

***Is There an Audit Expectation Gap
in Lebanon?***

BY

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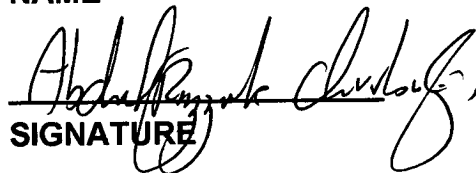
Research Topic **Is Their an Audit Expectation Gap in Lebanon?**

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I present special thanks to God who offered me the best mom and dad to whom I will be always indebted.

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Table Of Contents

	Page
<u>Chapter I</u>	
1- General Background -----	5
2- Need for the study -----	8
3- General Statement of the Problem -----	9
4- Research Questions & Hypothesis -----	13
5- Definition of terms -----	14
6- Limitations of the Study -----	17
<u>Chapter II</u>	
Review of Literature -----	19
<u>Chapter III</u>	
1- Procedures and Methodology -----	40
2- The Population of the Study -----	42
3- The Sample Size of the Study -----	42
4- Instrumentation or Measures used to Collect Data-----	43
5- Conceptual Framework for Analyzing the Data -----	43
<u>Chapter IV</u>	
Findings of the Study -----	44
<u>Chapter V</u>	
Summary and Implication -----	60
<u>Appendix A</u>	
Questionnaires -----	65
- English -----	66
- French -----	69
- Arabic -----	72

CHAPTER ONE

INTRODUCTION

General Background

When introducing themselves, auditors are faced with the situation whereby they have to explain the nature of their profession. They realize that the public, including people in managerial positions, mix up auditing with other professions such as accounting, consultancy, tax reviewing, or internal auditing. Auditors feel that the nature of auditing is abstract and remote from the public, and they have to explain primitive characteristics of their services that other professionals such as lawyers, engineers, or doctors do not have to explain.

On the other hand, companies' officials and employees wonder what auditors do in their offices and complain about the need for the numerous requests and questions that auditors raise.

In many cases, auditors are astonished and feel flattered when the public, including managers and owners, overestimate their role in uncovering errors or irregularities.

Auditors always try to ascertain that their job is not just detecting frauds or errors, but to give opinion on the fairness of accounts. However, they do not always insist on this assertion because it undervalues their role in the eyes of owners, and they always leave the questions unanswered:

- what do our auditors do?
- What is their responsibility ?
- Is this a standard situation?
- Are the feelings of auditors elusive or true?
- Is this controversy normal?
- Are there serious variances between the public and auditors?
- What is the extent of these variances?
- Did anybody try to solve these discrepancies?
- Do symptoms of variances in understanding the nature of audit appear in the local market only because of lack in education?

With all the above, the war in Lebanon ended and new investors showed interest in opening new businesses in order to benefit from the Post War construction period. International banks are showing interest in acquiring shares in the Lebanese banking sector or are planing to open branches in Lebanon. New companies have been established or are in the process of being established; "Solidere" is a representative example. This company is subject to public accountability as the number of its shareholders exceeds twenty thousand investors¹. In addition, given its huge amount of capital that exceeds one billion eight hundred million American dollars², the company bylaws stipulate the necessity of appointing one or more auditing firms. In fact, two international auditing firms have been appointed for the first three years³. On the other side, the international audit firms are showing interest as well, in order to re-activate their businesses. Some of these firms have already started operations.(ex. Arthur Andersen, KPMG, and Coopers who have associated their names with William Mitri).

¹ Al Shark Newspaper 26-4-1994.

² Al Nahar Newspaper 29-04-1994.

³ Constitutional General Assembly Decision #3/ 5-5-1994.

Moreover, the Lebanese government is in the process of activating the stock-exchange market. Companies⁴ which are allowed to go public should have three years of audited financial statements published. Companies should be associated with reputable auditors in order to give or add credibility to their financial statements. Above all, the most important action taken by the Lebanese government has been the promulgation of a law regulating the profession of Certified Public Accountants.

Need for the Study

It is evident that what auditors do is different than what the public believes auditors should do. The research reported here extends those conducted by international researchers. Based on review of literature and interviews with experts, it seems that the "Audit Expectation Performance Gap" is becoming an important phenomenon in Lebanon, and that it is imperative to investigate and direct attention to it.

⁴ Al Nahar 27-08-1994.

General Statement of the Problem

Auditors, on a daily basis, communicate information in various ways to public. But evidence suggests that sometimes even the most educated users of auditors' services do not always understand the information that they receive.

A historical overview of the audit profession reveals an ongoing and persistent misunderstanding between the public and auditors. Throughout history, collapses and failures of companies were associated with litigious environments and caused failures of auditing firms as well. The role of auditors has been questioned in many occasions and auditors were obliged to defend themselves and to incur costs in millions of dollars.

Several organizations and bodies (AICPA, GASB, FASB, AAA, IFAC, IADC) were created to set rules and regulations to standardize audit assignments, and to guide practitioners. Moreover, these professional bodies have tried to clarify the auditors' function through issuing communications to the public. The most important of these communications is the famous Auditor's Report and the ten auditing standards.

The requirement to publicize the Auditor's Report has put auditors face to face with the public. Thus public opinion has become so important as to inspire and influence the accounting professional bodies in conducting their duty and to focus their concern on changing continuously their professional standards in order to meet public expectation.

In the public judgment, auditors should serve as a corporate watchdog to investors, and their duty is to anticipate business failures and to detect fraudulent acts. However, auditors believe that the promulgated standards govern their performance and their responsibility is confined to detect material irregularities only. In this respect, books, research papers and journal articles were written in an attempt to reconcile the differences between the public and the accounting bodies. The writers have discovered the existence of a problem in communication between auditors and the users of the audit report. This problem has been referred to as the "Expectation Gap."

A similar expectation gap exists in the local market between the Lebanese public and the practicing auditors. The Lebanese users were accustomed to local auditors who play the role of the accountants, internal auditors, tax or

social security consultants at the same time. The magnitude of the gap can be seen clearly when Lebanese users shift from local auditors to auditors affiliated with international auditing firms. The international auditors feel that a wide gap exists between themselves and their clients, and feel that they should educate the management of their clients about the auditor and the auditing profession.

Owners of small organizations see auditors as their accountants and expect them to prepare financial statements and tax returns. On the other hand, chairmen of big companies expect their auditors to provide consultant services and to perform 100% checking or testing. In addition, lawyers see auditors as expert accountants who are responsible for manipulating any transactions for the benefit of the company. Moreover, employees see auditors as inspectors employed by the owner or the government in order to uncover their mistakes or illegal acts.

University business professors are well educated about the audit profession and know the responsibility of the auditor. However, this knowledge might be theoretical rather than practical since most of professors do not work on the field and face actual problems.

The feelings of auditors in the local market is an actual one rather than an illusion. This feeling is a reflection of a long problematic history between auditors and the public. This problem has been dealt with for many years especially in the United States and Britain and and this paper addresses this issue in the Lebanese context.

Research Question and Hypothesis

Research Question

- Do individuals of different professions look at auditors from different perspectives?

Hypothesis

In Lebanon, There are variances in the views of different professions about the auditor's role and responsibility.

Definition of Terms

What is Auditing⁵ ?

"Auditing" is defined as a process by which a competent, independent person accumulates and evaluates evidence about quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria.

"Criteria" are forms of principles that auditors must follow. In auditing a company in the United States, auditors should evaluate whether the company's financial statements are prepared according to the "Generally Accepted Accounting Principles" (GAAP). Similarly, financial information prepared in other countries should follow either local accounting requirements or the International Accounting Standards (IAS) and consequently auditors should ascertain the application of IAS in the preparation of financial information.

⁵ Arens, Loebecke. Auditing, Fifth Edition. 1991.

"Quantifiable Information" can take many forms; a balance sheet, a fund in a not-for-profit organization, or a government construction contract etc.

The "Economic Entity" is the legal entity such as a corporation, a partnership, or a governmental department.

"Evidence" is any information gathered by the auditor to determine whether the quantifiable information is prepared in accordance with the prescribed criteria. Evidence can take the form of either oral testimony of the company's directors, or a written communication from a third party, or an analysis performed by the auditor.

Auditors should have three basic characteristics. They should be "qualified" to analyze the criteria just mentioned and "competent" to evaluate the type and magnitude of evidence. These two characteristics will not be adequate and valid unless auditors possess "independent mental attitude." Independence should not be understood in absolute terms; it is a goal which should be attained and a state which the auditor should always preserve.

The product of the audit process is the audit report which communicates the findings to the users of the quantifiable information. The report if issued, should always include the auditors opinion on whether the quantifiable information are in accordance with the established criteria.

Auditing can be conducted by individuals, local firms, or international firms. Currently there are six international firms whose origins stem mainly from the United States and the United Kingdom.

Auditors are distinguished with different titles such as Certified Public Accountant (CPA), Chartered Accountant (CA), Public Accountant, or similar names. However, they all represent external independent auditors, and should not be confused with internal auditors, accountants, governmental tax reviewers, or others. Moreover, auditors may provide services other than auditing such as bookkeeping, tax or management consultation, compilation or review of financial statements, and many others. However, these services should not be mixed up with the original function which is to provide an independent opinion on the fairness of the financial statements.

In Lebanon, auditing is being conducted by individuals, local firms as well as international firms with a minor market share.

Limitations of the Study

One part of this research is based on articles and papers, all of which are written by foreign writers and are the result of experiences of foreigners who practice and write in their homeland and have adequate references and statistical data. The researcher is depending on their studies which were conducted in environments characterized by stable economies and stable legal institutions which are different than ours.

Legal institutions in Lebanon were paralyzed. For almost 20 years, and with the exception of establishing a new association for public accountants as previously indicated, no new legislations have been promulgated regarding auditing, accounting or finance. Consequently, local auditors are not living in litigious environments as auditors do in other countries. Above all no new research and statistics have been published regarding corporations, auditing, finance and others.

Corporations in Lebanon are not real ones. In most of the companies, the shareholders are close family members who are in the top managerial positions. The owner-manager concept is still dominant and the main management objective is to increase the net worth of

owners and decrease their tax liability through maintaining of an "ever losing" or a "break even" corporation, that is a corporation which reports low profit levels for tax purposes. In such an environment, the auditor who is a compulsory legal requirement, seems not to be needed except for servicing tax purposes and the users of the audit report and the audited financial statements seem not to exist. In many instances, audit fees seem to be an unnecessary burden on the share holders. It has been noted that big companies go to small local auditors in order to avoid uncovering to others the owners' tax liability or illegal acts.

In our environment there are auditors; however, the users of the audit report are not our public. They are either non-resident holding companies who have resident subsidiaries, or the Lebanese tax authorities. The concept of audit is not as yet clear. However, among the small number of audit interested groups a gap exists which is partly due to the undefined role of the auditor.

Chapter Two

Review of Literature

The literature relevant to the expectation problems in auditing is extensive ranging from empirical and experimental research to analysis of legal judgments and the work of various professional and governmental investigations. This chapter summarizes a part of the above literature covering empirical studies and theoretical analysis of the "Expectation Gap" problem.

A review of daily newspapers and of business and financial journals over recent times leaves little room for doubt that auditors throughout the English speaking world

are facing a liability crisis and a credibility crisis⁶ . In the United States and Britain, criticism and litigation are still the main aspects of the audit environment. These aspects reveal that a difference exists between how the society expects auditors to perform and how auditors are actually performing⁷ . The litigation⁸ and expectation gap have a long and persistent history such as financial scandals of Barlow Clowes, Polly Peck and BCCI and the companies collapse in New Zealand stock market crash⁹ in 1987. All the above problems have raised the issue of the expectation gap debate. The central issues incorporated within it , such as fraud detection, auditors independence, public interest reporting, and the meaning of audit reports, have not only remained unresolved since the emergence of the term "Audit Expectation Gap" in the 1970's, but also have a history that is as long as that of company auditing itself¹⁰ (Humphrey et al 1992).

⁶ Russel,G. "All Eyes on Accountants." Times: 21 Apr. 1986: 72.

⁷ Porter, B. "An Empirical Study of the audit Expectation Gap in Britain" Accounting and Business Research: Vol.24,No.93. 1993: 49-68.

⁸ Humphrey, Moizer and Turley. "The Audit Expectation Gap in Britain: An Empirical Investigation." Accounting and Business Research: Vol23, No 91A. 1993 : 395-411.

⁹ Porter, B. "an Empirical Study of the audit Expectation Gap in Britain" Accounting and Business Research: Vol.24,No.93. 1993: 49-68.

¹⁰ Humphrey, Moiser and W.S.Turley. "The Audit Expectation Gap - Plus ça change, Plus C'est la même chose." Critical Perspectives in Accounting: Vol 3. May 1992: 137-161.

Stockholders, depositors and others dealing with failed banks, savings and loans associations, and government bond dealers were affected by current business failures. These business failures are due to deceitful transactions, unstable economic situations, weak management or a combination of all these. The public's discernment sees that auditors should have discovered the fraud and acknowledged that failures were impending and certain measures were to be taken to make sure that the public were given notice on time. Hence, in the public's opinion, these business failures have become related to the audit failures, being fair or not. The congressional investigators joining together with the public asked for every business failure:" Where were the auditors¹¹ ?"

What is the "Expectation Gap?"

What is the expectation Gap? What do investors and financial statements users expect from auditors?

It appears that Liggio¹² was the first to apply the phrase "Expectation Gap" to auditing. He defined it as the difference between the levels of expected performance

¹¹ Connor,J. "Enhancing public Confidence in the Accounting Profession." Journal of Accountancy: 1986: 76-83.

¹² Liggio.C.D. "The Expectation Gap: The Accountants Waterloo." Journal of Contemporary Business: Vol 3. 1974: 27-44.

"as envisioned by the independent accountant and by the users of the financial statements." This definition was extended a little in the Cohen's Commission¹³. The commission was charged to consider whether a gap may exist between what the public expects or needs and what auditors can and should reasonably expect to accomplish. However, it is considered that both of the above definitions are too narrow in that they do not recognize that auditors may not accomplish "expected performance" or what they can and reasonably should. They do not allow for substandard performance. It is submitted that the gap which gives rise to criticism of auditors is that between what society expects from auditors and what it perceives it receives from them. It is therefore more appropriately that the audit expectation gap be defined as the gap between society's expectations of auditors and auditors performance as perceived by society¹⁴.

Epstein and Geiger¹⁵ have simply explained the nature of the term by saying: Investors and financial statement users both agree that it is

¹³ Commission on Auditors' Responsibilities, Report, Conclusions and Recommendations. Cohen Commission, AICPA, New York: 1978.

¹⁴ Porter, B. "an Empirical Study of the audit Expectation Gap in Britain." Accounting and Business Research: Vol.24, No.93. 1993: 49-68.

¹⁵ Epstein, Marshall Geiger. "Investor views of Audit Assurance: Recent Evidence of the Expectation Gap." Journal of Accountancy: Jan. 1994: 60-66.

important to have audit in financial reporting. Auditors, however, over the time, were expected to give various degrees of assurance for different purposes. Difference in perception-especially to the assurance given - between users, preparers and auditors " have been referred to as the "Expectation Gap " . Epstein and Geiger have analysed the gap from its emergence throughout history as follows:

From 1850 to 1900's, auditors were bound to give total assurance against fraud and bad management. Since the audit profession grew and developed, the beginning of the 1900's witnessed a move from fraud detection of amounts and operations to verifying fairness in financial statement reporting. This move is partly due to the growth of volume of business operations (making fraud detection less feasible) and the introduction of a new important player in the business world, the shareholder. Corporate shareholders and other outside business parties became more and more dependent on auditors to certify management operations - information that necessitates a move from the main audit objective to monitoring the externally reported financial information.

The development of the audit is being continually examined by writers who say: "current practice has not strayed far from that of early corporate America, with the primary audit focus on financial statement reasonableness." Recent measures still reveal the material misstatement focus and more often have depended on the notion of reasonable assurance in finding out the level of reliance on audited information. The one thing needed to detect enough evidence of the reasonable assurance notion as a source of reliance on audited financial statements is a skim of recent auditing standards.

Regardless of the above mentioned standards, what assurance does the public currently expect auditors to provide? Does the public understand the concept of reasonable assurance, or they expect absolute assurance, that is the Gap?

Guy and Sullivan¹⁶ referred to the expectation gap as follows: "There is a difference between what the public and financial statement users believe accountants and auditors are responsible for, and what the accountant and auditors themselves believe they are responsible for. This difference is commonly called the expectation gap."

¹⁶ Guy, Jerry Sullivan. "The Expectation Gap Auditing Standards." Journal of Accountancy: Apr. 1988 : 36-46.

Auditors are expected by the public and financial statement users to :

- be more responsible for detecting and reporting fraud and illegal activities.

- make better material misstatement detection.

- be able to give financial statement users more valuable information and warning concerning the analysis of the audit process and the possibility of business failure.

- be able to communicate better with audit committees and others who are interested in valid financial reports.

Several other writers¹⁷ (e.g. Brown 1962; Flint 1971; Lee 1979) have commented on the change in audit objectives over the first 150 years. According to these writers the primary objective of the audit was initially the detection of fraud and error . But by the middle of the twentieth century it had developed into the verification of financial statements. However, evidence exists which suggests that the need to provide shareholders with information suitable for investment decision purposes was appreciated in the second quarter of the nineteenth century . Shareholders have put more emphasis on large corporations mainly banking and insurance since they were growing rapidly. Their main purpose was to get information on the company's performance rather than on management

¹⁷ Chandler, Edwards, Malcolm Anderson. "Changing Perception of the Role of Company Auditor, 1840-1940." Accounting and Business Research: Vol23, No 92, 1993: 443-459.

honesty. As for small companies having the shareholders as owners, fraud detection remained the main objective . Due to the increased rate in bankruptcy and insolvency, auditors focused their attention on fraud detection at the end of the nineteenth century. Thus, due to the auditing operations inside the companies, auditors found insights on the reasons of weak and fraudulent management. Moreover, unreasonable expectations were part of the auditors role due to the emphasis placed on fraud detection. Thus, auditors were viewed as "evil detectors" since their capabilities were overestimated by the public.

In the early 20th century , financial statement verification was emphasized rather than fraud detection. In the second half of the 20th century, the gap of comprehending the audit role, objective, execution or the level of assurance is still persistence. " It has never yet been decided what is the character , nature and extent of the duties of an auditor."

Analysis of the gap

Porter¹⁸ has analyzed the expectation gap structure by dividing it into two components:

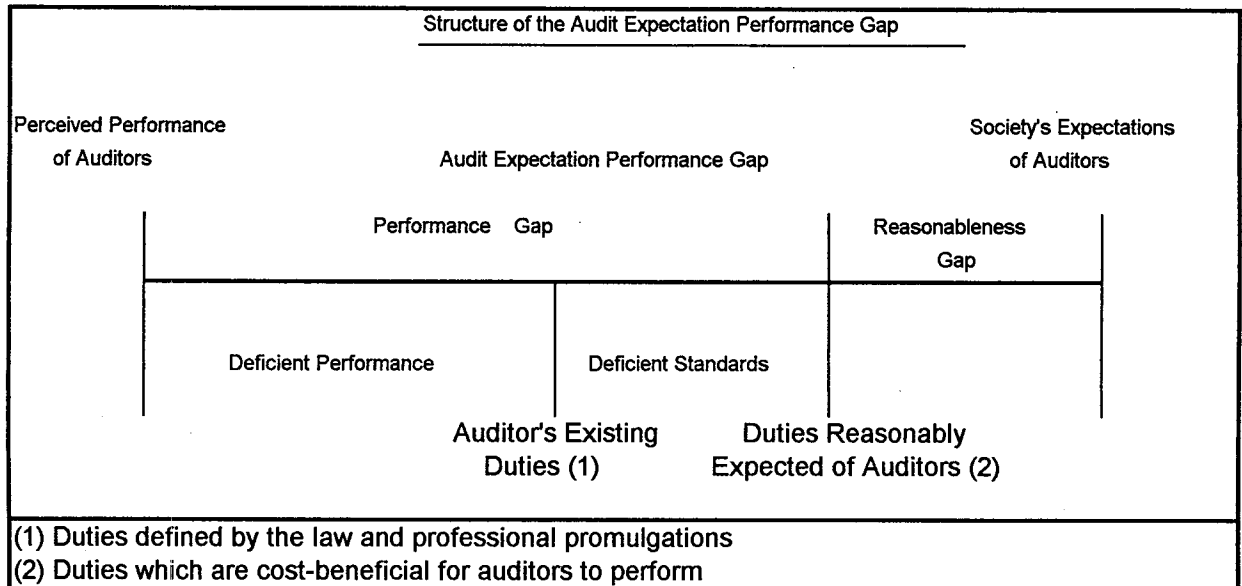
Performance Gap (Refer to the table on the next page) defined as "a gap between what society can reasonably expect auditors to accomplish and what they are perceived to achieve". The performance Gap is subdivided into:

- "Deficient standard: A gap between the duties which can reasonably be expected of auditors and auditors' existing duties as defined by the law and professional promulgation.

- "Deficient performance: A gap between the expected standard of performance of auditors' existing duties and auditors' perceived performance, as expected and perceived by society."

Reasonableness Gap defined as "a gap between what society expects auditors to achieve and what they can reasonably be expected to accomplish."

¹⁸ Porter, B. "an Empirical Study of the audit Expectation Gap in Britain." Accounting and Business Research: Vol.24, No.93. 1993: 49-68.



(Porter, B. "an Empirical Study of the audit Expectation Gap in Britain." Accounting and Business Research: Vol.24, No.93. 1993: 49-68)

Evidence of the Gap

Many statistical surveys have been carried out in order to ascertain and measure the audit expectation gap:

A national survey was conducted in the USA¹⁹ to gather information on investors views of various aspects of financial reporting issues. Participants were selected if they

¹⁹ Epstein, Marshall Geiger. "Investor views of Audit Assurance: Recent Evidence of the Expectation Gap." Journal of Accountancy: Jan. 1994: 60-66.

owned 100 or more shares of stocks listed in the American or New York stock exchange. In total 246 responses were obtained representing individuals from all 50 states.

The survey included two separate questions in which investors were asked about the level of assurance they believed auditors should provide for detecting material misstatements as a result of error (unintentional misstatements) or fraud (intentional misstatement). The anticipated typical response was reasonable assurance . However, investors held auditors to a much higher level of assurance as shown here below:

	<u>Error</u>	<u>Fraud</u>
No assurance necessary	1.67%	2.51%
Reasonable assurance	51.05%	26.36%
Absolute Assurance	47.28%	71.13%

For material misstatements due to errors only, about 51% of the investors believed they should receive reasonable assurance. 47% wanted absolute assurance that the financial statements are free of material misstatements due to errors. This unexpected result is clearly in opposition to the level of assurance stated in the auditor's report and in current professional standards.

The unexpected results pale in comparison with the high assurance levels pursued for the detection of fraud. More than 70% of investors think that auditors should give total assurance as to uncovering material misstatement. Fraud and intentional misrepresentation cannot be detected in the way misstatements due to errors can be detected, they are more difficult to detect as formally stated in the standards in S.A.S. # 53. Most of the investors require from auditors total assurance that the financial statements do not include any kind of material misstatement.

The study concluded that an expectation gap exists in the results between auditors and the public on the assurance degree or level an audit provides.

Another mail questionnaire survey undertaken towards the end of 1990 in Britain²⁰, had a purpose to examine whether an expectation gap can be associated with occupational group membership. The groups that were selected for study included chartered accountants in public practice, financial directors, investment analysts, bankers and financial journalists.

²⁰ Humphrey, Moizer and Turley. "The Audit Expectation Gap in Britain : An Empirical Investigation." Accounting and Business Research: Vol23, No 91A. 1993 : 395-411.

The questionnaire included three main parts. The first part included a series of assertions regarding existing and possible audit role, regulations and audit environment. The second part consisted of testing the performance of auditors against various attributes. The third part included six mini case studies to elicit perceptions about auditors' reporting of information and the extent of audit work.

In the first part of the questionnaire respondents were asked to indicate their agreement or disagreement with statements regarding current auditing practice. The largest difference was the one related to the statement that "too much was expected of auditors by the investing community". Accountants and auditors agreed with the statement, but the user group disagreed. Auditors felt that they do understand business problems while user groups generally were less confident about auditors' capacity in this respect.

Another important difference recorded in the second part of the questionnaire relates to whether "the auditor role is to insure that all significant fraud is detected." Accountants and auditors were least supportive, and users were the most supportive.

The third part of the questionnaire revealed another prominent component of the expectation gap debate; namely, the proposition that "an audit firm should not provide management advisory services to its audit clients." Auditors and accountants strongly disagreed with this suggestion, whereas financial directors and bankers weakly disagreed, and financial journalists strongly agreed.

The writers have presented other differences which confirmed quite clearly that an audit expectation gap exists on a variety of aspects of the nature of the audit functions and the perceived performance of auditors. The survey confirmed that the "critical component of the expectation gap as at the start of the 1990's has included the auditor's role in relation to fraud detection, the extent of auditor's responsibility to third parties, and auditors independence. "

Audit expectation gap and its composition has been reported in an empirical study²¹ of a mail survey conducted in 1989. The main purpose was to ascertain the opinion of auditors interest group in New Zealand regarding auditors' existing duties, the standard of performance of these duties, and the duties that auditors should perform.

²¹ Porter, B. "An Empirical Study of the audit Expectation Gap in Britain." *Accounting and Business Research*: Vol.24, No.93. 1993: 49-68.

The groups interested in auditing were subdivided into two subgroups, namely the "Financial Community" and the "General Public." The "Financial Community" represents individuals who are supposed to have fair knowledge in auditing. The "General Public" represents individuals less familiar with the audit work.

The results obtained regarding auditor's existing duties "extracted from laws and promulgation" were as follows: The Financial Community including auditors have a fair knowledge about their duties. However, 60% of the General Public have remote knowledge about auditors duties. This is an evidence of the existence of a "Reasonableness Gap."

The results obtained regarding auditors' performance of their existing duties were as follows: The Financial Community, (excluding auditors) viewed auditors performance as unsatisfactory. In contrast, the General Public seemed satisfied with the performance of the auditors' duties.

The results obtained regarding the duties that should be performed by auditors were: The Financial Community recognized fewer duties that should be performed by auditors. The General Public, however, required a wider range of duties to be performed by auditors.

Solutions to bridge the gap

1-Educate users

Mainly in Britain and the United States, the audit profession narrowed the gap by taking some positive steps. The increased public understanding of the audit profession and its inherent limitations has affected the gap²². The American Institute of Certified Public Accountants has devoted its main resources to explaining to the public the auditor's existing role in the financial reporting procedure and an audit's inevitable limitations. To communicate an audit's merits and limitations, increased educational efforts with clients at shareholders meetings, in professional and civic organizations and every available juncture should be used. Another way of educating the public is through the continuous use of the audit report explicitly indicating

²² Epstein, Marshall Geiger. "Investor views of Audit Assurance: Recent Evidence of the Expectation Gap." Journal of Accountancy: Jan. 1994: 60-66.

reasonable assurance²³. The audit's report should be continuously evaluated to test its wording and its influence on investors, bankers, government and court officials. Standard setters should take extreme caution in learning how the changes in audit report affect the perceptions by various users.

An investor who has more education concerning accounting, finance and investment analysis, was found to require less absolute audit assurance. Thus, increased awareness and education seem to be viable ways to bridge the gap.

Users should be "educated" - the profession should "face Reality" and improve relations by setting forth, through the wording in the audit report, a role consistent with what the public expects and the court demands²⁴.

²³ Epstein, Marshall Geiger. "Investor views of Audit Assurance: Recent Evidence of the Expectation Gap." Journal of Accountancy: Jan. 1994: 60-66.

²⁴ Landsittel, David. "The Auditor's Standard Report: The Last Word or in Need of Change.?" Journal of Accountancy: Feb. 1987: 80- 84.

2-Revise standards

Recent auditing standards are not clear in explaining the auditor's responsibility regarding material errors (unintentional mistakes) and irregularities (fraud). The standards set recognizes the auditor's responsibility, within the limitations inherent in the auditing process, to plan the testing and searching for material errors and irregularities. Moreover, these standards with their valuable language, make auditors conclude that finding errors and irregularities are not part of their work unless they face them in their planned audit procedures. If the public 's expectations gap are to be met, auditing standards must be revised²⁵ .

In response to the above concerns, the Accounting Standard Board ASB has issued nine Statements on Auditing Standards (SAS) which some of them are worth referring to. SAS # 53, "The auditor's responsibility to detect and report errors and irregularities" explains the auditor's responsibility for material misstatements in a more understandable manner and provides guidance on how to improve the detection of such misstatements. A critical paragraph in SAS #53 is the responsibility paragraph: "The auditor should assess the risk that errors and irregularities

²⁵ Connor,J. "Enhancing public Confidence in the Accounting Profession." Journal of Accountancy: 1986: 76-83.

may cause the financial statements to contain a material misstatement. Based on that assessment, the auditor should design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements." . SAS # 53 makes the responsibility of auditors higher by obligating them to design the audit to provide reasonable assurance of detection. Besides, the standard acknowledges that some irregularities - mainly forgery and collusion - may preclude a well designed and practiced audit from detecting and uncovering a material irregularity.

SAS²⁶ No. 54 "Illegal Acts by Clients" establishes the same responsibility for violations of laws or governmental regulations that have a direct and material effect on the financial statements.

SAS No. 58 "Reports on Audited Financial statements" revises the auditor's standard report , replacing the standard jargon with clearer description of the auditor's responsibility, the work the auditor does and the assurance the auditor provides.

²⁶ Guy, Jerry Sullivan. "The Expectation Gap Auditing Standards."
Journal of Accountancy: Apr. 1988 : 36-46.

Another new standard SAS No. 59 "The Auditor's Consideration of an Entity's Ability to continue as a going concern," obligates the auditor in every audit to evaluate whether there is substantial doubt about the client's ability to continue in business . If indeed such doubt exists, the auditor must include an explanatory paragraph in the audit report.

3-New Auditor's Report

It is not difficult to ascertain that a problem exists with the present auditor's report . The widely publicized auditor "Expectation Gap" is premised on the observation that our profession does not effectively communicate its roles and responsibilities²⁷. Several changes have been proposed that would help auditors in communicating more clearly their opinion. However, these modifications do not inherently change the auditor's responsibility for planning and executing the audit. Specifically, the standard auditor's report was modified in 1948 to communicate better to the public what an audit was and to present the auditor's opinion more clearly²⁸. In addition, the last modification to the auditor's report took place in 1988 when it was found that it

²⁷ Landsittel, David. "The Auditor's Standard Report: The Last Word or in Need of Change.?" Journal of Accountancy: Feb. 1987: 80-84.

²⁸ Epstein, Marshall Geiger. "Investor views of Audit Assurance: Recent Evidence of the Expectation Gap." Journal of Accountancy: Jan. 1994: 60-66.

contributed to the public's confusion. The major changes reported were the management's' responsibility for the financial statements rather than the auditors; in addition to the auditors responsibility to provide reasonable assurance that the financial statements are free of material errors²⁹ .

Finally, several authors have concluded their papers by stressing on the continuous change of auditor's responsibilities to meet the changing conditions. Two of these conclusions are worth noting:

- As a profession, CPA's continually must assess public reaction to their stated role in financial reporting as well as determine the public's perception of the type and level of assurances believed or desired to be provided by auditors³⁰ .

- Because CPA's have long accepted responsibilities to both preparers and users of financial information, the profession has a duty to continually assess auditing standards in light of the expectations, concerns, and criticism of others³¹ .

²⁹ Guy, Jerry Sullivan. "The Expectation Gap Auditing Standards." Journal of Accountancy: Apr. 1988 : 36-46.

³⁰ Epstein, Marshall Geiger. "Investor views of Audit Assurance: Recent Evidence of the Expectation Gap." Journal of Accountancy: Jan. 1994: 60-66.

³¹ Guy, Jerry Sullivan. "The Expectation Gap Auditing Standards." Journal of Accountancy: Apr. 1988 : 36-46.

Chapter III

Procedures and Methodology

The Expectation Gap problem has been dealt with by many international researchers and writers, and this was the subject of debates on the pages of several professional journals. This study replicated the work done in those journals and tried to assess the magnitude of the "Expectation Gap" between auditors and the public in the local market through an empirical survey. This survey was inspired from a mail survey based on a questionnaire undertaken towards the end of 1990 by the members of the Department of Accounting and Finance, University of

Manchester and the School of Business and Economic Studies, University of Leeds, and financially supported by Ernest and Young. The purpose of that survey was to ascertain the perceptions of individuals about audit expectations issues in Britain³².

The sample which was elicited in the research consisted of individuals who were directly or indirectly affected by auditing. The sample included professionals and employees who had enough business or working experience that allowed them to understand fairly the questions of this research.

The questions of the research were not supposed to measure the level of education or the degree of general knowledge of each profession in Lebanon, but rather to measure the levels of agreement or disagreement of the understanding of the duties of auditors . Consequently, questions were aimed to measure the magnitude of the gap in understanding auditing profession among the various groups of professionals.

³² Humphrey, Moizer and Turley. "The Audit Expectation Gap in Britain : An Empirical Investigation." Accounting and Business Research: Vol23, No 91A. 1993 : 395-411.

The Population of the Study

The population of the study consisted of all the Lebanese professionals including bankers, lawyers, independent auditors, accountants, and professors who were directly affected by the auditing service.

The Sample Size of the Study

A representative sample size of each category was randomly selected and surveyed as shown in table below:

Bankers	30
Lawyers	30
Accountants	30
Auditors	30
Professors	30

	150
	=====

Accountants and Auditors represented Financial Occupations.

Bankers, Lawyers, and professors represented non-financial professions. Bankers included Credit officers, Branch managers, Head of Departments. Lawyers were

selected from the official list of the syndicate of lawyers. Professors were selected from the business schools of various universities,

Instrumentation or Measures used to Collect Data

The main tool in collecting data for this study was a questionnaire provided in Appendix A in three different languages: Arabic, English, and French. The questionnaire was divided into five main parts. These parts answered the research questions that are listed in chapter one. In addition, This questionnaire was distributed to the above selected sample. Since not all the people that were surveyed responded, an expected number of respondents was estimated.

Conceptual Framework for Analyzing the Data

The method used to analyze the data collected from the questionnaire was the multiple regression analysis. This method permits the examination of two or more independent variables on the dependent variable. In this study, the independent variables were represented by the different occupations. The influence of these different occupations on the dependent variable , or "The Expectation Gap", was studied.

CHAPTER IV

Findings Of The Study

In this chapter, the researcher presented the findings of chapter one research question and hypothesis :

Question:

Do individuals of different professions look at auditors from different perspectives?

Hypothesis:

In Lebanon, there are variances in the views of different professions about the auditor's role and responsibility

Various tests were conducted for both the data collected as well as the questionnaire itself.

The first test was the residual analysis which was applied to detect outliers (respondents who did not understand the questions, and or respondents who were not serious in answering the questionnaire). From 185 responses, 71 were detected as outliers, and as a result, were rejected from the study. Consequently, the remaining 116 responses were used as a base for this research. In table T-1 on the following page, respondents who had a score +1 and greater, or -1 and lower were rejected. The remaining who have a score between ± 1 were kept in this study and they totaled 116 responses.

TABLE T-1

	ZRE-L	NO
1	.40771	2.00
2	-.33060	4.00
3	1.77802	5.00
4	1.74983	6.00
5	-1.08255	7.00
6	.07272	8.00
7	.29532	9.00
8	-.52239	10.00
9	.85121	11.00
10	1.10985	12.00
11	-.34546	13.00
12	-.04579	14.00
13	-.20123	15.00
14	-.43572	16.00
15	-.51493	17.00
16	-.04579	18.00
17	.34662	19.00
18	-1.29727	20.00
19	1.18232	21.00
20	-1.29091	22.00
21	-.15074	23.00
22	-.23391	24.00
23	-1.71833	25.00
24	-.94000	26.00
25	-.64812	27.00
26	-1.85763	28.00
27	-1.20284	29.00
28	-1.35574	30.00
29	-.29261	31.00
30	-.09690	32.00
31	-1.04571	33.00
32	-.33749	34.00
33	.29872	35.00
34	-1.12569	36.00
35	.02340	37.00
36	.25201	38.00
37	-.49251	39.00
38	.08035	40.00
39	.14327	41.00
40	-.38403	42.00
41	-.40625	43.00
42	1.05666	44.00
43	1.23367	45.00
44	-1.45614	46.00
45	.69619	47.00
46	1.32268	48.00
47	.26031	49.00
48	1.05708	50.00
49	.77921	51.00
50	.72973	52.00

	ZRB-L	No
51	1.24683	53.00
52	.85413	54.00
53	.87131	55.00
54	1.02120	56.00
55	2.08609	57.00
56	1.34621	58.00
57	.61899	59.00
58	.77921	60.00
59	-.38682	61.00
60	-.27538	62.00
61	-.10346	63.00
62	-1.38009	64.00
63	.48958	65.00
64	-.50667	66.00
65	-1.10520	67.00
66	-.83543	68.00
67	-.63736	69.00
68	-.33509	70.00
69	-1.04431	71.00
70	-1.43240	72.00
71	-.64898	73.00
72	.87891	74.00
73	-.82708	75.00
74	.18233	76.00
75	.93314	77.00
76	.81393	78.00
77	1.08925	79.00
78	1.81604	80.00
79	.88592	81.00
80	2.12081	82.00
81	.85121	83.00
82	1.23367	84.00
83	.54117	85.00
84	.56382	86.00
85	.80034	87.00
86	1.63946	88.00
87	-.90231	89.00
88	-.74542	90.00
89	-.21820	91.00
90	-.85808	92.00
91	-.15241	93.00
92	-1.77870	94.00
93	-.89975	95.00
94	-.40625	96.00
95	-1.26022	97.00
96	-1.47816	98.00
97	-.54760	99.00
98	-.74449	100.00
99	-.37038	101.00
100	-1.61959	102.00

	ZRB-L	NO
101	-1.25614	103.00
102	.76562	104.00
103	-1.13585	105.00
104	-.38469	106.00
105	-.16025	107.00
106	.07451	108.00
107	-.66339	109.00
108	.22953	110.00
109	-.73245	111.00
110	.64599	112.00
111	1.23279	113.00
112	-.99783	114.00
113	1.64115	115.00
114	.54117	116.00
115	-2.03538	117.00
116	1.05666	118.00
117	-.93366	119.00
118	-.67077	120.00
119	-1.17984	121.00
120	1.64115	122.00
121	1.29725	123.00
122	1.05410	124.00
123	-.92795	125.00
124	-1.22440	126.00
125	-.88872	127.00
126	1.00368	128.00
127	-1.16191	129.00
128	-.03541	130.00
129	.80290	131.00
130	-.65679	132.00
131	.43029	133.00
132	-1.01938	134.00
133	-.38403	135.00
134	.99673	136.00
135	-.65679	137.00
136	1.07888	138.00
137	-.99460	139.00
138	-.83939	140.00
139	1.25435	141.00
140	.90164	142.00
141	1.11294	143.00
142	2.28839	144.00
143	-1.69355	145.00
144	.65891	146.00
145	1.74785	147.00
146	-1.32314	148.00
147	.40515	149.00
148	1.00623	150.00
149	1.26040	151.00
150	1.16123	152.00

	ZRB-L	NO
151	.81649	153.00
152	-1.23757	154.00
153	1.54663	155.00
154	.56636	156.00
155	-.53023	157.00
156	.33735	158.00
157	-.60264	159.00
158	-.40041	160.00
159	-.65375	161.00
160	-.06217	162.00
161	-.98746	163.00
162	-.58177	164.00
163	-.94209	165.00
164	1.40183	166.00
165	-1.04782	167.00
166	-.68736	168.00
167	-.28875	169.00
168	-.68845	170.00
169	-.43725	171.00
170	-.42197	172.00
171	.09328	173.00
172	1.54129	174.00
173	1.00059	175.00
174	1.60517	176.00
175	.66147	177.00
176	.80290	178.00
177	-.20702	179.00
178	-.86138	180.00
179	-.22429	181.00
180	-.16566	182.00
181	-.07398	183.00
182	-1.73192	184.00
183	-1.56076	185.00
184	-1.27594	186.00
185	-.84800	187.00

Number of cases read: 185 Number of cases listed: 185

The second and third tests were conducted on the questionnaire itself to test its reliability and validity.

First of all, Factor analysis was conducted to establish the construct validity of the instrument used; the questionnaire. In other words, this analysis studied whether the instrument was measuring what it was suppose to measure. The results are shown in table T-2. From a total of 35 questions, 20 questions were measuring what they were suppose to measure, and 15 questions were rejected. The 20 questions that were valid are listed in table T-2 on the next page.

TABLE T-2

----- FACTOR ANALYSIS -----

Analysis number 1 Listwise deletion of cases with missing values

Extraction 1 for analysis 1, Principal Components Analysis (PC)

Initial Statistics:

Variable	Communality	Factor	Eigenvalue	Pct of Var	Cum Pct
IIIQ15	1.00000 *	1	5.50398	27.5	27.5
IIIQ16	1.00000 *	2	2.27148	11.4	38.9
IIIQ17	1.00000 *	3	1.97305	9.9	48.7
IIQ10	1.00000 *	4	1.62194	8.1	56.9
IIQ11	1.00000 *	5	1.20569	6.0	62.9
IIQ12	1.00000 *	6	1.00345	5.0	67.9

Variable	Communality	Factor	Eigenvalue	Pct of Var	Cum Pct
IIQ13	1.00000 *	7	.89201	4.5	72.4
IIQ8	1.00000 *	8	.86589	4.3	76.7
IIQ9	1.00000 *	9	.77551	3.9	80.6
IQ1	1.00000 *	10	.63211	3.2	83.7
IQ7	1.00000 *	11	.56516	2.8	86.6
IV19	1.00000 *	12	.49301	2.5	89.0
IV20	1.00000 *	13	.48055	2.4	91.4
IV22	1.00000 *	14	.36624	1.8	94.8
V29	1.00000 *	16	.29919	1.5	96.3
V30	1.00000 *	17	.24647	1.2	97.6
V31	1.00000 *	18	.20379	1.0	98.6
V32	1.00000 *	19	.16267	.8	99.4
V33	1.00000 *	20	.12169	.6	100.0

In addition to the Factor analysis, it was found that the grouped questions were 91.38% correctly classified and this is represented in table T-3 .

TABLE T-3

Classification results -

		No. of	Predicted	Group Membership
Actual Group		Cases	0	1
-----		-----	-----	-----
Group	0	81	72	9
others			88.9%	11.1%
Group	1	35	1	34
accud			2.9%	97.1%

		116		
		=====		

Percent of "grouped" cases correctly classified: **91.38%**

Classification processing summary

- 116 (Unweighted) cases were processed.
- 0 cases were excluded for missing or out-of-range group codes.
- 0 cases had at least one missing discriminating variable.
- 116 (Unweighted) cases were used for printed output.

Pattern Matrix:

	<u>Factor 1</u>	<u>Factor 2</u>	<u>Factor 3</u>	<u>Factor 4</u>	<u>Factor 5</u>
V33	<u>.90446</u>	.00641	-.04941	.00739	.00270
V32	<u>.89018</u>	-.13767	-.00599	-.11798	.04177
V30	<u>.86279</u>	.05469	-.05734	-.03886	.11183
V31	<u>.73467</u>	.00269	.15932	-.01088	.06372
V28	<u>.71129</u>	.00265	.12598	.15558	-.10346
V29	<u>.69843</u>	.06962	.09906	.15384	.02634
IIIQ17	.08057	<u>.89122</u>	.05826	.04118	-.05027
IIIQ15	-.19527	<u>.88833</u>	.06395	.13741	.16154
IIIQ16	.14121	<u>.62927</u>	-.11145	-.24976	-.10430
IIQ13	.01917	.18257	<u>.74258</u>	-.11186	.09742
IIQ10	-.00517	-.02521	<u>.73347</u>	.03613	.03678
IIQ9	.25166	.04620	<u>.60801</u>	.06105	-.19892
IIQ11	.30281	.07930	<u>.58924</u>	.05834	.14415
IIQ12	.03642	-.02276	<u>.55573</u>	-.06643	-.24828
IIQ8	-.04332	-.14520	<u>.54700</u>	.08328	.18096
IV20	.02466	-.25741	.02628	<u>.74535</u>	.06455
IV22	.05038	.17213	-.15441	<u>.73446</u>	-.19175
IV19	.01967	.03579	.07901	<u>.71536</u>	.05810
IQ7	-.01740	.05823	.15401	-.03628	<u>.87050</u>
IQ1	.30913	-.04916	-.17691	-.04071	<u>.62321</u>

As was previously mentioned, the questionnaire was divided into five main sections. In the Pattern Matrix at the bottom of table T-3 each part of the five sections of the questionnaire was measuring one dimension. The Pattern Matrix shows that the questions were highly correlated with the respective factor while low correlation existed with other factors. A summary of each factor and its corresponding measure is presented here below:

- Factor 1 Auditor's Success
- Factor 2 Auditor's Responsibility
- Factor 3 Auditor's Role
- Factor 4 Auditor's imposed Regulations and Prohibitions
- Factor 5 Auditing Process

Factor 1, for example, is measuring auditor's success. The respective questions 28 through 33 were highly correlated with factor 1, while low correlation existed with factors 2, 3, 4, and 5. As a result, this confirms that the questionnaire was valid.

The Reliability analysis was conducted to measure whether the five sections of the instrument were consistent in measuring what they were suppose to measure. The reliability test was represented in the alpha coefficient. If alpha was greater than 0.60, then the grouped questions were accepted as being reliable. Table T-4 shows the value of alpha for each part

TABLE T-4

RELIABILITY ANALYSIS - SCALE (ALPHA)

		<u>Mean</u>	<u>Std Dev</u>	<u>Cases</u>
1.	IIIQ15	4.5345	2.0019	116.0
2.	IIIQ16	5.2069	1.5465	116.0
3.	IIIQ17	4.1724	2.1029	116.0

Reliability Coefficients

N of Cases = 116.0

N of Items = 3

Alpha = .7572

		<u>Mean</u>	<u>Std Dev</u>	<u>Cases</u>
1.	IIQ10	4.9914	1.5742	116.0
2.	IIQ11	4.9741	1.6653	116.0
3.	IIQ12	4.8017	1.7556	116.0
4.	IIQ13	5.7672	1.3472	116.0
5.	IIQ8	6.0431	1.3344	116.0
6.	IIQ9	5.6810	1.2961	116.0

Reliability Coefficients

N of Cases = 116.0

N of Items = 6

Alpha = .7537

		<u>Mean</u>	<u>Std Dev</u>	<u>Cases</u>
1.	IQ1	5.3448	1.6371	116.0
2.	IQ7	5.2241	1.5775	116.0

Reliability Coefficients

N of Cases = 116.0

N of Items = 2

Alpha = .5037

		<u>Mean</u>	<u>Std Dev</u>	<u>Cases</u>
1.	IV19	4.3793	2.0330	116.0
2.	IV20	4.4138	1.8839	116.0
3.	IV22	4.1638	1.9334	116.0

Reliability Coefficients

N of Cases = 116.0

N of Items = 3

Alpha = .6016

		<u>Mean</u>	<u>Std Dev</u>	<u>Cases</u>
1.	V28	5.5603	1.2531	116.0
2.	V29	5.1034	1.3014	116.0
3.	V30	5.0862	1.6074	116.0
4.	V31	5.2241	1.4925	116.0
5.	V32	5.4310	1.5335	116.0
6.	V33	5.3190	1.4117	116.0

Reliability Coefficients

N of Cases = 116.0

N of Items = 6

Alpha = .9077

Out of the five sections, four had a value of alpha that is greater than 0.60, and were thus accepted as being reliable. Only part 1 had a weak alpha of 0.5037 which is not acceptable. The two questions of part one were the following:

Question # 1 in the questionnaire

Too much is expected from auditors by the public

Question # 7 in the questionnaire

The quality of audit work is adequately regulated by the audit profession

The researcher did not put much emphasis on this part since the two questions were not testing the core subject of this research.

Finally, the most important analysis that was conducted for this study is the canonical discriminate analysis. This test measures the magnitude or the distance of variations between the different groups or professions. It was found that among the twenty questions that were valid, eight questions were discriminating between the group membership. Table T-5 presents the eight questions as well as the canonical correlation of 0.7502 which is highly significant.

TABLE T-5

Summary Table

Canonical Discriminant Functions

		Pct of	Cum	Canonical	After	Wilks'			
Fcn	Eigenvalue	Variance	Pct	Corr	Fcn	Lambda	Chi-square	df	Sig
=====									
					:	0.437163	91.020	8	.0000
1*	1.2875	100.00	100.00	.7502	:				
=====									

* Marks the 1 canonical discriminant functions remaining in the analysis.

(continue Table 5)

Standardized canonical discriminant function coefficients

	Func 1	
V28	.80204	Auditors are successful in detecting errors and irregularities
IV19	-.39445	The audit firm should not provide consultancy services to its audit clients
IV22	-.28154	The audit firm should have a maximum period of audit for a firm
IQ1	.44622	Too much is expected from auditors by the public
IIQ11	.73583	The auditor should insure that the company is being run efficiently
IIQ13	-.45272	The auditor should insure that the balance sheet provides a fair valuation of the company
IIQ8	-.82255	The auditor should insure that all significant fraud is detected
IIIQ16	.34093	Auditors have a legal responsibility for any loss to existing creditors

From these eight questions, questions 28 and 8 represented the highest canonical correlation. A closer look at these two questions demonstrated that they were both testing the same concept, namely the auditor's responsibility for detection of errors and fraud, which were the core subject of this research.

CHAPTER V

Summary and Implication

This research has been conducted to find out if the Audit Expectation Gap exists in Lebanon. Lebanon is witnessing many changes in the private and public sector:

- The stock exchange and money market is in the process of activation; a secondary market for the trading of Solidere shares has already begun.

- An increasing number of multinational and foreign potential investors are about to take decisions to open branches in Lebanon or to invest in new corporations.

All the above give rise to the importance of financial data, and especially reliable financial statements on which shareholders and managers depend in making decisions. From here comes the role of auditors who give reliability to the financial statements by expressing their opinion through issuing reports.

Except for the law that has been issued recently in which a body of authority has been established for the certified Lebanese auditors, the standards of auditing whether "Generally Accepted" or "International" are not well recognized neither by the Lebanese legislators nor by the private business enterprises. Consequently, the audit profession is still governed by few paragraphs in the Lebanese Code of Commerce and Money and Banking law. As a result, the auditor's responsibility is still not well defined.

The traditional and legal views about the auditor's responsibility and role in the auditing standards and guidelines seemed to be in conflict, and this was the reason from which emerged the need for this research.

Chapter IV summerized the findings of the opinion of many groups of the Lebanese business sector about auditors role and resposibility. In this chapter the researcher summarizes the question and hypothesis previously mentioned:

Question:

Do individuals of different professions look at auditors from different perspectives.

Hypothesis:

in Lebanon, there are variances in the views of different professions about the auditor's role and responsibility.

The researcher accepts the hypothesis that there are variances in the views of different business groups in Lebanon about the auditor responsibility. This was evidenced by the result obtained in the cononical discrimination anlysis, and more precisely in the answers to questions eight and twenty eight which dealt with the auditor resposibility and success in detecting frauds and errors - The public beleive that auditors should detect frauds , while auditors see this as a secondary duty.

The analysis also answered the question "Do individuals of different professions look at auditors from different perspectives," in that views about auditing are not equally scored among the different solicited groups.

Conclusion:

Bridging the Expectation Gap

The solutions for bridging the audit Expectation Gap are similar whether suggested In Lebanon or abroad. However, the audit profession is supposed to experience substantial changes due to the establishment of the "Lebanese Association of Certified Public Accountants." This local association has the responsibility to:

- set up local field and reporting standards which are similar to International Standards on Auditing or simply force its members to adopt these standards.

- set up continuous professional education and training programs in order to enhance the qualifications of the existing staff of the audit firms.

- set up new examinations and prerequisites for new auditors.
- the association has to carry out an educational program for users of financial statements in order to explain the role of auditors and the limits of their responsibility. This program could be achieved through seminars or issuance of regular publications.

In the researcher's opinion, this study which represents a primitive empirical research should be replicated and applied on a wider range of respondents to add more evidence on the existence of the Expectation Gap, which will add confidence to the results found earlier.

APPENDIX A

Name :.....

Age :.....

Profession :

☐ Lawyer

☐ Financial Manager or Chief Accountant

☐ Auditor

☐ Professor

☐ Banker

Other, please specify

Years of Experience :.....

Origin of Education :.....

☐ Lebanon

☐ Abroad

Thank you for your cooperation

Circle the number that would best indicate whether you:

- 1- Strongly Disagree
- 2- Disagree
- 3- Slightly Disagree
- 4- Neutral
- 5- Slightly Agree
- 6- Agree
- 7- Strongly Agree

Questions about auditors and the auditing process

- | | |
|--|---------------|
| 1- Too much is expected from auditors by the public | 1 2 3 4 5 6 7 |
| 2- Auditors are too concerned with keeping company management happy | 1 2 3 4 5 6 7 |
| 3- An audit is of very little benefit to a company | 1 2 3 4 5 6 7 |
| 4- Audits generally take too long to complete | 1 2 3 4 5 6 7 |
| 5- Auditors do not understand the problems of business | 1 2 3 4 5 6 7 |
| 6- Audits provide significant protection against fraud | 1 2 3 4 5 6 7 |
| 7- The quality of audit work is adequately regulated by the audit profession | 1 2 3 4 5 6 7 |

Questions about the Auditor's role with respect to the audited company

The auditor should insure that:

- | | |
|--|---------------|
| 8- all significant fraud is detected | 1 2 3 4 5 6 7 |
| 9- a satisfactory system of internal control is being operated | 1 2 3 4 5 6 7 |
| 10- the future viability of the company is not in doubt | 1 2 3 4 5 6 7 |
| 11- the company is being run efficiently | 1 2 3 4 5 6 7 |
| 12- the appropriate governmental authorities have been informed of any significant malpractice | 1 2 3 4 5 6 7 |
| 13- The balance sheet provides a fair valuation of the company | 1 2 3 4 5 6 7 |

Questions about to Whom the Auditor should be Responsible

In case the company's financial statements are significantly misstated and the Audit Report fails to disclose the true position. Auditors have a legal responsibility for any loss resulting from the reliance on the audited financial statements to:

- | | |
|----------------------------|---------------|
| 14- Existing shareholders | 1 2 3 4 5 6 7 |
| 15- Potential shareholders | 1 2 3 4 5 6 7 |
| 16- Existing creditors | 1 2 3 4 5 6 7 |
| 17- Potential creditors | 1 2 3 4 5 6 7 |

Questions about Regulations and Prohibitions on auditors

The audit firm should

- | | |
|---|---------------|
| 18- Prohibit its members from owning shares or interest in its audit clients | 1 2 3 4 5 6 7 |
| 19- Not provide management consultancy services to its audit clients | 1 2 3 4 5 6 7 |
| 20- Not act primarily to make profit | 1 2 3 4 5 6 7 |
| 21- Not be able to earn 15% of total income from any one audited client | 1 2 3 4 5 6 7 |
| 22- Have a maximum period of audit for a firm | 1 2 3 4 5 6 7 |
| 23- Have its appointment and fee determined by a body independent of the client | 1 2 3 4 5 6 7 |
| 24- Have limited liability determined by statute | 1 2 3 4 5 6 7 |

Questions of whether Auditors Are Successful at Particular Activities

Auditors are successful in

- | | |
|--|---------------|
| 25- Acquiring information | 1 2 3 4 5 6 7 |
| 26- Coping with risk and uncertainty | 1 2 3 4 5 6 7 |
| 27- Making profits | 1 2 3 4 5 6 7 |
| 28- Detecting errors and irregularities | 1 2 3 4 5 6 7 |
| 29- Forming correct judgments | 1 2 3 4 5 6 7 |
| 30- Acting independently without regard to self interest | 1 2 3 4 5 6 7 |
| 31- Enforcing legal requirements | 1 2 3 4 5 6 7 |
| 32-Reporting truthfully | 1 2 3 4 5 6 7 |
| 33-Communicating effectively | 1 2 3 4 5 6 7 |
| 34- Limiting their own legal liability | 1 2 3 4 5 6 7 |
| 35- Providing useful information to clients | 1 2 3 4 5 6 7 |

Nom :

Age :

Profession :

☐ Avocat

☐ Financier ou Chef Comptable

☐ Commissaire aux comptes

☐ Professeur

☐ Banquier

Autre, veuillez specifier

Années D'expérience :

Origine de votre éducation :

☐ Liban

☐ Ailleurs

Merci pour votre cooperation

Encerclez le nombre qui indique au mieux si vous:

Etes opposés avec force__1
Etes opposés____2
Etes opposés légèrement__3
Etes neutre____4
Acceptez légèrement____5
Acceptez____6
Acceptez avec force____7

Questions concernant le procédé d'auditing

- | | |
|--|---------------|
| 1. Le public attend beaucoup des commissaires aux comptes | 1 2 3 4 5 6 7 |
| 2. Les commissaires aux comptes sont trop concernés à maintenir la direction
de la société satisfaite | 1 2 3 4 5 6 7 |
| 3. L' auditing présente peu d'intérêt à la société | 1 2 3 4 5 6 7 |
| 4. L'auditing, en général, prend beaucoup de temps pour s'accomplir | 1 2 3 4 5 6 7 |
| 5. Les commissaires aux comptes ne comprennent pas les problèmes des
entreprises | 1 2 3 4 5 6 7 |
| 6. La révision des comptes assure une protection importante contre la fraude | 1 2 3 4 5 6 7 |
| 7. La qualité du travail de la révision est adéquatement règlementer par la
profession du commissaire aux comptes | 1 2 3 4 5 6 7 |

Questions concernant le rôle du commissaire aux comptes par rapport à la société concernée

Le commissaire aux comptes doit s'assurer que:

- | | |
|---|---------------|
| 8. toute fraude importante doit être relevée | 1 2 3 4 5 6 7 |
| 9. un système efficace de contrôle interne est mis en place | 1 2 3 4 5 6 7 |
| 10. La future viabilité de la société n'est pas en question | 1 2 3 4 5 6 7 |
| 11. La société est efficacement dirigée | 1 2 3 4 5 6 7 |
| 12. les autorités gouvernementales appropriées ont été informé de toute
mauvaise conduite importante | 1 2 3 4 5 6 7 |
| 13. Le bilan reflète la situation financière réelle de l'entreprise | 1 2 3 4 5 6 7 |

Questions: Envers qui le commissaire aux comptes doit être responsable?

Au cas où les états financiers de la société sont corrompus d'une façon importante et, au cas où le rapport ne réussit pas à refléter la situation financière réelle, envers qui le commissaire aux comptes a-t-il une responsabilité légale pour toute perte provenant d'une décision prise?

- | | |
|---------------------------------|---------------|
| 14. Les présents actionnaires | 1 2 3 4 5 6 7 |
| 15. les actionnaires potentiels | 1 2 3 4 5 6 7 |
| 16. les présents créanciers | 1 2 3 4 5 6 7 |
| 17. les créanciers potentiels | 1 2 3 4 5 6 7 |

Questions concernant les règlements et les interdictions imposés aux commissaires aux comptes

La Maison de Révision

- | | |
|---|---------------|
| 18. doit interdire ses membres de posséder des actions ou d'avoir des intérêts
dans les entreprises sujettes à la révision | 1 2 3 4 5 6 7 |
| 19. ne doit pas fournir des services de consultations administratives à ses clients | 1 2 3 4 5 6 7 |
| 20. ne doit pas agir pour réaliser un profit | 1 2 3 4 5 6 7 |
| 21. ne doit gagner plus que 15% du total du revenu de n'importe quel client | 1 2 3 4 5 6 7 |
| 22. doit avoir une durée limitée pour la révision | 1 2 3 4 5 6 7 |
| 23. doit être nommé et avoir ses honoraires déterminés par une institution
indépendante du client | 1 2 3 4 5 6 7 |
| 24. doit avoir une responsabilité limitée déterminée par un statut | 1 2 3 4 5 6 7 |

Questions montrant si les commissaires aux comptes réussissent dans des activités particulières

Les commissaires aux comptes réussissent à:

- | | |
|---|---------------|
| 25. acquérir des informations | 1 2 3 4 5 6 7 |
| 26. s'adapter aux risques et aux incertitudes | 1 2 3 4 5 6 7 |
| 27. réaliser des profits | 1 2 3 4 5 6 7 |
| 28. découvrir les erreurs et les irrégularités | 1 2 3 4 5 6 7 |
| 29. aboutir à des jugements correctes | 1 2 3 4 5 6 7 |
| 30. agir indépendamment sans considérer l'intérêt personnel | 1 2 3 4 5 6 7 |
| 31. renforcer les exigences légales | 1 2 3 4 5 6 7 |
| 32. rédiger les rapports sincères | 1 2 3 4 5 6 7 |
| 33. communiquer effectivement | 1 2 3 4 5 6 7 |
| 34. limiter leurs propres responsabilités légales | 1 2 3 4 5 6 7 |
| 35. fournir des services utiles aux clients | 1 2 3 4 5 6 7 |

..... الاسم:

..... العمر:

..... المهنة:

محامي

☐

مدير مالي أو رئيس محاسبة

☐

مدقق حسابات

☐

استاذ

☐

مصرفي

☐

..... غيرهم

..... سنوات الخبرة:

..... مكان الدراسة:

لبنان

☐

الخارج

☐

شكراً لتعاونكم

إختر الرقم الذي يسن بشكل افضل اذا كنت:

- ١ - غير موافق مطلقاً
- ٢ - غير موافق
- ٣ - غير موافق بتحفظ
- ٤ - حيادي
- ٥ - موافق بتحفظ
- ٦ - موافق
- ٧ - موافق بشكل مطلق

أسئلة حول مدققي الحسابات وعملية التدقيق

- ١ - يتوقع الناس الكثير من مدقق الحسابات
- ٢ - اولى اهتمامات المدققين إرضاء ادارة الشركة
- ٣ - لا يقدم التدقيق فائدة كبيرة للشركة
- ٤ - يستلزم انجاز التدقيق وقتاً طويلاً
- ٥ - لا يعي المدققين مشاكل المؤسسة
- ٦ - يقدم التدقيق حماية كبيرة ضد الاحتيال
- ٧ - خاضعة جودة عمليات التدقيق لأنظمة المهنة

أسئلة حول دور المدققين في ما يتعلق بالشركة المدققة

- ٨ - يجب ان يضمن مدقق الحسابات ضبط أية عملية احتيال فادحة
- ٩ - أن نظام الرقابة الداخلي يعمل بشكل دقيق
- ١٠ - أن استمرارية الشركة ليس امراً "مشكوكاً" به
- ١١ - إن إدارة الشركة تتم بشكل فعال
- ١٢ - أن قد تم إبلاغ السلطات الحكومية المعنية بأي سوء ممارسة فادحة
- ١٣ - أن الميزانية تعطي تقديراً "نزيفاً" عن الشركة

أسئلة حول تجاه من يجب أن يكون مدقق الحسابات مسؤولاً

في حال كانت البيانات المالية للشركة محرفة بشكل هام وفي حال اخفق تقرير المدقق بالكشف عن ذلك الوضع, تجاه من يجب أن يكون المدقق مسؤولاً "قانونياً" عن اية خسارة ناتجة عن الإتكال على البيانات المالية المدققة:

- | | |
|---------------|---------------------------|
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ١٤- المساهمون الحاليون |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ١٥- المساهمون المستقبليون |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ١٦- الدائنون الحاليون |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ١٧- الدائنون المستقبليون |

أسئلة حول الأمور المحظرة والأنظمة على مدققي الحسابات

يجب على شركة التدقيق:

- | | |
|---------------|--|
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ١٨- أن تمنع أعضاءها من تملك اسهم أو حصص أو مصالح لدى عملائها |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ١٩- عدم التعاقد لخدمات استشارات إدارية مع عملائها |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٢٠- ألا يكون هدفها الأساسي جني الأرباح |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٢١- عدم جني أكثر من ١٥٪ من مجموع المدخول من عميل واحد |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٢٢- أن لا يتجاوز عدد سنوات التدقيق حداً "معيناً" |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٢٣- أن تقوم بتعيينها وتحديد أجورها جهة لا علاقة لها بالعمل |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٢٤- أن تحد مسؤوليتها بواسطة القانون |

أسئلة عما إذا كان مدققو الحسابات ناجحين في نشاطات معينة

ينجح المدققون في:

- | | |
|---------------|--|
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٢٥- الحصول على معلومات من عملائهم |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٢٦- التغلب على المخاطر والشكوك |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٢٧- جني الأرباح |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٢٨- ضبط الأخطاء والمخالفات |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٢٩- أخذ قرارات صائبة |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٣٠- العمل بتجرد دون إعتبار المصلحة الشخصية |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٣١- فرض المتطلبات القانونية |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٣٢- إصدار تقارير صادقة |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٣٣- التعامل مع الغير بشكل فعال |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٣٤- أخذ من مسؤوليتهم القانونية |
| ٧ ٦ ٥ ٤ ٣ ٢ ١ | ٣٥- إسداد خدمات مجدية للزبائن |