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# Auditors' responsibility for fraud detection: Views of auditors, preparers, and users of financial statements in Saudi Arabia

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A B S T R A C T

The purpose of this study is to explore the views of independent external auditors, financial statements' preparers and financial statements' users regarding the general responsibilities of auditors with a focus on their responsibility for fraud detection. A structured questionnaire survey was used as an instrument to collect data for this purpose. A total of 1,015 questionnaires were sent to three categories of respondents whereas 261 valid responses were received with an overall response rate of 26%. The findings of this study revealed a substantial audit expectation gap in Saudi Arabia with regards to auditors' responsibilities in general and their responsibility for fraud detection in particular. Preparers of financial statements and users as well assume that auditors provide an absolute assurance that audited financial statements are free from material misstatements including fraud. In contrast to auditors' perception, preparers and users of financial statements believe that auditors should be made liable to audit beneficiaries for losses if failed to disclose potential fraud in the audit report or for any subsequent discovery of misstated audited financial statements. This study contributes to the audit profession in Saudi Arabia by highlighting the presence of a serious expectation gap that may adversely affect the value of audit function and the reputation of auditors in Saudi Arabia. The implications of these findings should motivate professional bodies and other interested parties to cooperate and work closely to reduce the gap and find a convergence between auditors and audit beneficiaries about the role and responsibilities of auditors.



## 1. Introduction

The financial markets' crises of corporate fraud have been accelerating in the last two decades. The perpetrated fraud was the main cause of large companies to fail such as Enron and WorldCom in the United States of America (USA), Barings Bank and Equitable Life in the United Kingdom (UK), Parmalat in Italy, HIH in Australia, and Satyam in India (Porter, Ó hÓgartaigh, & Baskerville, 2012). The collapse of one company such as Enron has caused the capital market to lose USD 70 billion (Huang, Lin, Chiu, & Yen, 2017). Fraudulent financial reporting is detrimental to businesses' reputation and has a negative impact on their market value (Hogan, Rezaee, Riley Jr, & Velury, 2008). The major risk of audit profession arises from the claim of professional negligence by third parties against auditors when auditees go bankrupts. The auditor may be sued for not detecting fraud and drawing the attention of investors to the business failure early enough to take possible preventive actions. Litigations against auditors for professional negligence are a result of the attitudes of the stakeholders that the auditor is not performing

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according to the auditing standards and other enforced laws and regulations (Noghondari & Foong, 2013). This premise of deficient performance could be true. However, there could be other possible reasons for claimed deficiency of auditors when auditors are in reality exerting the professional due care and performing according to the promulgated professional standards. The other possible reason for claimed deficiency could be attributed to the deficient standards that do not meet the needs of investors and other financial statements' users (Porter, 1993). Furthermore, the claimed deficiency could be also a result of the ignorance of given stakeholders whom can have unreasonable expectations leading them to misunderstand auditors' responsibilities and demand unreasonable level of assurance (McEnroe & Martens, 2001; Monroe & Woodliff, 1994; Porter, 1993; Sikka, Puxty, Willmott, & Cooper, 1998).

The performance gap has been addressed by auditing standards that provide comprehensive rules for fraud risk assessment and how auditors should respond to a given level of risk. Besides, each country's legislation, quality control procedures, peer reviews, and the oversight of governments and professional bodies have bridged an important portion of the performance expectation gap. This paper is addressing the reasonableness gap concerning auditors' responsibilities for fraud detection in Saudi Arabia. This study aims to explore the perception of auditors about their responsibilities compared to the perception of managers, accountants, and financial statements' users about the role and general responsibilities of auditors with more focus on auditors' responsibility for fraud detection. There is one study that has explored the audit expectation gap in the Saudi Arabia context i.e. (Haniffa & Hudaib, 2007). However, this study relates to the period before 2007, and the applicability of the results and inferences to later periods may not be applicable as there have been major changes in audit regulations recently in Saudi Arabia. The major change with relation to audit profession in Saudi Arabia was the adoption of International Standards on Auditing (ISA) by the Saudi Organization of Certified Public Accountants (SOCPA) - the professional body of accounting and auditing in Saudi Arabia. More importantly, previous studies on the audit expectation gap in various countries including the previously mentioned study of Haniffa and Hudaib (2007), have focused on the gap between auditors and users of financial statements. Less attention has been paid to the difference between auditors and accountants who are assumed to go through the same educational system.

The remainder of this paper is organized as follows: The next section reviews the literature on fraud, auditors' responsibilities in relation to fraud, and the audit expectation gap reported worldwide. The research methodology section illustrates instrument design, sample and data collection methods, and statistical analysis used. Then, results are presented and findings are discussed. The last section concludes the results of this study.

## 2. Literature Review

Research conducted in many developed and developing countries revealed the prevalence of audit reasonableness expectation gap regardless of the level of economic development, culture, and educational systems. For instances; in United States (Anderson, Maletta, & Wright, 1998; Frank, Jordan Lowe, & Smith, 2001; Jennings, Reckers, & Kneer, 1991), United Kingdom (Dewing & Russell, 2002; Christopher Humphrey, Moizer, & Turley, 1992; Christopher Humphrey, Moizer, & Turley, 1993; Manson & Zaman, 2001), Portugal (Enes, de Almeida, da Silva, Carvalho, & Simões, 2016), Australia (Monroe & Woodliff, 1993, 1994; Schelluch & Gay, 2006), New Zealand (Porter et al., 2012), Singapore (Best, Buckby, & Tan, 2001; Chye Koh & Woo, 1998), China (Lin & Chen, 2004), Turkey (Köse & Erdogan, 2015), Malaysia (Azham, Ali, Teck Heang, Mohamad, & Ojo, 2008; Kasim & Hanafi, 2008; Md Ali, Lee, & Gloeck, 2009; Noghondari & Foong, 2013), Egypt (Dixon, Woodhead, & Sohliman, 2006), Nigeria (Adeyemi & Uadiale, 2011; Onulaka, 2014), Lebanon (Munir Sidani, 2007), Pakistan (Devi & Devi, 2014), and Bangladesh (Chowdhury, Innes, & Kouhy, 2005).

Empirical research on the reasonableness expectation gap not only proved the existence of the gap but highlighted in which areas the gap is more prevalent. AEG is an economic, social and cultural context phenomenon (Christopher Humphrey et al., 1992), which implies that the widest areas of AEG are expected to be different from one country to another. However, most of the research found the area of auditors' responsibility for fraud detection and prevention to be among the widest gaps. Hence, the responsibility of auditors for fraud detection is the most common and controversial issue in auditing between auditors and audit beneficiaries. Lin and Chen (2004) in their research on the audit expectation gap in China concluded that the gap is prevailed in the areas of audit objective, fraud detection and prevention, auditor's liability to third parties, and independence. Dixon et al. (2006) found the AEG in Egypt to be wide in the areas of responsibility of auditors for fraud prevention, accounting records maintenance, and selection of the appropriate audit procedures. Best et al. (2001) examined the level and nature of AEG in Singapore. Their results revealed that the wider expectation gap is found to be in the areas of auditors' responsibilities for fraud detection and the proper selection of auditing procedures. Similarly, Pourheydari and Abousaiedi (2011) found the AEG in Iran to be in the areas of auditors' responsibilities for fraud detection, responsibility for financial statements' preparation, and the effectiveness of internal control. Consentient with these studies findings, Fadzly and Ahmad (2004) confirmed that the wider gap in Malaysia has been noticed in the areas of auditors' responsibility for fraud prevention and detection, the party responsible for financial statements' preparation, accounting records keeping, and sound internal control maintaining. A significant gap also found in the area of auditors' legal responsibility and liability towards third parties for fraud-related business failure.

Researchers have attempted to identify the factors that are contributing to the existence of the audit expectation gap in order to find the possible means of closing or narrowing the gap. Early research in this area has attributed the societies' poor understanding of the auditor duties and responsibilities to the complications of the audit function e.g. (Baron, Johnson, Searfoss, & Smith, 1977; Campbell & Michenzi, 1987). Teck Lee and Azham (2008) as cited by (Teck Lee, Ali, & Bien, 2009) pointed out that the complexity of audit function could be explained by the dynamic nature of the audit and the influence of environmental and economic factors over the audit profession. The economic changes, the collapse of large multinational companies, the technological developments are all example of influential factors that force audit profession to change. Moreover, the unreasonable expectations by the stakeholders of the auditors' responsibilities are expected due to the subjective and immeasurable nature of audit concepts such as material misstatements, reasonable assurance; and true and fair view which is not explained within the audit report to facilitate better understanding by audit report users (Christopher Humphrey, 1997). Taking to account the complexity of audit function, lack of understanding and ambiguity of the auditor's role is expected from those who lack knowledge of audit standards and hardly exposed to audit profession (Teck Lee et al., 2009). Almer and Brody (2002) considered in their study, the impact of ambiguous language of auditors' communication with clients and audit report's users on the expectation gap. They have made an experiment to examine and contrast the understanding of auditors against the understanding of bankers regarding the phrase "substantial doubts" in audit reports that contain a going concern paragraph. They have found a significant difference in the understanding of auditors and bankers regarding the statement of "substantial doubt" which denotes the role of ambiguous communication in creating the expectation gap.

According to Fulop, Tiron-Tudor, and Cordos (2019) reasonableness gap is the most difficult part of the audit expectation gap to be reduced as it is related to the beliefs and perceptions of various groups of stakeholders. The standard deficiency gap can be reduced by improving standards to meet the reasonable expectations and fulfill the need of financial statements' users. The performance deficiency gap also can be reduced in many ways such as peer reviews and monitoring the performance of auditors by authorities and professional bodies. However, it is far from possible to control the perceptions and views of several classes of financial statements' users and various groups of society. Almer and Brody (2002) Pointed out that, the auditor may act professionally according to auditing standards, yet is accused of negligence of not detecting fraud and protecting the interests of stakeholders. Sikka et al. (1998) studied the audit expectation gap in the social, political and historical context and concluded that the gap cannot be eliminated.

Researchers attempted to find possible solutions to narrow the gap of perceptions on the auditors' responsibility for fraud detections and emphasized the role of education (De Muylder, Hardies, & Breesch, 2012; Fulop et al., 2019; Kumari, Ajward, & Dissabandara, 2017; Rehana, 2010; Siddiqui, Nasreen, & Choudhury-Lema, 2009), introducing new auditing standards (Christopher Humphrey et al., 1993; Salehi, 2011), monitoring auditors' performance (Porter et al., 2012), and the expansions of auditors' responsibility (Teck Lee et al., 2009). Researchers have identified many other factors and suggested several actions to reduce the gap, yet the most recent research on the audit expectations have confirmed the prevalence of the gap in all countries in which those studies were conducted. Research that has explored the perception of graduate students with accounting and auditing background confirmed the existence of the gap among the students' groups. It is therefore unlikely for other groups of financial statements' users and other stakeholders to understand the duties of auditors and acquire reasonable expectations of their responsibilities (Fulop et al., 2019).

Nevertheless, efforts of researchers, practitioners, and regulators should be continued to reduce the gap if it is not possible to close it. The most promulgated factor by research for its important role in reducing the gap is education. Masoud (2017) argued that education is the most powerful mean in reducing the gap. His study examined the impact of introducing one module of auditing on the understanding of the students who had undergone this experiment and found that the perception of those students of the auditors' role and responsibilities have changed significantly.

## 3. Research Methodology

### *3.1 Instrument design*

This study employed an online survey method for data collection. The survey method of collecting data is the most appropriate method for research which seeks to gather information on views, perceptions, attitudes, and opinions (Smith, Haji Omar, Iskandar Zulkarnain Sayd Idris, & Baharuddin, 2005). According to Smith et al. (2005), the most widely used method in auditing research is the mail questionnaire. This technique of data collection encourages frankness and keep confidentially to allow more objective answers from the respondents. Recently, online surveys are being used by researchers to collect data e.g. (Kassem, 2018). Several popular online software packages have been utilized for structuring the questionnaires, disseminating them to intended respondents, and receiving the filled up responses electronically. For instance, Gonthier-Besacier, Hottegindre, and Fine-Falcy (2016) used SurveyMonkey software to send their questionnaire to auditors and financial statements' preparers in France to collect data on audit quality perceptions.

The questionnaire in the current study used a closed-question design. The purpose of this type of design is to enhance the clarity of the questions and encourage respondents to provide objective answers. Closed questions facilitate the answers of respondents and save their time spent in answering the survey. Hence, this type of questions increases the probability of obtaining more responses from the selected sample of each group of respondents.

Each question contains a differential belief statement that aimed to measure the perception of each group of participants namely; auditors, financial statements' preparers, and financial statements users about audit objectives, auditors' responsibilities and liabilities, and level of assurance provided by auditors to financial statements' users. These statements were adopted from studies that have focused on fraud detection and prevention, auditors' responsibility for fraud detection, and mainly on the audit expectation gap e.g. Best et al. (2001), Bierstaker, Brody, and Pacini (2006), Lin and Chen (2004), Noghondari and Foong (2013), (Kassem, 2018), (Ruhnke & Schmidt, 2014), and (Alleyne & Howard, 2005). All differential belief statements have been measured using a seven-point Likert scale ranging from "strongly disagree" to "strongly agree" where "1 = strongly disagree; 7 = strongly agree". The respondents were asked to choose a number from the scale which identifies the level of his or her agreement or disagreement with each statement. The first section of the questionnaire covered the profile of the respondents and the audit firm/business company he or she is working for. Three identical sets of the questionnaire were prepared except for the demographic section. As the profile of auditors and audit firms are normally different than the profile of other participants and their companies with regards to their job titles and the nature of business activities, each set of the questionnaire contained specific demographic information that is suitable for the targeted group. Other than the demographic section, all sets of the questionnaire that were sent to auditors, preparers, and users have included the same 15 statements that were divided into five sections. The first section covers audit importance and overall audit objective. Using three questions (statements), respondents were asked to state their level of agreement about the importance of audit to business, the reliability of audited financial statements and the overall objective of the audit. In the second section, respondents were asked to state their level of agreement about four statements regarding auditors' general responsibilities. Respondents were asked whether they agree that the auditor should prepare the client's financial statements, guarantee their accuracy and compliance with tax low in addition to the absence of any intentional or unintentional material misstatements from the audited financial statements. Third section covers auditors' responsibility in relation to fraud. This section used fours statements to find out each group perception about the auditors' responsibility for detecting and reporting fraud. The fourth section contains three statements that aimed to measure the respondents' opinions on the liability of auditors to third parties for the consequences of undetected or unreported fraud. The fifth and last section seeks the participants' perception on the level of assurance provided by audited financial statements.

### *3.2 Sample and Data Collection*

The questionnaire was sent to each group using different means. Auditors' set of the questionnaire was sent to all audit firms and audit offices registered with the Saudi Organization for Certified Public Accountants (SOCPA), the professional body of Saudi Arabia. Emails of audit firms and offices were obtained from the website of SOCPA. 189 audit firms and offices were emailed the auditor version of the questionnaire. The covering letter of the email has asked the email recipient to forward the email and disseminate the questionnaire to partners, audit managers, senior auditors and auditors in each firm/office. In addition, personal emails of audit partners and audit managers were obtained from each audit firm's website and then, an email containing the questionnaire was sent to each audit partner and audit manager. Moreover, the researcher has reached some audit offices personally to secure enough numbers of responses and used his personal communications through phone calls to encourage auditors to respond to the questionnaire. The total number of emails sent and questionnaire distributed was 280 while the number of responses received was 88 with a response rate of 31%. Similar procedures were followed for sending the questionnaire to other groups. 315 questionnaires were sent through emails to financial managers, accountants, and internal auditors. These three groups represent the financial statements' preparers category of respondents as they are all responsible for handling, controlling and reviewing the financial information in each company and ultimately preparing the financial statements. 83 responses were received from the preparers category of respondents with a 26% response rate. Financial analysts, managers, and employees occupying other administrative or engineering jobs were chosen as representatives for financial statements' users. 420 questionnaires were sent to this category of respondents through emails and personal attendance of the researcher. 90 responses were obtained from users' category with a 21% response rate.

### *3.3 Analytical Method*

One-way between-groups Analysis of Variance (ANOVA) was used to find out any significant variance in the perception of auditors, preparers, and users about each statement included in the questionnaire. For more confidence, the equivalent Nonparametric test (Kruskal-Wallis) was run and its results were compared to ANOVA test results. The comparison of ANOVA and Kruskal-Wallis tests showed no differences in the results of both as the output of the two tests were identical. To find out where the significant difference lies, a Post Hoc analysis was used to determine the variance between each pair of respondents' categories. This test presents the significant differences between auditors and preparers; auditors and users; and finally between preparers and users of financial statements.

## 4. Results

Tables 1-10 measure the level and nature of variances between auditors, financial statements' preparers, and financial statements' users' perceptions regarding auditors' objectives, general responsibilities, fraud detection responsibilities, liability to third parties, and level of assurance. Information presented in the aforementioned tables includes details of the mean responses for each respondents' category and any significant differences between all categories provided by ANOVA test results. Furthermore, they illustrate the mean differences and level of significance between each category and another which have been provided by Tukey Post Hoc Analysis.

### *4.1 Audit Importance and Overall Objective*

Table 1 provides details of the results of the mean responses concerning three statements associated with audit importance and the overall objective of the audit. In this table, an agreement is found between auditors, preparers, and users with regards to the importance and outcomes of the audit. As indicated by the mean responses to the first statement by auditor, preparers, and users that were 6.35, 6.33 and 6.49 respectively, with no significant difference, the three categories believe that all business entities must be audited by an independent external auditor to ensure truthfulness and reliability of accounting information. Responses to statement 2 indicate that there are different levels of agreement about reliability and objectivity of information provided by audited financial statements when compared to unaudited financial statements. ANOVA result indicates a significant difference at 0.10 level (F = 2.806, $p < .10$). Post Hoc analysis result presented in table 2 locates the difference between each category and another. It shows that while there is an agreement between preparers and users regarding the level of reliability and objectivity of information provided by audited financial statements, there is a significant difference at ($P <.05$) level between auditors and preparers. It seems that auditors place more importance on their work as they believe that after being audited, financial statements provide more reliable and objective information. However, preparers may place more importance on their work of preparing the financial statements. They believe that once financial statements are prepared by them, reliability and objectivity of information is there. From their point of view, auditing will not increase the reliability and objectivity of financial statements as they are already reliable and objective. It must be noticed that the majority of preparers still appreciate the work of auditors that increase the reliability and objectivity of financial statements' information indicated by the mean score of 6.27. The significant difference between preparers and auditors in this regards has resulted from the higher level of importance which auditors place to audit when compared to preparers although both means response of auditors (6.6) and preparers (6.27) reflect high agreement on the role of audit in enhancing the reliability and objectivity of financial statements' information. Despite the high agreement of the three categories of respondents about the importance of audit for businesses and the reliability of audited financial statements compared to unaudited financial statements, a significant difference was detected in the perceptions of respondents' categories concerning the overall objective of auditors. The significant difference between auditors, preparers, and users regarding the overall objective of auditors is indicated by ANOVA result of responses on statement 3. When respondents were asked to state their level of agreement or disagreement on statement 3 "The overall objective of the auditor is to express an opinion on whether the financial statements are presented fairly, in all material respect", the mean responses presented in table 1 were 6.95, 6.35, and 6 for auditors, preparers, and users respectively. It appears that there is an agreement between the three categories of respondents that auditor's objective is to provide opinion on the fairness of financial statements. However, that level of agreement is significantly different between categories of respondents at ($p < 0.01$) level.

**Table 1**
Analysis of variance – Audit Importance and Overall Objective

| Statement | Mean Score | | | ANOVA (Between Groups) | |
|---|---|---|---|---|---|
| | *Auditors (n = 88)* | *Preparers (n = 83)* | *Users (n = 90)* | *F -value* | *p -value* |
| 1. All business entities must be audited by CPAs (independent external auditors) to ensure truthfulness and reliability of accounting information | 6.35 | 6.33 | 6.49 | .447 | (.640) |
| 2. Audited financial statements provide more reliable and objective information for decision making compared to unaudited financial statements | 6.6 | 6.27 | 6.43 | 2.806 | (.062)* |
| 3. The overall objective of the auditor is to express an opinion on whether the financial statements are presented fairly, in all material respect | 6.59 | 6.35 | 6 | 5.392 | (.005)*** |

The significance levels are indicated as: *significant at the 0.10 level; **significant at the 0.05 level; and ***significant at the 0.01 level.

Looking at the Post Hoc analysis demonstrated in table 2, an audit expectation gap was detected between auditors and users of financial statements whereas no significant difference in the perception of auditors and preparers about the overall objective of auditors. The agreement of auditors and preparers of financial statements on the objective of auditors is attributed to their accounting related education. However, users of financial statements lack sufficient knowledge of auditing and the requirements of auditing standards due to their non-accounting education. Accordingly, users may expect more from auditors, not merely expressing an opinion on the fairness of financial statements. These expectations of users will be more expressed in their responses to the other statements of the questionnaire that will be discussed in the next sections.

**Table 2**

Post Hoc Tests (Multiple Comparisons) - Audit Importance and Overall Objective

| Statement | | (I) Category of Respondent | (J) Category of Respondent | Mean Difference (I-J) | Std. Error | Sig. |
|---|---|---|---|---|---|---|
| 1. | All business entities must be audited by CPAs (independent external auditors) to ensure truthfulness and reliability of accounting information | *Auditors* | *Preparers* | .027 | .188 | .989 |
| | | | *Users* | -.137 | .185 | .740 |
| | | *Preparers* | *Auditors* | -.027 | .188 | .989 |
| | | | *Users* | -.164 | .187 | .658 |
| 2. | Audited financial statements provide more reliable and objective information for decision making compared to unaudited financial statements | *Auditors* | *Preparers* | .337** | .142 | .049 |
| | | | *Users* | .169 | .139 | .448 |
| | | *Preparers* | *Auditors* | -.337** | .142 | .049 |
| | | | *Users* | -.168 | .142 | .461 |
| 3. | The overall objective of the auditor is to express an opinion on whether the financial statements are presented fairly, in all material respect | *Auditors* | *Preparers* | .242 | .185 | .392 |
| | | | *Users* | .591*** | .181 | .004 |
| | | *Preparers* | *Auditors* | -.242 | .185 | .392 |
| | | | *Users* | .349 | .184 | .140 |

### *4.2 General Responsibilities of the Auditors*

Table 3 presents the mean responses and between groups variances for statements 4-7 related to the general responsibilities of auditors. It is obvious that an expectation gap does exist between auditors and both preparers and users of financial statements. Result of the responses to statement 4 shows that a considerable number of auditors (indicated by the mean response to statement 4 that is above average, 4.98) perceive that, their responsibilities should include a guarantee to users on the financial statements information accuracy. However, preparers and users have more expectations in this regard. Table 4 provides more analysis of the differences between each pair of groups. Post Hoc result for statement 4 showed that both preparers and users believe that auditors should guarantee the accuracy of financial statements' information. The expectation of preparers in this regard is significantly higher than auditors at ($P < .05$), whereas the expectation of users is significantly higher than auditors at ($p < .01$).

**Table 3**

Analysis of variance – The General Responsibilities of the Independent External Auditor

| Statement | | Mean Score | | | ANOVA (Between Groups) | |
|---|---|---|---|---|---|---|
| | | *Auditors (n = 88)* | *Preparers (n = 83)* | *Users (n = 90)* | *F -value* | *p -value* |
| 4. | Auditors should guarantee audited financial statements are accurate. | 4.98 | 5.77 | 6.32 | 13.158 | (.000)*** |
| 5. | Auditors should prepare auditee's financial statements. | 2.65 | 3.98 | 5.29 | 32.913 | (.000)*** |
| 6. | Auditors should ensure that audited financial statements comply with the tax law. | 5.48 | 6.19 | 6.34 | 7.800 | (.001)*** |
| 7. | Auditors should guarantee audited financial statements are free of intentional or unintentional material misstatements. | 4.56 | 5.95 | 6.12 | 17.884 | (.000)*** |

The significance levels are indicated as: *significant at the 0.10 level; **significant at the 0.05 level; and ***significant at the 0.01 level.

Responses to statement 5 revealed a wide expectation gap in Saudi Arabia about the responsibility of auditors for financial statements preparation (indicated by the mean responses of auditors (2.65), preparers (3.98), and users of financial statements (5.29)) with a significant difference between groups at ($P < .01$). Result of Post Hok Analysis on statement 5 that is presented in table 4 highlights that the significant difference in the views of auditors, preparers, and users regarding the responsibility of auditors for financial statements preparation do exist between each pair of respondents' categories. In other words, the variation of perception between auditors and preparers; auditors and users; and between preparers and users are all significant at ($P < .01$) level. Auditors believe they have no responsibility for the preparation of clients' financial statements, which is the sole responsibility of management. This view is corresponding with auditing standards, which place the whole responsibility of financial statements' preparation on management. On the other hand, preparers attribute some responsibility of financial statements' preparation to auditors, whilst users attribute a greater responsibility to auditors for this issue.

Expectation gap (indicated by the significant differences) was detected between auditors and each of the other respondents' categories (preparers and users) in relation to auditors' responsibility for ensuring the audited financial statements comply with tax law (statement 6) and guaranteeing audited financial statements are free from material misstatements (statement 7).

**Table 4**
Post Hoc Tests (Multiple Comparisons) - The General Responsibilities of the Independent External Auditor

| Statement | | *(I) Category of Respondent* | *(J) Category of Respondent* | *Mean Difference (I-J)* | *Std. Error* | *Sig.* |
|---|---|---|---|---|---|---|
| 4. | Auditors should guarantee that the audited financial statements are accurate. | *Auditors* | *Preparers* | -.794** | .269 | .010 |
| | | | *Users* | -1.345*** | .263 | .000 |
| | | *Preparers* | *Auditors* | .794** | .269 | .010 |
| | | | *Users* | -.551 | .267 | .100 |
| 5. | Auditors should prepare auditee's financial statements. | *Auditors* | *Preparers* | -1.328*** | .332 | .000 |
| | | | *Users* | -2.641*** | .326 | .000 |
| | | *Preparers* | *Auditors* | 1.328*** | .332 | .000 |
| | | | *Users* | -1.313*** | .330 | .000 |
| 6. | Auditors should ensure that audited financial statements comply with the tax law. | *Auditors* | *Preparers* | -.715*** | .238 | .008 |
| | | | *Users* | -.867*** | .233 | .001 |
| | | *Preparers* | *Auditors* | .715*** | .238 | .008 |
| | | | *Users* | -.152 | .237 | .798 |
| 7. | Auditors should guarantee that the audited financial statements are free of intentional or unintentional material misstatements. | *Auditors* | *Preparers* | -1.395*** | .291 | .000 |
| | | | *Users* | -1.565*** | .285 | .000 |
| | | *Preparers* | *Auditors* | 1.395*** | .291 | .000 |
| | | | *Users* | -.170 | .290 | .827 |

The results indicate that auditors believe that they have less responsibility of ensuring that financial statements comply with tax laws while preparers and users place more responsibilities on auditors in this regard. Moreover, auditors realize that despite audit procedures are designed to ensure that financial statements are free from intentional and unintentional material misstatements, the test basis nature of audit process refrain auditors from being much confident about their conclusion and giving guarantee to users that financial statements are error-free. From preparers and users' points of view, auditors should guarantee audited financial statements are free from intentional or unintentional material misstatements. Post Hok analysis presented in table 4 showed no significant differences between the views of preparers and users with regards to statements 6 and 7.

### *4.3 Auditors Responsibility in Relation to Fraud*

Statements 8 -11 have been designed to obtain the perception of respondents on the extent that auditors are responsible for detecting and reporting fraud. Mean responses of the three respondents' categories and significance of differences have been displayed in table 5 while the mean difference between each pair of respondents and the level of significance of that difference is displayed in table 6. Results provided by the two tables confirmed the existence of the greatest expectation gap between all categories indicated by the significant differences between each pair of respondents. Auditors (indicated by their mean response to statement 8, 3.35) believe they have limited responsibility to uncover fraud and report its discovery to the appropriate authority. Auditors understand that audit programs and procedures should be designed to uncover potential fraud. Due to the limitations of the audit process, the test basis of audit procedures, and the possible collusion of management and employees, auditors may not detect fraud even when they perform their duties according to the international standards on auditing requirements. From the preparers and user views, (indicated by the mean responses to statement 8, 5.05 and 5.69 respectively), auditors should be held responsible for detecting fraud and reporting it to the appropriate authority. Preparers of financial statements are assumed to share auditors the responsibility of fraud detection. However, in their responses, they attributed more of it to auditors with a significant difference at ($P < .01$) with what auditors assume of their responsibility, revealing a wide gap of expectations between auditors and preparers. Fraud is the mean concern of users and they think that auditors should be able to detect fraud. Otherwise, users place a lower value on auditors' work if they assume no responsibility for fraud detection.

Similarly, preparers and users assert that auditing standards should make auditors responsible for detecting and reporting fraud. The perception of auditors when compared to each category of the preparers and users is significantly different at ($P < .01$) level. Form the mean responses presented in table 5 and the results of Post Hok analysis in table 6, it can be noticed that users place more assertion in this regard than preparers do, with a significant difference at ($P < .01$). looking at the mean responses of auditors to statement 9 that is 3.4, it can be noticed also, with contrast to previous research in this field, some auditors believe that auditing standards should make auditors responsible for detecting and reporting frauds. Responses to statements 10 and 11 confirm the existence of a wide expectation gap between auditors and both, preparers and users (indicated by the significant difference). Consistent to what they assume of auditors' responsibility for fraud detection, preparers and users opine that auditors are primarily responsible for the truthfulness and reliability of financial statements and their responsibility in relation to fraud should be clearly indicated in the audit report. However, a considerable number of auditors (indicated by the mean response to statement 10 (4.27), agree that auditor's responsibility in relation to fraud should be clearly indicated in the audit report. Those auditors who are of this opinion may want to indicate their limited responsibility for fraud detection in the audit report in contrast to users of financial statements who believe that the full responsibility of auditors for fraud detection should be clearly indicated in the audit report.

**Table 5**

Analysis of variance – Auditors Responsibility in Relation to Fraud

| Statement | Mean Score | | | ANOVA (Between Groups) | |
|---|---|---|---|---|---|
| | *Auditors (n = 88)* | *Preparers (n = 83)* | *Users (n = 90)* | *F -value* | *p -value* |
| 8. It is the responsibility of the auditor to uncover fraud and report to appropriate authorities. | 3.35 | 5.05 | 5.69 | 30.887 | (.000)*** |
| 9. Auditing standards should make auditors responsible for detecting and reporting fraud. | 3.41 | 5 | 5.91 | 35.344 | (.000)*** |
| 10. The auditor's responsibility in relation to fraud should be clearly indicated in the audit report. | 4.27 | 5.07 | 5.97 | 14.571 | (.000)*** |
| 11. The auditor is primarily responsible for the truthfulness and reliability of financial statements. | 3.63 | 4.52 | 5.38 | 14.812 | (.000)*** |

The significance levels are indicated as: *significant at the 0.10 level; **significant at the 0.05 level; and ***significant at the 0.01 level.

**Table 6**

Post Hoc Tests (Multiple Comparisons) - Auditors Responsibility in Relation to Fraud

| Statement | *(I) Category of Respondent* | *(J) Category of Respondent* | *Mean Difference (I-J)* | *Std. Error* | *Sig.* |
|---|---|---|---|---|---|
| 8. It is the responsibility of the auditor to uncover fraud and report to appropriate authorities. | *Auditors* | *Preparers* | -1.696*** | .313 | .000 |
| | | *Users* | -2.337*** | .306 | .000 |
| | *Preparers* | *Auditors* | 1.696*** | .313 | .000 |
| | | *Users* | -.641 | .311 | .100 |
| 9. Auditing Standards should make auditors responsible for detecting and reporting fraud. | *Auditors* | *Preparers* | -1.591*** | .307 | .000 |
| | | *Users* | -2.502*** | .301 | .000 |
| | *Preparers* | *Auditors* | 1.591*** | .307 | .000 |
| | | *Users* | -.911*** | .305 | .009 |
| 10. The auditor's responsibility in relation to fraud should be clearly indicated in the audit report. | *Auditors* | *Preparers* | -.800** | .320 | .035 |
| | | *Users* | -1.694*** | .314 | .000 |
| | *Preparers* | *Auditors* | .800** | .320 | .035 |
| | | *Users* | -.894** | .319 | .015 |
| 11. The auditor is primarily responsible for the truthfulness and reliability of financial statements. | *Auditors* | *Preparers* | -.893** | .329 | .019 |
| | | *Users* | -1.753*** | .322 | .000 |
| | *Preparers* | *Auditors* | .893** | .329 | .019 |
| | | *Users* | -.860** | .327 | .024 |

### *4.4 Liability to Third Parties*

Tables 7 and 8 demonstrate the responses of auditors, preparers and users to statements 12-14 associated with auditors' liability to third parties for any consequences of undetected fraud. The results of the two tables confirm the existence of a wide expectation gap in Saudi Arabia with relation to auditors' responsibility for fraud detection.

While auditors assume little or no responsibility for undetected fraud or subsequent discovery of misstated audited financial statements, preparers and users on the contrary place more responsibility on auditors. They believe that auditors should be made liable to any affected party for any losses that are resulted from the subsequent discovery of fraud or any misstatement in the audited financial statements in which auditors failed to report to the appropriate authority. No significant difference was detected between preparers and users for assumed liability of auditors for undetected fraud. However, users appear to assume more liability of auditors for unreported misstatement with a significant difference compared to preparers at ($P < .05$) level.

**Table 7**
Analysis of variance – Liability to Third Parties

| Statement | Mean Score | | | ANOVA (Between Groups) | |
|---|---|---|---|---|---|
| | *Auditors (n = 88)* | *Preparers (n = 83)* | *Users (n = 90)* | *F -value* | *p -value* |
| 12. Auditing standards should make auditors legally liable for subsequent discovery of misstated audited financial statements. | 3.42 | 4.83 | 5.58 | 26.029 | (.000)*** |
| 13. The auditor is responsible if the company goes bankrupt due to fraud. | 2.85 | 4.47 | 5.04 | 26.375 | (.000)*** |
| 14. Auditors are liable for losses of interested parties if failed to disclose potential fraud in the audit report. | 2.53 | 4.2 | 4.8 | 30.811 | (.000)*** |

The significance levels are indicated as: *significant at the 0.10 level; **significant at the 0.05 level; and ***significant at the 0.01 level.

**Table 8**
Post Hoc Tests (Multiple Comparisons) - Liability to Third Parties

| Statement | *(I) Category of Respondent* | *(J) Category of Respondent* | *Mean Difference (I-J)* | *Std. Error* | *Sig.* |
|---|---|---|---|---|---|
| 12. Auditing Standards should make auditors legally liable for subsequent discovery of misstated financial statements. | *Auditors* | *Preparers* | -1.411*** | .309 | .000 |
| | | *Users* | -2.157*** | .303 | .000 |
| | *Preparers* | *Auditors* | 1.411*** | .309 | .000 |
| | | *Users* | -.746** | .308 | .042 |
| 13. An auditor is responsible if the company goes bankrupt due to fraud. | *Auditors* | *Preparers* | -1.618*** | .318 | .000 |
| | | *Users* | -2.192*** | .312 | .000 |
| | *Preparers* | *Auditors* | 1.618*** | .318 | .000 |
| | | *Users* | -.575 | .317 | .167 |
| 14. Auditors are liable for losses of interested parties if failed to disclose potential fraud in the audit report. | *Auditors* | *Preparers* | -1.671*** | .305 | .000 |
| | | *Users* | -2.266*** | .298 | .000 |
| | *Preparers* | *Auditors* | 1.671*** | .305 | .000 |
| | | *Users* | -.595 | .303 | .123 |

### *4.5 Level of Assurance*

Auditors state it clearly in audit reports that according to auditing standards, they provide only reasonable rather than absolute assurance. Yet, results presented in tables 9 and 10 showed that the majority of preparers and users expect an absolute assurance (100%) from auditors that, audited financial statements contain no material misstatements whether due to fraud or errors.

**Table 9**
Analysis of variance – Level of Assurance

| Statement | Mean Score | | | ANOVA (Between Groups) | |
|---|---|---|---|---|---|
| | *Auditors (n = 88)* | *Preparers (n = 83)* | *Users (n = 90)* | *F -value* | *p -value* |
| 15. Financial statements' users can have absolute assurance (100%) that the audited financial statements contain no material misstatements due to fraud or errors. | 3.26 | 4.76 | 5.46 | 27.511 | (.000)*** |

The significance levels are indicated as: *significant at the 0.10 level; **significant at the 0.05 level; and ***significant at the 0.01 level.

Surprisingly, some auditors (indicated by the mean responses, 3.26) believe that financial statements' users could have absolute assurance. However, a large portion of preparers expect the auditors to provide an absolute assurance (indicated by the mean response, 4.76) with significant difference higher than auditor at ($P < .01$) level. Users respondents (indicated by the mean response, 5.46) expect (higher than auditors and preparers) that they can have an absolute assurance with a significant difference from auditors at ($P < .01$) and form preparers at ($P < .10$) levels.

**Table 10**

Post Hoc Tests (Multiple Comparisons) - Level of Assurance

| Statement | | (I) Category of Respondent | (J) Category of Respondent | Mean Difference (I-J) | Std. Error | Sig. |
|---|---|---|---|---|---|---|
| 15. | Financial statements' users can have absolute assurance (100%) that the audited financial statements contain no material misstatements due to fraud or errors. | *Auditors* | *Preparers* | -1.498*** | .308 | .000 |
| | | | *Users* | -2.194*** | .302 | .000 |
| | | *Preparers* | *Auditors* | 1.498*** | .308 | .000 |
| | | | *Users* | -.697* | .306 | .061 |

## 5. Conclusion

This study has provided evidence about the existence of an expectation gap between auditors, preparers, and users of financial statements in Saudi Arabia with regards to auditors' responsibilities, in general, and their responsibility for fraud detection in particular. The results have demonstrated that Saudi audit beneficiaries and auditors agree that the independent audit function would enhance the truthfulness, objectivity, and reliability of financial statements. They have all emphasized the importance of audit and assert that each business entity must be audited by an independent external auditor in order to base their decisions upon reliable and objective information. However, the findings of this study have shown that preparers and users of financial statements attribute more responsibilities to auditors and expect auditors to perform and carry out duties that are neither required by audit standards nor auditors believe they have to do. Users believe that auditors should prepare auditee's financial statements, which is the sole responsibility of management as stipulated by the professional standards and practiced worldwide. Both preparers and users of financial statements assume that, through providing audit reports, auditors guarantee audited financial statements are accurate and completely free of intentional or unintentional material misstatements. The most alerting finding of this study is the perception of preparers and users about the responsibility of auditors for fraud detection and the assumed liability to affected parties for undetected and subsequently discovered fraud or misstatement in the financial statements. These findings highlight serious professional and social issues that must be brought to the attention of professional society and related government authorities in Saudi Arabia.

Professional bodies and educational institutions in Saudi Arabia are recommended to investigate the causes of the expectation gap in the country and work together to bridge it by educating and informing audit beneficiaries and the public in general, about the role and objectives of the auditing profession. The prevalence of an audit expectation gap devalues the financial reporting process (Best et al., 2001) and increases the litigations against auditors (Teck Lee et al., 2009). It is hoped that the findings of this study would motivate the accounting and audit profession to find means and ways to narrow the expectation gap and minimize its negative implications on the value of audit function and the reputation of auditors in Saudi Arabia.

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