widespread criticism and litigation which has increasingly undermined the profession's credibility. Some of this criticism is based on society's perceptions of deficient performance of duties by auditors (Porter, 1993; Porter and Gowthorpe, 2001). The deficient performance gap is one element of the audit expectation gap, a gap which signifies the divergence between the expectations of society regarding the role of the auditor and the auditing profession's belief of what the auditor can reasonably be expected to achieve (Liggio, 1974). Attempts to redress such perceptions are among the main challenges currently facing the auditing profession in order to prevent any further decline in confidence for audit services.

The purpose of this paper is to examine whether audit education can reduce the deficient performance element of the audit expectation gap. There is now considerable evidence available as to the role that audit education can play in the reduction of the overall audit expectation gap (Beck, 1973; Mednick, 1986; Monroe and Woodliff, 1993; Porter, 1993; Gramling, Schatzberg and Wallace, 1996; Pierce and Kilcommins, 1997). However, the majority of this evidence is directed at the unreasonableness element of the gap and has focused on reducing user misunderstanding regarding the audit process through education. There is a lack of evidence available regarding the impact of audit education on the deficient performance gap which we seek to address in this paper. Furthermore we seek to identify the drivers of perceptions of deficient auditor performance which we argue is a necessary first step in addressing the gap.

The remainder of this paper is organised as follows. *The following section* provides an overview of the audit expectation gap, the role of audit education in addressing the gap and an outline of possible threats which could contribute to perceptions of deficient performance. The third section describes the methodology adopted in this study. Section four presents the results from the study which are then discussed in section five. The final section summarises and concludes from the study.

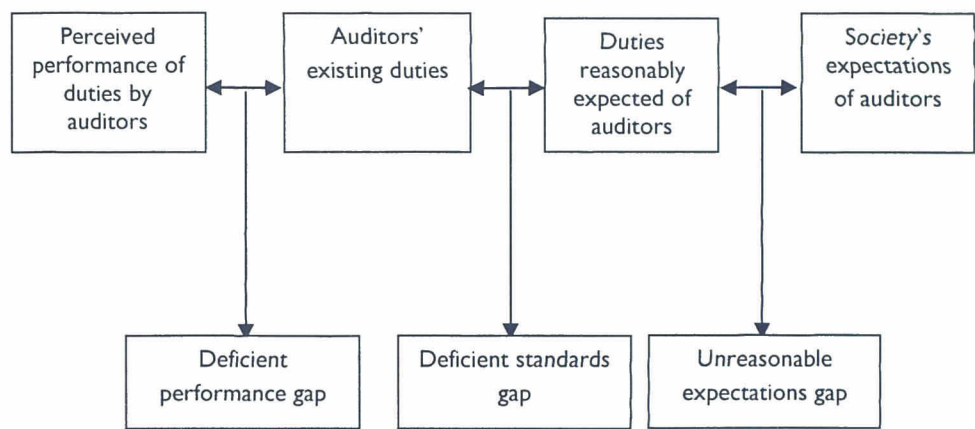
BACKGROUND TO THE AUDIT EXPECTATION GAP

Liggio (1974) defined the audit expectation gap as the difference between the levels of expected performance 'as envisioned by the independent accountant and by the users of financial statements' (p. 27). The gap is not a recent phenomenon and has received much attention by both the profession (AICPA, 1978; CICA, 1988; Auditing Research Foundation (UK), 1989; ICAI, 1992; ASCPA/ICA, 1994) and researchers (Gloeck and deJager, 1993; Humphrey, Moizer and Turley, 1993; Monroe and Woodliff, 1993; Porter, 1993; Pierce and Kilcommins, 1997, Porter and Gowthorpe, 2001). Such research has shown that a gap exists and if the auditing profession is to maintain any credibility then steps must be taken to reduce this gap.

Humphrey (1997) highlights that the historical development of the audit expectation gap seemed to overlook the possibility of deficient auditor performance. One exception to this was Porter (1993), who developed a framework depicting the elements of the audit expectation gap, one element of which consisted of a deficient performance gap (see Figure 1). Porter (1993) argued that previous definitions of the audit expectation gap were deficient as they were excessively narrow and failed to recognise the possibility of sub-standard performance by auditors. Hence she defined the gap as the difference between the duties that society expects from auditors and the perceived performance of those duties by auditors. Porter's model, as shown in Figure 1, depicts the three components of the audit expectation gap: a gap between the duties that society expects auditors to perform and those duties that can reasonably be performed by auditors (unreasonable expectations gap); a gap between the duties that can be

reasonably expected of auditors and auditors’ existing duties as defined by auditing standards, other professional promulgations, the law and regulations (deficient standards gap); and a gap between auditors’ existing duties and the perceived performance of these duties (deficient performance gap).

Figure 1: audit expectation gap (adapted from Porter, 1993)



Narrowing the gap

Porter (1993) argues that knowledge of the structure and composition of the audit expectation gap allows us to identify how the gap can be narrowed. Research conducted by Porter and Gowthorpe (2001) suggests that, at least in the UK, approximately 50 per cent of the audit expectation gap derives from society having unreasonable expectations of auditors, 42 per cent from auditors not being required to perform duties that can reasonably be expected of them, and eight per cent from auditors’ perceived deficient performance. A lack of knowledge or understanding on behalf of auditors themselves and society at large has been seen to contribute to at least two components of the gap (unreasonableness gap and deficient performance gap). Hence, education must have some to role to play in reducing these elements of the gap.

Education and the audit expectation gap

The issue of audit education and its impact on the audit expectation gap has been debated in the literature over the past number of years (Sikka, Puxty, Wilmott and Cooper, 1992; Humphrey et al., 1993; Monroe and Woodliff, 1993; Pierce and Kilcommins, 1997; Ferguson, Richardson and Wines, 2000). While empirical studies would seem to suggest that audit education contributes to reducing the gap, this view is by no means unanimous and indeed it has been suggested that audit

education is an inappropriate response to the expectation gap (Sikka et al., 1992; Humphrey et al., 1993; Williamson and Major, 2001).

One of the main problems in attempting to address the audit expectation gap, and in particular the user misunderstanding element, is that there exists a general lack of public interest in the work of the auditor (Darnill, 1991). Auditing is viewed as complex, and does not lend itself to gross simplification; as a result, mass communication of the audit role will be an inappropriate response to the gap. Darnill (1991) suggests that this is a key consideration as regards reducing the expectation gap, and argues that audit education rather than mass communication is needed to create an awareness of the complexities of modern business life and the role played by accountants and auditors.

Empirical studies would appear to lend support to this argument. Monroe and Woodliff (1993) investigated the effect of education on student perceptions of the meaning of audit reports and the responsibilities of the auditor. Results indicated that audit education significantly reduced the gap. Pierce and Kilcommins (1997) conducted a similar study, which investigated the impact of audit education on the unreasonable expectation element of the gap. The results of their study indicated that audit education did contribute toward reducing levels of user misunderstanding, which consequently narrowed the unreasonable expectation element of the audit expectation gap. Ferguson et al. (2000) found that audit education narrowed the difference in views between students and auditors as regards the responsibilities of the auditor. While they found that audit education did to some extent reduce the expectation gap, significantly greater narrowing of the gap was found when such students undertook work experience in audit related areas. This finding supports the recurring belief that audit education alone may be an ineffective means of eliminating the expectation gap.

Education: an inappropriate response?

Humphrey et al. (1993) argue that the existence of a gap between expectation and performance is not entirely attributable to ignorance on the part of users, but rather a failure of the profession to respond to changes in the business environment. Sikka (1997) concurs with this suggestion and opines that the apparent unwillingness or indeed the inability of the profession to expand its responsibilities to meet the needs of the public is a significant contributor to the expectation gap. On that basis audit education is considered to be of little use in addressing the gap, as the problem is perceived to rest with the profession rather than with the public.

Williamson and Major (2001) argue that the expectation gap can never truly be reduced by talking down the expectations of society. This assertion was to some extent supported by Pierce and Kilcommins (1997), where it was found that audit education had only a limited effect on the fraud detection element of the expectation gap. This is in line with the "common sense" notion suggested by Sikka et al. (1992) whereby certain elements of the expectation gap are predicated on individual perceptions, which will not be easily altered by education. This point is of particular relevance to the current study as fraud has been established as a

major component of the deficient performance gap (Porter, 1993; Porter and Gowthorpe, 2001).

Education and the deficient performance gap

While the empirical research does lend support for audit education as a means of addressing the gap, the majority of the research as outlined above has been focussed on the misunderstanding element of the gap. Although audit education has been suggested as a means of reducing the deficient performance gap (Porter, 1993; McEnroe, 2001), no research (that we are aware of) has been directed at investigating whether this holds true. The lack of empirical research has allowed suppositions that audit education alone may not be entirely effective in addressing the deficient performance element of the gap and that solutions for the gap ultimately rest in changes within the profession (Epstein and Geigner, 1994; Boyd, 2000). This study focuses attention upon this very issue by investigating the impact of auditing education on the deficient performance gap.

Elements of the deficient performance gap investigated in the study

The following two areas of deficient performance have been identified for investigation in the current study:

1. Auditor duties relating to fraud; and
2. Auditor duties relating to going concern.

More specifically the study examines the impact of audit education on how well auditors are perceived to be performing in these specific areas. These areas were selected based on a review of the literature on the audit expectation gap as discussed below.

The first element investigated in the study is that of auditor duties relating to fraud. The issue of fraud and the auditor has been debated in the literature and indeed has been suggested by Humphrey et al. (1993) as going to the heart of the audit expectation gap. Evidence from the studies conducted by Robinson and Lyttle (1991) and Porter (1993) suggests that the expectation gap is probably at its widest in relation to fraud. In Ireland, the auditor's responsibility in relation to fraud is governed by SAS 110 (APB, 1995a). However, while limited in terms of its scope, there is a requirement to design audit procedures so as to detect and subsequently report instances of material fraud. Porter and Gowthorpe (2001) established that both fraud detection and reporting duties constituted a significant part of the deficient performance gap. Therefore, two areas in which fraud may contribute to the deficient performance gap are perceptions that material fraud will go undetected and that material fraud will go unreported. It has been argued that while there is no foolproof audit method for the detection of fraud (Wells, 2002), failure to report the existence of fraud following its detection by the auditor can be viewed quite negatively and indeed represents a failing on the part of the auditor.

Montgomery, Beasley, Menelaides and Palmrose (2002) contended that the introduction in the US of the exposure draft to supersede the previous auditing

standard on fraud (SAS 82) would have a beneficial effect on the deficient performance gap. The standard, if implemented, would involve an assessment of the risk of fraud throughout the audit process and an evaluation, on completion of the audit, of whether the accumulated results of audit procedures and other observations have affected perceptions of the risk of fraud (Montgomery et al., 2002). This expanded requirement would substantially change auditor performance and thereby improve the likelihood that auditors would detect material misstatements due to fraud in a financial statement audit. Similar steps have been called for in the UK and Ireland. Sikka, Puxty, Wilmott and Cooper (1998) suggest that it is the unwillingness of the profession to detect significant fraud which has caused the deficient performance gap in this area, and they argue for increasing the fraud detection and reporting responsibilities of the auditor. However, McHugh (1996) indicates that fraud is often very difficult to detect not only because it involves concealment through falsification of documents but also because the tools that are used by the auditor are of limited use in the detection of a crime of such an intricate nature. Therefore, to expand the duty of the auditor to one of fraud detection would also change the entire landscape of the audit process. The auditor would be approaching the audit with a presumption that fraud has occurred, a presumption which would need to be subsequently disproved. While such demands exist to expand auditor responsibility (Sikka et al., 1998), Barclay (1985) argues that the public may be unwilling to accept the increased costs of an audit which an expansion in auditors' duties in the area of fraud would ultimately bring. While the profession may argue, and perhaps justly so, that fraud detection is an unreasonable expectation, without an adequate response to the issue perceptions of deficient performance are likely to remain.

The second category of auditor duties examined in the study related to going concern. The issue of the auditor's responsibility in determining whether an entity can continue in operational existence has gained particular prominence recently in the light of high profile corporate failures. Not surprisingly, the first question to be asked following a company failure is "where was the auditor?" (Barnes and Huan, 1993) and this apparent presumption of auditor responsibility is perhaps one of the reasons why the issue of going concern goes to the heart of the audit expectation gap. In Ireland, the auditor's responsibility in relation to going concern is governed by SAS 130 (APB, 1995b). Empirical evidence has suggested that auditors have a poor track record in making going concern decisions. Taffler and Tseung (1984) found that, of the companies examined in their study, fewer than half of company failures were preceded by a qualified audit opinion. Taffler and Tisshaw (1988) conducted a similar study and found that of the corporate failures analysed only 20 per cent had been previously issued with a qualified audit opinion. Although the research in this area is inconclusive, it is not surprising to find that Porter and Gowthorpe (2001) established perceptions of deficient auditor performance in the area of going concern as a major component of the deficient performance gap. The impact of the existence of such perceptions could be far reaching and may indicate much more than mere perceptions of deficient auditor performance in the area of going concern. Going concern is a concept that permeates financial reporting and

those who rely on audited information, unless otherwise advised, will presume a company is capable of continuing for the foreseeable future. Therefore, perceptions of poor performance in this area are not only questioning auditor performance but are also implicitly questioning the credibility of the audit as a service, given that the going concern basis is so fundamental to the preparation of financial statements.

Factors contributing to perceptions of deficient auditor performance

Having established and outlined the background and components of the audit expectation gap and the role of audit education in addressing the gap, and in particular, the deficient performance gap, it is now necessary to establish what factors contribute to the existence of such perceptions of deficient auditor performance. We argue that such perceptions arise through an awareness of the threats to auditor performance that currently exist within the audit environment. While there may be a number of possible threats to auditor performance which could be investigated here, we have selected threats to auditor independence as independence has been identified as going to the heart of the audit expectations gap (Humphrey, 1991; Sikka et al., 1992; Humphrey et al., 1993). A useful starting point is to analyse the current professional guidance in the area of independence, which recognises self review, self interest and familiarity threats as the most detrimental to auditor independence (ICAI, 2001).

The self review threat recognises that auditor independence could be diminished if auditors are left to review their own work, whereas the self interest threat relates to a reduction in auditor independence when the auditor has a self interest in the client company (Gray and Manson, 2000). Both of these threats are prevalent in the issue of the provision of non-audit services (NAS) by audit firms to audit clients. The impact on auditor independence of the provision of NAS to audit clients has received much attention in the literature and, following the demise of Enron, it is back at the top of the auditing profession's agenda. Some previous studies have found that the provision of NAS to audit clients can lead to a perceived reduction in auditor independence (Wines, 1994; Canning and Gwilliam, 1999). Part of this threat to auditor independence from the provision of NAS results from the creation of possible increased fee dependency. Sikka (1997) suggests that audit firms have become more aggressive in selling audits to the extent that the audit has become a "loss leader", and is used as a means to access more lucrative NAS. Given the growth of NAS in recent times and the adverse effect it appears to have on perceptions of auditor independence, it is understandable why perceptions of deficient auditor performance may exist in such an environment.

The third threat to auditor independence addressed in this study is the familiarity threat which is developed primarily through long audit tenure. While it can be argued that audit services are no different to any bona fide service in that it is not unusual for companies to retain suppliers of services for prolonged periods of time, prolonged audit contracts raise the question of whether an auditor can remain objective and independent in relation to a company where a strong

client/auditor relationship has been built up. In such circumstances auditors may become complacent in their audit approach or overly trusting of client explanations and thereby forfeit their ability to offer an independent opinion. As noted by McHugh (1996, p. 12), 'effective performance of the audit (role) requires a level of detachment between the auditor and the management that is not evident in current practice'.

THE RESEARCH

Research objective

The objective of the research was twofold: (i) to investigate the impact of audit education on the deficient performance gap; and (ii) to investigate the impact of audit education on perceptions of deficient auditor performance when threats to auditor performance are seen to exist.

Data collection

A survey questionnaire was employed to obtain data on the impact of audit education on perceptions of auditor performance (see **Appendix 1**¹). A questionnaire design was used because it has been suggested as ideal for focusing students' perceptions on their educational experience (DeMong, Lingren and Perry, 1994), and previous research in the area (Porter, 1993; Pierce and Kilcommmins, 1997; Ferguson et al., 2000; Porter and Gowthorpe, 2001) employed a quantitative approach to data collection. As the current research is aimed at adding to the existing body of research it was necessary that a certain amount of uniformity existed between the various studies in the area. Stewart and Kamins (1993) indicate that uniformity in research instruments between studies increases the comparability between the previous research and the new study.

A survey questionnaire was completed by three groups of students, each of which was exposed to varying levels of audit education as outlined in **Table 1** below. The three classes comprised of accounting and finance undergraduate students in years two (AF2) and three (AF3) and a Masters in Accounting class (MBSA). The study included a *before-after* design (Sapsford and Jupp, 1996) in that AF2 students were surveyed before (in week eight of semester two) and after (in week 12 of semester two) taking an introductory four week auditing module. However, it must be noted that a limitation of a *before-after* design is that researcher effects may influence findings. AF3 students had not received any introductory course in auditing in their second year. Instead auditing was offered as an elective module to AF3 students in semester two which allowed for a *between* group analysis between those who took the elective (58) and those who did not (60). Questionnaires were distributed to them in week 12 of semester two. The MBSA class studied auditing in both semesters one and two and they were surveyed in week 12 of semester two. It must be noted that two auditing lecturers taught all student groups and as a result one potential limitation of this study is that we are measuring the scepticism of the lecturers and not that of students.

TABLE 1: CLASS PROFILES

Class	No.	Level of audit education
Undergraduate year 2: AF2 (before)	115	None
Undergraduate year 3: AF3 (no audit)	60	None (no introductory module when in second year)
Undergraduate year 2: AF2 (after)	115	Introductory 4 weeks, 2 hours per week
Undergraduate year 3: AF3 (audit)	58	12 week module, 2 hours per week
Masters in Accounting: MBSA	29	22 week module, 4 hours per week

The questionnaires were distributed on a surprise basis at the end of a normal scheduled lecture and students were requested to complete the questionnaire immediately. The number of students attending the lecture represented a typical attendance and response rates were high; there is therefore no reason to suspect any form of non-response bias. The questionnaires took approximately 15 minutes to complete and all were returned immediately on completion.

Structure of questionnaire

The compilation and shortlisting of questions which would provoke the most appropriate data and information relevant to the stated objective were arrived at following a careful review of the literature (see **Appendix 1**). The first part of the questionnaire followed the findings of previous research conducted by Porter (1993) and Porter and Gowthorpe (2001) in the area, who found that much of the deficient performance gap comprised of perceptions of poor auditor performance in the areas of fraud and going concern. Therefore, a number of auditors' duties in the areas of fraud and going concern as outlined in auditing standards and company legislation were included in the questionnaire. The respondents were required to indicate how well they perceived auditors to be performing each of these duties on a five-point scale from very well to very poorly. The second part of the questionnaire was aimed at investigating the impact of audit education on perceptions of deficient auditor performance when threats to auditor performance were seen to exist. Non-audit services and audit tenure threats, identified above as potential causes of the deficient performance gap, were included in the questionnaire. Respondents were required to indicate how well they would perceive auditors to be performing their existing duties, when such threats were seen to exist, on a five-point scale from very well to very poorly. The questionnaire was pre-tested in order to ensure that it was well drafted and unambiguous.

Data analysis

Data was analysed using SPSS. Before undertaking the statistical analysis it was necessary to code each piece of data. Responses for each of the 32² statements reported in this paper were coded on a scale from one to five, where a score of one

indicated that the duty was perceived to be performed very well, whereas a score of five indicated very poor performance of the duty. All statistical testing has been carried out at the five per cent significance level. The extent and makeup of the overall deficient performance gap for each respondent was computed using discrete means. A separate gap for each major component of the deficient performance gap, two of which components are reported in this paper, was computed in a similar manner.

RESEARCH FINDINGS

Demographic details

The primary objective of the research was to establish the effect of audit education on perceptions of deficient auditor performance. However, the demographic details, as shown in Table 2, were requested from respondents in order to establish whether they influenced perceptions regarding the performance of duties of auditors. Non-parametric tests were performed in order to determine whether responses to the questionnaire were in any way associated with these demographic and related details but no significant differences were found.

TABLE 2: DEMOGRAPHIC DETAILS

	AF2 Before		AF3 No Audit		AF2 After		AF3 Audit		MBSA	
Total	83		48		69		47		28	
	no.	%	no.	%	no.	%	no.	%	no.	%
Gender:										
Male	41	49	33	69	32	46	14	30	15	54
Female	42	51	15	31	37	54	33	70	13	46
Do you wish to follow a career in accounting?										
Yes	73	88	34	71	58	84	44	94	27	93
No	10	12	14	29	11	16	3	6	1	7
Do you have any accounting related work experience?										
Yes	29	35	25	52	27	39	26	55	22	79
No	54	65	23	48	42	61	21	45	6	21
Do you have any auditing related work experience?										
Yes	10	12	6	13	8	12	10	21	9	32
No	73	88	42	87	61	88	37	79	19	68

Overall perceptions of auditor performance

The overall deficient performance gap was computed for each class that had responded to the survey by adding the mean responses for all statements included in part one of the survey. Each response was scored on a scale from one to five. A score of five indicated that the respondent perceived auditor performance to be

very poor in that area. Hence, the greater the mean score, the greater the belief that auditor performance was deficient. As can be seen from Table 3, the pattern in scores suggests that the more audit education received, the greater the scepticism created regarding the performance of audit duties.

TABLE 3: MEAN SCORES FOR THE OVERALL DEFICIENT PERFORMANCE GAP

Group	Mean Score	SD
AF2 (before)	68.27	7.940
AF2 (after)	70.81	8.022
AF3 (no audit)	71.88	8.265
AF3 (audit)	75.21	7.979
MBSA	80.64	5.300

For instance, Table 3 shows that the MBSA class, which was exposed to the greatest amount of audit education, was also the class for which the deficient performance gap was widest, as indicated by the high mean score. The AF2 (before) class, which had no exposure to auditing, was the class for which the deficient performance gap was narrowest. To analyse whether this difference was significant, non-parametric tests were performed, the results of which are shown in Table 4.

TABLE 4: COMPARISON OF MEAN SCORES FOR OVERALL DEFICIENT PERFORMANCE GAP

	Mann Whitney U Tests			
	Mean	Mean	Z	Sig
Pair 1: AF2 (before) and AF2 (after)	68.27	70.81	0.881	0.378
Pair 2: AF2 (after) and AF3 (audit)	70.81	75.21	1.938	0.050
Pair 3: AF3 (audit) and MBSA	75.21	80.64	2.006	0.045
Pair 4: AF3 (no audit) and AF3 (audit)	71.88	75.21	1.976	0.033
Pair 5: AF3 (no audit) and MBSA	71.88	80.64	2.635	0.008
Pair 6: AF2 (before) and AF3 (no audit)	68.27	71.88	1.608	0.108

Table 4 shows that while there was a slight widening in the gap following exposure to auditing for the AF2 class, this was not a significant difference. This was not a surprising result as this class received quite a short and limited introductory course in auditing. Equally, no significant difference arose when perceptions held by AF2 (before) were compared with perceptions held by AF3 (no audit). Neither of these two classes had received any audit education and on that basis one would not expect a significant difference in perceptions between these classes. Results indicate, however, that there is a significant difference in perceptions of deficient performance between those who had received a full year or module of auditing and those who had not. For instance, perceptions of poor auditor performance are significantly greater for students in the AF3 (audit) class than for students in AF2 (after), and for MBSA students compared to AF3 (audit) students.

Components of the deficient performance gap

The survey focused primarily on those issues which had been identified in the literature as contributing to the overall deficient performance gap and contained a number of statements regarding the performance of duties by auditors. These duties, which had been suggested in the literature as being performed inadequately by auditors, were classified into the following areas: (i) fraud (19 statements); and (ii) going concern (six statements). It was therefore possible to divide the overall gap into different components, two of which are reported in this paper. In order to investigate the impact of audit education on these two components, mean scores for all responses in each component were added as shown in **Table 5**. While the evidence presented above suggests that education widens the overall deficient performance gap, this is not entirely consistent across all components of the gap.

TABLE 5: MEAN SCORES FOR ELEMENTS OF THE DEFICIENT PERFORMANCE GAP

	Fraud				Going Concern			
	Mann Whitney U tests Range (19–95)				Mann Whitney U tests Range (6–30)			
	Mean	Mean	Z	Sig	Mean	Mean	Z	Sig
Pair 1	44.94	47.59	0.998	0.318	13.25	12.97	0.738	0.461
Pair 2	47.59	49.79	1.531	0.126	12.97	15.62	4.360	0.000
Pair 3	49.79	54.54	2.266	0.023	15.62	16.43	1.063	0.288
Pair 4	47.84	49.79	0.481	0.630	13.42	15.62	3.412	0.001
Pair 5	47.84	54.54	2.533	0.011	13.42	16.43	3.723	0.000
Pair 6	44.94	47.84	1.826	0.371	13.25	13.42	0.362	0.717

Pair 1: AF2 (before) and AF2 (after)
Pair 2: AF2 (after) and AF3 (audit)
Pair 3: AF3 (audit) and MBSA

Pair 4: AF3 (no audit) and AF3 (audit)
Pair 5: AF3 (no audit) and MBSA
Pair 6: AF2 (before) and AF3 (no audit)

The impact of audit education on perceptions of auditor performance of duties relating to fraud and going concern appears to be consistent with that of the overall gap. For instance, one of the more significant differences in perceptions regarding fraud and going concern duties arises for pair five where the amount of audit education varies the most. In this case, the MBSA were significantly more sceptical of auditors’ performance of duties relating to fraud and going concern.

To investigate the areas that contribute most to perceptions of deficient performance, rankings for both components of the gap were compiled according to the extent of the gap in each area. Total mean scores, as presented in **Table 5** above, were divided by the number of statements for each component and those components with the highest mean were assigned a rank of one, indicating the area which contributed greatest to the overall deficient performance gap. The results showed that while audit education may affect the extent of the overall gap, there was consistency in the make up of the gap across all classes. All classes considered

duties relating to fraud as being performed least well by auditors, followed by going concern duties.

Perceptions of auditor performance in the area of fraud

Further analysis of each component of the gap was also undertaken. Perceptions of auditor performance in the area of fraud were divided into two separate areas (i) fraud detection duties (six statements); and (ii) fraud reporting duties (13 statements). Mean scores for all statements were added and are presented in Table 6.

TABLE 6: MEAN SCORES FOR FRAUD DETECTION AND REPORTING

	Fraud Detection				Fraud Reporting			
	Mann Whitney U Tests Range (6–30)				Mann Whitney U Tests Range (13–65)			
	Mean	Mean	Z	Sig	Mean	Mean	Z	Sig
Pair 1	13.04	14.03	0.120	0.905	31.90	33.56	1.300	0.194
Pair 2	14.03	14.17	0.694	0.488	33.56	35.62	1.284	0.199
Pair 3	14.17	15.50	1.886	0.050	35.62	39.04	2.199	0.028
Pair 4	13.67	14.17	0.459	0.649	34.17	35.62	0.477	0.633
Pair 5	13.67	15.50	2.121	0.034	34.17	39.04	2.561	0.010
Pair 6	13.04	13.67	0.099	0.921	31.90	34.17	2.142	0.082

Pair 1: AF2 (before) and AF2 (after)

Pair 4: AF3 (no audit) and AF3 (audit)

Pair 2: AF2 (after) and AF3 (audit)

Pair 5: AF3 (no audit) and MBSA

Pair 3: AF3 (audit) and MBSA

Pair 6: AF2 (before) and AF3 (no audit)

The pattern once again is consistent with that of the overall gap. In relation to fraud detection and reporting responsibilities, while there was a slight increase in perceptions of deficient performance within pairs one, two, four and six, the increase was not significant. In line with the general pattern, pairs three and five showed significant increases in perceptions of deficient auditor performance of duties relating to fraud detection and reporting. Once again pairs one and six, where there was little difference in the level of audit education received, demonstrated the least amount of change in perceptions of auditor performance in the area of fraud detection and reporting. To investigate the impact of audit education on the make up of the gap relating to fraud, a table of rankings was compiled. As with the overall gap, there was consistency in the make up of each component of the gap. All classes perceived auditor performance of duties relating to the reporting of suspected or actual fraud to be the most deficient and contributed most to the fraud related element of the overall deficient performance gap.

Perceptions of auditor performance in the area of going concern

The element of the overall gap caused by perceived poor performance of duties relating to going concern was subdivided further into: (i) investigative (three statements); and (ii) reporting (three statements) responsibilities in the area of

going concern. Mean scores for each responsibility in the area were added and are presented in Table 7.

TABLE 7: MEAN SCORES FOR GOING CONCERN INVESTIGATIVE AND REPORTING DUTIES

	Investigating Going Concern				Reporting Going Concern			
	Mann Whitney U Tests Range (3–15)				Mann Whitney U Tests Range (3–15)			
	Mean	Mean	Z	Sig	Mean	Mean	Z	Sig
Pair 1	6.22	6.97	2.325	0.020	7.03	6.00	3.035	0.002
Pair 2	6.97	7.72	2.169	0.030	6.00	7.89	4.348	0.000
Pair 3	7.72	8.36	1.381	0.167	7.89	8.07	0.349	0.727
Pair 4	7.02	7.72	2.186	0.029	6.40	7.89	3.339	0.001
Pair 5	7.02	8.36	2.636	0.008	6.40	8.07	3.539	0.000
Pair 6	6.22	7.02	2.163	0.081	7.03	6.40	1.457	0.145

Pair 1: AF2 (before) and AF2 (after)

Pair 4: AF3 (no audit) and AF3 (audit)

Pair 2: AF2 (after) and AF3 (audit)

Pair 5: AF3 (no audit) and MBSA

Pair 3: AF3 (audit) and MBSA

Pair 6: AF2 (before) and AF3 (no audit)

The findings here were consistent with those found in terms of the overall gap. Pairs two, four and five (representing the pairs in which there exists the greatest variance in audit education) all showed significant differences in the perceived performance of going concern duties. For duties relating to going concern *reporting*, the direction of the significant difference in the case of pair one was the opposite of what was expected. The AF2 class, following the introductory audit course, believed auditor performance in this area was significantly better than they had perceived it to be before taking the course. We also found that all classes perceived auditor performance in the area of reporting going concern matters to be the most deficient and consequently contributed the most to this element of the overall deficient performance gap.

Impact of independence threats on perceptions of auditor performance

The second part of the survey contained seven statements and respondents were asked to indicate how well they perceived auditors would perform their existing duties when faced with certain situations. By adding the mean of all the responses for each audit situation, the effect of the existence of certain audit threats on perceptions of auditor performance could be ascertained. The mean scores for each class, which are presented in Table 8, would seem to indicate that audit education increased perceptions of deficient performance and widened the gap when independence threats were believed to exist.

TABLE 8: IMPACT OF THREATS TO AUDITOR INDEPENDENCE ON DEFICIENT PERFORMANCE GAP

Group	Mean Score	SD
AF2 (before)	18.26	4.085
AF2 (after)	18.48	3.491
AF3 (no audit)	19.95	2.960
AF3 (audit)	20.87	3.569
MBSA	21.95	3.310

In order to determine whether these differences were significant further analysis was undertaken by subdividing the threats to independence into two categories (i) provision of NAS (four statements) and (ii) audit tenure (three statements) and performing class comparisons based on level of education. Mean scores for each statement in each category were added and are presented in Table 9.

TABLE 9: MEAN SCORES FOR THREATS TO AUDITOR INDEPENDENCE

	Provision of NAS				Audit Tenure			
	Mann Whitney U Tests				Mann Whitney U Tests			
	Mean	Mean	Z	Sig	Mean	Mean	Z	Sig
Pair 1	11.28	10.77	1.063	0.288	6.98	7.71	1.279	0.201
Pair 2	10.77	12.76	3.642	0.000	7.71	8.11	1.303	0.193
Pair 3	12.76	12.96	0.855	0.393	8.11	8.99	1.562	0.118
Pair 4	12.46	12.76	1.437	0.151	7.49	8.11	1.536	0.124
Pair 5	12.46	12.96	0.539	0.500	7.49	8.99	3.086	0.002
Pair 6	11.28	12.46	1.158	0.247	6.98	7.49	1.348	0.178

Pair 1: AF2 (before) and AF2 (after)

Pair 2: AF2 (after) and AF3 (audit)

Pair 3: AF3 (audit) and MBSA

Pair 4: AF3 (no audit) and AF3 (audit)

Pair 5: AF3 (no audit) and MBSA

Pair 6: AF2 (before) and AF3 (no audit)

The results indicate that those classes with more audit education perceived audit independence threats to have a greater adverse effect on auditor performance compared to those classes who had received less audit education. However, these differences in perceptions were only significant in the following cases. Both threats to auditor independence posed a significant difference in perceptions of auditor performance held by AF3 (no audit) compared to MBSA. In both cases, MBSA perceived the performance of auditors to be poorer than their AF3 (no audit) counterparts. Furthermore, the provision of NAS posed a significantly greater threat to auditor performance for AF3 (audit) compared to AF2 (after).

DISCUSSION OF RESULTS

The major finding of the study is that audit education appears to create greater scepticism regarding the performance of existing duties by auditors. Perceptions of

deficient auditor performance increased significantly for those students who were exposed to the greatest amount of audit education. It is also apparent from the findings that the extent to which the deficient performance gap widens is directly related to the amount of audit education received. This relationship between audit education and the audit expectation gap is consistent with previous studies, but the direction of the relationship is inconsistent with previous studies. For instance, Pierce and Kilcommins (1997) and Ferguson et al. (2000) found that audit education contributed to reducing the gap. However, these studies were directed at the unreasonable expectation component of the gap and as indicated by Boyd (2000) there was no evidence to suggest that similar results would hold true for all elements of the gap. Pierce and Kilcommins (1997) also suggest that 'education may not be effective in addressing all of the elements of the expectation gap' (p. 93). The current findings lend support to this argument and indicate that education can in fact contribute to widening the deficient performance element of the gap.

Fraud and the deficient performance gap

An interesting finding emerged regarding the makeup of the deficient performance gap between the respondent classes. While the extent of the gap did widen significantly as the level of audit education increased, there was complete consistency between the classes regarding the areas that contributed the greatest to the deficient performance gap. For all classes, duties relating to fraud were perceived to be performed most deficiently by auditors. This finding is consistent with previous research in the area which showed the audit expectation gap to be widest in relation to fraud (Porter, 1993; Humphrey, 1997; Pierce and Kilcommins, 1997). Furthermore, it was found that the more audit education the respondents had received, the more sceptical they were regarding the performance of fraud-related duties by auditors. This finding is inconsistent with previous research: for instance, Pierce and Kilcommins (1997) indicated that 'in certain areas such as fraud detection, education may only have a limited impact on the expectation gap' (p. 111). Sikka et al. (1992) also suggested that elements of the gap relating to fraud tend to be predicated on individual perceptions that are not easily altered through education. These studies were directed at the unreasonable expectation element of the audit expectation gap. The implication of our finding is that while audit education may have a limited impact on individual expectations regarding auditor responsibilities in the area of fraud (unreasonableness gap), it may have an impact on individual perceptions of how well these duties are performed (deficient performance gap).

Threats to auditor performance: the impact of education

Having established the central finding, that audit education appears to widen the deficient performance gap, two issues arising from this need to be addressed. Firstly, what causes perceptions of deficient auditor performance, and, secondly, why do such perceptions of deficient performance increase with audit education? The second part of the survey, which examined the effect of the existence of certain threats on perceptions of deficient performance, addresses these two issues. The

findings suggest that perceptions of deficient auditor performance are likely to increase if threats to effective performance are seen to exist. The results also indicate that those classes for which the deficient performance gap is widest, such as the MBSA and the AF3 (audit), are also the classes that perceive the existence of certain independence threats to be the most detrimental to auditor performance. Therefore, from this finding, two important conclusions can be drawn: perceptions of deficient auditor performance are directly related to the perceived existence of threats to performance; and the existence of threats to auditor performance is perceived to have the greatest adverse effect on auditor performance among those exposed to the greatest amount of audit education.

In the context of the current study, it is reasonable to suggest that those classes exposed to the least amount of audit education would also possess the least amount of audit knowledge, whereas those exposed to the greatest amount of audit education would possess the greatest amount of audit knowledge. Audit education is also normative in nature in that it typically prescribes the duties, function and nature of the audit process. It provides the recipient with an insight into what the auditor should be doing and it is this "normative notion" which is crucial to the perceived deficient performance gap. Given that audit education provides an appreciation of what the auditor should be doing, this automatically creates the opportunity for comparison between the *prescribed performance of the auditor* and the perceived actual performance of the auditor. In other words it enables the creation of an expectation gap between prescribed and perceived performance, i.e. the deficient performance gap, as defined above.

As a result of audit education, those classes such as the MBSA and AF3 (audit) are most aware of the audit environment needed for auditors to perform their duties effectively. Therefore, perceptions of poor performance are likely to be created through an increased awareness of the threats to auditor performance that currently exist within the audit environment. This assertion is supported by the findings in this study in that those classes with the most audit education consistently perceived the existence of certain threats to have a significant adverse effect on auditor performance.

Auditor independence threats

Two possible threats to auditor independence selected for this part of the study included the self review threat (provision of NAS) and the familiarity threat (long audit tenure). The findings in this study support the proposal that awareness of the existence of such threats to auditor independence contributes to perceptions of deficient auditor performance. These perceptions of deficient auditor performance are significantly greater for those exposed to more audit education compared to those exposed to less audit education. Audit education provides an increased awareness that the current audit environment, characterised by threats to auditor performance, is by no means conducive to effective performance of auditors' duties and as a result perceptions of deficient auditor performance are found among these groups exposed to audit education. Therefore, if there has been a perceived reduction in independence, and independence is seen as crucial for the audit

function, then ultimately perceptions of deficient auditor performance will exist as evidenced in the present study.

Audit education: removing the mystique

The accounting profession exhibits a high level of professional insulation, created through its lack of openness and transparency. Parker (1994) suggests that this insulation creates a sense of professional mystique, which in turn ensures that interference in the profession is minimised. This notion can be applied when examining the impact of education on the deficient performance gap. For those groups with little or no audit education a certain level of mystique surrounds the accounting and auditing profession. This mystique has been maintained through the lack of education, which prevents the understanding and evaluation of the audit process. It is reasonable to suggest that this level of mystique surrounding the profession is contributing to the perception that auditor performance in most respects is satisfactory.

For those with more audit education, a certain level of professional insulation has been removed. Audit courses by their very nature not only provide the basics regarding the audit process but also scrutinise and examine the environment within which the profession operates and in doing so reduce the level of insulation. Therefore the mystique that had previously surrounded the profession has been eroded through exposure to the workings of the audit process. It is reasonable to suggest that the erosion of professional mystique is contributing to the high levels of scepticism regarding auditor performance held by those classes exposed to the greatest amount of audit education.

CONCLUSION AND FURTHER IMPLICATIONS

From an academic perspective, the findings suggest that exposure to audit education can significantly increase perceptions of deficient auditor performance and consequently widen the deficient performance gap. However, previous studies in the area of audit education have indicated that considerable benefits or reductions in the audit expectation gap could be derived through audit education by addressing user misunderstanding. Therefore, education appears to be serving conflicting roles, on the one hand reducing user misunderstanding regarding the audit function while on the other feeding perceptions of deficient auditor performance.

Although audit education, in the current study, has been shown to create perceptions of poor auditor performance, such a relationship is entirely dependent on the state of the audit environment as discussed above. Education merely provides the medium through which the audit process and the environment conducive to this process are conveyed. It is the comparison between the environment needed for effective performance of audit responsibilities and the audit environment perceived to exist that will ultimately create or diminish perceptions of deficient auditor performance. Therefore although this study has indicated a widening in the deficient performance gap following education,

primarily due to the current wave of criticism facing the profession, such a finding may not be indicative of future studies in the area. Perceptions of auditor performance, while affected by education, are ultimately a symptom of the problems within the auditing environment and responsibility for improving such perceptions must rest with the profession.

The findings of the current study are of particular relevance to the profession considering it is those individuals about to join the profession that are most sceptical of the auditor's work. By eliminating the threats to auditor performance that currently exist and rebuilding public confidence in the audit service, perceptions regarding auditor performance should begin to improve. The elimination of threats to auditor performance can only begin if the fundamental deficiencies within the regulatory and disciplinary procedures, which currently seem to allow the existence of such threats to go unchallenged, are addressed. The role of education in such a process will also be vital. Educators need to continually provide insight into the audit function and the various responsibilities of the auditor. If the audit environment is perceived to be free from the various threats discussed above, then there is no reason to suggest that audit education will create perceptions of deficient auditor performance. However, the likelihood of the profession truly responding to and addressing these threats is doubtful, considering its traditional resistance to change.

The auditing profession provides a public service and consequently will always be subjected to public scrutiny. Improved communication by the profession regarding developments and improvements within the audit environment is therefore also necessary to tackle the deficient performance gap. The undoubted dedication, drive and competence of the majority of auditors tends to be undermined by reports of the failings and inadequacies of some in the profession. The scales need to be rebalanced firstly by attacking the problems inherent in the profession and secondly by improving communication between the profession and the public.

The findings of the study have given a valuable insight into the causes of perceptions of deficient auditor performance and the impact of education on such perceptions. Such an insight may be enhanced by future research in the area, for example, by undertaking a comparative study at a time when the auditing profession faces less criticism than it currently does. Research could also be usefully directed at examining the impact of professional accounting education on perceptions of auditor performance. Like the deficient performance gap, little attention has been given to the effect of education on the deficient standards component of the overall audit expectation gap and future research could also be usefully directed at this area.

APPENDIX 1

Extracts from Questionnaire

Part 1: Auditors' Duties	Reference
The auditor designs audit procedures so as to detect material misstatements in the client's financial statements arising from fraud	SAS 110 Fraud and error
The auditor relies less on management explanation when he is suspicious of fraud within the client company	SAS 110 Fraud and error
The auditor detects deliberate distortions of figures in the client's financial statements	SAS 110 Fraud and error
When the auditor is doubtful as to the integrity of the client company's management he reports this to: <ul style="list-style-type: none"> a) Board of directors b) Shareholders c) Gardaí (Police) 	SAS 110 Fraud and error
When the auditor becomes suspicious of material fraud within the client company, he reports this to: <ul style="list-style-type: none"> a) Board of directors b) Shareholders c) Gardaí (Police) 	SAS 110 Fraud and error
When the auditor uncovers the embezzlement of organisational assets by senior management he reports this to: <ul style="list-style-type: none"> a) Board of directors b) Shareholders c) Gardaí (Police) 	Porter and Gowthorpe (2001)
The auditor reports a negative audit opinion if he uncovers a fraud that has materially distorted the client's financial statements	SAS 110 Fraud and error
The auditor investigates material off balance sheet financing by the client company	SAS 110 Fraud and error
The auditor investigates material falsification of accounting records by the client company	Case Law: Re Thomas Gerard and Sons, 1965; SAS 110 Fraud and error
The auditor investigates all unusual transactions entered into by the client company	Case Law: Re Kingston Cotton Mills Co. Ltd, 1896; SAS 110 Fraud and error
The auditor reports suspicions of money laundering by the client company to: <ul style="list-style-type: none"> a) Board of directors b) Shareholders c) Gardaí (Police) 	SAS 120 Consideration of law and regulations

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When the auditor is doubtful about the continued existence of the client company he reports this to: a) Board of directors b) Shareholders	SAS 130 The going concern basis in financial statements
The auditor checks the appropriateness of the application of the going concern basis to the client's financial statements	SAS 130 The going concern basis in financial statements
When the auditor disagrees with the preparation of the client's financial statements on the going concern basis, the opinion in the audit report is qualified	SAS 130 The going concern basis in financial statements
The auditor reviews the directors' statement of the effectiveness of the client company's internal controls	Bulletin 1995/1: Corporate Governance
The auditor investigates significant payments made by the client company to its directors	s.31 Companies Act, 1990

Part 2: Audit Situation

The auditor provides non-audit services (NAS) to client companies	Canning and Gwilliam (1999); Wines (1994)
NAS income received by the audit firm from a client company is greater than the audit income received from the same company	Sikka (1997)
NAS are provided to client companies by: a) personnel involved in the audit of the client b) a separate department within the audit firm	Canning and Gwilliam (1999)
The audit firm audits the same client for: a) under 5 years b) between 5–10 years c) more than 10 years	Canning and Gwilliam (1999)

NOTES

¹ This paper is part of a wider study and only those questions relevant to the current paper are reported in **Appendix 1**.
² Twenty-five statements relate to part one of the study (without independence threats) and seven statements relate to part two of the study (with independence threats).

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