

## Audit Expectation Gaps in the Malaysian Public Sector

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### ABSTRACT

*Audit expectation gaps (AEGs) denote the difference between the public's expectations and the auditor's perceptions of the auditor's roles and duties. Ironically, the wider the gap, the higher the public mistrust of auditing. Even worse, it could increase litigation against the auditors and thus destroy their reputation. AEGs have garnered global attention, focusing mainly on financial audits. However, it is also relevant to the performance audit in the public sector, specifically in the Malaysian context. Intrigued to bridge the gap, this study aims to investigate the existence of AEGs in Malaysian public sector performance audits, focusing on three audit concepts: audit scope, auditor's competence, and ethics. The researchers interviewed eighteen informants: eight public sector auditors, two members of the Public Account Committee (PAC), four academicians, and four journalists. Employing NVivo 12 software, the results showed the presence of AEGs in all three audit concepts. The role of conflict theory enables us to explain that stakeholders have different expectations of the auditor due to power imbalances and conflicts of interest, leading to disagreement with the auditor's perceptions. The discoveries contribute valuable insights to policymakers, accounting professional bodies, and auditors to mitigate the AEGs by educating the audit stakeholders on the extent of audit scope, auditor's competency, and ethics that the audit can justify. Furthermore, understanding the auditor's roles and duties will reduce unreasonable expectations and thus elevate public trust in the auditors. Hence, narrowing down the AEGs is vital for the relevancy and sustainability of audit professions in the forthcoming years.*

*Keywords: Auditor; expectation; gaps; performance; public sector*

### INTRODUCTION

The auditing profession's reputation has suffered due to several high-profile financial misconduct cases and audit failures worldwide, leading to substantial losses. As a result, auditors face increasing lawsuits and penalties. For instance, in the UK, PwC was fined £6.5 million for poor audits of Redcentric and £10 million for the British Home Store (BHS) liquidation (Shoaib 2018). In the US, KPMG was penalised USD 6.2 million for its faulty audit of Miller Energy, while PwC settled for USD 7.9 million over misconduct in multiple cases (Johnson 2019). These failures are not limited to the private sector. In Malaysia, the national audit report was altered to conceal financial mismanagement, costing the government RM 42 million, equivalent to USD 9.2 million (Lim 2022).

Such incidents have led to allegations that auditors have compromised audit quality, failing to safeguard public interests (Colley & Gaye 2020). These phenomena have exacerbated the public's scepticism concerning the potential influence of any specific party on auditors' independence. Consequently, the notion of auditing, formerly seen as the most reliable undertaking, has become clouded by issues of trust and cynicism. As a result, many experience dissolution and assert that auditors still need to fulfil their obligations to the public, leading to gaps in audit expectations. Ironically, the presence of audit expectation gaps has detrimental effects on the auditor's reputation. The adverse publicity surrounding audit failure poses a significant threat to the long-term viability of the audit professional.

Indeed, the audit failures have significantly eroded public trust, particularly in the public sector (Salehi et al. 2020). The public expects auditors in the public sector to ensure that the funds are spent efficiently and effectively to serve the public interest and deliver value for money. However, the expectation that the auditors would perform their work without fault or error may exceed what the auditor can do. The differences in public expectations and the auditor's perception of duties and responsibilities lead to audit expectation gaps (Porter 1993). Although AEGs have been extensively studied in financial audits (Akther & Xu 2020; Gao 2020; Salehi et al. 2020), they are also relevant to performance audits conducted by auditors in the public sector. The complexity of performance audits requires an in-depth understanding of their process and thus leads to unrealistic expectations about what they can achieve (Deepal & Jayamaha 2022). Moreover, public sector auditors often face unique challenges and responsibilities due to the nature of government operations, public funding, and the broader societal impact of their work. They are crucial in maintaining the public's trust in government and promoting good governance. Ironically, the AEGs' existence would tarnish auditors' reputations and undermine the public's confidence in public sector auditors (Gao 2020).

Despite that AEGs have sparked the interests of many researchers worldwide, such as Europe (Fotoh & Lorentzon 2023; García-Hernández et al. 2022; Grossi et al. 2023), Bangladesh (Akther & Xu 2021; Chowdhury et al. 2005; Reza & Khatun 2020; Salehi 2016), Gambia (Colley & Gaye 2020; Coram & Wang 2021), Nigeria (Bebeji et al. 2021; Olojede et al. 2020; Oluyombo & Okunola 2018), Indonesia (Uswati Dewi et al. 2021; Wibowo 2021), Iran (Salehi et al. 2020), Libya (Samira 2013), Malaysia (Batumalai 2022; Mat Daud 2007), Vietnam (Dang & Nguyen 2021; Dung & Dang 2019), New Zealand (Porter 1993), Sri Lanka (Deepal & Jayamaha 2022; Jayasena et al. 2017; Kumari et al. 2017) and the UK (Porter

et al. 2012), many have focused on the private sector, leaving the public sector under-researched (Gao 2020). Additionally, Gao (2020) recommended that future studies investigate the AEG in public sector performance audits, specifically in emerging economies. Batumalai et al. (2022) added that there are scarce studies on AEG in the Malaysian context. This study aims to narrow down this void. Hence, its objective is to investigate the presence of AEGs in performance audits, focusing on three audit concepts: audit scope, competence, and ethics in the Malaysian public sector.

The study aims to narrow down this void and deliver a novelty contribution. It aims to investigate the presence of AEGs in performance audits, focusing on three audit concepts: audit scope, competence, and ethics in the Malaysian public sector. Its research question is how AEGs can present in performance audits, focusing on three audit concepts: audit scope, competence and ethics in the Malaysian public sector. In answering the research questions, the study interviewed eighteen informants and analysed data qualitatively using the Nvivo approach. The findings indicated the presence of AEGs in the three audit concepts.

The findings support Conflict Theory, showing that stakeholder expectations vary due to power imbalances and conflicts of interest, often clashing with auditors' perceptions. The study offers valuable insights for policymakers, regulators, accounting bodies, and audit practitioners that unreasonable expectations can be reduced, and public trust can be strengthened, thus narrowing the audit expectation gaps (AEGs).

The structure of this study begins with an introduction and problem statements. Then, it examines the literature from prior studies. Next, it describes the methodology employed in the present study. Later, it details the results and discussion. Finally, it concludes with a conclusion after outlining the implications, limitations, and recommendations for forth-coming research.

## LITERATURE REVIEW

### MALAYSIAN PUBLIC SECTOR AUDIT

The National Audit Department (NAD) is the Malaysian public sector's main auditing body, led by an Auditor General. The government has authorised NAD's auditors to audit public sector accounts and activities (Malaysian Audit Act 1957). In addition to financial and compliance audits, the auditors in the public sector must conduct performance audits, evaluating whether the operations of the ministry, department, agency, and companies under the Federal and State Governments are economical, efficient, and effective (Batumalai 2022). Besides, Article 109 of the Federal Constitution protects auditors so that they can perform their duties impartially without interference from other parties.

### PERFORMANCE AUDIT

One of the duties of a public sector auditor is to conduct a performance audit by examining and evaluating whether specified programs or activities conducted by the government's ministries, departments, and agencies have achieved their intended purposes. Besides, they have to ensure that, with limited resources, the auditees perform the programs and activities in an economical, efficient, and effective manner (Gao 2020), which is known as value for money (VFM) auditing (Benamraoui et al. 2022; Oluyombo & Okunola 2018). Indeed, auditors play a crucial role in enhancing the credibility of the performance audit.

### AUDIT EXPECTATION GAPS (AEGS)

However, the public and auditors might have differing views about the auditor's duties and responsibilities (Colley & Gaye 2020), leading to audit expectation gaps (AEGs). A discrepancy occurs between what the public expects they could rely on the auditors and what the auditors perceive of the duties and responsibilities that they can provide to the public. To date, the AEGs have created litigation that both public and private sector auditors must deal with (Porter 1993).

Indeed, auditing exists because the public and stakeholders trust the auditors. They expect the auditors to be competent with sound ethical values, enabling them to exercise their roles and duties professionally and ethically. However, if the trust is broken, the auditors' functions are destroyed, and auditing is deemed useless (Conteh & Hamidah 2021). To maintain stakeholders' confidence, the auditors will, therefore, need to match their services to stakeholder expectations, a task that may exceed the scope of the audit (Reza & Khatun 2020). As such, all parties should narrow down AEGs so that the stakeholders will better understand the scope and extent of auditors' duties and responsibilities. The audit expectation gap is a well-known concept in the auditing profession that refers to the difference between the public's expectations and the auditors' actual performance. This gap can arise in various areas of auditing, including financial statement audits, compliance audits, and performance audits.

In the context of performance audits, AEGs can occur when the public has unrealistic expectations about what a performance audit can achieve or fails to meet the public's expectations. Gao (2020) stressed that several factors would contribute to this gap in performance audits. The first is that the public may need help understanding the purpose and scope of a performance audit. This issue leads to unrealistic expectations about what the audit can achieve. Secondly, auditors face the complexity of issues in measuring or evaluating. The public may have unrealistic expectations about the level of detail and precision the audit can provide. The third is time constraint. Performance audits are often conducted under time

constraints, which can limit the scope of the audit or the depth of analysis. The public may have unrealistic expectations about how much time the auditor can devote to the audit. Fourth is limited resources, which can also impact the quality and thoroughness of the audit.

#### THE UNDERPINNING THEORY: THE ROLE OF CONFLICT THEORY

The role of conflict theory is a theoretical perspective in sociology that views society as a collection of groups competing for power and resources. According to conflict theory, power imbalances and societal inequalities can lead to conflicts between different groups. This theory can explain the gaps between auditor perception and public expectation by highlighting the inherent conflicts of interest and power imbalances in the auditing process (Davidson 1975). Auditors may perceive their role as serving institutional clients, while the public expects them to act as independent watchdogs safeguarding the public interest (Budiarto 2022; Mintz 2018). These conflicting interests and power dynamics can lead to discrepancies on how auditors perceive their roles and how the public expects them to function. Indeed, the role of conflict theory underscores the need to address these conflicts to bridge the gap and ensure auditing serves the public interest and maintains trust.

Similarly, shareholders and other stakeholders may have different expectations of the audit, such as expecting the audit to uncover fraud or other wrongdoings (Kassem & Turksen 2021; Quick 2020). If the auditors cannot meet those expectations, it can lead to conflict between the stakeholders and the audit profession. This gap arises due to various factors, which include misunderstandings about the purpose of an audit, limitations of the audit process, and differences in expectations among stakeholders. Nevertheless, auditors cannot guarantee that the financial statements are free from material misstatements because they cannot conduct a full audit due to time and cost constraints (Dang & Nguyen 2021).

#### THE COMPONENT OF AUDIT EXPECTATION GAPS (AEGS)

Porter (1993) classified AEGs into performance and reasonableness gaps. The performance gap refers to what the public would rationally anticipate auditors achieving and what they believe they have accomplished. Meanwhile, Gao (2020) evaluated AEGs regarding performance, competence, and reasonableness gaps. He further articulated that deficient performance is due to the auditor's incompetence and not independence. He referred to competence in educational background and having sufficient professional training and experience.

Furthermore, he posited that the reasonableness gap is the unreasonable public expectation of auditors, which might exceed their ability. Indeed, the auditors have limitations, as they cannot cover all financial matters due to time and cost limitations. Therefore, expecting them to uncover all material misstatements is unreasonable (Deepal & Jayamaha 2022). The reasonableness gap is the discrepancy between what the public expects of auditors and what they get from them. Unrealistic expectations emerge when the public's expectations are above the standards the auditors should fulfil and thus cannot meet such expectations (Colley & Gaye 2020).

#### LITERATURE REVIEW ON AUDIT EXPECTATION GAPS

Prior literature has shown the presence of AEGs in both the private and public sectors. For instance, Colley and Gaye (2020) found the existence of AEGs from the point of view of non-auditing professionals and auditors in the Gambian public sector. This prior study employed two theories, namely the role of conflict theory and the theory of inspired confidence, to explain the existence of AEGs. The role of conflict theory highlighted the presence of conflicts of interest between auditors and the public. They further indicated that the non-auditing professionals have unreasonable expectations, thinking that the auditors' responsibility lies in detecting and preventing fraud and corruption, as well as an assurance of the effectiveness of internal controls. Meanwhile, the theory of inspired confidence highlights the role of regulatory and legal mechanisms in reducing the audit expectation gap by fostering greater trust and confidence in the auditing profession. It acknowledges that while audits may not fulfil all public expectations, these measures can inspire confidence in the reliability and credibility of financial reporting and auditing processes.

Likewise, Chowdhury et al. (2005) also indicated the presence of AEGs in the Bangladeshi public sector. They found that the role of conflict theory can explain the gaps in performance audits, which exist in three of the six auditing concepts: independence, audit scope, and competence. Additionally, Salehi (2016) claimed that many stakeholders should have understood and perceived unqualified opinions as a guarantee for the audited entity's financial stability. Also, he found misinterpretation between financial statement users and auditors on audit reports, leading to AEGs. Nevertheless, reducing the gap is vital for professional sustainability. Hence, accounting professional bodies should educate the public on the objectives of an audit report and the scope of audit work to assist the auditors when forming an audit opinion (Gao 2020). Meanwhile, Samira (2013) also found that the Libyan private sector suffers from audit expectation gaps, leading to reasonableness and standard gaps. She further revealed that the AEGs existed in the audit procedure, audited financial statements, audit objectives, auditor's roles, and the assurance of the auditor's future viability.

In Bangladesh, Akther and Xu (2019) also found that AEGs exist in the private sector from the perspective of investors, credit analysts, regulatory agencies, and auditors. They investigated AEGs in various audit concepts: fraud detection, meaning and usefulness of the audit report, non-audit services, the auditor's responsibility for going concern reporting, and

failure to meet expectations for other assurance services. In addition, they measured AEGs with stakeholders' confidence. They discovered that AEGs are negatively related to stakeholder confidence in that the wider the AEGs, the less likely the stakeholders would be confident with the audit. Likewise, AEGs also exist in the Indonesian private sector, which is the discrepancy between internal auditors' perceptions and bank managers' expectations (Uswati Dewi et al. 2021). The misconception about auditors' roles and duties in detecting fraud could tarnish a professional reputation. To narrow down the phenomenon of AEGs, Akther and Xu (2019) and Uswati Dewi et al. (2021) recommended that accounting professional bodies play proactive roles by educating the public on the scope of auditor's duties.

Olojede et al. (2020) revealed the presence of AEGs in Nigeria in the concept of auditor's roles and duties. The researchers further indicated that users expect the scope of an auditor's duties and responsibilities to include preventing and detecting fraud and error. In contrast, they discovered that auditors believe they can only provide reasonable assurance but not guarantee that the financial statements are free from material statements. Such expectations by the users would undermine the entire purpose of auditing. This prior study opined that the AEGs primarily resulted from users' unreasonable expectations due to a lack of understanding of the auditors' roles. Additionally, the study discovered that conflict theory supported the difference between the auditor's perception and the public's expectation of the auditor's role, derived from conflicting interests and power imbalances between the former and later groups.

Abiola (2015) also used conflict theory as an underlying theory to investigate the existence of AEGs. The researcher concurred that the presence of AEGs is due to users' need for knowledge about auditors' roles, responsibilities, and conflicts of interest between auditors and the public. Gao (2020) articulated that the public has unreasonable expectations for auditors, expecting auditors to deliver audit reports without errors. He further posited that the audit process could only cover some auditor's abilities. Eventually, the unreasonable gap arose due to public misunderstandings and auditors' limitations (Gao 2020). The studies highlighted that the existence of AEGs in performance audits is an issue that all parties should address.

Chowdhury and Innes (1998) and Mat Daud (2007) examined the AEGs in performance audits, focusing on six concepts of audit scope, audit standards, auditor's ethics, and competence. These prior studies employed Porter's (1993) approach in explaining the presence of AEGs and identifying the gap components. They found the existence of AEGs in audit scope, auditor's ethics, and competence. Meanwhile, Mat Daud (2007) found the presence of AEGs in the Malaysian public sector in a performance audit of several auditing issues that include fraud detection, management influence, outsourcing the audit, content and format of the audit report, and expansion of the audit mandate to include the evaluation of the policy's merits.

## METHODOLOGY

The researchers selected 18 informants: eight auditors, two members of the Public Account Committee (PAC), four journalists, and four academicians based on purposiveness sampling. The auditors constituted of two levels: seniors and juniors. PAC members consisted of members of Parliament appointed at the beginning of every Parliament to examine the government accounts. One PAC member was from the ruling party, while the other was from the opposition party. Other informants comprised of four journalists and four academicians.

To date, many studies have investigated AEGs using a qualitative approach (Abiola 2015; Colley & Gaye 2020; Chowdhury et al. 2005; Gao et al. 2020; Mat Daud 2007; Uswati Dewi et al. 2021) as opposed to a quantitative approach (Salehi 2016; Samira 2013). One of the advantages of qualitative approach by using an interview method is the ability to gather rich, contextual, and personalised information directly from the participants. This method is particularly well-suited for exploring complex topics, understanding human behaviour, and gaining insights into individuals' perspectives and experiences, such as the views and insights of auditors and the public.

## INTERVIEW

One of the most popular qualitative techniques that use face-to-face interaction is interviewing. This method is suitable because it can provide a vast amount of data. The researchers employed the interview protocol using semi-structured questions. They adapted questions from prior research, which also investigated AEGs of performance audits in the public sector (Chowdhury & Innes 1998; Mat Daud 2007). Before finalising the interview questions, the researchers consulted two audit experts. Based on their recommendations, the researchers amended the questions to ensure the informants had a shared understanding of every question. Besides, this approach enables the researchers to explore issues on audit scope, auditor's competence, and auditor's ethics through probing questions.

The researchers divided the interview protocol into four sections. Section 1 started with a set of general questions to explore the general role of auditors and the importance of performance audits to the users of audit reports. Section 2 emphasised the extent of the scope of the audit. Section 3 focused on the auditors' competence. Finally, section 4 contained questions on the auditor's ethics. Each question in all sections had several sub-questions that followed the answers given by the informants. Also, the difference or expectation gap will put the researchers in the position to interpret their opinions and draw conclusions concerning the phenomenon of AEGs in the performance audit.

## DATA COLLECTION

Before beginning each interview, the researchers informed the research objectives and the purpose of their selection to the informants. The researchers encouraged them to ask questions to clarify a particular word or idea before recording the interview. The researchers also guaranteed the study's confidentiality. They also provided the informants the option to answer the questions in Malay or English language. The aim was to encourage them to express ideas or views freely. Overall, six respondents decided to answer in English, while the remainder responded in Malay. The interviews ranged from twenty-five minutes to one and a half hours.

The researchers analysed the interviews in two phases. In the first phase, the principal researcher transcribed all the interview data and saved each transcript as a Microsoft Office template. Next, the researchers transcribed the interviews immediately, generally on the same day. After browsing the data notes, the researcher would close their eyes and attempt to immerse themselves in the situation by recalling their verbal expressions and physical gestures in response to the questions. The second researcher then translated the Malay transcriptions into English. For consistency, he gave the translated English transcription to the third researcher to translate back into Malay. After completing all the transcriptions, the researchers showed the initial transcriptions to the informants for their comments and approval. Finally, the researcher confirmed the answers given by the informants with other informants to validate the researcher's understanding and assessment of the generated data.

## RELIABILITY AND VALIDITY

Reliability in qualitative research relates to the consistency or replicability of procedures (Colley & Gaye 2020). It is to ensure that findings are dependable, generalisable, and transferable. In other words, if another researcher conducted the study in a different context, they would likely reach similar conclusions. Testing reliability, especially in interviews, ensures that research methods are consistent and dependable (Rose & Johnson 2020).

To ensure reliability, the researchers used standardised interview guides with open-ended questions, covering all relevant themes in each interview. They took notes during the interviews to capture key points needing clarification or potentially conflicting information. The researchers meticulously recorded and continually verified all data, focusing on credibility, trustworthiness, authenticity, and rigour (Cresswell & Miller 2000). Additionally, the researchers document all research activities, including interview protocols, coding schemes, and theme derivations to ensure transparency.

The researchers employed triangulation techniques, using multiple data sources to cross-check findings by interviewing different categories of informants, such as public sector auditors, Public Audit Committee members, journalists, and academics. Their diverse perspectives helped increase validity and reliability, capturing varying views on the audit expectation gap, particularly on audit scope, auditor competence, and ethics. As Lincoln and Guba (1985) stated, reliability is tied to validity, while Patton (2002) emphasised that reliability follows when data validity is achieved through saturation, where no new themes emerge from further interviews.

Moreover, the researchers asked the informants to review the findings to confirm the accuracy and identify discrepancies. This involvement ensured that their perspectives were correctly interpreted. The researchers also applied a peer debriefing technique, in which all the researchers would identify inconsistencies and refine interpretations, enhancing the overall reliability and trustworthiness of the findings on audit expectation gaps in the public sector.

The task required reading and rereading data notes, reflecting on the researcher's reading, and making comparisons using logical judgment (Neuman 2007). Reliability in qualitative research refers to the consistency of responses to various coders (Cresswell 2013). Meanwhile, validity entails meticulous data recording and ongoing justification by the researcher throughout the investigational process. Next, in the second phase, the researchers would identify, code, and categorise the data to derive a typical pattern of the informants' views concerning the investigated auditing concepts: audit scope, auditor's competence, and ethics.

## DATA ANALYSIS

The researchers used NVivo version 12 to analyse the data, as it can organise, search, and retrieve data. Initially, the researchers transferred all the data into the software and manually coded it. At first, the researcher used free nodes (open coding). Next step is to identify data categories and critical themes. Then, after summarising all the data, the researchers looked for more significant common categories that some of the summaries might fit. Finally, the researchers would compare every node with all nodes to recognise similarities, differences, and common patterns. Although the researchers labelled all the categories and themes that emerged from the data in NVivo, they maintained the words used by the informants. In light of this, the following are excerpts from the interviews, followed by a discussion to interpret the results.

## RESULTS AND DISCUSSION

The study's objective is to investigate the presence of AEGs in performance audits, focusing on three audit concepts: audit scope, competence, and ethics. In meeting the purpose, the leading researcher interviewed 18 informants: eight auditors, two

PAC members, four journalists, and four academicians. She started by introducing herself and explaining the purpose of the study before asking the informants to relate their understanding of the scope of the performance audit.

## AUDIT SCOPE

### THE EXTENT OF ECONOMY, EFFICIENCY AND EFFECTIVENESS

The researchers noted that all the auditors understood the performance audit's scope, which aligns with the International Organisation of Supreme Audit Institutions (INTOSAI 1992) to include the economy, efficiency, and effectiveness assessment of governmental institutions' projects or activities. For example, a senior auditor with eight years of experience in performance auditing claimed that he always focuses on the 3Es in performing his duties.

*"We always check whether the project is economical, efficient, and effective. These three elements are important to ensure it complies with the purpose of the performance audit". (Auditor 1)*

Another junior auditor with less than three years of experience in performance auditing also supports the view.

*"We will assess whether the government entities have conducted the project economically, efficiently, and effectively, ensuring they comply with the performance audit". (Auditor 8)*

However, one PAC member from the opposition party and an academician of a local higher educational institution argued that the present performance audit fails to cover all aspects of the 3Es:

*"We observed that auditors placed a higher priority on economy and efficiency. They oversight effectiveness. They need to look at this element also". (PAC 2)*

Another academician validated the view.

*"After reviewing the audit report, we found that the objectives only state economy and efficiency. The report did not cover effectiveness". (Academician 2)*

The academician then further explained his remark.

*"Performance audit requires auditors to exercise their professional judgment, specifically in evaluating the effectiveness. However, the outcome of the project is usually subjective. For example, the Young Agropreneur Program, conducted by TEKUN, provides loans to youth to assist them in farming and agro-based industries.....to assess the program's effectiveness would require appropriate evaluation. Some would see the result of the increasing number of youth agro-entrepreneurs, while some would see the number of successful youth agro-entrepreneurs. Auditors try to avoid the evaluation, as there are no standard criteria to assist them". (Academician 2)*

Based on the excerpts, the results revealed that all auditors claimed they have focused and addressed on economics, efficiency, and effectiveness (3Es) in auditing a program. However, several users argued that auditors only concentrate on economics and efficiency rather than effectiveness. Indeed, users often have high expectations, expecting the auditors to provide accurate and objective assessments of a program or activity. Auditors may need assistance in meeting these expectations due to the complexity of the subject matter, the limited resources available to conduct the audit, and the need for precise performance standards.

The role of conflict theory posits that imbalances in functions and duties between auditors and users, besides the inherent limitations faced by the auditors, have led to AEGs. Additionally, the results are consistent with studies by Chowdhury et al. (2005) and Mat Daud (2007) in which AEGs are present in the scope of performance audits regarding 3Es in the Bangladeshi and Malaysian public sectors, although they were conducted several years ago. Thus, consistent with the role of conflict theory and prior studies (Chowdhury et al. 2005; Mat Daud 2007), the discrepancy of views or AEGs exists between auditors and users on the scope of performance audit concerning the extent of economics, efficiency, and effectiveness in the project's assessments.

### AUDITOR'S RESPONSIBILITIES IN DETECTING FRAUD

In addition to the 3Es examination, the informants further accentuated the audit scope by addressing their perceptions concerning detecting fraud. According to senior and junior auditors who have experience in performance audits, they are not responsible for detecting fraud. Below are several views from the auditors.

*"Many people have misconception that audit scope should cover the detection and reporting of fraud. They believe that auditors are responsible for this incorrect matter, which is wrong. The management is responsible for detecting and reporting fraud. Due to time, staffing, and cost constraints, we test the internal control systems based on samples rather than the entire transactions. .... We will report if we suspect the irregularities". (Auditor 5)*

*"The Act does not require auditors to look for fraud". (Auditor 1)*

*"The public always anticipates us to uncover fraud. In performance audit, fraud is not the primary focus". (Auditor 4).*

Further views from the auditor.

*"We strengthen an agency's flaws, not to uncover fraud". (Auditor 6)*

In contrast, PAC members from ruling and opposition parties viewed their discontent with the efforts made by auditors to detect fraud. They believed this is due to the absence of an audit mandate and systematic fraud detection procedures.

*"The auditors do not investigate fraud. They only investigate it if, during the audit, they discover something wrong or misappropriation exists. What happens if they do not uncover during the audit?". (PAC 3)*

*"Often, they discovered fraud too late, showing the monitoring mechanism is ineffective. The auditors should detect and prevent it before it occurs". (PAC 1)*

A journalist expressed concern that audit work should include prevention and spotting fraud. He argued that auditors are not making significant attempts to find fraud.

*"Auditors are not taking fraud detection seriously. That is why they failed to detect fraud even if the amount is substantial". (Journalist 2)*

An academician also supported the view.

*"The audit scope should include the prevention and detection of fraud. Upholding the public interest comes first. Auditors in the public sector cannot work like those in the private sector. They must focus more on detecting fraudulent transactions". (Academician 2)*

As indicated above, disputes between auditors and users arose concerning preventing and detecting fraud. The results revealed all auditors unanimously agreed that their scope of duties does not cover detecting and reporting fraud as stated by the International Auditing Standard (IAS) 240. The primary responsibility for preventing and detecting fraud rests with those charged with entity governance and management, which also applies to auditors in the public sector.

In contrast, some users may overestimate that the audit scope should include fraud detection. The results align with the role of conflict theory in which the AEGs are present due to the conflict of interests between the auditor's perceptions and users' expectations. Although auditors serve institutional clients and perform procedures designed to detect fraud, fraud is complex and well-concealed, making it challenging to uncover in all cases. However, the public expects them to act as independent watchdogs safeguarding the public interest. The results concur with the role of conflict theory and prior studies conducted in various nations, such as Gambia (Colley & Gaye 2020), Bangladesh (Akhter & Xu 2019; Chowdry et al. 2005), Indonesia (Uswati Dewi et al. 2021), Nigeria (Olojede et al. 2020) and Malaysia (Mat Daud 2007). Hence, AEGs are present in the audit scope of performance audits regarding auditors' responsibility in fraud detection.

#### AUDITOR COMPETENCE

The researcher then asked the informants about their understanding of auditor competence. As outlined by the International Educational Standard (IES) 8, the competence standards for audit professionals are formal education (knowledge) pertinent to audit (IES 2), professional skills (IES 3), and the ability to apply their professional values, ethics, and attitudes (IES 4) to various settings and institutions. Many auditors and users believe that auditors hold the necessary formal qualifications relevant to auditing and can apply professional values, ethics, and attitudes in various contexts. However, there is a divergence of opinions on competency relating to expertise and experience. Auditors perceived adequate knowledge, experience, and expertise, while some users had higher expectations. They have pointed out that some junior auditors are inexperienced and lack knowledge, besides communication and soft skills. While, auditors may feel confident in their abilities, particularly those with more experience, the public often focuses on instances where junior auditors or less experienced team members are involved. Many users may interpret any shortcomings in these individuals as a reflection of overall audit quality, leading to a perception that auditors lack sufficient expertise and thus less competence.

## QUALIFICATION AND SKILLS

All auditors perceived they were competent and had sufficient skills to perform performance audits. They also expressed satisfaction with their level of training and expertise. Indeed, all auditors have a bachelor's degree in relevant fields. In addition, they highlighted that they must have at least five years of professional experience in financial and compliance auditing before being allowed to conduct performance audits. Besides, they admitted that possessing a reasonable level of expertise on the financial side is essential. The following excerpts illustrate this point:

*"You must be well-versed in financial auditing before conducting a performance audit. An auditor has to perform a financial audit within 5 to 6 years before being moved to the performance audit"* (Auditor 5).

*"We do not let new auditors conduct performance audits. We only allow them to conduct the performance audit once they have gained sufficient exposure and experience".* (Auditor 3)

All users except for one of the PAC members agreed that the auditors are qualified and skilled. Although he noted proper procedures for auditor's appointments, he suggested that auditors undergo appropriate training and continuously monitor their performance.

*"I do not think all of them are qualified, although some may have appropriate qualifications. They must guarantee that all auditors are certified. Before, I had heard that people with certificates and qualifications could work as auditors".* (PAC 1)

Overall, all users expressed satisfaction with the auditors' qualifications. They thought the auditors had the necessary credentials and met the minimal requirements to work as government auditors.

*"I am confident that the Auditor General chose the best candidates for the position who meet the minimum requirements to work as auditors".* (PAC 3)

*"Since they are highly qualified, they are typically competent and expert in their area and definitely will apply their professional skill during their audit".* (Academician 2)

However, the knowledge and expertise of auditors are a point of contention among users. For some users, the junior auditors need more expertise and experience. The excerpts below show this viewpoint:

*"The issue is that some auditors were young, inexperienced, and less familiar with the system".* (Academician 1)

*"The auditors are quite competent. However, the juniors lack communication and soft skills".* (Journalist 2)

Another user asserted that the auditors' inability to solve problems leads to substandard audit recommendations.

*"Many auditors, particularly the junior ones, lack capabilities, particularly in problem-solving. This skill is crucial.... For instance, in the construction industry, they verify each other's work before comparing it to the accepted standard that someone else may have established. As a result, they provide vague recommendations, and frequently, they only suggest things connected to the procedures".* (Academician 2)

To sum up, all auditors and many users believe that auditors possess the required formal qualifications pertinent to audit. However, concerning expertise and experience, auditors and users have different views. Auditors claim they possess sufficient knowledge and expertise. At the same time, several users may have high expectations. They highlighted that some junior auditors were inexperienced and lacked knowledge, besides communication and soft skills. The results are in tandem with Chowdry et al. (2005) and Mat Daud (2007), who also found the existence of AEGs on audit competence. Additionally, the results support the role of conflict theory that power imbalance has created discrepancies of opinions between the groups, leading to AEGs on audit competence.

## AUDITOR'S ETHICS

The last issue investigated is the presence of AEGs in auditor's ethics. Indeed, ethics is critical in public sector auditors, ensuring that government agencies and programs comply with applicable codes of ethical conduct, laws, and regulations. They must also be mindful of the public interest and work to ensure that government programs and agencies use public resources responsibly and effectively. Auditors cannot let any bias override their objectivity. However, the public sector's political factors and working culture could put them in disadvantageous situations and raise ethical issues. At worst, some may behave unethically, causing them to lose their integrity. Adopting a code of ethics is one strategy to address the problem,

besides fostering public confidence and trust in the profession. To investigate the presence of AEGs in auditors' ethics, the researcher questioned the informants to relate their perceptions on whether auditors act in the public's best interest or their own. Most auditors claimed that they conduct their work ethically and always put the public interest ahead of others. However, several auditors concurred that a few might be motivated by personal gain, but they opined that it cannot be generalised to all auditors.

*"We are here to protect the interests of the public. I prioritise this, and so do others. We report to the Parliament rather than the prime minister for this matter. Although some of us may have a personal interest, generalising to all auditors is unjust".* (Auditor 3)

Another auditor stressed that morality and religion are crucial factors guiding their behaviour.

*"On top of that, I also thought that, as a Muslim, I had to be sincere in whatever I did. Allah is looking on it. I'm scared of Him".* (Auditor 1)

Additionally, another auditor claimed that the code of ethics guides them to act in the public interest. They claimed that the codes help them to distinguish between good and wrong, and hold themselves accountable for their actions.

*"Auditors must adhere to the code of conduct. We follow rules that specify what we can and cannot do. It's not just a simple assertion. Even third parties outside the company have access to the codes. They can use it to hold us accountable for our actions".* (Auditor 7)

However, some users thought there is no guarantee that auditors adhere to the code of ethics.

*"There is no guarantee that auditor will follow all regulations, codes of conduct and standards".* (PAC 2)

*"Auditors may comply, but what else can they do if the boss asks them to override them? It depends on the extent of ethical values held by the auditors; ..... for sure, they are scared of their boss".* (Journalist 2)

In summary, there are also conflicting perceptions of auditor's ethics between the auditors and users. Auditors claimed that they comply with the code of ethical conduct of the National Audit Department (NAD), rules, and regulations and thus embrace the appropriate moral values. Meanwhile, a PAC member from an opposition party opined that the auditors might not comply if their superiors impose pressure.

Indeed, auditors may face ethical dilemmas when balancing their duty to provide an accurate and transparent examination with their commitment to obey their superiors. Because of this, users may have varying expectations regarding how auditors should handle such situations. The role of conflict theory can also explain that the presence of AEGs in auditor's ethics is due to an imbalance in powers and duties between the auditors and users. The results concur with prior studies (Chowdry et al. 2005; Mat Daud 2007) and the role of conflict theory that AEGs exist between auditors and users regarding auditor's ethics. To address AEGs, auditors, stakeholders, regulators, and the auditing profession must prioritise ethical conduct, be competent, maintain transparency, and engage in open communication to build and maintain trust in the auditing process.

## IMPLICATIONS TO MANAGEMENT

The discoveries create challenges for the National Audit Department (NAD) and auditors, whereby they should proactively engage with the stakeholders to define and communicate clearly with them about the scope of the performance audit, their ethical responsibilities, and the limitations of an audit through audit reports and other means. They can engage in a dialogue with stakeholders to clarify expectations and better understand their competence and challenges. The engagement can align public expectations and prevent misunderstandings about what the performance audit will cover 3Es and the extent of detecting fraud by the auditors.

Second, the discovery provides insights to the National Audit Department (NAD) to continuously conduct ongoing, specialised training to enhance the auditor's technical and professional competencies. This includes understanding complex areas such as fraud detection, risk management, and performance auditing, which are often high in stakeholders' expectations. Besides, the NAD should facilitate regular interactions between auditors and key stakeholders (such as audit committees or public officials). This collaboration fosters mutual understanding and helps identify any gaps in expectations early, allowing for more proactive management of these gaps. The discovery also contributes insights to the NAD's efforts to establish and promote solid ethical standards, provide guidance, and foster a culture of integrity and accountability among auditors. A robust ethical culture would increase the public's perception of auditors' ethical standards and integrity.

Moreover, NAD should ensure that the auditors adhere to auditing standards, ethical codes, and reporting guidelines to minimise the risk of unethical behaviour or incompetence among auditors. Finally, the NAD should implement mechanisms

for stakeholders to provide feedback on the scope of the performance audit, the auditor's competency, and ethics. This feedback can help auditors understand stakeholder expectations better and make improvements in the subsequent audit.

#### IMPLICATIONS TO ACADEMIC

The study adds to the body of knowledge in audit literature on the presence of AEGs in performing audits concerning three audit concepts: audit scope, auditor's competency, and ethics. Auditors may perceive their role as serving institutional clients but face inherent limitations due to the complexity of the audit tasks. On the other hand, the public expects them to act as independent watchdogs that safeguard the public's interest. These conflicting interests and power dynamics can lead to discrepancies on how auditors perceive their roles and how the public expects them to function, thus supporting the role of conflict theory. Indeed, the study supports the validity of the role of conflict theory that stresses the need to address these conflicts by bridging the gap and ensuring auditing serves the public interest and gains their trust.

#### LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Although the study has several implications, the researchers identified a few limitations. First, the present study only included two levels of auditors, namely junior and senior, as they cannot interview the heads of departments due to their tight schedules. Because of this, the results might not reflect the views of those at the managerial level. The researchers suggest that future research includes auditors in higher positions, as they can provide valuable insights on AEGs due to their knowledge and vast experience in auditing.

Second, this study employed a qualitative technique which intends to explore and identify the existence of AEGs in the Malaysian public sector from the perspectives of eighteen informants. As such, it does not represent the entire population of the Malaysian public sector. To mitigate the methodological bias, the researchers suggest that future studies employ a quantitative survey approach by using surveys. Indeed, the results from both quantitative and qualitative methods provide a comprehensive view of the existence of AEGs in the Malaysian public sector.

Third, although financial and compliance audits are equally important, this research confines performance audits. For an all-inclusive view, future research should conduct a comparative study to investigate the existence of AEGs in financial statements and performance audits. The results would enhance the understanding of AEGs in different types of auditing for the private and public sectors.

#### CONCLUSION

This study investigates the presence of AEGs in Malaysia from the viewpoints of public sector auditors and users concerning performance audits in three audit concepts: audit scope, auditor's competency, and ethics. Results reveal that auditors' perceptions differ from users' expectations. First, auditors perceived that, as stated in the audit mandate, their audit scope comprises all the 3Es, namely economic, efficiency, and effectiveness. Although many concur, a few users claimed that auditors only covered economics and efficiency, thus ignoring its effectiveness due to the complexity and subjectivity of the evaluation. Additionally, auditors perceive that their duties do not confine themselves to detecting fraud. In contrast, users have high expectations. They perceive that audit performance's scope includes fraud detection.

Many users expressed satisfaction with the auditors' qualifications. However, some claimed that junior auditors are inexperienced and need more communication skills and experience. Because of this, they often fail to form accurate decisions, specifically in subjective areas. The claims are against the auditors' perception. The auditors stressed that those who are academically qualified with sufficient audit experience can conduct the performance audit.

Additionally, auditors and PAC members concurred that auditors act in the public interest, working with honesty, integrity, and objectivity. However, several users perceived that auditors might violate integrity principles by operating beyond the public interest due to pressure from superiors and close relationships with the auditee. The discoveries indicated the existence of AEGs between users' expectations and auditors' perceptions in the three audit concepts of performance audit due to power imbalances and conflict of interests between the groups. Given the significance and sensitivity of this phenomenon to the audit profession, it is crucial to narrow down the AEGs between auditors and stakeholders, thus creating the public's trust and confidence in the audit profession. Hence, all parties, namely NAD, accounting professional bodies, government, academia, auditees, and auditors, should be concerted to educate the public on the auditors' roles and to what extent audits can justify.

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