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June 2007

Online at <https://mpra.ub.uni-muenchen.de/69295/>

MPRA Paper No. 69295, posted 08 Feb 2016 15:18 UTC

**PRACTICAL TRAINING AND THE AUDIT EXPECTATION GAP:
THE CASE OF ACCOUNTING UNDERGRADUATES OF
UNIVERSITI UTARA MALAYSIA**

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ABSTRACT

The accounting profession has long faced the issue of an audit expectation gap; being the gap between the quality of the profession's performance, its objectives and results, and that which the society expects. The profession believes that the gap could be reduced over time through education. Studies have been carried out overseas and in Malaysia to determine the effect of education in narrowing the audit expectation gap. Extending the knowledge acquired, this paper investigates whether academic internship programs could reduce the audit expectation gap in Malaysia. Using a pre-post method, the research instrument adapted from Ferguson *et al.* (2000) is administered to the Universiti Utara Malaysia's accounting students at the beginning and end of their internship program. The results show there is a significant change in perceptions among students after the internship program. However, changes in perceptions do not warrant an internship program as a means of reducing the audit expectation gap as misperceptions are still found among respondents on issues of auditing after the completion of the internship program. Nevertheless, an internship program can still be used to complement audit education in a university as it is an ideal way to expose students to professional issues and enables them to have a better insight of the actual performance and duties of auditors.

Keywords: Audit expectation gap, accounting internship, undergraduate, Malaysia

1.0 INTRODUCTION

The issue of "audit expectation gap (AEG)" has been very significant to the accounting profession since the mid 1970s and continues to be debated on until today. In the 1970s and 1980s, massive corporate failures resulted in the accounting profession being severely criticized by the public. For example, in 1973, Equity Funding – an insurance firm based in Los Angeles - collapsed when computer-based fraud was discovered. In May 1982, Drysdale Government Securities collapsed followed by Penn Square Bank two months later. In 1985, the \$340 million fraud in ESM Government Securities became the largest securities fraud case ever to come before a US federal court at that time. Auditors were then forced to battle with legal suits taken against them. Meanwhile, the mounting list of corporate failures and abuses, alleged audit failures, and lawsuits against prominent accounting firms generated concern outside the profession which subsequently prompted/resulted in the House Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce conducting a hearing or congressional investigation of the profession, which was chaired by John Dingell, ("Management Accounting", 1985). In defense, the profession defined the concept of AEG and focused public criticism on that concept.

The AEG refers to the difference between what the public and other financial statement users perceive auditors' responsibilities to be and what auditors believe their responsibilities to entail (Martens and McEnroe, 2001). It is assumed that auditors and users of financial statements have

a different perception of the term “external audit” (De Beelde *et al.*, n.d.). Reiter and Williams (n.d) are of the view that the expectation gap refers to the public’s expectation that companies with “unqualified” audit opinion, hence a true and fair view of the financial statements, should be free of financial fraud and short-term risks of business failure. These misconceptions of the public feed the legal liability crisis facing the accounting profession (Maccarone, 1993 as cited by Koh and Woo, 1998). Power (1993) called it an institutional process/ referred to it as institutional processes of “blame allocation”. Litigation, press comments, internal inquiries are among the methods of allocating the blame.

The US accounting profession also responded to the scandals and criticism by appointing the Commission on Auditors’ Responsibilities (the Cohen commission) in 1974 and in 1978. The Cohen Report concluded that there was an “expectations gap” between what auditors did and what the public expected of them. And then in 1986 the Anderson Committee issued its report, *Restructuring Professional Standards to Achieve Professional Excellence in a Changing Environment*, in response to concerns over the profession’s ability to serve public interest and retain public confidence. In 1987 The National Commission on Fraudulent Financial Reporting (popularly known as the Treadway Commission) reported on how fraudulent financial management could be reduced and how auditors could reduce the “expectations gap” between themselves and the public (Mousselli, 2005). This was followed by the ASB’s release, in 1988, of nine “expectation gap” standards (SAS no. 53 through 61) which were intended to reduce the gap between what the informed public perceived auditors to be responsible for and what auditors regarded their own responsibilities to be. However, those standards have not succeeded in reducing the gap (Martens and McEnroe, 1991).

The profession is of the view that, in general, the public believes that auditors should take on more responsibilities in detecting fraud, illegal acts, and material misstatements and to improve communication about the nature and the results of audits including giving early warnings about the possibility of business failure (Guy and Sullivan, 1988). Nine new standards are believed to address these issues. These standards cover four broad categories namely: improving external communication, detecting fraud and illegal acts, making audit more effective, and improving internal communication. The new standards also introduce a new auditor’s report (Kolins, 1988). However, the public regards auditors as having a duty to society to be responsible for the independent certification/verification of financial statements. One crucial way in which SAS Nos 56-61 fails to express the audit duty and, hence, fails to reduce the expectation gap, relates to auditors’ responsibilities with regard to illegal acts by clients (Martens and McEnroe, 1991).

Therefore, despite the profession’s efforts to address the issue of AEG, the gap still exists. As mentioned by the SEC’s Chief Accountant Michael Sutton, there are five “erroneous/mistaken ideas/perceptions” held by some accountants; one of it being “auditors have closed the expectation gap”. Even the new auditing standards on fraud cannot be expected to totally close the gap (Steinberg, 1997). This is supported by Sikka *et al.*’s (1998) contention that due to social conflict, the meaning of social practices, such as audits, is subject to continuous challenges and (re)negotiations and the gap between competing meanings of audit cannot be eliminated. And so, in 2002, the profession was back in the spotlight following another series of corporate collapses that made history in the US. As noted by Eden *et al.* (2003), criticism against auditors is renewed with every public corporation’s failure and each financial loss the public bears. The

firm Arthur Andersen went into demise because of its association with Enron, even though the verdict of obstruction of justice against the firm was overturned in 2005 by the US Supreme Court (Moussalli, 2005). The crisis then led to the enactment of the Sarbanes-Oxley Act 2002 that is said to be “the most sweeping reform ever to affect the accounting profession” (Castellano, 2002). As a result, accounting firms are now regulated entities.

Those corporate crises led to new expectations and accountability requirements, hence, creating this so-called expectation gap. An expectation gap is detrimental to the auditing profession as highlighted by Limperg (1933) (cited in Porter & Gowthorpe, 2001) :

If auditors fail to identify society's expectations of them, or to recognize the extent to which they meet (or, more pertinently, fail to meet) those expectations, then not only will they be subject to criticism and litigation but also, if the failure persists, society's confidence in the audit function will be undermined and the audit function, and the auditing profession, will be perceived to have no value (p.5)

In view of the detrimental effect of AEG to the auditing profession, various methods have been suggested in the literature to reduce the AEG. Education is one of the methods often recommended by researchers and practitioners as a means of reducing the AEG (Gramling *et al.*, 2006). However, little is known about the effect of practical experience such as internship programs on the AEG.

1.1 Purpose of the Study

The purposes of this study are:

1. To conduct a survey on students' view on issues pertaining to auditors and the audit process; the role of auditors; the groups to whom auditors should be responsible; possible prohibitions and regulations; and how successful auditors are at particular activities.
2. To determine whether there is a significant difference in students' view before and after their completion of the internship program.

1.2 Motivation and Significance

This study is carried out because of the importance of both issues, AEG and internship, not only to the accounting profession but also to academics. In Malaysia, accounting internship programs are becoming more important and as noted by Minai *et al.* (2005), it is a requirement in all public universities in Malaysia. In fact, one of the key recommendations made in the Wan Zahid Higher Education Report¹ is for the industrial internship to be made compulsory under the planned national education policy (The Star, 29 April 2006). Industrial internships lasting at least six months are aimed at increasing employment prospects and giving graduates a holistic education. This recommendation has been made despite claims made by few (for example, see Lim, 2006) that industrial training is just a waste of time. Prior to this, the Malaysian Employers' Federation (MEF) made suggestions to the Government in response to the maelstrom surrounding jobless graduates, one of them being to make practical training or internship compulsory (Lim, 2006). The MEF was of the view that the root of the problem of joblessness

was founded in the current education system which did not cater to the private sector employers' requirements that offered 90% of the total job opportunities in Malaysia (Utusan Malaysia, 9 September 2004). This is consistent with a proposition made by Kranacher (2006) that one of the several ways to ensure that the public's expectations – that all accountants are competent and ethical – are met is to require internship as part of the education process. Practical experience is seen as an ideal way of exposing students to professional issues. In Universiti Utara Malaysia (UUM), a six month internship program is compulsory for all accounting students. Starting 2006, under UUM's collaboration with AIESEC, students are given opportunities to do their internship training overseas.

On the other hand, the series of corporate collapses in the US in the year 2002 again highlighted the existence of AEG. The audit function, which has been criticized for more than 30 years now, has never been as poor as it is today (Eden *et al.*, 2003). And, as Berardino (former CEO of Anderson Worldwide) put it, following the bankruptcy of Enron and the demise of Arthur Andersen, "... a fundamental crisis of confidence, of understanding" (Frontline Bigger than Enron, n.d.). Donald T. Nicolaisen, Chief Accountant of the SEC recognised that there was still an expectation gap surrounding the auditor's responsibility for detecting fraud and called for the gap to be addressed ("In the Public Interest", 2005). Similarly in Malaysia, most of the auditors cited "the audit expectation gap" and "auditors independence" as their major concerns (Mohamed and Muhamad Sori, 2002). Therefore, there is a need to see/investigate how this crisis can be dealt with in Malaysia (There is a need to investigate/deal with this crisis in Malaysia) especially considering the evidence given by Lee and Palaniappan (2006); Fadzly and Ahmad (2004) and Kasim and Mohd Hanafi (2005) that indicate a wide expectation gap and misconceptions about audit in Malaysia.

Finally, despite the importance of internship programs, no study has been undertaken to examine the effect of practical experience or internships in reducing AEG. Studies on AEG mostly concentrate on the impact of audit education. Previous research done in Malaysia investigate the effect of audit education in reducing AEG (Kasim and Mohd Hanafi, 2005) and the benefits of internship to students (Minai *et al.*, 2005). Pierce and Kilcommins (1996) suggest that although education can make a significant contribution to narrowing the expectation gap, there is a need to supplement it with other measures. Therefore, this study seeks to provide evidence of another way of educating public on audit, which is through internship program.

2. LITERATURE REVIEW

2.1 Audit Expectation Gap

The term "audit expectation gap" was first introduced to audit literature by Liggio (1974). He defined the audit expectation gap as the difference between the levels of expected performance as envisioned by both the user of a financial statement and the independent accountant. The Cohen Commission (1978) in the United States of America extended Liggio's (1974) definition by taking into account whether a gap may exist between what the public expects or needs and what auditors can and should reasonably expect to accomplish. Porter (1993) claims that the definitions of audit expectation gap provided by Liggio (1974) and the Cohen Commission

(1978) are too narrow as they fail to recognize that auditors may not accomplish their “expected performance” (Liggio, 1974) or what they “could and reasonably should” (Cohen Commission 1978). These definitions did not allow for sub-standard performance. Porter argues that the recent increase in criticism of and litigation against auditors is due to the failure of auditors to meet society’s expectations, whose failure in turn undermines confidence in the audit function. Limperg (1932 cited in Porter *et al.* 2005, p.119) points out that the “audit function is rooted in the confidence that society places in the effectiveness of the audit and in the opinion of the accountant...if the confidence is betrayed, the function, too, is destroyed, since it becomes useless”. Hence, to narrow the audit expectation gap, it is necessary to ascertain: i) the duties society expects auditors to perform; ii) the duties that are reasonable to expect auditors to perform; and iii) the extent to which society’s reasonable expectations are satisfied (or, more pertinently, not satisfied) by auditors (Porter *et al.*, 2005). As such, Porter proposes that the study of the audit expectation gap should be structured in a more extensive way which allows the different components of the audit expectation gap to be identified. In addition, she claims that it is more appropriate to name the expectation gap “the audit expectation-performance gap” as it represents the gap between society’s expectations of auditors and society’s perceptions of auditors’ performance. Porter’s (1993) structure of the audit expectation-performance gap has two major components, namely:

- The Reasonable gap - the difference between what the public expects auditors to achieve and what they can reasonably be expected to accomplish; and
- The Performance gap - the difference between what the public can reasonably expect auditors to accomplish and what auditors are perceived to achieve.

The performance gap is further subdivided into:

- Deficient standards - the gap between what can reasonably be expected of auditors and auditors' existing duties as defined by the law and professional promulgation.
- Deficient performance – the gap between the expected standard of performance of auditors' existing duties and auditors' perceived performance, as expected and perceived by the public.

The literature of empirical studies on audit expectation gap is extensive. These studies mostly use survey questionnaires to identify the nature of the gap or where the gaps are; impacts of the gap; and how to reduce the gap. Different respondents have been used in the literature to elicit their opinion, for example, auditors, lawyers and judges (Lowe, 1994), jurors (Frank and Lowe, 1994), investors (Epstein and Gregor, 1994), shareholders (Beck, 1974); various groups (Humphrey, 1993); chartered accountants, financial directors, investment analysts, bankers and financial journalists (Humphrey *et al.*, 1993; Porter, 1993); financial directors and users of corporate financial statement (Benau *at al.*, Humphrey, Moizer and Turley, 1993). Most studies that looked into the nature of the gap found that the critical component of the AEG was the auditor’s role in relation to fraud detection (see, Humphrey *et al.*, 1993; Epstein and Geiger, 1994; De Beelde *et al.*, n.d; Best, *et al.*, 2001). The survey by Humphrey *et al.* (1993) confirmed that the critical components of the AEG as at the start of the 1990s included the auditor’s role in

relation to fraud detection; the extent of auditor's responsibilities to third parties; the nature of Balance Sheet valuations; and independence and aspects of the conduct of audit work. Humphrey *et al.* (1993) made a more comprehensive analysis of the difference between the views of various categories of users of financial statements and the views of auditors. This study has served as a model for similar inquiries in other countries such as Spain (Benau *et al.*, 1993), US (Gramling *et al.*, 1996), and Belgium (De Beelde *et al.*, n.d). Epstein and Geiger (1994) revealed that the AEG existed with respect to the level of assurance auditors provided for the detection of errors and irregularities, and high assurance level sought for fraud detection. A study of the AEG in Japan shows that the problems lie in fraud detection, social responsibilities, auditor's independence and auditor's responsibilities. However, there is a reduced gap in Japan as compared to the UK as history of Japanese CPA is relatively shorter than the British (Yoshimi, n.d).

Mohamed and Muhamad Sori (2002) revealed that the audit expectation gap exists in Malaysia. The existence of the gap is due to a number of contributing factors; such as, uncertainties concerning the actual role of auditor; the satisfaction of clients with services provided by the auditors; and the audit firm's lack of independence and objectivity. However, this study did not include the differences in perceptions of the users and auditors in relation to the meaning conveyed by an audit report. Furthermore, issues such as differences in perceptions between the users and the auditors in relation to the true and fair view of the financial statements and the going concern of the company were also not identified.

A more comprehensive study was conducted by Fadzly and Ahmad (2004) to examine the audit expectation gap among auditors and major users of financial statements: bankers, investors, and stockbrokers. The study focused on the positive view of the expectation gap, which compared auditors' and users' perceptions on the duties of auditors. The researchers asserted that the comparison between the auditors' and users' perceptions was able to reveal whether there was a state of "unreasonable expectations" among Malaysian users. The study reveals that an audit expectation gap exists in Malaysia, particularly on issues concerning auditors' responsibilities. A wide gap was found regarding auditors' responsibilities in relation to fraud detection and prevention, preparation of financial statements and accounting records, and in internal controls.

To complement the findings of Fadzly and Ahmad (2004), Lee and Palaniappan (2006) conducted a survey on audit expectation gap in Malaysia to examine whether an expectation gap existed in Malaysia among the auditors, auditees and audit beneficiaries in the relation to auditors' duties. In addition, the study analysed the nature of the gap using Porter's framework. The results proved the existence of an audit expectation gap in Malaysia. The study showed that the auditees and audit beneficiaries placed much higher expectations on auditors' duties when compared with what auditors perceived their duties to be. The analysis of the expectation gap indicated the existence of unreasonable expectation of the part of users; deficient standards of auditing in Malaysia; and deficient performance of auditors.

2.2 Internship

To date, there has been no study conducted to examine the effect of internship programs on the AEG. However several studies have been conducted to examine the effect of education on the

AEG. Monroe and Woodliff (1993) and Gramling *et al.* (1996) conducted empirical studies in Australia and the USA to examine the effect of education on the AEG. Monroe and Woodliff (1993) administered the research instrument to two groups of students (final-auditing students and final-year marketing students) at the beginning and end of a semester and to auditors. The findings showed that the auditing students' beliefs about auditors' responsibilities and reliability of financial information changed significantly over the semester. At the end of the semester, the auditing students believed that auditors assumed a much lower level of responsibility; that financial information was reliable and that less assurance was placed on the company's future prospects than that conveyed by the audit report. In contrast, the marketing students' responses changed on only a few scales across the three factors and were not in a consistent direction.

A similar study was conducted by Gramling *et al.* (1996) in the US. The study examined the perceptions of students on the roles and responsibilities of auditors in the audit process. Data was obtained before and after the completion of a university level-auditing course. In addition, professional auditors' perceptions on the same issues were also obtained with the intention of examining whether those with actual audit experience viewed the role of auditing and the nature of the audit process differently from those who had primarily received auditing-related education. The study found that an expectation gap existed between practising auditors and accounting students, even after these students had taken academic coursework in auditing. Although perceptions regarding some components of the audit process and the roles and responsibilities of auditors did change after some students completed the audit course, a significant difference in perceptions still existed between professional auditors and students in relation to many issues. Overall, these research findings showed that education improves the level of understanding of users of financial statements in relation to the functions of an audit process. This in turn suggests education as a means of reducing the AEG.

Although there is no study conducted on internship program on the AEG, the benefits of internship programs as a form of informal education are well documented. For example, Darnill (1992) claims that the confidentiality of practitioners' work and the complexity of issues dealt with by them mean that the general public does not have much grasp of what an accountant's work involves. Therefore, there has been a suggestion that schools and universities teach their students about the complexities of modern commercial life and the role played by accountants and auditors (Darnill, 1992). Turner (2006) in his speech about the evolution of regulation, legislation, and education in public accounting, outlined fundamental principles to help the US state licensing board meet the expectations of the public. One of the principles was for colleges to require internships and bring more practical experience into the classroom. He shares a quote from the Cohen Commission Report:

The importance of instilling in students an appropriate professional attitude and the need to expose them to the pressures and problems of public accounting practice during the formal education process ...our review of major audit failures that have caused public accounting firms difficulty indicates that problems have resulted largely from the exercise of poor judgments under conditions of stress and pressure.

In addition, the exposure draft issued by International Federation of Accountant (IFAC) on Practical Experience dated on January 2007 highlighted the following importance of practical experience:

A period of practical experience under the guidance of a mentor enables trainees to integrate knowledge gained through formal education with experience in real work environment. This enables trainees to develop their professional knowledge and professional skills, demonstrate their competence

Hence, it can be seen that academics, practitioners, and professional bodies have long recognized the benefits of an internship program for students, as it is an ideal way to expose students to professional issues. Extending the knowledge, this paper aims to investigate whether academic internship programs could reduce the audit expectation gap in Malaysia.

3. RESEARCH DESIGN

3.1 Methods of data collection

(For the sake of consistency, the past tense has been adhered to throughout this paragraph. Since the paragraph started with ..was distributed....., we continue with the past tense. Note however, that in describing the questionnaire, the present tense can also be used. For example, ..Part 1 seeks to....)

A four-page questionnaire was distributed to UUM's Bachelor of Accounting students before they left for internship and after they finished the program. The questionnaires were adapted and modified from Ferguson *et al.* (2000). Part 1 sought to solicit students' view, before and after internship program, about auditors and auditing process; part 2 was based on the role of auditors; part 3 asked questions that related to the groups to whom auditors should be responsible; part 4 was based on propositions relating to possible prohibitions and regulations; part 5 asked students' views on how successful auditors were at particular activities; and finally part 6 was based on students' demographic information. A seven-point Likert scale was used in the questionnaire with a "7" indicating "strongly agree" and a "1" indicating "strongly disagree".

As the basic concept of an expectation gap concerns differences in opinions, the use of a questionnaire survey provides some justification as a research approach. Variation in the familiarity with the audit function is not really a problem as the purpose of the study is to identify where different perceptions about auditing exist, not the validity or authority of particular perceptions (Humphrey *et al.*, 1993).

3.2 Data analysis

As the study is a non-hypothetical deductive survey by nature, the main analysis is on statistical significance of one of the central tendency attributes, which is the mean of responses given by the students before and after the completion of the internship program. Paired t-tests were used to examine the significance or otherwise apparent differences of the students' view before and after the internship program of each of the question asked on 5 different parts as mentioned above. T-tests were also used to determine the overall existence of each part (i.e. Part 1-5) of the questionnaire.

4. FINDINGS AND DISCUSSION

4.1. Demographic of respondents

PLACE TABLE 1 HERE

There were 117 respondents who responded to the survey. The demographic details are shown in Table 1. 91 of the respondents are Malay, 22 are Chinese, 2 are Indian and 2 for other races. 7 of the respondents had undertaken audit work experience for a period of 6 months or less prior to the internship program. In view of the fact that the number of respondents with audit work experience was limited to 6% and that the period of work experience for most these respondents was less than 6 months, no significant difference should therefore be expected from their responses as compared to those without audit work experience.

4.2 Views about auditors and the audit process

PLACE PANEL 1 OF TABLE 2 HERE

PLACE PANEL 1 OF TABLE 3 HERE

Panel 1 of Table 2 shows the responses to 13 statements on views about auditors and the audit process. A mean value of greater than “4” was deduced from 11 statements based on responses of the respondents prior to the internship program. This implies that respondents agree to these 11 statements. Conversely, a mean value of less than “4” indicates that respondents prior to internship program disagree that: i) an audit is of very little benefit to a company (Q6); and ii) Auditors do not understand the problems of business (Q8). The disagreements relating to these statements imply that respondents acknowledge the values of auditing and the ability of auditors to understand the problems of a business. The possible reason for such responses could be due to the fact that respondents have gained sufficient knowledge from the auditing education in the university in order for them to recognize the value of auditing and the fundamental audit process prior to the internship program.

As shown in Panel 1 of Table 2, respondents responded differently after the completion of the internship program with respect to 9 of the 13 statements. Significant differences are found on statements 2, 3, 4, 6, 7, 8, 9, 10 and 12. Overall, the results reveal that the internship program has influenced the perceptions of the respondents significantly in relation to the views of auditors and the audit process. The significant changes in perceptions are evidenced by the T-test showed in Panel 1 of Table 3. [$t(104)=2.638, p=0.10$].

The nature of the changes in perceptions prior to and after the internship program can be analyzed through the T-Statistic in Panel 1 of Table 2. A positive T-Statistic in statements 2, 8, 9, 10 and 12 indicates that there is a significant change in perceptions where respondents rated these statements at a lower rate after the completion of the internship program as compared to their responses prior to the internship program. These statements are: i) Too much is expected of auditors by the investing community (Q2); ii) auditors do not understand the problems of business (Q8); iii) auditors provide significant protection against fraud (Q9); iv) auditors should be identifying ways to improve management efficiency (Q10); and v) audit committees

comprising non executive directors should improve auditor independence (Q12). On the contrary, a negative T-Statistic was found in 4 of the statements that showed significant differences in responses after the completion of the internship program. They are: i) auditors are too concerned with keeping company management happy (Q3); ii) the audit process is seriously weakened by imprecise auditing standards (Q4); iii) an audit is of very little benefit to a company (Q5); and iv) audits generally take too long to complete (Q7).

The manner of change in perceptions of the respondents implied that respondents had gained supplementary knowledge in addition to the auditing knowledge acquired from the university which allowed them to exercise their judgment more critically in evaluating the statements. This is evidenced by a greater or lesser extent of agreement by the respondents in relation to these questions. Of special interest are Q6, Q7 and Q8.

The mean of 3.02 indicates that respondents prior to the internship program disagreed that an audit is of little benefit to a company (Q6). Significantly different responses were found with respect to this statement after completion of the internship program. The mean of the responses increased to 3.45. The increase in mean implies that respondents disagree with this statement to a lesser extent and such responses may be due to the practical experience gained from the internship program which allows them to have a more realistic view on the actual contribution of an audit to a company.

Likewise, the mean for the statement Q(7): audits generally take too long to complete increased from 4.63 to 4.93. The internship program allowed the respondents to evaluate this statement more reliably as they were likely to experience an actual audit assignment during the period of internship. As such, they are in a better position to express their opinion on this statement. The increase in mean implies that respondents agree to a greater extent that an audit takes too long to complete. This result is likely to indicate that respondents acknowledge a longer time is needed in order for auditors to perform a good quality audit assignment.

In contrast, the mean for Q(8): auditors do not understand the problems of business, decreased from 3.31 to 3.00. This implies that respondents disagree to a greater extent with regard to this statement. The reason for respondents evaluating this statement differently may be due to the opportunity of being in contact with auditors during the period of internship which allowed them to have a closer observation of auditors' abilities and competence in performing their duties. As a consequence, more credible and reliable evaluation of this statement could be given after the completion of the internship program. The results indicate that respondents agree that auditors are capable of understanding the problems of businesses.

4.3 Views about auditors' roles

PLACE PANEL 2 OF TABLE 2 HERE

PLACE PANEL 2 OF TABLE 3 HERE

Panel 2 of Table 2 presents the responses on two issues; namely, i) the aspects of what the auditor's role should be with respect to clients' audited financial statements; and ii) the aspects on what the auditor's role should be with respect to the audited firm. The results reveal that a

mean value of greater than “4” was found for both prior to and after the internship program. This implies that respondents are of the opinion that these are the present responsibilities of auditors in connection to the financial statements and the audited firm.

The present statutory requirement based on Section 174 of the Companies Act 1965 in Malaysia requires auditors to i) report to the members of the company on the accounts; ii) ensure timely submission of the audit report by the company; iii) express an opinion on the truth and fairness of the financial statements; and iv) ensure compliance with the requirements of the Company Act 1965 and the applicable “approved accounting standards”. The “approved accounting standards” are those standards that are issued or approved by the Malaysian Accounting Standards Board (MASB). Under Section 174 (8) of the Companies Act 1965, auditors are required to report to the Registrar on any breach or non-compliance of any provision of the Companies Act 1965. Auditors are required to follow the Malaysian Approved Standards on Auditing (MASA) during the conduct of their audits. Any breach of, or failure to comply with MASA could be considered as conduct discreditable to the profession, and this could lead to disciplinary action against the auditors involved.

With effect from 30 September 2004, the Malaysian Institute of Accountants (MIA) implemented the Anti-Money Laundering Act 2001 (the AMLA, 2001). The AMLA (2001) requires auditors, accountants and company secretaries who are members of the MIA to report suspicious transactions of their clients to the Financial Intelligence Unit in the Bank Negara (Central Bank of Malaysia). In addition, Section 50 of the Securities Industry Act 1983 stipulates that auditors are required to report to the Securities Commission (SC) on any irregularities that are found during the course of the audit which may jeopardise the funds or property of the shareholders.

A review of the present statutory requirements in Malaysia shows that only 6 statements represent the current existing duties of auditors in Malaysia. These are: i) auditors should ensure that audited financial statements comply with Generally Accepted Accounting Principles (Q1); ii) auditors should ensure that audited financial statements are consistent with conventional accounting practices (Q2); iii) auditors should ensure that audited financial statements contain no significant deliberate distortions (Q3); iv) auditors should ensure that audited financial statements contain no significant accidental errors (Q4); v) auditors should ensure the appropriate regulatory authorities have been informed of any significant malpractice; and vi) auditors should ensure the balance sheet provides a fair valuation of the company. Statements 5, 6, 7, and 8 are currently not statutory requirements for auditors in Malaysia.

The mean values of “4” for respondents prior to and after the internship program shows that respondents failed to recognize that the duties stated in statements 5, 6, 7, and 8 are not presently required of auditors in Malaysia. These duties are: i) auditors should ensure that all significant fraud is detected (Q5); ii) auditors should ensure that a satisfactory system of internal controls is being operated (Q6); iii) auditors should ensure that the future viability of the company is not in doubt (Q7); and iv) auditors should ensure that the company is being run efficiently (Q8). According to the MASA, the management of the companies should be responsible for these duties instead of the auditors.

The findings also show that respondents responded significantly differently with respect to the four statements after completion of the internship program. They are: i) auditors should ensure that the audited financial statements are consistent with conventional accounting practices (Q2); ii) auditors should ensure that the audited financial statements contain no significant deliberate distortions (Q3); iii) auditors should ensure that the appropriate regulatory authorities have been informed of any significant malpractice (Q9); and iv) auditors should ensure that the balance sheet provides a fair valuation of the company (Q10). The change in perceptions after the completion of the internship program with regards to Q2 (mean from 5.26 to 5.56), Q3 (mean from 4.61 to 4.97), Q9 (mean from 5.07 to 5.27) and Q10 (mean from 5.31 to 5.51) indicated that the internship program had strengthened the knowledge of respondents with respect to the duties of auditors required by statutes in Malaysia. The T-test shows in Panel 2 of Table 3. [$t(114)=2.213, p=0.029$] shows that overall, there is a significant difference in opinions in relation to auditors' roles prior to and after completion of the internship program.

4.4 Views about groups to whom auditors should be responsible

PLACE PANEL 3 OF TABLE 2 HERE

PLACE PANEL 3 OF TABLE 3 HERE

This section elicits the opinions of respondents in respect of the parties whom auditors should be responsible to if a company's financial statements are significantly misstated and the audit report does not disclose the company's true position regarding the misstatement. Arens *et al.* (2006) point out that, auditors can be liable to their clients and under certain circumstances to parties other than their clients under the common law and the statutory law in Malaysia.

When auditors fail to carry out their duties competently, legal actions can be taken against them by various parties. Gramling *et al.* (1996) claim that under the common law and law of tort, auditors may be responsible to parties in privity (e.g. audit client), primary beneficiaries (e.g. a lender requiring an audit before providing financing), foreseen and limited classes (e.g. parties entitled to receive an audit report in fulfillment of some business transaction; shareholders and bondholders are not included), and foreseeable parties (e.g. investors).

Legal action can also be taken against auditors in Malaysia for violating the Securities Commission (Amendment) Act 2003 and Companies Act 1965. Under Section 57 of the Securities Commission (Amendment) Act 2003, any third party who purchased securities described in the registration statement may sue the auditor for material misrepresentation or omission in audited financial statements included in the registration statement. In addition, under Section 46 of the Companies Act 1965, auditors are liable to pay compensation to persons who purchase shares or debentures on the faith of the prospectus (authorized by auditors) for any loss sustained by reason of untrue statements or willful non-disclosure of any matter which is material (Arens *et al.*, 2006).

The results in Panel 3 of Table 2 (the mean value of greater than "4") show that prior to the internship program, respondents held auditors to be responsible to: i) existing holders (Q1); ii) potential shareholders (Q2); iii) existing creditors (Q3); and iv) potential creditors (Q4). Consistently, the results show that respondents held auditors to be responsible to the same parties

after the completion of internship program. This is indicated by the mean value of greater than “4”. Evidenced in Panel 3 of Table 3 [$t(115)=-0.400$, $p=0.690$], there were no significant changes in the overall opinions among respondents prior to and after the completion of the internship program with respect to the parties to whom auditors should be responsible to.

The findings reveal that, the formal audit education given to the respondents in the university prior to the internship program had failed to educate the respondents that the potential shareholders and potential creditors were not considered as foreseeable parties mentioned above. The internship program had also failed to notify the respondents with regards to whom auditors should be liable for.

Overall, the results suggested that despite the formal audit education in the university and the practical experience gained from the internship program, respondents held auditors to be responsible to the groups of people who are currently not acknowledged under the common law and statutory law in Malaysia. This in turn also indicated an unreasonable expectation among respondents of the auditors on this issue.

4.5 Views about possible prohibitions and regulations on audit firms

PLACE PANEL 4 OF TABLE 2 HERE

PLACE PANEL 4 OF TABLE 3 HERE

Panel 4 of Table 2 presents the responses of eight propositions related to the prohibitions and regulations that should be placed on an audit firm, and one statement about the profit-making motive of the audit firm. The results show that respondents prior to the internship program, agreed to all the prohibitions in statements 1, 3, 4, 5, 6, 7, 8 and 9 imposed on the audit firms except for the provision of management advisory services to its audit clients. Respondents responded in a similar way after they had completed their internship program as they agreed to all prohibitions imposed on the audit firms except for the provision of management advisory services. However, significant difference was found with respect to statements 3, 4 and 5 indicating that respondent agreed to these statements to a greater extent.

Under Section 10(a) of the Accountants Act 1967, the MIA is empowered to establish a code of conduct for the inculcation of sound professional practice and for the prevention of illegal dishonourable practices by members. This code of conduct, called MIA By-Laws (On Professional Ethics, Conduct, and Practice)², consists of general statements of ideal conduct or specific rules that define unacceptable behaviour. MIA members are required to observe the standards of professional conduct and refrain from committing unprofessional conduct which includes, but is not confined to, any act or default likely to bring discredit to the members, the Institute, or the accounting profession.

Under the MIA By-Laws, auditors are not explicitly prohibited from any activities as prescribed in statements 1 to 9 (except for statement 1³). However, recommendations have been made to promote and strengthen auditor independence. For example, even though the code of conduct in MIA By-Law section 290 does not prohibit the provision of management advisory services to the audit client; auditors are however, advised in relation to their financial dependency on those

management advisory services- that these should not jeopardize their professional independence while performing audit services for the clients.

The significant difference in responses after the completion of the internship program found in statements 3, 4 and 5 suggests that respondents agree to a greater extent that: i) primary objective of auditors should be providing quality auditing services instead of maximizing auditors wealth; ii) auditors should not be financially over dependent on one audit client as this is likely to create threats to the independence of the audit firm; and iii) audit rotation is essential. As shown in Panel 4 of Table 3 [$t(106)=2.544$, $p=0.012$], overall there are significant changes in opinions among respondents prior to and after the completion of the internship program with respect to the propositions related to prohibitions and regulations on an audit firm.

The results of the section reveal that respondents are of the opinion that regulations are needed for audit firms. Generally respondents agreed to most of the propositions of the prohibitions and regulations prior the internship program. A greater extent of agreement (increase in mean value) to the prohibitions and regulations were found among respondents after the completion of internship program. Such responses are likely to suggest that after gaining the working experience in an audit firm, respondents may not find the present regulations sufficient in maintaining the professionalism required in the auditing profession in Malaysia. As such, further regulations are needed to strengthen the audit practice in Malaysia

4.6 Views about how successful auditors are at particular activities

PLACE PANEL 5 OF TABLE 2 HERE

PLACE PANEL 5 OF TABLE 3 HERE

An evaluation of the auditors' performance is shown in Panel 5 of Table 2. The purpose of this section is to elicit the perceptions of respondents with regards to 19 performance attributes of the auditors. The results presented in Panel 5 of Tables 2 show that respondents perceive auditors as having performed well on all 19 activities. This is evidenced by the mean value of greater than "4" from the responses. Consistently, respondents were also satisfied with the performance of auditors after they had completed their internship program. This is also indicated by the mean value of greater than "4" as shown in Panel 5 of Table 2.

As shown in Panel 5 of Table 3 [$t(92)=1.876$, $p=0.064$], significant differences were found from the overall responses of the 19 performance attributes even though the respondents were overall satisfied with the performance of the auditors after the completion of the internship program. Significant differences were found to exist between 5 performance attributes, namely: i) predicting future (Q5); ii) detecting errors and irregularities (Q8); iii) preventing errors and irregularities (Q9); iv) reporting truthfully(Q15); and v) limiting their own legal responsibility (Q17).

The results in Panel 5 of Table 2 also reveal that a positive T Statistic was found with respect to all of the 5 performance attributes. This indicates that respondents had rated the performance attributes at a low rate after they had completed their internship program. This likely to suggest that respondents had gained a more realistic view of the competence of auditors. For example,

based on the competition market auditors may find it difficult to report truthfully as they are financially dependent on audit clients. Moreover, as auditors faced significant increase in criticism and litigation in the present auditing environment, limiting their legal responsibility could also be unlikely. In addition, in order to be competitive in the audit market, auditors might have to compromise audit quality. Thus, in view of the current situation of the audit profession in Malaysia, auditors were likely to be evaluated at a lower rate by the respondents after the completion of the internship program. This indeed also reflected the realignment of the idealistic view of the respondents prior to the internship program to a more realistic view of the auditors after the internship program was completed.

In addition, respondents rated the performance of auditors at a lower rate and this could likely be explained by the fact that auditors are currently not required by statute to perform the duties of predicting the future viability of the company, and preventing and detecting of errors and irregularities of audited companies. As such, auditors may not have focused on these duties in the course of the audit. As a result, respondents may not have been impressed by auditors' performance on these duties as per their observation during the internship program. Therefore, a low rate was awarded in respect of these activities.

4.7 Implication on Audit Expectation Gap

Research, for example Mohamed and Muhamad Sori (2002), Fadzly and Ahmad (2004), and Lee and Palaniappan (2006), confirmed the existence of an AEG in Malaysia. The existence of the gap is due to different perceptions between the public (including clients) and auditors with respect to the actual roles of auditors; the services provided by auditors; and issues on auditors' independence (Mohamed and Muhamad Sori, 2002). A wide gap was found regarding auditors' responsibilities in fraud detection and prevention, preparation of financial statements and accounting records, and in internal controls (Fadzly and Ahmad, 2004). The analysis of the AEG in Lee and Palaniappan (2006) indicated the existence of unreasonable expectation on the part of users; deficient standards of auditing in Malaysia; and deficient performance of auditors

An AEG is detrimental to the auditing profession as it affects the perceived value of auditing and the reputation of auditors (Wa and Selva, 1993). Education has been prescribed as a means of reducing the AEG (Monroe and Woodliff, 1993; Gramling *et al*, .1996; and Kasim and Mohd-Hanafı, 2005). However; no study has yet been conducted to examine the effect of internship program on the AEG. Hence, this study aims to provide such contribution to auditing literature. Significant changes in perceptions were found in this study with respect to auditing issues after the completion of an internship program. This section intends to discuss the implications of these changes in perceptions on the AEG.

Significant changes were found after the completion of an internship program on the perceptions of the respondents with respect to: i) issues about auditors and the auditing process (Section 1); ii) role that should be played by auditors (Section 2); iii) prohibitions and regulation on an audit firm (Section 4); and iv) competency of auditors on various activities (Section 5). An analysis of the results shows an internship program may have the following implications on the AEG:

- i) Respondents, after the internship program, held auditors to be responsible for fraud prevention and detection; guaranteeing the viability of the business; and efficiency of the internal control. These duties are not currently required under Malaysian statutory law. Lee and Palaniappan (2006) assert that duties, for example, related to the prevention and detection of fraud and errors are regarded as unreasonable expectation of auditors. Hence, this implies that misperceptions of the actual role of auditors are still found among respondents even where they have completed an internship program in an audit firm.
- ii) Respondents held auditors to be liable to potential shareholders and creditors after the completion of the internship program. This in turn indicated the existence of an expectation gap as it extended the actual scope of auditors' liabilities. Such responses were also likely to explain the phenomenon of the increase in the number of litigation cases against the audit profession in the past decades.
- iii) Respondents agreed to a greater extent after the completion of an internship program on the prohibition and regulation of auditors. Such responses are likely to cause an expectation gap as it is unlikely for auditors to agree on the imposition of higher prohibitions and regulations against them.
- iv) Respondents recognized the competence of auditors in various activities to a greater extent after the completion of the internship program. The increased recognition of the competence of auditors after the internship program could imply that the deficient performance gap found in Lee and Palaniappan (2006) may be reduced through an internship program. The possible reason for better evaluation of auditors' performance may be due to fact that respondents could have gained a better insight into the performance of auditors during the internship period.

The discussion above shows no conclusive findings on the effect of an internship program on the AEG. This is because the internship program failed to correct some of the misperceptions of an audit. This also implies that an internship program is unlikely to be used as a method of eliminating the AEG although better recognition of auditors' competence was found among respondents after the completion of an internship program. However, an internship program may be used to complement audit education in a university as it enables students to have a better insight into the actual duties and performance of auditors.

5. CONCLUSION

Increased litigation and criticism of the auditor has left little room for doubt that auditors are facing a liability and credibility crisis (Russell, 1986). Lim (1993) and Woolf (1985) assert that the blame should not entirely be placed on the auditors as the nature and objectives of auditing are perceived differently between the public and auditors. These differences in perceptions have created the existence of the audit expectation gap. Audit expectation gap is critical to the auditing profession because the greater the expectation gap, the lower the credibility, earning potential and prestige associated with the work of auditors. Hence, effective methods in reducing the gap are in dire need.

The audit profession believes that the expectation gap could be reduced over time through education. Studies have been carried out overseas and in Malaysia to determine the effect of education in narrowing the audit expectation gap. Extending the knowledge, this paper investigates whether academic internship program could reduce the audit expectation gap in Malaysia. To achieve this objective, a research instrument adopted and modified from Ferguson *et al.* (2000) was administered on 117 UUM's students before and after an internship program.

The results show there is a significant change in perceptions among students after the internship program, as regards auditors and the audit process, the role of auditors, possible prohibitions and regulations, and how successful auditors are at particular activities. However the changes in perceptions do not warrant an internship program as a means of reducing the audit expectation gap. This is because misperceptions/misconceptions were still found among respondents on auditing issues after the completion of the internship program. However, an internship program could still be used to complement the formal audit education in a university as it is an ideal way of exposing students to professional issues and enables students to have a better insight into the actual performance and duties of auditors.

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Table 1

Analysis of Demographic Data

Race

	Frequency	Percent
Malay	91	77.8
Chinese	22	18.8
Indian	2	1.7
Other	2	1.7
Total	117	100

Gender

	Frequency	Percent
Male	11	9.4
Female	106	90.6
Total	117	100

Prior working experience in audit industry

	Frequency	Percent
No	110	94
Yes	7	6
Total	117	100

Period of experience

	Frequency	Percent
Less than 3 months	3	43
3-6 months	4	57
Total	7	100

TABLE 2

Pre-Post Changes in Students' Views

Section 1: Views about auditors and the audit process

Panel 1

Question	1	2	3	4	5	6	7	8	9	10	11	12	13
Pre	5.15	5.08	4.48	4.04	4.17	3.02	4.63	3.31	5.21	5.54	5.34	5.23	5.44
Post	4.98	4.79	4.98	4.32	4.33	3.45	4.93	3.00	4.56	5.14	5.18	4.98	5.33
T- Statistic	1.413	2.315**	-3.298***	-1.898*	-1.435	2.631***	-2.158**	2.131**	4.485****	3.487****	1.324	2.143**	1.000

Section II: View about auditors' roles

Panel 2

Question	1	2	3	4	5	6	7	8	9	10
Pre	5.91	5.26	4.61	4.58	4.94	5.24	4.92	5.13	5.07	5.31
Post	5.89	5.56	4.97	4.82	4.99	5.3	5.12	5.23	5.27	5.51
T- Statistic	0.159	-2.254**	-2.866***	-1.58	-0.325	-0.467	-1.586	-0.911	-1.785*	-1.669*

Section III: Views about groups to whom auditors should be responsible

Panel 3

Question	1	2	3	4
Pre	5.33	4.79	5.23	4.82
Post	5.4	4.85	5.27	4.85
T- Statistic	-0.493	-0.377	-0.24	-0.217

* Significant at 1% significance level, **Significance at 5% significance level, *** Significant at 10% significance level

TABLE 2

Pre-Post Changes in Students' Views

Section IV: Views about possible prohibitions and regulations on audit firms

Panel 4

Question	1	2	3	4	5	6	7	8	9
Pre	5.21	3.67	4.47	4.16	4.6	5.26	5.1	4.77	4.71
Post	5.31	3.8	4.79	4.54	4.96	5.42	5.13	4.84	4.82
T- Statistic	-0.622	-0.73	-1.989**	-2.933***	-2.913***	-1.469	-0.212	-0.59	-0.914

Section V: Views about how successful auditors are at Particular activities

Panel 5

Question	1	2	3	4	5	6	7	8	9	10
Pre	5.31	5.4	5.64	5.34	5.31	5.18	5.26	5.77	5.47	6.03
Post	5.22	5.18	5.83	5.25	5.06	5.04	5.22	5.48	5.2	5.89
T- Statistic	0.699	1.858	-1.652	0.728	1.928*	0.908	0.282	2.466**	1.685*	1.202

Section V: Views about how successful auditors are at Particular activities

Panel 5

Question	11	12	13	14	15	16	17	18	19
Pre	5.66	5.56	5.48	5.8	5.93	5.33	5.41	5.84	5.74
Post	5.55	5.56	5.44	5.79	5.63	5.16	5.05	5.78	5.55
T- Statistic	0.819	0.000	0.26	0.061	1.959*	1.149	2.396**	0.386	1.3

* Significant at 1% significance level, **Significance at 5% significance level, *** Significant at 10% significance level

Table 3**Section 1**

Perception of the students		N	Mean	Std. Deviation	Std. Error Mean
index	Prior internship program	117	4.6762	0.49917	0.04871
	After internship program	117	4.5267	0.51918	0.05067

Independent Samples Test

		t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
index	Equal variances assumed	2.638	104	0.10	0.1495	0.5666

Section 2

Perception of the students		N	Mean	Std. Deviation	Std. Error Mean
index	Prior internship program	117	5.0904	0.70424	0.06567
	After internship program	117	5.2730	0.79077	0.07374

Independent Samples Test

		t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
index	Equal variances assumed	2.213	114	0.029	0.18261	0.08253

Section 3

	Perception of the students	N	Mean	Std. Deviation	Std. Error Mean
index	Prior internship program	117	5.0431	0.99579	0.09246
	After internship program	117	5.0927	0.5070	0.08827

Independent Samples Test

		t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
index	Equal variances assumed	-0.400	115	0.690	-0.04957	0.12390

Section 4

	Perception of the students	N	Mean	Std. Deviation	Std. Error Mean
index	Prior internship program	117	4.7040	0.68869	0.06658
	After internship program	117	4.8712	0.68869	0.06658

Independent Samples Test

		t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
index	Equal variances assumed	2.544	106	0.012	0.16719	0.06571

Section 5

	Perception of the students	N	Mean	Std. Deviation	Std. Error Mean
index	Prior internship program	117	5.6101	0.66697	0.06916
	After internship program	117	5.4556	0.68030	0.07054

Independent Samples Test

		t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
index	Equal variances assumed	1.876	92	0.064	0.15450	0.08236

AUDITING QUESTIONNAIRE

This questionnaire is designed to gather information regarding the role and contribution of the audit to business activity. This questionnaire seeks to discover the beliefs that are held about the work auditors. The eventual aim of the research is to promote greater consistency between the services provided by auditors and what is expected and valued by the broader business community.

It must be emphasized that the information you provide will be treated in the strictest confidence. Only the total results of the survey will be published, no individual details will be divulged

Your cooperation in this project is vital to its success and we would be grateful if you would agree to complete this questionnaire.

Thank you for your help.

Section 1

The following statements have been made about auditors and the auditing process. Please circle a number for each statement to indicate the extent of your agreement.

		Strongly Disagree		Neutral			Strongly Agree	
1	The quality of company audit has increased in recent year.	1	2	3	4	5	6	7
2	Too much is expected of auditors by the investing community.	1	2	3	4	5	6	7
3	Auditors are too concerned with keeping company management happy	1	2	3	4	5	6	7
4	The auditing process is seriously weakened by imprecise accounting standards.	1	2	3	4	5	6	7
5	Auditors are too willing to settle negligence claims out of court.	1	2	3	4	5	6	7
6	An audit is of very little benefit to a company.	1	2	3	4	5	6	7
7	Audits generally take too long to complete.	1	2	3	4	5	6	7
8	Auditors do not understand the problems of business.	1	2	3	4	5	6	7
9	Audits provide significant protection against fraud.	1	2	3	4	5	6	7
10	Auditors should be identifying ways to improve management efficiency.	1	2	3	4	5	6	7
11	Auditors should report to shareholders on management efficiency.	1	2	3	4	5	6	7
12	Audit committees comprising non executive directors should improve auditors independence	1	2	3	4	5	6	7
13.	The quality of audit work is adequately regulated by the audit process	1	2	3	4	5	6	7

Section 2

The following propositions relates to the role that should be played by auditors. Please circle a number for each proposition to indicate to what extent you agree or disagree with it.

The auditors' role with respect to audited financial statement of companies should be to ensure that		Strongly Disagree		Neutral			Strongly Agree	
1	They comply with Generally Accepted Accounting Principles (GAAP).	1	2	3	4	5	6	7
2	They are consistent with conventional accounting practices.	1	2	3	4	5	6	7
3	They contain no significant deliberate distortions.	1	2	3	4	5	6	7
4	They contain no significant accidental errors.	1	2	3	4	5	6	7
The auditors' role with respect to the audited company should ensure that:								
5	All significant fraud is detected.	1	2	3	4	5	6	7
6	A satisfactory system of internal control is being operated.	1	2	3	4	5	6	7
7	The future viability of the company is not in doubt.	1	2	3	4	5	6	7
8	The company is being run efficiently.	1	2	3	4	5	6	7
9	The appropriate regulatory authorities have been informed of any significant malpractice.	1	2	3	4	5	6	7
10	The balance sheet provides a fair valuation of the company	1	2	3	4	5	6	7

Section 3

The following questions relate to the groups to whom auditors should be responsible. Please circle a number for each group, to indicate your views.

If a company's audited financial statements are significantly misstated and the audit report fails to disclose the true position, to what extent do you agree that the company's auditors should have a legal responsibility to the following groups for any loss arising from their reliance on the audited financial statements:

		Strongly Disagree		Neutral			Strongly Agree	
1	Existing shareholders?	1	2	3	4	5	6	7
2	Potential shareholders?	1	2	3	4	5	6	7
3	Existing creditors?	1	2	3	4	5	6	7
4	Potential creditors?	1	2	3	4	5	6	7

Section 4

The following propositions relate to prohibitions and regulations on an audit firm. Please circle a number for each propositions to indicate what extent you agree or disagree with it.

An audit firm should:		Strongly Disagree		Neutral			Strongly Agree	
1	Prohibit its members from owning shares in its audit clients.	1	2	3	4	5	6	7
2	Not provide management advisory services to its audit clients.	1	2	3	4	5	6	7
3	Not act primarily to make a profit.	1	2	3	4	5	6	7
4	Not be able to earn more than 15 percent of total income from any one audit client.	1	2	3	4	5	6	7
5	Have a maximum tenure period for auditing a particular client.	1	2	3	4	5	6	7
6	Have its audit methods checked by a professional standards body.	1	2	3	4	5	6	7
7	Have its appointment and fee determined by a body independent of the client company.	1	2	3	4	5	6	7
8	Have limited liability determined statute.	1	2	3	4	5	6	7
9	Be subject to proportionate rather than joint and several liability.	1	2	3	4	5	6	7

Section 5

The following questions relate to how successful you think auditors usually are at the following activities. Please circle a number for each activity to indicate your views:

		Strongly Disagree		Neutral			Strongly Agree	
1	Diagnosing problems.	1	2	3	4	5	6	7
2	Prescribing remedies to problems.	1	2	3	4	5	6	7
3	Acquiring information.	1	2	3	4	5	6	7
4	Coping with risk and uncertainty.	1	2	3	4	5	6	7
5	Predicting the future.	1	2	3	4	5	6	7
6	Marketing their services.	1	2	3	4	5	6	7
7	Making a profit.	1	2	3	4	5	6	7
8	Detecting errors and irregularities.	1	2	3	4	5	6	7
9	Preventing errors and irregularities	1	2	3	4	5	6	7
10	Complying with professional rules.	1	2	3	4	5	6	7
11	Enforcing legal requirements	1	2	3	4	5	6	7
12	Forming correct judgments.	1	2	3	4	5	6	7
13	Acting independently without regard to self-interest.	1	2	3	4	5	6	7
14	Communicating effectively.	1	2	3	4	5	6	7
15	Reporting truthfully.	1	2	3	4	5	6	7
16	Being even-handed with the interests of others.	1	2	3	4	5	6	7
17	Limiting their own legal responsibility.	1	2	3	4	5	6	7

18	Providing a useful service to clients.	1	2	3	4	5	6	7
19	Providing a useful service to society.	1	2	3	4	5	6	7

Section 6

Demographic information:

1. Name:
2. Matrix No
3. Age:
4. Race:
5. Gender
6. Do you have prior experience in audit industry before doing this practicum?

Yes No

if your answer is “Yes”, please go to Question 7.

7. How long is your previous working period in audit industry?

- Less than 3 months
- 3-6 months
- 6-9 months
- More than 9 months

- ¹ This is the independent committee commissioned to “study, review and make recommendations on the development and direction of higher education” headed by former Education director-general Tan Sri Dr Wan Zahid Mohd Noordin.
- ² Issued January 2007 to replace the previous By-Laws known as MIA By-Laws (On Professional Conduct and Ethics) [Revised January 2002]
- ³ A member is prohibited under By-law section 290 from accepting appointment as auditors if he or she has any interest in shares of the company, direct or indirect.