

# **Financial statement auditors' perceptions on responsibilities to detect and report client illegal acts – Deficient performance gap and causes for such gap**

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## **ABSTRACT**

This study focuses on whether there is a deficient performance gap regarding the perception on responsibilities of financial statement auditors' relating to detect and report client illegal acts in Sri Lanka and identifying the factors that will affect to create such gap. This study is significant on the ground of even though considerable amount of researches have been already conducted regarding to the expectation gap, in Sri Lankan context, lack of the researches have been carried out in the area of deficient performance gap. Since some of the unfavourable incidents have been recorded causing deficient performance gap, the research was expected to explore the gap between the guidelines prescribed in the standards and the actual deliverable of auditor in relating to the client illegal acts and to identify the causes affecting to such kind of a gap. Fundamentally quantitative research approach was followed and a questionnaire was used as the method of collecting primary data regarding perceptions of the auditor for fraud detection. Related theoretical guideline, which is referred for this research is ISA 240; The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements. Self – completion questionnaire consisted generic data and 15 vignettes which describe different client illegal case studies. The auditors who are engaged in audit activities as public practitioners in audit firms was the sample and analysis was conducted using inferential and descriptive research tools by capturing standard requirements and the auditor's perception in practical context.

**Keywords:** Illegal acts, Auditing standards, Auditors Responsibility, Detection and reporting

## 1. INTRODUCTION

As per Bollen's observations in 2005 (cited in Hassink et al. 2010) a study on major European business failures exposed that the auditor is questioned and the audit firms are most likely to be sued in a failures that involve due to management or employee fraud. The main reason for the above said problem is misconception regarding the auditors' responsibilities by the users of financial statements. Even though the users of financial statements expect to obtain absolute assurance, practitioners are not in a position to provide an absolute assurance due to the inherent limitations in nature of auditing procedures. This has been led to gap between expectation of users and actual performances of the auditor and this is clearly explained by Porter's expectation gap model (cited in Hassink et al. 2010, p. 87).

According to Porter's study in 1993 (cited in Hassink et al. 2010, p. 87) expectations gap is defined as: 'the gap between society's expectations of auditors and perceived performances of auditors'. As per the explanations, there are two major components of the expectations gap namely, reasonableness gap and performances gap. Further two aspects can be identified in relation to the performance gap as deficient performance gap and deficient standard gap. The research was carried based on the deficient performance gap which means the gap between role of the auditor as per the standard requirements and actual deliverable in relation to the client illegal act. (Hassink et al. 2010). Further this study was expected to identify deficient performance gap in Sri Lankan context since fewer literature can be found in relation to identification of expectation gap regarding detect and report client illegal acts.

International Standards on Auditing (ISA) 240 was the applicable conceptual framework for studying above mentioned misconception. However according to ISA 240 (International Auditing and Assurance Standards Board 2014) the auditor's responsibility to consider fraud in an audit of financial statement which they audit, does not define the term of client illegal acts. In spite of that it has defined in relation to the definition of fraud.

The term fraud refers to '[a]n intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage'. (International Auditing and Assurance Standard Board 2014: Glossary of Terms, p. 21)

Auditors are responsible to obtain reasonable assurance to provide an opinion on financial statements that are free from material misstatements due to frauds and errors. According to that auditor is not allocated for detecting frauds, however their responsibility only bounds to express an opinion. But they have a responsibility to report material frauds that are come across while performing audit procedures to those who charge with governance. The research was conducted to analyse the differences in responsibilities mentioned by the standard and auditor's actual deliverable regarding to the client illegal acts. (International Auditing and Assurance Standard

Board 2014: ISA 240 Auditor's' responsibility relating to Fraud in an Audit of Financial Statements 2014.).

### **Research Questions**

The research was designed to find out whether there is a gap between perceived performances of auditors and existing duties of the auditor defined by the relevant law and professional standards. On the ground of some of the companies have faced bad experiences such as bankruptcy even though practitioner performed procedure on financial statements become a problem statement of this study. Furthermore the research was expected to find out the main causes which affect to arise the mentioned gap, if the gap exist. For that purpose, two research questions were developed as follows.

1. Whether there is a deficient performance gap regarding the perception on responsibilities of financial statement auditors' relating to detect and report client illegal acts in Sri Lanka?
2. What are the factors that will affect to create such gap (e.g. relevant education and professional training) if such gap exists?

### **Objective of the Study**

Explanatory study was carried out to identify whether there is deficient performance gap in terms of external auditors' perceptions regarding responsibilities to detect and report client illegal acts in Sri Lanka and analyse and identify causes that may create such deficient performance gap.

### **Significance of the study**

In the global context several researches have been taken place, in relation to the role of the auditor regarding detection of frauds and illegal activities. However in the Sri Lankan context, lack of researches have been conducted in relation to the auditors' deficient performance gap. Further it was observed that Sri Lankan researchers have not been given adequate attention to identify reasons for the deficient performance gap. On the other hand, compared to past decade more concern has been given for client illegal acts as it has become a critical area in the field of business resulting that extent of auditor's responsibility for the prevention and detection of fraud has been increased. Significance of this study which describe practical and theoretical significance of the study was expected to made contribution to development of the auditing profession in Sri Lanka.

### **Scope and Limitations of the Study**

Main limitation was that only the persons who hold position higher than the supervisor level were included in the sample and this may not cover all financial statement auditors who engage in audit activities. And also it was difficult for individual auditor to build up expertise in fraud detection since auditors are not expert on deciding legal and illegality of acts done by the client. In addition to that the selected sample did not cover all the audit firms in Sri Lanka but covered only the audit firms which are located in Colombo area. Therefore result of the sample mean may be different from the result of the population mean.

The succeeding section deliberates existing literatures regarding audit expectation gap including deficient performance gap and standards that are relevant within the context of the study. Research methodology, sample construction, research findings, conclusions and implications of the results are covered by the subsequent sections.

## **2. LITERATURE REVIEW**

Auditing is used as a resolving tool to harmonize agency problem. With the evolution of the era, perception regarding auditors' responsibility has been changed. Therefore there is a researchable area to explore what kind of expectation gap would be prevailed in respect of standard requirement and auditor's responsibility towards detect and report fraud and client illegal acts.

### **Requirement according to ISA 240**

Particularly auditors are responsible to obtain reasonable assurance to provide an opinion on financial statements that are free from material misstatements due to frauds and errors. According to that auditor is not allocated for detecting frauds and their responsibility only bounds to express an opinion. But they have a responsibility to report material frauds that are come across while performing audit procedures to those who charge with governance. (International Auditing and Assurance Standard Board 2014: ISA 240 Auditor's responsibility relating to Fraud in an Audit of Financial Statements 2014.).

### **Porters' model of Auditors expectation – performance gap**

According to model proposed by porter in 1993 (cited in the Institute of Chartered Accountants of Scotland Edinburgh 2004) expectation gap is defined as gap that exist between society's expectation regarding auditors and perceived performance of auditor.

As per Porter's study (cited in Hassink et al. 2009), two major component of expectation gap have been identified as reasonableness gap and performance gap. Reasonableness gap depicts, the gap present in terms of what the society expect from the auditor and what auditor can reasonably expected to be accomplished by the auditor. Performance gap describes the gap between what is perceived performance of the auditors and duties reasonably expected from the auditors, which are cost beneficial for auditors to perform.

Performance gap has been sub divided into deficient standards gap and deficient performance gap. Deficient standards gap resulted from either deficiency of standards and regulations with respect to their duties of auditors or gap between duties defined by the laws and professional standards and duties which are cost beneficial to perform. Deficient performance gap amounting to significant deviation from the existing duties and duties reasonably expected to perform under condition of cost beneficial.

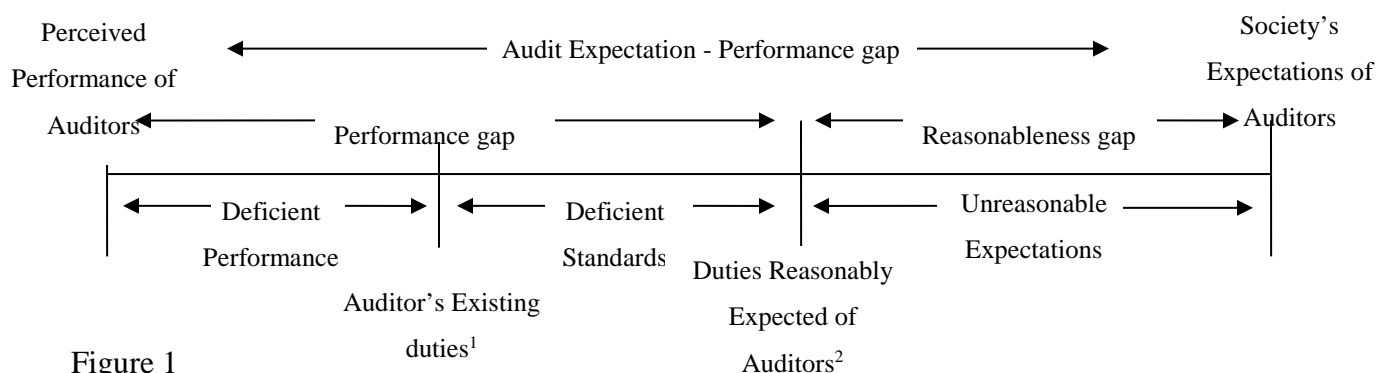


Figure 1  
Structure of audit expectation – Performance gap

<sup>1</sup>Duties defined by the laws and professional standards

<sup>2</sup>Duties which are cost beneficial for auditors to perform

Source: Porters (1993, p. 50) (Cited in Hassink et al. 2009)

## Empirical studies

### Local empirical studies

Study done in Sri Lanka with reference to expectation gap and role of policy setter (Gunathilaka 2012) has examined the expectation differences among auditors' perceptions and users' perceptions on role of the auditor. This research study has emphasised that ISA establish the roles, responsibility and scope of the auditor while quality of audit is monitored through regulatory bodies. It has claimed that auditors' negligent role may resulted for expectation gap rather misconception by the society, hence regulators need to identify and implement controls in relation to detect and report client illegal acts.

### Foreign empirical studies

Studies (Fraser & Lin 2004) results revealed that auditors detect fraud and client illegal acts rather than reporting to the management and other relevant authorities. And also this study claimed that auditors recognize higher degree of responsibility for detection of client illegal acts, which is beyond the requirement of the auditing standards. As such they have emphasized that the auditing standards are driven based on professional self-interest and tend to be less effective. In contrast to above view, Humphrey, Turley and Moizer (1993) claimed that professional bodies have formulated the standards way in which acknowledge of the detection of fraud no longer principal audit objective as such it is supplementary to perform on the basis of providing opinion on corporate financial statements.

Furthermore comparative experiment has done in Canada and UK to investigate the role and influence of the auditing standards on audit practice by means of detection and reporting client

illegal acts (Fraser & Lin 2004, p. 166) has exposed to investigate deficient performance gap in both countries. Based on the results of 15 short vignettes highlighting different client illegal acts Fraser has concluded as:

Auditors continue to recognize a higher degree of responsibility for an illegal acts involving fraud than for others and also that auditors recognize some degree of responsibility for illegalities that do not fall within the scope of the auditing standards.

In addition to that, Leary (1990) has summarized under the prevailing laws and professional standards, auditors are required to conduct audit in manner that ensure the detecting and reporting of material illegal acts.

Although in the above studies it was claimed that auditors are responsible to fraud detection up to certain level, some auditors totally disagree with that. Exploratory study (Alleyne & Howard 2005) performed on the auditors' responsibility for fraud detection in Barbados revealed that auditors strongly disagree with the statement that they are the responsible party for uncovering of the frauds of the clients whereas the users' strong view is that auditors are the responsible party. Apart from that in some cases (Stribu et al. 2009) audit objective is widely misperception because a much higher expectation has been placed on the auditors' duties in detecting and reporting fraud than statute or audit standards required. This has been resulted from deficient performance gap from mentioned study.

In addition to that, (Salem 2012) pointed out that management has the primary responsibility for the prevention or detection of fraud. In the view of the independent auditor, the independent auditor must be aware that the possibility of fraud exists. But the independent auditor can never be considered as a guarantor of client's financial statements since the fact that auditor might be misled by collusion, high expert forgery or other sophisticated deterrents.

Survey conducted by Harold, Roger and Bollen (2010) have evaluated up to what extend the auditors comply with the standards once they encountered a fraud. The study have provided empirical evidences to claim that the auditors fail to comply with some important element of standards relating to fraud and the compliance level will be based on the practice of various audit firms. On the contrary Leary (1990, p. 252) has argued that 'Irrespective of the requirements of auditing standards, fraud will probably always exist'. In addition to the fact that frauds will not be detected is not the whole responsibility of the auditor.

### **Reasons for such gap**

Claim of Kassem and Higson (2012) is conflicting with the claim of Leary (1990). Kassem and Higson (2012) claimed that even though the public in general and users of the financial statements were given a better knowledge on the role of the auditor, the expectation gap will remain wide. There are two main factors namely limitations in the professional auditing standards and external

auditors do not exercise enough effort to detect material misstatements arising from fraud. It was recommended that standard setters to provide more guidance to external auditors with regarding to fraud risk assessment and responses in a fraud situation.

Reasons for the gap has been addressed by fewer researches since most have been concentrated on existence of deficient performance gap. As per research article (Harold, Roger & Bollen 2010) discussed about identified causes for such deficient performance gap by emphasising defensive step to be taken for new standards in order to educate financial statement users about its responsibility with the expectation to bridge the gap. Furthermore as per highlighted by the study (Harold, Roger & Bollen 2010, p. 876) have illustrated causes for such gap as, 'auditors may decide not to comply with the standards because they face conflicts of interest, or because they are careless or for efficiency reasons, or it might be they are not fully aware of what the standards require.' According to survey results, half of the auditors believed that they have a significant impact on redressing fraud.

In addition to that Sweeney (1997) has provided some solution for gap such as extra audit training to improve awareness of duties, Expanding auditing standards and provide more clarity on scope and possibilities.

As a consequence of literature survey performed, it was recognized that most of the developed and developing countries have identified that there is deficient performance gap in terms of standard requirement and auditors perception toward responsibility to detect and report client illegal acts either in more or less. Most of the literature have addressed existence of the gap whereas have made less focused on causes of such gap exist. The study was designed to perform a survey in Sri Lankan context aiming to identify whether there is deficient performance gap and causes of such gap.

### 3. METHODOLOGY

The research study investigates perception of financial statement auditors in detecting and reporting client illegal acts to ascertain whether there is a gap between duties defined by the laws and professional standards and duties truly performed by the auditors. Questionnaires were used as the main research method in gathering data from auditors in the public practice.

#### **Research Approach**

Quantitative approach has used in order to test the deficient performance gap since the study was conducted based on the data gathered from the responses through the questionnaire, not on the observations of the researcher. Based on the deductive approach, the hypothesis was developed as **"there is a deficient performance gap"**, using the existing literatures. Additionally research

study used questionnaire that included 7 Likert scale questions which lead to obtained structured responses in order to identify deficient performance gap.

### **Population and Sample**

All the auditors who engage in audit activities as public practitioners within the audit firms were considered as the population. This population includes Sri Lankan public practitioners. Among the above population, auditors who hold positions higher than supervisors were taken into consideration as the study sample. The survey was conducted using a random sample of 100 external auditors from the above stated population.

### **Collection of Data**

Using probability sampling methodology, the well-designed questionnaire was handed over to 100 respondents and was able to collect 83 questionnaires which implied 83% response rate. The questionnaire used in the study was obtained from the article of 'Auditors' perception of responsibilities to detect and report client illegal acts in Canada and the UK' (Fraser, IAM & Lin KZ 2004). The modified questionnaire has been attached as appendix.

There are mainly two parts in the questionnaire. Part A consist of biographical information such as age, gender, educational qualification and etc. Part B of the questionnaire consists 15 short vignettes each describing different illegal acts. These cases are used to identify the extent to which auditors recognize the degree of responsibility in detecting and reporting client illegal acts. In developing the questionnaire, the opinion of the supervising member was obtained as academic expertise and further a pilot survey was conducted using 12 samples before handing over the questionnaire to selected sample.

### **Data Analysis Strategies**

SPSS was used to analyse the gathered data and the consideration was given on both two sections of the questionnaire. Demographic data was analysed using descriptive statistic. The most commonly used descriptive statistics was frequencies. In analysing the responses to the scenarios of the questionnaire one sample t test technique was used. It helps to achieve the first objective via identifying whether there is a deficient performance gap or not. Regression and was used to identify the main causes affecting to create such deficient performance gap in order to achieve the second objective of the study.

Average gap caused from all 15 vignettes for detection and reporting can use as a dependent variable of the regression and diverse factors (inadequacy of relevant professional education of the auditors, insufficient professional training of the auditors, lack of professional experience as an auditor, lack of due professional care, lack of professional skepticism, misunderstanding of the relevant auditing standards by the auditor, lack of clarity of relevant Auditing standards,



deficiencies in Auditing Standards, client pressure and Extensive competition) use as a I dependent variable of the regression.

Regression equation tested in liner regression analysis is specified as:

Average gap for detect =  $\beta_0 + \beta_1$  Professional education +  $\beta_2$  Professional training +  $\beta_3$  Professional experience +  $\beta_4$  Due professional care +  $\beta_5$  Professional scepticism +  $\beta_6$  Misunderstanding of auditing standards +  $\beta_7$  Clarity of auditing standards +  $\beta_8$  Deficiencies in Auditing Standards +  $\beta_9$  Client pressure +  $\beta_{10}$  Extensive competition +  $\varepsilon$

Average gap for report =  $\beta_0 + \beta_1$  Professional education +  $\beta_2$  Professional training +  $\beta_3$  Professional experience +  $\beta_4$  Due professional care +  $\beta_5$  Professional scepticism +  $\beta_6$  Misunderstanding of auditing standards +  $\beta_7$  Clarity of auditing standards +  $\beta_8$  Deficiencies in Auditing Standards +  $\beta_9$  Client pressure +  $\beta_{10}$  Extensive competition +  $\varepsilon$

#### 4. ANALYSIS AND DISCUSSION

As per the explanation given in section 3, the techniques used for analysis was descriptive statistics, frequency analysis, reliability test, t-test and liner regression analysis. These methods used to explore existence of deficient performance gap regarding the perception on responsibilities of financial statement auditors' relating to detect and report client illegal acts in Sri Lanka. Descriptive statistic and frequency analysis used to summarize the collected data. Reliability test, one sample t test and liner regression analysis used to identify presence of deficient performance gap and causes for such gap. Detailed explanation of analysis and discussion are presented below.

The modified questionnaire was used to achieve the first objective of the research article that is to identify whether there is a gap between perceived performances of the auditor and existing duties prescribed by the standard. The questionnaire includes 15 short vignettes each explaining a diverse illegal act (see Appendix). The 15 vignettes can be divided into five groups on the basis of standards requirements as follows.

Cases 1 and 2 deal with the illegal acts that that are outside the scope of the auditing standards. These cases are helpful to recognize the degree to which auditors identify their responsibility in relation to the illegal acts that fall outside the scope of the auditing standards. Cases 3 and 6 describe the circumstances that are not critical to the carrying on of the entity's operations. Cases 4, 5 and 7 to 11 deal with illegitimacies that can be treated as having solemn consequences for the financial statements of the entity. Furthermore these fall within the scope of the auditing standard. Cases 8, 9, 10 can be treated as fundamental to the operation of the organization. Cases 12 to 15 describe the specific cases of insider dealing and fraud respectively.

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Respondents have to select their insights of responsibilities to detect and report each vignettes on a seven point Likert scale on which '1' indicates 'no responsibility' and '7' indicates 'essential responsibility'

The study was mainly based on the requirements prescribed by ISA 240: auditors responsibility relating to fraud in an audit of Financial Statements. According to the standards it emphasised that existancy of the difficluties when deal with estimation of fraud to the financial statements, Not detecting management fraud is greater than not decting a employee fraud, auditor should maintain professional skepticism to detect fraud in finacaial statement and auditor should communicate about fraud to those chrage with governance.

The standard refernces were identified regarding the specified 15 vignatte as follows.

*Table 1: Requirement as per ISA 240*

| Case Number | Responsibility to detect | Responsibility to report | Reason for decision for level of responsibility  |
|-------------|--------------------------|--------------------------|--|
| 1           | 1                        | 1                        | Out of the scope of the auditing standard (ISA 240)  |
| 2           | 1                        | 1                        | Out of the scope of the auditing standard (ISA 240)  |
| 3           | 1                        | 1                        | Not material and not affect to the operations of the Company                                   |
| 4           | 7                        | 7                        | Material impact to the financial statements  |
| 5           | 7                        | 7                        | Having serious impact to the financial statement   |
| 6           | 1                        | 1                        | Illegality that are not critical to the carrying of an entity's business                       |
| 7           | 7                        | 7                        | Serious implication for the financial statements   |
| 8           | 7                        | 7                        | Fundamental to the operation of the entity and affect the going concern status of the company. |
| 9           | 7                        | 7                        | Fundamental to the operation of the entity and affect the going concern status of the company. |
| 10          | 7                        | 7                        | Material impact to the financial statements  |
| 11          | 7                        | 7                        | Having serious impact to the financial statement   |

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|    |   |   |  |
|----|---|---|--|
| 12 | 7 | 7 | Insider dealing and therefore could have a material impact and the issue with the integrity of the management. So need to inform to the shareholders |
| 13 | 7 | 1 | Since the ROMM is high auditor need to increase his further audit procedure  |
| 14 | 7 | 7 | Prepared fraudulent financial statements   |
| 15 | 7 | 7 | Fraud. Therefore need to detect and report   |

Responsibility to detect and report – 1 indicate no responsibility and 7 indicate essential responsibility.

Reliability test was performed as the first step in analysing collected data to realize whether the collected data is reliable or not. In the questionnaire there are 15 scenarios and respondents need to respond on the auditor's responsibility to detect and to report client illegal acts. Therefore all together there are 30 scenarios. In order to perform the reliability test, all these 30 scenarios were classified into four categories based on the prescriptions given in the standard and test was performed separately. Summary of the results obtained is as follows.

*Table 2: Reliability test*

|                  | <b>Detect</b> |                   | <b>Report</b> |                   |
|------------------|---------------|-------------------|---------------|-------------------|
|                  | Should Detect | Should not Detect | Should Report | Should not Report |
| Cronbach's Alpha | .945          | .725              | .929          | .647              |
| No. of scenarios | 11            | 4                 | 11            | 4                 |

If the Cronbach's Alpha value is greater than .7, the data set is said to be reliable (Table 2: Reliability test). Except in one category ("Should not Report" category) the alpha value is greater than .7 meaning the data is reliable. The alpha value of one category is .647 and there is a - 0.053 difference from .7 hence it is taken as almost .7. Therefore it is concluded that the data set is reliable and the analysis done on these data is also reliable.

After identifying the reliability of the data set, one Sample t test was used to recognize whether there is a deficient performance gap in relation to client illegal acts and frequency analysis and regression analysis were used to identify the main reasons that affect to such gap.

### **Descriptive Statistics**

Descriptive statistics is used to describe the main features of a collection of information, or the quantitative description itself. As the first step of analysis descriptive statistics were used to summarize the collected data. In descriptive statistics, central tendency and dispersion measures

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were used to describe the data which is collected from the respondents. Central tendency includes mean, median, mode and these tools were used to identify the deficient performance gap while the measures for dispersion such as standard deviation, variance, and distribution measures were used to measure the extent of such identified gap.

The results of frequencies on various demographic factors can be summarized as follows:

*Table 3: Frequency for gender*

|        | Frequency | Percent (%) |
|--------|-----------|-------------|
| Male   | 39        | 47          |
| Female | 44        | 53          |
| Total  | 83        | 100         |

*Table 4: Frequency for position in audit firm*

|                 | Frequency | Percent (%) |
|-----------------|-----------|-------------|
| Partner         | 2         | 2.4         |
| Director        | 14        | 16.9        |
| Manager         | 18        | 21.7        |
| Project Manager | 15        | 18.1        |
| Supervisor      | 34        | 41.0        |
| Total           | 83        | 100.0       |

*Table 5: Frequency for size of the firm*

|                                    | Size of the firm which received the professional training as a practitioner |             | Size of the firm which work currently |             |
|------------------------------------|---|-------------|---------------------------------------|-------------|
|                                    | Frequency   | Percent (%) | Frequency                             | Percent (%) |
| In Big Four (EY,KPMG,PwC,Deloitte) | 61  | 73.5        | 54                                    | 65.1        |
| In other                           | 22  | 26.5        | 29                                    | 34.9        |
| Total                              | 83  | 100.0       | 83                                    | 100.0       |

*Table 6: Frequency for number of year of experience*

|                   | Frequency | Percent (%) |
|-------------------|-----------|-------------|
| Less than 1 year  | 10        | 12.0        |
| 1 year - 3 years  | 32        | 38.6        |
| 3 years - 5 years | 27        | 32.5        |
| More than 5 years | 14        | 16.9        |
| Total             | 83        | 100.0       |

One sample t test is a statistical procedure which is used to determine whether a sample of observations could have been generated by a process with a specific mean and it was used to archive the first objective of the research article. Table 3 presents the mean scores and significant value for detection and reporting for each of the 15 cases as per the respondents' perspective.

*Table 7: Results of one sample t test*

| #       | Mean   |        | Test value | Sig value |        | Result                  | Gap exist or not |
|---------|--------|--------|------------|-----------|--------|-------------------------|------------------|
|         | Detect | Report |            | Detect    | Report |                         |                  |
| Case 1  | 3.52   | 3.47   | 1          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |
| Case 2  | 4.08   | 3.63   | 1          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |
| Case 3  | 3.86   | 3.75   | 1          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |
| Case 4  | 4.86   | 4.95   | 7          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |
| Case 5  | 4.69   | 4.17   | 7          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |
| Case 6  | 4.58   | 4.64   | 1          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |
| Case 7  | 4.86   | 4.93   | 7          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |
| Case 8  | 5.3    | 5.42   | 7          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |
| Case 9  | 5.47   | 5.47   | 7          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |
| Case 10 | 5.33   | 5.18   | 7          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |
| Case 11 | 5.33   | 5.41   | 7          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |
| Case 12 | 5.19   | 5.31   | 7          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |
| Case 13 | 5.28   | 5.49   | 7          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |
| Case 14 | 5.28   | 5.69   | 7          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |
| Case 15 | 5.61   | 5.8    | 7          | 0.000     | 0.000  | Ho rejected as sig < 5% | Yes              |

Source: Author constructed

Analysis focused to identify deviation from test value of 1 or 7 with sample mean value of each circumstances. 1 Indicate that there is no responsibility to detect/report and 7 indicate that have essential responsibility to detect/ report for the given different condition of client illegal acts. As a results of one sample t test indicate that all cases for client illegal acts are significant ( $p < .05$ )

and produce a mean which was deviate from the test value that lead to reject null hypothesis and can conclude as there is difference between sample mean and population mean. It implies the presence of deficient performance gap between perceived performance of the auditors and required duties defined by relevant auditing standards in relation to client illegal acts.

According to the outcomes of the test, significant value for all cases are less than 5% , therefore null hypotheses would be rejected. Hence it can be concluded that for all the cases sample mean does not equal to the population mean. Thereby it is identified that there is a gap between perceived performances of auditors and existing duties of the auditor defined by the relevant professional standards laid down by International Auditing and Assurance Standards Board in relation to the client illegal acts and through that achieved the first objective of the research article.

The second objective of the research article is to identify the reasons for deficient performance gap and it was achieved through frequency analysis. In addition to that regression analysis was used for further analysis purpose.

*Table 8: Frequency for causes of deficient performance gap*

| Reasons for the deficient performance gap                          | Frequency of response | Percentage |
|--|-----------------------|------------|
| Inadequacy of relevant professional education of the auditors      | 58                    | 70%        |
| Insufficient professional training of the auditors                 | 52                    | 63%        |
| Lack of professional experience as an auditor                      | 52                    | 63%        |
| Lack of due professional care                                      | 26                    | 31%        |
| Lack of professional skepticism                                    | 25                    | 33%        |
| Misunderstanding of the relevant auditing standards by the auditor | 19                    | 23%        |
| Lack of clarity of relevant Auditing standards                     | 25                    | 30%        |
| Deficiencies in Auditing Standards                                 | 11                    | 13%        |
| Client pressure  | 1                     | 1%         |
| Extensive competition  | 1                     | 1%         |

Source: Author constructed

Second objective in this research was to find the causes for the deficient performance in terms of external auditors' perceptions regarding responsibilities to detect and report client illegal acts in Sri Lanka. In the latter part of the distributed questionnaire after the given fifteen vignettes, it had been clearly stated the that the deficient performance gap is the gap between the perceived performance of the auditor and the required duties of them as defined in auditing standards in

relation to the client illegal act. Out of the specific answers provided the majority have identified the inadequacy of relevant professional education of the auditors is the main reason for such gap marking 80% amongst 83 respondents. Further 63% of respondents have recognized both the insufficient professional training of the auditors and lack of professional experience as an auditor also have contributed in a higher magnitude in creating the identified deficient performance gap.

In addition to above, it has been identified the facts that the lack of due professional care, lack of professional skepticism, misunderstanding of the relevant auditing standards by the auditor and deficiencies in Auditing standards are also some of the reasons behind the deficient performance gap whereas the lack of clarity of relevant Auditing standards depicts very little impact towards such gap. Moving forward two respondents have additionally stated that the extensive pressure from client and extensive competition also have an effect on auditors' perception responsibilities to detect and report client illegal acts.

Last but not least it can be concluded that there are three main causes which may lead to auditors' perception on responsibilities to detect and report client illegal act namely inadequacy of relevant professional education of the auditors, insufficient professional training of the auditors, lack of professional experience as an auditor.

Regression analysis can be used to predict some relationships and moreover explanatory power of independent variable in respect of dependent variable. This research study use regression analysis with the intention of satisfying second objective which is expected to explore causes for deficient performance gap in terms gap between perceived performance of the auditors and performance expected by the standards. Average gap caused from all 15 vignettes for detection and reporting can use as a dependent variable of the regression and diverse factors (inadequacy of relevant professional education of the auditors, insufficient professional training of the auditors, lack of professional experience as an auditor, lack of due professional care, lack of professional skepticism, misunderstanding of the relevant auditing standards by the auditor, lack of clarity of relevant Auditing standards, deficiencies in Auditing Standards, client pressure and Extensive competition) use as a I dependent variable of the regression.

Regression equation tested in liner regression analysis is specified as:

Average gap for detect =  $\beta_0 + \beta_1$  Professional education +  $\beta_2$  Professional training +  $\beta_3$  Professional experience +  $\beta_4$  Due professional care +  $\beta_5$  Professional scepticism +  $\beta_6$  Misunderstanding of auditing standards +  $\beta_7$  Clarity of auditing standards +  $\beta_8$  Deficiencies in Auditing Standards +  $\beta_9$  Client pressure +  $\beta_{10}$  Extensive competition +  $\varepsilon$

Average gap for report =  $\beta_0 + \beta_1$  Professional education +  $\beta_2$  Professional training +  $\beta_3$  Professional experience +  $\beta_4$  Due professional care +  $\beta_5$  Professional scepticism +  $\beta_6$  Misunderstanding

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of auditing standards +  $\beta_7$  Clarity of auditing standards +  $\beta_8$  Deficiencies in Auditing Standards +  $\beta_9$  Client pressure +  $\beta_{10}$  Extensive competition +  $\varepsilon$

The results obtained from regression analysis are presented in the following table.

*Table 9: Multiple regression analysis*

| Variables  | Average gap for detect <sup>a</sup> |                      | Average gap for report |                      |
|--|-------------------------------------|----------------------|------------------------|----------------------|
|  | Coef.                               | p-value <sup>b</sup> | Coef.                  | p-value <sup>b</sup> |
| Inadequacy of relevant professional education of the auditors      | 0.144                               | 0.201                | 0.235                  | 0.035**              |
| Lack of professional experience as an auditor                      | 0.136                               | 0.262                | 0.085                  | 0.476                |
| Lack of due professional care                                      | 0.068                               | 0.556                | 0.133                  | 0.243                |
| Lack of professional skepticism                                    | -0.1                                | 0.395                | -0.082                 | 0.474                |
| Misunderstanding of the relevant auditing standards by the auditor | 0.187                               | 0.137                | 0.177                  | 0.151                |
| Lack of clarity of relevant Auditing standards                     | 0.015                               | 0.903                | -0.034                 | 0.768                |
| Deficiencies in Auditing Standards                                 | -0.297                              | 0.021**              | -0.262                 | 0.037**              |
| Client pressure  | 0.138                               | 0.303                | 0.114                  | 0.274                |
| Extensive competition  | 0.128                               | 0.25                 | 0.18                   | 0.1*                 |
| R square   | 0.158                               |                      | 0.191                  |                      |
| F value  | 1.52                                |                      | 1.919                  |                      |
| N  | 83                                  |                      | 83                     |                      |

<sup>a</sup> Average gap based on a 7- point Likert scale

<sup>b</sup> Significant levels indicate as follows: \* Significant at  $p \leq 0.10$ ; \*\*Significant at  $p \leq 0.05$ ; \*\*\* Significant at  $p \leq 0.01$ .

Source: Author constructed

Regression results which obtained from comparing factors could lead to have deficient performance gap and the average of gap arisen from all 15 vignettes in terms of detection and reporting specify that inadequacy of the relevant professional education of the auditors and deficiencies in auditing standards have  $p$ -value less than 5%. Therefore, it is concluded that these two variable have significant influence over existence of deficient performance gap. Other factors does not directly influence to identify gap between perceived performance and standards requirement.

As per the literature survey, lack of concern have been made in relation to the identification of causes of gap between financial statements auditors perceptions on responsibilities to detect and



report client illegal acts whereas this research article focus on both identification of existence of deficient performance gap and causes of such gap as well.

## **5. CONCLUSION, LIMITATIONS AND FUTURE DIRECTIONS**

The research is designed to find out whether there is a gap between perceived performances of auditors and existing duties of the auditor defined by the relevant law and professional standards. Furthermore it is expected to find out the main causes which affect to arise the mentioned gap, if the gap exist. For that, the study empirically evaluates the results of financial statement auditors' perceptions on responsibilities to detect and report client illegal acts. As the initial step of the research, two research questions are developed as follows.

1. Whether there is a deficient performance gap regarding the perception on responsibilities of financial statement auditors' relating to detect and report client illegal acts in Sri Lanka?
2. What are the factors that will affect to create such gap (e.g. relevant education and professional training) if such gap exists?

In order to accomplish the established objectives the modified questionnaire was used and it included 15 short vignettes in relation to the client illegal acts. Using probability sampling methodology, the well-designed questionnaire was distributed to 100 respondents and were able to gather 83 filled questionnaires.

The study was mainly grounded on the requirements prescribed by ISA 240: auditors responsibility relating to fraud in an audit of Financial Statements. Firstly standard guidelinesses were identified for the given 15 vignattes and hereafter reliability test was performed as the first step in analysing the collected date in order to recognise whether the collected data is reliable or not. As the Conbach's Alpha value is greater than 0.7, it is concluded that the data set is reliable as well as the analysis done based on the data is correspondingly reliable.

Descriptive statistics were used to summarize the collected data. Primarily frequency analysis was used for analyse demographic factors such as gender, respondents position in the firm, size of the firm which used to obtained professional training and currently working and no of year of experience of practitioner.

One Sample t test was the core technique which was used to recognize whether there is a deficient performance gap in relation to client illegal acts. According to the outcomes of the test, significant value for all cases are less than 5%, and hence null hypotheses were rejected. Thus it is identified that there is a gap between perceived performances of auditors and existing duties of the auditor defined by the relevant professional standards in relation to the client illegal acts as for all the cases sample mean does not equal to the population mean. From that first objective of the research article was achieved.

Frequency analysis and regression analysis were used to recognise the foremost reasons that affect to deficient performance gap. As per the results of the frequency analysis, inadequacy of relevant professional education of the auditors is identified as a core reason for such gap. In addition to that insufficient professional training of the auditors and lack of professional experience as an auditor also have contributed to arise such gap.

Regression analysis was used for the further elaboration of second objective of the research article. As per the results of the regression analysis it was identified that for the presence of the gap is impacted from demographic factors stage of professional education of which respondent are belong to. There was no relationship with other demographic factors as well as an explanation from dependent variable to the independent variable. Furthermore outcomes identified that inadequacy of the relevant professional education of the auditors and deficiencies in auditing standards are the important factors that lead to for such gap. Other factors does not directly influence to identify gap between perceived performance and standards requirement. From that second objective of the research article was achieved.

Finally as per the results in respect to given cases appear to indicate that, there is a deficient performance gap regarding the perception on responsibilities of financial statement auditors' relating to detect and report client illegal acts in Sri Lanka. As well as, lack of relevant professional education of the auditors, insufficient professional training of the auditors and lack of professional experience as an auditor are the main causes that affect to create such gap.

However, there were a few limitations with regard to the study. The main limitation is that only the persons who hold position higher than the supervisor level are included in the sample and this may not cover all financial statement auditors who engage in audit activities since this study was mainly concentrated on identification of gap regarding perceived performance of the auditor who are actively participate in providing audit opinion. It is because the research is expected to grab the perception of auditors' who are in the position to affect the opinion on the financial statements. The second limitation is that, difficulty for individual auditors to build up expertise in fraud detection, not covering all the audit firms in Sri Lanka through the sample, answering to the questionnaire based on their own interpretation of the question were recognized as other limitations. Due to the limitations stated above, it is recommended that an in-depth study using the case study method is carried out.

This study concern about the factors for the deficient performance gap identified at the undergraduate level and there may be factors at the public practice auditors' level which not identified through the questionnaire. And also the findings reported in this research report provide some insight into regulatory expectations of auditors, the perceived standard of their work, and the extent to which those expectations are not being fulfilled by the auditors. Further it has given the

low concentration on social and practical considerations related with those responses provided by auditors. Accordingly there will be a continuing need in identifying further reasons for the deficient performance gap in order to reduce such gap. It will be helped to provide reliable and detailed guidelines by the audit regulations to give positive contribution to address the overall audit expectations gap.

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**APPENDIX**

**EXTERNAL AUDITORS' PERCEPTIONS ON RESPONSIBILITIES TO  
DETECT AND REPORT CLIENT ILLEGAL ACTS**

Opinions differ as to the extent of the responsibility that should be assumed by external auditors for the detection of client illegal acts and in particular in respect of those acts that are relatively remote from the financial statements. This research seeks to elicit the opinions of financial statement auditors on this subject and we are grateful if you would assist us in this work by completing this questionnaire. Here the financial statement auditor is defined as the person who is engaged in public practice and who can influence on providing an audit opinion. \*If you are an audit trainee you are not required to fill this questionnaire.

**Part A: Biographical Information**

1. Gender : 1. Male ☐ 2. Female ☐
2. Age : ..... (Please specify in years)
3. Position in your firm :
- |                                     |                          |
|-------------------------------------|--------------------------|
| 1. Partner                          | <input type="checkbox"/> |
| 2. Director                         | <input type="checkbox"/> |
| 3. Manager                          | <input type="checkbox"/> |
| 4. Project Manager                  | <input type="checkbox"/> |
| 5. Supervisor                       | <input type="checkbox"/> |
| 6. Other                            | <input type="checkbox"/> |
| 7. If "Other", Please specify ..... |                          |
4. Level of Monthly Income :
- |                            |                          |
|----------------------------|--------------------------|
| 1. Less than Rs.50,000     | <input type="checkbox"/> |
| 2. Rs.50,001 - Rs.100,000  | <input type="checkbox"/> |
| 3. Rs.100,001 - Rs.150,000 | <input type="checkbox"/> |
| 4. Rs.150,001 – Rs.200,000 | <input type="checkbox"/> |
| 5. Rs.200,001 – Rs.250,000 | <input type="checkbox"/> |
| 6. More than Rs.250,001    | <input type="checkbox"/> |
5. Highest Academic Education Level: 1. G.C.E Advanced Level

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2. First Degree (Basic Degree)

3. Post Graduate diploma

4. MSc / MBA

5. MPhil

6. PhD

7. Other

8. If "Other", please specify .....

6. Highest Level of Professional qualification/s. (If you have multiple qualifications please indicate all)

| Professional Courses     | Foundation | Intermediate | Final | Passed Finalist | Member |
|--------------------------|------------|--------------|-------|-----------------|--------|
| a. CA Sri Lanka          |            |              |       |                 |        |
| b. CIMA                  |            |              |       |                 |        |
| c. ACCA                  |            |              |       |                 |        |
| d. CMA                   |            |              |       |                 |        |
| e. CIM                   |            |              |       |                 |        |
| f. SLIM                  |            |              |       |                 |        |
| g. CFA                   |            |              |       |                 |        |
| h. BCS/ ACS              |            |              |       |                 |        |
| i. .... (please specify) |            |              |       |                 |        |
| j. .... (please specify) |            |              |       |                 |        |

7. Please indicate the size of firm from which you predominantly received the professional training as a practitioner:

1. In 'Big Four' (EY, KPMG, PwC, Deloitte)

2. In Other ..... (Please specify)

8. Please indicate size of firm for which you work currently:

1. In 'Big Four' (KY, KPMG, PwC, Deloitte)

2. Other ..... (Please specify)

9. Number of years of experience (since the day in which you had ability to influence to the audit opinion):

1. Less than 1 year

2. 1 year - 3 years

3. 3 years - 5 years

4. More than 5 years

### **Part B: Scenarios on Illegal Act**

The following pages present 15 cases each one of which describes an illegal act (or series of illegal acts) that, you may assume, has been committed by an audit client. Some of the scenarios presented are similar to each other but we ask that you treat each separately. You should not assume any information other than that given. You are asked for each case to:

(a) Indicate on a scale of 1 to 7 (1 – no responsibility to detect; 7 – essential to detect) how you would perceive your responsibility as an auditor to detect the illegal act that has been described.

(b) Assume that you as an auditor have detected the illegal act that has been described. Indicate on a scale of 1 to 7 (1 – no responsibility to report; 7 – essential to report) how you would perceive your responsibility to report the illegality act to an appropriate third party e.g. a regulatory agency or the police.

**1** A director of a publicly listed company has been found guilty (and heavily fined) for an assault (physical attack) committed when on holiday in Thailand. There is no previous evidence of similar misdemeanors (bad behaviour) by directors of the company.

#### **Auditor's Responsibility To**

1 = no responsibility

7 = essential responsibility

(a) Detect      1   2   3   4   5   6   7  

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(b) Report     

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**2** A director of a publicly listed company has been importing 'hard' drugs (e.g., heroin). This has not been done in company time and nor has the director used company assets to facilitate the illegality. You are aware that within the company there appears to be a general management ethos (culture) of disregard for law.

(a) Detect      1   2   3   4   5   6   7  

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**3** The drivers of a manufacturing company's commercial transport fleet have been in breach of the regulations on drivers' maximum working time. This has been to the mutual self-interest of both the company and the drivers who have been encouraged in the perpetration (to perform) of the illegality by management. The company has only a very small transport fleet relative to the size of the company and most of the company's products are delivered by rail. The penalty in the event of conviction is not likely to be material, nor is the successful operation of the company likely to be affected.

(a) Detect      1   2   3   4   5   6   7  

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**4** The drivers of a wholesale distribution company are frequently in breach of the regulations on drivers' maximum working time. The company's goods are distributed almost exclusively by the company's own fleet of vehicles. A conviction for the offence would result in a substantial fine. Cessation (stopping) of the practice would have a material impact on the financial statements although the going concern status of the company would be unaffected. As the auditor you are aware that there may have been similar breaches of legislation by the company in the past.

(a) Detect 

|                          |                          |                          |                          |                          |                          |                          |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 1                        | 2                        | 3                        | 4                        | 5                        | 6                        | 7                        |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

(b) Report 

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**5** The drivers of a privately owned haulage (transport) company regularly breach the regulations on drivers' maximum working time. As auditor you are not aware of any similar breaches of legislation by the company in the past. This practice is embedded in the company's *modus operandi* (procedure) and cessation would mean that profitable operation of the company would be difficult if not impossible.

(a) Detect 

|                          |                          |                          |                          |                          |                          |                          |
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| 1                        | 2                        | 3                        | 4                        | 5                        | 6                        | 7                        |
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(b) Report 

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**6** The directors of a private company engaged in the distribution of telephone directories and associated publications to private households were fined for employing children under age in excess of the maximum number of working hours per week. The breaches of the legislation were isolated occurrences and the fines imposed were not material in the context of the company. As the auditor you are unaware of any other similar breaches of regulations by the company.

(a) Detect 

|                          |                          |                          |                          |                          |                          |                          |
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(b) Report 

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|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|

**7** The directors of a private company engaged in the distribution of telephone directories and associated publications to private households are systematically employing children under age in contravention (breach) of the relevant legislation and during school hours. A conviction for, and cessation of, these illegal practices would not threaten the going concern status of the company. However, the fine imposed by the courts is likely to be a substantial one. As the auditor you are aware that local politicians have expressed concern about the widespread practice of employing child labour by local firms and the effect that this is having on school attendance.

(a) Detect 

|                          |                          |                          |                          |                          |                          |                          |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 1                        | 2                        | 3                        | 4                        | 5                        | 6                        | 7                        |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

(b) Report 

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|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|

**8** A quarrying (mining) company is in breach of a prohibition order placed upon the company forbidding the operation of a quarry that had previously been found to be unsafe. You are unaware of any other violations of health and safety regulations or of similar legislation by the company. The quarry is the only



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one operated by the company and discovery of the breach of the order by the authorities would not only result in a substantial fine but also would be likely to affect the going concern status of the company.

(a) Detect 

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|---|---|---|---|---|---|---|
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|   |   |   |   |   |   |   |

(b) Report 

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**9** A quarrying (mining) company is in breach of a prohibition order placed upon the company forbidding the operation of a quarry that had previously been found to be unsafe. You are aware that the company has committed other breaches of the health and safety regulations and similar legislation in the past and that in addition there is a general ethos (culture) within the company of flouting (breaking) laws and regulations. Exposure and cessation (stopping) of operations at the unsafe quarry would result respectively in a heavy fine and a material impact upon the financial statements. However, the quarry is one of five operated by the company and its going concern status would be seriously threatened.

(a) Detect 

|   |   |   |   |   |   |   |
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| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
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(b) Report 

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**10** A quarrying company is in breach of a prohibition order placed upon the company forbidding the operation of a quarry that had previously been found to be unsafe. You are unaware of any other violations of health and safety regulations or of similar legislation by the company.

Exposure and cessation of operations at the unsafe quarry would result respectively in a heavy fine and a material impact upon the financial statements. However the quarry is one of five operated by the company and its going concern status would not be affected.

(a) Detect 

|   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|   |   |   |   |   |   |   |

(b) Report 

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**11** A quarrying company is in breach of a prohibition order placed upon the company forbidding the operation of a quarry that had previously been found to be unsafe. You are aware that the company has committed other breaches of the health and safety regulations and similar legislation in the past and that in addition there is a general ethos (culture) within the company of flouting (breaking) laws and regulations. The quarry is the only one operated by the company and its going concern status would not be affected.

(a) Detect 

|   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|   |   |   |   |   |   |   |

(b) Report 

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**12** Two directors of listed Company 'A' have profited substantially by dealing in the shares of listed Company 'B' which was the subject of a successful takeover bid by Company 'A'. Company 'A' aims to grow through an aggressive acquisitions policy, you suspect that other instances of the same kind may have taken place and the board of Company 'A' is apparently unconcerned about such practices.

1 2 3 4 5 6 7

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(a) Detect 

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(b) Report 

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**13** Two directors of listed Company 'A' have profited substantially by dealing in the shares of listed Company 'B' which was the subject of a successful takeover bid by Company 'A'. There is no evidence of any similar instances having occurred, Company 'A' is not in the habit of making frequent acquisitions and you have a high opinion of the integrity of its directors in general.

(a) Detect 

|   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|   |   |   |   |   |   |   |

(b) Report 

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**14** The board of directors of a listed company prepared fraudulent financial statements as a result of which the company has engaged in 'wrongful trading' and has subsequently collapsed with substantial debts. As auditor you are unaware of any similar instances involving the directors in the past.

(a) Detect 

|   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|   |   |   |   |   |   |   |

(b) Report 

|  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|
|  |  |  |  |  |  |  |
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**15** The board of directors of a listed company prepared fraudulent financial statements as a result of which the company has engaged in 'wrongful trading' and has subsequently collapsed with substantial debts. As auditor you are aware that two of the directors have convictions for similar offences in the past and that there is a general management ethos (Culture) within the entity of disregard for law.

(a) Detect 

|   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|   |   |   |   |   |   |   |

(b) Report 

|  |  |  |  |  |  |  |
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**16** Deficient performance gap means the gap between the perceived performance of the auditor and the required duties of them as defined auditing standards in relation to the client illegal act

In your opinion, what are the main reasons for such deficient performance gap? (Multiple answers are allowed)

# Auditors' perceptions on responsibilities to detect and report client illegal acts – Deficient performance gap and causes for such gap

1. Inadequacy of relevant professional education of the auditors.
2. Insufficient professional training of the auditors.
3. Lack of professional experience as an auditor.
4. Lack of due professional care.
5. Lack of professional skepticism.
6. Misunderstanding of the relevant auditing standards by the auditor.
7. Lack of clarity of relevant Auditing standards.
8. Deficiencies in Auditing Standards
9. Others
10. If "Other", please specify

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**Thank you for your corporation.**