EXPECTATIONS OF USERS OF FINANCIAL INFORMATION WITH REGARD TO THE TASKS CARRIED OUT BY AUDITORS

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1. INTRODUCTION AND OBJECTIVE

Almost all countries with a developed capital market have systems at their disposal to protect savers and investors against abuses by persons or institutions attracting money. As a rule, companies are liable to provide shareholders, grantors of credit and potential investors with financial data, to inform these interested parties on the position and development of the company. A traditional way to report upon the financial situation of a company is by submitting financial statements to the general meeting of shareholders. After its approval by the general meeting of shareholders, these financial statements are put at the disposal of the general public in Belgium via the Balance Sheet Centre of the Belgian National Bank.

This causes a problem which results from the asymmetry that exists with regard to the access to information between the management on the one hand and the shareholders (and - as a result of the obligation to publish - the general public) on the other hand. For the management may have an interest in using the financial statements to draw a picture of the company that is not consistent with the truth, and therefore to mislead the investors. Since this procedure may have a harmful effect on the operation of financial markets and on the correct allocation of financing sources, most Western countries have created a control function to guarantee the reliability of the annual statements of account that are published. In Belgium, this task is given to an independent specialist, i.e. a ‘bedrijfsrevisor’: as soon as a company exceeds certain criteria with regard to its size, the intervention of an auditor is obligatory.

To guarantee an efficient control to the shareholders and (particularly for companies quoted on the stock exchange) to the general public, the auditors have to meet stringent requirements both with regard to their professional knowledge and with regard to their independence. To guarantee both things, the legislator and the professional institute, the ‘Instituut der Bedrijfsrevisoren’ ((IBR) - the Institute of Auditors) worked out a regulation that can be found in the Acts of 22 July 1953 and 21 February 1985, the related implementing orders and the standards and recommendations of the Institute. In addition to this, the IBR is obliged to check to what extent this imposed regulation is actually observed by individual auditors. The Hoge Raad voor het Bedrijfsrevisoraat en de Accountancy (Council of Auditing and Accountancy) is obliged by the authorities and by the government, management and trade unions to supervise the auditors to guarantee that the public interest remains the central point in the exercise of their duties.

Similar systems aimed at the protection of investors exist in other countries. Especially in the Anglo-Saxon context, there seems to be a particular concern about the question how effective the existing control mechanisms really are. A widespread suspicion is awoken about external auditors who perform more or less the same tasks as their Belgian colleagues, a suspicion that is nourished by a few cases in which independent auditors had approved the financial statements of a certain company, although it turned out later on that there were significant errors in these financial statements. For a while, this development was regarded as a typical Anglo-Saxon problem that is connected with the specific features of the system of financial reporting in those countries. But since a couple of years, similar problems have arisen in continental Europe, and also in Belgium. The concrete cause in Belgium were a few cases in which big auditing firms became the talk of the town, as a result of which questions were asked by the press about the security provided by the Belgian auditors.

One of the basic elements of this problem is the fact that it must be admitted that there is no unequivocal and unambiguous definition of the aim and contents of the external audit of the financial statements by an auditor (Humphrey, 1991). In the last twenty years, this uncertainty has been defined as the ‘expectations gap’ in academic literature (and also in professional publications). It is assumed that auditors and users of financial statements have a different definition of the term 'external audit'. When reading the available literature on this matter, it is striking how often it is assumed that there is indeed a difference between the view of auditors and the view of users of annual statements of account with regard to the auditing task of auditors. But it must be pointed out that there are many countries that have only little empirical evidence by means of which it could be established whether there is indeed an expectations gap and what the nature of this gap might be. There are no concrete data for Belgium either. The results of a survey among auditors in 1990 suggest that there might be an expectations gap in Belgium too (De Lembre and De Beelde, 1990).

This paper reports the first findings of a comprehensive empirical inquiry into the view of all persons involved in financial reporting on the role of auditors. The paper is structured as follows. First, the results of the inquiry into the expectations gap in the United Kingdom, Spain and the United States are listed. A couple of the studies mentioned used an instrument that was developed by Humphrey, Moizer and Turley; in the next part of this paper, this instrument is described in short since it was used for the present investigation too. Subsequently, the preliminary results of the investigation are listed, and a few tentative conclusions are formulated in the last part of the paper.

2. LITERATURE REVIEW

The term ‘expectations gap’ takes a prominent position in the audit literature in the second half of the seventies. In 1978, the American Cohen Committee reported significant differences between what the public expected from the audit of financial information and the definition used by auditors themselves to describe their tasks (AICPA, 1978). The discussion about this expectations gap resulted in the issuing of new audit standards by the American auditing profession at the end of the eighties (Roussey et al., 1988).

In the period that followed, several studies were made of the further evolution of this expectations gap. Gramling et al. (1996) stress that the American investigation was not a comprehensive one: both Miller et al. (1990) and Epstein & Geiger (1994) restricted themselves to a comparison of the audit standards and the views of a group involved in financial reporting, whereas Lowe & Pany (1993) compared the views of a number of members of the jury with the views of a number of auditors. The conclusion of Epstein & Geiger (1994) was that an expectation gap existed with respect to the level of assurance auditors provide for the detection of errors and irregularities. Overall, similar conclusions were drawn in the other studies.

A more comprehensive analysis of the differences between the views of various categories of users of financial information and the views of the auditors themselves was made by Humphrey et al. (1993). This British study included a survey of several groups involved in the reporting process. The respondents were asked what the task of external auditors was or should be. They were also asked to give their view on the regulation of the profession, the features of the persons following the profession and the decision they were supposed to take in a number of case studies. The group of respondents included accountants, financial managers, investment analysts, credit administrators from financial institutions and financial journalists. This investigation identified a substantial expectations gap, among other things with regard to fraud detection, the liability of the auditor vis-à-vis third parties, the independence of auditors and the extent to which auditors deal with risks and uncertainties.

The inquiry set up by Humphrey et al. turned out to be highly important, not only because it concerned a much larger target group, but also because it served as a model for similar inquiries in other countries. The best example until now is Spain, where Garcia-Benau et al. (1993) opted for a similar approach and came to completely different conclusions that were placed in a wider perspective in Garcia-Benau & Humphrey, 1992: they even concluded that "as regards the concept of an audit expectations gap, it currently has no operational significance in Spain".

Next to the American and British investigation (with its replication in Spain), a comparable survey was set up in New Zealand (Porter, 1991). It concerns a survey asking the respondents about their knowledge of and their view on the tasks of an auditor. This survey showed that the knowledge of this matter was rather restricted.

Finally, the survey by Humphrey et al. constituted the basis of an American survey (Gramling et al., 1996). The questionnaires which had been drawn up in Great Britain were adapted to the American context. The aim of the American survey was different from the one of the initial survey. Here, the aim was to find out if the expectations gap of undergraduate university students could be avoided by including an auditing course in the curriculum. The view of students following such a course was compared with the view of students who did not follow this course and with the view of professional auditors. The conclusion of the survey was that there were significant differences between the views of both groups of students and the views of the group of professional auditors, although it is true that the inclusion of an auditing course had an influence on these differences.

To guarantee that the results of the investigation in Belgium would be comparable to the results in other countries, it was decided to start from the methodology developed in Humphrey et al. (1993) for the present investigation. The questionnaires used were adapted to the Belgian situation and they were translated into French and Dutch.

3. RESEARCH METHOD

The aim of the inquiry into the audit expectations gap is to find out if there are differences in the expectations with regard to the role of the auditor. A questionnaire is the most appropriate instrument to do this, since far more respondents can be reached that way. Of course, this method of investigation has certain restrictions, among other things problems with regard to a consistent interpretation. The answers may differ depending on the respondents' experience with audit practices and it is possible that opinions are given on the role, the services and the regulations without taking the costs involved into account. The original questionnaires, developed by Humphrey et al. tried to minimise this problem by pretesting and by using several question strategies and certain methods in drawing up the questionnaires. Three experienced auditors checked our translation to see whether the translation was accurate. Differences in the degree to which respondents were familiar with the audit function were no problem, since the aim was to identify what perceptions exist about auditors and external audits. The aim is to find out whether certain perceptions can be associated with a certain target group and whether the perceptions between the various target groups differ. The aim has never been to see if those expectations are justified.

The questionnaire consists of 3 parts:

(1) a series of questions about collecting various views on the basic principles of the auditing process and the characteristics of external audits.
This includes among other things:
⇒ statements with regard to the auditor and the auditing process,
⇒ statements with regard to the guarantees the auditor gives about the audited annual accounts and the company that is audited
⇒ questions about the auditors' liability vis-à-vis the various users of the financial statements
⇒ statements with regard to prohibitory rules and regulations for auditors
The respondents were asked to indicate to what extent they could agree with a certain proposition on the basis of a seven points scale.

(2) a series of questions to identify what attributes are associated with the auditor's performance. The aim of this part is to identify which performance factors are mostly associated with the

auditor. For various activities, the question is asked how successful auditors are with regard to those particular activities. A seven points scale is used to that end, ranging from very bad to very good. An eighth answer is possible if the activity or the performance factor in question is not applicable to the auditor.

(3) a series of short case studies in which the respondents are asked to indicate which action they expect the auditor to undertake. There are six short case studies in which the respondents are asked to give their perceptions on the reporting of information and the scope of an audit.

Four target groups participated in the survey: auditors, banks, managers of big enterprises and small and medium-sized businesses.

A first target group were the auditors. Since the aim is to find out whether there are differences between the views of the users of audit services and the views of the auditors themselves, it is important to get a picture of how auditors see their task. All Belgian auditors received a questionnaire.

Banks often use annual statements of account and therefore they were the second target group. The annual statement of account of the company concerned is an important source of information to the bank, especially when this company is asking for a credit. All banks under Belgian law were included in the survey. The questionnaire was addressed specifically to the manager of the credits department; if his name was not known, the question was asked to the chairman of the Executive Committee.

A group that is also involved in external auditing are the managers of the company. The financial statements can be regarded as some kind of account given by the manager to the owners of the company with regard to his policy. Within an agency context, the role of the auditor can be regarded as an additional guarantee regarding the reliability of the data provided. Consequently, it is important to know how they see the role of the auditor. The survey focused on companies that are legally liable to appoint an auditor, in other words on companies that are liable, according to accounting law, to draw up financial statements according to the full scheme of annual accounts and on companies quoted on the stock exchange. First of all, the questionnaire was addressed to the accounting department and if we did not have a name, it was addressed to the finance department.

Also small enterprises were included in the survey to get a picture of the views of companies that are not directly involved in the auditing process and to reach a number of shareholders that way, since there is often no difference in smaller companies between ownership and management. Companies that were allowed to prepare summarised financial statements were regarded as small or medium-sized businesses.

4. PRELIMINARY RESULTS OF THE INVESTIGATION

4.1 Degrees of response

The questionnaires were addressed to various target groups. There was a different degree of response for the various target groups.
At the time the mailing was sent, the total number of auditors amounted to 945, 593 of which were Dutch-speaking (63 %) and 352 of which were French-speaking (37 %). Those are all the natural persons registered with the Instituut der Bedrijfsrevisoren (Institute of Auditors). Since this was a rather restricted target group, all auditors were included in the survey. The total number of answers amounts to 22,4 %, or 212 answers. Table 1 shows the degree of response for every target group.

	TOTAL	DUTCH-SPEAKING	FRENCH-SPEAKING
RANDOM SAMPLE	945	593	352
RESPONSE	212	140	72

DEGREE OF RESPONSE	22.43 %	23.61%	20.45%

Table 1: degree of response for the auditors

133 questionnaires were sent to the banks. 62 of them were in Dutch (47%) and 71 were in French (53%). The degree of response is 35 %. A division per target group is shown in table 2.

	TOTAL	DUTCH-SPEAKING	FRENCH-SPEAKING
RANDOM SAMPLE	133	62	71
RESPONSE	46	26	20
DEGREE OF RESPONSE	34.59%	41.94%	28.17%

Table 2: degree of response for the banks

2000 companies were chosen at random to approach the managers of companies. The companies to which a mailing was sent were the 2000 biggest companies from the Trends Top 30.000 (included in the list on the basis of their turnover) and all companies quoted on the stock exchange that do not belong to the above-mentioned category. That gives a total number of 2095 companies, 141 of which are quoted on the stock exchange. The degree of response was 21 %, divided among the French-speaking and the Dutch-speaking managers, as is shown in table 3.

	TOTAL	DUTCH-SPEAKING	FRENCH-SPEAKING
RANDOM SAMPLE	2095	1372	723
RESPONSE	437	309	128
DEGREE OF RESPONSE	20.86%	22.52%	17.57%

Table 3: degree of response for the managers

A random selection of 1000 businesses was made among the small and medium-sized businesses. Here the degree of response was very low: 3.5 %. The answers were often widely different from the ones given by the other target groups. Since these answers could lead to a misrepresentation of the overall picture without being representative for the target group, we decided not to include this target group in the further analysis of the answers received.

	TOTAL	DUTCH-SPEAKING	FRENCH-SPEAKING
RANDOM SAMPLE	1000	656	344
RESPONSE	35	27	8
DEGREE OF RESPONSE	3.50%	4.12 %	2.33%

Table 4: degree of response for small and medium-sized businesses

4.2 Analysis of the results

The aim of this investigation is to find out whether there is an expectations gap with regard to the role of auditors in Belgium, and if there is, to determine the most important characteristics of this gap. The statistical test used is the Kruskal-Wallis one-way variance analysis, with a significance level of 5%.

4.2.1 Expectations with regard to auditors and the auditing process

The respondents were asked to give their opinion on 13 propositions with respect to auditors and external auditing in general (see table 6).
Generally speaking, it may be noted that in 12 out of 13 statements there is a significant difference between the answers given by the various groups of respondents.

Table 6: Statements regarding the auditor and the auditing process

	AUDITOR	BANKS	MANAGEMENT	Chi²
In the last few years, the quality of external audits has improved	5.35 (5)	4.78 (5)	4.58 (5)	49.61
Investors expect too much from the auditors	4.64 (5)	4.57 (4)	4.21 (4)	14.75
Auditors are too willing to satisfy the management	3.60 (4)	4.43 (5)	3.88 (4)	11.36
Auditing standards are too general. The effect of the auditing process is considerably reduced.	2,76 (2)	4,24 (4)	3,89 (4)	83,36
Auditors are inclined to settle complaints regarding their assignment out of court	4.57 (4)	5.09 (5)	4.57 (4)	10.28
An external audit carries little advantages for a company	2.07 (2)	2.57 (2)	3.04 (2)	40.56
Generally speaking, companies think that audits are too time-consuming	4.08 (4)	4.80 (5)	4.37 (5)	8.73
Auditors have not enough insight in the problems of running a company	2.65 (2)	4.48 (5)	4.22 (4)	110.12
An external audit is an effective protection against fraud	3.17 (3)	3.59 (4)	3.69 (3)	11.80
Auditors ought to find ways to improve the management efficiency	4.23 (4)	4.33 (5)	4.60 (5)	NS
Auditors ought to keep shareholders informed of the management efficiency	3.54 (3)	4.96 (5)	4.57 (5)	44.76
An audit committee should increase the auditor's independence	4.49 (5)	5.33 (6)	4.55 (4)	11.95
The quality of the audit proceedings is guaranteed by the professional standards	4.98 (5)	3.78 (4)	4.33 (4)	41.72

The average figures are based on a seven points scale: 1 = totally disagree with,
4 = neutral,
7 = fully agree with.
NS = Non significant, i.e. $Chi^2 < 5{,}99$
Median values shown in parentheses

The biggest difference relates to the proposition that auditors do not have a sufficient insight into the problems of running a company. Most auditors are of the opinion that they have enough insight into these problems, for 73% of the auditors does not agree with this proposition. Only 35% of the banks and 39% of the managers disagrees with this proposition.
The second biggest variance regards the proposition that auditing standards are still too general, as a result of which the effect of the auditing process is considerably reduced. In Belgium, the IBR issues auditing standards that have a binding effect. 69% of the auditors does not believe that the auditing standards are too general. The managers' views differ greatly on this matter: 41% disagrees with this proposition, 22% is neutral and 37% agrees with the proposition. The banks are more inclined to accept this proposition: 33% disagrees, 22% is neutral and 44 % agrees
Then there are differences with regard to the following propositions: the quality of external audits has improved in the last couple of years, the quality of the auditing proceedings is sufficiently guaranteed by the professional standards, an external audit carries little advantages for a company and auditors ought to keep shareholders informed of the management efficiency. It is remarkable

that with regard to the latter proposition the majority of auditors is of the opinion that they have sufficient insight into the problems of running a company and that they ought to find ways to improve the management efficiency, but they do not tend to agree with the proposition that they ought to keep the shareholders informed of the management efficiency. Banks and managers on the other hand seem to think that the shareholders ought to be kept informed of the management efficiency.
The differences with regard to the proposition that auditors ought to find ways to improve the management efficiency are not significant enough to allow us to conclude that there is an expectations gap.

4.2.2 Expectations with regard to the role of the auditor concerning the audited financial statements

The respondents were asked to give their opinion on the role of the auditor concerning the audited financial statements, and they were asked more in particular if they thought that it should be in compliance with acts and regulations and that there should be no errors or fraudulent data in it.

Table 7:Expectations with regard to the auditor and the auditing process

	AUDITOR	BANK	MANAGEMENT	chi²
The auditor ought to guarantee that the audited financial statements complies with the legal and statutory regulations that are in force	6.57 (7)	6.85 (7)	6.71 (7)	NS
The auditor ought to guarantee that there are no material fraudulent data in the audited annual accounts	3.70 (4)	5.65 (6)	5.77 (6)	146.46
The auditor ought to guarantee that there are no material errors in the audited annual accounts	6.23 (7)	6.22 (7)	6.23 (7)	NS

The average figures above are based on a seven points scale: 1 = totally disagree with, 4 = neutral, 7 = fully agree with.
NS = Non significant, $Chi^2 < 5{,}99$
Median values shown in parentheses

With regard to the statements on audited accounts, the conclusion may be drawn that there is indeed an expectations gap concerning the aspect of fraud. The groups of banks and managers seem to take a unanimous stand with regard to this proposition: 80 % and 82 % respectively agrees with the proposition, whereas this was only 39 % in the group of auditors.
As for the other two statements, namely that the annual accounts ought to comply with legal and statutory regulations and that there should be no material errors in the annual accounts, there seems to be no problem.

An additional question was asked about the exactness of the audited annual accounts. The respondents were asked what certainty they thought they could expect from the auditor with regard to the exactness of the annual accounts. As opposed to the previous question, no seven points scale was used here, but there were 3 possible answers:

1 = absolute certainty, i.e. 100 % guarantee that there are no errors in the annual accounts.
2 = relative certainty, a slight possibility that there are errors in the annual accounts.
3 = relative certainty, there is a possibility that there are errors in the annual accounts, but

they are so insignificant that they do not really have an influence on the decisions of the user of these financial statements.

86 % of the auditors mentions a relative certainty with the possibility that there are errors, but that they are so insignificant that they do not really have an influence on the decisions of the user of the annual accounts; the remaining 14 % of auditors is of the opinion that they provide a relative certainty with only a slight possibility that there are errors in the annual accounts.
In the bank sector, 67 % opts for answer 3, 24 % opts for answer 2 and 9 % expects an absolute certainty. Among the group of managers, 59 % expects relative certainty as described in answer 3, 29 % expects relative certainty as described in answer 2, and 12 % expects an absolute certainty.

Table 8: Statements regarding the exactness of the audited annual accounts

	AUDITOR	BANK	MANAGEMENT	chi²
The certainty regarding the exactness of the audited annual accounts that may be expected from the auditor	2.86 (3)	2.59 (3)	2.48 (3)	76,89

The average figures above are based on the following scale:
1 = absolute certainty, 100 % guarantee that there are no errors in the annual accounts.
2 = relative certainty, a slight possibility that there are errors in the annual accounts.
3 = relative certainty, a possibility that there are errors in the annual accounts, but they are so insignificant that they do not really have an influence on the decisions of the user of these annual accounts.
Median values shown in parentheses

4.2.3 Expectations with regard to the role of the auditor concerning the audited enterprise

Here, the respondents were asked to judge some six statements with regard to the audited enterprise. Differences can be noticed for every single proposition.

Table 9: Statements regarding the audited enterprise

	AUDITOR	BANK	MANAGEMENT	chi²
All evidence of material fraud is found	2.64 (2)	5.00 (6)	5.23 (6)	192.15
There is a satisfactory internal audit system	5.83 (6)	6.20 (6)	6.25 (6)	17.16
There is no doubt about the continuation of the enterprise	5.08 (6)	5.72 (6)	5.69 (6)	18.98
The company is run efficiently	2.88 (2)	4.78 (5)	4.84 (5)	150.40
The competent authorities are informed of all important violations	3.12 (2)	5.28 (6)	4.47 (5)	72.21
The balance sheet gives a correct representation of the company	4.75 (6)	6.13 (7)	6.33 (7)	104.16

The average figures above are based on a seven points scale: 1 = totally disagree with, 4 = neutral, 7 = fully agree with.
NS = Non significant, Chi² < 5,99
Median values shown in parentheses

Again, the biggest difference concerns the aspect of fraud (Chi² = 192). Only 20% of the auditors agree with the proposition that all evidence of material fraud within the audited

enterprise is found, whereas 71 % of the managers and 67% of the banks seconds this proposition.
The second biggest variance is noticed with regard to the proposition that the company is run efficiently. Auditors tend to believe that this is not part of their duties, 61 % disagrees. But the managers and banks tend to regard this as part of the auditor's task, 67 % of the banks and 62 % of the managers agree with this proposition.
Other important differences in the expectations can be noticed with respect to the following propositions: the balance sheet gives a correct representation of the company and the competent authorities are informed of all important violations.
In the literature on this matter, the going-concern problem is often mentioned when the expectations gap is discussed. There is a significant difference with regard to the proposition that within an audited enterprise there is no doubt whatsoever about the continuation of the business (Chi^2 = 19), but this difference is less significant than the one with regard to the aspect of fraud. It concerns a rather slight variance here. 70 % of the auditors agree with this proposition, whereas in the bank sector and among the group of managers this percentage is 87% and 81 % respectively.
Also with respect to the existence of a satisfactory internal audit system within an audited enterprise, the differences between the expectations are rather small.

4.2.4 Liability of the auditor vis-à-vis several groups

This part deals with the problems regarding the auditor's liability. The problem is as follows: 'The financial statements does not give a true picture of the company and yet the audit report contains a statement of approval. To what degree can the auditor be held liable vis-à-vis the following groups for any loss they may suffer by basing themselves on this financial statements?'

Table 10: Statements regarding the auditor's liability

	AUDITOR	BANK	MANAGEMENT	chi²
Existing shareholders	5.51 (6)	5.85 (6)	5.82 (6)	NS
Potential shareholders	4.50 (5)	5.26 (6)	5.06 (5)	11.17
Existing grantors of credit	5.22 (6)	5.89 (6)	5.48 (6)	6.58
Potential grantors of credit	4.49 (5)	5.46 (6)	4.96 (5)	12.54

The average figures above are based on a seven points scale: 1 = totally disagree with, 4 = neutral, 7 = fully agree with.
NS = Non significant, $Chi^2 < 5{,}99$
Median values shown in parentheses

The potential shareholders and the potential grantors of credit have different expectations, although the differences are rather small. Especially the banks have somewhat higher expectations.
The differences in expectations with regard to the auditor's liability vis-à-vis existing grantors of credit are trifling, and the differences with regard to the liability vis-à-vis existing shareholders are not significant enough to conclude that there is an expectations gap.

4.2.5 Prohibitory rules and regulations for auditors

Table 11 shows seven propositions concerning prohibitory rules and regulations for auditors and one proposition concerning the profit motive. In seven out of the eight propositions, there is an audit expectations gap.

Table 11: Statements regarding prohibitory rules and regulations for auditors				
	AUDITOR	BANK	MANAGE MENT	chi²
Auditors are forbidden to hold shares from clients	6.47 (7)	6.22 (7)	6.08 (7)	19.65
It is forbidden to offer non-auditing services to audit clients	2.79 (2)	5.13 (6)	4.03 (4)	68.09
Making a profit is not the main objective	3.65 (4)	3.80 (4)	4.00 (4)	NS
Make sure that no more than 15% of the total income comes from one and the same client	5.35 (6)	5.04 (6)	4.64 (5)	27.00
The mandate can be renewed only a couple of times	1.97 (1)	4.74 (5)	3.48 (3)	123.89
The audit methods must be checked by a professional body	5.08 (6)	5.24 (6)	4.85 (5)	7.21
The appointment and remuneration must be arranged by a person having no ties with the client	3.11 (2)	4.76 (5)	3.61 (4)	28.62
The auditor's liability must be restricted by law	5.54 (6)	4.69 (5)	5.00 (6)	15.47
The average figures above are based on a seven points scale: 1 = totally disagree with, 4 = neutral, 7 = fully agree with. NS = Non significant, Chi² < 5,99 Median values shown in parentheses				

The biggest differences are noticed with regard to the statement that the auditor's mandate can be renewed only a restricted number of times (Chi² = 124). According to art.64 of the Companies Act, the auditor is appointed for a renewable term of three years. The mandate can be renewed without any restriction. The auditors adopt a highly reluctant attitude with respect to the proposal to restrict this renewability, 85 % disagrees with the proposal. Among the managers, opinions differ on this matter, although 50 % does not agree with this proposition. However, most of the banks, i.e. 59 %, agree with it.

Expectations clearly differ with regard to the proposition that auditors are forbidden to offer non-auditing services (Chi² = 68). This is an aspect that is often associated with the expectations gap and with problems regarding independence. Both the Companies Act and the ethics stipulate that the auditor is not allowed to accept an assignment that could damage the independence of the auditor's function. It is also stated that exceptional or particular performances may be especially remunerated only if this is mentioned in the annual report to the General Meeting. It is forbidden to let an audit assignment be subject to the remuneration for other services rendered in the same company or in associate companies. The majority of the auditors, i.e. 68 %, does not agree with this proposition. Among the group of managers, opinions differ: 41 % disagrees, 19 % takes a neutral standpoint and 41 % agrees. But in the bank sector, 67 % agrees with this proposition.

The next variance is noticed with regard to the proposition that the auditor's appointment and remuneration must be arranged by a person that has no ties with the client. In principle, the auditor is appointed by the General Meeting of Shareholders and it is also the latter that decides upon the auditor's remuneration. The proposal to let an independent person take those decisions is not seconded by the auditors and by the managers: 58 % and 45 % respectively does not agree with this proposition, The banks are more inclined to opt for this system: 61 % agrees.

Expectations also differ with regard to the statement that an auditor must make sure that no more than 15 % of his total income comes from one and the same client. The ethics stipulate that auditors must not restrict their activities to such an extent that they become dependent on a restricted number of assignments or functions, all of which concretely depend on one single interest group or on one single authority. But no specifications are given about what is understood by "a highly restricted number". The majority of the auditors (73 %) and the banks (70%) seem to agree with this proposition, but among the group of managers opinions differ: only 53 % agrees, 24% is neutral and 23% disagrees.

Also with regard to the rule that it is forbidden for auditors to hold shares from clients, a (rather restricted) variance can be noticed. This prohibitory rule is included in the professional standards too. 89 % of the auditors, 85 % of the banks and 81 % of the managers agree with this proposition.

There is a slight variance with respect to the statement that law must restrict the auditor’s liability. In the present situation, the auditor is personally liable according to common law and there is no way to shirk this liability. This is a specific regulation that applies to all liberal professions. Most auditors seem to agree with this proposition (73 %). 58 % of the banks and 63 % of the managers agree with it. Still, it must be pointed out that a high percentage of all groups of respondents took a neutral standpoint.

Finally, the expectations differ with regard to the proposition that the audit methods ought to be checked regularly by a professional body, although the gap is fairly restricted. In the current situation, such a quality control is carried out by the Instituut der Bedrijfsrevisoren (Institute of Auditors). The majority of the three target groups seem to agree with this, although the lowest percentage is among the group of managers (60%).

There is definitely no expectations gap with regard to the statement that making profits is not the main objective.

4.2.6 How good or how bad are auditors at the following activities ?

The aim of this part is that the various target groups indicate to what extent auditors meet 21 different requirements that are associated with external audits. A seven points scale was used, ranging from very bad to very good. It was also possible to indicate that the attribute in question was not relevant for the activities performed by auditors.

Table 12: How good or how bad are auditors at the following activities ?

	AUDITOR	BANK	MANAGE MENT	Chi²
Detecting problems	5.71 (6)	4.78 (5)	4.94 (5)	70.59
Making recommendations to solve these problems	5.45 (6)	4.22 (4)	4.52 (5)	67.78
Collecting information that is relevant to their assignment	6.07 (6)	5.25 (6)	5.26 (5)	87.66
Dealing with risks and uncertainty	5.13 (5)	4.52 (5)	4.64 (5)	20.39
Predicting the future	4.04 (4)	3.87 (3)	3.88 (4)	NS
Advertising their services	4.37 (4)	4.98 (4)	4.74 (4)	9.62
Making profits	4.83 (4)	5.16 (5)	5.24 (5)	10.14
Detecting errors	5.71 (6)	4.73 (5)	5.24 (5)	43.75
Preventing errors	5.07 (5)	3.98 (4)	4.32 (4)	44.81
Detecting violations of law	5.89 (6)	5.07 (5)	5.27 (5)	12.34

Preventing violations of law	4.81 (5)	4.24 (4)	4.56 (4)	8.74
Compliance with professional standards	5.56 (6)	5.48 (6)	5.56 (6)	NS
Making sure that legal requirements are met	5.88 (6)	5.70 (6)	5.73 (6)	NS
Formulating correct judgements	5.49 (6)	4.73 (5)	5.09 (5)	26.57
Acting independently	5.59 (6)	4.80 (5)	4.99 (5)	35.06
Efficient communication	4.93 (5)	4.34 (4)	4.79 (5)	9.17
Reliable communication	5.28 (5)	4.55 (5)	5.19 (5)	13.94
Adopting a neutral attitude	5.37 (6)	4.64 (5)	5.02 (5)	19.29
Restricting their legal responsibility	5.06 (5)	5.3 (5)	5.23 (5)	NS
Rendering a useful service to the customers	5.43 (6)	5.00 (5)	4.76 (5)	36.10
Rendering a useful service to society	5.34 (6)	4.78 (5)	4.71 (5)	32.97

The average figures above are based on a seven points scale: 1 = very bad, 4 = average, 7 = very good
NS = Non significant, $Chi^2 < 5,99$
Median values shown in parentheses

When looking at all these attributes, we see that the biggest differences between the expectations can be noticed for the following subjects: collecting information that is relevant to their assignment, detecting problems and making recommendations to solve these problems. This bears a certain likeness to the conclusion in table 6 where there was an expectations gap with regard to the statement that auditors are not sufficiently informed of the problems of running a company. Auditors tend to believe that they are fairly good at these things, whereas there is more controversy about this among banks and managers.

It is clear that there is an expectations gap with regard to the attributes 'detecting and preventing errors'. 89 % of the auditors is convinced that they are good at detecting errors, but only 78 % of the managers and 62 % of the banks agree with this. 63 % of the auditors is of the opinion that they are good at preventing errors, but it must be emphasised that some 5 % of the auditors is of the opinion that this is not relevant. 44 % of the managers believed that auditors were good at this, 26 % believed that they achieved an average result and 29 % was of the opinion that they were bad at it. Only 1 % was of the opinion that this is not part of the job responsibilities of an auditor. The results for the banks are as follows: 29 % good, 22 % average, 42 % bad and 7% not relevant.

Expectations differ also with regard to the question whether auditors render a useful service to their customers and to society. Rendering a useful service to the customer: 81 % of the auditors believe that they are fairly good at this, whereas this is only 62 % of the banks and 57 % of the managers. As for rendering a useful service to society, 73% of the auditors say that they are good, but only 64% of the banks and 52 % of the managers agree with this.

Other activities showing significant differences are: acting independently, formulating correct judgements, dealing with risks and uncertainty, adopting a neutral attitude, reliable communication, efficient communication, detecting and preventing violations of law.
Advertising their services is an activity showing different expectations, although it must be said that these differences are rather small. Most respondents, i.e. 28 % of the auditors, 20 % of the banks and 18 % of the managers, agree about it that this is an attribute that is not relevant to auditors.
There are also slight differences in expectations with regard to the aspect of making profits and quite a lot of respondents believe that this attribute is not relevant: 10% of the auditors, 7 % of the banks and 14 % of the managers.

Compliance with professional standards, making sure that legal requirements are met, restricting their legal responsibility and predicting the future are activities with regard to which the three

target groups have more or less similar expectations. For the attribute of predicting the future, there are quite a lot of respondents in the three groups that are of the opinion that this is not part of the job responsibilities of an auditor: 17 % of the auditors, 16 % of the banks and 15 % of the managers.
And also with regard to restricting their legal responsibility, there are respondents who are of the opinion that this cannot be associated with the activities performed by auditors: 9 % of the auditors, 5 % of the banks and 4 % of the managers.

4.2.7 Situations in which the auditor must take a decision

A few short case studies were included in the instrument of investigation. The aim of these three cases is to find out which activity the respondents think the auditor is going to undertake in more specific situations. There are a couple of significant differences.

Table 13: Taking decisions

	AUDITOR	BANK	MANAGE MENT	chi²
Deals with foreknowledge: refer to this fact in the audit report?	2.80 (2)	3.02 (3)	3.68 (4)	38.23
Deals with foreknowledge: report the transaction to the executive committee of the stock exchange?	3.51 (3)	3.50 (4)	3.38 (3)	NS
Fraud: do additional tests, even when considering his remuneration?	5.60 (6)	4.21 (4)	4.48 (5)	101.36
Fraud: resign?	3.16 (3)	3.37 (3)	3.62 (4)	12.57
Bad baby food: report this to the competent health organisation?	2.47 (2)	3.50 (4)	3.56 (4)	75.35
Bad baby food: submit a negative audit report?	4.53 (5)	3.75 (4)	4.19 (4)	9.82

The average figures above are based on a seven points scale: 1 = never, 4 = sometimes, 7 = always
NS = Non significant, Chi² < 5,99
Median values shown in parentheses

The first case tackles the subject of deals closed with foreknowledge:
While auditing a multinational, the auditor discovers a deal that has been closed with foreknowledge. In the week preceding the public announcement of an important international contract, the manager had bought a block of shares on the exchange. After the closing of the deal was made public, the share price increased by 40%. The manager sold these shares the next week.
The respondents were asked if they believe there is a fair chance that the auditor will mention this fact in the audit report. When analysing the results, significant differences are noted here. Auditors and banks believe that there is only a slight chance that this fact will be mentioned in the audit report, but managers are more inclined to expect this.
When they are asked what chance there is that this fact will be reported to the executive committee of the exchange, the various target groups seem to have more or less similar expectations. The differences are not significant enough to claim that there is an expectations gap.

A second case study deals with the aspect of fraud:
When auditing an enterprise quoted on the stock exchange, the auditor has a strong suspicion that there are fraudulent receipts from sales. The amount in question is estimated at 5 million BEF, which equals 20% of the profit before tax. The auditor gets a rather small remuneration. The

general manager is informed of the auditor's intention to do more tests with regard to those receipts. The manager asks him to forget about the whole thing for the auditor will not get a higher remuneration than the one that had been agreed upon at the start of his assignment.
There are quite significant differences when the respondents are asked what the chances are that the auditor will do additional tests. The majority of the auditors say that there is a good chance that these additional tests will be done, but the managers have more doubts about it and also the banks take a less favourable standpoint.
The differences between the respondents' expectations are much less significant with regard to the second part when they are asked what the chances are that the auditor will resign. Again, there are more auditors than managers or banks who believe that it is very unlikely that the auditor will resign.

The last case deals with general health care:
The auditor of a business in the food sector finds out that this business sold bad baby food. Only a few loyal employees and the general manager know this. The potential liability of this business represents a substantial sum, but the manager does not want that this information is made public and threatens to replace the auditor.
Opinions differ on the question whether the auditor is likely to report this incident to the competent health organisation. The difference is quite significant here. According to the auditors, there is little chance that the incident will be reported, but the banks and managers believe that there is a fair chance.
The submission of a negative audit report as a result of this incidence was another factor that was investigated, but here the expectations gap is rather restricted.

4.2.8 Collecting evidence

The last part also contains three case studies, which deal specifically with collecting evidence.

Table 14: Collecting evidence

	AUDITOR	BANK	MANAGEMENT	chi²
number of stock-takings *	3.95	3.09	3.89	9.74
% of the purchases that is compared with the original purchase invoices	61.56%	48.88%	51.70%	18.35
number of audits of the subsidiaries that are investigated **	5.25	3.27	3.92	49.90

* average figures with a minimum of 0 stock-takings and a maximum of 6 stock-takings
**average figures with a minimum of 0 subsidiaries and a maximum of 6 subsidiaries
NS = Non significant, Chi² < 5,99

The first case deals with stock-takings:
A big department store has six warehouses with a comparable stock. The auditor has evaluated the computer system for the registration of incoming and outgoing goods and finds the system satisfactory. At the end of the financial year the enterprise does a physical stock-taking in each of the six warehouses.
The question that is asked here to the respondents is how many physical stock-takings they think the auditor is going to do. After analysing the answers, we may conclude that there is a slight significant difference: the average number of stock-takings is higher among the group of auditors than among the group of banks and managers.

The next case study deals with the auditing of purchase invoices:
At the end of the financial year, a company has 50 million BEF on the assets side under the item

"machines, installations and equipment". The total assets amount to 100 million BEF and profit after tax is 20 million BEF. According to the data of the company, 40 pieces of "machinery, installations and equipment" were purchased this year. All purchases have a comparable price and the total amount of these purchases is 10 million BEF.
The respondents were asked to indicate what percentage of the total number of purchases they thought would be audited by the auditor and compared with the original purchase invoice. There are differences between the views of the various target groups: the auditors indicate a higher percentage than the banks and managers.

The last case deals with the audit of subsidiaries:
ABC N.V. (plc) is audited by an international auditing firm. ABC has six subsidiaries that are more or less equal in size. A different auditing firm audits each subsidiary. The six subsidiaries together represent approximately 50% of the assets and of the profit of the group. Their auditors have approved the annual accounts of the subsidiaries. The auditors of ABC now want to audit the consolidated accounts and see if the work done by the auditors of the subsidiaries ought to be examined.
The respondents are asked how many audits of the subsidiaries they think the auditor will check. The average indicated by the auditors is four, the average indicated by the banks is two and the average indicated by the managers is three.

5. CONCLUSIONS

The survey discussed in this paper aims to collect empirical data on the existence of an expectations gap with regard to external audits in Belgium. On the basis of the data collected until now, the following overall conclusions can be drawn.

The answers to the questionnaires show that there are significant differences between auditors, bankers and managers in several fields. The most striking differences are the following. Auditors seem to be much more convinced than bankers and managers that they are sufficiently aware of the problems in an audited enterprise. It is possible that this difference in expectations has something to do with the overall orientation of the auditor's assignment: the basic texts on the position of auditors stressed that the auditor was not supposed to concern himself with the management of the company. The highly significant differences in the answers to the question to what extent the audit indicates whether the company is run efficiently show that the various groups of respondents do not interpret this text like that.

It is possible that a number of questions to which differing answers were given are more associated with the task of financial reporting in general. Bankers seem to be less convinced than auditors did that the audit would result in a correct evaluation of the company in the balance sheet. But managers are absolutely convinced of this. Bankers may be more familiar with the restrictions of classic financial reporting if it concerns the assessment of a company, or, in other words, managers are less sophisticated users of financial information.

As was to be expected considering the experiences abroad, highly significant differences can be noted with regard to the auditor's responsibilities in case of fraud. Both bankers and managers take a quite neutral position with regard to the proposition that an external audit offers an effective protection against fraud: in actual practice, their views do not differ greatly from the ones expressed by the group of auditors themselves. But it is odd that in another place in the questionnaire, bankers and managers clearly indicate that they believe it is expected that all material fraud be discovered after an audit done by an auditor. The difference in views is much more significant with regard to the question whether it would be advisable that the auditor assumes his responsibility for detecting material fraud: auditors take a rather neutral or even a negative standpoint, but both other groups of respondents have a much stronger preference for a guarantee that there is no material fraud in the audited annual accounts. Significant differences can be noted also with regard to the question whether it might be expected from an auditor to do more tests if he finds evidence of fraud, even if his remuneration is not adjusted proportionally. The auditors seem to be fairly convinced of this, but the other groups of respondents take a more neutral standpoint.

As appears from the international survey, also the independence of the auditor is an important point of concern, in addition to the aspect of fraud. In this respect, a highly significant difference was noted between the answers given by auditors and the answers given by the other groups of respondents to the question to what extent they agree with the proposition that an auditor's mandate can be renewed only a restricted number of times. This is a proposition that is radically rejected by the group of auditors, although it is clear that managers are no advocates of it either and that bankers take a quite neutral standpoint too.

A first comparison with the results of the reports by Humphrey et al. (1993) reveals a number of differences which, however, should be interpreted with caution considering the fact that they included in their reports groups of respondents that were not involved in the present survey (especially the answers given by financial journalists were rather different from those given by the other groups of respondents). Overall, significant differences between groups of respondents were observed for the same questions in both surveys but generally the Chi²-values in the Belgian survey were considerably lower. A typical example is the question whether the investing community expects too much of auditors, resulting in a Chi² value of 233 in the UK and only 15 in Belgium. The questions with respect to the audited company (fraud detection, internal controls, going concern, efficient management...) resulted in differences which are very similar in both countries, showing a marked expectation gap regarding fraud detection, efficient management and valuation of the company.
For some questions the differences were significant in the UK, while being insignificant in Belgium. In the United Kingdom, for example, a high significance level was reached with regard to the question to what extent auditors should try to identify ways to improve the management efficiency, a question that did not reveal significant differences in Belgium. The same goes for the question to what extent making profits may or may not be the main concern of auditing firms, and to what degree auditors manage to restrict their liability.

This survey shows that also in Belgium there are varied audit expectations. Overall, these differences do not seem as significant as those observed in the UK. Evidence with respect to other continental countries would help to find out whether different legal and institutional backgrounds can explain this. Comparing with one continental European country where similar research was undertaken, Spain, the Belgian respondents to the inquiry seem to be more critical vis-à-vis external auditors than the Spanish public. The Spanish situation might be quite specific due to the recent introduction of the profession in that country. Therefore, similar research in other countries, such as France or Germany, might help to understand better what determines the image of the auditor and his role in society.

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