

Impact of Audit Expectation Gap on the Shareholders' Confidence with Special Reference to Public Listed Companies in Sri Lanka

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Annual financial statements are prepared by management to communicate the corporate financial performance and position while auditors provide an independent opinion on the true and fair view of these statements over very many years. The Audit Expectation Gap (AEG) is still considered as a critical issue which arises from the differing expectations of shareholders and auditors. Accordingly, the study initially assesses the AEG within the context of the Public Listed Companies in Sri Lanka and then investigates the impact of the auditors' role on the Shareholders' Confidence. The study followed a quantitative approach and data were collected using a structured questionnaire distributed among auditors and shareholders. The study employed independent sample t-tests and Simple regression analysis to analyze the collected data. Based on a questionnaire survey with auditors and shareholders, the study explored shareholders' perceptions of unreasonable AEG from various aspects. The findings of this study revealed that the existence of an AEG is negatively related to shareholders' confidence, and the greater the AEG, the lower the shareholders' confidence in the audit. Furthermore, it revealed a significant difference between auditors and shareholders on the expectation of audit in terms of auditor independence, communication, and responsibility for fraud detection. However, no significant difference for the expectation of audit which was found concerning the reliability of the auditor's report. Regression analysis confirmed that auditor independence, communication, and report reliability enhance shareholder confidence. However, perceptions diverged on the impact of fraud detection responsibility, with auditors downplaying its effect, contrary to shareholders' views. These findings emphasize that there is a necessity to address the AEG in order to improving transparency in the audit process, ensuring accurate financial disclosures, and fostering shareholder confidence.

Keywords: Auditors, Audit Expectation Gap, Shareholders, Shareholder Confidence, Sri Lanka

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