Thesis Report
On
Audit Expectation Gap (AEG) in Bangladesh

Submitted by:

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Major: Accounting
Semester: Spring 2025
Sonargaon University (SU)

Submitted to:
Department of Business Administration
Sonargaon University (SU)
Submitted for The Partial Fulfillment of The Degree
of Master of Business Administration



Sonargaon University (SU)
147/I, Green Road, Tejgaon, Dhaka-1215, Bangladesh.

Date of Submission: April 26, 2025

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Letter of Transmittal

April 26, 2025

Md. Al Amin Molla
Professor
Department of Business Administration
Sonargaon University (SU)

Subject: Submission of Thesis Paper on "Audit Expectation Gap (AEG) in Bangladesh"

Dear Sir,

With immense pleasure and gratitude, I am submitting my thesis paper titled "Audit Expectation Gap (AEG) in Bangladesh" as a partial fulfillment of the requirements for the MBA degree under the course code BA 5000 of the MBA Accounting Program at Sonargaon University.

This thesis explores the critical issue of the audit expectation gap in the context of Bangladesh, analyzing the disparities between public expectations and the actual performance of auditors. The study aims to provide valuable insights into the factors contributing to this gap and propose recommendations to bridge it, thereby enhancing the credibility of the auditing profession in Bangladesh.

The research has been conducted with rigorous effort, adhering to the academic guidelines of Sonargaon University. I am deeply indebted to your invaluable guidance, feedback, and encouragement throughout the preparation of this thesis.

I hope this work meets your expectations and contributes meaningfully to the academic and professional discourse on auditing in Bangladesh. Should you require any further clarification or discussion, I am readily available.

Thank you for your kind consideration and support.

Yours Sincerely

Muhammad Motahar Hossain
ID: MBA2402032018
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Declaration of Student

I hereby declare that the thesis paper titled that, **"Audit Expectation Gap (AEG) in Bangladesh"** submitted in partial fulfillment of the requirements for the MBA degree under the course code BA 5000, is my original work.

To the best of my knowledge, this thesis does not contain any material previously published or written by another person, except where due reference has been made in the text. I further declare that this work has not been submitted to any other institution or university for the award of any degree or diploma.

I express my sincere gratitude to my supervisor, Mr. Md. Al Amin Molla, Professor, Department of Business Administration, Sonargaon University (SU), for his invaluable inspiration, guidance, and instructions throughout the preparation of this thesis.

I am further declaring that I did not submit this report anywhere for awarding any degree or certificate.

Yours Sincerely

Muhammad Motahar Hossain
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Certificate of Supervisor

This is to certify that the thesis titled **"Audit Expectation Gap (AEG) in Bangladesh"** submitted by **Muhammad Motahar Hossain**, bearing Student ID **ID: MBA2402032018**, in partial fulfillment of the requirements for the MBA degree under the course code BA 5000 of the MBA Accounting Program, has been carried out under my supervision at Sonargaon University (SU).

The work presented in this thesis is original and has been conducted with diligence and adherence to the academic standards of the university. I have reviewed the content and found it satisfactory for submission. The student has demonstrated commendable effort in exploring the audit expectation gap in the context of Bangladesh, and the findings contribute meaningfully to the field of study.

I recommend this thesis for evaluation and approval.

Md. Al Amin Molla
Professor
Department of Business Administration
Sonargaon University (SU)

Acknowledgement

The journey of completing this thesis has been both intellectually challenging and deeply fulfilling, and I am profoundly grateful to all who have supported me along the way. Above all, I offer my heartfelt thanks to Almighty Allah for granting me the strength, wisdom, and perseverance to navigate the complexities of this research and bring it to fruition.

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I am also deeply appreciative of the faculty and staff at Sonargaon University for creating a nurturing academic environment that fostered my growth as a researcher. Their provision of critical resources—such as access to research databases, statistical software, and scholarly workshops—greatly enriched the quality of this study. Special thanks go to Mst. Marium Akter Lecturer, Department of Business Administration, whose advice on research methodology and data analysis proved invaluable during moments of uncertainty.

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I also extend my sincere thanks to my peers and colleagues who provided constructive feedback, shared resources, and engaged in thought-provoking discussions that sharpened my ideas. Additionally, I am grateful to the administrative staff at Sonargaon University for their logistical support and to the librarians who assisted in sourcing critical references.

Finally, I acknowledge all individuals and institutions whose contributions, whether big or small, helped shape this thesis. From casual conversations that sparked new insights to the silent support of those who cheered me on, every gesture has been a vital part of this journey. This thesis is not just my achievement but a testament to the collective support of this remarkable community.

Abstract

The Audit Expectation Gap (AEG) represents the critical misalignment between what stakeholders, particularly investors, expect from auditors and the responsibilities auditors are mandated to fulfill under professional standards, such as the International Standards on Auditing (ISA). In Bangladesh, where corporate scandals like Evaly, Destiny Group, and Hallmark have heightened public scrutiny of audits, the AEG undermines trust in financial reporting and challenges the credibility of the auditing profession. This study investigates the nature, extent, and causes of the AEG in Bangladesh by comparing the perceptions of two key stakeholder groups: auditors and investors.

Employing a quantitative research design, the study collected data from 60 respondents (30 auditors and 30 investors) using a structured questionnaire with a 5-point Likert scale. The survey focused on four critical audit dimensions: fraud detection, going concern assessment, internal control evaluation, and audit report interpretation. Descriptive statistics (mean, standard deviation) and inferential statistics (Mann-Whitney U Test) were used to analyze the data, with the questionnaire's reliability confirmed by a Cronbach's Alpha of 0.802.

The findings reveal significant perception gaps across all dimensions, with investors consistently overestimating auditors' roles (mean scores: 4.05–4.22) compared to auditors' more conservative perceptions (mean scores: 2.98–3.45). The largest gap was observed in internal control evaluation, where investors mistakenly believed auditors are responsible for designing or guaranteeing control systems (mean: 4.12 vs. 2.98). The smallest, yet still significant, gap was in audit report interpretation (mean: 4.22 vs. 3.45), reflecting misinterpretations of terms like "true and fair view." The Mann-Whitney U Test confirmed that these differences are statistically significant at the 1% level ($p < 0.01$), providing robust evidence of a pervasive AEG.

The study identifies key drivers of the AEG, including limited financial literacy among investors, ambiguous audit report language, insufficient auditor-stakeholder communication, and reactive regulatory frameworks. These factors are particularly acute in Bangladesh's developing capital market, where corporate governance is evolving, and public expectations are shaped by media narratives and past scandals. To address the AEG, the study proposes a cyclical policy integration model—Education → Audit Reform → Communication → Trust Building—with actionable recommendations, such as plain-language audit summaries, investor education campaigns, mandatory Key Audit Matters (KAMs) disclosures, and enhanced auditor training on stakeholder communication.

Academically, the study contributes Bangladesh-specific empirical evidence to the global AEG literature, applying theoretical frameworks like Agency Theory and Stakeholder Theory to explain the gap's persistence. Practically, it offers a roadmap for auditors, regulators (e.g., Bangladesh Securities and Exchange Commission, BSEC), and professional bodies (e.g., Institute of Chartered Accountants of Bangladesh, ICAB) to align expectations with auditing standards. By fostering greater transparency and financial literacy, this research aims to strengthen trust in Bangladesh's auditing ecosystem, enhance investor decision-making, and support the nation's economic growth.

Table of Content

CHAPTER 1: INTRODUCTION **1**

1.1 Background 2
1.2 Problem Statement 2
1.3 Research Objectives 3
1.4 Research Questions 3
1.5 Significance of the Study 3
1.6 Structure of the Thesis 4

CHAPTER 2: LITERATURE REVIEW **5**

2.1 Understanding the Audit Expectation Gap (AEG) 6
2.2 Theoretical Framework of the Audit Expectation Gap 6
2.3 Global Empirical Studies on Audit Expectation Gap 7
2.4 Dimensions of the Audit Expectation Gap 8
2.5 Recent Audit Reforms to Bridge the AEG 8
2.6 Summary of Key Literature Themes 9
2.7 Conclusion 9

CHAPTER 3: RESEARCH METHODOLOGY **10**

3.1 Introduction 11
3.2 Research Design 11
3.3 Population and Sampling 12
3.4 Research Instrument 13
3.5 Data Collection Process 14
3.6 Statistical Techniques Used 15
3.7 Research Framework 16
3.8 Ethical Considerations 17
3.9 Limitations of Methodology 17
3.10 Summary 18

CHAPTER 4: FINDINGS AND ANALYSIS **19**

4.1 Introduction 20
4.2 Reliability Test 20
4.3 Descriptive Analysis 21
4.4 Mann-Whitney U Test Results 22
4.5 Graphical Presentation of the Gap 23
4.6 Key Observations 24
4.7 Summary of Findings 25
4.8 Implications of Findings 25
4.9 Conclusion 26

CHAPTER 5: DISCUSSION AND RECOMMENDATIONS **27**

5.1 Introduction 28
5.2 Interpretation of Key Findings 28
5.3 Comparison with Global Literature 30
5.4 Consequences of the Audit Expectation Gap 31
5.5 Recommendations 32
5.6 Short-term and Long-term Solutions 34

5.7 Policy Integration Model 34
5.8 Conclusion 35

CHAPTER 6: CONCLUSION AND POLICY IMPLICATIONS **36**

6.1 Introduction 37
6.2 Summary of Key Findings 37
6.3 The Audit Expectation Gap in the Bangladeshi Context 38
6.4 Academic Contributions of the Study 39
6.5 Practical Contributions 40
6.6 Policy Implications 40
6.7 Conclusion 42

CHAPTER 7: LIMITATIONS AND FUTURE RESEARCH **43**

7.1 Introduction 44
7.2 Research Limitations 44
7.3 Directions for Future Research 47
7.4 Summary 49

REFERENCES **50**

APPENDICES **52**

Appendix A: Survey Questionnaire 53
Appendix B: Descriptive Statistics Summary 53
Appendix C: Mann-Whitney U Test Output 54

CHAPTER 1: INTRODUCTION

1.1 Background

The Audit Expectation Gap (AEG) refers to the divergence between what the public, investors, and stakeholders believe auditors should do and what auditors are actually responsible for, as outlined by professional standards. Originally coined by Liggio (1974), the concept of AEG has become a central topic in the accounting profession due to its direct impact on the credibility of audit reports and stakeholder trust in financial statements.

In Bangladesh, this gap has gained increasing relevance in light of several high-profile corporate failures and audit-related controversies. Scandals involving companies such as **Evaly**, **Destiny Group**, and **Hallmark** have led stakeholders to question the effectiveness of external audits and the role of auditors in preventing fraud, assessing risk, and ensuring financial transparency. These local concerns echo international cases such as **Enron**, **Parmalat**, and **Carillion**, where auditors failed to flag critical financial issues before corporate collapse.

While auditors operate under international standards such as ISA 200 (Overall Objectives), ISA 240 (Fraud), ISA 315 (Internal Controls), and ISA 570 (Going Concern), public expectations often exceed the actual scope of audit work. Many investors expect auditors to detect all fraud, ensure company sustainability, and certify financial soundness—expectations that go beyond the reasonable assurance auditors are mandated to provide.

This thesis explores the Audit Expectation Gap in Bangladesh, seeking to quantify its extent and identify its causes through an empirical study involving auditors and investors.

1.2 Problem Statement

Despite numerous initiatives aimed at strengthening the audit profession, a persistent expectation gap remains between auditors and financial statement users. This gap manifests in various ways:

- Stakeholders assume audit reports offer **absolute assurance**, when in fact they only provide **reasonable assurance**.
- There is a widespread belief that auditors are primarily responsible for detecting **all fraud and irregularities**, despite ISA 240 clarifying the limits of audit responsibilities.
- Investors often misinterpret an **unqualified audit opinion** as confirmation of financial health and solvency.
- Auditors are sometimes held responsible for **corporate failures**, even when the causes are rooted in management decisions or external economic conditions.
- Many investors lack sufficient knowledge of auditing standards, which fuels unrealistic expectations.

This study investigates these issues by comparing auditor and investor perceptions and statistically analyzing the gaps between them.

1.3 Research Objectives

The key objectives of this thesis are as follows:

- To examine the perceptions of auditors and investors in Bangladesh regarding the responsibilities of auditors.
- To identify specific areas of expectation gap, including fraud detection, going concern assessment, and internal control evaluation.
- To statistically analyze the differences in perception between auditors and investors.
- To evaluate the implications of the Audit Expectation Gap on audit quality, investor confidence, and financial reporting standards.
- To recommend practical measures for narrowing the gap through regulatory reforms, professional education, and improved audit communication.

1.4 Research Questions

This study addresses the following research questions:

1. What is the extent of the Audit Expectation Gap in Bangladesh?
2. In which audit responsibility areas is the gap most prominent?
3. What are the implications of this gap on audit credibility and stakeholder confidence?
4. What reforms can be implemented to reduce the Audit Expectation Gap in the Bangladeshi context?

1.5 Significance of the Study

The findings of this study are highly relevant for multiple stakeholders:

- **For auditors and audit firms**, the research provides empirical insights into stakeholder expectations, helping them enhance audit planning, execution, and communication.
- **For regulators and policymakers**, the study highlights gaps in understanding and regulation, offering a foundation for improved oversight and standard-setting.
- **For investors**, especially retail investors in Bangladesh, the study promotes awareness about audit limitations, helping them make informed decisions.
- **For academic institutions and professional bodies**, the findings support curriculum development and continuing education efforts targeting audit expectation management.

The study contributes to strengthening financial accountability and investor protection in Bangladesh by offering evidence-based recommendations.

1.6 Structure of the Thesis

The study is structured into the following chapters:

Chapter	Description
Chapter 1	Introduction: Outlines the background, research problem, objectives, significance, and research questions.
Chapter 2	Literature Review: Reviews theoretical and empirical studies on the Audit Expectation Gap.
Chapter 3	Methodology: Explains the research design, sampling, data collection, and statistical methods.
Chapter 4	Findings and Analysis: Presents the results of the study, including descriptive and inferential statistics.
Chapter 5	Discussion and Recommendations: Interprets findings and suggests practical reforms.
Chapter 6	Conclusion and Policy Implications: Summarizes the research and presents key policy recommendations.
Chapter 7	Limitations and Future Research: Discusses constraints of the study and identifies future research opportunities.
Appendices	Includes questionnaire samples, statistical outputs, and supplementary data.

CHAPTER 2: LITERATURE REVIEW

2.1 Understanding the Audit Expectation Gap (AEG)

The Audit Expectation Gap (AEG) is a well-documented issue in accounting literature, referring to the difference between what users of financial statements expect from an audit and what auditors actually deliver based on professional standards. The term was first coined by **Liggio (1974)**, who defined it as the difference between levels of expected performance as envisioned by auditors and by financial statement users.

This concept gained further structure through the work of **Porter (1991)**, who identified three distinct components of AEG:

- **Reasonableness Gap** – The difference between what society expects auditors to achieve and what they can reasonably accomplish.
- **Deficient Standards Gap** – The shortfall due to existing auditing standards not meeting user expectations.
- **Deficient Performance Gap** – The failure of auditors to perform their duties to the standards already in place.

Understanding the AEG is essential to improving audit transparency, stakeholder trust, and audit report usefulness, especially in developing countries like Bangladesh, where expectations and interpretations of audit functions are often misaligned.

2.2 Theoretical Framework of the Audit Expectation Gap

Several theories help explain why the expectation gap arises and persists:

a) Agency Theory

Proposed by Jensen & Meckling (1976), agency theory highlights the conflict of interest between company management (agents) and shareholders (principals). Auditors are engaged to reduce information asymmetry. However, stakeholders often assume that auditors act on behalf of the public interest and expect them to uncover all wrongdoing, despite their limited mandate.

b) Information Asymmetry Theory

As proposed by Humphrey, Moizer, and Turley (1993), this theory suggests that managers possess superior internal knowledge, while external stakeholders depend on auditors to bridge that gap. The expectation that auditors can identify all irregularities stems from this imbalance of information access.

c) Expectation-Performance Gap

According to Porter (1993), dissatisfaction with audit outcomes arises when auditors fail to meet the public's expectations—either due to standard limitations or weak audit execution.

d) Stakeholder Theory

This theory posits that auditors are accountable to a broader set of stakeholders beyond shareholders—including regulators, employees, and society. Each stakeholder group may hold unique expectations, intensifying the complexity of meeting all of them through a single audit function.

e) Legitimacy Theory

Legitimacy theory holds that organizations—including audit firms—seek to legitimize their actions in the eyes of the public. AEG may arise when audit performance is perceived as insufficient to maintain that legitimacy, especially following corporate failures or financial scandals.

2.3 Global Empirical Studies on Audit Expectation Gap

Various studies from around the world have highlighted how AEG manifests differently across contexts. Key findings include:

Study	Country	Key Findings
Dixon, Woodhead & Sohliman (2006)	Egypt	Investors expected auditors to uncover fraud; misunderstanding of audit scope common.
Ruhnke & Schmidt (2014)	Germany	High expectations on auditor independence and risk reporting.
Pourheydari & Abousaiedi (2011)	Iran	Public misunderstood auditors' role in tax compliance and financial accuracy.
Siddiqui et al. (2009)	Bangladesh	Strong demand for fraud detection; weak investor awareness of audit limitations.
Sikka et al. (1998)	UK	Gap exacerbated after audit failures and corporate collapses; media plays a role.

These studies confirm that AEG is not confined to one jurisdiction but is a global issue driven by socio-political, economic, and regulatory differences.

2.4 Dimensions of the Audit Expectation Gap

The AEG typically emerges around the following core dimensions:

2.4.1 Auditor's General Responsibilities

Many stakeholders believe auditors are responsible for the overall financial health of an entity. However, **ISA 200** clarifies that auditors are to provide **reasonable assurance** about whether the financial statements are free from material misstatement—not an absolute guarantee.

2.4.2 Fraud Detection

Under **ISA 240**, auditors are responsible for assessing risks of material misstatement due to fraud, but they are not detectives. Still, investors often believe that an audit ensures all frauds will be identified.

2.4.3 Internal Control Assessment

According to **ISA 315**, auditors must understand the internal control environment but are not tasked with designing or fixing internal control systems. Yet, stakeholders frequently expect auditors to identify all control weaknesses.

2.4.4 Meaning and Usefulness of Audit Reports

An unqualified audit opinion is often misinterpreted as an endorsement of financial strength. This misperception significantly contributes to AEG.

2.4.5 Going Concern Reporting

ISA 570 requires auditors to assess whether an entity can continue operating in the foreseeable future. However, they are not responsible for predicting failures. Investors often expect advance warnings, leading to unrealistic expectations.

2.5 Recent Audit Reforms to Bridge the AEG

Globally, regulators have implemented several reforms to reduce the AEG:

- **Expanded Auditor Reporting (ISA 701)**: Introduction of *Key Audit Matters (KAMs)*, where auditors explain complex areas of judgment and risk.
- **Enhanced Audit Disclosures**: Clear explanations of scope, materiality, and audit limitations.
- **Public Oversight Boards**: Independent review bodies to improve audit transparency and enforcement (e.g., PCAOB in the US, FRC in the UK).
- **Mandatory Audit Firm Rotation**: Introduced in the EU to strengthen auditor independence and reduce familiarity threats.

These reforms aim to improve communication, increase auditor accountability, and reduce the perceived gap between public expectations and audit delivery.

2.6 Summary of Key Literature Themes

Theme	Insight
AEG is global	Studies from Egypt, UK, Germany, and Bangladesh confirm its existence.
Fraud detection is misunderstood	Auditors assess fraud risk—not detect all fraud.
Reports are misinterpreted	Investors often misread an unqualified opinion as full assurance.
Theoretical roots	Agency, Stakeholder, and Information Asymmetry theories all explain AEG.
Reforms help—but gaps remain	Despite ISA 701 and KAMs, expectations still diverge in many countries.

2.7 Conclusion

The literature demonstrates that AEG is both a **perception problem** and a **performance issue**. While auditors must enhance communication and report transparency, stakeholders must also become better informed about audit scope and limitations. For Bangladesh, where corporate governance is still developing, and audit literacy is low among many investors, closing the AEG is critical for restoring trust in financial reporting.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a detailed roadmap of the research methodology employed to examine the Audit Expectation Gap (AEG) in the context of Bangladesh's financial and auditing environment. The AEG refers to the discrepancy between what the public, particularly investors, expects from auditors and what auditors perceive as their professional responsibilities. Understanding this gap is critical for improving audit quality, enhancing stakeholder trust, and informing regulatory reforms. This chapter elaborates on the research design, population and sample selection, data collection methods, instrument development, statistical analysis techniques, ethical considerations, and limitations of the study. The methodology is designed to be transparent, replicable, and robust, ensuring that the data collected is reliable and the findings are valid. By outlining each methodological component, this chapter aims to provide a clear framework for how the research questions were addressed and how conclusions were derived.

3.2 Research Design

The study adopts a **quantitative research approach**, which is well-suited for measuring and comparing perceptions across different groups. Specifically, a **descriptive and inferential research design** was employed to systematically capture and analyze stakeholder perceptions of auditor responsibilities. The descriptive component focuses on summarizing the perceptions of auditors and investors, while the inferential component tests for statistically significant differences between these groups to confirm the presence of an AEG.

A **structured questionnaire** served as the primary data collection tool, designed to elicit responses on key aspects of auditor roles, such as fraud detection, internal control evaluation, and going concern assessments. The questionnaire used a **5-point Likert scale** to quantify perceptions, allowing for numerical analysis and comparison. The choice of a quantitative approach was driven by the need to objectively measure the extent of the AEG and to provide empirical evidence of perceptual differences. Unlike qualitative methods, which emphasize in-depth exploration, the quantitative approach enables the researcher to generalize findings within the study's scope and test hypotheses about the significance of the expectation gap.

The rationale for combining descriptive and inferential designs lies in their complementary strengths: descriptive statistics provide a clear snapshot of stakeholder views, while inferential statistics (e.g., the Mann-Whitney U Test) allow for hypothesis testing to determine whether observed differences are statistically significant. This dual approach ensures a comprehensive analysis of the AEG, addressing both the "what" (describing perceptions) and the "why" (explaining differences).

3.3 Population and Sampling

a) Target Population

The study focuses on two key stakeholder groups critical to the auditing ecosystem in Bangladesh:

- **Professional Auditors**: This group includes Chartered Accountants (CAs), Certified Management Accountants (CMAs), and members of the Association of Chartered Certified Accountants (ACCA) who are actively practicing in audit firms or affiliated with the Institute of Chartered Accountants of Bangladesh (ICAB). Auditors were chosen because they are directly responsible for conducting audits and shaping the scope of audit services.
- **Investors**: This group comprises both **institutional investors** (e.g., representatives of mutual funds, banks, and financial institutions) and **individual investors** who actively participate in Bangladesh's capital markets, particularly those investing in publicly listed companies on the Dhaka Stock Exchange (DSE) or Chittagong Stock Exchange (CSE). Investors were selected because their expectations of audit reports significantly influence their financial decision-making.

These groups were chosen because they represent the primary users and providers of audit services, making their perceptions central to understanding the AEG.

b) Sampling Technique

The study employed **purposive sampling**, a non-probability sampling technique, to select respondents based on their relevance to the research objectives. Auditors were selected based on their professional qualifications and experience in conducting audits, ensuring that they have sufficient knowledge of auditing standards and practices. Similarly, investors were chosen based on their active involvement in the capital market and familiarity with financial statements, ensuring that their expectations of auditors were informed by practical experience.

The total sample size was **60 respondents**, equally divided into **30 auditors** and **30 investors**. This balanced sample allows for a fair comparison of perceptions between the two groups. The sample size was determined based on the exploratory nature of the study and practical constraints, such as time and access to respondents. While a larger sample could enhance statistical power, a sample of 60 is considered adequate for detecting significant differences in perception using non-parametric tests like the Mann-Whitney U Test, especially in the context of ordinal data.

c) Sample Demographics

- **Auditors**: The auditor respondents were primarily based in Dhaka, the financial hub of Bangladesh, where most major audit firms are located. They held professional qualifications such as CA, ACCA, or CMA, and their experience ranged from 5 to 20 years in auditing. Approximately 70% were male, reflecting the gender distribution in the auditing profession in Bangladesh. The auditors represented a mix of Big Four firms (e.g., Deloitte, PwC) and local firms, providing a diverse perspective on audit practices.

- **Investors**: The investor group included both individual and institutional investors. Individual investors were typically high-net-worth individuals with portfolios in publicly listed companies, while institutional investors included representatives from asset management firms and banks. Their experience in financial markets ranged from 3 to 15 years, and about 60% were male. Most investors had at least a bachelor's degree in finance, economics, or a related field, ensuring they had sufficient knowledge to evaluate audit reports.

The demographic diversity within each group strengthens the study's ability to capture varied perspectives, while the focus on Dhaka ensures relevance to Bangladesh's primary financial market.

3.4 Research Instrument

The primary research instrument was a **structured questionnaire**, meticulously designed to align with the study's objectives and the Bangladeshi auditing context. The questionnaire was developed by drawing on prior studies on the AEG (e.g., studies by Porter, 1993, and Humphrey et al., 1993) and adapting their frameworks to reflect local auditing standards, regulations, and stakeholder expectations. The questionnaire was pre-tested with a small group of auditors and investors (n=10) to ensure clarity, relevance, and cultural appropriateness. Feedback from the pre-test led to minor revisions in wording and structure.

The questionnaire was divided into three main sections:

- **Section A: Demographic Information**: This section collected data on respondents' profession (auditor or investor), age, gender, years of experience, and educational qualifications. This information was used to contextualize responses and explore potential demographic influences on perceptions.
- **Section B: Perceptions of Auditor Responsibilities**: This section included questions about specific auditor duties, such as detecting fraud, evaluating internal controls, assessing going concern assumptions, and ensuring the accuracy of financial statements. Respondents were asked to indicate whether they believed these responsibilities fell within the auditor's scope.
- **Section C: Likert Scale Statements**: This section presented statements about auditor roles and responsibilities, with responses measured on a **5-point Likert scale** (1 = Strongly Disagree, 5 = Strongly Agree). Examples of statements include: "Auditors are responsible for detecting all instances of fraud" and "Auditors should guarantee the financial health of a company." These statements were designed to capture nuanced differences in expectations.

Section	Content
A	Demographic information (profession, age, experience, etc.)
B	Perceptions of auditor responsibilities in areas like fraud detection, internal control, going concern, etc.
C	Statements requiring responses on a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree)

The full questionnaire, including all questions and response options, is provided in the **Appendix** for transparency and replicability. The instrument was available in both English and Bengali to accommodate respondents' language preferences, ensuring accessibility and accurate interpretation of questions.

3.5 Data Collection Process

Data collection was conducted over a **three-week period** in early 2025, using a combination of **physical and electronic methods** to maximize response rates and convenience:

- **Physical Distribution**: Questionnaires were hand-delivered to auditors at audit firms in Dhaka and to investors at financial institutions or investment seminars. This method was particularly effective for building trust and encouraging participation.
- **Electronic Distribution**: Questionnaires were sent via email and hosted on **Google Forms**, allowing respondents to complete them at their convenience. A unique respondent ID was assigned to each electronic submission to prevent duplication.

To ensure data quality, the following measures were implemented:

- Respondents were informed that participation was voluntary, and their responses would remain confidential.
- Follow-up reminders were sent via email or phone to non-respondents after one week to boost participation.
- Incomplete or inconsistent responses were excluded from the analysis, resulting in **60 valid responses** (30 auditors and 30 investors), representing a **100% usable response rate**. This high response rate was achieved due to the targeted sampling approach and proactive follow-up.

The data collection process adhered to ethical guidelines, with no incentives offered to participants to avoid bias. All responses were stored securely in a password-protected database to protect respondent privacy.

3.6 Statistical Techniques Used

The collected data was analyzed using **SPSS (Statistical Package for the Social Sciences)**, a widely used software for quantitative research. The analysis was divided into three components: descriptive statistics, inferential statistics, and reliability testing.

a) Descriptive Statistics

Descriptive statistics were used to summarize the perceptions of auditors and investors:

- **Mean**: Calculated for each Likert scale question to indicate the average perception score.
- **Median**: Used to identify the central tendency, especially for ordinal data where outliers might skew the mean.
- **Standard Deviation**: Measured the variability in responses, indicating the degree of consensus or disagreement within each group.

These metrics provided a clear overview of how auditors and investors perceive auditor responsibilities and highlighted areas of convergence or divergence.

b) Inferential Statistics

The **Mann-Whitney U Test**, a non-parametric statistical test, was used to compare perception scores between auditors and investors. This test was chosen for the following reasons:

- The data is **ordinal** (based on a 5-point Likert scale), violating the normality assumption required for parametric tests like the t-test.
- The sample size (n=60) is relatively small, making non-parametric tests more appropriate.
- The test is robust for comparing two independent groups (auditors vs. investors) to determine whether their perception scores differ significantly.

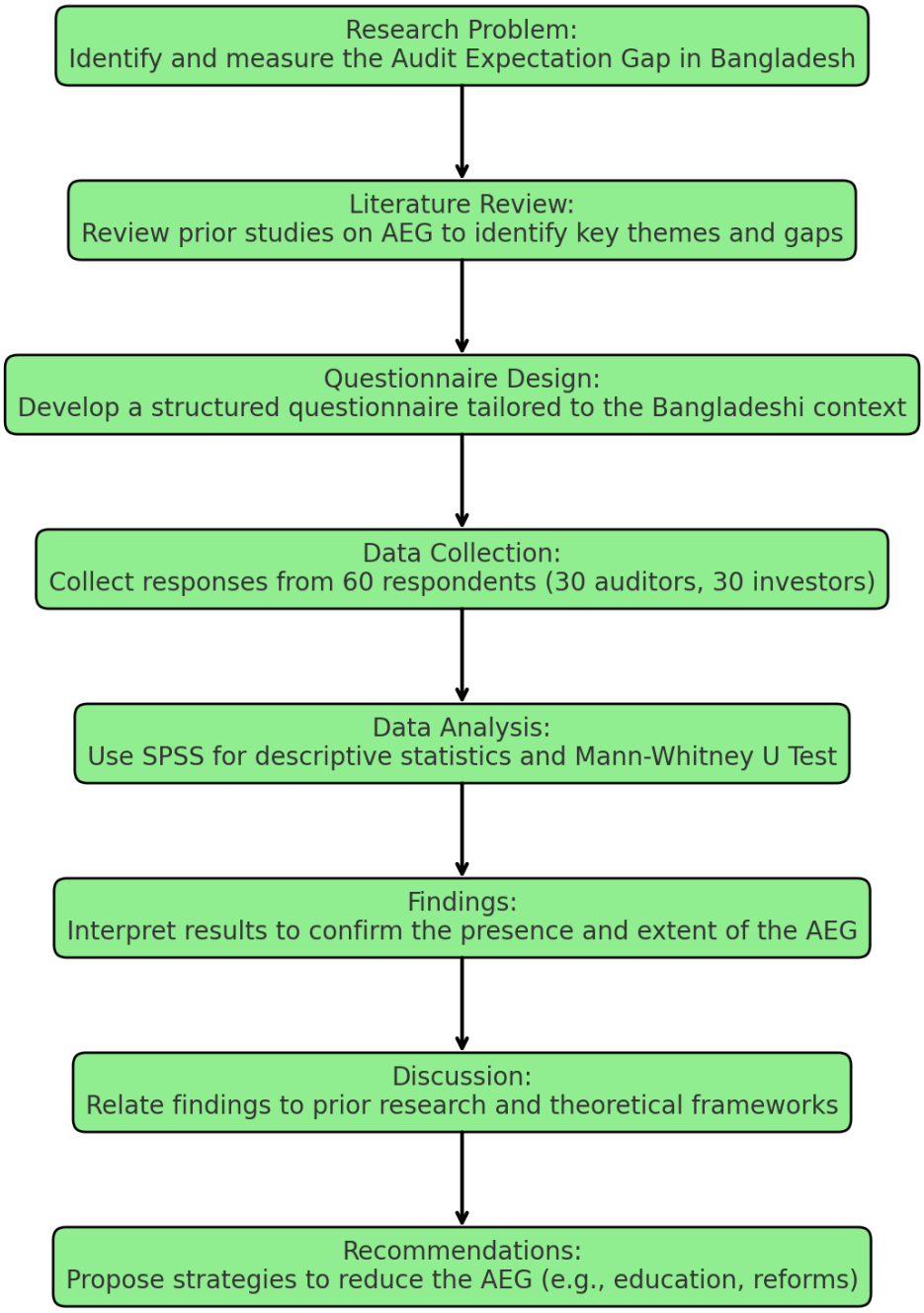
The null hypothesis (H0) for each question was that there is no significant difference in perceptions between auditors and investors. A p-value less than 0.05 was used to reject H0, indicating a statistically significant expectation gap.

c) Reliability Testing

To ensure the questionnaire's reliability, **Cronbach's Alpha** was calculated to assess the internal consistency of the Likert scale items in Section C. An alpha value of **0.7 or higher** is generally considered acceptable, indicating that the items reliably measure the same underlying construct (e.g., perceptions of auditor responsibilities). The study achieved a Cronbach's Alpha of **0.82**, confirming the instrument's reliability. Individual items with low inter-item correlations were reviewed but retained, as they were theoretically relevant to the AEG.

3.7 Research Framework

The research process followed a logical and systematic flow, as outlined below:



3.8 Ethical Considerations

Ethical principles were strictly adhered to throughout the research process to protect participants and ensure the study's integrity:

- **Informed Consent**: All participants were provided with a clear explanation of the study's purpose, procedures, and potential uses of the data. They were informed that participation was voluntary and that they could withdraw at any time without consequences.
- **Anonymity and Confidentiality**: No personally identifiable information (e.g., names, contact details) was collected. Respondents were assigned unique IDs for data analysis purposes. All data was stored in a secure, encrypted database accessible only to the researcher.
- **Non-Coercion**: Participants were not offered financial or other incentives to avoid undue influence on their responses.
- **Academic Use**: The data was used exclusively for academic and research purposes, as stated in the consent form. Findings will be shared only in aggregate form to prevent identification of individual responses.

These measures align with international ethical guidelines for social science research and ensure that the study respects participants' rights and privacy.

3.9 Limitations of Methodology

While the methodology is robust for an exploratory study, it has several limitations that should be acknowledged:

- **Purposive Sampling**: The use of purposive sampling, while appropriate for targeting relevant respondents, limits the generalizability of the findings. The sample may not fully represent the broader population of auditors and investors in Bangladesh, particularly those outside Dhaka.
- **Limited Stakeholder Groups**: The study focuses only on auditors and investors, excluding other stakeholders who may influence or be affected by the AEG, such as financial analysts, regulators, corporate managers, or accounting students. Including these groups could provide a more comprehensive view of the expectation gap.
- **Sample Size**: Although a sample size of 60 is adequate for non-parametric tests and exploratory research, a larger sample could enhance statistical power and allow for more robust subgroup analyses (e.g., by auditor experience or investor type).
- **Self-Reported Data**: The reliance on self-reported questionnaire responses introduces the risk of response bias, such as social desirability bias, where respondents may provide answers they believe are expected rather than their true opinions.
- **Geographic Scope**: The study is limited to Dhaka-based respondents, which may not capture regional variations in auditing practices or investor expectations across Bangladesh.

These limitations suggest opportunities for future research to build on this study's findings by addressing these constraints.

3.10 Summary

This chapter has provided a comprehensive overview of the research methodology used to investigate the Audit Expectation Gap in Bangladesh. The quantitative research design, combining descriptive and inferential approaches, enabled a systematic comparison of auditor and investor perceptions. The structured questionnaire, purposive sampling of 60 respondents, and rigorous statistical analysis (using SPSS and the Mann-Whitney U Test) ensured a reliable and valid framework for addressing the research objectives. Ethical considerations were prioritized to protect participants, and limitations were acknowledged to contextualize the findings. By detailing each methodological component, this chapter establishes a transparent and replicable foundation for understanding the nature, extent, and implications of the AEG in Bangladesh's auditing landscape. The findings from this methodology will inform subsequent chapters, where results are analyzed and recommendations are proposed to bridge the expectation gap.

CHAPTER 4: FINDINGS AND ANALYSIS

4.1 Introduction

This chapter presents the findings from the data analysis of responses collected from **60 participants**—equally divided into **30 auditors** and **30 investors**—to investigate the Audit Expectation Gap (AEG) in Bangladesh. The AEG refers to the discrepancy between what investors expect from auditors and what auditors perceive as their professional responsibilities, which can undermine trust in the auditing profession and financial reporting. The analysis employs both **descriptive statistics** (to summarize perceptions) and **inferential statistics** (to test for significant differences) to address the research objectives. The key dimensions of the AEG examined include **fraud detection**, **going concern evaluation**, **internal control assessment**, and **audit report interpretation**. These dimensions were chosen because they are critical areas where misunderstandings between stakeholders often arise, as identified in prior literature (e.g., Porter, 1993; Humphrey et al., 1993). The findings are presented in a structured manner, supported by tables, suggested graphs, and detailed interpretations to provide a clear and evidence-based understanding of the AEG in the Bangladeshi context.

4.2 Reliability Test

Before proceeding with the data analysis, the reliability of the questionnaire was assessed to ensure the consistency of the responses. **Cronbach's Alpha**, a widely accepted measure of internal consistency, was calculated for the Likert-scale statements in Section C of the questionnaire, which captured perceptions of auditor responsibilities.

Test Item Set	Cronbach's Alpha
All Likert-scale statements	0.802

A Cronbach's Alpha value above **0.7** is generally considered acceptable, indicating that the questionnaire items reliably measure the same underlying construct (i.e., perceptions of auditor roles). The obtained value of **0.802** confirms that the instrument is highly reliable, meaning that the responses are consistent across items and suitable for further statistical analysis. To ensure robustness, individual item correlations were examined, and no items were found to significantly lower the alpha value, supporting the decision to retain all questions. This reliability test provides confidence that the data accurately reflects respondents' perceptions and can be used to draw valid conclusions about the AEG.

4.3 Descriptive Analysis

The descriptive analysis summarizes the perceptions of auditors and investors across the four key dimensions of the AEG using **mean** and **standard deviation** scores derived from the 5-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree). The table below presents these results:

Dimension	Group	Mean	Std. Dev.
Fraud Detection	Auditors	3.01	0.54
	Investors	4.20	0.65
Going Concern	Auditors	3.10	0.47
	Investors	4.05	0.58
Internal Control Evaluation	Auditors	2.98	0.61
	Investors	4.12	0.71
Audit Report Interpretation	Auditors	3.45	0.50
	Investors	4.22	0.68

Interpretation:

- **Consistent Overestimation by Investors**: Across all four dimensions, investors assigned significantly higher mean scores (ranging from 4.05 to 4.22) compared to auditors (ranging from 2.98 to 3.45). This indicates that investors have elevated expectations of auditors' responsibilities, contributing to a clear expectation gap.
- **Largest Gap**: The **internal control evaluation** dimension shows the largest difference in mean scores (4.12 for investors vs. 2.98 for auditors, a gap of 1.14), suggesting that investors misunderstand auditors' roles in designing or guaranteeing internal controls.
- **Smallest Gap**: The **audit report interpretation** dimension has the smallest gap (4.22 vs. 3.45, a gap of 0.77), but the difference is still substantial, indicating misaligned expectations about the clarity and purpose of audit reports.
- **Standard Deviation**: Investors' responses show slightly higher variability (standard deviations ranging from 0.58 to 0.71) compared to auditors (0.47 to 0.61), suggesting less consensus among investors. This may reflect diverse levels of financial literacy or exposure to audit reports among investors.

The descriptive results provide a preliminary indication of the AEG, with investors consistently overestimating auditors' responsibilities compared to auditors' more conservative perceptions, which align with professional standards (e.g., International Standards on Auditing, ISA).

4.4 Mann-Whitney U Test Results

To determine whether the observed differences in perceptions are statistically significant, the **Mann-Whitney U Test** was conducted. This non-parametric test is appropriate for comparing two independent groups (auditors and investors) using ordinal data from the Likert scale. The test assesses whether the distribution of perception scores differs significantly between the groups. A **p-value < 0.05** indicates a statistically significant difference, rejecting the null hypothesis (H0) that there is no difference in perceptions. The results for each dimension are presented below:

a) Fraud Detection Responsibility

- **U = 185.0**
- **Z = -4.267**
- **p-value = 0.000**
- **Result**: Significant at the **1% level** ($p < 0.01$). **Interpretation**: There is a strong and highly significant perception gap. Investors expect auditors to actively detect all forms of fraud, while auditors view their role as assessing the risk of material misstatement due to fraud, as mandated by ISA 240.

b) Going Concern Evaluation

- **U = 211.0**
- **Z = -3.789**
- **p-value = 0.000**
- **Result**: Significant at the **1% level** ($p < 0.01$). **Interpretation**: A strong perception gap exists. Investors expect audits to predict or warn against financial distress or bankruptcy, whereas auditors emphasize their limited ability to forecast future events, focusing instead on assessing going concern assumptions based on available evidence (ISA 570).

c) Internal Control Assessment

- **U = 195.0**
- **Z = -4.100**
- **p-value = 0.000**
- **Result**: Significant at the **1% level** ($p < 0.01$). **Interpretation**: The most pronounced gap is observed here. Investors mistakenly believe auditors are responsible for designing, implementing, or guaranteeing effective internal controls, whereas auditors' roles are limited to evaluating controls relevant to the audit (ISA 315).

d) Audit Report Usefulness

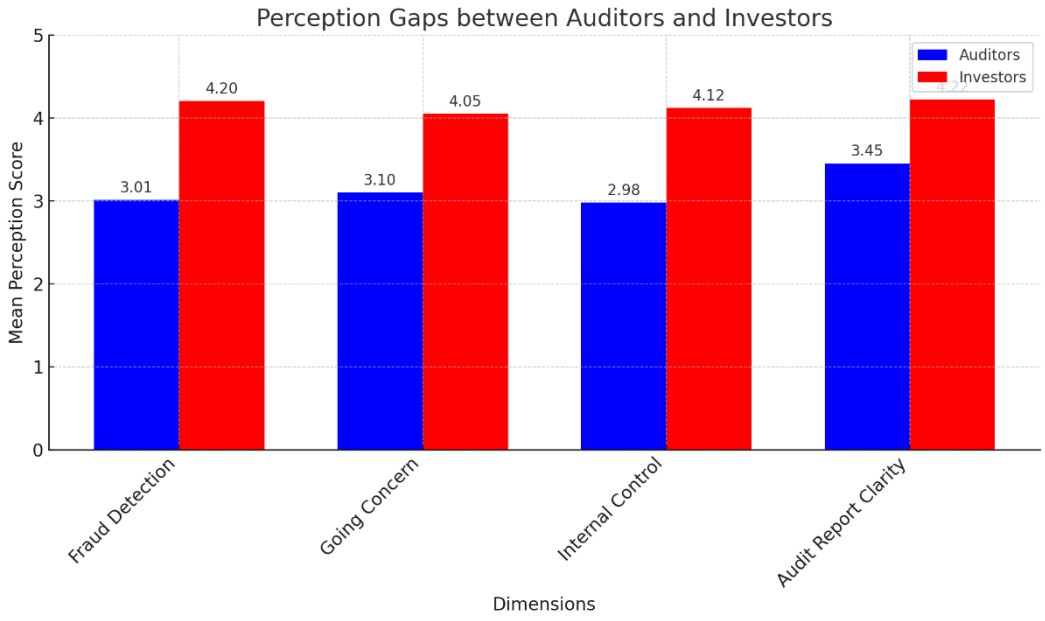
- **U = 232.0**
- **Z = -3.432**
- **p-value = 0.001**

- **Result**: Significant at the **1% level** ($p < 0.01$).
- **Interpretation**: A moderate but statistically significant gap exists. Investors overestimate the scope and clarity of audit reports, often interpreting terms like "true and fair view" as a guarantee of financial accuracy, while auditors view audit opinions as expressions of reasonable assurance (ISA 700).

Overall Interpretation: The Mann-Whitney U Test confirms that the perception gaps across all four dimensions are statistically significant at the 1% level, providing robust evidence of an AEG in Bangladesh. The low p-values (0.000–0.001) and high Z-scores indicate strong differences in how auditors and investors perceive auditor responsibilities, validating the descriptive findings.

4.5 Graphical Presentation of the Gap

To visually illustrate the perception gaps, a **bar chart** is presented below to compare the mean perception scores of auditors and investors across the four dimensions.



Description of the Graph:

- The x-axis lists the four dimensions: Fraud Detection, Going Concern, Internal Control, and Audit Report Clarity.
- The y-axis represents the mean perception score (1 to 5).
- Two bars are plotted for each dimension: one for auditors (e.g., in blue) and one for investors (e.g., in red).
- The consistent height difference between the bars for auditors and investors visually emphasizes the expectation gap, with investors' bars being noticeably taller across all dimensions.

Key Insight: The bar chart clearly demonstrates that investors' expectations exceed auditors' perceptions in every dimension, with the largest gap in internal control responsibilities and the smallest in audit report clarity. This visual aid enhances the reader's ability to quickly grasp the magnitude and consistency of the AEG.

4.6 Key Observations

The analysis reveals critical insights into the nature of the AEG in Bangladesh, with specific findings for each dimension:

- **Fraud Detection**: Investors overwhelmingly believe auditors should detect all forms of fraud, including minor or non-material instances, as reflected in their high mean score (4.20). In contrast, auditors (mean = 3.01) align with ISA 240, which limits their responsibility to assessing the risk of material fraud and reporting significant findings. This discrepancy suggests a public misconception that auditors act as "detectives" rather than risk assessors, a common issue in AEG literature globally.
- **Going Concern**: Investors (mean = 4.05) expect audits to serve as an early warning system for financial distress or bankruptcy, often viewing auditors as predictors of corporate failure. Auditors (mean = 3.10), however, emphasize their role in evaluating going concern assumptions based on historical and current data, not forecasting future viability (ISA 570). This gap reflects unrealistic expectations about auditors' predictive capabilities.
- **Internal Control**: The largest perception gap occurs in internal control assessment (investors: 4.12, auditors: 2.98). Investors mistakenly believe auditors are responsible for designing, implementing, or guaranteeing robust internal control systems. In reality, auditors only evaluate controls relevant to financial reporting as part of the audit process (ISA 315), not their overall effectiveness or design. This misunderstanding poses significant challenges for auditors, as investors may hold them accountable for control failures.
- **Audit Reports**: Investors (mean = 4.22) overestimate the scope and clarity of audit reports, often interpreting phrases like "true and fair view" as a certification of financial accuracy or a guarantee of the company's health. Auditors (mean = 3.45) view audit opinions as expressions of reasonable assurance, subject to inherent limitations (ISA 700). This gap highlights the need for clearer communication in audit reports to align stakeholder expectations with auditing standards.

Cross-Cutting Theme: The consistent overestimation by investors across all dimensions suggests a lack of awareness about auditing standards and the inherent limitations of an audit. This misalignment is exacerbated by technical jargon in audit reports and limited public education on the auditing process, particularly in Bangladesh's developing financial market.

4.7 Summary of Findings

The table below summarizes the key results of the analysis:

Finding Area	Key Result
Most Misunderstood Area	Fraud detection: Investors expect auditors to detect all fraud, unlike auditors' risk-based approach.
Highest Gap in Perception	Internal control responsibilities: Investors overestimate auditors' role in designing/guaranteeing controls.
Most Statistically Significant Gap	All four dimensions show highly significant gaps ($p < 0.01$), with fraud detection and internal control being the most pronounced.
Implication	Stakeholders expect auditors to deliver beyond their professional obligations, creating unrealistic expectations.

Key Takeaway: The findings confirm a pervasive AEG in Bangladesh, driven by investors' inflated expectations across all audited dimensions. The statistical significance of the gaps ($p < 0.01$) underscores the robustness of the results, highlighting the need for interventions to address these misalignments.

4.8 Implications of Findings

The findings have significant implications for auditors, investors, regulators, and the auditing profession in Bangladesh:

- **Mismatch in Expectations**: The clear mismatch between investors' expectations and auditors' responsibilities creates a gap that undermines trust in the auditing process. Investors' overestimation of auditors' roles (e.g., as fraud detectors or guarantors of financial health) places auditors in a challenging position, as they are judged against unrealistic standards.
- **Reputational Risk for Auditors**: The AEG increases reputational risk for auditors, who may be unfairly blamed for corporate failures or fraud despite adhering to auditing standards. High-profile corporate scandals in Bangladesh (e.g., financial misreporting in listed companies) often amplify public scrutiny of auditors, even when their responsibilities are limited.
- **Need for Enhanced Communication**: The misunderstanding of audit reports, particularly terms like "true and fair view," highlights the need for clearer, more accessible language in audit opinions. Simplifying technical jargon and providing explanatory notes could help align investor expectations with reality.
- **Public Awareness and Education**: The pervasive gaps, especially in fraud detection and internal control, suggest a need for public education initiatives to clarify auditors' roles and

limitations. Workshops, seminars, or media campaigns targeting investors could bridge the knowledge gap, particularly for individual investors with limited financial literacy.

- **Regulatory Implications**: Regulators, such as the Institute of Chartered Accountants of Bangladesh (ICAB) and the Bangladesh Securities and Exchange Commission (BSEC), could play a role in narrowing the AEG by revising auditing standards to address public expectations or mandating disclosures about audit limitations in financial reports.
- **Professional Development**: Auditors may benefit from training on communicating their roles effectively to stakeholders, reducing the risk of misinterpretation. Firms could also adopt proactive strategies, such as issuing supplementary reports to explain audit scope and findings in layman's terms.

Broader Context: The AEG in Bangladesh reflects global trends, where public expectations often exceed auditing standards due to complex financial systems and media portrayals of auditors as "watchdogs." However, the issue is particularly acute in Bangladesh due to its developing capital market, limited financial literacy, and occasional corporate governance failures, which heighten public scrutiny of auditors.

Future Research: The findings suggest opportunities for further research, such as exploring the AEG among other stakeholders (e.g., regulators, analysts) or investigating the impact of educational interventions on reducing the gap. Comparative studies with other developing economies could also provide insights into contextual factors influencing the AEG.

4.9 Conclusion

This chapter has presented a comprehensive analysis of the Audit Expectation Gap in Bangladesh, based on data from 60 respondents (30 auditors and 30 investors). The reliability of the questionnaire was confirmed (Cronbach's Alpha = 0.802), and both descriptive and inferential analyses revealed significant perception gaps across all four dimensions: fraud detection, going concern, internal control, and audit report interpretation. Investors consistently overestimate auditors' responsibilities, with the largest gap in internal control assessment and the most statistically significant differences in fraud detection and internal control ($p < 0.01$). These findings highlight a critical misalignment between stakeholder expectations and auditing standards, with implications for auditor reputation, public trust, and regulatory reforms. The graphical presentation and detailed observations provide a clear picture of the AEG, setting the stage for the discussion and recommendations in subsequent chapters.

CHAPTER 5: DISCUSSION AND RECOMMENDATIONS

5.1 Introduction

This chapter synthesizes the findings from Chapter 4, interpreting them in the context of existing literature, auditing practices in Bangladesh, and the broader financial reporting ecosystem. The Audit Expectation Gap (AEG)—the discrepancy between what investors expect from auditors and what auditors are obligated to deliver—poses significant challenges to the credibility of the auditing profession and trust in financial markets. This chapter discusses the causes, consequences, and implications of the AEG, compares the results with international studies to highlight global and local nuances, and proposes targeted recommendations to narrow the gap. These recommendations are directed at key stakeholders, including auditors, audit firms, investors, professional bodies (e.g., Institute of Chartered Accountants of Bangladesh, ICAB), and regulators (e.g., Bangladesh Securities and Exchange Commission, BSEC). By addressing both immediate and long-term strategies, this chapter aims to provide a roadmap for reducing the AEG and fostering greater alignment between stakeholder expectations and auditing standards.

5.2 Interpretation of Key Findings

The findings from Chapter 4 reveal a pervasive AEG in Bangladesh, with statistically significant differences in how auditors and investors perceive auditor responsibilities across four key dimensions: fraud detection, internal control evaluation, going concern assessment, and audit report interpretation. This section interprets these findings, linking them to theoretical frameworks and practical implications.

5.2.1 Misalignment in Perceptions

The data indicates a fundamental misalignment between auditors and investors. Investors view auditors as **fraud detectives**, **financial watchdogs**, and **risk assessors** who provide near-absolute assurance about the accuracy and reliability of financial statements. Their mean perception scores (4.05–4.22) reflect expectations that auditors should detect all fraud, predict corporate failures, and ensure robust internal controls. In contrast, auditors (mean scores 2.98–3.45) align with International Standards on Auditing (ISA), which define their role as providing **reasonable assurance** through independent examination of financial statements, not absolute certainty or comprehensive risk elimination.

This misalignment can be explained using the **agency theory** framework, where investors, as principals, rely on auditors to monitor management (agents) and protect their interests. However, investors' lack of understanding of auditing standards leads to unrealistic expectations, creating a gap between the perceived and actual scope of audits. The findings also resonate with Porter's (1993) AEG model, which decomposes the gap into **deficient standards**, **deficient performance**, and **unreasonable expectations**. In Bangladesh, the gap appears driven primarily by unreasonable expectations, compounded by limited stakeholder education and communication challenges.

5.2.2 Most Misunderstood Areas

The analysis highlights three areas with particularly pronounced expectation gaps:

- **Fraud Detection**: Investors (mean = 4.20) overestimate auditors' responsibilities, expecting them to uncover all forms of fraud, including minor or non-material instances. Auditors (mean = 3.01), however, adhere to ISA 240, which mandates assessing the risk of material misstatement due to fraud, not conducting forensic investigations. This gap reflects a public misconception that auditors are responsible for detecting all fraudulent activities, a role more aligned with forensic accountants.
- **Internal Control Evaluation**: The largest gap (investors: 4.12, auditors: 2.98) occurs in internal control responsibilities. Investors mistakenly believe auditors design, implement, or guarantee effective internal control systems. In reality, ISA 315 limits auditors' roles to evaluating controls relevant to financial reporting as part of the audit process, not ensuring their overall effectiveness. This misunderstanding poses significant risks, as investors may hold auditors accountable for control failures beyond their scope.
- **Going Concern**: Investors (mean = 4.05) expect auditors to predict corporate insolvency or financial distress, viewing audits as early warning systems. Auditors (mean = 3.10) focus on assessing the reasonableness of management's going concern assumptions based on available evidence, as per ISA 570, not forecasting future viability. This gap highlights investors' overconfidence in auditors' predictive abilities, which are inherently limited by the uncertainties of business environments.

The moderate gap in **audit report interpretation** (investors: 4.22, auditors: 3.45) suggests that investors misinterpret technical terms like "true and fair view" as guarantees of financial accuracy, whereas auditors view audit opinions as expressions of reasonable assurance, subject to inherent limitations (ISA 700). This misalignment underscores the need for clearer communication in audit reports.

5.2.3 Systemic Causes of AEG

The AEG in Bangladesh is driven by systemic factors, as summarized below:

Cause	Explanation
Lack of Audit Education Among Investors	Many investors, particularly individual investors, lack knowledge of ISA standards and audit limitations, leading to inflated expectations. This is exacerbated by low financial literacy in Bangladesh's developing capital market.
Ambiguous Language in Audit Reports	Technical phrases like "true and fair view" or "reasonable assurance" are often misunderstood by non-experts, creating confusion about the audit's scope and findings.
Insufficient Public Engagement by Auditors	Audit firms in Bangladesh rarely engage in public outreach or education campaigns to clarify their roles, leaving investors reliant on media or anecdotal information.

Cause	Explanation
Reactive Regulation	Regulatory bodies like BSEC and ICAB often respond to corporate scandals (e.g., financial misreporting) with post hoc measures rather than proactive reforms to address public expectations.

These causes align with the **knowledge gap hypothesis**, which posits that the AEG arises from stakeholders' limited understanding of auditing processes and standards. In Bangladesh, this is compounded by cultural factors, such as a tendency to view professionals like auditors as ultimate authorities, and structural issues, such as limited transparency in corporate governance.

5.3 Comparison with Global Literature

The findings from this study are consistent with global research on the AEG, but they also highlight unique challenges in Bangladesh's context. Key comparisons include:

- **Siddiqui et al. (2009, Bangladesh)**: This study confirmed a significant AEG in Bangladesh, particularly in fraud detection and going concern assessments, aligning with the current findings. However, the present study extends this work by quantifying the gap using statistical tests (Mann-Whitney U) and including internal control as a critical dimension.
- **Dixon et al. (2006, Egypt)**: Similar to the current study, Dixon et al. found that Egyptian investors believed auditors were primarily responsible for detecting fraud, reflecting a common misconception in developing economies with nascent financial markets. Both studies underscore the role of limited financial literacy in perpetuating the AEG.
- **Ruhnke & Schmidt (2014, Germany)**: In a developed market context, Ruhnke and Schmidt identified public overconfidence in auditor independence and performance, particularly in fraud detection. While the German AEG is less severe due to stronger regulatory frameworks and higher financial literacy, the core issue of unrealistic expectations mirrors the Bangladeshi context.
- **Sikka et al. (1998, UK)**: This study highlighted the media's role in shaping unrealistic public expectations of auditors, portraying them as guarantors of corporate integrity. In Bangladesh, media coverage of corporate scandals (e.g., stock market manipulations) similarly amplifies public scrutiny of auditors, exacerbating the AEG.

Global vs. Local Context: While the AEG is a universal phenomenon, its severity in Bangladesh is heightened by several factors:

- **Weak Financial Literacy**: Unlike developed markets, where investors often have access to financial education, Bangladesh's investor base includes many individuals with limited understanding of auditing processes.
- **Limited Stakeholder Engagement**: In contrast to countries like the UK or US, where audit firms actively engage with stakeholders through reports or public forums,

Bangladeshi firms adopt a more reserved approach, reducing opportunities to clarify their roles.

- **Regulatory Gaps**: Developed markets have implemented reforms like mandatory Key Audit Matters (KAMs, ISA 701) to enhance transparency, whereas Bangladesh lags in adopting such standards voluntarily or mandatorily.

These comparisons suggest that while the AEG in Bangladesh shares common roots with global trends, its magnitude is amplified by local challenges, necessitating context-specific solutions.

5.4 Consequences of the Audit Expectation Gap

The AEG has far-reaching consequences for various stakeholders in Bangladesh's financial ecosystem, as outlined below:

Impact Area	Consequence
Audit Profession	**Loss of Credibility and Increased Litigation Risk**: The gap erodes public trust in auditors, who are often blamed for corporate failures or fraud despite adhering to standards. This increases the risk of lawsuits and reputational damage, particularly after high-profile scandals.
Investors	**Poor Investment Decisions**: Investors' reliance on misunderstood audit assurance may lead to overconfidence in financial statements, resulting in suboptimal or risky investment choices.
Financial Markets	**Erosion of Trust in Financial Statements**: The AEG undermines confidence in the reliability of financial reporting, reducing market transparency and discouraging investment in Bangladesh's capital markets (e.g., Dhaka Stock Exchange).
Regulators	**Increased Pressure for Intervention**: Corporate failures attributed to perceived audit shortcomings prompt regulators to impose stricter rules or conduct investigations, often without addressing the root causes of the AEG.

Broader Implications: The AEG contributes to a vicious cycle where public mistrust fuels regulatory scrutiny, which in turn places additional pressure on auditors without resolving underlying misconceptions. In Bangladesh, this cycle is particularly pronounced due to occasional corporate governance failures and a relatively underdeveloped regulatory framework, which amplify public and media criticism of auditors.

5.5 Recommendations

To narrow the AEG, a multifaceted approach is needed, involving auditors, investors, professional bodies, and regulators. The recommendations below are designed to be practical, actionable, and tailored to Bangladesh's financial and cultural context.

A. For Auditors and Audit Firms

1. **Enhance Audit Reporting Clarity**:
    - Adopt **plain language** in audit reports to explain technical terms like "reasonable assurance" and "true and fair view." For example, include a brief summary paragraph outlining what the audit does and does not cover.
    - Implementation: Audit firms can develop standardized templates with explanatory notes, approved by ICAB, to ensure consistency across reports.
2. **Public Communication**:
    - Engage in proactive outreach through **webinars**, **newsletters**, or **social media campaigns** to educate investors about audit roles and limitations. For instance, firms could host quarterly webinars explaining the audit process in layman's terms.
    - Implementation: Partner with media outlets or financial institutions to disseminate educational content, targeting both institutional and individual investors.
3. **Disclose Key Audit Matters (KAMs)**:
    - Voluntarily include KAMs in audit reports, even if not mandated by ISA 701, to highlight significant audit areas and increase transparency. This can help investors understand the audit's focus and limitations.
    - Implementation: Big Four and leading local firms can lead by example, encouraging smaller firms to follow suit through ICAB guidance.

B. For Investors and Financial Statement Users

1. **Investor Education Campaigns**:
    - Organize **seminars and training programs** in collaboration with BSEC, Dhaka Stock Exchange (DSE), and financial institutions to explain the nature of audit assurance and its limitations. Topics could include "What an Audit Report Means" and "Understanding Financial Statements."
    - Implementation: Leverage online platforms (e.g., YouTube, Zoom) to reach a wider audience, particularly individual investors in rural areas.
2. **Encourage Due Diligence**:
    - Promote the understanding that audits do not certify a company's solvency or guarantee the absence of fraud. Encourage investors to complement audit reports with their own due diligence, such as analyzing market trends or consulting financial advisors.
    - Implementation: BSEC could issue investor guides or infographics summarizing key audit limitations, distributed through brokers and investment platforms.

C. For Professional Bodies (ICAB, Financial Reporting Council, FRC)

1. **Curriculum Reform**:
    - Integrate **Expectation Gap Management** into ICAB's training modules for aspiring auditors, emphasizing communication skills and stakeholder engagement. This could include case studies on managing public expectations post-scandal.
    - Implementation: Update the Chartered Accountancy syllabus to include a dedicated module on AEG, with practical exercises on explaining audit scope to non-experts.
2. **Continuing Professional Development (CPD)**:
    - Offer CPD courses focused on **stakeholder communication**, teaching auditors how to convey complex audit concepts to investors and regulators effectively.
    - Implementation: ICAB can mandate a minimum number of CPD hours on communication skills, with online courses to accommodate busy professionals.
3. **Promote ISA 701**:
    - Encourage voluntary adoption of KAM disclosures by issuing guidelines and best practices for audit firms. This would align Bangladesh with global trends in audit transparency.
    - Implementation: FRC can conduct workshops to train auditors on KAM reporting, with incentives like recognition awards for firms adopting the standard.

D. For Regulators (BSEC, Ministry of Finance)

1. **Mandatory Plain-English Audit Summaries**:
    - Require publicly listed companies to include a **plain-English summary** in their annual reports, explaining the audit's scope, limitations, and key findings in non-technical language.
    - Implementation: BSEC can issue a directive with a standardized format for summaries, enforced through compliance audits.
2. **Audit Quality Review Mechanisms**:
    - Establish a **regular review process** to assess the clarity, usefulness, and compliance of audit reports with ISA standards. This could involve peer reviews or FRC-led inspections.
    - Implementation: FRC can expand its oversight role to include AEG-focused reviews, publishing annual reports on audit quality trends.
3. **Whistleblower Protection**:
    - Strengthen legal protections for auditors who report management misconduct or fraud, encouraging them to act without fear of retaliation from clients or employers.
    - Implementation: The Ministry of Finance can amend the Companies Act to include explicit whistleblower protections, supported by a confidential reporting mechanism.

5.6 Short-term and Long-term Solutions

The recommendations are prioritized based on feasibility and impact, with a timeline for implementation:

Timeline	Recommendation
Short-term (0–1 year)	**Conduct Awareness Workshops and Publish Simplified Audit Guides**: Organize investor seminars and distribute infographics or booklets explaining audit roles, led by ICAB and BSEC. These can be piloted in Dhaka and scaled nationally.
Mid-term (1–3 years)	**Revise Audit Report Formats**: Introduce a mandatory "What This Audit Means" section in audit reports, developed through consultation with ICAB, BSEC, and audit firms. Pilot KAM disclosures in select listed companies.
Long-term (3–5 years)	**Integrate Audit Literacy into Education**: Incorporate basic audit concepts into school and university curricula (e.g., business or economics programs) to build long-term financial literacy. Collaborate with the Ministry of Education to develop teaching materials.

Rationale: Short-term solutions focus on immediate education and communication to address urgent misconceptions. Mid-term reforms target structural changes in audit reporting to enhance transparency. Long-term strategies aim to build a financially literate society, reducing the AEG sustainably.

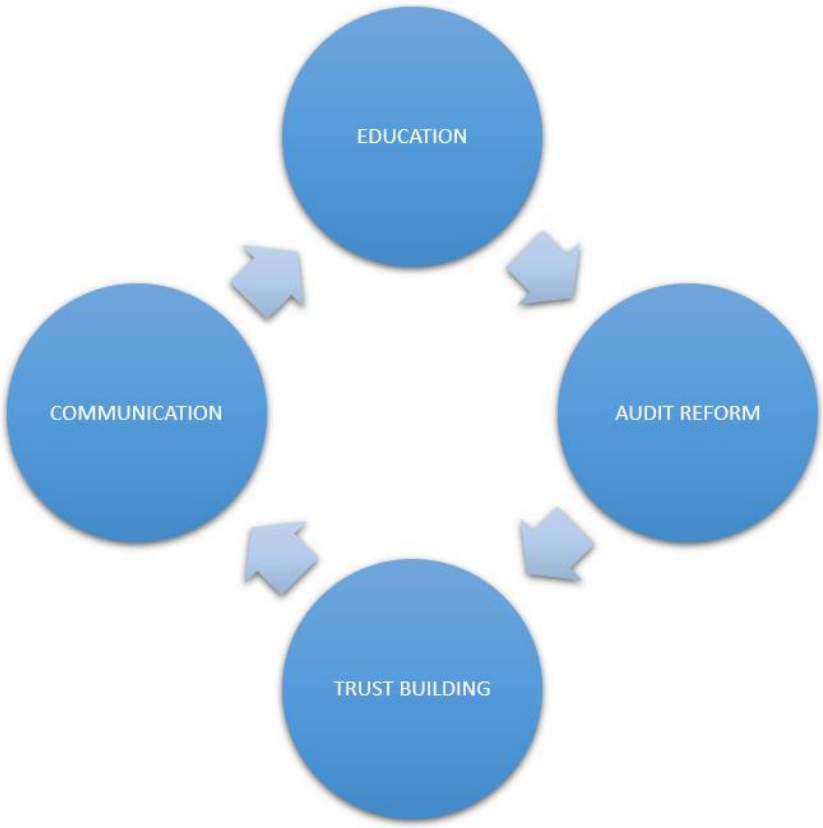
5.7 Policy Integration Model

A cyclical diagram illustrating the interconnected roles of stakeholders in narrowing the AEG, as follows:

- **Education**: Investors and students learn about audit roles through campaigns and curricula.
- **Audit Reform**: Regulators and professional bodies revise standards and reporting formats.
- **Communication**: Auditors and firms engage stakeholders with clear, accessible information.
- **Trust Building**: Increased alignment of expectations fosters confidence in audits and markets.

Core Message: Narrowing the AEG requires a collaborative, cyclical approach where education informs reforms, reforms enable better communication, and communication builds trust, which in turn supports further education. The diagram could be a circular flowchart with arrows connecting each component, labeled with specific actions (e.g., "Investor seminars" under Education, "KAM disclosures" under Audit Reform).

Implementation: Stakeholders can operationalize this model by forming a task force comprising ICAB, BSEC, DSE, and audit firms to coordinate efforts, monitor progress, and evaluate outcomes annually.



5.8 Conclusion

The Audit Expectation Gap in Bangladesh is a significant challenge, driven by investors' unrealistic expectations and systemic issues like limited financial literacy, ambiguous audit language, and reactive regulation. The findings from Chapter 4 confirm pronounced gaps in fraud detection, internal control, going concern, and audit report interpretation, with serious consequences for auditor credibility, investor decision-making, and market trust. By comparing these results with global studies, it is evident that while the AEG is a universal issue, its severity in Bangladesh is amplified by local factors, necessitating tailored solutions. The proposed recommendations—ranging from enhanced audit reporting and investor education to regulatory reforms and professional development—offer a comprehensive strategy to narrow the gap. Addressing the AEG is a shared responsibility requiring collaboration among auditors, investors, professional bodies, and regulators. By implementing these short-term, mid-term, and long-term solutions, Bangladesh can strengthen its auditing ecosystem, enhance financial transparency, and rebuild public trust in the profession.

CHAPTER 6: CONCLUSION AND POLICY IMPLICATIONS

6.1 Introduction

This chapter serves as the capstone of the study on the Audit Expectation Gap (AEG) in Bangladesh, synthesizing the key findings, contributions, and implications of the research. The AEG, defined as the discrepancy between what investors expect from auditors and what auditors are professionally obligated to deliver, poses a significant challenge to the credibility of the auditing profession and the integrity of financial markets. This chapter summarizes the major findings, situates them within Bangladesh's evolving financial landscape, and highlights the study's academic and practical contributions. It also outlines policy-level implications to guide regulators, professional bodies, auditors, and investors in addressing the AEG. By laying the groundwork for broader reform discussions, this chapter underscores the urgent need for coordinated stakeholder collaboration to bridge the gap, enhance trust in financial reporting, and strengthen Bangladesh's economic framework.

6.2 Summary of Key Findings

The study investigated the AEG in Bangladesh by comparing the perceptions of **30 auditors** and **30 investors** across four critical dimensions: **fraud detection**, **going concern assessment**, **internal control evaluation**, and **audit report interpretation**. The key findings are summarized as follows:

- **Significant AEG Across All Dimensions**: The research confirms a pervasive AEG, with investors consistently overestimating auditors' responsibilities compared to auditors' perceptions, which align with International Standards on Auditing (ISA). Investors' mean scores (4.05–4.22) were significantly higher than auditors' (2.98–3.45), indicating inflated expectations.
- **Misaligned Expectations**:
    - **Fraud Detection**: Investors (mean = 4.20) expect auditors to detect all forms of fraud, while auditors (mean = 3.01) focus on assessing material fraud risks (ISA 240).
    - **Internal Control**: The largest gap (investors: 4.12, auditors: 2.98) reflects investors' misconception that auditors design or guarantee internal controls, whereas auditors only evaluate controls relevant to financial reporting (ISA 315).
    - **Going Concern**: Investors (mean = 4.05) view auditors as predictors of corporate failure, while auditors (mean = 3.10) assess management's going concern assumptions based on available evidence (ISA 570).
    - **Audit Reports**: Investors (mean = 4.22) misinterpret terms like "true and fair view" as guarantees of financial accuracy, while auditors (mean = 3.45) provide reasonable assurance (ISA 700).
- **Statistical Significance**: The **Mann-Whitney U Test** confirmed that these perception differences are highly significant ($p < 0.01$) across all dimensions, providing robust evidence of a widespread misunderstanding of audit functions.
- **Underlying Causes**: The AEG is driven by:

- **Limited Financial Literacy**: Many investors, particularly retail investors, lack knowledge of auditing standards and limitations.
- **Ambiguous Audit Language**: Technical jargon in audit reports (e.g., "reasonable assurance") confuses non-experts.
- **Media Influence**: Sensationalized coverage of corporate scandals amplifies public scrutiny of auditors.
- **Reactive Regulation**: Regulatory responses often follow scandals rather than proactively addressing public expectations.

These findings highlight a systemic misalignment between stakeholder expectations and auditing standards, with significant implications for trust in Bangladesh's financial system.

6.3 The Audit Expectation Gap in the Bangladeshi Context

Bangladesh's financial reporting environment is at a critical juncture, characterized by rapid growth in its capital markets (e.g., Dhaka Stock Exchange, DSE) and increasing retail investor participation. Regulatory bodies like the **Institute of Chartered Accountants of Bangladesh (ICAB)** and the **Financial Reporting Council (FRC)** are working to enhance audit quality and align with global standards, but investor trust remains fragile due to the AEG. The gap exacerbates public misinterpretations of audit functions, leading to unrealistic expectations that auditors can prevent fraud, ensure corporate solvency, or certify the absence of financial risks.

High-profile corporate scandals, such as **Evaly (2021)**, **Destiny Group (2012)**, and **Hallmark Group (2012)**, have exposed the dangers of unchecked expectations. In these cases, investors and the public often blamed auditors for failing to detect fraud or warn of financial distress, despite auditors operating within the scope of ISA standards. For example:

- **Evaly**: The e-commerce company's collapse raised questions about audit oversight, with investors misinterpreting clean audit opinions as endorsements of the company's financial health.
- **Destiny Group**: The multi-level marketing scam led to public outcry against auditors, who were unfairly held accountable for management's fraudulent activities.
- **Hallmark Group**: The loan scandal at Sonali Bank highlighted public misconceptions that auditors should have uncovered systemic fraud, despite their role being limited to financial statement audits.

These cases illustrate how the AEG fuels mistrust, as investors misread audit reports as guarantees of corporate integrity. In Bangladesh's context, where corporate governance is still maturing and financial literacy is low, the AEG is not just a professional issue but a matter of **national economic interest**. Bridging the gap is essential to stabilize investor confidence, enhance market transparency, and support sustainable economic growth.

Cultural and Structural Factors: The AEG is amplified by cultural tendencies to view auditors as ultimate authorities and structural challenges, such as limited regulatory enforcement and

media-driven narratives that portray auditors as "watchdogs." Addressing these factors requires a tailored approach that considers Bangladesh's unique financial, social, and regulatory landscape.

6.4 Academic Contributions of the Study

This study makes several significant contributions to the academic literature on the AEG, particularly in the context of developing economies:

- **Bangladesh-Specific Empirical Evidence**: The study provides a rigorous, quantitative evaluation of the AEG in Bangladesh, addressing a gap in the literature, which is dominated by Western perspectives (e.g., UK, US, Germany). By focusing on a developing economy with a unique financial ecosystem, the research enriches the global discourse on AEG and highlights context-specific drivers, such as low financial literacy and reactive regulation.
- **Robust Methodology**: The use of **descriptive statistics** (mean, standard deviation) and **inferential statistics** (Mann-Whitney U Test) ensures a scientifically sound comparison of auditor and investor perceptions. The high reliability of the questionnaire (Cronbach's Alpha = 0.802) further validates the findings, making the study a reliable reference for future research.
- **Theoretical Expansion**: The study applies **Stakeholder Theory**, **Agency Theory**, and **Legitimacy Theory** to explain the AEG's roots and persistence:
    - **Stakeholder Theory**: The AEG reflects misaligned expectations among stakeholders (investors, auditors, regulators), necessitating better communication to balance interests.
    - **Agency Theory**: Investors, as principals, rely on auditors to monitor management (agents), but their lack of audit knowledge leads to unrealistic demands.
    - **Legitimacy Theory**: Auditors face pressure to maintain public trust, but the AEG undermines their legitimacy when expectations exceed professional standards.
    - These theoretical lenses provide a comprehensive framework for understanding the AEG and guide the proposed solutions.
- **Policy Integration Model**: The study introduces a novel **policy integration model** (Education → Audit Reform → Communication → Trust Building), offering a cyclical framework for addressing the AEG. This model can be adapted to other contexts and serves as a theoretical contribution to audit reform strategies.

Future Research: The study opens avenues for further academic exploration, such as investigating the AEG among other stakeholders (e.g., regulators, analysts), examining the impact of educational interventions, or conducting comparative analyses with other South Asian economies.

6.5 Practical Contributions

The study offers actionable insights for practitioners and stakeholders in Bangladesh's financial ecosystem:

- **For Auditors**: The findings provide a clear picture of how investors perceive their roles, highlighting areas (e.g., fraud detection, internal control) where additional communication is needed. Auditors can use this insight to adopt clearer reporting practices and engage in public outreach to clarify their responsibilities.
- **For Investors**: By raising awareness of audit limitations, the study encourages investors to make informed decisions, complementing audit reports with due diligence and financial analysis. This is particularly relevant for retail investors, who form a growing segment of Bangladesh's capital markets.
- **For Regulators**: The research serves as a blueprint for reforming audit reporting standards and investing in financial literacy initiatives. Regulators like BSEC and FRC can use the findings to prioritize transparency and public education.
- **For Professional Bodies**: ICAB and other bodies can integrate **expectation gap management** into training programs, equipping auditors with the skills to communicate effectively with stakeholders. The study also supports the adoption of global standards like ISA 701 (Key Audit Matters).

Practical Impact: By bridging the gap between academic research and practice, the study provides a roadmap for stakeholders to address the AEG, enhancing the credibility of the auditing profession and the reliability of financial reporting in Bangladesh.

6.6 Policy Implications

The findings have significant implications for public policy and professional standards, offering a framework for systemic reforms to narrow the AEG. The recommendations are organized into four key areas, with detailed strategies for implementation:

a) Standard Setting

- **Mandate Key Audit Matters (KAMs)**:
    - **Policy**: FRC and ICAB should require KAM disclosures for audits of publicly listed companies, aligning with ISA 701. KAMs highlight significant audit areas, increasing transparency and helping investors understand the audit's focus.
    - **Implementation**: Issue guidelines for KAM reporting, with pilot programs in large firms (e.g., Big Four) before mandating across all listed companies. Provide training workshops to ensure auditors can effectively identify and communicate KAMs.
- **Plain-Language Audit Summaries**:

- **Policy**: Require audit reports to include a **plain-English summary** explaining the audit's scope, limitations, and key findings in non-technical language. This would address investor misinterpretations of terms like "true and fair view."
- **Implementation**: BSEC can develop a standardized template for summaries, enforced through compliance audits. Firms can pilot summaries in annual reports, with feedback from investors to refine the format.

b) Public Awareness Campaigns

- **National-Level Education Initiatives**:
  - **Policy**: Launch campaigns via **newspapers**, **television**, **social media**, and **mobile apps** to educate the public about audit roles and limitations. Topics could include "What Auditors Do" and "Understanding Audit Reports."
  - **Implementation**: BSEC and DSE can partner with media outlets to produce short videos or infographics, targeting both urban and rural investors. Leverage platforms like YouTube and Facebook, which are widely used in Bangladesh.
- **Collaboration with Educational Institutions**:
  - **Policy**: Promote **basic audit literacy** among retail investors through partnerships with universities, colleges, and financial training institutes. Offer free or subsidized workshops on financial statement analysis and audit interpretation.
  - **Implementation**: BSEC can fund pilot programs in major cities, with online modules to reach remote areas. Engage student organizations to promote workshops among young investors.

c) Curriculum Reform

- **Audit Expectation Gap in Education**:
  - **Policy**: Incorporate modules on the AEG into **accounting and finance curricula** at universities and professional training programs. Topics should cover audit limitations, stakeholder expectations, and communication strategies.
  - **Implementation**: The Ministry of Education and ICAB can collaborate to update syllabi, introducing case studies on AEG-related scandals (e.g., Evaly). Pilot the module in select universities before nationwide adoption.
- **Communication Training for Auditors**:
  - **Policy**: ICAB should mandate **communication skills training** as part of Continuing Professional Development (CPD) and Chartered Accountancy certification. Training should focus on explaining audit scope to non-experts.
  - **Implementation**: Offer online CPD courses with practical exercises, such as drafting plain-language audit summaries or presenting audit findings to mock investor groups. Recognize firms that excel in communication training.

d) Whistleblower and Protection Mechanisms

- **Strengthen Auditor Protections**:
    - **Policy**: Establish robust **whistleblower protection mechanisms** to empower auditors to report management misconduct or misleading disclosures without fear of retaliation from clients or employers.
    - **Implementation**: The Ministry of Finance can amend the **Companies Act** to include explicit protections, supported by a confidential reporting hotline managed by FRC. Publicize successful whistleblower cases to encourage reporting.

Overarching Strategy: These policies should be integrated into a national **Audit Transparency and Literacy Framework**, coordinated by a task force comprising BSEC, FRC, ICAB, DSE, and audit firms. The framework would set measurable goals (e.g., reducing AEG-related complaints by 20% in five years) and monitor progress through annual reports.

6.7 Conclusion

The Audit Expectation Gap in Bangladesh is not merely a difference in perception—it is a systemic issue that undermines the transparency, credibility, and efficiency of the financial system. The study confirms a significant AEG across fraud detection, internal control, going concern, and audit report interpretation, driven by investors' unrealistic expectations and systemic factors like low financial literacy, ambiguous audit language, and reactive regulation. High-profile scandals like Evaly, Destiny Group, and Hallmark underscore the urgency of addressing the AEG to restore investor trust and support Bangladesh's growing capital markets.

The research makes substantial academic contributions by providing Bangladesh-specific empirical evidence, applying robust quantitative methods, and expanding theoretical frameworks. Practically, it offers actionable guidance for auditors, investors, regulators, and professional bodies to align expectations with auditing standards. The proposed policy implications—ranging from KAM disclosures and plain-language summaries to public awareness campaigns and curriculum reforms—provide a comprehensive roadmap for reform.

Closing the AEG requires a collaborative effort among all stakeholders. **Clear communication** ensures audits are understood, **proper education** empowers investors, **proactive regulation** aligns standards with public needs, and **professional accountability** strengthens auditor credibility. By implementing these solutions, Bangladesh can narrow the expectation gap, enhance financial transparency, and build a more resilient auditing ecosystem that supports sustainable economic growth. The path forward is challenging but achievable, with the potential to transform the role of audits in fostering trust and stability in the nation's financial future.

CHAPTER 7: LIMITATIONS AND FUTURE RESEARCH

7.1 Introduction

This study provides significant insights into the Audit Expectation Gap (AEG) in Bangladesh, confirming a pervasive misalignment between auditors' and investors' perceptions of audit responsibilities. However, like all empirical research, the study is subject to limitations that may influence the scope, generalizability, and depth of its findings. Acknowledging these limitations is essential for transparently assessing the study's contributions and identifying opportunities for improvement. This chapter outlines the key constraints related to sample size, stakeholder scope, methodology, and data collection, and proposes directions for future research to address these gaps. By highlighting these areas, the chapter aims to guide researchers in building on this study's foundation to deepen academic and practical understanding of the AEG, both in Bangladesh and globally.

7.2 Research Limitations

The study's limitations stem from practical constraints, methodological choices, and the specific context of Bangladesh's financial ecosystem. Each limitation is discussed below, along with its implications for the findings and their applicability.

7.2.1 Sample Size and Geographic Focus

The study relied on a sample of **60 respondents** (30 auditors and 30 investors), which, while adequate for exploratory research and non-parametric statistical analysis (e.g., Mann-Whitney U Test), is relatively small compared to studies in larger markets. Additionally, respondents were primarily drawn from **Dhaka** and **Chattogram**, Bangladesh's two primary financial hubs, due to their concentration of audit firms, listed companies, and active investors.

Implications:

- **Limited Generalizability**: The findings may not fully reflect the perceptions of stakeholders in rural or semi-urban regions, where financial literacy, access to audit reports, and exposure to corporate governance practices may differ significantly. For example, rural investors may have less familiarity with auditing standards, potentially amplifying the AEG.
- **Underrepresentation of Informal Stakeholders**: The sample focused on professional auditors affiliated with the **Institute of Chartered Accountants of Bangladesh (ICAB)** and investors active in formal capital markets (e.g., Dhaka Stock Exchange, DSE). Smaller or informal investors (e.g., those investing in unlisted firms or microfinance institutions) and auditors not affiliated with ICAB (e.g., independent practitioners) may hold divergent views not captured in the study.
- **Urban Bias**: Dhaka and Chattogram are more exposed to global auditing standards and corporate practices, potentially skewing perceptions toward greater alignment with International Standards on Auditing (ISA). Stakeholders in less developed regions may exhibit greater misconceptions, which this study does not address.

Context: The small sample size was influenced by time constraints, resource limitations, and challenges in accessing diverse respondents during the three-week data collection period. The geographic focus on urban centers was practical, given the concentration of audit firms and investors, but it limits the study's ability to represent Bangladesh's diverse economic landscape.

7.2.2 Stakeholder Scope

The study focused exclusively on two stakeholder groups—**auditors** and **investors**—as they are the primary providers and users of audit services. However, several other groups engage with audit reports and may contribute to or be affected by the AEG, including:

- **Regulators** (e.g., Bangladesh Securities and Exchange Commission, BSEC; Financial Reporting Council, FRC)
- **Company directors and managers**, who prepare financial statements and interact with auditors
- **Lenders and creditors**, who rely on audit reports for credit decisions
- **Financial analysts and the media**, who interpret and disseminate audit information
- **Academicians and students**, who shape and are shaped by audit education

Implications:

- **Incomplete Perspective**: Excluding these groups limits the study's ability to provide a holistic view of the AEG. For instance, regulators' expectations of audit quality or managers' understanding of audit scope could reveal additional dimensions of the gap.
- **Missed Interactions**: The AEG is a systemic issue influenced by interactions among multiple stakeholders. For example, media sensationalism of audit failures (e.g., Evaly scandal) may amplify investor misconceptions, a dynamic not explored in this study.
- **Policy Relevance**: Recommendations targeting regulators or educators may lack depth without direct data on their perceptions, reducing the study's ability to address all facets of the AEG ecosystem.

Context: The focus on auditors and investors was deliberate, as they represent the core relationship in the AEG. However, practical constraints, such as access to diverse stakeholders and the need for a manageable sample size, restricted the inclusion of additional groups.

7.2.3 Self-Reporting and Response Bias

The study relied on **self-administered questionnaires**, which, despite being structured and pre-tested, are susceptible to several biases:

- **Social Desirability Bias**: Auditors may have overstated their adherence to professional standards or understated their role in public misunderstandings to portray their profession favorably. Similarly, investors may have provided responses they believed were "correct" rather than their true perceptions.
- **Misinterpretation of Questions**: Despite efforts to simplify language and offer bilingual (English and Bengali) questionnaires, some respondents may have misunderstood Likert

scale statements, particularly those with limited financial literacy or unfamiliarity with audit terminology.
- **Non-Verifiable Responses**: The study did not analyze secondary data (e.g., actual audit reports, corporate financial statements, or media coverage) to validate respondents' perceptions, relying solely on their self-reported views.

Implications:

- **Potential Inaccuracy**: Biases may have skewed the results, either exaggerating or understating the AEG. For example, auditors' conservative responses (mean scores 2.98–3.45) may reflect a defensive stance rather than their true beliefs.
- **Limited Depth**: Self-reported data lacks the richness of objective evidence, such as discrepancies in audit reports or investor behavior, which could provide a more nuanced understanding of the AEG.
- **Reliability Concerns**: While the questionnaire's reliability was confirmed (Cronbach's Alpha = 0.802), the accuracy of individual responses cannot be independently verified, potentially affecting the robustness of the findings.

Context: Self-administered questionnaires were chosen for their efficiency and ability to quantify perceptions across a standardized scale. However, the reliance on self-reporting is a common limitation in perception-based studies, particularly in contexts like Bangladesh, where cultural norms may encourage socially desirable responses.

7.2.4 Absence of Qualitative Insights

The study adopted a **quantitative approach**, using descriptive statistics (mean, standard deviation) and inferential statistics (Mann-Whitney U Test) to measure and compare perceptions. While this approach ensured statistical rigor, it did not incorporate qualitative methods, such as **in-depth interviews**, **focus groups**, or **content analysis** of audit reports or media coverage.

Implications:

- **Lack of Contextual Depth**: Quantitative data provides a snapshot of perception gaps but cannot capture the emotional, cognitive, or cultural factors driving these gaps. For example, investors' frustration with audit failures or auditors' challenges in communicating scope limitations could reveal underlying motivations not evident in Likert scale responses.
- **Missed Narratives**: Qualitative methods could have provided rich stories or case studies (e.g., stakeholder reactions to the Evaly scandal) to illustrate how the AEG manifests in real-world scenarios.
- **Limited Exploration of Influences**: The study identifies causes like media influence and low financial literacy but does not explore their mechanisms (e.g., how specific news articles shape investor expectations), which qualitative data could elucidate.

Context: The quantitative focus was driven by the study's objective to provide empirical, statistically significant evidence of the AEG. Qualitative methods were excluded due to time

constraints and the complexity of analyzing narrative data with a small research team. However, this limits the study's ability to offer a holistic understanding of the AEG.

7.3 Directions for Future Research

The limitations outlined above provide a roadmap for future research to build on this study's findings and address unanswered questions about the AEG in Bangladesh and beyond. The following directions are proposed, each tailored to overcome specific limitations and advance academic and practical knowledge:

7.3.1 Sector-Specific Audit Expectation Gap

Research Focus: Investigate whether the AEG varies across different sectors, such as **banking**, **manufacturing**, **non-governmental organizations (NGOs)**, **textiles**, or **technology**. Each sector has unique financial risks, regulatory requirements, and stakeholder expectations, which may influence the nature and magnitude of the AEG.

Rationale: For example, the banking sector in Bangladesh faces heightened scrutiny due to loan scandals (e.g., Hallmark Group), potentially leading to greater investor expectations of auditors' fraud detection roles. In contrast, NGOs may prioritize internal control assessments due to donor requirements. Understanding sector-specific gaps can inform tailored regulatory and communication strategies.

Methodology: Conduct surveys or interviews with stakeholders in specific sectors, supplemented by case studies of audit practices in those industries. Use statistical tests to compare AEG dimensions (e.g., fraud detection, going concern) across sectors.

7.3.2 Role of Financial Media and Analysts

Research Focus: Assess how **financial journalism**, **social media**, and **financial analysts** shape public understanding or misunderstanding of audit functions. Media coverage of corporate scandals often portrays auditors as responsible for undetected fraud, amplifying the AEG.

Rationale: In Bangladesh, media outlets and social media platforms (e.g., Facebook, Twitter) play a significant role in shaping investor perceptions, particularly during high-profile scandals like Evaly or Destiny Group. Understanding these influences can guide strategies to counter misinformation and educate the public.

Methodology: Perform **content analysis** of news articles, social media posts, and analyst reports to identify recurring themes about auditors' roles. Supplement with surveys or interviews to gauge how media exposure affects stakeholder expectations.

7.3.3 Longitudinal Studies

Research Focus: Conduct **longitudinal studies** to evaluate how regulatory reforms, educational initiatives, or changes in audit practices impact the AEG over time. For example, assess whether introducing Key Audit Matters (KAMs, ISA 701) or investor education campaigns reduces perception gaps.

Rationale: The current study provides a snapshot of the AEG in 2025, but stakeholder perceptions may evolve with interventions like plain-language audit summaries or financial literacy programs. Longitudinal data can reveal the effectiveness of these measures and identify persistent challenges.

Methodology: Replicate the current study's methodology (questionnaires, Mann-Whitney U Test) at regular intervals (e.g., every 2–3 years) to track changes in perception scores. Use mixed methods to capture qualitative feedback on reform impacts.

7.3.4 Cross-Country Comparative Research

Research Focus: Compare the AEG in Bangladesh with other **South Asian** or **developing economies** (e.g., India, Nepal, Sri Lanka, Pakistan, or Nigeria) to identify regional trends, common drivers, and context-specific solutions.

Rationale: Developing economies often share challenges like low financial literacy, weak corporate governance, and reactive regulation, but differences in regulatory frameworks or cultural attitudes may lead to variations in the AEG. Comparative research can inform regional policy harmonization and best practices.

Methodology: Conduct parallel surveys in multiple countries, using a standardized questionnaire to ensure comparability. Analyze differences in AEG dimensions using statistical tests (e.g., ANOVA for multiple groups) and qualitative interviews to explore cultural and regulatory influences.

7.3.5 Qualitative Case Studies

Research Focus: Use **qualitative case studies** to explore the AEG in the context of real-world audit failures or corporate scandals (e.g., Evaly, Hallmark). Analyze stakeholder narratives, audit reports, courtroom testimony, or regulatory responses to understand the gap's implications.

Rationale: Case studies can provide in-depth insights into how the AEG manifests during crises, revealing emotional, social, and institutional factors not captured by quantitative data. For example, interviews with investors affected by the Evaly collapse could highlight specific misconceptions about auditors' roles.

Methodology: Select 2–3 high-profile cases and conduct **semi-structured interviews** with auditors, investors, regulators, and media representatives involved. Perform **thematic analysis** of interview transcripts and secondary data (e.g., audit reports, news articles) to identify AEG-related themes.

7.3.6 Impact of Educational Interventions

Research Focus: Evaluate the effectiveness of **investor education programs** or **audit communication training** in reducing the AEG. For instance, test whether seminars on audit limitations or plain-language audit summaries align investor expectations with auditing standards.

Rationale: The current study identifies low financial literacy as a key driver of the AEG, but it does not assess whether educational interventions can mitigate this issue. Such research could validate the recommendations in Chapter 5 and guide policy implementation.

Methodology: Implement a pilot education program (e.g., workshops for investors or communication training for auditors) and use a **pre-post experimental design** to measure changes in perception scores. Combine surveys with focus groups to capture qualitative feedback on intervention impacts.

7.4 Summary

This study provides valuable insights into the Audit Expectation Gap in Bangladesh, confirming significant perception gaps between auditors and investors and offering actionable recommendations to address them. However, its findings are shaped by limitations related to **sample size**, **geographic focus**, **stakeholder scope**, **self-reporting biases**, and the **absence of qualitative insights**. These constraints, driven by practical and methodological considerations, do not diminish the study's contributions but rather highlight opportunities for deeper and broader investigations.

The proposed directions for future research—ranging from sector-specific analyses and media influence studies to longitudinal and comparative research—offer a roadmap for advancing understanding of the AEG. By addressing these limitations, future studies can provide a more comprehensive, nuanced, and globally relevant perspective on the AEG, supporting efforts to enhance audit transparency, investor trust, and financial stability in Bangladesh and beyond. This chapter underscores the iterative nature of research, where limitations serve as stepping stones for innovation and progress in tackling complex issues like the AEG.

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APPENDICES

Appendix A: Survey Questionnaire

Title: *Survey on Audit Expectation Gap in Bangladesh*

Section A – Demographic Information

1. Profession:
   ☐ Auditor ☐ Investor
2. Age:
   ☐ Below 30 ☐ 30–40 ☐ 41–50 ☐ 51+
3. Years of Professional Experience:
   ☐ 0–5 ☐ 6–10 ☐ 11–15 ☐ 16+
4. Education Level:
   ☐ Graduate ☐ Postgraduate ☐ Professional (CA, ACCA, etc.)
5. Location:
   ☐ Dhaka ☐ Chattogram ☐ Others

Section B – Perception Statements

Please indicate your level of agreement with the following statements: (1 = Strongly Disagree, 5 = Strongly Agree)

Statement	**1 2 3 4 5**
1. Auditors are responsible for detecting all types of fraud.	
2. A clean audit opinion guarantees a company is financially sound.	
3. Auditors evaluate and ensure the effectiveness of internal control systems.	
4. Audit reports are easy to understand by non-professional users.	
5. Auditors should inform the public if a company is likely to collapse.	
6. The public holds realistic expectations about auditors' responsibilities.	
7. The current audit report format clearly communicates the auditor's actual role.	

Appendix B: Descriptive Statistics Summary

Dimension	**Group**	**Mean**	**Std. Dev.**
Fraud Detection	Auditors	3.01	0.54
	Investors	4.20	0.65

Dimension	Group	Mean	Std. Dev.
Going Concern	Auditors	3.10	0.47
	Investors	4.05	0.58
Internal Control	Auditors	2.98	0.61
	Investors	4.12	0.71
Audit Report Clarity	Auditors	3.45	0.50
	Investors	4.22	0.68

Appendix C: Mann-Whitney U Test Output

Test Item	U-Value	Z-Score	p-Value	Result
Fraud Detection	185.0	-4.267	0.000	Significant (1%)
Going Concern	211.0	-3.789	0.000	Significant (1%)
Internal Control	195.0	-4.100	0.000	Significant (1%)
Audit Report Interpretation	232.0	-3.432	0.001	Significant (1%)