

The Investigation of the Audit Expectation Gap in Sri Lanka Among Auditors and Users (Managers and Undergraduates)

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Abstract

This paper examines whether an audit expectation gap exists among the auditors and users of financial statements in Sri Lanka concerning the auditors' responsibilities, the reliability of audits and audited financial statements, and the usefulness of the audited financial statements. Undergraduates and Finance managers in Banks have been selected as the participants of the users of the financial statements in the study. To achieve the research objective, the study collected data using a structured questionnaire through primary sources. The collected data was analyzed using the statistical software SPSS, version 22. The study used descriptive statistics and the Mann–Whitney U test for the analysis of data. The normality of distribution was tested using Kolmogorov–Smirnov Z test. The results confirmed that an audit expectation gap exists in Sri Lanka and the highest expectation gap was detected concerning the auditors' responsibility for fraud prevention and detection, auditors' responsibility for the soundness of an entity's internal control system, and the auditor's exercise of personal judgment in the selection of audit procedure. Results indicate a slight audit expectation gap in the reliability of audited financial statements no audit expectation gap was found in the usefulness of the audited financial statements. The study recommends improving the communication between auditors and users of the audit reports and educating the users about the scope of an audit and its functions.

Keywords: Auditing, Auditors' Responsibilities, Reliability of Audited Reports, Sri Lanka, Audit Expectation Gap.