THE AUDIT EXPECTATION-PERFORMANCE GAP AND THE ROLE OF EXTERNAL AUDITORS IN SOCIETY

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ABSTRACT

External auditors throughout the English-speaking world are facing widespread criticism and extensive litigation. It is postulated that this is a manifestation of the audit expectation-performance gap, the gap between society's expectations of auditors and auditors' performance. This gap is conceived to comprise two major constituent parts, the reasonableness gap and the performance gap, with the latter subdivided into deficient standards and deficient performance components.

The linchpin in narrowing the gap is perceived to be the duties which are reasonably expected of auditors. It is these duties about which society needs to be educated to eliminate the reasonableness gap, and it is these duties which need to be embodied in auditing standards and performed by practitioners in order to close the performance gap. For duties to be reasonably expected of auditors, they must be compatible with auditors' role in society and cost-beneficial for auditors to perform. Before these duties can be identified, auditors' role in society needs to be defined.

A theory to explain the role of auditors has been developed based on a conceptual framework comprising three elements, namely, the concept of role, the attributes of auditors as professionals, and the concept, development and discharge of corporate accountability. It has been proposed that auditors' role in society is constituted by the attitudes, values and behaviour expected of those who occupy the social position of auditors, by those who have an identifiable relationship with the role position, that is, by role senders. It is further postulated that the social position of auditors is that of members of a recognised profession acting as instruments of social control within the corporate accountability process.

The normative propositions relating to auditors' role in society and the audit expectation-performance gap were tested empirically. More specifically, a mail survey was conducted to investigate the expectations of auditors' role senders in New Zealand regarding auditors' duties, and their professional standing and specialist function in society. In general, the survey findings support the normatively derived propositions. They also enabled the duties which are reasonably expected of auditors, and those which constitute the reasonableness gap, the deficient standards, and the deficient performance components of the audit expectation-performance gap to be identified. Additionally, the survey data provided the means to estimate the relative contribution of these duties to their respective components, and of the components to the overall gap between society's expectations of auditors and auditors' performance.

The research has provided insights into the audit expectation-performance gap which permit attempts to narrow it to proceed on a rational, comprehensive basis. It is recommended that education and improved communication be adopted to counter unreasonable expectations and thus to narrow the reasonableness gap; that auditing standards be extended to encompass duties reasonably expected, but not currently required of auditors, to eliminate the deficient standards gap; and that more stringent enforcement of professional standards be used to rectify deficient performance. It is submitted that, if this three-fold approach is adopted, rapid progress will be made towards narrowing the gap and, as a consequence, criticism of auditors will be reduced and the credibility of the profession will be restored.

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CHAPTER 1: OVERVIEW OF THE RESEARCH PROJECT

1.1 INTRODUCTION: BACKGROUND TO THE RESEARCH STUDY

The New Zealand Companies Act 1955 requires all public companies to present annually to their shareholders an audited Balance Sheet and Profit and Loss Account.[1] The audits of these financial statements are very costly. In 1988 the audit fees of just twenty of the largest companies listed on the New Zealand Stock Exchange amounted to over $25.25 million, so it is evident that the statutory audits of New Zealand companies as a whole involve an enormous amount of resources. The question arises: why does the legislature regard independent audits as essential? Or, more precisely, what role do external auditors play in society which makes their function so valuable? This question is particularly pertinent in the light of the criticism and litigation which auditors face today.[2]

Nearly 20 years ago, Flint (1971, p. 287) drew attention to the fact that the audit function was under question and that auditors were facing severe criticism for failing to perform the duties expected of them by society. A review of professional auditing literature reveals that the problem remains serious. As the following quotations serve to illustrate, criticism of the profession is rife, there is a distinct gap between society's expectations of auditors and auditors' performance, and neither auditors nor those whom they serve seem to have a clear understanding of the role of external auditors in society.

- The accounting profession is said to be facing a liability crisis. The current period has been characterized as a time of unprecedented litigation and broadened liability. Claims appear of suits against independent auditors in record numbers for record amounts, with such suits generating record settlements and judgements. Litigation against independent auditors takes place in the context of allegations of an audit failure, a situation in which an independent auditor either fails to detect or detects but fails to report material omissions or misstatements of financial information. (Palmrose, 1987, p. 90)

- After a spectacular string of corporate failures and financial scandals in recent years, the industry that is supposed to audit company books and sniff out chicanery is under pressure from all directions. Record numbers of outraged shareholders and creditors of bankrupt firms are dragging accountants into court, demanding to know why the auditors gave no warning of impending disaster. In all, the accountancy profession [in the U.S.] faces an estimated 2000 liability suits that ask for about $10 billion in worldwide damages. (Russell, 1986, p. 58)

- Many commentators and critics of the accounting profession, [including] members of Congress, financial writers and judges, believe there is a serious gap between what the public expects from auditors, and what auditors believe they are responsible for. ...The public does not understand how a company can suffer serious financial difficulties or even fail as a result of massive, undetected management fraud, shortly after it receives an unqualified opinion. Also, the public does not understand the profession's stance when CPAs seem to deny responsibility for detecting fraud. For what other reason, the public asks, should a company have an audit? (Guy and O'Neil, 1986, p. 76)

- A week in which there are no significant [legal] claims against accountancy firms is now the exception ...Accountants as a breed have not become more negligent ... The real problem is related to the palpable gap between our own perception of ... auditing ...and that of the public whom we serve. (Woolf, 1985, p. 18)

In summary it may be said that "modern auditing is in a period of serious turmoil and doubt" (Lee, 1977, p. 105) and that auditors are facing "a liability and a credibility crisis" (Russell, 1986, p. 58). According to Flint (1971):

> The public are right to question and to challenge. Matters of public interest are at issue. It fails to measure up to the problem, or to appreciate the nature of the challenge, for auditors to retreat behind the defence that the public really do not understand what auditors do. ...The really critical social issue is ...what is the role of auditors in society? (p. 287)

Following from Flint's observation it is postulated that the root cause of the auditing profession's problems lies in the absence of a satisfactory theory to explain the role of external auditors. Without such a theory there is no basis for defining the duties which properly belong to auditors and there is no framework for the orderly development (or subsequent evaluation) of auditing standards and practices. There is, therefore, no sound foundation from which to address the mis-match between society's expectations of auditors and auditors' performance. Further, there is nothing to guide the direction of the profession's future development.

As auditing is a social function which evolves as it responds to changes in society, what is needed is a theory which conceives auditing "in the context of a social philosophy of audit and accountability" (Flint, 1971, p. 287). In view of the criticism and litigation which has plagued the auditing profession for the last 20 years, it is evident that such a theory is required as a matter of urgency. Yet, as Flint noted in 1971, despite the issue being "serious and fundamental ...there is no evidence that [it] is the subject of serious consideration and research" (p. 287). In 1988 he observed:

> In spite of the social importance of auditing ...there has been little interest in the study of its theory or in the development of research. ...There is no general answer to the question of what is the purpose of an audit. ...There has to be some explanation for society's acceptance of the worth of what auditors do. (Flint, 1988 pp. 1-2)

1.2 AIMS AND OBJECTIVES OF THE RESEARCH PROJECT

It has been noted that auditors face serious criticism and extensive litigation as a result of failing to meet society's expectations of them. It has also been postulated that the root cause of the problems facing auditors is the lack of a satisfactory theory to explain their role in society. With this background, research was commenced with two main aims:

1. to analyse the gap between society's expectations of external auditors and auditors' performance, as perceived by society (that is, the audit expectation-performance gap);
2. to define a theory to explain the role of external auditors in New Zealand.

To facilitate achievement of these aims, the research had the following specific objectives:

1. to undertake literature-based research to ascertain the nature and structure of the audit expectation-performance gap, as it exists generally in the English-speaking world;
2. to conduct empirical research to establish the extent and structure of the audit expectation-performance gap in New Zealand;
3. to determine, by normative deduction, appropriate means to narrow the gap;
4. to identify (through a literature review), and to evaluate, existing theories which attempt to explain the role of external auditors;
5. to derive normatively an alternative explanation of auditors' role in society, to the extent that existing theories are deficient;
6. to test empirically in New Zealand the validity of the derived theory.

It should be noted that 'theory' as used here has the meaning attributed to it in the Oxford English dictionary, namely, "a system of ideas or statements held as an explanation or account of a group of factors or a phenomenon".

1.3 RESEARCH METHODOLOGY

1.3.1 Overview

The research has been conducted in two phases:

1. a literature-based study;
2. empirical research.

1.3.2 Literature-based study

For the literature-based study, relevant literature relating to both the audit expectation-performance gap and the role of external auditors was reviewed. This was primarily derived from dissertations, reports of various committees set up by overseas professional bodies, professional promulgations and journal articles. The literature was mainly identified from the following sources:

(i) online database searches of:

(a) Dissertation Abstracts

(b) Accountants' Index Supplement

(c) New Zealand Bibliographic Network;

(ii) a manual search of indexes of theses accepted for higher degrees by Universities in Britain, Australia and New Zealand;

(iii) footnotes and references cited in auditing literature.

(i) Online database searches

(a) **Dissertation abstracts**: Two online database searches of Dissertation Abstracts were conducted using the Dialog Information Retrieval Service. These generated a list of fifty-six dissertation abstracts of which, three on different aspects of audit committees and two on auditor independence appeared promising. However, reading the abstracts showed that neither these nor any of the other dissertations were directly relevant to the research topics under investigation.

(b) **Accountants' Index Supplement:** An online search of the Accountants' Index Supplement using Orbit IV resulted in seventy-one citations of books, theses, addresses, research papers and journal articles, from the period 1973 to 1986. Of these, twenty-one references were relevant to the research project.

(c) **New Zealand Bibliographic Network:** This source generated a further six useful references.

(ii) **Manual search of indexes of theses accepted for higher degrees in Britain, Australia and New Zealand**

The search of indexes of theses accepted for higher degrees covered the period from 1969 to 1987 for British Universities, 1974 to 1984 (the most recent available) for Australian Universities, and from 1982 to 1987 for New Zealand Universities. This was supplemented by direct enquiries of Australian Universities for the period 1985 to 1988 and of New Zealand Universities for 1988. As a result of the search and enquiries the following theses were identified as relevant:

- Lee, T. A. *An inquiry into the nature of objectives relevant to the external audits of UK limited companies* (presented for an MSc, University of Strathclyde, Scotland, 1969).
- Beck, G. W. *Public Accountants in Australia - their Social Role* (presented for a PhD, University of Queensland, Australia, 1974).
- Aiken, M. E. *Corporate Accountability and Reporting: an exploration of the feasibility of a combined general model and "events" approach* (presented for a PhD, University of New South Wales, Australia, 1976).

- Gilling, D. M. *The Role of the Auditor in Modern Society: Towards a Conceptual Analysis* (presented for a PhD, University of Newcastle, Australia, 1978).

(iii) **Footnotes and references cited in auditing literature**

This proved to be the most fruitful source of relevant literature and some four hundred further useful references were identified by this means.

1.3.3 Classification of literature

Once the relevant literature had been identified and obtained, it was input as data to a micro-computer spreadsheet using VP Planner. It was then sorted according to:

(i) subject classification

(ii) author.

The broad subject groupings used for classification purposes included:

- the role of the auditor: reports, surveys and articles
- the professions: general and accountancy
- the audit expectation-performance gap
- auditors' duties: present and potential
- corporate crime (fraud and other illegal acts)
- corporate collapse ('going concern' problems)
- criticism of auditors
- audit quality and regulation of auditors
- auditors' liability
- corporate accountability
- social responsibility accounting
- users of financial statements.

The literature-based research generated a structured analysis of the audit expectation-performance gap (see Chapter 2) and a tentative theory to explain the role of external auditors in society (presented in Chapter 5). Empirical research was then conducted to test the validity of the normatively derived propositions.

1.3.4 Empirical research

A mail survey was conducted among 1700 people drawn from identifiable groups within New Zealand who are affected in some way by the work of external auditors. This was designed to ascertain participants' opinions about the duties of auditors, and their standing and function in society. The groups surveyed (referred to as role sender groups) included auditors themselves, representatives of auditee companies (managers, accountants, directors, internal auditors), audit beneficiaries in the financial community (financial analysts, stockbrokers, institutional investors, auditing academics), and groups (bank managers, lawyers, journalists) and individuals within the general public.

The 1184 usable responses returned were analysed to ascertain generally-held views about the duties, standing and function of auditors, and to identify differences of opinion between and within the role sender groups. The survey findings were also related to the propositions arising from the literature-based research. General conclusions were reached with respect to the role of external auditors in New Zealand, and the nature, structure and extent of the audit expectation-performance gap.

Based on the research findings, means by which the gap may be narrowed have been identified and recommendations made as to steps the profession might take so that it may better meet the needs and expectations of New Zealand society.

1.4 OUTLINE OF THESIS

This thesis is presented in nine chapters as follows:

1. **Overview of the research project;**

2. **Literature-based analysis of the audit expectation-performance gap:** The gap between society's expectations of external auditors and auditors' performance is examined, its structure is identified, and the means by which the gap may be narrowed are discussed;

3. **Theories previously advanced to explain the role of external auditors:** Theories which have been advanced previously to explain the role of external auditors are described and evaluated;

4. **Development of a conceptual framework:** A conceptual framework for a theory to explain the role of external auditors in society is developed. This framework consists of three basic elements:
   (a) the concept of role;
   (b) the attributes of auditors as professionals;
   (c) the concept, development and discharge of corporate accountability;

5. **The role of external auditors in society:** A theory of the role of external auditors in society is tentatively stated and its merits are examined;

6. **Empirical research – objectives and methodology:** The literature-based propositions relating to the audit expectation-performance gap and auditors' role in society are summarised and related to the empirical research. The objectives and methodology of the empirical research are described, including the selection

of survey members, the design of the questionnaires used for the mail survey, and the pilot study conducted to test the questionnaires. Additionally, the survey response rates, the steps taken to prepare the data for analysis, and the statistical tests used to verify that generalised conclusions could be drawn from the survey findings, are reviewed.

7. **Analysis of empirical research results – the duties of auditors:** The methodology adopted for analysing the survey responses relating to auditors' duties is explained, and the relevant findings are described and analysed. More specifically, role sender group opinions regarding auditors' existing duties, the standard of performance of these duties, and the duties which auditors should perform, are ascertained. The extent of role senders' lack of knowledge about auditors' existing duties (their 'knowledge gap'), and the duties which constitute the deficient performance component of the audit expectation-performance gap, are also established.

8. **Analysis of empirical research results – auditors' role in society and the duties reasonably expected of auditors:** The methodology used to ascertain the expectations of auditors' role senders with respect to auditors' standing and function in society is explained, and the survey findings are described. The findings are also assessed to determine whether they accord with the normative propositions relating to the role of external auditors in society. In addition, the methodology adopted for determining the duties reasonably expected of auditors, and for establishing the duties which constitute the deficient standards and reasonableness gap components of the audit expectation-performance gap, is explained, and the relevant duties are identified.

9. **The audit expectation-performance gap and the means to narrow it:** The research project is reviewed, the structure, composition and extent of the audit expectation-

performance gap are examined, and the means by which the gap may be narrowed are discussed. Additionally, the contribution of the research project is assessed and some opportunities for future research are identified.

1.5 SUMMARY

In this chapter it has been noted that the audit function is under question and that auditors face serious and widespread criticism and extensive litigation. This is seen to be a manifestation of the gap between society's expectations of external auditors and auditors' performance, as perceived by society. It has been postulated that the root of the problem lies in a lack of understanding by both auditors and those whom they serve about the role of external auditors in society. The conclusion is reached that a theory to explain the social role of auditors is needed urgently.

It is reported that both literature-based and empirical research have been conducted to investigate the audit expectation-performance gap and the role of external auditors in society. The literature-based research provided an analytical assessment of the structure of the audit expectation-performance gap and the means by which it may be narrowed. It also resulted in a normatively derived theory to explain the role of external auditors in society. The empirical research was designed to test the validity of the literature-based propositions. A mail survey was conducted among groups and individuals in society who are affected in some way by the work of external auditors, in order to ascertain their opinions about auditors' duties, and their standing and function in society. The chapter outlines the research methodology employed and concludes with an overview of this thesis.

CHAPTER 2: LITERATURE-BASED ANALYSIS OF THE AUDIT EXPECTATION-PERFORMANCE GAP

2.1 INTRODUCTION

In Chapter 1 reference was made to the widespread criticism of, and litigation against, external auditors which has resulted from their failure to perform the duties expected of them by society. The gap which exists between society's expectations of auditors and auditors' performance is referred to as the audit expectation-performance gap.

In this chapter the structure and composition of this gap are considered and five issues which both demonstrate the gap's existence and illustrate its component parts are examined. The conclusion is reached that in order to close the gap it is necessary to determine the duties which are reasonably expected of auditors. However, this can only be achieved when both auditors and those whom they serve have a clear understanding of the role of external auditors in society.

2.2 DEFINITION AND STRUCTURE OF THE AUDIT EXPECTATION-PERFORMANCE GAP

It appears that Liggio (1974) was the first to apply the phrase 'expectation gap' to auditing. He defined it as "a factor of the levels of expected performance as envisioned both by the independent accountant and by the user of financial statements. The difference between these levels of expected performance is the expectation gap" (p.27).

The phrase became common parlance as a result of the Commission on Auditors' Responsibilities (CAR) (the Cohen Commission), an independent body set up by the American Institute of Certified Public Accountants (AICPA) in 1974, in response to some particularly scathing attacks on auditors by politicians, and the threat of government intervention in the profession's affairs (for example, Liggio, 1974, p.27). The Commission was charged, inter alia, to "consider whether a gap may exist between what the public expects or needs and what auditors can and should reasonably expect to accomplish" (CAR, 1978, p.xi). It concluded, after detailed study of available evidence and its own extensive research, that such a gap did exist.

The definition of the expectation gap embodied in the Cohen Commission's terms of reference appears to have been generally adopted by the auditing profession (for example, Mendick, 1986; Woolf, 1987; Guy and Sullivan, 1988). It is significant that in this definition, the expectations of "financial statement users" referred to by Liggio, were widened to those of "the public". However, analysis of the issues exemplifying the gap suggests that this still leaves the gap too narrowly defined and that "what auditors can and should reasonably expect to accomplish" should be extended to "what auditors are perceived to actually accomplish". Thus, it is proposed that an audit expectation-performance gap be recognised, defined as the gap between society's[3] expectations of external auditors and auditors' performance, as perceived by society.

Given this definition, analysis indicates that the audit expectation-performance gap has two major components:

(a) a gap between what society expects auditors to achieve and what they can reasonably be expected to accomplish (designated the 'reasonableness gap');

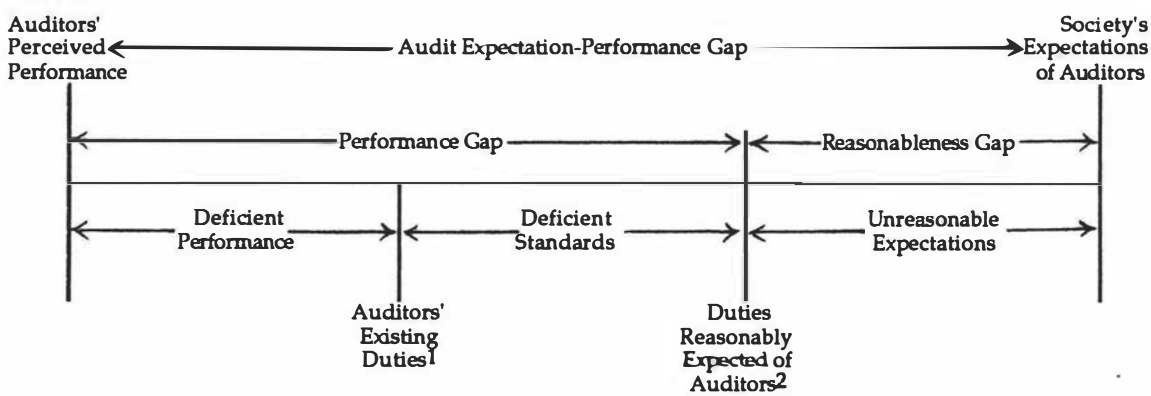
(b) a gap between what society can reasonably expect auditors to accomplish and what they are perceived to achieve (designated the 'performance gap'). This may be further subdivided into:

  (i) a gap between what can reasonably be expected of auditors and auditors' existing duties, as defined by the law and professional promulgations ('deficient standards'); and

(ii) a gap between auditors' existing duties and auditors' performance, as perceived by society ('deficient performance').

These components of the audit expectation-performance gap are presented diagrammatically in Figure 1 below.

Figure 1: Structure of the audit expectation-performance gap*



1 Duties defined by law and professional promulgations.
2 Duties compatible with auditors' role in society and cost-beneficial for auditors to perform.
* Adapted from Canadian Institute of Chartered Accountants (CICA), (1988). Report of the Commission to Study the Public's Expectations of Audits, para. 1.21.

From the structure of the audit expectation-performance gap as outlined above, it is seen that the boundary between the reasonableness gap and performance gap components is constituted by the duties which are reasonably expected of auditors. In order for duties to be reasonably expected of auditors they must meet two criteria: they must be both compatible with auditors' role in society and cost-beneficial for auditors to perform. It is clearly not reasonable to expect auditors to perform duties which are not encompassed by, or in accord with, their role in society. Similarly, it is not reasonable to expect auditors to perform duties where the costs of their performing the duties outweigh the benefits to be derived therefrom. As Flint (1988) has explained, it is a basic postulate of auditing that "an audit produces an economic or social benefit. Auditing is a wholly utilitarian function, and it only satisfies the social need if the benefit it provides is greater than the sacrifice made to obtain it" (p. 39). The duties reasonably expected of auditors are identified and discussed in Chapter 8.

2.3 ISSUES EXEMPLIFYING THE GAP

2.3.1 Significant issues identified

Professional auditing literature indicates that the audit expectation-performance gap is exemplified by five issues:

- auditors as guarantors of the accuracy of a company's financial statements and/or its solvency;
- auditors giving early warning of company failure;
- auditors detecting fraud and reporting it to shareholders;
- auditors discovering and disclosing illegal acts;
- auditors reporting matters of concern to regulatory authorities.

Each of these issues has been cited in the literature as epitomising the expectation-performance gap. The view of the auditor as a guarantor of the accuracy of a company's audited financial statements and/or its solvency was particularly prevalent in the early 1970s. Liggio (1974), for example, noted that "a prime example of [the expectation gap] is found in the belief of the consuming public, many regulators, courts and lawyers that the auditor is a guarantor or insurer of the company's financial solvency" (p.28). Professional literature indicates that today the focus is on auditors' duties in relation to corporate crime, company failure and reporting to regulatory authorities. The *Report of the Working Party on the Future of the Audit* (Institute of Chartered Accountants in England and Wales [ICAEW] 1986), for example, states:

> There is evidence of a gap between the public's perception of the role of the audit and auditors' perception of that role. This gap is exemplified by the areas of fraud, business failure, and the reporting of information to the regulatory authorities. (p.10)

Similarly Tweedie (1987) notes: "The public want protection against fraud, early warning of bankruptcy and assurance of a company's wellbeing" (p.19).

Each of the issues identified from the literature as typifying the expectation-performance gap is examined below. A summary of the salient points is provided in Figure 2.

2.3.2 Auditors as guarantors

Surveys have shown that many users of financial statements consider that a 'clean' audit report signifies that the auditor guarantees that the audited financial statements are accurate and/or that the company is financially secure (for example, Lee, 1970; Beck, 1973; Canadian Institute of Chartered Accountants [CICA] 1988).

This view is in sharp contrast to that of the profession. In its Auditing Standards, the New Zealand Society of Accountants (NZSA) (1986a, para.5) asserts that the auditor's opinion helps to establish the credibility of financial information. This is very far removed from guaranteeing its accuracy. Further, the professional promulgation specifically states that users of audited financial statements should not assume that the auditor's opinion is an assurance about the future viability of the relevant entity (para.5).

There is a distinct gap between the expectations of at least a significant proportion of society (as reflected in survey results) and those of the auditing profession. Given the large volume of transactions of most economic organisations today, the nature of the audit process, and time and cost constraints, it is not feasible for auditors to undertake the type of examination which would be required if they were to guarantee the accuracy of the financial statements or the solvency of the entity concerned. Society's expectations seem to go beyond what auditors can reasonably be expected to accomplish and this issue appears to represent the reasonableness gap depicted in Figure 1.

Figure 2: Summary of issues exemplifying the audit expectation-performance gap

Issues	Expectations of: Society	Expectations of: Auditors	The Gap
Auditors as Guarantors	Auditors are understood to guarantee the accuracy of a company's financial statements and/or its solvency.	Auditing lends credibility to financial statements. Auditors are alert to the possibility of insolvency. Neither aspect is guaranteed.	Society's expectations are unrealistic. New Standard in U.S. (SAS no. 58) will ensure users of financial statements are better informed about the level of assurance given.
Early Warning of Company Failure	Auditors are expected to give warning of impending company collapse.	Official position: auditors are required to report clearly doubts about a company's continued existence. In practice, auditors face a dilemma.	Official position is close to society's expectations. Generally not fulfilled in practice.
Detecting Fraud and Reporting it to Shareholders	Auditors are expected to detect and report fraud – especially management fraud.	Auditors acknowledge some responsibility to detect material fraud which impacts on financial statements. They emphasise the limitations of an audit for detecting fraud. Fraud is rarely reported.	Auditors fall well short of society's expectations. New Auditing Standards in the U.S. and Guidelines in Britain are moving auditors' duties closer to society's expectations.
Discovering and Disclosing Illegal Acts	Auditors are expected to discover and disclose acts which contravene laws, regulations and society's norms.	Auditors emphasise limitations of their ability to recognise illegal acts and to uncover them during an audit. They acknowledge some responsibility to detect illegal acts which impact directly on the accounts.	Auditors fall well short of society's expectations. Boundaries of society's expectations are unclear – they may extend beyond the duties which auditors can reasonably be expected to accomplish.
Reporting to Regulatory Authorities	Auditors are expected to report matters of concern to a company's management and its shareholders and, when the public interest is at stake, to regulatory authorities.	Auditors are reluctant to report matters of concern candidly to shareholders. They emphasise the difficulties of breach of client-confidentiality and possible defamation suits if a duty to report to regulatory authorities is accepted.	Auditors fall well short of society's expectations. Legislation has imposed duties on auditors to report to regulatory authorities in relation to financial institutions (N.Z.) and the financial services sector (U.K.). Auditing Guidelines in the U.K. are also moving auditors' duties to report closer to society's expectations.

In order to narrow this component of the audit expectation-performance gap, users of financial statements and other interested parties need to be educated about the audit process and what auditors can achieve. In the United States, a significant step forward has been taken with the introduction of a new standard audit report under Statement on Auditing Standards (SAS) no. 58, *Reports on Audited Financial Statements* (AICPA, 1988d)[4]. This report (in use from 1 January 1989) contains clear descriptions of the auditor's responsibility, the work the auditor does and the assurance the auditor gives. It should do much to clarify the nature of the auditor's opinion and, by reducing or eliminating unwarranted public expectations in this regard, should help to narrow the expectation-performance gap. It seems likely that, as the new US report comes into general use, professional accountancy bodies elsewhere in the English-speaking world will give it serious consideration as a viable and helpful option to adopt.

2.3.3 Auditors giving early warning of company failure

According to both the ICAEW (1986, p.10) and Tweedie (1987, p.19) the public expects auditors to give early warning of company failure. However, in general, auditors do not appear to meet this expectation.

Unless there are reasons to the contrary, an entity's financial statements are prepared on the assumption that it is a going concern, that is, that it will continue in operation for the foreseeable future (Statement of Standard Accounting Practice [SSAP] 1, NZSA, 1983, para.4.2). However, adoption of this assumption does not necessarily mean that the entity can, or will, continue in existence. Although Auditing Standards (NZSA, 1986a) emphasise that an unqualified audit report does not guarantee the future viability of an entity (see above), Auditing Guideline 13, *Going Concern*, (NZSA, 1986e) requires auditors, when planning and performing their audits, to be alert to the possibility that the going concern assumption may be subject to question. If such question arises, auditors are required to gather sufficient appropriate evidence to confirm or dispel their doubts. If their doubts are dispelled, an unqualified opinion is appropriate, but if their doubts cannot be resolved, a qualified opinion or disclaimer is to be given.

These two extremes do not (or should not) cause difficulty for auditors. However, problems arise in the intermediate case, where an auditor considers that reliance on the going concern assumption is justified, but only because of mitigating factors such as management's plans for the future. In these circumstances, auditors are required to consider whether such plans or other factors should be disclosed in the financial statements. If disclosure is considered necessary, but is not made by management, auditors are required to express a qualified opinion and to ensure that there is adequate disclosure of the principal conditions that raise doubt about the entity's continued existence. Such disclosure "should explicitly draw attention to the possibility that the entity might be unable to continue" (NZSA, 1986e, para.15).

Thus, auditors are required to evaluate the entity's circumstances and, where there is doubt about its continued existence, to state the facts. This does not seem to be too distant from the public's expectation of receiving early warning of company failure. Armed with the facts, interested parties can assess the position for themselves. However, in practice, auditors are faced with a dilemma. On the one hand, if they have unresolved doubts about a company's future they are required to state the position candidly. On the other, they are conscious that if they do so, this may generate a self-fulfilling prophecy. Although an auditor may have misgivings about a company's ability to remain in operation, management's plans (if accomplished successfully) may enable the company to trade its way out of trouble. If the auditor expresses doubts about the company's future, and this undermines the confidence of the company's shareholders and creditors, management's plans may never be put into effect and the company's life may be terminated prematurely.

Nonetheless, the auditor's professional duty is clear. If facts and circumstances are encountered which raise doubts about the viability of the entity, those doubts must be dispelled or disclosed. Too often this duty is not performed. As Congressman Dingell (1985, p.22), the vocal critic of auditors in the United States, observed, it is difficult to understand how a company can get a clean bill of health one day and collapse just one day later. In New Zealand, many shareholders and others hurt as a result of companies collapsing in the wake of the October 1987 Stockmarket Crash, may be wondering why no warning was given by the auditors of the failed companies. In some cases the auditors may have been as surprised as the shareholders but in others it is suggested that the auditors may not have fulfilled their duty to report doubts they had about the future well-being of their auditee companies. Indeed, they may not have been sufficiently alert to the possibility of the companies failing when planning and conducting their audits to have the doubts to report which they should have had.

It is significant that in its SAS no. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, 1988e), the AICPA defines auditors' duties in this regard more assertively than hitherto. Auditors in the United States were formerly required to be aware that audit procedures may uncover information contrary to the assumption of continued existence. They are now required to evaluate aggregate results of audit procedures for indications of doubt about an entity's ability to continue as a going concern. Further, if auditors have substantial doubts about the entity's future existence, they are specifically required to include a paragraph in the audit report explaining the position.

With respect to auditors giving early warning of company failure, the performance of many practising auditors does not match society's expectations. Analysis suggests that auditors' duties, as defined by current auditing standards, are not far removed from what society expects. Therefore, while appreciating the dilemma auditors face, it appears that this issue can be traced to the deficient performance component of the expectation-performance gap.

2.3.4 Auditors detecting fraud and reporting fraud to shareholders

Detecting fraud

The audit expectation-performance gap is probably at its widest in relation to the auditor's duty to detect fraud. The public's position is reflected in the Cohen Commission's (CAR, 1978) statement that:

> Court decisions, criticism by the financial press, actions by regulatory bodies, and surveys of users indicate dissatisfaction with the responsibility for fraud detection acknowledged by auditors ....Significant percentages of those who use and rely on the auditor's work rank the detection of fraud among the most important objectives of an audit. (p.31)

The Commission reports that a survey conducted for Arthur Andersen & Co. in 1974 found that 68% of business journalists, 66% of shareholders and 55% of analysts and brokers consider that detection of fraud is the most important function of an external audit (CAR, 1978, p.31). The results of surveys conducted by Lee (1970), Beck (1973) and Porter (1983) similarly indicate that the public has high expectations of auditors with respect to detecting corporate fraud.

The stance of the auditing profession in relation to detecting corporate fraud has changed markedly over the last 50 years. Until about the 1930s, the prevention and detection of fraud and error were regarded as primary audit objectives. However, between the 1930s and 1960s the importance of fraud detection as an audit objective was steadily eroded. This is reflected in successive editions of textbooks and in professional promulgations published over this period. For example, in the first three editions of Montgomery's *Auditing*, the detection and prevention of fraud and error were referred to as the 'chief objects' of an audit. In subsequent editions, fraud detection was given progressively less emphasis until, in the eighth edition (1957), the detection of fraud was described as a 'responsibility not assumed' (CAR, 1978, pp.33-34).

Professional promulgations have, from their start, focused on the limitations of auditors to detect fraud. They have played down auditors' responsibilities in this regard and have pointed out that corporate fraud is the responsibility of management and is best prevented and detected by a good system of internal control. At least until the 1960s, auditing standards and guidelines emphasised that audits were not designed and could not be relied upon to disclose irregularities. They generally also pointed out that, "if an auditor were to discover defalcations and similar irregularities he would have to extend his work to a point where its cost would be prohibitive" (AICPA, 1951, p.13).

By the 1960s the profession's position was subject to criticism from both inside and outside the profession. Morison (1970, p.414), for example, observed that both the press and the general public consider that if an audit is not meant to uncover major frauds it must be of very little use. He also noted that it is absurd for auditors to state that financial statements are reliable, that they are 'all right', and then to add that they are all right, subject to the possibility that undetected fraud may have made them all wrong. In similar vein, the investment analyst whose solo efforts were responsible for exposing the notorious Equity Funding fraud raised the very pertinent question: "If routine auditing procedures cannot detect 64,000 phony insurance policies [two-thirds of the total number], $25 million in counterfeit bonds, and $100 million in missing assets, what is the purpose of audits?" (as reported by Woolf, 1978, p.62).

In response to the widespread criticism, professional promulgations were amended to acknowledge that when conducting an audit, auditors have a responsibility to be aware that fraud may exist and that if it is sufficiently material it may affect their opinion on the financial statements. The general position of the auditing profession today in the English-speaking world is embodied in Auditing Guideline 9, *Fraud and Error* (NZSA, 1986d)[5]. This Guideline continues to emphasise that responsibility for preventing and detecting fraud and error rests with management and is best achieved through the maintenance of an adequate system of internal control, but it also acknowledges that auditors have some responsibility to detect fraud. In particular, it requires auditors to plan their audits so that they have a reasonable expectation of detecting material mis-statements in the financial information which result from fraud (para.6). However, the Guideline also warns that, "due to inherent limitations of an audit there is a possibility that material mis-statements of financial information resulting from fraud ... may not be detected" (para.7).

In recent years pressure has mounted, especially in Britain and the United States, for auditors to assume greater responsibility for detecting fraud. In the mid-1980s, faced by a rising wave of corporate fraud in Britain, Fletcher and Howard, successive Ministers of Corporate and Consumer Affairs, made it clear that they viewed auditors as being in the front line of the public's defences in the fight against fraud and they called on auditors to extend their duties in this regard (Smith, 1985, p.10; Allen, 1985, p.17). Their stance was supported by officers of the Fraud Investigation Group in Britain (FIG) who stated that they considered it both practical and desirable, within the limits of cost and auditing procedures, for auditors to accept a general responsibility to detect fraud (Smith, 1985, p.10). In the United States, the National Commission on Fraudulent Financial Reporting (the Treadway Commission)[6] (AICPA, 1987, p.12) concluded that external auditors have a role, while secondary to that of management, which is crucial to detecting and preventing fraudulent financial reporting.

Despite the pressures on auditors to extend their acknowledged responsibilities to detect fraud, they have been reluctant until recently to do so. Surveys conducted by the working parties of three British Accountancy Institutes[7] found that auditors were very opposed to added responsibility for detecting fraud (ICAEW, 1985a; Institute of Chartered Accountants of Scotland [ICAS], 1985). A similar rejection of extended responsibilities was the result of a survey conducted by the Auditing Practices Committee in Australia in 1985 (Carty, 1985, p.30). The strength of opposition among auditors to an extension of their duties in this regard is reflected in a statement by Nelson, chairman of one of the working parties:

> It would be quite impossible for auditors to accept responsibility for detecting fraud – the cost would be astronomical. The Government has no idea how an audit is conducted, what it can achieve and what it is there for ...I don't believe the profession should roll over and play dead and accept an increase in its responsibilities. (as quoted by Barclay, 1985a, p.1)

In relation to the auditor's duty to detect fraud the expectation-performance gap appears to be very wide indeed and analysis indicates that all three components of the gap are present. Nelson's statement (above) suggests that at least some auditors consider that they are being asked to detect *all* corporate fraud – even petty theft by employees. Given cost-benefit constraints and the ability of perpetrators to cover their traces, this clearly goes beyond what auditors can reasonably be expected to accomplish. In this respect, the issue is seen to contribute to the reasonableness gap component of the audit expectation-performance gap. At the opposite end of the spectrum, given some of the blatant fraudulent activities of company officials which have been reported in the media in recent times (which auditors apparently failed to uncover), it appears that at least some auditors are failing to perform their professional duties. Thus, the issue also contributes to the deficient performance component of the gap.

It is submitted that current auditing standards also fall short of what the public can reasonably expect, but in this regard there are signs that the auditing profession is yielding to public pressure and is taking steps to narrow the gap. For example, in the United States, in SAS no. 53, *The Auditor's Responsibility to Detect and Report Errors and Irregularities* (AICPA, 1988a), the AICPA has adopted a far more positive approach in defining auditors' duties in relation to fraud than it did in its earlier

Standards. In place of its former insistence that an audit cannot be relied on to disclose irregularities (as in AICPA, 1951; 1972) it now states:

> Because of the characteristics of irregularities, particularly those involving forgery and collusion, a properly designed and executed audit may not detect a material irregularity. [However] the auditor should exercise (a) due care in planning, performing and evaluating the results of audit procedures, and (b) the proper degree of professional skepticism to achieve reasonable assurance that material errors or irregularities will be detected. (para.7-8)

This seems to bring auditors' duties to detect fraud closer to the public's expectations.

A similar change in the stance of the auditing profession, particularly in Britain, is reflected in the acknowledgement that corporate fraud is likely to impact on the auditor's report to shareholders. This is considered below.

Reporting fraud to shareholders

It has been established law since the *Kingston Cotton Mill* case [1896] 2 Ch 279 that, if suspicious circumstances are encountered during the course of an audit, the auditor must probe the matter to the bottom and promptly report his or her suspicions to the directors. This duty to report was affirmed in *Pacific Acceptance Corporation Ltd* v *Forsyth and Others* [1970] 92 WN (NSW) 29. In his judgment, Moffit J. stated that if auditors uncovered fraud or suspicious circumstances and they failed to report it to the appropriate level of management or to the directors, then they failed in their duty. He added that, if during the course of an audit a matter came to light which should be reported to shareholders (such as fraud perpetrated by management), auditors could not shirk their duty on grounds that disclosure could be detrimental to the company. However, from the absence of reference to discovered fraud in auditors' reports, it is submitted that, in general, auditors have shirked their duty to report to shareholders[8] and that at least part of the audit expectation-performance gap relating to this issue arises from deficient performance. As will be shown below, it also results, in part, from deficient standards.

In 1985 the ICAEW set up a committee under the chairmanship of Lord Benson to investigate, in the light of current public expectations, auditors' responsibilities for reporting suspected fraud. In its report (ICAEW, 1985b) this committee confirmed the general position stated by Moffit J. It concluded that:

- if fraud or suspected fraud by management or employees comes to light during an audit, the auditor has an obligation to inform the directors (para.3.13);
- if fraud by the directors appears to have arisen or is about to take place, the auditor must confront the directors and inform them that it is his or her duty and intention to qualify the audit report appropriately (para. 3.16).

In support of its position the Committee stated:

> We are satisfied that the duties put upon the auditor by statute, case law decisions and professional standards would require him to include a qualification in his audit report if fraud by directors arises ...We think that such matters either cannot fail to affect the truth and fairness of the accounts put before the shareholders or they call into question the integrity of the accounting records and accounts. We think that the public would be rightly aggrieved if information of this character, which was within the knowledge of the auditor, was not disclosed by him by qualification of his audit report. (para.3.18)

The conclusions of the Benson Committee have been incorporated in the British Auditing Guideline Exposure Draft, *The Auditor's Responsibility for Detecting and Reporting Fraud and Other Illegal Acts* (Consultative Committee of Accountancy Bodies [CCAB], 1988a). This exposure draft observes that it is generally accepted that auditors should plan their audits so that they have a reasonable expectation of detecting material mis-statements caused by fraud. It also acknowledges that fraud invariably has an impact on either the accounting records or the financial statements. Following from this, the proposed Guideline requires auditors (para.40-44):

- to report to management any irregularities (including fraud) discovered during an audit; where the matter is material, management should be informed promptly and, where appropriate, a report should be made to the board of directors or audit committee;
- to report to shareholders, by qualifying the audit report, when the conclusion is reached that an impropriety has not been adequately disclosed in the financial statements.

The Exposure Draft points out that, even if an impropriety does not have a material impact on the financial statements, the auditor may still be required to report it. If, for example, an impropriety causes the auditor to conclude that proper accounting records have not been maintained, or, if the auditor suspects that improprieties have been perpetrated by senior management and all necessary information and explanations cannot be obtained, the audit opinion should be qualified accordingly (para.43-44). This signals a significant shift in professional attitudes as, in general, these aspects of fraud affecting the auditor's report have previously been ignored in professional promulgations. The traditional position is that stated in the NZSA's Auditing Guideline 9, *Fraud and Error* (NZSA, 1986d, para 14-20). If auditors suspect that fraud may have occurred, additional audit procedures are to be performed to confirm or dispel their suspicions. If their suspicions are confirmed, they are required to be satisfied that the effect of fraud is properly reflected in the financial statements. The Guideline states that if a member of management is found (or suspected) to be involved in fraudulent activities, the auditor should reconsider the reliability of representations made by that person. But that is as far as it goes. Unlike the proposed British Auditing Guideline, professional promulgations traditionally place a specific duty on auditors to report fraud uncovered (or suspected) during an audit, only to the company's management. Unless auditors consider that the truth and fairness of the financial statements have been impaired as a result of fraud, there is no explicit requirement for them to report cases of detected or suspected fraud to shareholders by qualifying their audit reports. This falls far short of what the public expects.

It is not suggested that where, as in the majority of cases, audited companies have honest and reliable boards of directors, auditors should report to the company's shareholders all cases of fraud they encounter during an audit. In most instances it is sufficient for the matter(s) to be referred to the appropriate level of the company's management and/or its directors. However, it is suggested that part of the audit expectation-performance gap derives from auditors' failure to report candidly to shareholders, instances of fraud by top company officials uncovered (or strongly suspected) during an audit. As indicated by the Benson Committee (ICAEW, 1985b, para.3.18), it is not unreasonable for the public to expect this type of fraud to be disclosed in the auditor's report to shareholders. Yet, as noted above, prior to the British Auditing Guideline Exposure Draft (CCAB, 1988a) this requirement was not explicitly embodied in professional promulgations. Thus, it is submitted that part of the expectation-performance gap relating to this issue derives from deficient standards.

Despite the width of the audit expectation-performance gap with respect to both detecting fraud and reporting it to shareholders, it is clear that in response to pressures from a number of directions the profession is re-assessing its position and is taking active steps to narrow the gap. This is particularly evident in Britain and the United States where corporate fraud has reached alarming proportions in recent years. In these countries the change in attitude of the professional bodies in defining auditors' duties in this regard is remarkable. The former defensive tone and grudging acceptance of minimal responsibility to detect and report fraud has been replaced by a more affirmative acknowledgement of duties which accord more closely with society's expectations.

The change in stance of the auditing profession in Britain is also evident in its recent acceptance of a duty to report cases of detected (or suspected) fraud to regulatory authorities. This is considered in section 2.3.6 below.

2.3.5 Auditors discovering and disclosing illegal acts

The auditor's role in discovering and disclosing illegal acts by company officials has emerged as a matter of debate in recent years, especially in the United States, where the issue gained prominence as a result of the Watergate scandal and the revelations which led to the passing of the Foreign Corrupt Practices Act 1977. Frequently the amounts involved are immaterial, but due to their sensitive nature these acts assume an importance out of proportion to their monetary significance.

Evidence suggests that, like the issues already discussed, there is a gap between society's expectations of auditors and auditors' performance in relation to auditors detecting and reporting illegal acts. Davidson (1975, pp.47-50) draws attention to the public's position. He observes that some people consider that auditors have a duty to discover and disclose management's failure to comply with laws and regulations and other management actions which are disapproved of by society for moral, public policy, or other reasons. He substantiates this by quoting remarks made by members of the staff of the Securities and Exchange Commission (SEC) in interviews with the Cohen Commission. They include the following (fairly typical) comment:

> Since such behaviour goes to the very integrity of management, the public has the right to know of this behaviour ...As an agent of society, the auditor has a responsibility to bring to light those things that are considered wrong by society. (Davidson, 1975 pp.48-49)

In 1977, Baron, Johnson, Searfoss and Smith (1977) conducted a survey in the United States to determine the attitudes of individuals within the financial community to auditors' responsibilities for detecting and disclosing immaterial illegal acts.

Predictably, the survey found that both auditors and non-auditors consider that auditors have less responsibility to discover immaterial illegal acts than to detect material types of fraud. However, the survey also found that non-auditors have higher expectations of auditors detecting and reporting illegal acts than do auditors themselves. Baron et al. report further that the expectation gap between auditors and non-auditors exists not only in relation to auditors' existing duties; it also exists with respect to any extension of their responsibilities. While audit partners indicated a desire for a slight reduction in their responsibility, the other groups surveyed (corporate financial managers, bankers and financial analysts) stated that they would like to see auditors accept greater responsibility for discovering illegal acts, even if they involve only small amounts (Baron et al., 1977, p.59).

The auditing profession acknowledges some responsibility to detect illegal acts but, as for detecting fraud, focuses attention on auditors' limitations in this area. For example, the British Auditing Guideline Exposure Draft, *The Auditor's Responsibilities for Detecting and Reporting Fraud and Other Illegal Acts* (CCAB, 1988a) states:

> Illegal acts ...can be remote from the accounting records and may have no direct immediate or foreseeable impact on the financial statements or the accounting records. Accordingly, it would not be practical to expect the auditor to be responsible for detecting all such illegal acts. His responsibility is limited to designing his work so that he has a reasonable expectation of detecting material acts which are contrary to legislation which has a direct impact on the form and content of the financial statements. (p.163)

A similar position is adopted by the AICPA in its SAS no. 54, *Illegal Acts by Clients* (AICPA, 1988b). This Standard emphasises that:

- determining whether or not an act is illegal is normally beyond the auditor's professional competence;
- the further removed an illegal act is from the financial records, the less likely the auditor is to become aware of the act or to recognise its illegality;

- an audit does not generally include procedures specifically designed to detect illegal acts, however, possible illegal acts may come to the auditor's attention during the course of an audit;
- an audit conducted in accordance with professional auditing standards provides no assurance that illegal acts will be detected, or that any contingent liabilities that may result will be disclosed.

Nevertheless, the Standard does require some positive action by auditors. They are specifically required to make enquiries of management concerning the client's compliance with laws and regulations and (where applicable) to enquire of management about the client's policies relative to the prevention of illegal acts (para.8). Further, if auditors become aware that an illegal act may have taken place, they are required to obtain an understanding of the nature of the act and the circumstances in which it occurred. If they conclude that an illegal act has taken place and, further, that it has a material effect on the financial statements and that it has not been properly accounted for, they are required to give a qualified or adverse opinion. If they are unable to satisfy themselves that an illegal act which could be material to the financial statements has or has not occurred, they are required to issue a disclaimer of opinion (para. 10-19).

Regarding the disclosure of illegal acts which auditors have detected, other than through their audit reports, the AICPA's Auditing Standard requires auditors to ensure that the audit committee (or alternative body with oversight responsibility for financial reporting) is adequately informed (para. 17). However, the Standard also states that disclosure of these acts to third parties is, in general, precluded by auditors' professional duty of confidentiality (para.23)[9] – a position which conflicts with society's expectations. (This is considered in more detail in section 2.3.6 below).

The duty of auditors to detect and report illegal acts is more precisely defined in the United States than elsewhere. This reflects public concern about these matters in that country. Nevertheless, although SAS no.54 (AICPA, 1988b) provides a clear statement of the profession's view of auditors' responsibilities in this area, comments emanating from politicians, the courts and elsewhere, suggest that society expects auditors to accept a broader responsibility than that acknowledged in the Standard. The expectation-performance gap remains but in this case appears to result primarily from the public holding unrealistic expectations of auditors and/or from their expectations being ill-defined. Thus it appears to be linked to the reasonableness gap component of the audit expectation-performance gap. The evidence reported by Davidson (1975, pp.47-50) suggests that society expects auditors to detect and report a wide range of illegal acts committed by corporate managers. It seems that auditors are expected to detect breaches of, for example, occupational safety, equal employment opportunity, and environmental protection laws and regulations, in addition to acts such as bribery and political payoffs which impact directly on the company's accounting records. Certainly there is a potential for all illegal acts to affect a company's financial statements through fines or other sanctions but, given limits on auditors' competence to detect breaches of laws and regulations governing such things as safety, employment and environmental factors, society's expectations of auditors seem to go beyond those duties which they can reasonably be expected to accomplish.

Nevertheless, it is reasonable to expect auditors to detect illegal acts which fall within their specialist area, namely, those which are directly reflected in a company's accounts, and SAS no. 54 (AICPA, 1988b) indicates that the profession, at least in the United States, does acknowledge such responsibility. However, contrary to the public's apparently reasonable expectations, the Standard insists that auditors cannot accept a duty to report illegal acts uncovered during an audit to those outside the entity (such as regulatory authorities), except insofar as they fall within specific, narrowly defined circumstances (see footnote 9), or are disclosed through a qualified audit opinion. Thus, a portion of the expectation-performance gap relating to illegal acts is seen to arise from deficient standards.

2.3.6 Auditors reporting to regulatory authorities

The auditor's duty to report matters of concern uncovered during the course of an audit to regulatory authorities provides a further example of the audit expectation-performance gap. This issue has come to the fore since the mid-1980s and has centred on auditors' duties to report cases (or suspected cases) of corporate crime and doubts about a company's solvency. As explained below, it is also an area in which new duties have been imposed recently on auditors in Britain, New Zealand and Australia, primarily as a result of legislation relating to the financial services sector.

In recent years, particularly in Britain and the United States, politicians, fraud investigation agencies, the financial press and others, have called on auditors to accept a duty to report to regulatory authorities in cases where the public interest is at stake, for example, where corporate fraud or illegal acts are involved. The extent of the duty expected of auditors is reflected in the call by Howard, the British Minister for Corporate and Consumer Affairs, for auditors to report to regulatory authorities cases of suspected fraud by management even without the client's knowledge, where informing the client might amount to a 'tip-off'. He is quoted by Barclay (1985b, p.4) as saying:

> I do not think that recognition of such a duty is in any way inconsistent either with the best traditions and practices of your profession or with your duty to your clients. Even auditors are not islands. You have duties to the rest of the community of which you are part and you owe that community a more compelling duty which must, on occasion, take first place. Public expectation must be given full weight in these matters.

Howard also stressed that if the profession did not voluntarily adopt an obligatory duty to report to regulatory authorities it would be forced on them through legislation. In this he was supported by Williams, controller of FIG, who asserted that legislation would remove all doubts as to the existence of such a duty and would override any concerns about auditors' duties of confidentiality.

Working parties of the British Accountancy Institutes, set up to investigate the auditor's role in detecting and reporting corporate fraud (see footnote 7), strongly opposed any suggestion that auditors be required to report suspected management or employee fraud to regulatory authorities (ICAEW, 1985a; ICAS, 1985). They stressed that if auditors accepted such a duty they would face at least three serious difficulties, namely:

- the problem of trying to reconcile such a duty with their professional duty of client-confidentiality;
- the danger that if they reported their suspicions of fraud, but this did not lead to conviction, they might be exposed to suits for defamation of character;
- an undesirable change in auditor-client relationships: instead of being seen as neutral umpires between shareholders and management, they were more likely to be perceived as informers, with a consequent adverse adjustment in management attitudes towards them (Porter and Cameron, 1987a, p.46).

In Britain at least, there appears to be a distinct gap between the expectations of the public who (judging from the statements made by politicians and others) expect auditors to report cases of corporate crime to regulatory authorities, and those of auditors who reject such a duty. A similar gap in expectations is evident in the United States. There, the Subcommittee on Oversight and Investigation of the Committee on Energy and Commerce (the Dingell Committee), for example, has made it clear that they expect auditors to play a far more active role in reporting fraud than the auditing profession currently acknowledges (News item, Accountancy, 1988, p.9). However, the gap may not be as wide as it at first appears. Examination of, for example, the ICAS's Memorandum, *Fraud and the Financial Services Industry* (1985) and the ICAEW's Audit Brief, *The Auditor and Fraud* (1985b), shows that, contrary to press reports of the time, British auditors did not reject outright a duty to report to regulatory authorities. Rather, they sought assurance that should they accept such a duty, provided they act in good faith and on reasonable grounds, they would be given legal protection against liability for breach of their duty of confidentiality and claims of defamation.

Be that as it may, recent legislation in Britain, New Zealand and Australia has settled the issue to some extent, at least in these countries. Legislation relating to the financial services sector has significantly extended auditors' reporting duties within this sector, taking them close to the public's expectations and, in so doing, has served to narrow sharply the deficient standards component of the audit expectation-performance gap.

In Britain, where public and political attention has focused on the alarming rate of growth of corporate fraud, particularly in the financial services arena, the perceived need was to protect investors from fraud and unexpected insolvency. Concern about these matters prompted the Financial Services Act 1986 (effective from May 1988). This Act requires all investment businesses in the United Kingdom (whether incorporated or not) to be duly authorised and to comply with strict rules laid down by the Securities and Investments Board (SIB) or the relevant Self-regulating Organisation (SRO) to which the SIB has delegated regulatory powers. The Act includes a requirement for auditors of authorised investment businesses to report matters of concern arising from their duties as auditors to the appropriate regulatory authority. Similar provisions have been included in the Building Societies Act 1986 and the Banking Act 1987. It is significant that the legislation also provides protection for auditors against legal action by clients where information is given to the regulatory authorities in good faith.

Auditors' duties resulting from this legislation are set out in an Auditing Guideline Exposure Draft, *The Implications for Auditors of the Financial Services Act 1986* (CCAB, 1988b). In discussing auditors' duties to report to the regulatory authorities, the Exposure Draft stresses that it is important for auditors to preserve their professional relationship with their client. Accordingly, it states that auditors should normally ask client firms to communicate to the regulatory authorities matters about which they (the auditors) are concerned. For example, auditors should ask client firms to communicate to the authorities significant weaknesses in the maintenance of accounting or other records, or in their internal controls, discovered during an audit (para.77). However, the

Exposure Draft also points out that in exceptional circumstances the auditor should report directly to the relevant regulatory authority without first informing the management of the client company. These are circumstances in which the auditor considers it expedient to do so in order to protect the collective interests of investors. Examples of such circumstances include (para.78):

- the occurrence of an event which causes the auditor to lose confidence in the integrity of the directors or senior management, for example, where the auditor believes that the directors or senior management have committed a fraud or other misappropriation, or there is evidence of an intention to do so;
- the occurrence of an event which causes the auditor to lose confidence in the competence of the directors or senior management to conduct the firm's business in a prudent manner so as to protect the collective interests of investors.

The proposed Auditing Guideline points out further, that the auditor's ability to communicate matters to the regulatory authorities is not restricted to information about the client. Under the Financial Services Act 1986 [UK], auditors may communicate any relevant matters about anyone which come to their attention in their capacity as auditors of authorised investment businesses. Thus, in their communications with the authorities, auditors may discuss not only the affairs of the firm but also, for example, information about the firm's customers obtained during the course of their audit investigations (para.72).

The reporting duties of auditors which have arisen under the Financial Services Act 1986 have been incorporated in, and extended to the audits of all entities by, the British Auditing Guideline Exposure Draft, *The Auditor's Responsibility for Detecting and Reporting Fraud and Other Illegal Acts* (CCAB, 1988a). This Exposure Draft confirms that the auditor's duty of confidentiality normally precludes reporting irregularities to third parties without the client's permission (para.46). However, it also acknowledges that in circumstances where it is justified in the public interest, the auditor's duty of confidentiality may be disregarded and information disclosed directly to the regulatory authorities. Examples of such circumstances include the discovery of significant weaknesses in the maintenance of accounting records or internal controls, and the commission of a serious fraud or other misappropriation by the directors or senior management (para.49).

It is noteworthy that, in contrast to the duty imposed on auditors under the Financial Services Act 1986, this duty to report directly to regulatory authorities has been accepted (or proposed in the Exposure Draft) voluntarily by the auditing profession in Britain. This may be a response by the Auditing Practices Committee of the CCAB to Howard's warning that if auditors fail to incorporate such a duty in their Guidelines it will be forced on them through legislation. However, it seems more likely that the professional body is prepared to accept this duty as it is confident that the protection afforded auditors under the Financial Services Act 1986 will be extended to cover them if, in exceptional circumstances, they report to regulatory authorities irregularities uncovered during the audits of entities which are outside the financial services sector.

It is observed that similar changes have not been incorporated in the Auditing Standards issued in the United States in April 1988. Despite vociferous calls by politicians and others for auditors to accept a duty to report, in appropriate cases, to regulatory authorities, and the inclusion of such a provision in H.R.5439, the Wyden Bill entitled *Financial Fraud and Disclosure Act of 1986* (co-sponsored by Representative Dingell and 17 other Congressmen) (Newman, 1986, p.104), the AICPA has continued to emphasise that an auditor's duty of confidentiality precludes reporting to parties outside the audit client, except in four very restricted circumstances (AICPA, 1988a, 1988b) (see footnote 9). However, rather than reflecting opposition by the auditing profession in the United States to a duty to report to regulatory authorities, the failure to acknowledge such a duty may reflect instead the absence of legal protection for auditors if they do so.

A duty to report to regulatory authorities has also been imposed recently on auditors in New Zealand and Australia as part of each country's Reserve Bank prudential supervision procedures. The duties are set out, respectively, in Auditing Guideline 17, *Audit Implications of Prudential Supervision* (NZSA, 1988a) and in Auditing Guidance Release 4, *Audit Implications of Reserve Bank Prudential Reporting Requirements* (AARF, 1987). In New Zealand, political concern has centred on the stability of the financial system. Reflecting this, Section 38M(1) of the Reserve Bank of New Zealand Act 1964 (as amended, 1986) requires auditors of specified institutions to disclose to the Reserve Bank any information relating to the affairs of a specified institution obtained while performing their duties as auditors where, in their opinion, the institution is in serious financial difficulties. These disclosures are to be made after the auditor has informed the institution of an intention to do so. Specified institutions are defined in Section 38K of the Act to include registered banks, authorised dealers in foreign exchange, and other financial institutions designated as such by the Reserve Bank. As with the British legislation, the New Zealand Act provides protection for auditors against legal action by the client, where they provide information to the regulatory authority in good faith.

In Australia, the Reserve Bank prudential supervision procedures primarily aim to protect the interests of investors and depositors. The Reserve Bank requests auditors to assist with prudential supervision by forming an opinion and reporting, inter alia, whether there are any matters in relation to their client banks which, in their opinion, may have the potential to prejudice materially the interests of depositors. The report is made with the full knowledge of the client bank as, in the first instance, it is sent by the auditor to the bank. The bank is then required to forward a copy to the Reserve Bank.

The reporting duties recently imposed on auditors in Britain, New Zealand and Australia are decisive steps in narrowing the audit expectation-performance gap. However, it must be recognised that they are generally limited in their application.

Apart from the British Auditing Guideline Exposure Draft (CCAB, 1988a), which provides for reporting corporate fraud to regulatory authorities whenever it is in the public interest to do so, the extensions to auditors' duties to report are limited in their application. In Britain they apply to authorised firms in the financial sector, in New Zealand to specified institutions, and in Australia to banks. Auditors have similar reporting duties under other legislation; for example, under the Securities Act 1978 (NZ) they have a duty to report to the trustee for debenture holders if they consider the interests of debenture holders are at risk. But again, such duties are very limited in their application. It is submitted that, from the tenor of statements made by politicians, the financial press, the courts and others in recent years, the public expects auditors to accept a general duty to report to regulatory authorities concerns they have about corporate crime and company failure whenever these arise in the performance of their duties as auditors.

It appears that although the gap has been narrowed, a difference remains between the public's and the profession's position in relation to auditors' reporting duties. Given the present socio-economic environment of the English-speaking world, the public's expectations do not seem to be unreasonable. Therefore, it is submitted that the gap in relation to this issue primarily derives from deficient standards. However, it is suggested that the real problem lies not in a reluctance by the auditing profession to accept the reporting duties expected of them by the public, but in their exposure to the risk of litigation if they do so. If auditors were given legal protection against actions for breach of their duty of confidentiality or defamation of character, where they report matters of concern uncovered during an audit to the appropriate authorities in good faith, it seems likely (from the trend evident in Britain, for example) that the profession's stance would be found to accord quite closely with that of the public, and that the expectation-performance gap relating to this issue would be sharply reduced.

Regarding auditors' duties to report, it is pertinent to recall the steps the auditing profession has taken to ensure that auditors report to shareholders far more candidly than hitherto on matters relating to doubts about a company's continued existence and corporate fraud (see sections 2.3.3 and 2.3.4 above). However, these moves are only currently in process[10] and it remains to be seen to what extent they will be operationalised by practitioners and thus, what effect they will have on the audit expectation-performance gap.

2.4 NARROWING THE AUDIT EXPECTATION-PERFORMANCE GAP

From the above discussion it is evident that, at least in relation to the issues examined, there is a gap between society's expectations of auditors and auditors' performance. Through failing to meet the public's expectations of them, auditors have been exposed to widespread and scathing criticism and costly litigation. As Liggio (1974) has said:

> The expectation gap is at the heart of the criticism of the profession. Only when this gap is narrowed and reasonable levels of expectation are established as guidelines for professional conduct will the litigious environment in which we exist be sharply narrowed. (p.28)

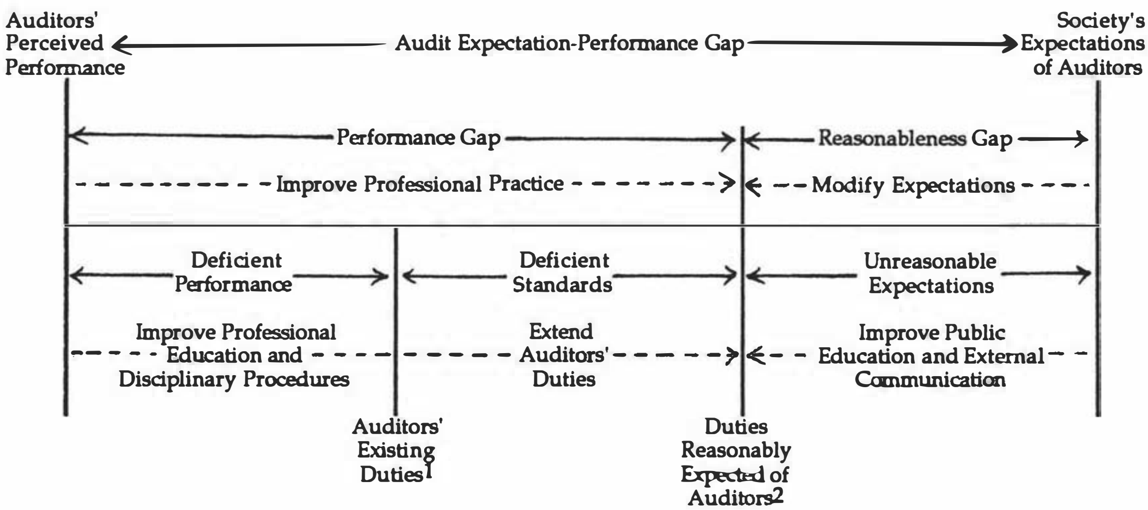
The criticism and litigation is damaging not only for the auditors directly involved; the associated bad publicity also serves to undermine the public's confidence in, and respect for, the profession and the work it does. This raises serious concerns for the auditing profession but, additionally, carries with it the worrying ramification that the future stability of financial markets may be at risk. As the chairman of the Public Oversight Board in the United States has observed, "investors and depositors are losing faith in the ability of the accounting profession to perform the job which has historically been its unique function in our society – assuring the integrity of the financial information upon which our capitalistic society necessarily depends" (as quoted by Flint, 1988, p.11).

If auditing is to fulfil its function in society, auditors must retain the confidence of those whom they serve. According to the Cohen Commission (CAR, 1975) "such confidence is dependent on a mutual understanding as to the appropriate responsibilities of auditors and a belief by users that such responsibilities are being fulfilled" (p.39). From this it is evident that maintaining public confidence in auditors rests on narrowing the audit expectation-performance gap.

It has been shown in section 2.3 (and in summary form in Figure 2) that the profession has taken some positive steps towards narrowing the gap. However, the profession's efforts have been fire-fighting in nature, targeted to quell the most vociferous and scathing criticism of auditors, or they have been enforced by legislation designed to serve specific objectives. It is submitted that this is not a satisfactory way to solve the problem. A more effective and efficient approach is to examine each issue exhibiting a gap between society's expectations of auditors and auditors' performance to ascertain which components of the audit expectation-performance gap are present, and then to apply appropriate measures to counter each. Thus, as is indicated in Figure 3, it is suggested that the gap be tackled on three fronts, using three different methods:

- to the extent that society expects more of auditors than auditors can reasonably be expected to accomplish, the auditing profession needs to modify society's expectations by means of improved communication and education programmes;
- where auditors fail to perform duties which are reasonably expected of them by society, the auditing profession needs to:
  - carefully reassess current Auditing Standards and Guidelines and amend those which do not embody the duties which are reasonably expected of auditors; and
  - rectify sub-standard performance. It is suggested that this will require both improved (and compulsory) continuing education programmes and more stringent monitoring and enforcement of compliance with professional standards.

Figure 3: Narrowing the audit expectation-performance gap



--> Direction of narrowing the audit expectation-performance gap.

1 Duties defined by law and professional promulgations.

2 Duties compatible with auditors' role in society and cost-beneficial for auditors to perform.

Analysis of these measures reveals that the linchpin in narrowing the audit expectation-performance gap is defining the duties which may reasonably be expected of auditors. It is these duties about which society needs to be educated, and it is these duties which need to be embodied in Auditing Standards and Guidelines and performed by practitioners. It is essential that the profession does not attempt to define these duties on an ad hoc basis in response to factors which happen to be causing the greatest public and political outcry at the time. As noted in section 2.2, for duties to be reasonably expected of auditors they must meet two criteria: they must be compatible with auditors' role in society and they must be cost-beneficial for auditors to perform.

In Chapter 1 it was postulated that the root cause of the audit expectation-performance gap is the lack of a satisfactory theory to explain the role of external auditors in society. It is now submitted that the absence of such a theory precludes defining the duties which may reasonably be expected of auditors and, thereby, prevents narrowing the audit expectation-performance gap on a rational and comprehensive basis. It is concluded, therefore, that the first step towards narrowing the gap is defining a theory to explain the social role of external auditors.

It should be noted that, while acknowledging that in order for duties to be reasonably expected of auditors they must meet two criteria, this study focuses on defining the role of auditors in society. Formal cost-benefit analysis has not been performed and is identified in Chapter 9 as an area for future research. However, the duties which are cost-beneficial for auditors to perform have been identified by means of normative deduction based on a parallel to the "objective test [of the] ordinary reasonable man" (O'Keefe and Farrands, 1976, p. 206) as applied in New Zealand courts of law. This is explained in Chapter 8 (section 8.3.1).

2.5 SUMMARY

The audit expectation-performance gap has been defined in this chapter as the gap between society's expectations of external auditors and auditors' performance, as perceived by society (see footnote 3). It is seen to comprise two major constituent parts, namely, the reasonableness gap and the performance gap, with the latter subdivided into deficient standards and deficient performance components. Five issues identified from professional auditing literature as exemplifying the audit expectation-performance gap have been examined. These demonstrate the existence of the gap and illustrate its constituent parts.

A three-fold approach towards narrowing the gap has been proposed, with education programmes and improved communication recommended to counter the reasonableness gap, an extension to auditors' duties to eliminate deficient standards, and more stringent enforcement of professional standards to rectify deficient performance. It has been noted that the key to narrowing the audit expectation-performance gap is defining the set of duties which may reasonably be expected of external auditors. However, ascertaining these duties rests, in turn, on defining the role of external auditors in society. It is thus concluded that the starting point in narrowing the audit expectation-performance gap is identifying the role of auditors, and it is to this which attention is now turned.

CHAPTER 3: THEORIES PREVIOUSLY ADVANCED TO EXPLAIN THE ROLE OF EXTERNAL AUDITORS

3.1 INTRODUCTION

A number of theories purporting to explain the role of external auditors may be distilled from auditing literature. These are primarily inductive in nature, that is, they attempt to explain the role of auditors from observations of prevailing audit practice. Included among this group are:

(i) the policeman theory;

(ii) the lending credibility theory;

(iii) the moderator of claimants theory;

(iv) the quasi-judicial theory.

However, a few researchers, among them Flint (1971, 1988), Gilling (1978) and Tricker (1982), dissatisfied with inductive explanations of the social role of external auditors, have focused attention on normatively derived theories.

In this chapter the inductive theories cited above, and contributions towards the development of a normative theory, are described and evaluated. Common to all these theories is the view of the external audit as an independent examination of reports prepared by the managers of economic entities. The theories differ in their explanation of the underlying purpose of these examinations or audits.

3.2 INDUCTIVE THEORIES

3.2.1 The policeman theory

It appears from auditing literature that until the 1940s the most widely held theory of the auditor's role was that [using Beck's (1973) terminology] of a policeman. As will be shown in Chapter 4, during this early period managers of business enterprises were regarded as accountable for the honest authorised use of financial resources entrusted to them. Accordingly, attention was focused on arithmetical accuracy in the accounts and the auditor's function was seen to be that of preventing and detecting fraud and error.

From about the mid-1930s, investment in business enterprises increased markedly and became more widespread. At the same time, the stewardship of managers was extended from the honest authorised use of financial resources to embrace their efficient and effective use. This was accompanied by an apparent demand by investors and analysts for financial reports from company managers which provided information useful for investment decisions (see Chapter 4 below). Responding to this changed environment, audit emphasis shifted away from the prevention and detection of fraud and error, towards assessing the fairness and reliability of the financial information provided by company managers to shareholders and other investors (Porter, 1990). With these changes, the policeman theory could no longer adequately explain the auditor's role and it was gradually displaced by the lending credibility theory. Nevertheless, the courts, the financial press, users of financial statements and the general public have continued to regard auditors as having a responsibility to detect fraud. This is shown, for example, by the results of surveys (see Chapter 2, section 2.3.4) and the recent calls from politicians and others (referred to in Chapter 2) for auditors to extend their acknowledged responsibilities for detecting corporate fraud and, additionally, to accept a duty to report both detected and suspected management fraud to regulatory authorities.

Society clearly considers that auditors' responsibilities include 'policeman-like' duties. However, the policeman theory cannot accommodate the shift in audit emphasis away from the prevention and detection of fraud towards verification of the truth and fairness of financial statements. It is, therefore, inadequate as a general theory to explain the auditor's role in society.

3.2.2 The lending credibility theory

For the past thirty years or so, the most popular theory of the role of the external auditor has been that of lending credibility to the financial statements prepared by company managers for investors and other interested parties outside the reporting entity. The financial information is seen to be required primarily for investment decisions.

The lending credibility theory arose from the increasing separation of ownership (shareholders) and management of corporate entities, and the perceived potential conflict of interests. Management, free from the restraining influence of owners, was seen as likely to provide biased information, giving the most favourable view possible of their own performance and the success of the company. Auditors were regarded as necessary to verify that the financial statements were, in fact, fair and unbiased, and therefore could be relied on for decision-making purposes.

According to Gilling (1978, p.16) this lending credibility theory was first propounded by Bevis (1962) who explained:

> The [audit] function results in the expression of an opinion by an independent expert that a communication of economic data by one party to another is fairly presented. Discharge of that function lends credibility to the representation and increases reliance upon it. (p.28)

Lee (1970) and Mautz (1975a), among others, have expressed similar ideas:

- Company auditing is concerned with the creation of belief and confidence in the financial accounting information which describes the use made of economic resources within a company over a stated period of time. By giving an expert and independent opinion upon a company's annual financial accounts, the auditor attests to the latter's credibility on behalf of the shareholders who rely upon this formal substantiation taking place, prior to making use of the information in their investment management activities. (Lee, 1970, p.292)
- The role of auditing in an advanced economic society can be and has been stated in very simple terms – to add credibility to financial statements. (Mautz, 1975a, p.17)

The acceptability of this lending credibility theory is endorsed by statements from the professional bodies. For example, in its Auditing Standards, the NZSA (1986a) states: "an audit is an independent examination of financial information of any entity ...when such an examination is conducted with the objective of expressing an opinion thereon ... The auditor's opinion helps establish the credibility of the financial information" (para.4-5). Similarly, the Foreword to the British professional Auditing Standards and Guidelines (ICAEW et al., 1980) defines an audit as, "the independent examination of, and expression of an opinion on, the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation" (para.2). The auditor's statutory obligation under the United Kingdom's Companies Acts is to express an opinion on whether a company's financial statements give a true and fair view and hence, by implication, can be relied upon.

Mautz (1975a) provides a rationale for the lending credibility theory. He assumes that investors make rational decisions and suggests that, guided by companies' net profit figures, they will invest in the enterprises and sectors of the economy which they perceive as likely to generate the greatest return. If they are provided with adequate reliable information their confidence in the capital markets will be maintained and resources within the economy will be allocated optimally.

General acceptance of the lending credibility theory and its underlying rationale is noted by Lee (1977). He states:

> The following statement would appear to express the current conventional wisdom of auditing:
>
> No one would deny that the function of the auditor, in lending credibility to financial statements, has been growing in importance, rapidly and steadily, over the last fifty years ...Such financial reports are relied on heavily by investors, creditors, security analysts, Government, and others. The role of the auditor, in lending credibility to these financial statements, is vital in establishing and maintaining confidence in the capital markets. Without such confidence the whole basis of our capitalist system would be destroyed. (pp.87-88)

However Lee (1977), among others, has also shown that this theory is not supported by the evidence. He points, for example, to the conclusions reached by the Efficient Markets School, namely (p.89):

1. Unaudited interim financial reports appear to have a far greater impact on investor behaviour than do audited annual reports.
2. There is little evidence to indicate that capital markets react naïvely to complex financial information. Investors appear to make relatively sophisticated use of financial information so they can be expected to appreciate the importance and meaning of an audit opinion, especially if it is qualified. Yet the evidence suggests that qualification of audit reports has little impact in financial markets.
3. Certain findings show that investors tend to make use of information derived from a wide range of sources, much of which is unaudited, rather than merely relying on audited financial statements.

These conclusions suggest that, contrary to the premise of the lending credibility theory of the role of external auditors in society, audited information does not form the primary basis for investors' investment decisions.

The results of empirical studies conducted by Lee and Tweedie (1975) in Britain and Wilton and Tabb (1978) in New Zealand, and a review of studies of the information content of qualified audit reports by Craswell (1985), also raise questions about the validity of the lending credibility theory. Lee and Tweedie (1975), in their survey of the use of accounting information by shareholders, found that 43% of their sample of 374 individual shareholders of a nationally-known London-based company did not read the auditor's report, and those who did considered it to be the least important part of the annual report. In analysing this finding, Lee and Tweedie observe that it may have resulted from the fact that the shareholders knew the accounts had been audited and this fact alone was sufficient to satisfy them that the information was reliable. A similar explanation for the lack of reference to the auditor's report by shareholders was offered by Wilton and Tabb (1978). Of their sample of 165 shareholders drawn from two public companies listed on the New Zealand Stock Exchange, 48% did not read the auditor's report.

It is implied by the second conclusion of the Efficient Markets School cited above that, if the lending credibility theory is valid, a qualified audit report would indicate to investors that the financial statements are not reliable and, as a result, an observable downward movement in the company's share prices would be generated. However, as Craswell (1985) has demonstrated, this is not generally supported by empirical research. After reviewing studies of the information content of qualified audit reports, Craswell concluded that, "the evidence is contradictory and inconsistent and it is not possible to make general statements about the information content of audit qualifications" (p. 112). He specifically refutes Chow's (1983) assertion that, "the belief that auditor's opinions convey useful information to external users of financial statements [is] well founded" (p. 21). This clearly brings into question the validity of the lending credibility theory.

The rationale suggested in support of the lending credibility theory of the auditor's role in society may also be attacked. Indeed Mautz (1975a, pp.7-8) himself draws attention to the fact that the contention that auditing facilitates optimal resource allocation in the economy (by lending credibility to financial statements prepared by company managers) only has application to companies seeking new capital. To the extent that auditors report on the financial statements of companies not seeking new capital, the audit opinion merely adds credibility to financial information used for trading securities already issued. Therefore, in these cases auditing does not (at least directly) assist resource allocation within the economy.

This apparent flaw in the rationale supporting the lending credibility theory is sufficient in itself to raise serious doubts about the validity of the theory. Add to this the conclusions of the Efficient Markets School, the empirical evidence regarding the extent to which investors read auditors' reports, and the fact that the theory makes no attempt to encompass the 'policeman' aspects of auditors' duties, and it is evident that the theory is not sustainable as an adequate explanation of the external auditor's role in society. Nevertheless, monitoring, and thereby lending credibility to financial reports prepared by company managers for outside parties, is a critical element of the audit function and, therefore, must be accommodated by any acceptable general theory of the social role of external auditors.

3.2.3 The moderator of claimants theory

Another theory found in auditing literature, which Gilling (1978, p.13) attributes to Littleton (1961), views the auditor as a moderator of competing claimants. Various commentators have emphasised that a business is a system comprising providers of resources. The most frequently identified resource contributors are shareholders, creditors, employees and the State (for example, the Accounting Standards Steering Committee [ASSC], 1975). However, some researchers have identified other groups, for example, Sherwin (1983) (whose ideas are explored more fully in Chapter 4, section 4.4.5, below) recognises capital owners, employees and consumers, and Aiken (1976, p.3) specifies investors, employees, consumers, suppliers and the public.

Each identified group is recognised as making a vital contribution to the survival and well-being of the enterprise and, therefore, as having a legitimate claim to part of the income of the business. To ensure that each group continues to make its essential contribution, its members must be satisfied that they are receiving their fair share of the income. As Aiken (1976) has observed, "the major task of management is to balance rewards flowing back to the various groups of interrelated participants so that no contribution necessary for joint performance will be withdrawn" (p.6). Littleton (1961) suggests that the function of the Income Statement is to show the calculation of income for a financial period and to indicate how the income has been distributed among the competing claimants. By giving an opinion on the truth and fairness of the Income Statement, the auditor is a moderator of the various interests represented in the amounts shown therein.

Although this may be a valid explanation of one aspect of the auditor's function, like the lending credibility and policeman theories, it is a partial and a static theory. It does not accommodate the multi-faceted nature of auditors' duties (it does not, for example, embrace auditors' duties with respect to fraud), nor does it explain changes in auditors' responsibilities which have accompanied changes in the socio-economic environment. It cannot, therefore, serve as an adequate general theory to explain the role of external auditors in society.

3.2.4 The quasi-judicial theory

Gilling (1978, pp.257-268) examines a further theory of the role of auditors which is found in the literature, namely the quasi-judicial theory. This theory seems to have its origin in the case of *R* v *Kylsant and Morland* [1932] 1 KB 442 (the *Royal Mail* case) in which Mr Justice Wright ascribed such a role to auditors.

Gilling notes that the quasi-judicial concept creates a number of difficulties and he quotes de Smith (1973) who described it as "a superfluous adjective which increases rather than diminishes confusion" (p.529). Gilling observes that other academic writers similarly view it with disfavour, but he also points out that some hold the contrary view. He shows, for example, that to Wade (1949), quasi-judicial denotes an important concept which "is not a matter of words, but a matter of functions; functions which lie on the borderland between the judicial and executive spheres of government and whose correct understanding are of practical interest and significance" (p.217). Wade also argues, according to Gilling, that the proper way to view a quasi-judicial process is as an administrative process to which one or more judicial elements have been added, rather than as a judicial process from which one or more elements are missing.

Gilling suggests that to evaluate the relevance of this concept to the role of auditors, it is helpful to examine some of the characteristics of a judge to see if, and to what extent, they are shared by auditors. To assist the comparison he draws attention to a number of differences identified by Stamp and Marley (1970). These include the following:

1. Legal arguments are invariably heard in open court and judges' decisions are published along with their reasons therefore. In contrast, auditors' judgements are invariably made in camera and their records and judgements are kept private.
2. Common law judges are bound by the doctrine of precedence. Although auditors value the doctrine of consistency, there is no guarantee that the practices adopted

for one client will be the same from year to year, nor that the procedures applied to one client will be the same as those used for other clients.

3. More importantly (according to Stamp) judges are likely to act in the public interest because they are appointed and remunerated independently of the parties who appear before them. Auditors, on the other hand, are appointed by those they are required to judge (in practice if not in law) and the audit fee is determined through a process of bargaining between auditor and client.

Gilling asserts that, based on these observations, the auditor lacks the attributes of a judge and therefore it can be argued that the auditor does not and cannot fulfil a judicial function. Even if it is accepted that the auditor's function incorporates some judicial elements, it is submitted that the quasi-judicial theory does not provide an adequate explanation of the auditor's role in society. Among its most notable shortcomings is its failure to accommodate the auditor's function of lending credibility to the financial statements prepared by management for interested parties outside the economic enterprise.

3.3 FROM INDUCTIVE TO NORMATIVE THEORIES

Analysis of the inductive theories shows that none of them qualifies as a satisfactory general theory to explain the role of external auditors in society. The quasi-judicial theory has an advantage over its alternatives in that it is dynamic and embodies a characteristic of the audit function which pertains to different socio-economic environments. However, it does not embrace all facets of the auditor's duties and, therefore, is too restrictive to serve as a general theory. Critical examination shows that each of its alternatives – the theories which view the auditor as a policeman, as a provider of credibility to managements' financial reports, and as a moderator of competing claimants – amounts to little more than a statement of an audit objective which was appropriate to the socio-economic environment of a particular time period. As Flint (1988, p. 6) has pointed out, such statements of audit objectives, each focusing on one aspect of the auditor's duties, do not help explain the underlying purpose of these objectives. He insists that the objectives must be set in a wider social context and it is this which forms the appropriate basis for a theory of the role of the auditor. In other words, a theory is needed which explains the fundamental purpose and function of auditors in society.

The inductive theories considered above are essentially rationalisations of observed audit practice. Similarly, the conceptual framework of auditing developed by Mautz and Sharaf in their pioneering work *The Philosophy of Auditing* (1961) was largely an explication of existing practice. Indeed, there is an interesting parallel between the development of *auditing* theory and the development of *accounting* theory. The pioneers of accounting theory, Paton (1922), Sanders, Hatfield and Moore (1938) and Gilman (1939), among others, developed their theories by distilling and codifying general accounting principles from their observations of what they considered to be best accounting practices of the time. Likewise, Mautz and Sharaf distilled and codified general auditing concepts from their observations of contemporary audit practices.

By the 1960s, accounting theorists recognised that the various sets of generally accepted accounting principles did not provide an adequate theory of accounting. It was increasingly acknowledged that if the development of accounting standards and procedures was to proceed in an orderly and consistent fashion a normatively derived conceptual framework was needed. Henderson and Pierson (1983) suggest that Chambers was largely instrumental in bringing about this change in approach to accounting theory. They say:

> In 1955 Chambers argued that accounting research and theory should be much less concerned with justifying and explaining contemporary practice and much more concerned with the development of a better accounting system ....Probably because of

> the widespread dissatisfaction with contemporary accounting procedures, Chambers' views received considerable support, and for the next fifteen years academic research was largely directed towards the development of general normative theories of accounting. (p.128)

The change in orientation in accounting theory, from induction to deduction, is reflected in the adoption of the normative approach by the Accounting Principles Board (APB) in Statement No.4, *Basic Concepts of Accounting Principles Underlying Financial Statements of Business Enterprises* (AICPA, 1970). The same approach was adopted by the Trueblood Committee (AICPA, 1973) and by the Financial Accounting Standards Board (FASB) (1978), in their respective searches for a satisfactory general theory of accounting. At the present time, concerted efforts are being made to develop normatively derived conceptual frameworks of accounting in Australia, Canada and Britain, and seem about to begin in New Zealand.

Likewise in auditing, the observation-based statements of audit objectives and statements of general auditing concepts, have not proved adequate to explain the role of external auditors in society. It seems that, as in accounting, a more global, normatively derived theory is needed.

3.4 NORMATIVE THEORIES

3.4.1 Agency theory

In recent years agency theory has been applied to explain the purpose and function of external auditors (for example, Wallace, 1980). Unlike its predecessors, this theory has not been developed inductively but has been derived through deduction. However, like the lending credibility theory discussed in section 3.2.2 above, application of agency theory to auditing resulted from the perceived potential conflict of interests between owners (shareholders) and managers of business enterprises. A review of auditing literature also indicates that agency theory gained popularity in the auditing context during the late 1970s and early 1980s, at the same time as the lending credibility theory was being brought into question.

Wallace (1980) defines an agency relationship as "a contract under which one or more principals engage another person as their steward (agent) to perform some service on their behalf, the performance of which requires the delegation of some decision making authority to the steward" (p.12). She points out that managers of companies have always been agents of the shareholders. However, it should be remembered that shareholders elect company directors and that the directors appoint executive managers. Therefore, in the context of agency theory, shareholders (as a group) constitute 'the principal' and the company's directors and managers, their 'agents'.

Agency theory, as explained by Wallace (1980, pp.12-14), holds that if both parties in the agency relationship are assumed to attempt to maximise their self-interest and if it is costly for the principal to check on the agent, there is good reason to believe that the agent will not always act in the best interests of the principal. However, the principal can obtain some protection against this eventuality by adjusting downwards the price paid for the agent's services. This downward adjustment would equal the amount perceived as likely to be lost through the agent pursuing his or her own self-interest, rather than acting in the best interests of the principal, for example, by taking unauthorised perquisites.

According to Wallace, the agent, anticipating that the wage reduction could be greater than the value of the perquisites, will have an incentive to contract not to take such benefits. Further, since the principal's expenditures for monitoring the agent's behaviour are reflected in the wages the agent receives, it is in the agent's interest to see that the monitoring is performed at lowest cost. Thus, Wallace maintains, it is the agent rather than the principal who is the source of demand for monitoring services. She explains that principals are basically indifferent, since they are able to protect themselves from the risk of loss perceived in the agency relationship by merely paying less for their agent's services. But agents, aware of their principals' adjustment capability, demand monitoring as a means of avoiding a downward adjustment to their wages.

In the corporate shareholder-management setting, Wallace asserts that application of agency theory indicates that incentives exist for management to provide financial statements to shareholders in order to facilitate their monitoring activities at minimum cost. But, she also points out that if shareholders do not trust the numbers provided by management, they will insist on compensation (through the downward adjustment of managers' wages) for the risk of loss they perceive. Therefore, in addition to providing financial reports, management will agree to provide evidence that the reported numbers are free from both accidental error and material fraud. According to Wallace (1980) "the product which provides this assurance, with acknowledged limitation with respect to fraud discovery, is the independent audit" (p.13). Thus, agency theory views financial statements and their examination by an external auditor as monitoring devices, initiated by management to avoid a downward wage adjustment by their principals.

This theory represents a significant step forward in the development of a theory to explain the role of external auditors. It attempts to provide a rationale for the presence of the auditor as an integral part of the corporate reporting process. Further, it accommodates the two important facets of auditors' duties; detecting fraud and error, and lending credibility to information provided by management. However, agency theory has some serious obstacles to its acceptance as a general theory of the role of external auditors in society. Among its major difficulties are the following:

1. The perceived relationship between shareholders and managers (such that shareholders are principals in a position to adjust downwards managers' wages) is difficult to sustain as it lacks an appreciation of reality. In large modern corporations, shareholders are generally remote from, and indeed little interested in, the day-to-day running of the company. Their prime interest is in the return they can earn on their investment and, in general, they readily switch their allegiance from one company to another when they perceive it to be profitable to do so. It is submitted that they are not interested in managers' compensation in the manner suggested by agency theory. Certainly, under New Zealand (and British) company law, directors' fees must be disclosed in company financial statements, but it is suggested that both directors' fees and executive managers' remuneration are primarily determined by market forces. Providing they are not grossly out of line with other companies, it seems unlikely that they will be questioned (or adjusted) by shareholders. It may be contended that the market forces reflect the combined effect of possible downward adjustments of wages by all shareholders, and appropriate responses by all corporate managements to avoid this, but this seems to be going well beyond the rather direct relationship implied by agency theory.

2. The theory cannot easily accommodate the increasing number of groups in society who are recognised as having a legitimate interest in companies. As is shown in Chapter 4 (section 4.4.4) below, these include, in addition to shareholders, investors, financial analysts and advisors, financial journalists, creditors, employees, customers, the Government, and the public at large. Attempts have been made to encompass these groups within agency theory by recognising each (and all) of them as principals. However, particularly in view of the contractual

arrangement embodied in the definition of an agency relationship (see page 57 above), this seems to stretch agency theory beyond its limits.

3. Similarly, the theory cannot easily accommodate the increasingly widespread demand for socially responsible behaviour by corporate managements (see Chapter 4, section 4.4.5). Some commentators, such as Benston (1982) and Sherwin (1983), have attempted to demonstrate that it is in managers' own interests to perform socially responsible actions desired by principals (identified as shareholders by Benston and society in general by Sherwin). However, without commenting on the validity of their arguments, it is suggested that incorporating such explanations of socially responsible behaviour by company managers within agency theory, extends the theory to fit the facts, rather than seeing if the facts are adequately explained by the theory. In this instance the theory does not seem comfortably to fit the facts. This is particularly evident if the theory is assessed in the light of descriptions of modern corporate life reported, for example, by the ASSC (1975) and Demers and Wayland (1982) (see Chapter 4 below).

In short, it is suggested that although use of agency theory to explain the audit function has some conceptual appeal, it fails as a theory of the social role of external auditors as it cannot (easily) accommodate practical realities. However, it should be stressed that this theory does not purport to provide an explanation of the role of external auditors in society. Instead, it attempts to explain the demand for and presence of auditors, especially in circumstances where audits are not required by statute.

3.4.2 Instrument of social control theory

The foundations of a normative theory, based on a model of the external auditor as an instrument of social control within the corporate accountability process, have been provided by writers such as Flint (1971, 1988), Tricker (1982) and Gilling (1978). Flint

(1971), to whom the origin of the theory may be attributed, observed that economic resources have been increasingly channelled to, and controlled by, national and international corporations. Asserting that this represents a concentration of power, he explains:

> In a democratic society power is not absolute and those who exercise it are accountable. The power must be exercised in the public interest and some system of surveillance must be operated to monitor the quality of the report on accountability. The character of accountability does not wholly lend itself to precise definition and is of an evolving nature adjusting to changes in social, political and economic thought and in the ethics and standards of society. The audit function is a critical one in ensuring accountability in the broadest and deepest sense; to be adequate for it the auditors require to be sensitive to and to react to changes in the public concept of what accountability is. (p.293)

Flint (1988) crystallises his viewpoint in the simple statement:

> "Audit is a social control mechanism for securing accountability" (p. 17).

Neumann (1979, pp. 40-41) points out that the Cohen Commission adopted this "social control through accountability" model but, regrettably, did not develop the model in a comprehensive fashion. The Commission to Study the Public's Expectations of Audits (CICA, 1988, para.1.3-1.4) also supported the notion of auditors as instruments of social control within the accountability process. It observed that a need for accountability arises when one party entrusts responsibility for property or the performance of certain duties to another party, and noted that an audit is a safeguard introduced to ensure (or enhance) the integrity of the accounting within the accountability relationship. It stated that the external auditor is appointed primarily in the interests of parties who have entrusted responsibility to others and who are not in a position to conduct their own audit. Although the Canadian Commission accepted the view of auditors as instruments of social control, like the Cohen Commission, it did not develop the model to provide a conceptual underpinning for its study of auditors' duties.

Gilling (1978), in a landmark attempt to derive a fully developed normative theory of the role of the auditor in modern society, adopted Flint's concept of the auditor as an element in the accountability process and defined the auditor's role as that of an agent of social control. However, Gilling's thesis rests on the notions that:

(i) the auditor's role and responsibilities are defined by binding legal and professional norms which attach to the auditor's status in society (p.32);

(ii) the auditor's role has been transformed into that of an agent of social control as a result of changes that have made auditing a matter of status rather than contract (pp.35-36).

It is submitted that both of these notions are subject to question.

(i) Binding legal and professional norms

It is reasonable to accept that binding legal and professional norms define the auditor's responsibilities (that is, what the auditor must do in order to avoid sanctions from regulatory authorities), but whether they also define the auditor's role in society is questionable. To make such an assertion seems to stop one step short and to ignore the fact that those binding legal and professional norms are determined by society's attitudes, values and expectations. As Mautz (1975b, p.2) has observed, social consent ultimately defines the role of the auditor.

The fact that the law reflects and responds to society's changing norms and values is reflected in the enactment of statutes such as the Homosexual Law Reform Act 1986. The relationship has also been explained in case law. In *Midland Bank* v *Green (No.3)* [1982] 2 WLR 1, for example, Sir George Baker said: "The law is a living thing; it adapts and develops to fulfil the needs of living people whom it both governs and serves. Like clothes, it should be made to fit people". In an example relating specifically to auditing, Savage (1981, p.341) observed that, although the *Jeb Fasteners* decision [1981] 3 All ER 289 filled many auditors with consternation, it merely brought the law into line with the public's expectations.

It is thus justifiable to assert that legal norms reflect and respond to, and are ultimately determined by, society's changing attitudes, values and expectations. Therefore, the role of the auditor, rather than being defined by binding legal norms, is determined in the final analysis by the expectations of society.

A review of the development of auditing standards shows that these too develop in response to changes in society. The fundamental standard governing the work of an auditor was laid down in *Re Kingston Cotton Mill Company (No.2)* (1896) 2 Ch.279, in which Lopes L J stated:

> It is the duty of an auditor to bring to bear on the work he has to perform that skill, care and caution which a reasonably competent, careful and cautious auditor would use. What is reasonable skill, care and caution must depend on the particular circumstances of each case.

Moffit J, in *Pacific Acceptance Corporation Ltd* v *Forsyth and others* [1970] 92 WN (NSW) 29, further explained:

> Reasonable skill and care calls for changed standards to meet changed conditions or changed understanding of dangers and in this sense standards are more exacting today than in 1896. This the auditing profession has rightly accepted. It is not a question of the court requiring higher standards because the profession has adopted higher standards.

The last point should not be interpreted to mean that the profession has taken the initiative in standard setting for, as Kirby (1983) observed:

> The professions in general have been sluggish in recognising the changed patterns and attitudes in society, and in coming to terms with them. The result has been that they have been seen to defend in some respects the

> values and privileges of a past age. Then perception has increased the pressure for reform. (p.35)

In the auditing arena, perception of society's changed expectations, and thus the need for reform, has been induced, at least in part, by criticism of auditors by politicians, the financial press, the courts, and the general public, and by widespread litigation involving auditors. Criticism and litigation have stimulated re-assessment and development of auditing standards by the profession. This is shown, for example, by the spate of audit standard setting which followed the reports of the Cohen Commission (CAR, 1978) and the Cross Committee (Cross, 1977). These committees were set up by professional accountancy bodies in the United States in 1974, and in Britain in 1976, respectively, following severe public criticism of the auditing profession and the threat of Government intervention in the profession's affairs.

Support for the proposition that auditing standards develop in response to changes in society is provided by Tricker (1982). He observed:

> The periods of high activity in audit standard setting exactly mirror the periods of major crisis in the corporate sector, thus at the time of McKesson (1936-40) 22 standards were promulgated. In the subsequent five year periods the number was down to five until 1971-1975, the time of the Equity Funding and Penn Central collapse, when 21 standards were promulgated. In the current five years 1976-1980 [years notable for financial scandals and corporate collapse] it looks as though a similar number will emerge. (p.56)

The periods of "major crisis in the corporate sector" bring with them new expectations of auditors – and criticism for not performing duties which the critics consider may have helped avert, or at least given warning of, the crises. It is interesting to note the high level of standard setting activity in recent times in Britain and the United States, following a number of years which have been notorious for widespread corporate crime and company failure, and during which politicians, in particular, have been especially vocal and scathing in their attacks on auditors (see Chapter 2).

On the basis of the above discussion it seems legitimate to challenge Gilling's statement that binding legal and professional norms define the auditor's role and to assert instead that it is society, or influential groups within society, that define that role. Certainly legal and professional norms play a part in the process, but these norms are themselves determined by society's attitudes, values and expectations. Further, society also uses other means, such as public criticism, litigation, and the threat of Government intervention in the profession's affairs, to ensure that auditors fulfil the role ascribed to them by society. (The concept of role, and the significance of society in defining roles, is considered in detail in Chapter 4).

(ii) Transformation of the auditor's role

A general theory of the role of external auditors in society must be able to accommodate changes in the audit function which represent auditing's response to its changing environment – that is, it must be able to stand the test of time. Gilling's thesis does not meet this requirement. Instead, it invokes the notion that "the auditor's role has been transformed into that of an agent of social control" (p.v.). However, as will be shown in Chapter 5, no such transformation is necessary; Flint's concept of the auditor as an instrument of control within the accountability process applies at all times. It is equally applicable to the earliest audits of simple stewardship reports and to the sophisticated audits of highly complex economic enterprises today. In simple terms, the auditor's function in each case is to examine critically the accountability reports provided by the steward(s) who have been entrusted with the resources of others. Details of auditors' duties may change over time as changes occur in the nature of the accountability required of individuals and organisations (Tricker 1982), but the auditor's fundamental role as an instrument of control within the accountability process does not change. (This is discussed further in Chapter 4 below).

The notion of the external auditor as a social controller within the accountability process carries with it the implication that the theory of the role of the auditor is a component of a much wider theory – that of accountability. More specifically, it is but one part of a theory of the accountability of those entrusted with the economic resources of others, notably the accountability of corporate managers. Tricker (1982) has provided some fruitful ideas on the development of corporate accountability and its impact on the audit function. He advanced two basic theses (p.53), namely:

1. external expectations of the audit function evolve, and the practice of auditing develops, in response to changing demands for accountability in society;
2. demands for accountability emerge as a response to perceived corporate collapse or other corporate crises.

According to Tricker, corporate crises lead to new expectations of, and requirements for, accountability. These, in turn, lead to new demands of the audit function.

These ideas are clearly relevant to a theory of the role of external auditors in society, but they serve to elucidate the relationship between the accountability process and the audit function rather than illuminating auditors' role in society. Like Flint, Tricker generated some powerful ideas but did not develop a comprehensive theory of either corporate accountability or the auditor's role within it. Also, like Flint, Tricker (1982, p.58) drew attention to the lack of a clearly articulated or widely accepted conceptual framework to explain the role of the auditor and pointed to the urgent need for research in this area.

3.5 SUMMARY

In this chapter extant theories of the role of external auditors in society have been reviewed, and it has been shown that each of the theories discussed has shortcomings which preclude its acceptance as a general theory.

The observation-based inductive theories are seen to be primarily statements of audit objectives. Such statements do not explain the underlying social function and purpose of auditors, nor can they accommodate changes in auditors' responsibilities which accompany changes in the socio-economic environment.

The foundations for a normatively derived theory, based on a model of the auditor as an instrument of social control within the accountability process, have been laid principally by Flint, Gilling and Tricker. These writers have made a valuable contribution to the development of a satisfactory theory, but the task remains to construct a comprehensive conceptual framework to support a general theory to explain the role of external auditors in society. An attempt to do this, by developing the work of the earlier researchers, is presented in the next chapter.

CHAPTER 4: DEVELOPMENT OF A CONCEPTUAL FRAMEWORK FOR A THEORY TO EXPLAIN THE ROLE OF EXTERNAL AUDITORS IN SOCIETY

4.1 INTRODUCTION

In order to derive a theory to explain the role of external auditors in society, a conceptual framework is needed. In this chapter a framework is constructed from three basic components:

1. the concept of 'role';
2. the attributes of auditors as professionals;
3. the concept, development and discharge of corporate accountability.

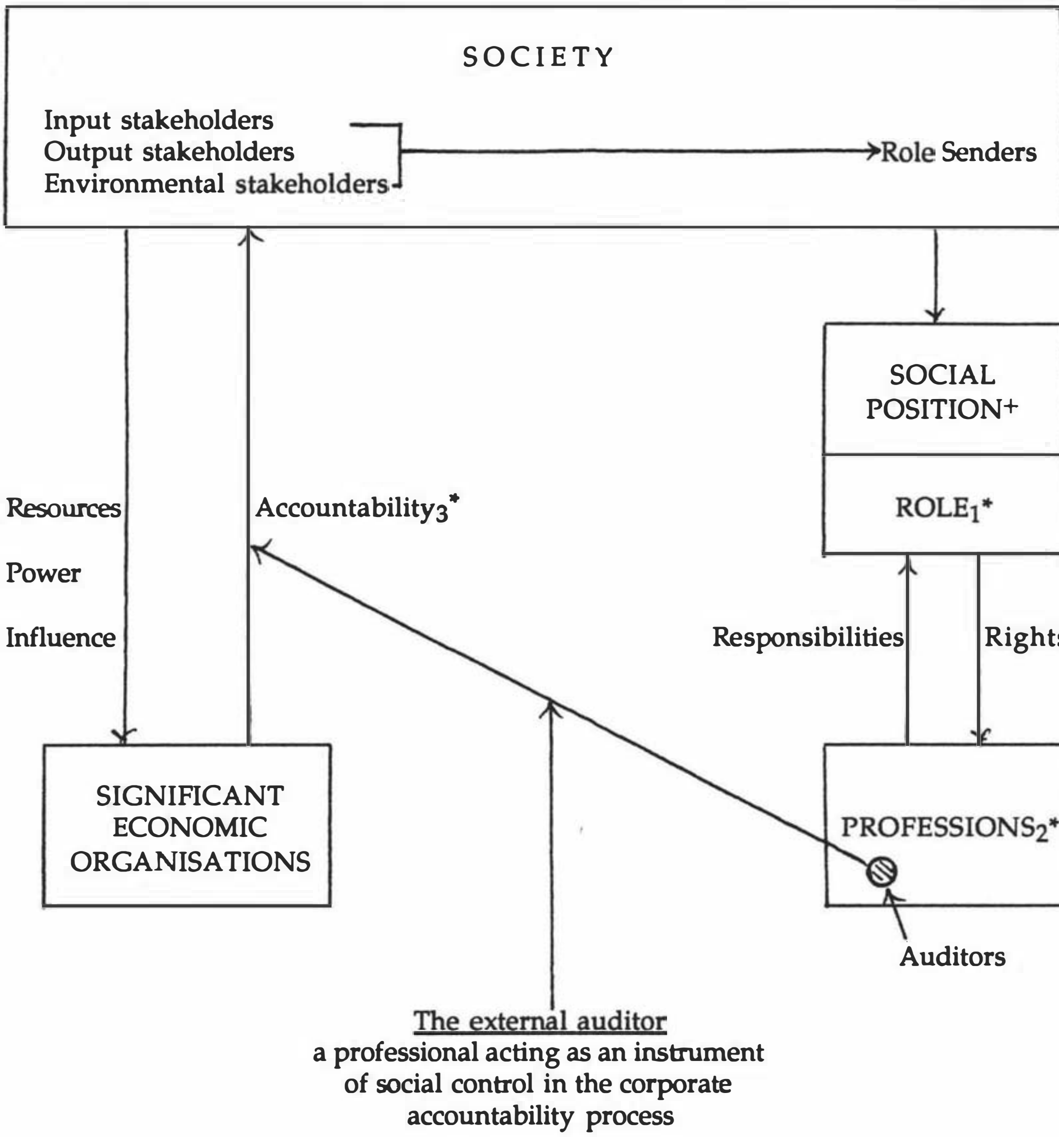
A simplistic diagrammatic representation of these elements and their inter-relationships is presented in Figure 4. In Chapter 5 the components of the conceptual framework are combined in a tentative statement of a theory of the role of external auditors in society.

4.2 THE CONCEPT OF ROLE

4.2.1 The meaning of role

The first component in a conceptual framework for a theory to explain the social role of external auditors is the concept of role. 'Role' is defined in the Oxford English Dictionary as "the part or character which one has to play, undertakes, or assumes. Chiefly with reference to the part played by a person in society or life". For present purposes this definition is not adequate. More helpful is the widely quoted definition

Figure 4: Simplistic diagrammatic representation of a conceptual framework for a theory of the role of external auditors in society



* Components of the Conceptual Framework

1 Concept of role.
2 Auditors as professionals.
3 Corporate accountability.

\+ 'Social position' has, in general, replaced the former term 'status' in social science literature.

N.B. The theory is developed primarily in relation to corporate accountability to stakeholders. However, it is equally applicable to the accountability of individuals and other economic entities (in both the private and public sector) to those to whom they are accountable.

proposed by Linton (1936) over fifty years ago:

> A status[11], in the abstract, is a position in a particular pattern ...A status, as distinct from the person who may occupy it, is simply a collection of rights and duties ...A role represents the dynamic aspect of a status. The individual is socially assigned to a status and occupies it with relation to other statuses. When he puts the rights and duties which constitute the status into effect, he is performing a role. Role and status are quite inseparable. (p.114)

Linton (1945) subsequently altered this definition slightly to describe role as, "the sum total of cultural patterns associated with a particular status ...[it consists of] attitudes, values and behaviour ascribed by the society to any and all persons occupying this status" (p. 77). In this context, 'society' is defined as "the aggregate of persons living together in a more or less ordered community" or "a collection of individuals composing a community or living under the same organization or government" (Oxford English Dictionary).

In more recent times Biddle (1986) has explained that " 'roles' are conceived as the shared normative expectations that prescribe and explain ...the characteristic behaviours of persons who occupy social positions within a stable social system" (p. 70). Similarly, Sell, Brief and Schuler (1981) state that " 'role' can be defined as a set of expectations applied to the incumbent of a particular [social] position by the incumbent and by role senders" (p. 43), that is, by individuals and groups in society who have an identifiable relationship with that role position.

Dahrendorf (1968, p. 24) emphasises that roles are socially predetermined and cannot be escaped from. He contends that every position in society an individual can occupy has attached to it certain accepted and expected modes of behaviour. Society ensures that individuals conform to expected behaviour by means of systems of formal and/or informal rewards and sanctions. Nonetheless, Davidson (1975) acknowledges that actual behaviour may not match expected behaviour and he explains:

> Differences between normative expectations and role performance may be due to misperceived and unperceived expectations and expectations which are beyond the capabilities of the individual in the role position to comply. ...When expectations are beyond the ability of an individual to comply, he is either replaced by another in the role position or role senders must review their expectations. Failure to satisfy all expectations incumbent to a role position may be also due to conflicting expectations (i.e. role conflict). (p. 2)

These assertions by Davidson seem to have significant relevance for the audit expectation-performance gap which was the subject of Chapter 2.

4.2.2 Role conflict

Role conflict, according to Biddle (1979), "occurs when someone is subjected to two or more contradictory expectations whose stipulations the person cannot simultaneously meet in behaviour" (p. 160). According to Davidson (1975, pp. 2-3) at least three sources of role conflict may be identified:

(i) **Inter-role conflict:** This form of conflict may result when an individual simultaneously occupies two or more social positions. Expectations of the individual's behaviour in the different social positions may be in conflict. In the auditing context, an individual may serve as both an advisor to a company's management and as the company's external auditor. These two social positions may carry conflicting expectations.

(ii) **Intra-role conflict:** This form of conflict may result when an individual occupies a single social position but is confronted by incompatible expectations from different groups which have a relationship with that position. For example, management might disclose confidential information to an auditor regarding uncertainties which it believes can be satisfactorily resolved in the near future. It does this in the belief that the auditor will not disclose the information in the audit report. However, shareholders or prospective investors might well expect that such information will be disclosed. The auditor is faced with conflicting expectations.

(iii) **Subjective role conflict:** This form of conflict results from forces operating on a person which limit their performance in a work situation. It results from frustration caused by trying to satisfy divergent demands of various role senders, or the divergent demands of a single role sender. For example, in the auditing arena, an auditor may be expected to perform a quality audit while also being pressured to keep audit time and cost to a minimum.

4.2.3. The development of professional roles

It has been proposed that roles are the attitudes, values and behaviour ascribed by relevant role senders to those occupying specific social positions. However, in order to develop a theory to explain the role of external auditors in society, it is necessary to consider how social positions become established in the first place or, more specifically, how those relevant to auditors are established.

The professions (which include auditing: see section 4.3.3 below) arise from perceived needs in society. Individuals perceiving these needs perform activities to satisfy them. Over time, individuals serving similar needs may become numerous enough to form associations. Once an association is formed, an awareness gradually develops in society that the group exists and that it is making a particular type of social contribution. Once recognised in this way, society assigns a role to the specialist association – that is, expected attitudes and behaviour become attached to the specialist group (Beck, 1973, p. 118).

Although a perceived need in society gives rise to an association, such need perceptions do not necessarily determine the role that society will ascribe to a particular association once it has been formed. Katz and Kahn (1978, p. 43) point out that, although roles develop originally from task requirements, if members of professional groups perform additional tasks these do not automatically alter the group's assigned role. In fact, such tasks may never alter that role, even when they are apparently acceptable extensions of it. This has relevance for additional tasks performed by members of the auditing profession, such as the provision of management advisory services. These tasks will be incorporated into the auditor's role if, but only if, they become accepted and expected of external auditors by their role senders.

Beck (1973) has observed that determination of roles by relevant role senders in society has additional ramifications. He notes:

> If the ascribed role is not fully performed – and the results of research in Australia indicate that this appears to be so in the case of auditors – there arises the possibility that social action will be taken to enforce conformity (perhaps by new legislation)[12] or to downgrade the status and thus shrink the role. As a role develops only out of social wants, it is axiomatic that the void created by a reduced role will, in due course, be filled by other social functionaries prepared to satisfy those social wants. (p. 118)

Mautz (1975b, p. 2) explains further that, as social conditions and needs change, society may come to reject roles formerly considered acceptable. It is therefore important for professional groups to be continually alert to changes in society's needs and to modify their attitudes and behaviour in accordance with society's changing expectations.

From the above discussion it is evident that the roles of professionals (including auditors) are bound by the attitudes and behaviour expected of them by their role senders. In the light of the widespread criticism of, and extensive litigation against, auditors arising from their failure to meet society's expectations of them (discussed in

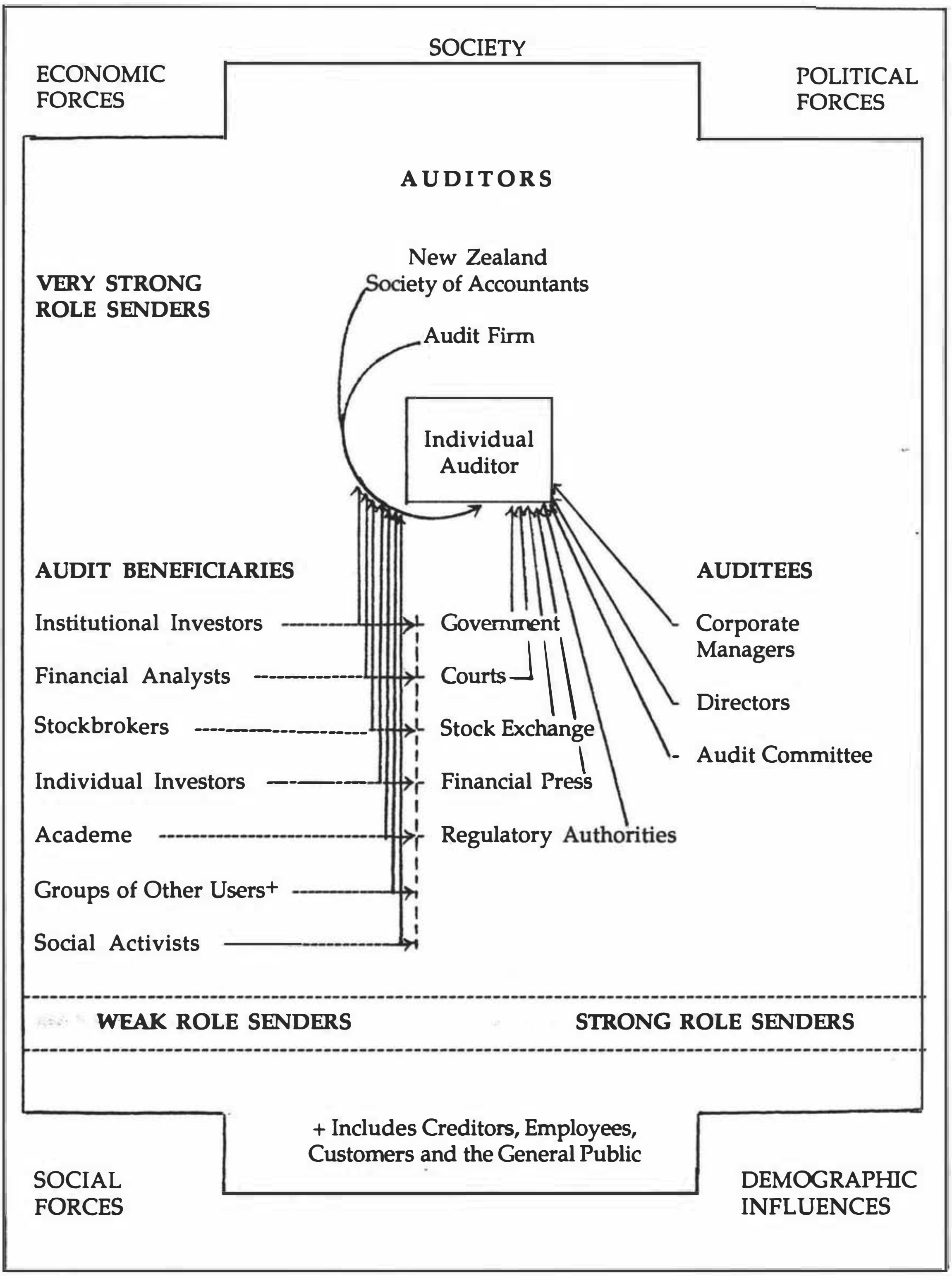
Chapters 1 and 2), Beck's and Mautz's observations seem to carry major implications for auditors.

4.2.4 Determination of the role of external auditors

Davidson (1975, pp. 5-7) has shown that the role of external auditors can be viewed as the combined expectations of individuals and groups in society who have some direct or indirect relationship with the role position of auditors. He provides a helpful diagram to illustrate his point. This has been adapted to reflect the New Zealand position and is presented as Figure 5.

Davidson goes on to emphasise that individuals and groups holding expectations of auditors are also performing in role positions. These are similarly defined by the expectations of their respective social and professional constituent groups. Different groups (such as company managers and investors) may hold differing expectations of auditors and these may change over time, depending on changes in role senders' own role requirements and the interaction of other forces in society. Since individual auditors are also subject to the role expectations of the organisations to which they belong (for example, the audit firm, professional associations and community organisations), and to the expectations of diverse groups for whom they provide direct or indirect services (for example, financial analysts and employee representatives), they are in multi-role, multi-expectation situations. Given this position, there is clearly the potential for role expectations, as perceived by auditors, to be at variance with the expectations of any one group and/or the 'consensus' role ascribed by society. Thus auditors' performance may not conform to the role expectations of (all) their role senders. It follows that the existence of the audit expectation-performance gap (discussed in Chapter 2) should not be a matter of surprise.

Figure 5: Role senders ascribing the role of external auditors*



* Adapted from Davidson, L. (1975). The Role and Responsibilities of the Auditor, Unpublished Background Paper for the Commission on Auditors' Responsibilities, p. 6.

4.2.5 Summary: a conceptual interpretation of the role of external auditors

The first component of the conceptual framework for a theory to explain the role of external auditors in society is the concept of role. In this section the meaning of role and role conflict has been reviewed, the development of professional roles has been considered, and the significance of society (or relevant role senders within society) in defining roles has been examined.

On the basis of the discussion, it is proposed that the phrase 'the role of external auditors' is interpreted to mean: 'the attitudes, values and behaviour ascribed by relevant role senders in society to individuals who are members of a recognised professional association of auditors'. From this definition it is evident that in developing a conceptual framework for a theory to explain the social role of external auditors, it is pertinent to identify distinguishing attributes of members of the auditing profession. This constitutes the second component of the conceptual framework.

4.3 THE ATTRIBUTES OF AUDITORS AS PROFESSIONALS

4.3.1 Introduction

In this section, the characteristics which are common to all the professions are identified and the justification for regarding auditors as professionals is evaluated. Recent changes in society's attitudes towards the professions are also discussed. Because roles are ascribed by relevant role senders in society, these changes and, more importantly, the reasons for the changes, are very relevant to any study of the social role of external auditors. The section concludes with an analysis of the auditing subculture.

4.3.2 Definition and characteristics of a profession

> The professions are an essential part of the community and, by reason of the integrity and dedication to service of their members, make a great contribution to society. (Benson, 1981, p. 239)

> To generations of ambitious [people], the ultimate goal has been the professions: law, accounting, engineering, medicine. The professional has been the most admired individual in society. ("Troubled Professions", 1976, p. 126)

These quotations suggest that professions are needed by society and membership thereof is sought after. But, what is a profession and what are its distinguishing characteristics?

It seems that there is no satisfactory definition of a profession. Cogan (1953), for example, reports that "some observers of profession, having made a demonstrably adequate search of the relevant literature, flatly deny the possibility of formulating a satisfactory definition of profession. It appears to them that the idea is too amorphous to be circumscribed" (p. 34). However, a number of writers, among them Benson (1981), Moore (1970) and Carey (1969), have delineated various characteristics which they see as distinguishing the professions. Benson (1981, pp. 239-240) provides a particularly clear, comprehensive statement of such characteristics. They include the following:

- a primary function to offer advice and service to the community in a specialised field of learning;
- the existence of a governing body which represents the profession and which has power to control and discipline its members;
- a restriction on entry to those who meet specified minimum entry standards. Also a post-entry system of education in both theory and practice to enable members to keep up-to-date, so that they can speak with knowledge and authority on the subjects within their field of learning;

- high standards of conduct and performance, above those required by the general law. To ensure that these standards are observed, the governing body has power to apply disciplinary sanctions if they are not;
- a first and particular responsibility to the client by each member of the profession. Clients can expect to receive from their professional advisers the same level of care and attention as they would exert for themselves, if they had the knowledge and the means;
- independence. Members of the professions must be, and must be seen to be, in a position of independence; that is, they must be independent in mind and in outlook and not under the domination of persons or circumstances which would, or might, impair their judgement. In exercising this independence professionals must, when the occasion demands, speak their minds to, and on behalf of, their clients, forthrightly and without fear or favour.

With respect to independence, Benson (1981) adds, "above all, it is [this] attitude which ...distinguishes a profession from other occupations and it is the quality most prized by the discerning public" (p. 240). Regarding the restrictions which are imposed on membership of the professions and the high standards of conduct and performance which are required, these are designed not to protect the interests of members, but to protect the interests of, and to enhance the level of service to, the public. This is important because professionals provide special skills in areas where the layperson is often not competent to judge the quality of the service provided (CICA, 1988, para 6.1).

The Macdonald Commission (CICA, 1988, para 6.1) summarised the characteristics of a "true skilled or learned profession" on the basis of the special skills which a professional professes to possess:

> First, a lengthy period of education and training for the profession is required to attain its special skills. Second, good judgement is necessary for competent exercise of those skills. Third, the skills must be exercised so as to meet the standards of the profession, which cannot be compromised for any reason of expediency. (para 6.1)

Although this approach to delineating the hallmarks of a profession differs from that adopted by Benson, it is seen that the characteristics identified largely reflect or embody those recognised by Benson.

A slightly different approach towards defining the characteristic features of the professions, and one which has given the study of professions rather more structure, is that proposed by Hall (1968). He distinguishes two aspects of professionalism: structural and attitudinal aspects.

- **Structural aspects** are those characteristics which are an integral part of the occupation as such. They include such features as the creation of a full time occupation, the establishment of a training school, the formation of a professional association and the development of a code of ethics.
- **Attitudinal aspects**, as their name suggests, are the attitudes of a professional. They include a sense of calling to the field, and a belief in service to the public, self-regulation, autonomy and the use of the professional organisation as a major referent.

Kerr, Von Glinow and Schriesheim (1977) describe the attitudinal aspects of professionalism by reference to five dimensions, namely:

1. **Autonomy** – the perceived right of a professional to make decisions about both the means and goals associated with his or her work.
2. **Collegial maintenance of standards** – a belief that standards should be enforced by fellow professionals who are recognised as the only people properly equipped to adequately evaluate work in the field.
3. **Ethics** – a dedication to high quality service to the client with an accepted responsibility to avoid self-interest and emotional involvement with clients when rendering services.
4. **Professional commitment** – a dedication to the work and long-term career aspirations of a professional.

5. **Professional identification** – the use of the professional association and fellow professionals as major referents.

Analysis shows that although the approach adopted by Hall (1968) and Kerr et al. (1977) differs from that adopted by those, like Benson (1981), who sought to delineate the distinguishing attributes of the professions, there is no essential difference in the substance of their conclusions.

4.3.3 Auditing as a profession

Reference to the professional characteristics identified by Benson and the Macdonald Commission shows that auditors have a legitimate right to regard themselves as professionals:

- Auditing incorporates a specialised field of learning; the special skills required encompass a knowledge of both accounting and auditing.
- Performing an audit requires the exercise of considerable judgement.
- Throughout the western world professional accountancy bodies exist and these control and discipline accountants (including auditors).
- The various governing bodies impose strict entry requirements on those who seek to become auditors. Entry requires a lengthy period of education and training.
- Professional accountancy bodies throughout the western world have promulgated Codes of Ethics and Auditing Standards. These demand high standards of conduct and performance from all their members which cannot be compromised for reasons of expediency.
- The rules of conduct and practice imposed on members of the profession are, at least ostensibly, designed to be in the public interest.
- Independence is a fundamental quality of auditors; indeed, it is the very foundation upon which the profession rests.

The characteristic of possessing a 'first and particular responsibility to the client' may perhaps be questioned in the case of auditors and in this regard it is relevant to note the difference in the professional-client relationship pertaining to auditors compared with that obtaining in other professions. Doctors and lawyers, for example, have a close, direct and confidential relationship with their clients. In contrast, auditors have a primary (legal) responsibility not to their client companies but to the companies' shareholders. The relationship is distant and indirect. Further, instead of being required to keep their conclusions confidential, they are required to report publicly. Additionally, in recent years, auditors have been under increasing pressure to assume a responsibility which extends well beyond their client companies' shareholders. As will be discussed in Chapter 5, it is now generally accepted that auditors are responsible to a very wide range of interested parties.

Before discussing the internal characteristics of the auditing profession, it is pertinent to consider recent changes which have served to undermine the prestige and the privileged position enjoyed by members of the professions in general.

4.3.4 The professions under threat

> The professional has been the most admired individual in society because of the social status bestowed, the intellectual prowess attributed, and the excellent income earned. But today professionals are in trouble. Malpractice suits, now being filed at an explosive rate, have shaken many professions to their foundations. ("Troubled Professions", 1976, p. 126)
>
> The professions generally, including the accounting profession, are under increasing community scrutiny and re-assessment. ...Some critics talk of the decline and fall of the professions. (Kirby, 1980, pp. 516-517)

Why are the professions under attack? Writers such as Kirby (1980) and Benson (1981) suggest that there are a number of contributing factors. These include the following:

- **Less respect for professional ideals and commercialism:** Personal integrity, service to the community, a common code of conduct and the importance of 'higher ideals' were formerly stressed by professionals, but in recent years these features have been emphasised less by professionals and have come to be regarded with scepticism by non-professionals. Critics draw attention to the way professional bodies 'look after their own' and they suggest that it is impossible for professionals to ignore their economic self-interest when this is in conflict with their duty to the community. Further, in recent years, competition between firms within particular professions has increased. This has resulted in greater commercialism and concern for profits at the expense of professionalism and emphasis on service.

- **Disillusionment:** Ordinary citizens now have greater access to professional services than at any previous time. Such services were formerly beyond the means of most ordinary people, but today, through schemes such as the National Health Service and Legal Aid, at least some professional services are available to all. As access to professionals has increased, so has awareness of their fallibility. This awareness is heightened by the bad publicity which is given to the professions when the opportunity arises. This is illustrated, for example, by the extensive publicity given to the deficiencies of the New Zealand medical profession in 1987 and 1988, as a result of the cervical cancer inquiry.

- **More professions and salaried professionals:** The number of occupational groups claiming to be professions, and the number of salaried professionals, have increased markedly in recent years (Kirby, 1980, p. 518). This has increased the public's access to professionals and, as a result, the mystique associated with remoteness and rarity has been reduced.

- **Consumerism and egalitarianism:** Education and information are among the most powerful forces of change in today's western societies. Readily available to all, they have resulted in a populace which is better educated, and more inquiring and critical, than ever before (Kirby, 1980, p. 516). Today's well-educated, well-informed public are far less ready to accept existing institutions and social conventions without question than were their predecessors. They question and challenge the existence of the professions, their privileges, their fees, and the quality of the services they provide.

- **The increasing influence of Government:** Kirby (1980, p. 521) identifies the growing significance of the Government to the professions as the most important factor in changing their status. He points to the part played by the Government in training professional men and women and the increasing dependence of professionals on public funds. He suggests that as more government money is directed towards professional pockets, the community will demand a greater say in how those funds are spent and they will also demand a reduction in the self-regulation presently accorded the professions. In this regard, it is pertinent to observe that a number of professions (for example, the legal and medical professions) are currently addressing the issue of lay representation on their disciplinary bodies.

Summarising the impact of these changes on the professions, Kirby (1980) concludes:

> The qualities of professionalism which are worth keeping: rigorous training, the acquisition of a liberal education, the pursuit of excellence in service beyond the necessities of remuneration and devotion to a higher ideal of community service ...are still alive today. But we will be deceiving ourselves if we do not recognize that the relationships between the professions and the community are changing rapidly. (p. 517)

It is this changing relationship which makes an awareness of the forces of change particularly relevant to the development of a theory of the role of external auditors in society. Ultimately, as explained in section 4.2 above, auditors' role is ascribed by role senders in society and rests on society's prevailing attitudes, values and expectations. Any changes in society's norms are, therefore, likely to impact on the role of auditors.

Having identified the hallmarks of the professions in general, and considered societal changes which they are encountering, attention is now turned to the internal characteristics of the auditing profession.

4.3.5 The auditing subculture

Each profession has a certain cohesiveness and homogeneity which enables it to be identified as a subculture. 'Culture' may be defined as "all knowledge, beliefs, customs, laws, morals, habits and capabilities" (Willingham and Carmichael, 1968, p. 153). According to Williams (1960, p. 22), it is a blueprint for behaviour; it is all that is available for members of the group to learn regarding what must be done and what must not be done. The essential elements of a culture are its norms and values:

- **Norms** are determinants of behaviour. They may be general or specific, formal or informal, obligatory or voluntary. Their only common feature is that they must be known.
- **Values** are the set of fundamental beliefs. It is on these that the norms rest.

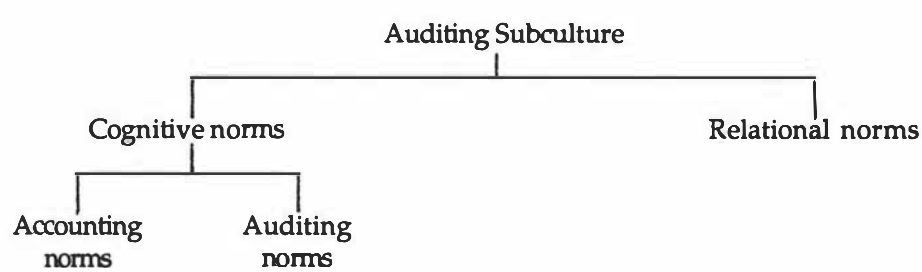
A subculture is the set of norms and values which apply to and define a particular subgroup within a culture or society. Thus, the auditing subculture comprises the norms and values which apply to, and are accepted by, all members of the subgroup, that is, auditors. In the context of Kuhn's structure of scientific theories, the auditing subculture would be referred to as the auditing disciplinary matrix (Kuhn, 1970, p. 182).

Willingham and Carmichael (1968, p. 155) suggest that the norms of the auditing subculture can usefully be divided into cognitive and relational norms:

- **Cognitive norms** are the norms which are concerned with the implementation of the general and systematic knowledge of the auditing profession. They can be subdivided into accounting norms and auditing norms.
- **Relational norms** are those norms which govern behaviour in interpersonal situations.

The norm structure of the auditing subculture is presented diagrammatically in Figure 6.

Figure 6: The norm structure of the auditing subculture



Cognitive norms

Accounting norms: According to Willingham and Carmichael (1968, p. 155), an important norm of the auditing subculture is the interpretation of accounting norms. Auditors need to have knowledge of the norms which determine the capture, recording and processing of accounting data, and the preparation and presentation of financial statements. The basic accounting conventions (such as the entity and monetary conventions), generally accepted accounting principles, Statements of Standard Accounting Practice, and the statutory disclosure requirements for financial statements constitute the fundamental components of these accounting norms.

Auditing norms: The auditing norms require the auditor to determine whether the accounting data have been captured, recorded, processed and presented in the financial statements in accordance with accounting norms. Other auditing norms include obtaining a thorough understanding of the client, assessing the integrity of management and other aspects of audit risk, and establishing appropriate materiality limits. Technical auditing norms prescribe how the general auditing norms are to be accomplished.

Relational norms

These norms guide behaviour in auditors' relations with other individuals and groups within the accountancy firm, with clients, with other members of the profession and with the wider public. These norms provide the widest range of auditing subculture norms and cover such diverse topics as appropriate dress and the proper way to conduct a professional controversy (Willingham and Carmichael, 1968, p. 158).

Mautz and Sharaf (1961, p. 214) posed a fundamental question regarding the point at which a person becomes a recognised member of the auditing profession. Willingham and Carmichael (1968, p. 161) provide an answer. They suggest that a novice auditor becomes a professional when the subculture of the auditing profession has been assimilated – that is, when all the norms and values which guide the behaviour of individuals acting in the capacity of external auditors have been learnt and internalised.

Although a discussion of the auditing subculture necessarily focuses on the internal characteristics of the profession, it is important not to lose sight of the fact that the subculture is but one sub-set of a larger culture – that of the relevant society as a whole. Changes in the norms and values of the larger culture will impact on the norms and values of the subculture. This closely accords with the idea advanced earlier, that the role of external auditors is ascribed by, and must conform to, the expectations of relevant role senders in society.

4.3.6 Summary: auditors as professionals

The attributes of auditors as professionals constitute the second component of the conceptual framework for a theory to explain the role of external auditors in society. In this section the distinguishing characteristics common to all the professions, and the changes which are serving to undermine the social position of professionals, have been discussed. Attention has also been given to the attributes of the auditing profession and, in particular, to the norms which govern the behaviour of members of the auditing subculture.

4.4 THE CONCEPT, DEVELOPMENT AND DISCHARGE OF CORPORATE ACCOUNTABILITY

4.4.1 Introduction: the third component of the conceptual framework

Reference to Figure 4 (page 69) shows that the third component of the conceptual framework for a theory to explain the social role of external auditors is that of corporate accountability. In this section the concept of accountability is discussed, the nature and development of corporate accountability is examined, and the means by which corporate managers discharge their accountability are considered.

4.4.2 The concept of accountability

According to the Oxford English Dictionary 'accountability' means "the quality of being accountable; liability to give account of, and answer for, discharge of duties or conduct". However, this does not go far enough for most writers in the field; they consider that the concept embodies notions of blameworthiness and liability to punishment (for example, Blatz, 1972, pp. 102-103). Harris and Spannier (1976, pp. 254-255) maintain further that a distinction needs to be drawn between answerability and accountability. They contend that people are answerable for their actions if some other person has the right to call on them to explain why they acted in a particular way. But, accountability carries more serious consequences. It implies that if people do not satisfy their obligations, and fail to give a satisfactory account of their actions, they will be liable to sanction.

Harris and Spannier (1976, p. 259) also maintain that accountability can be understood only within the context of a particular political environment. They assert that, in order to determine what it means for an individual to be accountable in any given situation, it is necessary to look at the norms of the community. It is these norms which determine the obligations of members of the community to each other and thus, who is answerable to whom and for what. This gives accountability a dynamic quality. As a community develops over time its norms change, and with them, the obligations imposed on, and accountability expected of, members of the community. This dynamic nature of accountability is clearly demonstrated in the accountability required of economic organisations in the western world.

4.4.3 The demand for accountability of economic organisations

When an economic organisation exists as a small business, owned and operated by an entrepreneur who provides most of the required resources, the question of accountability has little relevance. However, as business enterprises grow, they outstrip the resources of a single person and come to depend on the resources of others. Such entities can survive and grow only if financial and other resources are channelled to them by members of society. As their command over resources increases, these enterprises gain significant economic, social and political power (Schlusberg, 1969, p. 66). But western democracies, mindful of Lord Acton's dictum that "power corrupts and absolute power corrupts absolutely", do not allow this power to go unchecked. Whenever power is conferred on individuals or groups in society, systems of checks and balances are set in place to counter possible abuse of that power (Briloff, 1986, p. 5). Accountability is demanded of business managers as a check on possible abuse of the power accorded them by society through the provision of resources. As Tricker (1982, p. 58) has pointed out, business corporations exist with the consent of society and accept accountability as part of the cost of their right of freedom to exist and operate. In similar vein, Anshen (1980) observes that, "the conclusion is inescapable that the corporation receives its permission to operate from the society [of which it is a part] and ultimately is accountable to the society for what it does and how it does it" (p. 6).

With respect to the accountability of corporate managers, three questions need to be addressed:

(i) To whom are they accountable?

(ii) For what are they accountable?

(iii) How is their accountability to be discharged?

As society's norms change over time, and as economic entities grow in size and extend their power and influence in society, so changes occur in the accountability required of economic organisations. As will be demonstrated below, neither those to whom, nor that for which, corporate managers are accountable, has remained static. Instead, in each respect, as corporations have extended their power in society, so the accountability demanded of their managers has become more exacting.

Although much of the discussion which follows applies to most economic enterprises, the remarks are largely confined to corporations, as it is these organisations which are particularly relevant to the theory of the role of external auditors in society which is being developed here.

4.4.4 To whom are corporate managers accountable?

Corporate managers are variously seen as accountable to three different but progressively inclusive groups: shareholders, stakeholders and society in general (Benston, 1982, pp. 88-89).

Shareholders

The traditional view is that corporate managers are accountable to their shareholders, the providers of financial resources. The need for this accountability is seen to arise from the separation of 'property' (ownership interests) vested in shareholders, from 'power' (control functions) exercised by management (Berle and Means, 1932). Managers are perceived to be in a position to use corporate assets to benefit themselves rather than the company's shareholders.

However, this view is not universally accepted. Benston (1982, p. 92), for example, asserts that in practice corporate managers have little discretion to act other than in the interests of shareholders. Crossland (1962), adopting a different argument, maintains that the concentration of shareholdings in institutional investors ensures that control, rather than passing to managers, remains with ownership interests (Tricker, 1982, p. 64).

Nevertheless, the notion that the separation of ownership interests from management functions gives rise to the need for corporate managers to be accountable to shareholders is widely accepted in western economies. This is reflected in its adoption as the basis for the accounting and audit requirements of companies and securities legislation in, for example, Britain, New Zealand, Australia, Canada, the United States and South Africa.

Stakeholders

In recent years the traditional view of corporate accountability has been challenged. Attention has been drawn to the fact that the survival and growth of companies depend not only on the financial resources provided by shareholders, but on the joint contribution of shareholders, debtholders, employees, suppliers, consumers, and the government. Those who adopt this perspective consider that company managers have an obligation to ensure that each stakeholder group is adequately rewarded for its contribution, so that it will maintain its stake or interest in the company. (This accords with the view of the auditor as a moderator of competing claimants, discussed in Chapter 3).

Society in general

Others consider that even the stakeholder concept of corporate accountability is too restrictive. Instead, they regard company managers as accountable to society as a whole. This level of accountability is seen to arise from the power and influence which companies exert over the lives and well-being of members of society in general. This viewpoint gained considerable impetus as a result of its adoption by the ASSC in its *Corporate Report* (ASSC, 1975). After noting that it considers significant economic entities[13] to be publicly accountable, the Committee explains:

> Public accountability ...arises from the custodial role played in the community by economic entities ...Economic enterprises compete for resources of manpower, management and organisational skills, materials and energy, and they utilise community owned assets and facilities. They have a responsibility for the present and future livelihoods of employees, and because of the interdependence of all social groups, they are involved in the maintenance of standards of life and the creation of wealth for and on behalf of the community. (para 1.3)

Rubenstein (1986, p. 36) combines the 'stakeholder' and the 'society in general' views of corporate accountability and recognises instead three categories of stakeholders to whom companies are accountable. These are:

(i) Input stakeholders – employees, owners, suppliers and creditors.

(ii) Output stakeholders – consumers, distributors and users of the company's product.

(iii) Environment stakeholders – the community and local and central government, who influence, or are influenced by, the company's performance.

To Rubenstein, a stakeholder is anyone who has a legitimate interest in the company's performance.

Whatever the details of the viewpoint adopted, it is clear from the literature that it is generally accepted that modern companies are accountable to a wide range of groups in society, extending well beyond their shareholders. Briloff (1986) conveys particularly clearly the attitude which seems to be gaining general acceptance. He says:

> When we consider the total environment in which these corporate entities exist, and to which they relate, we see them as having compelling responsibilities to a broad spectrum of "publics". This nexus of publics includes: management, shareholders, labor, government, customers, and consumers, as well as neighbors in the communities in which the corporation operates. Further, as concern for ecology and the well-being of consumers and posterity intensifies, this responsibility will extend to the total society and environment. And because of the multinational character of our major corporate entities, this responsibility and related accountability must be viewed on a universal canvas. (p. 4)

From an historical perspective it is evident that over the past 30 years or so, the groups to whom corporate managers are regarded as accountable have widened progressively: from shareholders, to stakeholders (those who have a contractual arrangement with the company), to the public at large. Writers such as Tricker (1982), have demonstrated that this extension of corporate accountability has accompanied, and is a consequence of, the steady but accelerating growth in size and influence of business corporations which has characterised western economies during the twentieth century, particularly since World War II.

Empirical work undertaken in the United States in 1971 and in New Zealand in 1981, provides support for the contention that corporate accountability has been extended from shareholders to a wider set of interested parties. Chandler (1982) reports that in the New Zealand study, 200 randomly selected public company directors, each holding two or more directorships, were asked to rank their preference for four statements on corporate accountability. The question had the same format as that used by Ewing in a Harvard Business School survey conducted in 1971. The 'statements on corporate accountability' and the results of the two surveys, as presented by Chandler (1982, p. 207), are presented in Figure 7A and 7B, respectively. Chandler (1982) summarises the results of the New Zealand survey as follows:

> It is apparent that new relationships have been forged between the corporation and its shareholders, employees, customers and indeed the wider community in which it operates which have added a new dimension of complexity to corporate decision making. The research appears to suggest that New Zealand corporations have recently passed through an important evolutionary phase which has witnessed the decline of shareholder control and undermined the legal foundation upon which it rested. (p. 209)

Regarding the latter point, Chandler (1982, p. 208) draws attention to the divergence between the law, which recognises a pre-eminent position for shareholders, and reality. He asserts that some form of re-evaluation is required by the legislature that is cognisant of the unequivocal expansion of corporate accountability. He points out that this matter has been addressed to some extent in the United Kingdom where the 1980 Companies Act, while emphasising that a company's primary accountability still lies with its shareholders, has extended the statutory duties of directors also to take account of the interests of employees.

Figure 7: Surveys on corporate accountability*

7A: STATEMENTS ON CORPORATE ACCOUNTABILITY

Entrepreneurial

(a) A corporation's duty is to its owners and **only** to its owners.

Corporatist

(b) The primary duty of the enterprise is to itself – to ensure its future growth and continued functioning as a profit making supplier of goods and services.

Preferential

(c) A corporation's duty is primarily to its owners and secondarily to employees, customers and the public.

Egalitarian

(d) A corporation's duty is to serve as fairly and equitably as it can, the interests of four sometimes competing groups – owners, employees, customers, and the public.

7B: THE RESULTS

New Zealand (1981)

	Preference (%)[1]			
Accountability	**1**	**2**	**3**	**4**
Entrepreneurial	4	5	21	70
Corporatist	25	27	30	18
Preferential	34	34	32	-
Egalitarian	37	33	18	12

United States (1971)

	Preference (%)			
Accountability	**1**	**2**	**3**	**4**
Entrepreneurial	2	4	20	74
Corporatist	28	29	27	16
Preferential	20	38	40	2
Egalitarian	61	24	9	6

* As reported by Chandler, R. (1982). Corporate Accountability, The Accountants' Journal, 61(5) p. 207.

1 Proportion of respondents ranking their preference for each statement, from 1 to 4.

With respect to the apparent differences between the results of the United States and New Zealand surveys, Chandler explains that although this partly reflects the greater emphasis in the United States on social equality, it is primarily the result of the process of corporatisation being older and more established in the United States than in New Zealand. Thus, it seems likely that the trend towards extending those to whom corporations are accountable will develop further in New Zealand in the future.

As might be expected, the widening of corporate accountability over time, in terms of those to whom corporate managers are accountable, has been accompanied by an extension of the duties for which they are held accountable.

4.4.5 For what are corporate managers accountable?

In western societies it has traditionally been accepted that all persons who control or use the resources of others are responsible for their safe custody and for using them with honesty and for their intended purposes. In general, until about the 1930s, this was the extent of the stewardship expected of company managers entrusted with the financial resources of shareholders. However, since that time, the accountability of these managers has been extended to include:

- the efficient and effective use of funds; and
- socially responsible behaviour.

Efficient and effective use of funds

Following the depression years of the 1930s, investment in business entities grew rapidly and became widespread. Company ownership became highly diffused and a new class of small investors emerged. Unlike the shareholders of earlier years, who were few in number but closely bound to the companies they partially owned, the new breed of investors were little interested in the management or fortunes of 'their' companies per se. They were primarily concerned with the return they could earn on their investment and, if they perceived greater returns could be earned elsewhere, they readily switched their allegiance from one company to another. In this new economic environment, the accountability of company managers was extended from the honest authorised use of shareholders' funds to include their efficient and effective use. Managers became accountable for attempting to generate a reasonable return on the financial resources entrusted to them (Bird, 1973, pp. 8-12).

Socially responsible behaviour

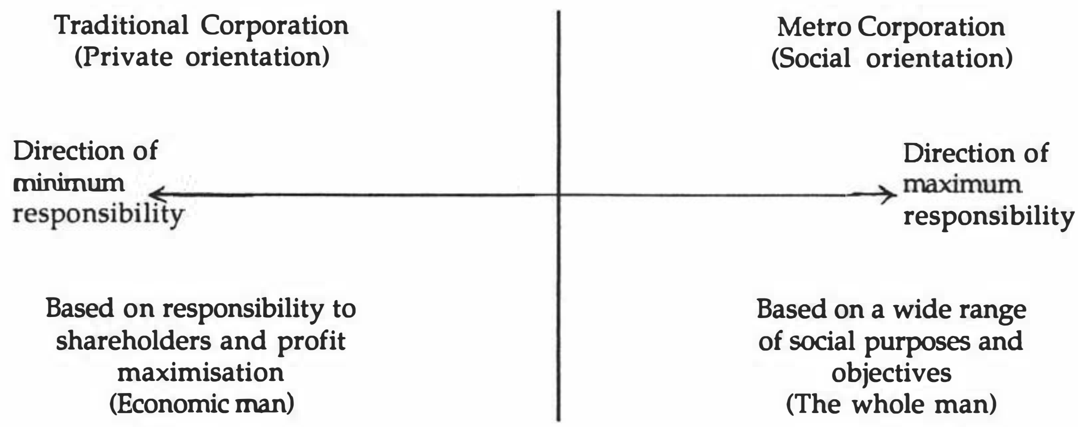
Over the last couple of decades, corporate managers have also come to be regarded, at least by some, as accountable for socially responsible behaviour. However, as Demers and Wayland (1982, p. 45) observed, there seems to be considerable confusion over what is meant by social responsibility and, thus, for what corporate managers are to be held accountable. To some the term means some kind of legal obligation; to others it is associated with charitable donations or some kind of social conscience. Nevertheless, Davis (1973) provides a useful explanation of the concept which seems to portray the most generally accepted understanding of its nature:

> Social responsibility ...refers to the firm's consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm. It is the firm's obligation to evaluate in its decision-making process the effects of its decisions on the external social system in a manner that will accomplish social benefits along with the traditional economic gains which the firm seeks. (pp. 312-313)

It includes such things as the prevention of environmental pollution, the enhancement of industrial and product safety, the adoption of equitable employment practices and the protection of consumers (Sommer, 1980, p. 54).

There is considerable controversy about the appropriate level of social responsibility to be expected of corporations. Eells (1960) has depicted the range of views on a continuum, as shown in Figure 8 below.

Figure 8: Eells' continuum of social responsibility



At the left extreme of the continuum is the traditional corporation. This is based on a model of the corporation as nothing more than the organisational arm of its shareholders, with profit maximisation for owners as its sole legitimate function. At the other extreme is a model of the social corporation, a kind of 'metro-corp' (a mother corporation) with a wide range of social purposes and objectives. It is seen to have many interest groups under its protection and its managers are regarded as responsible for maintaining a balance between the interests of the various groups and for the general well-being of their members.

Friedman is probably the best known protagonist of the traditional corporation viewpoint. He contends that the overriding objective of business managers must be to maximise profits for the entity's owners and that they should not be concerned with social responsibility. To Friedman (1962) "few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible" (p. 133). Friedman (1971, pp. 13-14) emphasises that today corporate managers are no more than employees and, as such, their primary responsibility is to conduct the company's business in accordance with the wishes of the owners, given that those wishes conform to society's basic rules of law and ethical custom. Any social actions beyond that amount to an involuntary redistribution of assets. To the extent that these actions reduce profits and dividends, shareholders suffer; to the extent that they raise prices, customers suffer; and to the extent that social actions lower the wages of employees, they suffer. Should any or all of these interested parties wish to make philanthropic contributions towards socially desirable projects, they are free to do so. However, without their consent, such redistributions are unilateral and involuntary.

Sherwin (1983) shares Friedman's view that corporations should not engage in socially responsible behaviour but, unlike Friedman, he considers that company managers have a responsibility to parties other than shareholders. Sherwin (1983, p. 184) describes business as a system in which capital owners, employees and consumers are inter-dependent and of equal importance. He maintains that public policy governs business activities, the relationship between system members, and the relationship between the business system and society as a whole. He also observes that society could go further and replace the private, competitive business institution with an alternative arrangement such as communism. To Sherwin, business in the western world exists as it does because society considers that competitive enterprise produces a greater variety and quantity of goods, of better quality and at lower cost, than would be achieved under any alternative economic or political arrangement. The crux of his argument is as follows:

> The business institution is society's principal mechanism for producing and distributing economic goods. Since public policy has assigned this realm to business to secure behaviour that is uniquely economic, the purpose of business must be to deliver economic performance to society. (p. 185)

He asserts that if business undertakes socially responsible actions, such as reducing its pollution of the environment beyond the level required by public policy, it is depriving its members of value and thwarting society's strategy. In brief, his position is that social action falls outside the economic sphere that public policy has assigned to the business system.

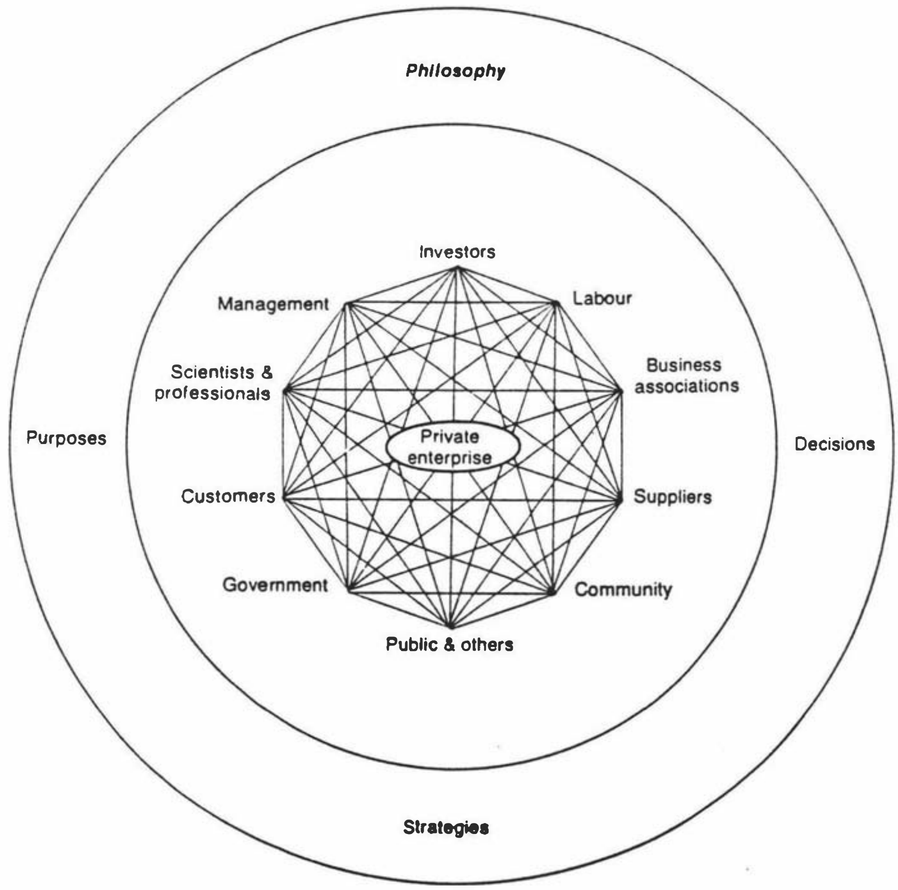
Adopting views in sharp contrast to those of Friedman and Sherwin are individuals and groups who tend towards the opposite end of Eells' continuum. At the extreme right are the social activists. These groups promote the pursuit of social objectives as the primary goal of corporations – if necessary to the detriment of the traditional economic goals of business such as long term survival, profits and the production of goods and services. They demand that corporate managers focus on the well-being of employees, customers, the environment and society in general. Their views have generally emerged from what Sommer (1980) refers to as the consumer movement. He explains:

> During the sixties and early seventies ...the public became increasingly aware of and alarmed by the damage apparently being inflicted on it and its environment by the rich industrialization the nation [i.e. the US] had achieved. Increasingly, demands were made that the environment be cleansed, that industrial safety be enhanced, that products be made safer, that hiring practices be more equitable and that consumers be protected in a multitude of new ways. (p. 54)

Other writers, such as Demers and Wayland (1982) and Davis (1973; 1976), while tending towards the right end of Eells' continuum, adopt a stance which is less extreme. They regard business managers as responsible for both achieving economic goals and for behaving in a socially responsible manner. Demers and Wayland (1982) emphasise that the world in which business now operates is extremely complex and that business is part of a network of interrelationships. They illustrate their point by means of a diagram which is reproduced as Figure 9 below. Demers and Wayland contend that, given the network environment, corporate managers have a responsibility to consider the impact of their decisions on the welfare of society.

However, Demers and Wayland (1982, p. 45) also draw attention to the fact that corporations appear to believe that their social performance is predicated on enlightened self-interest. They report that a 1976 investigation of corporate social

Figure 9: Interdependence of business and society



Demers, L., and Wayland, D. (1982). Corporate Social Responsibility: Is No News Good News? CA Magazine, 115(1), 44.

performance in Canada found that several of Canada's most important corporations (including Labatt, Hudson's Bay and Xerox) believed that continued business success is dependent in part on their success in responding to the social performance expectations of their various constituencies. In other words, social responsibility is necessary to assure long-term survival and is therefore inevitable. Davis (1976) shares this view. He explains that "economic activities in the social system are so related to everything else in the system that business must operate with social responsibility toward all those that it affects" (pp. 15-16). Davis (1973) also contends that businesses are accountable for social responsibility because of the power they wield in society. The enormous impact of business on such things as energy consumption, pollution and equal employment opportunities – issues clearly involving society as a whole – makes business accountable to the public and forces it to accept responsibility. This closely accords with the view expressed by the Research and Policy Committee of the Committee for Economic Development (1971), namely: "the great growth of corporations in size, market power, and impact on society has naturally brought with it commensurate growth in responsibilities; in a democratic society, power sooner or later begets equivalent accountability" (p. 21).

Corporate social responsibility is clearly a matter which is subject to considerable differences of opinion and examples can be found to illustrate most points along Eells' continuum. However, it is evident from the literature that the majority of both business managers and members of the general public adopt a stance in the centre zone of the continuum, but to the right of centre. Further, it is also clear that both corporate managers and members of the public have been shifting to the right, at least since the early twentieth century, apparently at an accelerating rate. In this regard it is pertinent to observe that there appears to have been a major upsurge of interest in corporate social responsibility in recent months. This is reflected in the number of articles which have appeared on this topic in business and accountancy journals since mid-1989. Some of these articles focus on corporate social responsibility in general (for example, Rai, 1989), others on environmentalism (which, according to Kirkpatrick (1990), will be the most important issue for business in the 1990s), and still others on business ethics (for example, James, 1989). In each case, the theme underlying the article is that noted by Davis (1976) and Demers and Wayland (1982), namely, that corporate social responsibility (including ethical behaviour) is necessary to assure long-term survival.

Zenisek (1979, p. 365) has produced a useful four-phase model of the development of social responsibility. This has been adapted and reproduced as Figure 10. The model demonstrates the extension of corporate responsibility (and accountability) in terms of both to whom and for what corporate managers are responsible. It also shows how this

Figure 10: The social responsibility continuum*

Decreased Responsibility ← Continuum of Social Responsibility → Increased Responsibility

Elements \ Phase	I	II	III	IV
Historical period (approximate)	1850-1910	1900-1950	1945-1965	1960+
Social milieu	Industrial era: . days of 'robber barons' and muckrakers . gospel of wealth . social Darwinism (natural elimination of unprofitable companies).	Rise of unionism, people are more than a 'factor of production'.	'Marketing concept', a firm can no longer sell all that it can produce.	Pressure for companies to take account of the internal (economic) and external (social) effects of its actions.
Prime beneficiary group	. Owners	. Owners . Employees . Suppliers	. Owners . Employees . Suppliers . Distributors/ consumers . Creditors	. Owners . Employees . Suppliers . Distributors/ consumers . Creditors . Public at large
Primary organisation goals	. Honest, authorised use of funds	. Honest, authorised use of funds . Profit . Efficient, effective use of non-financial resources	. Honest, authorised use of finds . Profit . Efficient, effective use of non-financial resources . Sales volume	. Honest, authorised use of funds . Profit . Efficient, effective use of non-financial resources . Sales volume . Welfare of society

* Adapted from: Zenisek, T.J. (1979). Corporate Social Responsibility: A Conceptualization Based on Organisation Literature. Academy of Management Review, 4(3), 365.

extension of responsibility is related to the increasing impact of business activities on the environment.

4.4.6 How do corporate managers discharge their accountability?

Bird (1973, p. 2) observes that accountability places two obligations on those who have been entrusted with the resources of others:

1. they must render an account of their dealings with the resources; that is, they must provide accountability reports;
2. they must submit the reports to an examination by, or on behalf of, those to whom they are accountable; that is, the reports must be monitored (or audited). This involves not only allowing the audit to take place, but also providing the evidence from which the auditor can verify the account rendered.

Accountability reports: reporting to whom?

It is generally accepted that the accounting process, which culminates in published financial reports, is the primary means by which corporate managers discharge their accountability. The Corporate Report (ASSC, 1975), for example, asserts that "corporate reports are the primary means by which the management of an entity is able to fulfil its reporting responsibility by demonstrating how resources with which it has been entrusted have been used" (p. 16). (See also Ijiri, 1975). Looking at the issue from society's rather than management's perspective, Bevis (1965, p. 16) observes that financial reporting may be regarded as the accounting which society receives in exchange for the responsibility and authority lodged with corporations, for the productive use of a significant portion of the nation's resources.

As might be expected, the financial reports provided by corporations have changed over time, reflecting changes in the accountability required of their managers. As stated in section 4.4.5, until about the 1930s the stewardship of corporate managers was confined, in the main, to the safe custody and honest authorised use of financial resources entrusted to them, and they were accountable only to their company's shareholders. During this period the Balance Sheet was usually the sole financial statement produced and it was generally regarded as a private communication between the company and its shareholders, although in some cases the communication was extended to banks and other lenders.

As investment in business organisations increased in the post-depression years, and the efficient and effective use of resources was added to the stewardship required of company managers, so the Income Statement joined the Balance Sheet as an accountability report. At the same time, as the number of investors and analysts in financial markets increased, these groups came to be recognised as having a legitimate interest in companies' financial statements.

Since the early 1960s the annual reports of companies have assumed an increasingly public character. This reflects the extension of those to whom corporate managers are regarded as accountable. In a research study commissioned by the CICA, Stamp (1980, pp. 43-46) found that at least fifteen groups of users have a legitimate interest in the published financial statements of public companies. The ASSC (1975, p. 17) similarly identified a wide range of groups in society with a 'reasonable right' to information about the reporting entity. Such a right was seen to exist where the activities of the organisation impinged, or might impinge, on the interests of the group in question. The groups identified by these two studies are presented in Figure 11. It is seen that they bear a marked similarity, but this may reflect Stamp's involvement in both investigations.

Accountability reports: reporting about what?

There is general agreement throughout the English-speaking world that corporate

Figure 11: Groups identified as having a legitimate interest in the published financial statements of economic entities

(i) **By the British Study** (ASSC, 1975)	(ii) **By the Canadian Study** (Stamp, 1980)
The equity investor group, including existing and potential shareholders;	Shareholders – present and potential
The loan creditor group, including existing and potential holders of debentures and loan stock and providers of short-term finance;	Creditors – long term – present and potential Creditors – short term – present and potential
The employee group, including existing, potential and past employees;	Employees – past, present and potential
The analyst-advisor group, including financial analysts, journalists, economists, statisticians, researchers, trade unions, stockbrokers and other providers of advisory services such as credit-rating agencies;	Analysts and Advisors – present Labour Unions – present
The business contact group, including customers, trade creditors and suppliers and, in a different sense, competitors, business rivals, and those interested in mergers, amalgamations and takeovers;	Customers – past, present and potential Suppliers – present and potential Other companies (domestic and foreign) – present Industry groups – present
The Government, including tax authorities, departments and agencies concerned with the supervision of commerce and industry, and local authorities;	Government Departments and Ministers – present Regulatory agencies (e.g. Stock Exchange and Securities Commission) - present
The public, including taxpayers, ratepayers, consumers and other community and special interest groups such as political parties, consumer and environmental protection societies and regional pressure groups.	Public – Political parties – present – Public affairs groups – present – Consumer groups – present – Environmental groups – present Standards setters, Academic researchers – present
	Non-executive directors – present and potential

managements should be required to provide information, at least to shareholders, on how financial resources entrusted to them have been used. This is reflected in legislation requiring company directors to present annual financial statements to their shareholders (see footnote 1). However, opinion varies widely about what other information companies should be required to provide in their accountability reports. The different viewpoints primarily centre around corporate social responsibility and reflect the differing attitudes discussed in section 4.4.5 above. Nonetheless, accounting literature shows that, particularly since the early 1960s, there has been a steadily increasing demand for corporations to provide more information of both a financial and non-financial nature on a progressively widening range of corporate activities. The trend is reflected in the additional statements which the ASSC (1975, p. 48) suggested that significant economic organisations (see footnote 13) should be required to publish, namely:

- a statement of value added, showing how the benefits of the efforts of an enterprise are shared between employees, providers of capital, the State and reinvestment;
- an employment report, showing the size and composition of the workforce relying on the enterprise for its livelihood, the work contribution of employees and the benefits earned;
- a statement of money exchanges with government, showing the financial relationship between the enterprise and the State;
- a statement of transactions in foreign currency, showing the direct cash dealings of the reporting entity between the home country and abroad;
- a statement of future prospects, showing likely future profit, employment and investment levels;
- a statement of corporate objectives, showing management's policies and medium term strategic targets.

Although the Committee did not recommend that these organisations be required to provide information on their social behaviour, it did express the belief that social accounting would be an area of growing concern to corporate report users and recommended that further research be conducted into this branch of accounting (pp. 57-58).

The Cohen Commission (CAR, 1978) similarly recommended that companies should be required to include additional statements in their annual reports. They suggested the inclusion of, inter alia:

- a statement describing all material uncertainties in the financial information and explaining their effect on earnings and financial position;
- a code of conduct, setting out the corporation's policies regarding illegal or questionable acts, and an auditor's report on compliance with the stated policies;
- a statement of legal claims and litigation against the corporation;
- a statement of the adequacy of the company's internal controls and management's response to weaknesses drawn to its attention by the auditors.

The Cohen Commission's Report does not address the issue of corporate social responsibility beyond considering the question of illegal or questionable acts committed by company officials.[14] However, in recent years, many writers have urged that companies be required to disclose information on their social behaviour (for example, Gray, Owen and Maunders, 1987; Mathews, 1984; Gray and Perks, 1982; Demers and Wayland, 1982; Medawar, 1978).

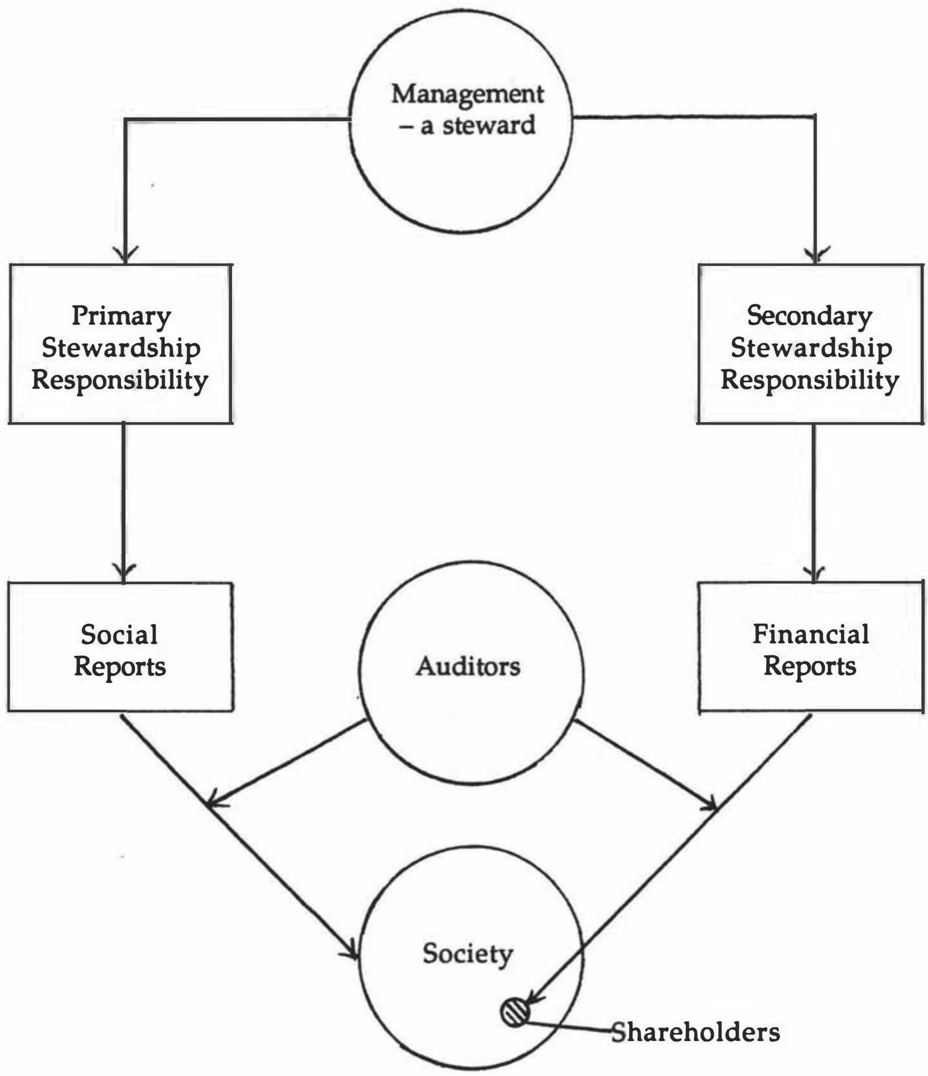
Authors supporting social responsibility disclosures generally acknowledge that companies are understandably reluctant to voluntarily publish a balance sheet of their social actions, as there is no universal agreement about what information should be disclosed or what form it should take - whether, for example, it should be restricted to qualitative descriptions of actions taken, or whether some form of quantitative reporting should be required. They also acknowledge that some companies are hesitant to make voluntary disclosures about their social behaviour as studies on the impact of disclosing such information have been inconclusive and, as a result, companies are unsure of the likely reaction of their shareholders. They also fear that pressure groups, unions, the media or others might use the data to harm the company image in some way (for example, Demers and Wayland, 1982, p. 58). Nevertheless, protagonists of social responsibility reporting consider that company managers should be held accountable for socially responsible behaviour and should, therefore, be required to provide social accountability reports. In fact, according to Demers and Wayland (1982), voluntary social responsibility accounting has taken place and may be expected to increase. They explain:

> Management has become increasingly socially conscious in the past few years, and this trend is not about to reverse. Just as many companies no longer allow themselves to ignore the impact of their actions on society ...they will no longer be able to keep information on these actions to themselves. ...Business is constantly being taken to task by advocates for increased respect for the environment and more rational management of social and material assets in corporate hands. Moreover, if business does not bow to this type of pressure, it will have to deal with the spectre of government intervention, which could well lead to legislation requiring such disclosure. (p. 58)

The conclusions of Demers and Wayland seem to be supported by articles which have appeared in accountancy journals in recent months, which report increases in social responsibility disclosures and the likelihood of this trend continuing (for example, Gray, 1989; Ho, 1990).

Chen (1975), unlike most other writers in the field, directly links social reporting to the accountability of corporate managers. After tracing the historical development of the concept of stewardship, she proposes that managements of modern corporations have two stewardship responsibilities: a primary stewardship responsibility to society and a secondary responsibility to shareholders. Based on this, she suggests that managements should be required to provide two sets of stewardship (accountability) reports: social reports for interested parties in society and financial reports for shareholders. Figure 12 presents her ideas in diagrammatic form.

Figure 12: The stewardship concept of external reporting*



* Adapted from Chen, R.S. (1975). Social and Financial Stewardship. The Accounting Review, 61(5), 541.

If the published annual reports of public companies in New Zealand (and elsewhere in the English-speaking world) are examined in the light of Chen's conclusion, it is seen that, in general, they have two distinct components:

- the financial statements (comprising or including the statutorily required Balance Sheet and Profit and Loss Account [or Income Statement]);
- other information about the company (including the statutory directors' report).

To date, the term 'accountability reports' has, in general, denoted 'financial statements'. This reflects the legal requirement for companies to provide audited financial statements annually to their shareholders. The content of these financial statements is governed by the disclosure provisions of the Companies Act 1955 (NZ) and SSAPs promulgated by the NZSA. As a result, the nature of the information provided in companies' published financial statements is broadly similar. Section 161 of the Companies Act 1955 requires company directors also to provide an annual (directors') report to their shareholders which refers to the state of the company's affairs, the dividend (if any) they recommend, and the amount (if any) to be carried to reserves. However, this report need not be audited, no further statutory reports are required, and no additional information, beyond the directors' and major shareholdings in the company, need be disclosed. Consequently, the information provided by corporate managements outside their financial statements varies greatly in terms of both its quantity and quality.

Based on the discussion of corporate accountability presented above, it is submitted that, to the extent that they provide information on past corporate activities, both the financial statements and the 'other information' components of companies' annual reports qualify as accountability reports. In subsequent sections of this thesis, the term 'annual reports' (or 'accountability reports') is used to refer to both the financial and non-financial information provided by companies in their published annual reports, and 'financial statements' is used to denote the financial information contained therein.

Monitoring accountability reports

Irrespective of the quantity and quality of the information provided in annual reports, for accountability to be effective there must be a monitoring mechanism or audit. Indeed, in relation to financial statements, Normanton (1966) suggests that accountability is an abstraction which is only given reality by the process of audit. He maintains that accountability necessitates giving reasons and explanations for one's actions and observes that financial reports rarely provide explanations and never give reasons. He notes that accounts must be technically correct as this is essential to the prevention of fraud, but they do not and cannot provide an adequate public record of policy and transactions. He argues that accounts hide more than they reveal. Although annual accounts may not legally conceal criminal sins, they can and do conceal other kinds of sins. These, according to Normanton, can be, and frequently are, lost without trace among the headings and summary totals of the accounts. He concludes that without audit there can be no accountability.

Support for Normanton's position is provided by the results of a study conducted by Webley in 1973 (reported by Medawar, 1978). According to Medawar (1978, p. 473), Webley found that about half of his sample of 400 managers agreed with the proposition: 'Many managers find themselves forced to resort to practices which they acknowledge are shady, but which appear necessary to survive'. Medawar also reports that in seminars which he (Medawar) conducted at a prestigious business school in the United States, he found that the large majority of both public and private sector managers were *unable* to agree with the proposition that the public would be reassured if they knew exactly what went on in business.

In monitoring the fairness of the financial statements produced by corporate managers, external auditors are in a unique position. They alone have the statutory right to examine the detailed records and other relevant evidence relating to the reporting entities, and to seek the information and explanations they require to perform their duties as auditors. Further, auditors, as members of the accountancy profession, may be expected to have the expertise, independence and other qualities necessary to carry out monitoring duties on behalf of those to whom the organisation is accountable. (The qualities of auditors as professionals were discussed in section 4.3).

However, auditors' unique right of access to examine a company's affairs places on them a duty additional to, and wider than, that of monitoring the accountability reports provided by management. As is evident from the issues discussed in Chapter 2, auditors' role senders also expect them to monitor management's compliance with society's accepted norms and values in conducting the company's business. As corporate accountability has been extended (see sections 4.4.4 and 4.4.5), so auditors have increasingly come to be regarded as 'society's corporate watchdogs'. As expressed by a SEC staff member to the Cohen Commission (reported on page 29 above): "As an agent of society, the auditor has a responsibility to [detect and] bring to light those things that are considered wrong by society" (Davidson, 1975, p. 49).

Notwithstanding the extreme importance of the external audit as a mechanism for monitoring corporate activities, it is important to appreciate that the auditor is but one of the controls society has set in place to check the power it has conferred on corporations through the provision of financial and other resources. Briloff (1986, pp. 6-7) has identified what he refers to as 'a series of prophylactic concentric rings', which have been institutionalised to help control corporate management's potential abuse of power. The innermost ring he recognises is the independent audit committee which, he says, major corporations are now generally constrained to have. Such committees comprise, or at least include a majority of, outside directors who are presumed to be independent of management. According to Briloff, this group is required to be more familiar with management's activities than their fellow directors on the board, and is expected to implement ongoing reviews of the corporation's system of internal controls and its external audit. In the United States, corporations are actively encouraged by the SEC to have audit committees and they have been a listing requirement of the New York Stock Exchange since June 1978. In New Zealand these committees are gradually being adopted, but a pilot study conducted in November 1987 among the 'Big Eight' firms of Chartered Accountants revealed that only about 10% of

New Zealand's listed companies had audit committees at that time (Porter and Cameron, 1987b).

The next concentric ring identified by Briloff is the independent audit conducted by qualified, professional auditors. Moving outwards through successive rings, Briloff recognises the various regulatory agencies (such as [in the New Zealand context] the Stock Exchange, the Securities Commission and the Registrar of Companies), the courts and the Government. These groups are involved in the corporate control process in various, but particular, respects.

4.4.7 The level of accountability required of economic enterprises

Discharging corporate accountability through the publication of annual reports involves a cost, and it is in the interests of society as a whole that such costs (which represent the use of scarce resources) are not incurred without commensurate benefits. Based on the premise that accountability of economic enterprises arises from the power and influence they wield in society (see section 4.4.3 above), it is submitted that the level of accountability demanded of them should vary according to their impact on society. It is contended that while the accountability required of small businesses, which individually have comparatively little impact on society, should be limited, that demanded from large economic entities should be much greater. Large business organisations, such as national and multi-national corporations, frequently command vast quantities of financial, human and other non-financial resources and have a major impact on the lives and well-being of whole communities and society in general. These organisations possess immense power and influence and it is considered that this should be reflected in the level of accountability required of them.

Both the Special Committee to Examine the Role of the Auditor (Adams Committee) (CICA, 1978) and the ASSC (1975) concluded that 'significant economic businesses' (ASSC) with 'public accountability' (Adams Committee) should be required by law:

- to publish financial statements which are available to members of the general public; and
- to have an independent auditor examine and report on these financial statements.

As noted on page 106, the ASSC also recommended that significant economic enterprises should be required to publish a number of statements additional to the traditional financial reports, some of which would comprise non-financial information (for example, an employment report).

The Adams Report (CICA, 1978, p. 43) defines enterprises with 'public accountability' as those which possess any of the following characteristics:

- Widely held securities. This results in the separation of ownership and management functions.
- Significant social or economic impact. This may arise from its unusually large size or from the nature of its activities.
- Use of significant amounts of funds from the general public.

In terms of identifying economic organisations which are to comply with the accountability requirements noted above, this definition lacks operational precision. The Corporate Report (ASSC, 1975) provides a more exacting, although admittedly arbitrary, definition of 'significant economic enterprises'. An entity is regarded as significant if it commands human or material resources on a scale that results in its activities having significant economic implications for the community as a whole (para 1.2). After noting that any definition of what constitutes significant must be arbitrary and a matter of subjective judgement, the Report (Appendix 1) states that significant economic entities include:

- all listed companies;

- other economic entities which, on a consolidated basis, have
  - on average, more than 500 employees during a financial year; or
  - on average, capital employed (including loan capital and bank overdrafts) of over £2 million (approximately NZ$5.6 million) during a financial year; or
  - annual gross turnover or revenues in excess of £5 million (approximately NZ$14 million).

(The money amounts were those applicable in 1975. The Report notes that they should be adjusted for inflation in later years).

Particularly in the light of the large number of small investors hurt as a result of companies collapsing in the wake of the October 1987 Stockmarket Crash, it is suggested that *all* public companies, whether or not they are listed on the Stock Exchange, and irrespective of size, should be recognised as enterprises with public accountability.

By definition, 'non-significant' economic enterprises without 'public accountability' have less impact on society than their significant counterparts. Nevertheless, where business enterprises are incorporated, their shareholder-owners receive the benefit of limited liability. Even where small private companies are owned and managed by the same small group of individuals, they gain the use of financial resources for which they are not held personally liable (for example, the funds of trade creditors). As with all other entities, those who manage these small companies are accountable for the use of resources they do not own, to those who entrusted the resources to them. Nonetheless, the costs involved in securing accountability must be commensurate with the benefits gained and, therefore, the level of accountability required of small companies should be less than that demanded of significant economic enterprises. It is suggested that the cost-benefit objective could be met if auditors were required to review the accountability reports of these companies and to issue a statement of negative assurance.

In New Zealand at the present time, all publicly owned companies must provide annual audited financial statements to their shareholders. Private companies also usually provide annual financial statements to their shareholders but these need not be audited (see footnote 1). In Britain, all registered companies, irrespective of their size and impact on society, are statutorily required to present audited financial statements annually to their shareholders. Small companies must comply with the same reporting requirements, and are subject to the same auditing standards, as major corporations.

On the basis of the discussion presented above it is proposed that:

- All public companies and other significant economic enterprises (as defined by the ASSC) should be required to publish annual, audited accountability reports which are available to members of the general public (for example, by filing with the Registrar of Companies). In view of the social impact of these entities, it is considered that they should be required to provide:
    - (i) financial reports (Balance Sheet, Income Statement, Statement of Cash Flows, and other relevant financial information such as that proposed by the ASSC, 1975, and CAR, 1978); and
    - (ii) social reports, describing corporate activities in areas such as environmental protection, equal employment opportunity, and employee and product safety measures.
- All other companies (that is, private non-significant companies without public accountability) should be required to prepare annual financial statements which are subject to external auditor review (rather than full audit). These should be made available to all parties who request a copy, who have a legitimate interest in the company.

While acknowledging that the boundary between significant and non-significant economic entities is arbitrary in cases other than between publicly and privately owned companies, it is submitted that the requirements outlined above would impose a level of accountability on economic organisations which accords with their social impact and power.

4.4.8 Summary: corporate accountability

The discussion on various aspects of corporate accountability has shown that, as financial and other resources have been channelled to economic entities, these organisations have gained power and influence in society and that accountability is demanded of their managers to counter possible abuse of that power. As corporations have increased their command over resources and extended their power and influence in society, so the accountability demanded of their managers has been widened in terms of both to whom accountability is owed and for what activities they are accountable. However, a distinction is necessary between small corporate entities with little social and economic impact, and significant economic organisations which have a major influence in society. Although the accountability required of the former remains limited, the latter are regarded as accountable to a variety of interested parties, for a wide range of corporate activities.

At the present time, all public companies in New Zealand primarily discharge their accountability by means of publishing annual audited financial statements which are accessible to the general public through the Companies Office. It has been suggested that these companies, together with other significant economic entities (as defined), should be required to extend their accountability reports to include non-financial information and that this information, like the financial statements, should be audited. Private companies in New Zealand currently discharge their more limited accountability by providing (frequently unaudited) annual financial statements to their shareholders. It has been suggested that these financial statements should be subject to external auditor review and that they should be made available to all parties who request a copy, who have a legitimate interest in the company.

4.5 SUMMARY: COMPONENTS OF A CONCEPTUAL FRAMEWORK FOR A THEORY TO EXPLAIN THE ROLE OF EXTERNAL AUDITORS IN SOCIETY

In this chapter the three components of a conceptual framework for a theory to explain the role of external auditors in society have been discussed, namely:

- the concept of role;
- the attributes of auditors as professionals;
- the concept, development and discharge of corporate accountability.

Each of these components provides a vital element in the theory of the role of external auditors in society. A tentative statement of this theory is presented in Chapter 5.

CHAPTER 5: THE ROLE OF EXTERNAL AUDITORS IN SOCIETY

5.1 THE THEORY

5.1.1 The theory tentatively stated

The theory of the role of external auditors in society may tentatively be stated as follows:

> The role of external auditors is constituted by the attitudes, values and behaviour ascribed to the social position occupied by external auditors, by individuals and groups in society who have an identifiable relationship with that position. The auditor's social position is that of a member of a recognised profession acting as an instrument of social control within the accountability process required of economic entities. Accountability is imposed on these organisations as a check on the power accorded them by society through the provision of financial, human and other non-financial resources. It is the function of external auditors to monitor the accountability reports provided by the managers of these economic enterprises and to otherwise act as society's corporate watchdogs.

5.1.2 The auditor's role – derived from two social positions

From the tentative statement of the theory of the role of external auditors in society it is evident that the attitudes, values and behaviour expected of auditors derive from two social positions:

1. that of a member of a recognised profession;
2. that of an instrument of social control within the accountability process required of economic organisations.

In neither respect are role senders' expectations of auditors static; instead, they gradually but continually change, reflecting the changes which occur in the norms and values of society.

5.1.3 The auditor's role as a member of a recognised profession

As explained in section 4.3 above, as a member of a recognised profession the auditor is expected to:

- provide a service to society which requires specialised knowledge and expertise, and the exercise of considerable judgement;
- put the interests of the client ahead of self-interest;
- act with integrity, competence and independence;
- conform to the high standards of personal conduct and behaviour (as perceived by society at the time) expected of those who are accorded professional status.

In return for these responsibilities, society has granted auditors as professionals, protection, privilege and high social standing. Members of the profession are given protection by means of identification, namely, use of the designation Associate Chartered Accountant. They are also accorded legal protection through the statutory requirement for all public companies to have their annual accounts audited by members of the New Zealand Society of Accountants (or an equivalent professional association). As part of the professional body of accountants, auditors have been granted the privilege of self-regulation and the right to discipline their own members. Further, as members of a respected profession, auditors are generally held in high esteem and command well-paid, influential positions in society.

However, as discussed in section 4.3.4, the relationship between the professions and society is changing. No longer are professionals revered, privileged and envied as a matter of course. Today, professionals and their work are subject to question and criticism. If auditors are to retain their social position as professionals, they must ensure that they keep abreast of, and conform to, the attitudes, values and behaviour expected of their subculture by society. If they fail to do so, they risk losing the protected, privileged position they currently enjoy.

As explained in section 4.2.3, a profession arises and exists to provide a specialist service needed by society. The auditing profession exists to satisfy the demand for independent monitoring of accountability reports provided by, and business behaviour of, those accorded power and influence in society through the provision of resources. Auditors are, therefore, an integral part of the accountability process required of economic organisations.

5.1.4 The auditor's role in the accountability process

Power and influence are conferred on economic entities by society through the provision of financial, human and other non-financial resources. In return, society demands that these enterprises be accountable for the resources they control and the power they wield. This accountability is primarily secured by requiring their managers to produce financial (and other) reports and by having the truth and fairness of the information verified by an independent, external auditor. The essence of the auditor's responsibility is to examine critically the accountability reports provided by the managers of economic entities, for and on behalf of those to whom accountability is owed. This entails not only reviewing the reports but also examining relevant evidence which substantiates the information provided, making necessary enquiries and seeking appropriate explanations. The auditor acts on behalf of, and is therefore responsible to, those to whom the managers are accountable. As the groups in society who are recognised as having a legitimate interest in corporate entities have increased, so too have those to whom the auditor is regarded as responsible. Similarly, as the elements constituting the stewardship expected of business managers have widened, so too have the aspects of corporate annual reports which the auditor is called on to verify.

To enable auditors to perform their duty of monitoring the accountability reports provided by corporate managements they have been given a unique right to examine, and become familiar with, the company's affairs. This has given rise to an additional function – that of monitoring the compliance of corporate managements' business behaviour with society's accepted norms and values.

Thus, in addition to their role as members of a recognised profession, external auditors have expectations ascribed to them by their role senders which attach to their social position as instruments of social control within the corporate accountability process. The expected values, attitudes and behaviour constituting this role are an integral part of the accountability process and, as such, are subject to change, as changes occur in the accountability which society requires of economic organisations. Changes in auditors' duties reflecting changes in corporate accountability are considered in section 5.2.2 below.

5.1.5 Summary: the theory re-stated

Based on the discussion of the components constituting the conceptual framework for a theory to explain the role of external auditors presented in Chapter 4 (namely, the concept of role, the attributes of auditors as professionals and corporate accountability), it is submitted that the role of external auditors in society is constituted by the attitudes, values and behaviour ascribed by relevant role senders to the social position occupied by auditors, that is, to the social position of a member of a recognised profession acting as an instrument of social control within the process of corporate accountability.

5.2 THE THEORY'S MERITS

5.2.1 Introduction: a review of the theory's merits

The theory of the role of external auditors in society as proposed in this chapter possesses the necessary qualities of logic, cohesion and internal consistency, and it also rests on concepts which are well established. Further, compared with its predecessors (discussed in Chapter 3) it displays some distinct advantages. These include the theory's ability:

- to accommodate and explain changes in auditors' responsibilities;
- to explain the extension of auditors' legal liability;
- to explain the existence of the audit expectation-performance gap.

In the following sub-sections each of these merits of the theory is considered in turn.

5.2.2 The theory accommodates and explains changes in auditors' responsibilities

It was shown in Chapter 3 that the inductivist theories are, in essence, statements of audit objectives which were appropriate in particular time periods. As the socio-economic environment changed so did audit objectives, but the theories could not accommodate the widening range of auditor responsibilities which resulted. The theories were, for example, generally unable to embrace both the auditor's duty to detect fraud and that of giving credibility to the financial information provided by business managers. In contrast, the theory of the role of the external auditor as an instrument of social control within the corporate accountability process can readily accommodate changes in auditors' duties. Indeed, changes to auditors' duties are expected by this theory. (This is discussed below).

Similarly, the proposed theory does not need stretching to a point beyond plausibility, as does agency theory when applied to the role of external auditors in society. In section

3.4.1 it was shown that the view of company managers acting solely as the agents of shareholders is no longer tenable. Today it is acknowledged that large business enterprises command very significant amounts of resources and that they have a major impact on their local community and society at large. As a result, they are seen to owe a responsibility to a wide range of stakeholders, which extends well beyond the shareholder group. Attempts have been made to sustain agency theory by suggesting that all of the various stakeholder groups (including the public at large) are principals for whom corporate managers act as agents. However, this seems to deny the clear contractual arrangement between principal and agent which is generally accepted as underlying an agency relationship.

In its ability to accommodate changes in auditors' responsibilities, the proposed theory also demonstrates an advantage over Gilling's thesis (see section 3.4.2). In his normatively derived theory, Gilling invokes a transformation of the auditor's role, from that based on contract to that of an agent of social control. However, if the theory of the auditor as an instrument of social control in the accountability process is accepted, no such role transformation is needed. The theory is equally applicable at all times and in all situations where individuals or groups are entrusted with the resources of others and, as a result, are accountable for the custody and use of those resources. The theory can accommodate changes in auditors' responsibilities as it provides a logical explanation for their occurrence. As elements in the process of corporate accountability, external auditors are subject to changed expectations, as changes occur in the accountability required of corporate managers.

As discussed in Chapter 4 (section 4.4), during the nineteenth and early twentieth centuries the stewardship required of company managers was largely confined to the safe custody and honest authorised use of financial resources entrusted to them, and accountability was considered to be owed only to the providers of these funds. Accordingly, the primary audit objectives were the prevention and detection of fraud and error, and the auditor was expected to act almost exclusively on behalf of, and to be responsible to, the company's shareholders.

Over the period from the 1930s to the 1960s, as investment in companies increased and became more widespread, the stewardship of corporate managers was extended to include the efficient and effective use of resources. This change was reflected in the addition of the Income Statement to the Balance Sheet as an accountability report and in a shift in audit objectives. The focus of auditing moved away from the prevention and detection of fraud and associated concern with arithmetical accuracy in the financial reports, towards verifying the reliability of, or the fairness of the impression portrayed by, the information the reports contained. This remains the statutory duty of auditors in New Zealand, as in most other parts of the English-speaking world. However, auditors' duties were specified in the Companies Act of 1955 and, over the past 35 years, the accountability demanded of corporations has changed markedly. It is submitted that, today, auditors' statutory duties are seriously out of step with society's expectations of auditors.

Since the 1960s, economic enterprises have grown in size and extended their power and influence in society at an accelerating rate. At the same time, society's values and attitudes have, in general, become more liberal and more socially oriented: there has been a discernible increase (possibly as a result of the impact of mass media) in general concern for social justice, for protection of the disadvantaged and for conservation of the natural environment (for example, Demers and Wayland, 1982).[15] These changes in society have been reflected in changed attitudes towards, and within, business organisations. The accountability required of corporate managers has been gradually widened to include at least some level of what is regarded as socially responsible behaviour. Corporate accountability has also been extended in terms of those to whom it is owed and it now embraces a large number of interest groups within society, including shareholders, creditors, employees, suppliers, customers, the government and the public at large. Today, the annual reports of public companies are regarded as public documents and they are expected to provide information on a wide range of corporate activities.

Society's changed expectations of auditors are reflected in the calls made in recent years, from both inside and outside the profession, for auditors to extend their responsibilities. For example, professional accountancy bodies throughout the English-speaking world (including the NZSA), now recommend that auditors review information contained in corporate annual reports which is not subject to audit, to ensure that it is not inconsistent with the audited information (NZSA, 1986c). In addition, as pointed out in section 4.4.6, both the Corporate Report (ASSC, 1975) (UK) and the Cohen Commission (CAR, 1978) (US) recommended that additional statements be included in the published annual reports of companies, with the implication that such statements be subject to audit.

It is also clear from professional auditing literature that there is widespread demand from users of financial statements for auditors to extend their responsibilities. For example, Luscombe (1981) reports:

> Increasingly, [users of financial statements] want assurances on so called "soft information" such as forecasts ...or even softer information such as whether an enterprise has met its stated social and corporate objectives; complied with established codes of conduct; or simply, used its resources efficiently, economically and effectively. (p. 3)

Further, as discussed in Chapter 2, there have been calls in recent years for auditors to extend their duty to detect fraud and to accept a duty to report detected or suspected fraud, and concerns about a company's solvency, to regulatory authorities. In Britain, significant extensions have been made to auditors' duties under the Financial Services Act 1986 and in New Zealand and Australia auditors' duties have been extended under the Reserve Bank prudential supervision procedures. In each case a duty to report to regulatory authorities has been imposed on auditors. Hopkins (1986) has observed that these developments "threaten to wash away for ever any remaining notion that an audit is a purely private commercial matter between company and auditor. Rather an audit is ...at least in the case of organisations involved in the financial sector – a public service" (p. 16).

The duties now expected of auditors by society have moved a long way from the duties defined by statute and, as can be expected from the postulated role of auditors as instruments of social control within the corporate accountability process, they reflect far more closely the level of accountability currently expected of corporate managers. It is suggested that, in the not too distant future, the increasing public demand for greater corporate accountability will be given statutory recognition and that additional accountability reports will be required of companies, together with the requirement that they be audited.

5.2.3 Extension of auditors' legal liability

It has been shown that changes in the duties expected of auditors reflect changes in the accountability society demands of corporate managers. In the same way, the parties to whom the auditor is held responsible have widened, paralleling the extension of those to whom companies are regarded as accountable. This is reflected in a series of court cases which have progressively extended auditors' liability to third parties.

In 1932, in the case of *Donoghue* v *Stevenson* (1932) AC 562, a duty of care was recognised as owing to third parties (that is, to parties outside a contractual arrangement) where it could reasonably be foreseen that failure to take care could result in physical injury. However, it was not until 1950, when Lord Denning gave his famous dissenting judgment in *Candler* v *Crane Christmas & Co.* [1951] 2KB 164, that any serious consideration was given by the courts to extending a duty of care to third parties in the case of financial loss. In that case, Lord Denning stated that in his opinion auditors owed a duty of care to those whom they knew would rely on their work. But, the duty did not extend to strangers of whom the auditors had no knowledge.

Lord Denning's judgment was adopted with approval in *Hedley Byrne & Co. Ltd* v *Heller and Partners* [1963] 3 All ER 575, [1964] AC 456. In this case it was established that a duty of care was owed to third parties for financial loss where it could be shown that a special relationship existed. Such a relationship was said to exist when the auditor knew, or ought to have known, that a particular person (or persons) would rely on the audited accounts for a known purpose. However, it was held that a duty of care did not extend to those of whom the auditor knew nothing at the time of the audit.

In *Scott Group Ltd* v *McFarlane* [1978] 1NZLR 553, the test of knowledge was replaced by one of reasonable foreseeability. The case established that auditors owed a duty of care to those persons who they could, or reasonably should, foresee, would rely on the audited financial statements for a particular type of investment decision. The subsequent cases of *Jeb Fasteners Ltd* v *Marks, Bloom and Co.* [1981] 3 ALL ER 289 and *Twomax Ltd* v *Dickinson, McFarlane and Robinson* [1983] STL 98, extended still further the auditor's duty of care to third parties. By the mid-1980s, auditors were regarded as owing a duty of care to virtually anyone who could prove that he or she relied on audited financial statements when making an investment decision. When it is remembered that the audited financial statements of all public companies are filed with the Companies Office and are, therefore, a matter of public record, it is seen that auditors' exposure to liability is very great indeed.

However, it appears that the recent case of *Caparo Industries PLC* v *Dickman & Others* [1990] 1 All ER 568 may have restricted auditors' liability to some extent. In this case, the Privy Council distinguished the *Scott Group*, *Jeb Fastners* and *Twomax* cases and held that auditors do not owe a duty care to individual shareholders who rely on audited accounts when making investment decisions. The Law Lords considered that shareholders' interests were indistinguishable from those of the company and that any loss suffered by shareholders through the negligence of auditors should only be recouped through a claim against the auditors by the company. It is interesting to note that Lord Bridge found that (at p. 577):

> It would be going too far to make an [auditor] liable to any person in the land who chooses to rely on the accounts ...for that would expose him, in the words of Cardozo, C.J., in *Ultramares Corpn v Touche* ((1931) 255 NY 170 at 179) to "liability in an indeterminate amount for an indeterminate time to an indeterminate class".

In reaching its decision the Privy Council appears to have returned auditors' exposure to liability to the position reached nearly 60 years ago. However, it is suggested that the apparent reprieve for auditors may be short-lived. Based on the proposition that auditors are instruments of social control in the corporate accountability process, auditors are considered to act for and on behalf of all those to whom corporate managers are accountable. Therefore, it is to be expected that auditors owe a duty of care to all those who rely on audited financial statements. It is a natural consequence of the extension of corporate accountability to a wide range of interested parties in society and to the public at large; it is the logical outcome of the growing social impact of companies and other significant economic organisations. As Baxt (1987) noted when discussing the *Scott Group* case:

> The Court was not prepared to hold that there was an automatic extension of liability on the part of the auditors to anyone and everyone who may have examined the records of the company at the relevant Companies Office. Why this distinction should be permitted to exist remains a mystery to the writer and to most accountants, who would support the view that the auditor ...stands by the work carried out in relation to a company audit. (pp. 97-98)

Others shared Baxt's view, for as Savage (1981) observed, when the distinction was removed in the subsequent *Jeb Fastners* case, "it merely brought the law into line with the public's expectations" (p. 341). Thus, notwithstanding that the *Caparo* case has been decided by the Privy Council, it is submitted that the law will quickly return to the position established by the *Jeb Fastners* and *Twomax* cases.

A notable feature of the Privy Council judgment, is the function attributed to auditors by Lord Oliver (at p. 583):

> It is the auditors' function ...first, to protect the company itself from the consequences of undetected errors or, possibly, wrongdoing ...and, second, to provide shareholders with reliable intelligence for the purpose of enabling them to scrutinise the conduct of the company's affairs.

While apparently discounting auditors' function of monitoring management's accountability reports on behalf of all of a company's constituents, the Privy Council seems to have given renewed emphasis to auditors' watchdog or policeman function. Overall, the Privy Council appears to have tried to return, those to whom and that for which auditors are responsible, to the position which obtained in the early 1930s. Nevertheless, as noted above, it is submitted that the law, with respect to those to whom auditors are held to owe a duty of care, will quickly return to the position established by the *Jeb Fastners* and *Twomax* cases. It is also submitted that, as a result of the *Caparo* decision, there will be increased emphasis on auditors' function as corporate watchdogs. Such emphasis would be entirely consistent with auditors' role within the corporate accountability process and the expansion of accountability expected of corporate managers which has taken place, particularly over the past 30 years.

5.2.4 The existence of the audit expectation-performance gap

In Chapter 2, the audit expectation-performance gap, the gap between society's expectations of auditors and auditors' performance, was discussed. The conceptual framework of the proposed theory of the role of auditors in society provides some possible explanations for the existence of this gap. In Chapter 4 (section 4.2), role was defined as the attitudes, values and behaviour expected of occupants of particular social positions by those who have an identifiable relationship with those positions. Where the expectations of different role senders are incompatible, intra-role conflict results. In this situation the expectations of some role senders cannot be met, so it is inevitable that an expectation-performance gap will result. Auditors face the expectations of many role sender groups in society (see Figure 5, page 75) and it is probable that the expectations of the various groups differ and may well be, to a greater or lesser extent, in conflict. Thus the audit expectation-performance gap may reflect intra-role conflict.

Alternatively, the gap may result from unrealistic expectations of auditors by some of their role senders. As reported in Chapter 2, surveys have found that a significant proportion of shareholders expect auditors to guarantee the accuracy of a company's financial statements and to detect *all* corporate fraud. These are tasks which, given cost-benefit constraints, it is not feasible for auditors to perform and therefore auditors' performance does not match what is expected of them.

A further explanation of the expectation-performance gap is that auditors have not yet adjusted to changes in their role senders' expectations. It has been emphasised that expectations of auditors, both as professionals and as elements in the corporate accountability process, are not static but continually change, reflecting changes which occur in society. It is likely that there will be a time lag between a change in society's expectations of auditors and auditors' recognition of, and adjustment to, the change. This time lag will manifest itself as a gap between society's expectations of auditors and auditors' perception of their changed responsibilities; that is, as an expectation-performance gap.

Although these possible explanations of the audit expectation-performance gap have been proposed individually, it is probable that each is a contributing factor to the existence of the gap. However, the significant point is that each of the explanations is entirely consistent with the theory of the auditor's role in society as proposed in this thesis.

5.3 SUMMARY

The theory of the role of external auditors, which proposes that auditors are professionals acting as instruments of social control within the corporate accountability process, can accommodate and explain changes which have taken place in auditors' duties, and account for the calls currently being heard from both inside and outside the profession for an extension to auditors' responsibilities. It also provides an explanation for the extension of auditors' legal liability in recent years and provides plausible reasons for the existence of the audit expectation-performance gap. In particular, it is the ability of the theory to embody the dynamic nature of auditing which makes it more satisfactory than its alternatives. Analysis shows that the theories examined in Chapter 3 provide only a partial explanation of the auditor's role and, in general, they have been unable to accommodate changes in auditors' duties which have accompanied changes in auditing's socio-economic environment.

The theory of the role of external auditors in society proposed in this thesis has been developed and evaluated normatively. Similarly, the proposed structure of the audit expectation-performance gap, discussed in Chapter 2, has been derived from a literature-based study. In order for the normative propositions to be accepted as valid, they need to be subjected to empirical testing. In the next chapter the normative propositions relating to both the role of auditors in society and to the audit expectation-performance gap are summarised, and the related empirical research is described and explained.

CHAPTER 6: EMPIRICAL RESEARCH - OBJECTIVES AND METHODOLOGY

6.1 INTRODUCTION

In Chapters 1 and 2, attention was drawn to the liability and credibility crises (Russell, 1986, p. 58) which characterise auditing today, particularly in the United States and Britain. It was suggested that these crises are a manifestation of the audit expectation-performance gap, the gap between society's expectations of auditors and auditors' performance, as perceived by society (society is defined in footnote 3). It was also observed that this gap must be narrowed if auditors are to retain the public's perception of them as providing a valuable service to society.

It was shown that the auditing profession has taken some positive steps towards narrowing the gap but that these have been fire-fighting in nature, targeted to quell the most vociferous and scathing criticism of auditors, or they have been enforced by legislation (primarily relating to the financial services sector) designed to serve specific objectives. It was submitted that this is not a satisfactory way to proceed. It was proposed that a more effective and efficient approach is to analyse each issue exhibiting a gap between society's expectations of auditors and auditors' performance, to ascertain which components of the audit expectation-performance gap are present, and then to apply appropriate measures to counter each. In particular, it was suggested that:

- to the extent that society expects more of auditors than auditors can reasonably be expected to accomplish, the profession should seek to modify society's expectations by means of improved communication and education programmes;

- to the extent that auditors fail to perform the duties reasonably expected of them, the profession should:
  - (i) extend auditing standards to accommodate society's reasonable expectations; and
  - (ii) rectify sub-standard performance.

Analysis of the proposed approach to narrowing the audit expectation-performance gap reveals that the linchpin is defining the duties which may reasonably be expected of auditors. It is these duties about which society needs to be educated and it is these duties which need to be embodied in auditing standards and performed by practitioners. As explained in Chapter 2, in order for duties to be reasonably expected of auditors they must be both compatible with auditors' role in society and cost-beneficial for auditors to perform. Thus, in order to narrow the audit expectation-performance gap, auditors' role in society must be defined.[16]

In Chapter 4 it was proposed that the role of auditors in society is constituted by the attitudes, values and behaviour expected of those who occupy the social position of auditors, by individuals and groups in society who have an identifiable relationship with that social position. These individuals and groups are referred to as role senders. It was postulated that auditors' social position is that of members of a recognised profession acting as instruments of social control within the corporate accountability process. It follows that in order to define auditors' role in society it is necessary to ascertain, by means of empirical research, the expectations of auditors' role senders with respect to auditors' professional standing and specialist function in society.

A number of empirical studies investigating society's expectations of auditors have been conducted overseas since the mid-1970s under the auspices of various professional accountancy bodies. Published research reports include those of:

- the Commission on Auditors' Responsibilities (the Cohen Commission), 1978 – this Commission was established as an independent body by the AICPA in 1974.
- the Commission of Enquiry into Developments in the Accountancy Profession in South Africa (the Loubser Commission), National Council of Chartered Accountants in South Africa and the Public Accountants' and Auditors' Board, 1980;
- the Commission to Study the Expectations of Audits (the Macdonald Commission), CICA, 1988.

No comparable study has been undertaken in New Zealand. Based on the discussion of the concept of role presented in Chapter 4 (section 4.2), it is submitted that the role of external auditors in New Zealand is defined by relevant role senders who embody the prevailing norms and values of New Zealand society. It cannot be assumed that findings overseas, derived from different cultures and past times, hold for New Zealand today. In order to establish the role of external auditors in New Zealand, empirical research must be conducted to ascertain expectations of auditors in New Zealand. Similarly, in order to establish the structure and extent of the audit expectation-performance gap in New Zealand, empirical research must be conducted in New Zealand to determine the duties expected of auditors and the perceived standard of performance of their duties.

As Figure 5 (on page 75) indicates, many groups in New Zealand have an identifiable relationship with external auditors and are, therefore, among auditors' role senders. These include auditors themselves, groups within the business and financial community, the government and regulatory bodies, and the general public. A good approximation of role senders' expectations of auditors can be obtained by means of a survey based on samples drawn from auditors' role sender groups. As explained below, empirical research has been conducted on this basis.

6.2 OBJECTIVES OF THE EMPIRICAL RESEARCH

In Chapter 1 it was stated that the primary aims of this study were:

- to analyse the gap between society's expectations of external auditors and auditors' perceived performance;
- to define a theory to explain the role of external auditors in New Zealand.

Resulting from literature-based research, the structure of the audit expectation-performance gap and a theory of the role of external auditors in society were proposed (see Chapters 2 to 5). In order to test the validity of the normatively derived propositions, empirical research has been conducted with the following specific objectives:

1. **To identify the duties which auditors' role senders consider to be existing duties of auditors, and to ascertain the extent of differences of opinion between and within auditors' role sender groups regarding auditors' existing duties.** Comparison of the duties which auditors are expected to perform with their duties as defined by the law and professional promulgations, permits identification of discrepancies – these reflect lack of knowledge about auditors' existing duties by their role senders. To the extent that duties are incorrectly attributed to auditors at the present time, but are assessed as reasonable for auditors to perform (see objective 5 below), they help to establish the existence of the deficient standards component of the audit expectation-performance gap. To the extent that they go beyond what may reasonably be expected of auditors, they help to identify the reasonableness gap.

2. **To identify perceived sub-standard performance of auditors' existing duties.** The intent of this objective was to establish the existence and extent of the deficient performance component of the audit expectation-performance gap.

3. **To identify the duties which auditors' role senders consider should be performed by auditors, and to ascertain the extent of differences of opinion between and within auditors' role sender groups about the duties which auditors should perform.** Comparison of the duties which role senders consider auditors should perform with auditors' existing duties, as defined by the law and professional promulgations, facilitates identification of duties which are expected, but not currently required, of auditors. As for objective 1, to the extent that these duties are assessed as reasonable to expect of auditors (see objective 5 below) they help to define the deficient standards component of the audit expectation-performance gap. To the extent that they go beyond what may reasonably be expected of auditors, they help to identify the reasonableness gap.

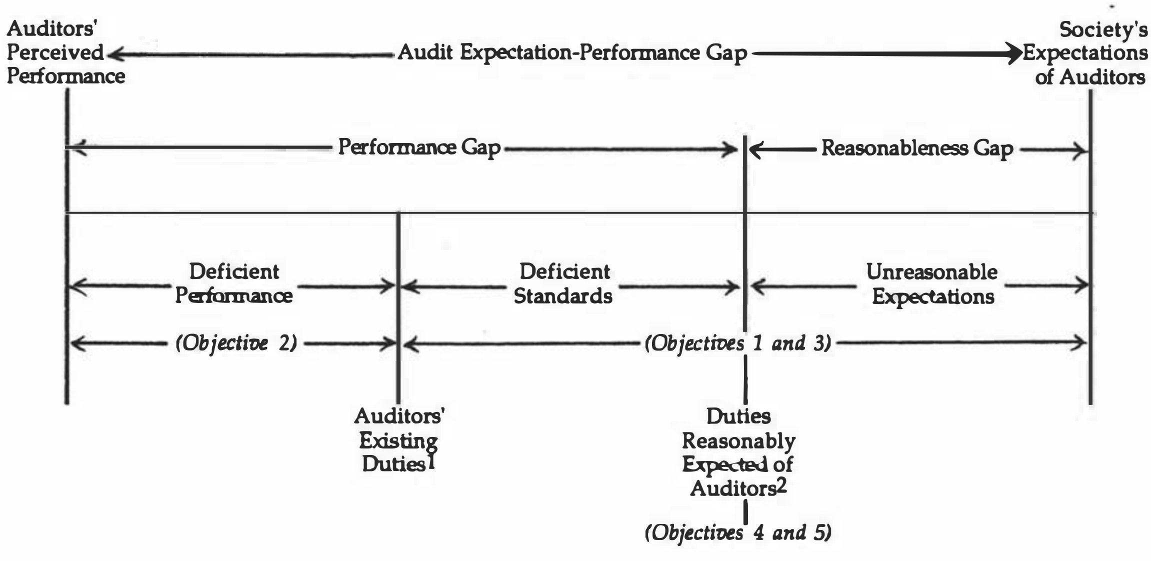
4. **To ascertain the expectations of auditors' role senders with respect to auditors' professional standing and specialist function in society, and to identify differing expectations between and within auditors' role sender groups.** This objective was designed to facilitate assessment of the correspondence between the expectations of auditors' role senders and the postulated social position of external auditors, namely, that of a member of a recognised profession acting as an instrument of social control within the corporate accountability process. If role senders' expectations were found not to accord with the postulated social position, the need for an alternative explanation of auditors' role in society would be signalled.

5. **To establish duties which may reasonably be expected of auditors.** As noted above, these duties form the linchpin in narrowing the audit expectation-performance gap – it is these duties which need to be understood by society, embodied in auditing standards and performed by practitioners. In order to be reasonably expected of auditors, the duties must be both compatible with auditors' role in society and cost-beneficial for auditors to perform. Objective 4 was intended to provide a basis for determining the compatibility of duties expected of auditors with auditors' role in

society. Formal cost-benefit analysis was not performed as part of this study but it was considered that the duties expected of auditors by the majority of the total survey group (established through Objective 3) would provide a satisfactory surrogate for ascertaining the duties which are cost-beneficial for auditors to perform (see footnote 16).

These objectives of the empirical research may be directly related to the structure of the audit expectation-performance gap as discussed in Chapter 2. The relationship is represented in Figure 13 below.

Figure 13: Objectives of the empirical research related to the structure of the audit expectation-performance gap



1 Duties defined by the law and professional promulgations.
2 Duties compatible with auditors' role in society and cost-beneficial for auditors to perform.

6.3 EMPIRICAL RESEARCH METHODOLOGY

6.3.1 Mail survey: the selected method

In order to ascertain the expectations of auditors' role senders, a survey was conducted. Three different approaches were considered, namely, a mail survey, a telephone survey and personal interviews. A mail survey was selected as the preferred option. This method permits opinions to be sought from the greatest number of members of each role sender group, from widely dispersed geographical areas, within the time and cost constraints attaching to research conducted by a single researcher. Additionally, it has the advantages, vis-à-vis telephone surveys and personal interviews, that:

(i) there is no possibility of interviewer bias;

(ii) subjects have time to consider questions before making their responses.

However, a mail survey also has disadvantages. In particular:

(i) it has a potential for non-response bias;

(ii) the responses of individual survey members may be influenced by friends, relatives or others who are not members of the targeted role sender group;

(iii) it relies on respondents being literate and able to understand written English;

(iv) it has a response bias in favour of better educated respondents;

(v) the researcher is unable to clarify questions for, and/or responses from, survey participants.

Regarding non-response bias, it was considered that this could be minimised by:

(i) providing a personally addressed letter to accompany the questionnaire, explaining the purpose of the research and the importance of responses being received;

(ii) following-up survey members from whom no response was received.

With respect to the influence which those outside a targeted role sender group might have on the responses of survey subjects, it was concluded that, providing a sufficiently large sample from each role sender group was surveyed, the overall effect of outside influences was unlikely to be significant. This was considered to be particularly so, if addresses used for survey members (that is, workplace or home address) reflected their role sender group and, thus, those consulted by questionnaire recipients were likely to be members of the same group.

Although the other difficulties resulting from use of a mail survey were recognised, it was considered that they would not have a significant impact on survey results. In particular, it was perceived that the large majority of survey members, including all of auditors' strong role senders (specifically auditors themselves and the auditee groups: see Figure 5), were likely to come from well-educated sections of society.

On balance, it was concluded that the benefits to be gained from using a mail survey, in preference to alternative methods available, outweighed the disadvantages, and that it was the most appropriate method to adopt.

6.3.2 The role sender groups surveyed

Role sender groups identified

Identification of auditors' role sender groups to include in the mail survey was assisted by reference to the groups recognised by Davidson (1975), Lee (1970), and the Macdonald Commission (CICA, 1988). As shown in Figure 5 (page 75), Davidson (1975) recognised three main categories of role sender groups based on the significance of the group's expectations in determining auditors' role in society. Davidson classified auditors themselves as very strong role senders; auditee groups (corporate managers, directors, audit committees) and regulators (such as the Government, the courts and the Stock Exchange) as strong role senders; and audit beneficiaries from both the financial community (investors, analysts, brokers) and from groups such as academics, company creditors, employees and customers, and the general public, as weak role senders. Lee (1970) identified:

> Three audit-oriented groups – *auditors*, that is partners in audit firms, qualified audit staff, and non-qualified staff; *auditees*, that is company directors, secretaries and accountants; and *audit beneficiaries*, that is, private investors, institutional investors, indirect investors (such as unit trust unitholders), and interested parties (for example, bankers and stockbrokers). (pp. 293 and 295)

The Macdonald Commission (CICA, 1988) recognised three major categories of respondents, namely:

1. those who lack knowledge about financial reporting and auditing and who do not invest in publicly traded shares;
2. a "knowledgeable group" of "reader/investor public" (p. 148) who read audited financial statements and/or invest in publicly traded shares;
3. "the financial community", that is, "members of the public who might be expected to have an even stronger interest in financial reporting. These include bankers, financial analysts, public accountants, corporate executives, regulators, financial journalists and others" (p. 5).

Using the above studies as background, attention was focused on identifiable role sender groups in New Zealand. Initially four categories of role senders were recognised, each having a different degree of interaction with auditors. These were:

1. auditors;
2. auditees;
3. audit beneficiaries from the financial community;
4. audit beneficiaries outside the financial community (loosely categorised as the general public).

Consideration was then given to subgroups within each of the major categories, which could be distinguished meaningfully in the New Zealand context. The following subgroups were initially recognised:

1. Auditors: audit partners and non-partner audit staff.
2. Auditees: public company Chief Executive Officers, non-executive directors and chief accountants.
3. Audit beneficiaries – financial community: financial analysts, stockbrokers, institutional investors, bank managers and auditing academics.

4. Audit beneficiaries – general public: the general public. (This group was perceived to include company employees, customers and suppliers, as well as other members of the general public).

As a result of insights gained during the pilot study (see section 6.4 below) and discussions with interested parties, four amendments were made to the above classification. These were as follows:

1. Internal auditors were added as a subgroup of auditees.
2. Corporate division bankers, together with Bankers' Association members, were added as a subgroup of audit beneficiaries – financial community.
3. Branch bank managers (who, during the pilot study, were found to have little or no contact with audited financial statements and only very limited knowledge of the audit function) were reclassified as a subgroup of audit beneficiaries – general public.
4. Lawyers and financial journalists were added as subgroups of audit beneficiaries – general public.

Size and selection of samples

Once the groups to be included in the mail survey had been identified, size of samples and method of selection were addressed. In consultation with experts in market research from the Marketing Department of Massey University, it was decided that, in order to secure sufficient responses to permit statistically valid conclusions to be drawn, 100 members of each subgroup should be surveyed. Exceptions to this were:

1. those subgroups where the total population was less than 100. This applied in the case of institutional investors, members of the Bankers' Association, auditing academics and financial journalists (see Figure 14);
2. the general public (as a subgroup). In this instance it was considered that the response rate was likely to be lower, and the range of expectations of auditors

Figure 14: Role sender groups surveyed, size of sample and method of selection

Role Sender Group	*Size of Sample*	*Method of Selection*
Audit Partners	100	1. Established (separately) the total number of audit partners and non-partner audit staff in each New Zealand office of each of the 'Big 7' audit firms represented in New Zealand in November 1988. 2. Prorated the 100 sample members of each group across the Big 7 audit firms according to their audit partner/staff numbers.
Non-Partner Audit Staff	100	3. Listed each firm's offices in geographical order (North to South through New Zealand) and each office's audit partners/staff in alphabetical order. 4. Used equal interval random sampling to select the requisite number of audit partners/staff from each firm.
Public Company Chief Executive Officers	100	Used equal interval random sampling to select 100 (existing) companies from the Justice Department's listing of New Zealand public companies (at October 1988).
Public Company Chief Accountants	100	As above, but with a different (randomly selected) starting point.
Public Company Non-Executive Directors	100	1. As above, but with a further different (randomly selected) starting point. 2. Compiled a list of these companies' non-executive directors. 3. Used equal interval random sampling to select 100 survey members.
Internal Auditors	100	Used equal interval random sampling to select 100 members from the membership list of the Institute of Internal Auditors (at 31 October 1988).
Financial Analysts	100	Equal interval random sampling was used to select 100 members from the membership list of the New Zealand Society of Investment Analysts (at 31 January 1989) (see text).
Stockbrokers	100	Used equal interval random sampling to select 100 members from the membership list of the New Zealand Stock Exchange (at 31 October 1988).

Figure 14 cont ...

Role Sender Group	*Size of Sample*	*Method of Selection*
Institutional Investors	27	100% of members of the New Zealand Life Offices' Association (at 31 October 1988). (Discussions with informed sources revealed that the Life Offices undertake by far the greatest share of institutional investing.)
Corporate Division Bankers	100	1. Established the total number of corporate division bankers in each of the 5 main trading banks. 2. Prorated the 100 sample members across the 5 main trading banks according to their number of corporate division bankers. 3. Used equal interval random sampling to select the requisite number of survey members from each trading bank, from an alphabetical listing of their corporate division bankers (see text).
Bankers' Association Members	11	100% sample of members of the New Zealand Bankers' Association (at 31 October 1988).
Auditing Academics	13	100% sample of auditing lecturers in New Zealand's 7 universities (at 30 November 1988).
General Public	500	Used equal internal random sampling across each of New Zealand's 97 electoral rolls. From each of Districts 1 to 15, 6 survey members were selected. From each of Districts 16 to 97, 5 survey members were selected.
Lawyers	100	Used equal interval random sampling to select 100 lawyers from the list of Registered Lawyers in New Zealand (at 31 October 1988).
Branch Bank Managers	100	1. Established the total number of branch managers in New Zealand trading banks. 2. Prorated the 100 sample members across the trading banks according to the total number of their branch managers. 3. Used equal interval random sampling to select the requisite number of survey members from each trading bank, from each bank's list of branches.
Financial Journalists	47	100% sample of financial journalists employed by New Zealand's major daily newspapers, radio and television stations (at 15 January 1988).

greater, than amongst the more narrowly defined subgroups, especially those closely associated with and/or directly affected by the audit function. In order to obtain a representative profile of expectations of external auditors held by the general public it was considered that a sample of 500 would be appropriate.

Except where role sender groups to be included in the mail survey consisted of a total population [see (1) above], samples were selected by means of equal interval random sampling. The selection of each survey group is explained in Figure 14. In the case of financial analysts, the New Zealand Society of Investment Analysts has a policy of not supplying names of members to third parties. However, the Secretary of the Society undertook to select a sample of 100 members by means of equal interval random sampling, and to send a questionnaire and explanatory letter to each of these members. Similarly, most of the major trading banks regard the membership of their Corporate Divisions as confidential information. Nevertheless, they each provided the total number of managers in these divisions (all corporate division bankers in the main trading banks have managerial status) so that the sample of 100 members of this group could be prorated across the banks. They also agreed to randomly select the relevant number of survey members from their corporate division managers and to ensure that each received a questionnaire and covering letter.

6.3.3 Questionnaire design

On reviewing the role sender groups identified for inclusion in the mail survey, it appeared that they formed two distinct broad categories:

1. **Financial community groups**, whose members were perceived to have a sufficiently direct relationship with the audit function for them to be fairly familiar with the work of external auditors. This category comprised auditors, auditees (officers of public companies and internal auditors), audit beneficiaries

from the financial community (stockbrokers, financial analysts, institutional investors and corporate division bankers) and auditing academics.

2. **General public groups**. Groups in this category were considered to be more remote from the audit function and, therefore, likely to be less knowledgeable about the work of external auditors. They included the general public group selected from the electoral rolls, lawyers, bank branch managers and financial journalists.

As a consequence of the perceived distinction between these categories of role senders, two versions of the mail survey questionnaire were developed – one for each of the above categories. The format of the two versions was identical, but they differed in the detail of the questions asked.[17] A copy of each version of the questionnaire is provided in Appendix I.

The questionnaire had three parts, namely:

Part 1: Personal details

Part 2: The duties of auditors

Part 3: The standing and function of auditors in New Zealand.

Part 1: Personal details

Part 1 of the questionnaire sought to obtain information about factors which might be expected to have a significant impact on survey subjects' responses. Respondents were asked to indicate the interest (role sender) groups to which they currently belonged, or to which they had belonged in the past five years, their age category, their interest in financial statements and their interest in the auditor's report. The general public groups were also asked to signify their awareness of auditing. Those who indicated they had no knowledge of the work of auditors were asked to return their questionnaire with Part 1 completed. All other respondents were asked also to complete Parts 2 and 3.

Part 2: The duties of auditors

Part 2 of the questionnaire was designed to facilitate establishing the structure, composition and extent of the audit expectation-performance gap, and to support Part 3 in determining auditors' role in society. Specifically, Part 2 sought to ascertain respondents' opinions regarding:

(i) auditors' existing duties;

(ii) the standard of performance of auditors' existing duties;

(iii) the duties auditors should perform.

To accomplish this, a list of duties, suggested to be those of auditors, was provided, together with three sets of response options:

(i) In Section 1a respondents were asked to indicate whether they considered each duty listed is, or is not, an existing duty of auditors, or whether they were not sure. This section was designed to ascertain the level of knowledge (or more specifically, lack of knowledge) of auditors' role sender groups with respect to auditors' existing duties. This is significant for the audit expectation-performance gap as lack of knowledge about the audit function is perceived to be a major cause of the reasonableness gap.

(ii) In Section 1b respondents were requested to indicate their assessment of auditors' performance of their existing duties. A three-point scale, labelled 'poorly', 'adequately' and 'well' was provided, together with the option 'unable to judge'. This section was designed to obtain a measure of perceived sub-standard performance by auditors.

(iii) In Section 2 respondents were asked to indicate whether they considered the duty listed should, or should not be, a duty of auditors, or whether they were not sure. It was believed that identifying the duties which respondents considered auditors should/should not perform would:

(a) help to establish the social position which auditors' role senders signify for auditors;

(b) provide a basis for identifying any discrepancy between society's expectations of auditors and auditors' duties as currently defined. Once identified, the duties expected, but not currently required, of auditors could be assessed to determine whether they are duties which may reasonably be expected of auditors (thus indicating the existence of the deficient standards gap), or whether society's expectations go beyond what is reasonable to expect of auditors (signalling the reasonableness gap).

As shown in Figure 15, the suggested duties of auditors listed in Part 2 of the questionnaire primarily relate to the five issues identified from professional auditing literature as exemplifying the audit expectation-performance gap (discussed in Chapter 2), namely:

- auditors as guarantors of the accuracy of a company's financial statements and/or its solvency;
- auditors giving early warning of company failure;
- auditors detecting fraud and reporting fraud to shareholders;
- auditors discovering and disclosing illegal acts;
- auditors reporting to regulatory authorities.

Figure 15 also shows that other duties listed in Part 2 of the questionnaire do not relate to the audit expectation-performance gap issues. Rather, they reflect calls for auditors to extend the range of their duties (see, for example, section 5.2.2). Figure 15 further demonstrates that most of the suggested duties also relate to the postulated social position of auditors as instruments of social control within the corporate accountability process. Ascertaining role senders' opinions regarding these duties helps to test the validity of the theory of the role of external auditors in society as proposed in this thesis. However, Part 3 of the questionnaire was designed specifically to test the theory.

Figure 15: Relationship between the suggested duties of auditors listed in the questionnaire and the audit expectation-performance gap issues and postulated social position of auditors

		Audit Expectation-Performance Gap Issues											*Social Position of External Auditors*		
		Guarantor of							Reporting to regulatory authorities					Instruments of social control in accountability process	
Duty no.	*Suggested Duties of Auditors*[1]	Accuracy of financial statements	Solvency of company	Warning of company failure	Detecting fraud	Disclosing fraud in audit reports	Detecting illegal acts	Disclosing illegal acts in audit reports	Fraud	Other illegal acts	Insolvency	Other duties called for but not currently performed	Members of a recognised profession	Monitoring accountability reports	Society's corporate watchdogs
2.1	Prepare auditee co's financial statements	X													
2.2	Guarantee financial statements are accurate	X												X	
2.3	State whether financial statements fairly reflect co's affairs	X												X	
2.4	Guarantee auditee co. is solvent		X												X
2.5a	Report to a regulatory authority doubts about co's continued existence										X				X
2.5b	Express doubts in audit report about co's continued existence			X										X	
2.6	Ensure compliance with cos' legislation														X
2.7	Report breaches of tax laws to IRD									X					X
2.8a	Detect theft of corporate assets by non-managerial employees				X										X
2.8b	Detect theft of corporate assets by co. directors/senior management				X										X
2.9	Detect deliberate distortion of financial information	X			X									X	
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees								X						X
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/ senior management								X						X
2.10c	Report to a regulatory authority deliberate distortion of financial information								X						X
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees					X									X
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management					X									X
2.11c	Disclose in audit report deliberate distortion of financial information					X								X	
2.12	Report to a regulatory authority suspicions of fraud								X						X
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts						X							X	
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts						X								X
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts							X						X	
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts							X							X
2.15	Report to a regulatory authority illegal acts uncovered in co.									X					X
2.16	Examine & report on fairness of non-financial information											X		X	
2.17	Examine & report on co's internal controls	X										X			X
2.18	Examine & report on efficiecy & effectiveness of co's management											X			X
2.19	Audit published half-yearly co. reports	X										X		X	
2.20	Examine & report on fairness of financial forecasts	X										X		X	
2.21	Consider & report on co's impact on its local community											X			X
2.22	Verify every transaction of auditee co.	X												X	

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

To conclude Part 2, respondents were asked to add any further comments they considered relevant to:

- the present duties of auditors and how they are performed;
- the duties which respondents think auditors should, but do not currently, perform.

Part 3: The standing and function of auditors in New Zealand

This part of the questionnaire was designed to test the validity of the proposition that the role of external auditors in society derives from two social positions, namely:

- that of a member of a recognised profession;
- that of an instrument of social control within the accountability process required of economic organisations.

A series of propositions relating to the professional standing and specialist function of auditors in society was provided, and respondents were asked to indicate whether they agreed or disagreed with, or were uncertain about, each of the statements.

It was thought that the responses of some survey participants might be affected by their knowledge of the auditing provisions of the Companies Act 1955 and, further, that the impact of this knowledge was likely to vary between role sender groups. In an attempt to eliminate this factor from the analysis and to permit attention to focus on role senders' expectations of auditors, unconstrained by current legal provisions, it was decided to seek respondents' opinions on two bases, namely:

(i) the standing and function of external auditors in society in present circumstances;

(ii) the standing and function in society which is appropriate for external auditors (that is, the standing and function in society which auditors should have).

The relationship between the propositions presented in Part 3 of the questionnaire and the postulated social position of auditors, both as members of a recognised profession and as instruments of social control within the corporate accountability process, is shown in Figure 16.

Part 3 of the questionnaire concluded with three open-ended questions. The first two related to the setting of audit fees (financial community version of the questionnaire only) and responsibility for appointing auditors. The third invited respondents to add any further comments they considered relevant to the professional standing of auditors or their function in society.

6.4 PILOT STUDY

Once designed, the questionnaire was tested by means of a pilot study. As shown in Figure 17, the sample for the pilot study comprised two representatives from each role sender group it was planned to include in the mail survey, other than the general public. As knowledge of auditing was expected to vary widely among the general public, it was thought appropriate to include eight members of this group in the pilot study, representing, as far as possible, the anticipated range of awareness of auditing. In order to ensure that a representative range of opinions was captured by the pilot study, participants were drawn from different locations (within the southern part of the North Island of New Zealand) and from firms differing in size and type.

The twenty-eight people selected for the pilot study were contacted by telephone or spoken to directly, and the research project was explained to them. An interview was also arranged. In order to replicate the mail survey as closely as possible, a questionnaire was sent to each pilot study participant a few days prior to the arranged interview. The follow-up interviews lasted, on average, 60 to 90 minutes. Together they provided useful suggestions as to ways in which the questionnaire could be improved and

Figure 16: Relationship between the propositions presented in the questionnaire and the postulated social position of auditors

Prop. no.	Proposition[1]	*Social Position of External Auditors* — Members of a Recognised Profession: Competent in a Specialised Service	Independence	Controlling Professional Body	Instruments of Social Control in Corporate Accountability Process*: Monitoring Accountability Reports	Society's Corporate Watchdogs
3.1	An unqualified audit reports gives confidence that financial statements are reliable	X			X	
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	X			X	
3.3	A qualified audit report indicates that financial statements are not reliable	X			X	
3.4	Auditors act for:					
	- co's shareholders					
	- co's stakeholders					X
	- society as a whole					
3.5	Auditors are not unduly influenced by co. directors/management		X			
3.6a	Auditors give assistance to co. managements on accounting matters		X			
3.6b	Auditors give assistance to co. managers on non-accounting matters		X			
3.7	Auditors may be directors of auditee cos.		X			
3.8	Auditors may invest in auditee cos.		X			
3.9	Confidence exists in work of auditors because they belong to NZSA			X		
3.10	NZSA adequately disciplines members for sub-standard audits			X		
3.11	The NZSA's disciplinary body includes laypersons					X
3.12	Auditing involves little judgement	X				
3.13	Periodic peer review ensures high quality audits			X		
3.14	Auditors must report reasons for resignation or removal to Registrar of Companies		X			X
3.15	Financial statements with qualified audit reports may not be filed		X			
3.16	Auditors are appointed by co. shareholders		X			X
3.17	Auditors negotiate fees with co. directors/management		X			X

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.

* Most of the suggested duties of auditors in Part 2 of the questionnaire are related to the auditors' function as instruments of social control (see Figure 15).

Figure 17: Membership of the pilot study

Role Sender Group	*No. of Representatives*	*Workplace of Pilot Study Member*
Auditors		
Audit Partners	2	• 4 'Big 7' audit firms* in Wellington (3) and Palmerston North(1)
Non-partner Audit Staff	2	
Auditees		
Company Chief Executive Officers	2	• Large national manufacturing company – Palmerston North • Local retailing company – Waikanae
Company Chief Accountants	2	• National service industry company – Lower Hutt • Regional retailing company – Wellington
Company Non-Executive Directors	2	• International manufacturing company – Wellington • National (specialised) manufacturing company – Wellington
Audit beneficiaries		
(a) Financial Community Members of the New Zealand Stock Exchange	2	• Large national stockbroking firm – Wellington • Small regional stockbroking firm – Palmerston North
Financial Analysts	2	• International Investment Company – Wellington • National stockbroking firm – Wellington
Institutional Investors	2	• 2 different international investing companies – Wellington
Bank Managers	2	• Branch bank managers of two of the major trading banks – Wellington and Paraparaumu
Auditing Academics	2	• Massey University
(b) The General Public Members of the General Public	8	• Retired company manager – Waikanae • Retired school teacher – Waikanae • Pharmacist – Waikanae • Personnel Officer – Palmerston North • Gardener – Waikanae • Retired Purchasing Officer – Lower Hutt • Housewife – Wainuiomata • Administration Officer – Lower Hutt

* In October 1988 only 7 of the 'Big 8' international audit firms were represented in New Zealand.

they helped to identify additional role sender groups to be embraced by the survey. Additionally, they provided valuable insights into the breadth and depth of differences of opinion about the duties, professional standing and specialist function of external auditors in society. The information derived from the pilot study was supplemented by comments received from colleagues in the Accountancy Department of Massey University who reviewed the questionnaire.

As a result of suggestions received during the pilot study, and from colleagues and other interested parties, changes were made to both the role sender groups to be surveyed and to the questionnaire.

Changes to role sender groups

During the interviews with the bank managers, it became evident that branch managers have little (if any) contact with audited financial statements and that they have very limited knowledge of auditing. It transpired that each of the major trading banks maintains a corporate/commercial division, staffed by personnel of managerial status. These personnel have responsibility for granting corporate/commercial loans and they consult audited financial statements during the normal course of their work. It was therefore decided to include corporate division bankers as a subgroup of financial community audit beneficiaries for the survey, and to recognise branch bank managers as a subgroup of general public audit beneficiaries.

Through discussions with pilot study participants, colleagues, members of the legal profession and some financial journalists, it was recognised that lawyers and financial journalists are also among auditors' role senders. New Zealand law requires lawyers to have their trust accounts audited, and financial journalists comment on audited financial statements and auditors' performance. Indeed, as companies have collapsed in the wake of the October 1987 Stockmarket Crash and the activities of delinquent company officials have come to light, some financial journalists have asked searching questions about, and been very scathing in their criticism of, external auditors. As a result of discussions with both lawyers and financial journalists, it was concluded that, although both groups are role senders of auditors, they have a more remote and indirect relationship with external auditors than do auditees and financial community audit beneficiaries such as stockbrokers and financial analysts. Further, enquiries revealed that, in general, neither lawyers nor financial journalists have a sufficiently detailed knowledge of auditing to complete the financial community version of the questionnaire. It was therefore decided to include both groups in the survey as subgroups of general public audit beneficiaries.

During the interviews with representatives of the auditee groups (company managers, directors and accountants) and from comments received from members of the Institute of Internal Auditors, it became evident that internal auditors are also significant role senders of external auditors. Because of their importance in auditee companies it was decided to recognise internal auditors, for the purposes of the survey, as a subgroup of auditees.

Changes to the questionnaire

Resulting from the pilot study, some essentially minor changes were made to both versions of the questionnaire. In Part 1, the additional role sender groups which had been recognised (noted above) were included in the list of interest groups to which survey members could indicate they belonged. Also, to eliminate confusion which became apparent during the pilot study, the designation of the interest group 'institutional investor' was changed to 'investor on behalf of an institution'. Additionally, an 'escape clause' was inserted into the general public version of the questionnaire. During the interviews with representatives of the general public it became evident that some of them had no knowledge of auditing and that, despite their willingness to do so, they were unable to complete Parts 2 and 3 of the questionnaire. It was therefore thought desirable to provide a clause which enabled respondents from the general public groups, who had no knowledge of the audit function, to complete only Part 1 of the questionnaire.

The pilot study also revealed that although some participants had some idea of the work of auditors, they did not consider that they were in a position to judge how well auditors perform their duties. In the absence of an appropriate response option in Part 2, Section 1b, of the questionnaire, they either selected the 'adequately' option, or left the section unanswered. It was considered that either of these actions by respondents would bias the survey results. To overcome the difficulty, 'unable to judge' was inserted as an additional response option.

Other amendments, resulting from suggestions and comments received during the pilot study, involved clarifying the instructions for completing both Parts 2 and 3 of the questionnaire and eliminating ambiguities in the wording of some of the suggested duties listed in Part 2 and the propositions relating to the standing and function of auditors presented in Part 3.

6.5 DESPATCH, FOLLOW-UP AND RETURN OF QUESTIONNAIRES

On 3 February 1989 a total of 1698 questionnaires was mailed. As shown in Figure 18, this comprised 951 copies of the financial community version and 747 copies of the general public version. Each questionnaire was accompanied by a covering letter written specifically for the role sender group to which the relevant survey member belonged. Each letter explained the purpose of the research, how members of the group had been selected, and the importance of recipients completing and returning the questionnaire. In order to prevent time and cost being expended in following-up survey members who had

Figure 18: Groups included in the mail survey and their response rates

Role Sender Group	No. in initial survey	Replacements: From RTS1	Replacements: From blank returns	Total no. surveyed	Analysis of Responses: No response	Analysis of Responses: Returned blank forms	Analysis of Responses: Usable responses	Analysis of Responses: % usable responses
Financial Community Questionnaire								
Auditors								
Audit Partners	100	1	1	101	8	2	91	90
Non-partner Audit Staff	100	1	1	101	8	1	92	91
Auditees								
Chief Executive Officers2	100	10	3	103	37	6	60	58
Non-executive Directors2	100	12	4	104	23	5	76	73
Chief Accountants2	100	7	5	105	33	7	65	62
Internal Auditors	100	9	4	104	10	5	89	86
Audit beneficiaries - financial community								
Financial Analysts	100	8	-	100	26	4	70	70
Stockbrokers3	100	6	2	102	35	4	63	61
Institutional Investors	27	-	-	27	4	2	21	78
Corporate Division Bankers	100	3	-	100	16	2	82	82
Bankers' Association Members	11	-	-	11	-	2	9	82
Auditing Academics	13	-	-	13	1	-	12	92
No.	951	57	20	971	201	40	730	75
%				100	21	4	75	
General Public Questionnaire								
Audit beneficiaries - general public								
General Public	500	36	-	500	138	103	259	52
Lawyers	100	7	-	100	29	1	70	70
Branch Bank Managers	100	1	9	109	15	9	85	78
Financial Journalists	47	-	-	47	7	-	40	85
No.	747	44	9	756	189	113	454	60
%				100	25	15	60	
Combined totals of both groups No.	1698	101	29	1727	390	153	1184	69
%				100	22	9	69	

RTS1 Return to sender. This includes all questionnaires which were returned without reaching the addressee, whatever the reason therefore.

2 These groups comprise officers of public companies only.

3 This group comprises members of the New Zealand Stock Exchange.

no intention of responding, the letter also requested recipients who, for some reason, were unable to complete the questionnaire, to return it unanswered. Survey members were asked to return their completed questionnaire by 24 February 1989.

The first follow-up of non-respondents, and replacement of originally selected survey members, took place during the first week of March 1989. At this time 828 reminder letters were despatched, together with a duplicate copy of the relevant version of the questionnaire and original letter of explanation (414 were sent to members of financial community groups and 414 to general public representatives). Additionally, 86 questionnaires and letters of explanation were sent to 'survey group replacements', that is, people selected (on the same basis as the original sample of the relevant role sender group) to replace survey members who were unable to complete their questionnaires. Fifty-seven people (43 from the financial community and 14 from general public groups) were selected to replace survey members who, for a variety of reasons, did not receive their questionnaires. Some could not be traced (their envelopes were returned marked 'address unknown' or 'return to sender'), others were incapacitated in some way, others were deceased. A further 29 'replacements' (20 from financial community groups and 9 branch bank managers) were selected to replace survey members who had returned blank questionnaire forms. This was to ensure that as many responses as possible (within the time and cost constraints of a single researcher) were obtained to represent the opinions of the relevant role sender groups.

The first reminder and replacement-group letters requested recipients to return their completed questionnaires by 23 March 1989. On 31 March 1989, 569 reminder letters (and further duplicate copies of the questionnaire and original letters of explanation) were despatched as a second follow-up of non-respondents (first follow-up for the replacement group); 320 of these went to members of the financial community and 249 to members of the general public groups. Additionally, 44 questionnaires (and letters of explanation) were sent to a further group selected to replace members of relevant role sender groups whose questionnaires had been returned marked 'address unknown' (14 of these were from financial community groups and 30 from the general public).

On 18 April 1989, 43 reminder letters were sent as a final follow-up to members of the survey replacement groups who had not returned their questionnaires. (29 of these were members of the financial community and 14 were from the general public groups). These people were asked to return their completed questionnaires by 1 May 1989. The cut-off date for receiving completed questionnaires was 5 May 1989.

6.6 RESPONSE RATES

The response rates of the various role sender groups are set out in Figure 18. From this it can be seen that of the 1727 people surveyed (1698 in the initial group plus 29 who replaced members who returned blank forms), 1184 (69%) usable responses were received. The 971 members from the financial community returned 730 usable responses, providing an overall response rate of 75%. The rates for all of the role sender groups in this category were high, ranging from 92% for auditing academics to 58% for company executives. On average, the auditor groups recorded a response rate of 91%, auditee groups 70%, and financial community audit beneficiaries 72%.

The 756 members of the general public groups who were included in the survey returned 454 usable responses, an average response rate of 60%. However, the identified groups of lawyers, branch bank managers and financial journalists, all achieved rates of 70% or above, which broadly matched the response rates of the financial community groups. The only rate of return of usable responses which was significantly lower, was that of the 500 members of the general public selected from the electoral rolls. Nevertheless, the 52% response rate of this group is regarded as relatively high for a mail survey on a specialist topic of little direct relevance to many of the participants. Indeed, the rate of return of usable responses from all of the role sender groups was high and it is thought that this reflects the following factors:

1. The higher than normal interest in, and awareness of, the audit function by the community at large as a result of the October 1987 Stockmarket Crash and the subsequent spate of company failures.
2. The provision of an escape clause in the general public version of the questionnaire; 75 of the 259 respondents (29%) from the general public who returned usable responses made use of this facility.
3. The procedures adopted for following up non-respondents.
4. The personalised explanatory letters sent to each survey member.

Figure 18 shows that the proportion of survey members from the financial community and general public groups who did not respond to the questionnaire was fairly similar (21% and 25%, respectively). However, there was a noticeable difference in the respective proportions of respondents returning blank forms. While only 40 of the 971 financial community members returned blank forms (4%), 113 of the 756 members of the general public groups (15%) did so. This difference is understandable given that the general public role sender groups are more remote from and have a less direct relationship with external auditors than those from the financial community groups.

6.7 PREPARATION OF SURVEY DATA FOR ANALYSIS

6.7.1 Confirmation of role sender groups

As explained in section 6.3.2, survey participants were selected on the basis of identified role sender groups. However, it was foreseen that in some cases, especially where samples were selected from relevant association membership lists, respondents may have retired or changed their occupation since the lists were compiled and, as a result, may have left the role sender group in question. To overcome this eventuality, respondents were asked to indicate the interest group(s) to which they currently belonged and those to which they had belonged during the previous 5 years. If respondents indicated that they did not currently belong to one of the role sender groups recognised for the survey, it was intended to identify their appropriate group on the basis of their former membership.

Analysis of the survey responses showed that, in the event, all respondents belonged to at least one of the recognised role sender groups. It also revealed that, in some cases, respondents were not those who had been selected as survey participants and that they did not belong to the same role sender groups as the survey members whose questionnaires they had completed. This was evident, for example, in the case of company Chief Executive Officers, a number of whom passed their questionnaires to their company accountants to complete. In other cases, respondents indicated that they belonged to role sender groups different from those they were selected to represent. For example, some survey members selected as internal auditors indicated that they were currently company accountants or financial analysts. Additionally, a significant number of respondents, other than the selected sample of Chief Executive Officers, signified that they were 'top level' company managers and/or executive directors. As a result, it was decided to broaden the Chief Executive Officer role sender group to a more general 'company executives' group. Examination of the survey responses further revealed that a significant number of respondents belonged to more than one role sender group. The extent of the overlap of role sender group membership (across the groups which completed the same version of the questionnaire [financial community or general public]) is shown in Figure 19. This shows, for example, that 9 members of the auditor group were also members of the auditee group and a further 7 were financial community audit beneficiaries.

Figure 19: Overlap of role sender group membership

19a. Overlap of the major financial community role sender groups

	Total no. in group	Auditors	Auditees	Fin Com*
Auditors	196	-	9	7
Auditees	342	9	-	35
Fin Com*	243	7	35	-

* Financial community audit beneficiaries

19b. Overlap of auditee role sender groups

	Total no. in group	Company Executives	Company Accountants	Non-Executive Directors	Internal Auditors
Company Executives	125	-	0	27	4
Company Accountants	99	0	-	6	0
Non-Executive Directors	82	27	6	-	1
Internal Auditors	73	4	0	1	-

19c. Overlap of financial community audit beneficiaries groups

	Total no. in group	Financial Analysts	Stockbrokers	Institutional Investors	Corporate Division Bankers	Auditing Academics
Financial Analysts	68	-	22	16	16	0
Stockbrokers	83	22	-	7	0	0
Institutional Investors	35	16	7	-	3	0
Corporate Division Bankers	100	16	0	3	-	0
Auditing Academics	16	0	0	0	0	-

19d. Overlap of general public audit beneficiaries groups

	Total no. in group	Branch Bank Managers	Lawyers	Financial Journalists	General Public Group
Branch Bank Managers	86	-	0	0	-
Lawyers	72	0	-	2	-
Financial Journalists	41	0	2	-	-
General Public Group	259	-	-	-	-

The purpose of the survey was to ascertain the expectations of auditors' role senders with respect to the duties, professional standing and specialist function of auditors in society (see section 6.2). As the 'representative' expectations of any one role sender group incorporates the expectations of all members of the group, it was considered that, in general, all survey members belonging to a particular role sender group should be recognised as members of that group and that their responses should be analysed accordingly. This applied whether or not they were selected to represent the role sender group in question and irrespective of membership of any other role sender group. However, there were three minor exceptions to this general rule, as outlined below:

1. All survey participants are clearly members of the general public. However, in order to obtain a measure of the expectations of the general public per se, it was considered necessary to recognise the 259 respondents representing the 500 members of the general public selected from the electoral rolls, as a distinct group. Within the group there were, in fact, 2 auditors, 30 members of the auditee group and 4 financial community audit beneficiaries. There was also one branch bank manager, one lawyer and one financial journalist.
2. A small number of survey participants were found to belong to role sender groups which had completed different versions of the questionnaire. Because the financial community version was more detailed than the general public version it was thought inappropriate to recognise within any one role sender group, members who had not completed the relevant version of the questionnaire. The set of responses to each version of the questionnaire was treated, for purposes of analysis, as discrete, and membership of role sender groups which had completed the alternative version was ignored.
3. Company chief accountants have a very direct relationship with their company's external auditors. In general, the relationship between the auditors and the Chief Executive Officer and other (non-accountant) company executives is less direct. Therefore, while recognising that chief accountants are generally also company executives, for purposes of the survey it was considered desirable to

recognise company accountants as a group distinct from other company executives. Therefore, for analysis purposes, company accountants were excluded from the company executives group.

It should be noted that the information relating to the return of questionnaires presented in Figure 18 is based on membership of role sender groups as initially selected. No adjustment has been made for changes in role sender groups which came to light when the survey responses were analysed.

6.7.2 Codes assigned to response options

For coding purposes, the numbers +1, -1 and 0, respectively, were assigned to the 'Yes', 'No', and 'Not Sure' response options provided in Part 2 of the questionnaire, and to the 'Agree', 'Disagree' and 'Uncertain' response options provided in Part 3. As a result of using this coding system, when alternative responses were offset against each other to find the average or representative opinion of a particular role sender group, an average 'Yes' or 'Agree' position generated a positive value and an average 'No' or 'Disagree' view produced a negative value. It was considered that identification of the mean of responses by sign as well as by size would enhance the description and comparison of the role sender groups' expectations. The absolute value of the mean of responses from a role sender group indicated how widely the 'representative' opinion was shared by members of the group.

With respect to the standard of performance of auditors' duties addressed by Part 2, section 1b, of the questionnaire, the numbers 1, 2, 3 and 0 were used to code 'Poorly', 'Adequately', 'Well', and 'Unable to Judge' responses respectively. Although no numerical significance attached to these digits, it was considered that this coding system would facilitate descriptive and comparative analysis of role sender group opinions. In particular, by assigning a zero value to the 'Unable to Judge' option, the representative opinion of a role sender group was determined on the basis of responses from survey participants who indicated that they *were* able to judge auditors' performance.

6.8 STATISTICAL TESTING OF SURVEY DATA

6.8.1 Overview of tests performed

In order to establish whether generalised conclusions could be drawn from the survey data, the results were tested for statistical significance. While recognising that parametric tests are generally more powerful than their non-parametric counterparts, no justifiable assumptions could be made about the distribution of the populations represented by the survey results. Therefore, it was concluded that non-parametric tests should be used. In consultation with experts from the Statistics Department of Massey University, it was decided that four statistical tests were appropriate, namely, the Kruskal-Wallis, Mann-Whitney, Wilcoxon signed-ranks and Chi-square tests. These were conducted using the statistics facility of SPSS/PC+. The application of each of these tests to the survey data is explained below.

6.8.2 Kruskal-Wallis test

The Kruskal-Wallis test[18] was used to establish the validity of regarding the role sender groups recognised for the mail survey as distinct groups. More specifically, the test was applied to determine whether the samples of responses representing the opinions of auditors' major role sender groups (auditors, auditees, financial community and general public audit beneficiaries) were drawn from populations with different distributions. It was similarly applied to verify that a valid distinction could be drawn between the sets of responses from the subgroups constituting the major role sender groups.

Based on the results of the test, and application of a 0.05 significance level, the following conclusions were reached:

1. The responses of auditors' four major role sender groups could be recognised as distinct populations. As may be seen from Appendices 2a and 2b, application of the Kruskal-Wallis test to the role sender groups' responses to each of the duties and propositions presented in the questionnaire produced few instances where no statistically significant difference was evident between the groups' responses. This was the case when the test was applied to the responses from auditors' four major role sender groups and when it was applied to the responses from the three major financial community groups (auditors, auditees and financial community audit beneficiaries).
2. Three separate subgroups could be distinguished within the auditee role sender group, namely, a combined group of company executives and non-execufive directors, company accountants, and internal auditors. The results of the Kruskal-Wallis test indicated that responses from company executives and non-executive directors did not differ significantly (see Appendix 2c) and that no valid distinction could be drawn between the opinions of these two role sender groups. However, the test also indicated that company accountants, internal auditors, and the combined company executives/non-executive directors group could be justifiably recognised as three separate role sender subgroups.
3. Three distinct subgroups of financial community audit beneficiaries could be identified, namely corporate division bankers, auditing academics, and a combined group of financial analysts, stockbrokers and institutional investors. In this case, the results of the Kruskal-Wallis test were not as conclusive in providing a basis for combining the financial analysts, stockbrokers, and institutional investors into a single group as they were for the company executives and non-executive directors. Nevertheless, as Appendix 2d shows, there were few instances when the responses of survey members representing the three role sender subgroups were significantly different, and it was considered that these were

sufficiently small in number to justify recognising a single combined group. Application of the Kruskal-Wallis test to the responses from this combined group, corporate bankers, and auditing academics indicated that a valid distinction could be drawn between the opinions of these three role sender subgroups.

4. The four subgroups of general public audit beneficiaries, namely, branch bank managers, lawyers, financial journalists, and the group selected from the electoral rolls, constituted separate role sender subgroups. While acknowledging that in a number of instances the Kruskal-Wallis test indicated that responses from the four groups could not be differentiated on grounds of statistical significance (see Appendix 2e), it was concluded that the number of cases in which the opinions of the different groups was shown to be significantly different was too high to justify recognising the four subgroups (or combinations thereof) as a single role sender group.

6.8.3 Mann-Whitney test

The Mann-Whitney test[19] was used to determine whether apparent differences of opinion between and within auditors' major role sender groups, regarding the duties and propositions presented in the questionnaire, were statistically significant (that is, whether differences evident in the samples of responses obtained by the survey were likely to represent differences of opinion in the populations from which the samples were drawn).

A significance level of 0.05 was adopted. If the two-tailed probability associated with the Mann-Whitney statistic was less than 0.05, it was concluded that differences of opinion in the samples of responses from the role sender groups in question probably represented differences of opinion in the underlying populations. If the two-tailed probability was 0.05 or greater it was concluded that differences evident in the samples of responses could not be validly regarded as reflecting differences of opinion in the related populations.

The results of the Mann-Whitney test are used to support the detailed descriptive and comparative analysis of the survey findings presented in Chapters 7 and 8. The results of the test are presented in Appendices 3 to 6, together with other descriptive and statistical information relating to the opinions of auditors' role sender groups with respect to the issues addressed by the different parts of the questionnaire.

6.8.4 Wilcoxon signed-ranks test

The Wilcoxon signed-ranks test[20] was used to ascertain whether generalised conclusions could be drawn from the samples of responses obtained by the survey about the opinions of the relevant role sender groups with respect to auditors' duties, their professional standing and specialist function in society.

The test was applied to the responses from each role sender group and subgroup, to each duty and proposition presented in the questionnaire. The Wilcoxon signed-ranks statistic indicated whether sufficient direction (positive or negative) was evident in the samples of responses to justify drawing conclusions about the opinions of the relevant role sender group, with respect to each duty and proposition. A significance level of 0.05 was adopted. If the two-tailed probability associated with the calculated statistic was less than 0.05, it was concluded that the opinion reflected in the sample of the role sender group responses probably also reflected the opinion of the underlying population. If the two-tailed probability was 0.05 or greater, it was concluded that no valid generalised conclusion could be drawn about the opinion of the relevant role sender group regarding the duty or proposition in question.

The results of the Wilcoxon signed-ranks test are used to support the descriptive analysis of the survey findings presented in Chapters 7 and 8. Summary results of the test, as applied to role sender group responses to relevant parts of the questionnaire, are presented in Appendices 3, 5 and 6.

6.8.5 Chi-square test

The chi-square test of independence[21] was used to determine whether apparent differences of opinion evident in the samples of role sender group responses relating to the standard of performance of auditors' duties, and the duties which auditors should perform, were statistically significant.

In applying the chi-square test to responses relating to the standard of performance of auditors' duties, the focus of attention was the proportion of the role sender groups who signified that auditors perform their duties poorly. To accommodate this, responses to Part 2, section 1b of the questionnaire were classified on the basis of whether they indicated that auditors perform their duties 'poorly' or 'not poorly'. For each duty, the responses from two role sender groups constituted a 2 x 2 table. The chi-square test was applied to the table to determine whether any difference in the proportion of the respective groups who signified that auditors perform the duty in question poorly was statistically significant.

Similarly, in applying the chi-square test to role sender group responses relating to duties which auditors should perform, the focus of attention was the proportion of each group who signified that a particular duty should be performed by auditors. Responses to Part 2, section 2 of the questionnaire were classified on the basis of whether they affirmed or did not affirm that a particular duty should be performed by auditors. The responses from two role sender groups, with respect to each duty listed in the questionnaire, constituted a 2 x 2 table. The chi-square test was applied to the table to determine whether any difference in the proportion of the respective groups who signified that auditors should perform the duty in question was statistically significant.

The chi-square test was used to establish the significance or otherwise of apparent differences of opinion between and within auditors' major role sender groups, about the standard of performance of auditors' duties, and the duties which auditors should perform. A significance level of 0.05 was adopted. If the significance of a calculated chi-square statistic was less than 0.05, it was concluded that differences evident in the samples of responses from the two role sender groups in question reflected differences of opinion in the underlying populations. If the significance of the calculated chi-square statistic was 0.05 or greater, it was accepted that no valid conclusion could be drawn about differences of opinion in the related populations.

The results of the chi-square test support the detailed descriptive and comparative analysis of the survey findings relating to the performance of auditors' duties, and the duties which auditors should perform, presented in Chapter 7 (sections 7.3 and 7.4). The results are presented in tabular form in Appendices 4 and 5 respectively.

6.9 SUMMARY

In this chapter, the objectives and methodology of the empirical research conducted to test normative propositions relating to the audit expectation-performance gap and the role of external auditors in society (developed in Chapters 2 to 5), have been outlined. It has been noted that a mail survey was employed to ascertain the opinions of auditors' role senders about auditors' duties, and their professional standing and specialist function in society. The methods used for identifying auditors' role sender groups and for selecting samples to include in the mail survey have been discussed. Details have also been given about the questionnaire design, the pilot study conducted to test the questionnaire, the despatch of the questionnaires and the follow-up of non-respondents. Further, an overview of the response rates of the various role sender groups has been provided. Additionally, the steps taken to prepare the survey data for analysis, and the statistical tests performed to ascertain whether generalised conclusions could be drawn from the research findings, have been explained.

In the next two chapters, a detailed analysis of the role sender group responses is provided, and the survey findings are related to the postulated structure of the audit expectation-performance gap and social position of external auditors in society.

CHAPTER 7: ANALYSIS OF EMPIRICAL RESEARCH RESULTS PART I: THE DUTIES OF AUDITORS

7.1 INTRODUCTION

This is the first of two chapters in which the survey results are described and analysed. In these chapters, the expectations of auditors' role senders regarding auditors' duties and social position are established, and differences in expectations between and within auditors' major role sender groups are identified. The survey findings are also examined in the context of the normative propositions developed in Chapters 2 to 5 relating to the audit expectation-performance gap and auditors' role in society.

In this chapter, attention is focused on the opinions of auditors' role sender groups regarding auditors' existing duties, the standard of performance of these duties, and the duties which auditors should perform. These issues coincide with objectives 1 to 3 of the empirical research which are set out in Chapter 6 (section 6.2). In Chapter 8, the expectations of auditors' role senders with respect to auditors' professional standing and specialist function in society are analysed, and the duties which may reasonably be expected of auditors are determined. These issues coincide with objectives 4 and 5 of the empirical research (see section 6.2).

The opinions of auditors' role senders with respect to auditors' duties are described and evaluated on the basis of:

(i) the survey group as a whole; and

(ii) differences which are evident between and within auditors' major role sender groups (auditors, auditees, financial community and general public audit beneficiaries).

For each of the issues addressed in this chapter (auditors' existing duties, the standard of performance of these duties, and the duties which auditors should perform), details of the survey findings, and the results of relevant tests performed to verify the statistical significance of the data, are presented in Appendices 3 to 5. To facilitate description and analysis of the survey results, relevant data are extracted from the Appendices and reproduced in the text.

7.2 EXISTING DUTIES OF AUDITORS

7.2.1 Methodology of Analysis

In this section the duties which auditors' role senders consider to be (and not to be) existing duties of auditors are established, and differences of opinion between and within the major role sender groups are identified. This is accomplished by analysing responses to Part 2, section 1a, of the questionnaire. The duties which auditors' role sender groups consider to be existing duties of auditors are also compared with auditors' duties as defined by the law and professional promulgations; discrepancies indicate lack of knowledge about auditors' duties by their role senders. Such lack of knowledge has significance for the audit expectation-performance gap as it is perceived to be the major cause of the 'reasonableness' component of the gap.

The duties which auditors' role sender groups consider to be (and not to be) existing duties of auditors are identified on the basis of the average or representative opinion of each group. This is indicated by the mean (expressed as a percentage) of the 'Yes', 'No' and 'Not sure' responses from the group in question, to each of the suggested duties listed in the questionnaire. A positive mean indicates that the group considers that the particular duty is an existing duty of auditors; a negative mean signifies that the group considers that it is not such a duty. The absolute value of the mean indicates how widely the opinion is shared amongst members of the group.

In order to verify that generalised conclusions can be drawn from the samples of responses obtained by the survey, the Wilcoxon signed-ranks test has been applied to the role sender group responses. Similarly, the Mann-Whitney test has been used to establish whether differences of opinion evident in the samples of responses from the role sender groups are statistically significant.

In Appendices 3a to 3g, details of the survey findings with respect to auditors' existing duties, and the results of statistical tests performed on the data, are presented in tabular form. Appendices 3a to 3c provide the following information:

- 3a: the means of responses from the survey group as a whole, and from the four major role sender groups (auditors, auditees, financial community and general public audit beneficiaries), to Part 2, section 1a, of the questionnaire;
- 3b: the results of the Wilcoxon signed-ranks test, applied to the responses from each of the above groups;
- 3c: the results of the Mann-Whitney test showing the significance of differences of opinion reflected in the responses from the four major role sender groups.

Appendices 3d to 3g present similar sets of data for each of the subgroups constituting auditors' major role sender groups.

7.2.2 Existing duties of auditors, as identified by auditors' role sender groups

Opinions of the survey group as a whole regarding auditors' existing duties

Analysis of responses from the survey group as a whole shows that the group identified seven of the duties listed in the questionnaire as existing duties of auditors (the means of the group's responses to these duties are positive). These duties are shown in Figure 20.

Figure 20: The means of role sender group responses with respect to auditors' existing duties

Duty No.	Role Sender Group *No. of respondents in group*	Total Survey Group *1184*	Auditors *196*	Auditees *342*	Audit Beneficiaries: Financial Community *243*	Audit Beneficiaries: General Public *454*2
	***Suggested duties of Auditors*1**	*mean* %	*mean* %	*mean* %	*mean* %	*mean* %
	Identified as Existing Duties of Auditors					
2.3	State whether financial statements fairly reflect co's affairs	93	98	95	97	86
2.9	Detect deliberate distortion of financial information	85	79	87	88	-
2.11c	Disclose in audit report deliberate distortion of financial information	43	59	65	60	9*
2.5b	Express doubts in audit report about co's continued existence	35	78	39	31	12
2.6	Ensure compliance with cos' legislation	28	20	32	14*	32
2.8b	Detect theft of corporate assets by co. directors/senior management	14	-59	-2*	19	57
2.8a	Detect theft of corporate assets by non-managerial employees	7	-63	-14	4*	
	Not Identified As Existing Duties					
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	0*	-22	-2*	-2*	17
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	-10	-33	-12	-17	9*
2.17	Examine and report on co's internal controls	-12	-44	5*	-13*	-
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	-14	-44	-12	-27	9*
2.10c	Report to a regulatory authority deliberate distortion of financial information	-15	-59	-18	-12*	10
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	-21	-60	-28	-30	10
2.15	Report to a regulatory authority illegal acts uncovered in co.	-31	-72	-52	-39	10
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-37	-80	-55	-54	9*
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	-42	-90	-66	-54	10
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	-49	-96	-77	-82	17
2.2	Guarantee financial statements are accurate	-51	-96	-68	-72	-1*
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-52	-97	-80	-79	9*
2.20	Examine & report on fairness of financial forecasts	-55	-77	-38	-62	-
2.5a	Report to a regulatory authority doubts about co's continued existence	-55	-67	-46	-61	-
2.19	Audit published half-yearly co. reports	-58	-72	-47	-64	-
2.4	Guarantee auditee co. is solvent	-59	-79	-61	-75	-38
2.12	Report to a regulatory authority suspicions of fraud	-61	-87	-56	-49	-
2.7	Report breaches of tax laws to IRD	-63	-89	-79	-72	-33
2.22	Verify every transaction of auditee co.	-69	-99	-90	-85	-29
2.16	Examine & report on fairness of non-financial information	-78	-91	-68	-83	-
2.18	Examine & report on efficiency & effectiveness of co's management	-80	-94	-69	-88	-
2.21	Consider & report on co's impact on its local community	-85	-100	-90	-98	-67
2.1	Prepare auditee co's financial statements	-86	-98	-96	-95	-69

1 The suggested duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Total of 454 includes 75 respondents who signified that they had no knowledge of auditing and therefore could not respond to the part of the questionnaire relating to auditors' duties.
* The results of the Wilcoxon signed-ranks test indicate that no valid generalised conclusion can be drawn about the opinion of the role sender group regarding this duty.

(For reference purposes the number allocated to each duty in the financial community version of the questionnaire is shown at the left of the table). One duty, namely, that of detecting illegal acts by company officials which directly impact on the company's accounts (duty no. 2.13a) has a mean of 0%. This suggests that respondents (as a group) were undecided as to whether this is, or is not, an existing duty of auditors. However, the group considered that the remaining duties listed in the questionnaire are not existing duties of auditors. As Figure 20 shows, the survey group's responses to seven of these duties have negative means in excess of 60%. This indicates that a large majority of respondents rejected these duties as existing duties of auditors.

Examination of Figure 20 shows that the role sender groups within the financial community (auditors, auditees and financial community audit beneficiaries) share broadly the same opinions about the duties which are, and which are not, existing duties of auditors. However, despite the general similarity of their opinions, they do vary. Further, the opinions of general public audit beneficiaries differ noticeably from those of the financial community groups, with the general public role sender group identifying more of the duties listed in the questionnaire as existing duties of auditors (see Figure 20). (This is considered in greater detail below).

Auditors' opinions regarding their existing duties

Reference to Figure 20 shows that the auditor group recognised as existing duties of auditors five of the seven duties identified as such by the survey group as a whole. The auditors rejected as existing duties the tasks of detecting theft of corporate assets by company officials (duty no. 2.8b) and by non-managerial employees (duty no. 2.8a). (The means of auditors' responses to these duties are -59% and -63%, respectively). The auditor group also rejected as existing duties, all of the duties which were considered not to be existing duties of auditors by the survey group as a whole.

A notable feature of the responses from the auditor group is the high level of agreement about the duties which are (and are not) existing duties of auditors. This is reflected in the generally large absolute values of the means of their responses. Agreement among the auditor group is, in general, significantly higher than that reflected in the responses from the other role sender groups (see Figure 20). However, in view of the very direct involvement of auditors in the audit function this finding is not surprising.

Similarly, it is not surprising that, although audit partners and non-partner audit staff share similar opinions about auditors' existing duties, audit partners display greater unanimity in their recognition and rejection of tasks as existing duties, than do non-partner audit staff (see Appendix 3d1). The results of the Mann-Whitney test presented in Appendix 3d3 show that there is no significant difference in the opinions of the two auditor subgroups with respect to about half of the duties listed in the questionnaire but, in those cases where there is a statistically significant difference, the means of the groups' respective responses reflect greater consensus among audit partners than among non-partner audit staff. An exception to this general finding is the duty to ensure that auditee companies comply with companies' legislation (duty no. 2.6). While the Wilcoxon signed-ranks test indicates that no generalised conclusion can be drawn as to whether audit partners consider that this is or is not an existing duty of auditors (see Appendix 3d2), non-partner audit staff clearly accept that it is (the means of the subgroups' responses are -14% and 55%, respectively: see Appendix 3d1). The difference of opinion which is evident in the subgroups' responses may reflect different interpretations being given to the duty as expressed in the questionnaire by the two subgroups, or greater caution on the part of the audit partners. It is suggested that, while audit partners may have considered that the duty extended to ensuring that audit clients comply with *all* of the provisions of the companies' legislation, non-partner audit staff may have restricted their interpretation to auditors having an obligation to ensure that auditee companies comply with the statutory provisions relating to the keeping of accounts and presenting financial statements. Alternatively, both groups may have applied a literal interpretation, but audit partners may have been more reluctant to acknowledge responsibility for ensuring compliance with all of the requirements of the companies' legislation, including those not directly related to the accounts or the financial statements. In the light of audit partners' exposure to legal liability, any reluctance by them to recognise duties beyond those explicitly defined by statute or professional promulgations is understandable. (The status of this duty is discussed in section 7.2.3 below).

Auditees' opinions regarding auditors' existing duties

The survey results presented in Figure 20 indicate that auditees have similar opinions to auditors about auditors' existing duties. Indeed, the results of the Mann-Whitney test presented in Appendix 3c show that there is no statistically significant difference in the responses of the two groups with respect to five of the duties listed in the questionnaire. These are the duties:

- to prepare the auditee company's financial statements (duty no. 2.1);
- to state whether the financial statements fairly reflect the company's financial affairs (duty no. 2.3);
- to ensure that auditee companies comply with companies' legislation (duty no. 2.6);
- to detect, and to disclose in the audit report, deliberate distortion of financial information (duty nos. 2.9 and 2.11c).

From Figure 20 it is seen that auditees identify the same five duties as auditors, as auditors' existing duties. Similarly, like auditors, auditees reject as an existing duty, detecting theft of corporate assets by non-managerial employees (duty no. 2.8a). (This was identified as a duty by the survey group as a whole). Additionally, apart from three duties for which the Wilcoxon signed-ranks test indicates that no definite opinion of auditees can be discerned from the survey results, but which auditors consider not to be existing duties (duty nos. 2.8b, 2.13a, and 2.17, discussed below), auditees reject as existing duties of auditors the same duties that are rejected by auditors (see Figure 20).

Notwithstanding the overall similarity of the opinions of auditors and auditees regarding auditors' existing duties, a comparison of the means of responses from the two role sender groups indicates that, in general, agreement is less widespread amongst auditees than it is amongst auditors. It is suggested that this results from two factors:

1. the greater diversity of the subgroups constituting the auditee role sender group, compared with the subgroups comprising the auditor group;
2. auditees' knowledge of auditors' duties is derived principally from observing what auditors do, or (particularly in the case of detecting fraud and illegal acts) surmising what auditors are there to do.

While the auditor role sender group comprises audit partners and non-partner audit staff, both of whom are directly engaged in performing duties as auditors, the auditee group includes company managers, non-executive directors, company accountants, and internal auditors. These groups have differing relationships, and differing degrees of interaction, with their company's external auditors and therefore are likely to have different understandings of auditors' existing duties. Further, although qualified accountants amongst auditee role senders may be expected to have knowledge of auditors' duties based on their study of the legal and professional obligations of auditors, this does not generally apply to other members of the auditee group.

Reference to Appendix 3e1 shows that the three auditee role sender subgroups (the combined group of company executives and non-executive directors, company accountants, and internal auditors) have very similar opinions about auditors' existing duties. The results of the Mann-Whitney test show that the opinions of the executives/directors group and company accountants are particularly alike. Indeed, for only seven duties is there a statistically significant difference in the responses from these two role sender subgroups (see Appendix 3e3).

The duties for which the three subgroups display greatest difference of opinion are those of:

- detecting theft of corporate assets
    - by non-managerial employees (duty no. 2.8a);
    - by company directors/senior management (duty no. 2.8b);
- detecting illegal acts by company officials which directly impact on the company's accounts (duty no. 2.13a);
- reporting detected fraud to regulatory authorities (duty nos. 2.10b and 2.10c).

With respect to the first three of the above duties (duty nos. 2.8a, 2.8b and 2.13a), the means of responses from the combined executives/directors group are -4%, 10% and -2% , and from the internal auditors are -10%, 3% and 19%, respectively (see Appendix $3e_1$). However, the Wilcoxon signed-ranks test indicates that none of these results is statistically significant. By contrast, company accountants are clearly of the opinion that none of these duties is an existing duty of auditors (the corresponding means of their responses are -39%, -27% and -22%). Regarding auditors' duties to report to regulatory authorities misappropriation of company assets by company officials (duty no. 2.10b) and deliberate distortion of financial information (duty no. 2.10c), while the Wilcoxon signed-ranks test indicates that no generalised conclusion can be drawn about the opinion of internal auditors (the means of their responses are -6% and 3%, respectively) the executives/directors group and company accountants are firmly of the opinion that these are not existing duties of auditors (the means of their responses are -29% and -25%, and-53% and -30%, respectively).

It is pertinent to note that these duties, for which there is greatest difference of opinion amongst the auditee subgroups, include two of the three duties (referred to above) about which no definite opinion can be discerned from the responses from auditee role senders, but which auditors reject as existing duties. These are the duties to detect theft of corporate assets by company officials (duty no. 2.8b) and to detect illegal acts which directly impact on the company's accounts (duty no. 2.13a). It seems that, in these cases, the differences of opinion amongst the auditee subgroups result in the lack of a definite opinion being held by the role sender group as a whole. The third duty about which the auditee group appears to have no clear opinion, but which auditors consider not to be an existing duty, is that of examining and reporting on the efficiency and effectiveness of the company's internal controls (duty no. 2.17). In this case, the results of the Wilcoxon signed-ranks test presented in Appendix $3e_2$ show that the responses from all three auditee role sender subgroups are such that no generalised conclusion can be drawn about the subgroups' acceptance or rejection of the duty as an existing duty of auditors. (The means of the subgroup responses are 9% for the combined executives/directors group, 6% for internal auditors, and -6% for company accountants: see Appendix $3e_1$.) (The status of this duty is considered in section 7.2.3 below).

Opinions of financial community audit beneficiaries regarding auditors' existing duties

Figure 20 shows that financial community audit beneficiaries are broadly in agreement with auditors and auditees about auditors' existing duties. Indeed, the results of the Mann-Whitney test show that for 17 of the 30 duties listed in the questionnaire there is no statistically significant difference between the responses of financial community audit beneficiaries and those of auditees (see Appendix 3c). Of the duties for which a statistically significant difference is evident, the duty to detect misappropriation of corporate assets by company directors/senior management (duty no. 2.8b) is recognised as an existing duty of auditors by financial community audit beneficiaries, but no definite opinion can be established from the responses of auditees. Auditors are strongly agreed that it is not one of their existing duties.

Reference to Figure 20 shows that, in addition to duty no. 2.8b, respondents from the financial community audit beneficiaries group recognised a further six duties as existing duties of auditors; these coincide with duties recognised as such by the survey group as a whole. However, for two of these duties, the Wilcoxon signed-ranks test indicates that, although the means of responses from financial community audit beneficiaries are positive, they are not significant. This applies to the duties:

- to ensure that audit clients comply with companies' legislation (duty no. 2.6) (the mean of responses from the group is 14%);
- to detect theft of corporate assets by non-managerial employees (duty no. 2.8a) (the mean of responses from the group is 4%).

The Wilcoxon signed-ranks test also indicates that no generalised conclusion may be drawn about the opinion of financial community audit beneficiaries with respect to the duties:

- to detect illegal acts by company officials which directly impact on the company's accounts (duty no. 2.13a);
- to report to a regulatory authority deliberate distortion of financial information (duty no. 2.10c);
- to examine and report on the auditee company's internal controls (duty no. 2.17).

For each of these duties the means of responses from the sample group are negative (-2%, -12% and -13%, respectively: see Figure 20).

Notwithstanding that a generalisable opinion cannot be established from the sample of responses from financial community audit beneficiaries about the status of five of the duties listed in the questionnaire, where the group's responses are such that a duty is clearly identified as either being, or not being, an existing duty of auditors, the group is, in general, more united in their opinion than the auditees. This is reflected in the larger absolute values of the means of responses from this group compared with those of the auditees. However, as for auditees, the responses from financial community audit beneficiaries indicate that there is less agreement among members of this role sender group about auditors' existing duties than there is among auditors (see Figure 20). These findings are readily explained.

The subgroups constituting the financial community audit beneficiaries role sender group (the combined group of financial analysts, stockbrokers and institutional investors, corporate bankers, and auditing academics), like the subgroups constituting the auditee role sender group, are more distant from the audit function than are the auditor subgroups. Similarly, their relationship with external auditors is more varied than that of the auditor subgroups. It is therefore to be expected that financial community audit beneficiaries will be less agreed about auditors' existing duties than auditors. However, if the composition of the financial community audit beneficiaries role sender group is considered, and the small size of the auditing academics group as a component thereof is recognised (this group contributes 16 of the 243 members of this role sender group), it is seen that the relationship of the financial community audit beneficiaries subgroups with external auditors is more homogeneous than that of the subgroups of auditees. Each of the financial community audit beneficiaries subgroups, other than auditing academics, interacts with the audit function primarily as a user of audited financial statements. Possessing a more uniform relationship with external auditors, compared with that of auditees, it is not surprising that the responses from the financial community audit beneficiaries with respect to auditors' existing duties display greater agreement than those from the auditees.

The similarity of opinion among the financial community audit beneficiaries subgroups is reinforced by the results of the Mann-Whitney test presented in Appendix 3f3. For only 11 of the 30 duties listed in the questionnaire is there a statistically significant difference in the responses from the three subgroups. Further, for one of these duties, that of detecting theft of corporate assets by non-managerial employees (duty no. 2.8a), the results of the Wilcoxon signed-ranks test show that the responses from all three subgroups are such that no generalised conclusion can be drawn as to whether or not the subgroup recognises the duty as an existing duty of auditors. Although the mean of responses from auditing academics (-50%) suggests that this group holds an opinion about the status of this duty which differs from that of both the analyst/stockbroker/

investor group and corporate bankers (the mean of whose responses are 5% and 10%, respectively), the Wilcoxon signed-ranks test indicates that the difference between Yes/No responses within each of the role sender subgroups (including auditing academics) is not statistically significant (see Appendix $3f_2$).

Comparison of the means of responses from the three financial community audit beneficiaries subgroups (presented in Appendix $3f_1$) indicates that, for all but three duties, the subgroups agree about the duties which are, and those which are not, existing duties of auditors. The three exceptions are the duties:

- to detect theft of corporate assets
    - by non-managerial employees (duty no. 2.8a);
    - by company directors/senior management (duty no. 2.8b);
- to detect illegal acts by company officials which directly impact on the company's accounts (duty no. 2.13a).

However, examination of the results of the Mann-Whitney and Wilcoxon signed-ranks tests (Appendices $3f_3$ and $3f_2$, respectively) indicates that differences of opinion about these three duties, which are evident in the samples of responses from the respective subgroups, may not reflect differences of opinion in the populations from which the samples were selected. As noted above, the Wilcoxon signed-ranks test indicates that no generalised conclusion may be drawn about the opinion of the three role sender subgroups about the status of duty no. 2.8a. Similarly, for the other two duties (duty nos. 2.8b and 2.13a) the results of the Mann-Whitney test show that differences in the responses from the three subgroups are not statistically significant.

Opinions of general public audit beneficiaries regarding auditors' existing duties

It is acknowledged that, as the general public and the financial community role sender groups completed different versions of the questionnaire, the validity of comparing their responses is subject to question. Nonetheless, it is considered that pertinent observations can be made about the opinions of general public audit beneficiaries and the role sender subgroups (branch bank managers, lawyers, financial journalists, and the group selected from the electoral rolls) regarding auditors' existing duties, and that a general comparison of the responses from the general public and financial community groups may be made.

Examination of the means of responses from the general public audit beneficiaries group (presented in Figure 20) shows that this role sender group identified more of the duties listed in the questionnaire as existing duties of auditors than did the financial community groups. In addition to the five duties recognised by the financial community groups, the general public group considered that auditors have an existing duty to detect theft of corporate assets and other illegal acts in auditee companies (duty nos. 2.8 and 2.13: see footnote 17), and to report to a regulatory authority fraud and other illegal acts uncovered during an audit (duty nos. 2.10 and 2.15). It is also pertinent to note that, while the large majority of role senders from the financial community groups are of the view that auditors do not have an existing duty to guarantee that audited financial statements are completely accurate (duty no. 2.2), no generalised opinion can be discerned from the responses of general public audit beneficiaries with respect to this duty (see Appendix 3b).

In contrast to the marked similarity and definite opinions of the financial community groups regarding auditors' existing duties, the opinions of the general public audit beneficiaries subgroups are characterised by their differences and lack of certainty. Admittedly, the results of the Mann-Whitney test presented in Appendix 3g3 indicate that for 10 of the 13 duties listed in the general public version of the questionnaire there is no statistically significant difference between the opinions of branch bank managers and financial journalists, and between lawyers and financial journalists. However, examination of the results of the Wilcoxon signed-ranks test suggests that in the majority of cases this finding may reflect the common absence of a definite opinion about the status of the duties in question among the members of the relevant role sender subgroups (see Appendix 3g2).

Analysis of the means of responses from the general public audit beneficiaries subgroups and the results of the Wilcoxon signed-ranks test (Appendices 3g1 and 3g2, respectively) show that in only four cases do the role sender subgroups agree about the status of a particular duty. All four subgroups consider that it is an existing duty of auditors to state whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3). They similarly agree that it is not an existing duty of auditors:

- to prepare the auditee company's financial statements (duty no. 2.1);
- to guarantee that the auditee company is solvent (duty no. 2.4);
- to consider and report on the impact of the auditee company on its local community (duty no. 2.21).

Because of the differences of opinion which are reflected in the responses from the general public subgroups regarding the other duties listed in the questionnaire, further general observations are difficult to make.

Having reviewed the opinions of auditors' role sender groups about auditors' existing duties, these opinions need to be compared with auditors' duties as defined by the law and professional promulgations. Differences signal a shortfall in knowledge about auditors' existing duties by their role senders.

7.2.3 Auditors' existing duties as defined by the law and professional promulgations

Examination of relevant statute law, case law and professional promulgations establishes that the survey group as a whole correctly identified as existing duties of auditors, the duties:

- to state whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3);

- to detect deliberate distortion of financial information (duty no. 2.9);
- to disclose in the audit report
    - deliberate distortion of financial information (duty no. 2.11c);
    - doubts about the continued existence of an auditee company (duty no. 2.5b).
- to ensure that auditee companies comply with companies' legislation (duty no. 2.6).

These duties were, in general, correctly identified by all of the major role sender groups (see Figure 20). However, the Wilcoxon signed-ranks test indicates that no generalised conclusion may be drawn from the sample of responses from auditees with respect to duty no. 2.6, and from general public audit beneficiaries for duty no. 2.11c. It is also noted that general public audit beneficiaries were not asked to express an opinion about duty no. 2.9.

The statutory obligation placed on auditors by Section 166 of the Companies Act 1955 (the Act) to report to shareholders stating whether, in their opinion, the financial statements give a true and fair view of the company's financial affairs, establishes as a duty of auditors the task of stating whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3). The same provision also seems to require auditors to detect, and to disclose in the audit report, deliberate distortion of financial information (duty nos. 2.9 and 2.11c).

Section 166 of the Act also places on auditors the duty to ensure that auditee companies comply with statutory provisions relating to the keeping of proper accounting records and making disclosures in the financial statements. Although the Act does not explicitly give auditors the duty to ensure that all of the requirements of companies' legislation are complied with, it is difficult to think of a requirement which, if not complied with by the auditee company, would not have a direct impact on the audit. For example, as part of their audit procedures, auditors routinely verify that the various statutory registers, such as registers of members, directors and registered charges, are properly maintained. Further, if a company failed to file its annual return or acted outside its memorandum or articles of association, this would impact on the auditor's assessment of the company as a going concern and/or its contingent liabilities. It is concluded that auditors have an existing duty to ensure that auditee companies comply with the requirements of companies' legislation (duty no. 2.6). It is pertinent to note that although the responses from audit partners, corporate bankers, auditing academics, lawyers, and financial journalists do not reflect a definite opinion about the status of this duty, all of the auditee subgroups have no doubt that this is a duty of external auditors.

Auditing Guideline 13: *Going Concern* (NZSA, 1986e) establishes that auditors have a duty to disclose in their audit report doubts they have about the continued existence of an auditee company (duty no. 2.5b) (this was discussed in Chapter 2). It is significant that responses from the auditor group reflect a very high acceptance of this duty. However, its recognition as an existing duty of auditors is much less widespread within the other role sender groups. Figure 20 shows that, while the mean of responses from the auditor group is 78%, the corresponding means for the other role sender groups are 39% for auditees, 31% for financial community audit beneficiaries and 12% for general public audit beneficiaries. The less widespread recognition by the non-auditor role sender groups of auditors' obligation to perform this duty may reflect the paucity of going concern qualifications prior to the 1988 financial year, combined with a significant number of companies failing in recent years, shortly after receiving unqualified audit reports. These factors may have led a significant number of non-auditor role senders to conclude mistakenly that auditors do not have an existing duty to report doubts they have about a company's future existence.

Detecting theft of corporate assets by non-managerial employees and by company directors/senior management (duty nos. 2.8a and 2.8b) are two other duties which were identified by the total survey group as existing duties of auditors. As discussed in Chapter 2, over the last 30 years or so, there has been a wide gap between the auditors' and the general public's understanding of auditors' duties with respect to corporate fraud. The responses obtained by the present survey accord with, and reinforce, the findings of earlier surveys (see section 2.3.4). As Figure 20 demonstrates, in relation to auditors' duties to detect theft of corporate assets, there is a gradation of opinion from a strong denial of an existing duty by auditors, through less widely shared views held by auditees and financial community audit beneficiaries, to a strong acceptance of a duty by general public audit beneficiaries. In the general public version of the questionnaire, the duty to detect fraud was all embracing (see footnote 17). However, members of the financial community were asked to consider, as two separate duties, auditors' responsibility to detect theft of corporate assets by non-managerial employees (duty no. 2.8a), and by company directors/senior management (duty no. 2.8b). Within each financial community role sender group, a greater number of respondents considered that auditors have a duty to detect theft of corporate assets by company officials, than to detect theft by non-managerial employees. However, only financial community audit beneficiaries recognise an existing duty for auditors to detect theft of corporate assets. This role sender group considers that auditors have an existing duty to detect theft of corporate assets by company directors/senior management (duty no. 2.8b).

Auditing Guideline 9, *Fraud and Error* (NZSA, 1986d), like professional promulgations throughout the English-speaking world, tends to down-play auditors' responsibility to detect fraud. It emphasises that responsibility for preventing and detecting fraud rests with management. However, it also requires auditors to plan their audits so that they have a reasonable expectation of detecting material mis-statements in the financial information which result from fraud. Nonetheless, on the basis of the discussion presented in Chapter 2, it is submitted that this falls short of auditors' existing duties as defined by law. A review of relevant cases (for example, the *Kingston Cotton Mill* case [1896] 2 Ch 279, and the *Pacific Acceptance* case [1970] 92 WN (NSW) 29) establishes that auditors have a duty to be alert to suspicious circumstances and, if these are encountered during an audit, they must be "probed to the bottom". It is submitted that, in the ordinary course of events, if material theft has occurred in a company, whether it be by non-managerial employees or by company officials, auditors who are properly alert to the possibility of its existence are likely to encounter suspicious circumstances. Therefore, it is considered that, as a general rule, auditors have an existing duty to detect material theft of corporate assets, whether it be by non-managerial employees or by company officials.

Because of the technical nature of the word 'material' it was deliberately avoided in the wording of the relevant suggested duties in the questionnaire. Instead, the duties were expressed: "to detect theft (other than petty theft) which has been committed in the company ...". It is acknowledged that use of 'petty' in place of 'immaterial' may have resulted in some respondents (especially those familiar with the term 'material' in its technical context) interpreting the duty as encompassing smaller levels of theft than was intended. Nevertheless, it is submitted that the survey results indicate that role senders from the financial community, and in particular auditors and auditees, are not properly aware of auditors' existing duty to detect theft of corporate assets. The general public's opinion seems to be more in accord with the correct position.

A review of relevant case law also establishes auditors' responsibilities with respect to reporting fraud they detect during an audit. As explained in Chapter 2 (section 2.3.4), if fraud by non-managerial employees is discovered or suspected during an audit, the auditor has an obligation to inform the directors. However, if auditors find that fraud has been (or appears likely to be) committed by the directors, they must confront the directors with their findings and report the matter in their report to the company's shareholders [*Kingston Cotton Mill* and *Pacific Acceptance* cases (supra); ICAEW, 1985b].

When the survey results are assessed in the light of this position, it is seen that the total survey group, and all of the financial community role sender groups, correctly reject as an existing duty of auditors, disclosing in the audit report theft of corporate assets by non-managerial employees (duty no. 2.11a). However, these groups incorrectly reject as an existing duty of auditors, disclosing in the audit report misappropriation of corporate assets by company directors and/or senior management (duty no. 2.11b). It is submitted that the failure of the financial community role sender groups to recognise this duty results from the fact that professional promulgations in New Zealand do not draw attention to its existence and, as a consequence, the notable absence of reference to detected fraud at director/senior management level in audit reports. Cases currently before the New Zealand courts, in which auditors are alleged to have failed to detect and report fraud by senior company officials (for example, Goldcorp Holdings and Registered Securities Limited) are drawing auditors' attention to their duty in this regard in a rather unfortunate fashion.

General public audit beneficiaries were presented with an all embracing duty: "to disclose in the published auditor's report that fraud and/or illegal acts committed by company officials were discovered during the audit" (duty nos. 2.11 and 2.14: see footnote 17). Although Figure 20 shows that the mean of their responses with respect to this duty is 9%, the Wilcoxon signed-ranks test indicates that this result is not statistically significant (see Appendix 3b).

Auditors' duties to detect and report illegal acts, other than fraud, committed by company officials have not been directly referred to in either law (statute or case law) or professional promulgations in New Zealand. It is possible to conclude from this, that auditors in New Zealand do not have an existing duty to detect or report illegal acts committed by company officials. However, where such acts directly impact on an auditee's accounts (such as bribery), unless they are immaterial, it is difficult to sustain the argument that they fall outside the ambit of auditors' duties. Logic suggests that neither the expenditures involved in the illegal acts, nor attendant contingent liabilities, are likely to be reported in the financial statements voluntarily by management. Therefore, it may be concluded that if such acts have occurred, it is likely that the financial statements do not give a true and fair view of the financial affairs of the company and/or that the company has not kept proper accounting records within the terms of Section 151 of the Companies Act 1955. It thus appears that auditors have an existing duty to detect illegal acts which have a material impact on an auditee company's accounts (duty no. 2.13a). Further, if they detect such illegal acts, they have an existing duty (under Section 166 of the Companies Act 1955) to disclose the fact in their audit report (duty no. 2.14a).

The survey indicates that auditors consider that they do not have an existing duty to detect or to report illegal acts by company officials which directly impact on the company's accounts (the means of their responses to duty nos. 2.13a and 2.14a are -22% and -44%, respectively). Auditees and financial community audit beneficiaries concur with auditors as regards reporting illegal acts which are detected during an audit, but they do not appear to have a definite opinion as to whether auditors have an existing duty to detect illegal acts by company officials which directly impact on the company's accounts (the mean of responses from both groups to duty to 2.13a is -2%, a result which the Wilcoxon signed-ranks test indicates is not statistically significant). As for auditors' duty to detect fraud, general public audit beneficiaries recognise an existing duty for auditors to detect other illegal acts by company officials but, as noted above, responses from this role sender group preclude a generalised conclusion about the opinion of the group with respect to the duty to disclose in the audit report fraud and illegal acts by company officials which are detected during an audit.

It is acknowledged that the duties of detecting and reporting illegal acts by company officials which directly impact on the company's accounts (duty nos. 2.13a and 2.14a), as presented in both versions of the questionnaire, did not refer to the materiality of the illegal acts, or to the materiality of their impact on the financial statements. It is also recognised that this may have led some respondents to conclude that auditors do not have a duty to detect and report illegal acts by company officials when, had reference been made to materiality, their conclusion may have been different. Nevertheless, it is submitted that the survey findings indicate that auditors do not adequately recognise their duty to detect illegal acts by company officials which directly impact on the company's accounts. Similarly, it is considered that none of the financial community role sender groups is sufficiently aware of auditors' duty to disclose in their audit reports illegal acts by company officials which are detected during an audit. It is suggested that this apparent lack of knowledge of auditors' role senders regarding this duty (and the absence of reference to it in legal and professional promulgations) largely reflects the fact that, unlike the position in the United States, illegal acts by corporate officials (other than fraud) have not been an issue of major public or political concern in New Zealand.

It was noted earlier that the responses from both the auditee and financial community audit beneficiaries groups preclude a generalised conclusion being drawn about the opinion of these role sender groups regarding the duty to examine and report (in the published audit report) on the efficiency and effectiveness of the auditee company's internal controls (duty no. 2.17). It is suggested that the lack of a definite opinion being expressed by respondents from these groups reflects their awareness that auditors generally examine the company's internal controls as part of their audit work and, further, that they report their findings to the company's directors in a management letter. Additionally, there have been strong moves overseas, particularly in the United States, for auditors to be required to examine and report on their audit clients' internal controls.[22] However, although neither auditees nor financial community audit beneficiaries appear to be clear about the status of this duty, auditors in New Zealand are not, at present, explicitly required to examine a company's internal controls[23], nor are they required to make reference to the efficiency and effectiveness of the company's internal controls in their published audit report.

One further duty which deserves comment is that of auditors reporting to a regulatory authority doubts they have about the continued existence of an auditee company (duty no. 2.5a). When this duty was included in the financial community version of the questionnaire it was intended to be general in nature and not related to any particular type of company. However, it is evident from written comments provided by some respondents that reference to the Reserve Bank as an example of a regulatory authority caused some confusion. As noted in Chapter 2, auditors have a statutory obligation under the Reserve Bank of New Zealand Act 1964 (as amended, 1986) to report to the Reserve Bank if, in their opinion, a financial institution is in serious financial difficulties. It is suggested that had reference not been made to the Reserve Bank as a regulatory authority some respondents may have interpreted the duty more generally and, as a consequence, the negative mean of responses of each of the financial community groups would have been even larger than were actually obtained by the survey (see Figure 20).

From the above discussion it may be seen that by reference to the law and professional promulgations, 10 of the duties listed in the questionnaire are defined to be existing duties of auditors. A summary of auditors' duties as defined by the law and professional promulgations, and as identified by auditors' role sender groups, is presented in Figure 21.

7.2.4 The knowledge gap of auditors' role sender groups

From Figure 21 it may be seen that the survey group as a whole correctly identified seven of auditors' existing duties, but they failed to recognise two others and were uncertain about another. Both of the duties which the group failed to recognise relate to making disclosures in the audit report [disclosing misappropriation of corporate assets by company officials (duty no. 2.11b) and illegal acts by company officials which directly impact on the company's accounts (duty no. 2.14a)]. The survey group was uncertain about

Figure 21: Auditors' existing duties as defined by legal and professional promulgations and as identified by auditors' role sender groups

Duty no.	Role Sender Group *No. of respondents in group*	Total Survey Group *1184*	Auditors *196*	Auditees *342*	Audit Beneficiaries: Financial Community *243*	Audit Beneficiaries: General Public *454[2]*
	Suggested duties of Auditors[1]					
	Actual Existing Duties of Auditors[3]					
2.3	State whether financial statements fairly reflect co's affairs	Y	Y	Y	Y	Y
2.5b	Express doubts in audit report about co's continued existence	Y	Y	Y	Y	Y
2.6	Ensure compliance with cos' legislation	Y	Y	Y	U	Y
2.8a	Detect theft of corporate assets by non-managerial employees	Y	N*	N*	U	Y
2.8b	Detect theft of corporate assets by co. directors/ senior management	Y	N*	U	Y	
2.9	Detect deliberate distortion of financial information	Y	Y	Y	Y	-
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	N*	N*	N*	N*	U
2.11c	Disclose in audit report deliberate distortion of financial information	Y	Y	Y	Y	
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	U	N*	U	U	Y
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	N*	N*	N*	N*	U
	Not Existing Duties of Auditors					
2.1	Prepare auditee co's financial statements	N	N	N	N	N
2.2	Guarantee financial statements are accurate	N	N	N	N	U
2.4	Guarantee auditee co. is solvent	N	N	N	N	N
2.5a	Report to a regulatory authority doubts about co's continued existence	N	N	N	N	-
2.7	Report breaches of tax laws to IRD	N	N	N	N	N
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	N	N	N	N	
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	N	N	N	N	Y*
2.10c	Report to a regulatory authority deliberate distortion of financial information	N	N	N	U	
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	N	N	N	N	U
2.12	Report to a regulatory authority suspicions of fraud	N	N	N	N	-
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	N	N	N	N	-
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	N	N	N	N	U
2.15	Report to a regulatory authority illegal acts uncovered in co.	N	N	N	N	Y*
2.16	Examine & report on fairness of non-financial information	N	N	N	N	-
2.17	Examine & report on co's internal controls	N	N	U	U	-
2.18	Examine & report on efficiency & effectiveness of co's management	N	N	N	N	-
2.19	Audit published half-yearly co. reports	N	N	N	N	-
2.20	Examine & report on fairness of financial forecasts	N	N	N	N	-
2.21	Consider & report on co's impact on its local community	N	N	N	N	N
2.22	Verify every transaction of auditee co.	N	N	N	N	N
	* Incorrect opinions	2	5	3	2	2[2]
	No. of cases where no clear 'Yes' or 'No' opinion can be ascertained	1	0	3	5	5[2]

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 See footnote 17 regarding duties addressed by general public audit beneficiaries.
3 Existing duties of auditors, as defined by the law and professional promulgations.
Y Duty identified as an existing duty of auditors.
N Duty considered not to be an existing duty of auditors.
U No valid generalised conclusion can be drawn about the opinion of the role sender group regarding this duty.

the status of the duty to detect illegal acts by company officials which directly impact on the company's accounts (duty no. 2.13a) (the mean of their responses to this duty was 0%).

Figure 21 also indicates that the knowledge of each of the role sender groups about auditors' existing duties was less accurate than that of the survey group as a whole. Respondents from the auditor group failed to acknowledge five of their existing duties. These all relate to detecting and reporting theft of corporate assets and other illegal acts by company officials (duty nos. 2.8a, 2.8b, 2.11b, 2.13a and 2.14a). (As will be seen in section 7.3.3 below, auditors' lack of knowledge about their existing duties is considered to contribute significantly to the deficient performance gap). The opinion expressed by respondents from the auditee group was incorrect with respect to three duties (duty nos. 2.8a, 2.11b and 2.14a) and was not sufficiently definite to be generalisable in relation to a further three (duty nos. 2.8b, 2.13a and 2.17). Five of these six duties coincide with those about which the auditors were in error; the other duty (duty no. 2.17) relates to auditors examining and reporting on the auditee company's internal controls. Respondents from the financial community audit beneficiaries role sender group were incorrect in their assessment of two duties (duty nos. 2.11b and 2.14a) and the means of their responses with respect to another five (duty nos. 2.6, 2.8a, 2.10c, 2.13a and 2.17) were not statistically significant (see Appendix 3b). Again, the duties involved largely relate to auditors detecting and reporting corporate fraud and other illegal acts, but they also include the duties of reviewing and reporting on the company's internal controls and ensuring that auditee companies comply with companies' legislation. Respondents from the general public audit beneficiaries group were incorrect only with respect to auditors' duty to report fraud and other illegal acts to regulatory authorities (duty nos. 2.10a, 2.10b, 2.10c, 2.15: see footnote 17). However, their opinion was too indefinite to be generalisable with respect to the duties of guaranteeing the accuracy of audited financial statements (duty no. 2.2) and of disclosing in the audit report fraud and other illegal acts uncovered during an audit (duty nos. 2.11a, 2.11b, 2.11c, 2.14a, 2.14b: see footnote 17).

It is pertinent to note that in each case where a financial community role sender group was in error, the group failed to recognise an existing duty of auditors. In contrast, where the general public audit beneficiaries were incorrect, they considered a non-duty to be an existing duty of auditors. Consideration of the duties about which incorrect conclusions were drawn, and about which the role sender groups appear to have no definite opinion, reveals that the lack of knowledge of auditors' role senders seems to be greatest with respect to detecting and disclosing theft of corporate assets and other illegal acts which directly impact on the company's accounts.

The above discussion has provided a broad indication of the lack of knowledge of each of auditors' role sender groups. As will be explained in Chapter 9, lack of knowledge about the audit function by auditors' role senders is perceived to be the major factor contributing to the reasonableness gap component of the audit expectation-performance gap. It is also noted that, in order to devise appropriate education and communication programmes for each role sender group (to narrow the reasonableness gap), the extent of their 'knowledge gap' needs to be known. As explained below, a measure of each role sender group's knowledge gap has been derived from role sender group responses with respect to auditors' existing duties.

Figure 22 shows, for each duty listed in the questionnaire, the proportion of respondents from each role sender group who selected either the 'not sure' option or the incorrect response (that is, who selected the 'Yes' option for a duty which is not an existing duty of auditors, or the 'No' option for a duty which is). The proportions of the not sure and incorrect responses attaching to each duty were summed to obtain a measure of the 'total knowledge gap' for each role sender group. Because the number of duties listed in the financial community and general public versions of the questionnaire differed, in order to

Figure 22: Ascertaining the 'knowledge gap' of auditors' role senders

Duty No.	Role Sender Group *No. of respondents in group*	Auditors *196*	Auditees *342*	Audit Beneficiaries: Financial Community *243*	Audit Beneficiaries: General Public *454*[2]
	Suggested duties of Auditors[1]	%[3]	%[3]	%[3]	%[3]
2.1	Prepare auditee co's financial statements	1	3	3	17
2.2	Guarantee financial statements are accurate	2	16	14	52
2.3	State whether financial statements fairly reflect co's affairs	1	3	2	11
2.4	Guarantee the auditee co. is solvent	12	22	15	39
2.5a	Report to a regulatory authority doubts about co's continued existence	20	38	28	-
2.5b	Express doubts in audit report about co's continued existence	13	36	39	56
2.6	Ensure compliance with cos' legislation	41	38	47	45
2.7	Report breaches of tax laws to IRD	8	16	21	49
2.8a	Detect theft of corporate assets by non-managerial employees	83	61	54	28
2.8b	Detect theft of corporate assets by co. directors/senior management	81	55	47	
2.9	Detect deliberate distortion of financial information	11	8	9	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	8	23	33	
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	24	42	45	73
2.10c	Report to a regulatory authority deliberate distortion of financial information	24	47	52	
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	12	30	31	
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	70	64	67	64
2.11c	Disclose in audit reports deliberate distortion of financial information	22	22	25	
2.12	Report to a regulatory authority suspicions of fraud	9	31	37	-
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	63	57	60	52
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	3	16	16	
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	75	62	71	60
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	3	15	16	
2.15	Report to a regulatory authority illegal acts uncovered in co.	17	32	41	73
2.16	Examine & report on fairness of non-financial information	5	20	13	-
2.17	Examine & report on co's internal controls	29	55	47	-
2.18	Examine & report on efficiency & effectiveness of co's management	4	19	9	-
2.19	Audit published half-yearly co. reports	15	32	23	-
2.20	Examine & report on fairness of financial forecasts	14	37	24	-
2.21	Consider & report on co's impact on its local community	1	8	2	25
2.22	Verify every transaction of auditee co.	1	7	11	43
	Measure of total knowledge gap:	**672**	**915**	**902**	**687**
	Measure of average knowledge gap per duty:	**22**	**31**	**30**	**46**

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 The proportions shown for general public audit beneficiaries exclude 75 respondents who signified that they had no knowledge of auditing and could not therefore respond to the relevant part of the questionnaire.

3 Proportion of respondents selecting either the 'not sure', or the incorrect option ('yes' for duties which are not duties of auditors, or 'no' for those which are).

obtain a relative measure of the knowledge gap of each role sender group, each group's 'total knowledge gap' was divided by the relevant number of duties. This provided a measure of the average knowledge gap per duty.

It is seen from Figure 22, that the results are as intuitively might be expected. Auditors appear to be relatively knowledgeable about their duties, although just over 20% are, on average, in error or uncertain about them. Auditees and financial community audit beneficiaries, despite having dissimilar relationships with auditors, appear to have a similar level of knowledge about auditors' duties. Their level of knowledge, not surprisingly, is lower than that of auditors, but is significantly higher than that of general public audit beneficiaries. This latter group displays a large knowledge gap. However, their lack of knowledge is even greater than Figure 22 suggests, as 75 respondents from this group (17% of the total of 454) signified that they did not know anything about auditing and could not, therefore, respond to Part 2 of the questionnaire. This group has been excluded from the proportions of incorrect and not sure responses and, when allowance is made for them, it is seen that over 50% of general public audit beneficiaries have very limited, if any, knowledge about the duties of auditors.

It was established in section 7.2.3 above, that 10 of the duties listed in the questionnaire are defined by the law or professional promulgations to be existing duties of auditors. In the next section the standard of auditors' performance of these duties, as perceived by their role senders, is discussed.

7.3 PERCEIVED STANDARD OF PERFORMANCE OF AUDITORS' EXISTING DUTIES

7.3.1 Methodology of analysis

The purpose of examining the standard of performance of auditors' existing duties or, more specifically, of identifying sub-standard performance as perceived by auditors' role senders, is to establish the existence and extent of the deficient performance component of the audit expectation-performance gap. Perceived sub-standard performance is identified on the basis of two measures, namely:

- the mean of role sender group responses relating to auditors' performance of their duties. This provides a measure of the overall assessment of auditors' performance of their duties by their role sender groups;
- 20% or more respondents from a role sender group signifying that a particular duty is poorly performed.

In Part 2, section 1b, of the questionnaire, respondents were asked to indicate their assessment of auditors' performance of their existing duties by selecting the appropriate response from the options, 'poorly', 'adequately', 'well', or 'unable to judge'. These response options were coded 1, 2, 3 and 0, respectively. However, it was thought appropriate to ascertain auditors' perceived performance on the basis of the assessment made by respondents who considered they were able to judge auditors' performance. Therefore, the mean of role sender group responses is based on the response options coded 1, 2 and 3 (see above). Consequently, if the mean of responses from a role sender group with respect to a particular duty is less than 2.0, this suggests that the group in question considers that auditors perform the duty to a less than satisfactory standard. However, judging whether performance of a duty is satisfactory or otherwise tends to involve a range rather than a point measurement and, therefore, while recognising that the selection of any number to distinguish between satisfactory and unsatisfactory performance is arbitrary, for the purposes of this study 1.9 has been adopted as the point of differentiation. Where the mean of responses from a role sender group is 1.9 or above, this is taken to indicate that the group considers that auditors perform the particular duty adequately or better. A mean of less than 1.9 is taken to signify that the group regards auditors' performance of the duty as unsatisfactory.

The mean of responses from each role sender group provides a useful measure of the overall assessment by each group of auditors' performance of their duties. However, for purposes of deciding whether and what action is required to remedy perceived sub-standard performance, a pertinent indicator is the proportion of respondents signifying that they consider that auditors perform a particular duty poorly. A role sender group, taken as a whole, may be of the opinion that auditors perform a duty satisfactorily, yet, a significant proportion of the group may hold the contrary view. It is submitted that, in assessing auditors' performance of their duties, survey respondents were probably influenced, in applicable cases, by their experience of the work of individual auditors. Thus, if a significant proportion of a role sender group indicates that they consider that auditors perform a duty poorly, this suggests sub-standard performance of the duty by a number of auditors and signals the need for corrective action to be taken. Whilst acknowledging the arbitrariness of any point measurement used to define a 'significant proportion', for the purposes of this study, a significance level of 20% has been adopted. It is considered that, if 20% or more of a role sender group signify that they judge auditors' performance of a particular duty to be poor, then dissatisfaction is sufficiently widespread to warrant the profession initiating remedial action.

It is pertinent to note that for Part 2, section 1b, of the questionnaire, respondents were asked to indicate their assessment of auditors' performance only in relation to the duties they identified as existing duties of auditors. Consequently, some of the samples of responses from the subgroups constituting the four major role sender groups, are less than 30. This applies particularly to the two auditor subgroups, auditing academics, and financial journalists. Where sample size is less than 30, response frequencies may not be a good indicator of population frequencies. To facilitate incorporating sample size as a factor in the analysis of the survey data, the number of responses relating to each duty are shown in the relevant tables presented in the text and in the Appendices.

In order to determine whether differences of opinion evident in the samples of responses from the role sender groups (and subgroups) are statistically significant, the Mann-Whitney test has been applied to the role sender groups' responses. Similarly, the chi-square test has been used to establish the statistical significance (or otherwise) of differences evident in the proportions of the role sender groups who signified that auditors perform their duties poorly. (The Mann-Whitney and chi-square tests are explained in greater detail in Chapter 6).

Details of the survey findings with respect to the standard of performance of auditors' existing duties, and the results of the statistical tests performed on the data, are presented in Appendix 4. Appendices 4a to 4c provide the following information:

- 4a: the number of responses from the survey group as a whole, and from each major role sender group (auditors, auditees, financial community and general public audit beneficiaries), for each of auditors' existing duties as defined by the law or professional promulgations. Also, the proportion of respondents from each group signifying that auditors perform the duty poorly, adequately, or well, or that they were unable to judge;
- 4b: the results of the Mann-Whitney test showing the significance of differences evident in the samples of responses from the four major role sender groups;
- 4c: the results of the chi-square test showing the significance of differences evident in the proportions of the role sender groups who signify that auditors perform their existing duties poorly.

Additionally, the means of responses from the survey group as a whole, and from each of the four major role sender groups, indicating the relevant group's perception of the overall standard of performance of auditors' duties, are presented in Figure 23.

Figure 23: Assessment of auditors' performance of their duties based on means of role sender group responses

Duty No.	Suggested Duties of Auditors[1]	Total Survey Group mean[2]	Auditors mean[2]	Auditees mean[2]	Audit Beneficiaries: Financial Community mean[2]	Audit Beneficiaries: General Public mean[2]	Assessment of Auditors' Performance
2.6	Ensure compliance with cos' legislation	2.3	2.4	2.3	2.2	2.1	Satisfactory
2.3	State whether financial statements fairly reflect co's affairs	2.1	2.4	2.1	1.9	2.0	Satisfactory
2.9	Detect deliberate distortion of financial information	2.0	2.2	2.0	1.8	-	Satisfactory
2.8a	Detect theft of corporate assets by non-managerial employees	1.9	2.0	1.8	2.0		Borderline
2.8b	Detect theft of corporate assets by co. directors/senior management	1.8	2.0	1.7	1.8	1.8	Unsatisfactory
2.11c	Disclose in audit report deliberate distortion of financial information	1.8	2.1	1.8	1.7		Unsatisfactory
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	1.8	1.8	1.7	1.7	1.9	Unsatisfactory
2.13a	Detect illegal acts by co. officials which directly impact on the co's accounts	1.8	1.8	1.7	1.7	1.8	Unsatisfactory
2.5b	Express doubts in audit report about co's continued existence	1.8	2.0	1.6	1.6	1.8	Unsatisfactory
2.14a	Disclose in audit report illegal acts which directly impact on the co's. accounts	1.7	1.8	1.6	1.6	1.9	Unsatisfactory

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 1.9 is adopted as the point of differentiation between satisfactory and unsatisfactory performance.

Appendices 4d to 4g present, for each of the subgroups constituting auditors' major role sender groups, sets of data similar to that contained in Appendices 4a to 4c, but also including the means of the subgroup responses reflecting the standard of performance of auditors' existing duties as perceived by the subgroup.

7.3.2 Role senders' assessment of auditors' performance of their existing duties

Opinions of the survey group as a whole, and of the four major role sender groups, regarding the standard of performance of auditors' existing duties, based on the means of responses

Reference to Figure 23 shows that, based on the means of their responses, the survey group as a whole considered that four of auditors' existing duties are performed satisfactorily and six are not. It is significant that the duties which auditors' role senders perceive auditors to perform unsatisfactorily include four of the five duties not recognised by auditors as their existing duties (see Figure 21). These relate to detecting and disclosing theft of corporate assets and other illegal acts by company officials which directly impact on the company's accounts (duty nos. 2.8b, 2.11b, 2.13a, and 2.14a).

Analysis of Figure 23 also shows that, not surprisingly, auditors rate the standard of their performance more highly than do the other role sender groups. The means of responses from the auditor group are generally higher than the corresponding means of responses from the other groups. Further, auditors signify perceived sub-standard performance with respect to only three duties, namely,

- disclosing in the audit report misappropriation of corporate assets by company directors/senior management (duty no. 2.11b);
- detecting, and disclosing in the audit report, illegal acts by company officials which directly impact on the company's accounts (duty nos. 2.13a and 2.14a).

This compares with seven duties which auditees and financial community audit beneficiaries consider that auditors perform poorly. In addition to the three duties for which sub-standard performance is recognised by auditors, auditees and financial community audit beneficiaries consider that auditors do not perform satisfactorily, their duties:

- to disclose in the audit report
  - doubts about the continued existence of an auditee company (duty no. 2.5b);
  - deliberate distortion of financial information (duty no. 2.11c);
- to detect theft of corporate assets by company directors/senior management (duty no. 2.8b).

Additionally, auditees consider that auditors perform to an unsatisfactory standard their duty to detect theft of corporate assets by non-managerial employees (duty no. 2.8a). Financial community audit beneficiaries have the same opinion about auditors' performance of their duty to detect deliberate distortion of financial information (duty no. 2.9).

The generally high rating of auditors' performance by auditors is to be expected. However, somewhat surprising, is the fairly high level of agreement amongst the non-auditor role sender groups in their assessment of the standard of performance of auditors' existing duties. Indeed, the results of the Mann-Whitney test presented in Appendix 4b indicate that, with one exception, there is no statistically significant difference in the opinions of auditees, financial community audit beneficiaries and general public audit beneficiaries. The exception is auditors' duty to state whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3) and, for this duty, the mean of responses from all of the role sender groups signify that they consider that auditors perform the duty satisfactorily.

Despite the overall similarity in the opinions of the non-auditor role sender groups regarding the standard of performance of auditors' existing duties, differences of opinion are reflected in the means of their responses with respect to five duties. These are the duties:

- to detect theft of corporate assets by non-managerial employees (duty no. 2.8a);
- to detect deliberate distortion of financial information (duty no. 2.9);
- to disclose in the audit report
    - misappropriation of corporate assets by company directors/senior management (duty no. 2.11b);
    - deliberate distortion of financial information (duty no. 2.11c);
    - illegal acts by company officials which directly impact on the company's accounts (duty no. 2.14a).

In the case of duty no. 2.8a, financial community audit beneficiaries signified that they were satisfied with auditors' performance of the duty, but auditees and general public audit beneficiaries indicated that they were not. For duty no. 2.9 auditees adjudged auditors' performance to be satisfactory, but financial community audit beneficiaries indicated that they were of the contrary view. (Duty no. 2.9 was omitted from the general public version of the questionnaire). With respect to the other three duties (duty nos. 2.11b, 2.11c and 2.14a), auditees and financial community audit beneficiaries registered dissatisfaction with auditors' performance, but general public audit beneficiaries signified that they regarded auditors' performance to be on the borderline between satisfactory and unsatisfactory (the mean of their responses for each of these duties is 1.9: see Figure 23). Despite the apparent difference of opinion between the non-auditor role sender groups with respect to these duties, as noted above, the results of the Mann-Whitney test suggest that the differences which are evident may not reflect real differences of opinion in the underlying populations (see Appendix 4b).

In summary it is concluded that, based on the means of their responses, all of the role sender groups consider that auditors perform satisfactorily their duties:

- to state whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3);
- to ensure that auditee companies comply with companies' legislation (duty no. 2.6);

The role sender groups also agree that auditors do not perform adequately their duty to detect illegal acts by company officials which directly impact on the company's accounts (duty no. 2.13a). However, beyond these three duties the opinions of the role sender groups regarding the standard of performance of auditors' duties appear to differ. Nonetheless, based on the means of responses presented in Figure 23 and the results of the Mann-Whitney test noted above, it is submitted that, notwithstanding the mean of responses from financial community audit beneficiaries of 1.8, auditors' role senders adjudge auditors' performance of their duty to detect deliberate distortion of financial information (duty no. 2.9) as satisfactory. On the same basis, it is submitted that, despite some means of responses from auditors and general public audit beneficiaries equalling or exceeding 1.9 (see Figure 23), role senders consider that auditors do not perform adequately their duties:

- to express doubts in the audit report about the continued existence of an auditee company (duty no. 2.5b);
- to detect theft of corporate assets by company directors/senior management (duty no. 2.8b);
- to disclose in the audit report
  - misappropriation of corporate assets by company directors/senior management (duty no. 2.11b);
  - deliberate distortion of financial information (duty no. 2.11c);
  - illegal acts by company officials which directly impact on a company's accounts (duty no. 2.14a).

With respect to auditors' duty to detect theft of corporate assets by non-managerial employees (duty no. 2.8a), it is seen from Figure 23 that the mean of responses from the survey group as a whole is 1.9, the point selected arbitrarily to differentiate between satisfactory and unsatisfactory performance. It is also observed that the mean of responses from both auditors and financial community audit beneficiaries is 2.0, signifying that these role sender groups consider that auditors perform the duty satisfactorily. However, the mean of responses from auditees and general public audit beneficiaries with respect to this duty is 1.8, suggesting that these groups consider that auditors' performance of the duty is sub-standard. Overall, it is concluded that auditors' performance of their duty to detect theft of corporate assets by non-managerial employees (duty no. 2.8a) is perceived by their role senders to be on the borderline between satisfactory and unsatisfactory.

Duties identified by 20% or more respondents from the total survey group, or from the major role sender groups, as being poorly performed by auditors

The duties which 20% or more respondents from the total survey group, or from the major role sender groups, consider to be poorly performed by auditors support the duties for which perceived sub-standard performance is recognised based on the means of role sender group responses. As shown in Figure 24, six duties are considered to be poorly performed by auditors by 20% or more of the total survey group who expressed an opinion about the performance of the duties in question. These are the duties:

- to disclose in the audit report
  - doubts about the continued existence of an auditee company (duty no. 2.5b);
  - illegal acts by company officials which directly impact on the company's accounts (duty no. 2.14a);
  - misappropriation of corporate assets by company directors/senior management (duty no. 2.11b);
  - deliberate distortion of financial information (duty no. 2.11c);
- to detect
  - illegal acts by company officials which directly impact on the company's accounts (duty no. 2.13a);
  - theft of corporate assets by company directors/senior management (duty no. 2.8b).

These duties coincide with the duties for which sub-standard performance was identified above, based on the means of responses.

Examination of Figure 24 reveals that, based on a 20% significance level, auditors' role sender groups agree in their assessment of auditors' performance with respect to four

Figure 24: Proportion of role sender groups signifying that auditors' duties are poorly performed

Duty No.	Suggested Duties of Auditors[1]	Total Survey Group		Auditors		Auditees		Audit Beneficiaries Financial Community		Audit Beneficiaries General Public	
		No. resp.[2]	Poor perf.[3] %	No. resp.[2]	Poor perf.[3] %	No. resp.[2]	Poor perf.[3] %	No. resp.[2]	Poor perf.[3] %	No. resp.[2]	Poor perf.[3] %
2.5b	Express doubts in audit report about co's continued existence	666	33	171	22	220	39	148	41	160	30
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	375	25	48	19	128	29	68	28	149	21
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	386	24	58	22	122	28	79	27		
2.11c	Disclose in audit report deliberate distortion of financial information	682	24	150	13	257	27	171	32	149	21
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	462	21	71	23	143	22	94	20	178	22
2.8b	Detect theft of corporate assets by co. directors/senior management	560	20	37	16	154	21	124	16		
2.8a	Detect theft of corporate assets by non-managerial employees	524	19	33	12	133	18	107	12	264	22
2.9	Detect deliberate distortion of financial information	660	16	172	5	315	16	219	24	-	-
2.3	State whether financial statements fairly reflect co's affairs	1042	14	194	2	328	12	237	23	332	15
2.6	Ensure compliance with cos' legislation	632	7	116	7	210	6	128	7	201	8

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 No. of respondents expressing an opinion about auditors' performance of the duty, or indicating they were unable to judge.
3 % signifying that auditors perform the duty poorly.

duties. More than 20% of respondents from each of the major role sender groups (including auditors) indicate that auditors perform poorly their duties:

- to disclose in the audit report
    - doubts about the continued existence of an auditee company (duty no. 2.5b);
    - misappropriation of corporate assets by company directors/senior management (duty no. 2.11b);
- to detect illegal acts by company officials which directly impact on the company's accounts (duty no. 2.13a).

Conversely, fewer than 10% of respondents from each group consider that auditors perform poorly their duty to ensure that auditee companies comply with companies' legislation (duty no. 2.6).

With respect to the six other existing duties of auditors, the role sender groups differ in their assessment of auditors' performance. In the case of auditors' duties to disclose in the audit report deliberate distortion of financial information and illegal acts by company officials which directly impact on the company's accounts (duty nos. 2.11c and 2.14a), fewer than 20% of auditors consider that the duties are performed poorly but more than 20% of each of the non-auditor role sender groups hold the contrary opinion. Both auditees and general public audit beneficiaries assess as poor auditors' performance of their duty to detect theft of corporate assets by company directors/senior management (duty no. 2.8b) but, for the three remaining duties, 20% or more of respondents from just one role sender group consider that the duty in question is poorly performed. The corresponding proportion of responses from the other role sender groups is less than 20% (see Figure 24). Over 20% of financial community audit beneficiaries consider that auditors perform poorly their duties:

- to state whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3);
- to detect deliberate distortion of financial information (duty no. 2.9).

Over 20% of general public audit beneficiaries adjudge auditors' performance of their duty to detect theft of corporate assets by non-managerial employees to be poor (duty no. 2.8a). (It is noted that in the general public version of the questionnaire this duty was combined with duty no. 2.8b: see footnote 17).

Opinions of the subgroups constituting auditors' major role sender groups regarding the standard of performance of auditors' duties

Auditor subgroups

Reference to Appendix $4d_1$ shows that, based on the means of their responses, audit partners and non-partner audit staff share broadly the same opinions about the standard of performance of auditors' existing duties. However, their opinions do differ in relation to four duties, namely, the duties:

- to detect theft of corporate assets by non-managerial employees (duty no. 2.8a);
- to disclose in the audit report misappropriation of corporate assets by company directors/senior management (duty no. 2.11b);
- to detect, and to disclose in the audit report, illegal acts by company officials which directly impact on the company's accounts (duty nos. 2.13a and 2.14a).

With respect to auditors' duty to detect theft of corporate assets by non-managerial employees (duty no. 2.8a), audit partners consider that auditors perform the duty poorly, but non-partner audit staff do not agree. For the other three duties (duty nos. 2.11b, 2.13a, 2.14a) the position is reversed: audit partners consider that auditors perform the duties satisfactorily, but non-partner audit staff assess auditors' performance as sub-standard. However, in relation to these last three duties, the results of the Mann-Whitney test presented in Appendix 4d3 indicate that there is no statistically significant difference in the responses of the two subgroups, therefore, the apparent difference of opinion may attach to the samples of responses obtained by the survey, rather than reflecting a real difference of opinion in the underlying populations.

The two auditor subgroups agree that the six other existing duties of auditors are performed satisfactorily, that is, their duties:

- to state whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3);
- to express doubts in the audit report about the continued existence of an auditee company (duty no. 2.5b);
- to ensure that auditee companies comply with companies' legislation (duty no. 2.6);
- to detect theft of corporate assets by company directors/senior management (duty no. 2.8b);
- to detect, and to disclose in the audit report, deliberate distortion of financial information (duty nos. 2.9 and 2.11c);

Despite the broad similarity of opinion which is reflected in the means of responses from the two auditor subgroups regarding auditors' performance of their duties, the duties which 20% or more respondents from each subgroup identified as being poorly performed differ noticeably (see Appendix $4d_2$). At least 20% of audit partners considered that auditors perform poorly their duties:

- to detect theft of corporate assets
  - by non-managerial employees (duty no. 2.8a);
  - by company directors/senior management (duty no. 2.8b);
- to detect, and to disclose in the audit report, illegal acts by company officials which directly impact on the company's accounts (duty nos. 2.13a and 2.14a).

By contrast, fewer than 20% of non-partner audit staff indicated that auditors perform these duties poorly. However, more than 20% of this subgroup identified as being poorly performed, auditors' duties to disclose in the audit report:

- doubts about the continued existence of an auditee company (duty no. 2.5b);
- misappropriation of corporate assets by company directors/senior management (duty no. 2.11b).

In noting the differences in the duties which 20% or more respondents from the respective auditor subgroups signified to be poorly performed by auditors, it is pertinent to observe that in two cases (duty nos. 2.8a and 2.8b) sample size was less than 30. As a result of the small sample size the survey findings may not be a good indicator of the relevant population frequencies.

Auditee subgroups

The opinions of the auditee role sender subgroups regarding the standard of performance of auditors' existing duties are characterised by their similarity. Indeed, based on the means of their responses, the three subgroups share the same opinion about the standard of performance of auditors' duties in all but two cases. The exceptions are auditors' duties to detect theft of corporate assets by non-managerial employees (duty no. 2.8a) and to disclose in the audit report deliberate distortion of financial information (duty no. 2.11c). However, with respect to each of these duties the Mann-Whitney test indicates that the difference which is evident in the responses from the three auditee subgroups is not statistically significant (see Appendix 4e3).

The three subgroups agree that auditors perform satisfactorily their duties:

- to state whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3);
- to ensure that auditee companies comply with companies' legislation (duty no. 2.6).
- to detect deliberate distortion of financial information (duty no. 2.9).

The three subgroups also agree that auditors do not perform adequately five other duties. These are the duties:

- to express doubts in the audit report about the continued existence of an auditee company (duty no. 2.5b);
- to detect, and to disclose in the audit report,
  - misappropriation of corporate assets by company directors/senior management (duty nos. 2.8b and 2.11b);
  - illegal acts by company officials which directly impact on the company's accounts (duty nos. 2.13a and 2.14a).

Examination of the duties which 20% or more respondents from the auditee subgroups signified that auditors perform poorly, indicates that there is greater agreement among the auditee subgroups than is evident among the auditor subgroups (see Appendices 4e2 and 4d2 respectively). More than 20% of respondents from all three auditee subgroups considered that auditors perform poorly their duties:

- to disclose in the audit report
  - doubts about the continued existence of an auditee company (duty no. 2.5b);
  - misappropriation of corporate assets by company directors/senior management (duty no. 2.11b);

- deliberate distortion of financial information (duty no. 2.11c);

- to detect illegal acts by company officials which directly impact on the company's accounts (duty no. 2.13a).

More than 20% of both the executives/directors group and the internal auditor respondents also considered that auditors perform poorly their duties:

- to detect theft of corporate assets by company directors/senior management (duty no. 2.8b);
- to disclose in the audit report illegal acts by company officials which directly impact on the company's accounts (duty no. 2.14a).

Additionally, over 20% of the internal auditors group considered that external auditors perform poorly their duty to detect theft of corporate assets by non-managerial employees (duty no. 2.8a).

Notwithstanding the differences in the duties identified by 20% or more respondents from the auditee subgroups as being poorly performed by auditors, as for the auditor subgroups, the results of the chi-square test indicate that there is no statistically significant difference in the proportions of the three auditee subgroups who signified that a particular duty is performed poorly (see Appendix $4e_4$).

Financial community audit beneficiaries subgroups

Reference to Appendix $4f_i$ shows that the subgroups constituting the financial community audit beneficiaries role sender group broadly agree about the standard of performance of auditors' existing duties. They all consider that auditors perform satisfactorily their duties:

- to ensure that auditee companies comply with companies' legislation (duty no. 2.6);
- to detect theft of corporate assets by non-managerial employees (duty no. 2.8a).

They also agree that auditors do not perform to a satisfactory standard their duties to disclose in the audit report:

- doubts about the continued existence of an auditee company (duty no. 2.5b);
- misappropriation of corporate assets by company directors/senior management (duty no. 2.11b).

With respect to auditors' duties to detect, and to disclose in the audit report, illegal acts by company officials which directly impact on the company's accounts (duty nos. 2.13a and 2.14a), the analyst/stockbroker/investor group and auditing academics perceive auditors' performance to be sub-standard, but the mean of responses from corporate bankers, in each case, is 1.9, the arbitrary point of differentiation between satisfactory and unsatisfactory performance. The results of the Mann-Whitney test presented in Appendix $4f_3$ indicate that there is no statistically significant difference between the opinions of corporate bankers and those of the two other financial community audit beneficiaries subgroups. Based on these observations, it is concluded that all three financial community audit beneficiaries subgroups consider that auditors' performance of duty nos. 2.13a and 2.14a is not satisfactory.

Reference to Appendix $4f_1$ shows that the opinion of the three financial community audit beneficiaries subgroups appears to differ regarding the standard of performance of auditors' duties:

- to state whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3);
- to detect
    - theft of corporate assets by company directors/senior management (duty no. 2.8b);
    - deliberate distortion of financial information (duty no. 2.9);
- to disclose in the audit report deliberate distortion of financial information (duty no. 2.11c).

In the case of duty nos. 2.8b and 2.9, both corporate bankers and auditing academics consider that auditors perform the duties adequately, but the combined analyst/stockbroker/investor group holds the contrary view. With respect to the duty to state whether financial statements fairly reflect the company's financial affairs (duty no. 2.3), the combined analyst/stockbroker/investor group and auditing academics consider that auditors perform the duty to a satisfactory standard, but corporate bankers do not agree. For the duty to disclose in the audit report deliberate distortion of financial information (duty no. 2.11c), while both corporate bankers and the analyst/stockbroker/investor group regard auditors' performance of the duty as sub-standard, auditing academics consider that their performance is on the borderline between satisfactory and unsatisfactory. However, in relation to both duty nos. 2.3 and 2.11c, it is noted that the results of the Mann-Whitney test suggest that there is no significant difference in the opinions of the three financial community audit beneficiaries subgroups (see Appendix 4f3).

Comparison of Appendices $4f_1$ and $4f_2$ shows that most of the duties which 20% or more respondents from the financial community audit beneficiaries subgroups signalled as being poorly performed by auditors, coincide with the duties identified as not being performed to a satisfactory standard from the means of the subgroups' responses. However, differences are also evident. For example, based on the means of their responses, both the combined analyst/stockbroker/investor group and auditing academics appear to be satisfied with auditors' performance of the duty to state whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3). Yet, 20% or more respondents from these subgroups indicated that auditors perform this duty poorly.

Similarly, although based on the means of their responses, auditing academics appear to consider that auditors perform satisfactorily their duties to detect theft of corporate assets by company directors/senior management (duty no. 2.8b) and to disclose in the audit report deliberate distortion of financial information (duty no. 2.11c), more than 20% of respondents from this subgroup signified that auditors perform these duties poorly. Conversely, fewer than 20% of the combined analyst/stockbroker/ investor group identified auditors' performance of the duty to detect theft of corporate assets by company directors/senior management (duty no. 2.8b) as poor, and fewer than 20% of corporate bankers considered that auditors perform poorly their duty to disclose in the audit report such theft of corporate assets (duty no. 2.11b), yet, based on the means of their responses, these subgroups identified the duty concerned as being performed to an unsatisfactory standard.

In summary, at least 20% of all three financial community audit beneficiaries subgroups signified that auditors perform poorly three of their existing duties, namely;

- to state whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3);
- to express doubts in the audit report about the continued existence of an auditee company (duty no. 2.5b);
- to disclose in the audit report instances of deliberate distortion of financial information (duty no. 2.11c).

Additionally, more than 20% of both the combined analyst/stockbroker/investor group and auditing academics indicated that they hold the same opinion about the performance of auditors duties:

- to detect, and to disclose in the audit report, illegal acts by company officials which directly impact on the company's accounts (duty nos. 2.13a and 2.14a);
- to disclose in the audit report misappropriation of corporate assets by company directors/senior management (duty no. 2.11b).

More than 20% of both the combined group and corporate bankers considered that auditors also perform poorly their duty to detect deliberate distortion of financial information (duty no. 2.9), and 25% of auditing academics expressed the same opinion about auditors' performance of their duty to detect theft of corporate assets by company directors/senior management (duty no. 2.8b) (see Appendix $4f_2$).

Despite the apparent differences in some of the duties which 20% or more of the financial community audit beneficiaries subgroups identified as being poorly performed by auditors, as for the auditor and auditee role sender subgroups, the results of the chi-square test indicate that differences in the proportions of the three subgroups who signified that a particular duty is poorly performed are not significant (see Appendix $4f_4$).

General public audit beneficiaries subgroups

Appendix $4g_1$ shows that, based on the means of their responses, the opinions of the general public audit beneficiaries subgroups regarding the standard of performance of auditors' existing duties differ markedly. The four subgroups (branch bank managers, lawyers, financial journalists, and the group selected from the electoral rolls) agree that auditors perform satisfactorily their duty to ensure that auditee companies comply with companies' legislation (duty no. 2.6) but, that is where their agreement ends. Financial journalists consider that auditors perform all of their other duties to a less than satisfactory standard. Lawyers hold the same opinion, with one exception. This subgroup considers that, in addition to duty no. 2.6, auditors perform adequately their duty to state whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3). At the other extreme, branch bank managers and the group selected from the electoral rolls are satisfied with auditors' performance of all but one of their duties. Branch bank managers assess auditors' performance of their duty to express doubts in the audit report about the continued existence of an auditee company (duty no. 2.5b) as sub-standard. The group selected from the electoral rolls consider that auditors do not perform satisfactorily their duty to detect illegal acts by company officials which directly impact on the company's accounts (duty no. 2.13a).

Notwithstanding the differences of opinion which are evident in the responses from the subgroups of general public audit beneficiaries, the results of the Mann-Whitney test indicate that for all of the duties, other than that of stating whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3), the differences are not statistically significant (see Appendix 4g3).

The duties which 20% or more respondents from the general public audit beneficiaries subgroups signified that auditors perform poorly, in general, coincide with the duties identified as being performed to an unsatisfactory standard from the means of the subgroup responses (see Appendices 4g1 and 4g2). However, there is one exception to this. The mean of responses from the group selected from the electoral rolls suggests that this subgroup adjudges auditors' performance of their duty to express doubts about the continued existence of an auditee company (duty no. 2.5b) to be on the borderline between satisfactory and unsatisfactory (the mean of their responses is 1.9). Yet, 24% of respondents from this subgroup indicated that this duty is poorly performed by auditors.

From the above analysis of the standard of performance of auditors' existing duties, as perceived by their role senders, it is seen that auditors are relatively satisfied with their performance, but that non-auditor role sender groups do not share their view. It is also evident that there is a fairly high level of consensus among the non-auditor role sender groups about the duties which auditors do, and do not, perform to a satisfactory standard. The opinions of the subgroups constituting the major role sender groups and, in particular, those constituting the financial community and general public audit beneficiaries role sender groups, are seen to vary quite markedly. However, as for the major role sender groups, the results of the Mann-Whitney and chi-square tests indicate that differences of opinion between related subgroups are, in practically all cases, not statistically significant.

On the basis of the survey findings outlined above, the duties which contribute to the deficient performance component of the audit expectation-performance gap may be identified. This is explained below.

7.3.3 The deficient performance component of the audit expectation-performance gap

In Chapter 2, the deficient performance component of the audit expectation-performance gap was defined as the gap between auditors' existing duties, as defined by the law and professional promulgations, and auditors' performance of these duties, as perceived by society. However, as the focus of attention is perceived deficient performance by auditors, the gap is more accurately defined as that between expected performance of auditors' existing duties and perceived sub-standard performance of these duties, as expected and perceived by society. 'Society', in this context, is defined to mean the population at large exclusive of auditors, and thus coincides with non-auditor role senders (see footnote 3). Following from this, and noting the similarity of opinion among the non-auditor role sender groups regarding the standard of performance of auditors' duties, it is considered appropriate to identify the duties which contribute to the deficient performance gap on the basis of the opinions of non-auditor role senders taken as a whole. The means of responses from this group (designated the society group), and the group's assessment of auditor's performance of their duties, are presented in Figure 25.

From Figure 25 it is seen that, based on the means of their responses, non-auditor role senders signify that auditors do not perform satisfactorily seven of their existing duties. These are the duties:

- to detect theft of corporate assets
  - by non-managerial employees (duty no. 2.8a);
  - by company directors/senior management (duty no. 2.8b);

Figure 25: Assessment by the society group[1] of the standard of performance of auditors' duties, and auditors' assessment of the status of the duties

Duty no.	*Suggested Duties of Auditors*[2]	No. Resp.[3]	Mean of Resp.[4]	Poorly	OK[5]	Well	Unable to judge	Auditors' assessment of duty
				%	%	%	%	
2.5b	Express doubts in audit report about co's continued existence	506	1.7	37	37	9	18	Duty
2.14a	Disclose in audit report illegal acts which directly impact on the co's accounts.	332	1.7	25	33	8	34	Not a duty
2.11c	Disclose in audit report deliberate distortion of financial information	545	1.8	27	35	10	27	Duty
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	332	1.8	25	31	9	35	Not a duty
2.8b	Detect theft of corporate assets by co. directors/senior management	524	1.8	21	37	7	35	Not a duty
2.13a	Detect illegal acts by co. officials which directly impact on the company's accounts	396	1.8	21	36	6	37	Not a duty
2.8a	Detect theft of corporate assets by non-managerial employees	491	1.8	19	39	9	33	Not a duty
2.9	Detect deliberate distortion of financial information	500	1.9	19	45	14	22	Duty
2.3	State whether financial statements fairly reflect co's affairs	862	2.0	16	53	17	14	Duty
2.6	Ensure compliance with cos' legislation	524	2.2	7	48	24	21	Duty

1 Coincides with non-auditor role senders (see footnote 3).
2 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
3 No. of respondents expressing an opinion about auditors' performance of the duty or indicating they were unable to judge.
4 1.9 is adopted as the point of differentiation between satisfactory and unsatisfactory performance. (The mean is calculated on the basis of responses to options other than 'unable to judge').
5 Represents the response option 'adequately'.

- to disclose in the audit report
  - doubts about the continued existence of an auditee company (duty no. 2.5b);
  - misappropriation of corporate assets by company directors/senior management (duty no. 2.11b);
  - deliberate distortion of financial information (duty no 2.11c);
- to detect, and to disclose in the audit report, illegal acts by company officials which directly impact on the company's accounts (duty nos. 2.13a and 2.14a).

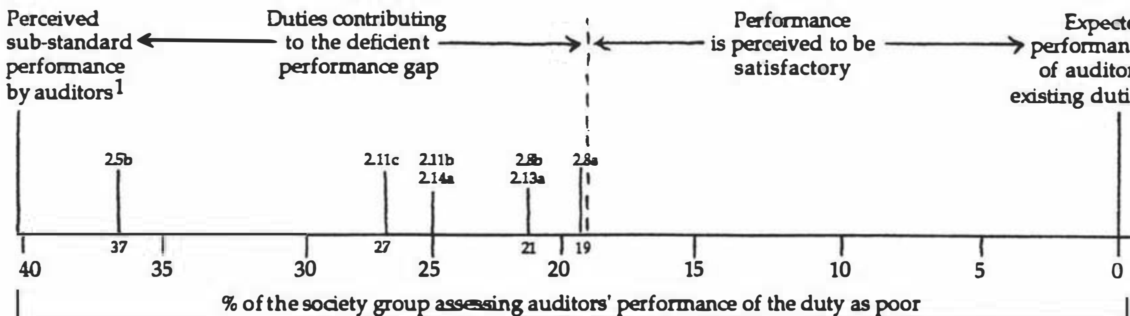
Figure 25 also shows that, in general, the duties which more than 20% of non-auditor respondents indicated that auditors perform poorly, coincide with the duties for which perceived sub-standard performance was identified based on the means of the society group responses. An exception to this is the duty to detect theft of corporate assets by non-managerial employees (duty no. 2.8a). Although perceived sub-standard performance of this duty is reflected in the mean of society group responses (the mean is 1.8), only 19% of respondents from this group signified that auditors perform the duty poorly.

It is submitted that all of the duties which non-auditor role senders consider that auditors perform deficiently are elements of the deficient performance component of the audit expectation-performance gap. This includes the six duties which are identified as being performed to an unsatisfactory standard on the basis of both the means of society group responses and by 20% or more of the group signifying that auditors perform the duties poorly (see Figure 25). However, as noted above, although the duty to detect theft of corporate assets by non-managerial employees (duty no. 2.8a) is identified as being performed inadequately from the mean of the society group responses, only 19% of the group signified that auditors' performance of the duty is poor. Nonetheless, as the mean of responses from those in the society group who judged auditors' performance of the duty indicates that auditors' performance thereof is deficient, it is considered that, like the other six duties referred to above, duty no. 2.8a is an integral part of the deficient performance gap.

From the above discussion it is seen that seven of auditors' existing duties are identified as elements of the deficient performance component of the audit expectation-performance gap. A useful indicator of the relative contribution of each of these duties to the gap is provided by the level of unfulfilled expectations which attach to each duty. This is reflected in the proportion of the society group who signified that the duty in question is poorly performed by auditors and whose expectations with respect to the duty are, therefore, not being met. Figure 26 presents this information in graphical form.

It is pertinent to observe that of the seven duties depicted in Figure 26, five are not recognised by auditors as existing duties. This may account for the poor performance of these duties, as perceived by society. It also indicates that better education is required

Figure 26: Relative contribution of auditors' duties to the deficient performance component of the audit expectation-performance gap



Duty No.	Duty of Auditors
2.5b	To express doubts in the audit report about the continued existence of an auditee company
2.11c	To disclose in the audit report deliberate distortion of financial information
2.11b*	To disclose in the audit report misappropriation of corporate assets by directors/senior management
2.14a*	To disclose in the audit report illegal acts by company officials which directly impact on the company's accounts
2.8b*	To detect theft of corporate assets by company directors/senior management
2.13a*	To detect illegal acts by company officials which directly impact on the company's accounts
2.8a*	To detect theft of corporate assets by non-managerial employees

* Not recognised as an existing duty by auditors.
1 Duties perceived to be poorly performed by the society group (that is, by non-auditor role senders: see footnote 3).

for auditors, so that they are fully cognisant of their duties under the law and professional promulgations. (This is discussed in Chapter 9). Nonetheless, it is also observed that the two duties for which greatest dissatisfaction with auditors' performance was signified by the society group *were* identified as existing duties by auditors.

It is significant that the four duties which were identified by the largest proportion of the society group as being poorly performed by auditors, relate to disclosures in the audit report (see Figure 26). This suggests that non-auditors consider that they are inadequately informed by auditors about adverse conditions or events which occur in auditee companies. It implies that non-auditor role senders believe that auditors have information which they fail to disclose. It appears that this perceived deficiency in auditors' performance could be remedied fairly easily, at little extra cost. However, it is submitted that, for each of the duties depicted in Figure 26, the perceived deficiency in auditors' performance is sufficiently serious for the auditing profession to initiate corrective action. These points are discussed in Chapter 9.

Having identified the existing duties of auditors in section 7.2 above, and considered the adequacy or otherwise of the performance of these duties, attention is now turned to the duties which auditors' role senders consider auditors should perform. This is the first step in identifying the duties which are reasonable to expect of auditors, and in establishing the deficient standards and reasonableness gap components of the audit expectation-performance gap.

7.4 DUTIES WHICH AUDITORS' ROLE SENDERS CONSIDER AUDITORS SHOULD PERFORM

7.4.1 Methodology of analysis

In this section, the duties which auditors' role senders consider auditors should (and should not) perform are established. This is accomplished by analysing role sender group responses to Part 2, section 2, of the questionnaire. The duties identified as those which auditors should perform are compared with auditors' existing duties, as defined by the law and professional promulgations, to ascertain differences. The duties which auditors' role senders consider should be performed by auditors, but which are not existing duties, are analysed in Chapter 8 (section 8.4), to determine which (if any) reflect deficient auditing standards, and which (if any) result from expectations of auditors which are not reasonable (as defined: see section 8.3). Additionally, the duties identified as duties which auditors should perform are used to support the analysis presented in section 8.2, which seeks to define auditors' role in society.

Two indicators are used to identify the duties which role senders consider auditors should perform, namely:

- the mean of responses from the role sender groups with respect to each duty listed in the questionnaire;
- 20% or more respondents from a role sender group signifying that a duty should be performed by auditors.

The mean of responses from a role sender group reflects the representative opinion of the group about the duty in question. A positive mean signifies that the group considers that the duty should be performed by auditors: a negative mean indicates that the group holds the contrary view. The absolute value of the mean indicates how widely the opinion is shared amongst members of the group.

However, although the mean of responses from each role sender group is a useful indicator of the group's opinion as to whether a duty should, or should not, be performed by auditors, a significant proportion of the group may hold the contrary opinion. It is submitted that another useful indicator of the duties which role senders consider auditors should perform is provided by a significant proportion of a role sender group signifying that a particular duty should be performed by auditors. Whilst acknowledging the arbitrariness of any point measurement selected to define 'a significant proportion', for the purposes of this study, a significance level of 20% has been adopted. It is considered that, if 20% or more of a role sender group identify a duty as one which auditors should perform, it warrants further evaluation to determine whether the duty is, or is not, reasonable to expect of auditors. (This is discussed in Chapter 8, section 8.3).

As for the analysis of auditors' existing duties, the Wilcoxon signed-ranks test has been used to determine whether generalised conclusions may be drawn from the samples of responses obtained by the survey about the duties which auditors should perform. Similarly, the Mann-Whitney test has been used to establish whether differences in the opinions expressed by representatives of the role sender groups included in the survey are statistically significant. Additionally, the chi-square test has been applied to ascertain whether differences in the proportions of the role sender groups who signified that the duties listed in the questionnaire should be performed by auditors are statistically significant. (These tests are explained in Chapter 6).

Details of the survey findings with respect to the duties which auditors should perform, and the results of the statistical tests performed on the data, are presented in Appendix 5. Appendices 5a to 5e provide the following information:

5a: the means of responses from the survey group as a whole, and from the four major role sender groups (auditors, auditees, financial community and general public audit beneficiaries), to Part 2, section 2, of the questionnaire;

5b: the proportion of responses from the survey group as a whole, and from each major role sender group, attaching to each response option provided in Part 2, section 2, of the questionnaire;

5c: the results of the Wilcoxon signed-ranks test, as applied to the responses from the total survey group, and from the four major role sender groups, with respect to the duties which auditors should perform;

5d: the results of the Mann-Whitney test showing the significance of differences evident in the responses from the four major role sender groups regarding the duties which auditors should perform;

5e: the results of the chi-square test showing the significance of differences in the proportions of the major role sender groups who signified that auditors should perform the duties listed in the questionnaire.

Appendices 5f to 5i present similar sets of data for each of the subgroups constituting auditors' major role sender groups.

7.4.2 Role sender group expectations regarding the duties auditors should perform

Duties identified by the survey group as a whole, and by auditors' major role sender groups, as duties which auditors should perform, based on the means of their responses

Analysis of the means of responses from the survey group as a whole shows that 18 of the duties listed in the questionnaire were identified as duties which auditors should perform. These duties, for which the means of the survey group responses are positive, are shown in Figure 27. Not surprisingly, these duties include all of auditors' existing duties, as defined by the law and professional promulgations. Of the remaining duties listed in the questionnaire, the survey group was undecided about one, namely, the duty to report to a regulatory authority theft of corporate assets by non-managerial employees (duty no. 2.10a) (the mean of responses to this duty is 0%: see Figure 27), but the group considered that the other 11 duties should not be performed by auditors. Three of these duties have negative means in excess of 60% indicating that respondents were particularly agreed that they should not be performed by auditors. These are the duties:

- to verify every transaction of the auditee company (duty no. 2.22);
- to consider and report on the auditee company's impact on its local community (duty no. 2.21);
- to prepare the auditee company's financial statements (duty no. 2.1).

Of the duties which the survey group indicated should not be performed by auditors, it is noted that, although the mean of responses to the duty to disclose in the audit report theft of corporate assets by non-managerial employees (duty no. 2.11a) is -7%, the Wilcoxon signed-ranks test suggests that this result is not statistically significant (see Appendix 5c).

Figure 27: Duties which auditors' role sender groups consider auditors should perform (based on means of responses)

Duty No.	Role Sender Group *No. of respondents in group*	Total Survey Group *1184*	Auditors *196*	Auditees *342*	Audit Beneficiaries: Financial Community *243*	Audit Beneficiaries: General Public *454*
	Suggested duties of Auditors[1]	*mean* %	*mean* %	*mean* %	*mean* %	*mean* %
	Duties auditors should perform					
2.3	State whether financial statements fairly reflect co's affairs[2]	96	96	98	98	94
2.9	Detect deliberate distortion of financial information[2]	93	84	97	95	-
2.11c	Disclose in audit report deliberate distortion of financial information[2]	74	72	84	89	58
2.5b	Express doubts in audit report about co's continued existence[2]	67	81	63	67	60
2.10c	Report to a regulatory authority deliberate distortion of financial information	51	-2*	52	68	67
2.6	Ensure compliance with cos' legislation[2]	50	26	54	46	55
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	48	-4*	44	62	67
2.8b	Detect theft of corporate assets by co. directors/senior management[2]	44	-31	33	61	81
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management[2]	43	6*	41	52	58
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts[2]	43	16	36	54	57
2.17	Examine & report on co's internal controls	41	8*	49	55	-
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts[2]	39	11*	34	39	58
2.19	Audit published half-yearly co. reports	32	26	24	45	-
2.15	Report to a regulatory authority illegal acts uncovered in co.	31	-14*	11*	32	67
2.20	Examine & report on fairness of financial forecasts	30	18	36	27	-
2.8a	Detect theft of corporate assets by non-managerial employees[2]	28	-51	6*	34	81
2.12	Report to a regulatory authority suspicions of fraud	14	-31	15	42	-
2.5a	Report to a regulatory authority doubts about co's continued existence	12	-19	13	35	-
	Duties which auditors should not perform					
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	0*	-67	-31	-7*	67
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-7*	-71	-30	-24	58
2.4	Guarantee auditee co. is solvent	-17	-64	-25	-21	17
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	-21	-78	-56	-57	57
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-21	-80	-59	-53	58
2.2	Guarantee financial statements are accurate	-30	-92	-53	-44	29
2.7	Report breaches of tax laws to IRD	-30	-75	-49	-36	10*
2.16	Examine & report on fairness of non-financial information	-34	-49	-24	-37	-
2.18	Examine & report on efficiency & effectiveness of co's management	-48	-64	-37	-53	-
2.22	Verify every transaction of auditee co.	-65	-97	-88	-79	-21
2.21	Consider & report on co's impact on its local community	-71	-88	-77	-90	-47
2.1	Prepare auditee co's financial statements	-80	-94	-94	-87	-57

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Existing duties of auditors identified by reference to the law and professional promulgations.
* The results of the Wilcoxon signed-ranks test indicate that no valid generalised conclusion can be drawn about the opinion of the role sender group regarding this duty.

Examination of Figure 27 shows that auditors' four major role sender groups have similar opinions about the duties which auditors should (and should not) perform. Indeed, although the means of responses from financial community audit beneficiaries tend to be higher than the corresponding means for auditees, indicating greater agreement among members of this group, the duties identified by the two role sender groups as duties which auditors should perform, are the same. However, for two of the duties identified by auditees [reporting to a regulatory authority illegal acts uncovered in an auditee company (duty no. 2.15) and detecting theft of corporate assets by non-managerial employees (duty no. 2.8a)], the Wilcoxon signed-ranks test indicates that no generalised conclusion can be drawn from the sample of responses about the opinion of auditees. Nevertheless, the similarity of opinion between auditees and financial community audit beneficiaries about the duties which auditors should perform is underscored by the results of the Mann-Whitney test. These indicate that for 15 of the 30 duties listed in the questionnaire there is no statistically significant difference in the responses of the two role sender groups (see Appendix 5d).

Although auditors and general public audit beneficiaries broadly agree with auditees and financial community audit beneficiaries about the duties which auditors should (and should not) perform, their opinions differ from those of the other two role sender groups. Specifically, the auditor group recognises fewer, and the general public audit beneficiaries group more, duties as duties which auditors should perform (see Figure 27). The means of responses from the auditor group indicate that auditors consider they should perform 11 of the duties listed in the questionnaire (see Figure 27). However, although the means of responses to three of these duties are positive, they are not significant (see Appendix 5c). The same applies to three duties for which the means of responses from the auditor group are negative, indicating that the sample group of auditors considered that the duties in question should not be performed by auditors. The six duties for which no generalised conclusion may be drawn, and the relevant means of responses from the auditor group, are as follows:

- to disclose in the audit report illegal acts which directly impact on the company's accounts (duty no. 2.14a; mean 11%);
- to examine and report on the company's internal controls (duty no. 2.17; mean 8%);
- to disclose in the audit report misappropriation of corporate assets by company directors/senior management (duty no. 2.11b; mean 6%);
- to report to a regulatory authority
  - deliberate distortion of financial information (duty no. 2.10c; mean -2%);
  - misappropriation of corporate assets by company directors/senior management (duty no. 2.10b; mean -4%);
  - illegal acts uncovered in an auditee company (duty no. 2.15; mean -14%).

It is significant that, despite responses from the auditor group to two of the above duties (duty nos. 2.14a and 2.11b) precluding a generalised conclusion that auditors consider that they should perform these duties, they are, in fact, defined by case law to be existing duties of auditors (see section 7.2.3). The same is true of two duties for which auditors' responses have significant negative means, indicating that auditors consider that they should not perform the duties. Notwithstanding means of responses of -51% and -31%, respectively, the duties of detecting theft of corporate assets by non-managerial employees, and by company directors/senior management (duty nos. 2.8a and 2.8b) are existing duties of auditors.

In contrast to the rather narrow view of auditors regarding the duties which they should perform, the means of responses from general public audit beneficiaries indicate that this group adopts a broader perspective. As there were differences in the general public and financial community versions of the questionnaire (see footnote 17), comparison of the opinions of general public audit beneficiaries with those of the other major role sender groups requires caution. Nevertheless, as can be seen from Figure 27, the means of responses from general public audit beneficiaries indicate that this group considers that auditors should perform all of the duties identified by auditees and financial community audit beneficiaries as duties which auditors should perform and, in addition, the duties:

- to guarantee that
  - the audited financial statements are accurate (duty no. 2.2);
  - the auditee company is solvent (duty no. 2.4);
- to report breaches of tax laws to the Inland Revenue Department (duty no. 2.7);
- to disclose in the audit report, and to report to a regulatory authority, theft of corporate assets by non-managerial employees (duty nos. 2.10a and 2.11a);
- to detect, and to report in the audit report, illegal acts which do not directly impact on the company's accounts (duty nos. 2.13b and 2.14b).

However, although the mean of responses from general public audit beneficiaries to duty no. 2.7 is positive (10%), the Wilcoxon signed-ranks test indicates that it is not statistically significant. It is also noted that duty nos. 2.10a, 2.11a, 2.13b and 2.14b were part of composite duties in the general public version of the questionnaire (see footnote 17). Related parts of these duties were recognised as duties which auditors should perform by the financial community role sender groups.

It is pertinent to observe that for duties which are recognised only by general public audit beneficiaries as duties which auditors should perform (see above), the means of responses from the auditors, auditees and financial community audit beneficiaries show that a significant majority of each of these groups considers that these duties should not be performed by auditors (see Figure 27). The apparently broader perspective of general public audit beneficiaries towards the duties which auditors should perform, may result from the greater distance of this group from the audit function and from their greater 'knowledge gap' with respect to the work of auditors (see section 7.2.4). However, it may also reflect a genuine desire by the group to see the audit function extended to fulfil a perceived social need.

Figure 28: Duties identified by 20% or more respondents from auditors' role sender groups as duties which auditors should perform

Duty No.	Role Sender Group *No. of respondents in group*	Total Survey Group *1184*	Auditors *196*	Auditees *342*	Audit Beneficiaries Financial Community *243*	Audit Beneficiaries General Public *454*
	***Suggested duties of Auditors*[1]**	%[2]	%[2]	%[2]	%[2]	%[2]
2.3	State whether financial statements fairly reflect co's affairs*	97	98	98	99	95
2.9	Detect deliberate distortion of financial information*	96	91	99	98	-
2.11c	Disclose in audit report deliberate distortion of financial information*	84	84	90	93	73
2.5b	Express doubts in audit report about co's continued existence*	79	89	77	81	74
2.10c	Report to a regulatory authority deliberate distortion of financial information*	71	44	72	81	77
2.6	Ensure compliance with cos' legislation*	71	61	75	70	70
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	69	44	69	78	77
2.8b	Detect theft of corporate assets by co. directors/senior management*	68	32	63	76	87
2.17	Examine & report on co's internal controls	68	50	72	76	-
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management*	67	49	66	73	73
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts*	67	55	64	73	72
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts*	65	50	63	65	73
2.19	Audit published half-yearly co. reports	61	60	56	69	-
2.20	Examine & report on fairness of financial forecasts	61	55	65	60	-
2.15	Report to a regulatory authority illegal acts uncovered in co.	60	38	49	61	77
2.8a	Detect theft of corporate assets by non-managerial employees	60	23	49	60	87
2.12	Report to a regulatory authority suspicions of fraud	52	29	53	67	-
2.5a	Report to a regulatory authority doubts about co's continued existence	50	35	50	62	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	45	13	30	42	77
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	41	12	29	33	73
2.4	Guarantee auditee co. is solvent	37	16	34	36	52
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	35	8	17	18	72
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	34	8	16	19	73
2.2	Guarantee financial statements are accurate	33	3	22	26	61
2.16	Examine & report on fairness of non-financial information	30	22	34	28	-
2.7	Report breaches of tax laws to IRD	29	9	20	28	47
2.18	Examine & report on efficiency & effectiveness of co's management	23	15	28	20	-
2.22	Verify every transaction of auditee co.	14	1	5	9	31

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 % of respondents signifying auditors should perform the duty.
* Existing duties of auditors as defined by the law and professional promulgations.

Duties identified by 20% or more respondents from the total survey group, or from auditors' major role sender groups, as duties which auditors should perform

The duties which 20% or more of the total survey group identified as duties which auditors should perform, support and extend the duties recognised as such from the means of the group's responses. Reference to Figure 28 shows that 27 of the 30 duties listed in the questionnaire were considered by 20% or more of the survey group to be duties which auditors should perform. These include the 18 duties identified from the means of survey group responses, but also include nine other duties for which the means of the survey group responses range from 0 to -48%. These duties and the relevant response rates are shown in Figure 29.

Figure 29: Duties which more than 20% of the survey group consider should be performed by auditors, but not identified as such duties from the means of survey group responses

Duty no.	*Suggested duty of auditors*[1]	% signifying duty should be performed by auditors	Mean of responses with respect to duty
		%	%
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	45	0
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	41	-7
2.4	Guarantee auditee co. is solvent	37	-17
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	35	-21
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	34	-21
2.2	Guarantee financial statements are accurate	33	-30
2.16	Examine & report on fairness of non-financial information	30	-34
2.7	Report breaches of tax laws to IRD	29	-30
2.18	Examine & report on efficiency & effectiveness of co's management	23	-48

1 The duties as expressed in the questionnaire are shown in Appendix 1a and 1b.

Comparison of Figures 27 and 28 shows that, as for the survey group as a whole, the duties which 20% or more respondents from each of the major role sender groups considered to be duties which auditors should perform, confirm and extend the duties identified as such, based on the means of the role sender groups' responses. Figure 28 also shows that, as for the analysis based on the means of responses, the opinions of the auditees and financial community audit beneficiaries groups are very similar. Indeed, 20% or more respondents from each of the role sender groups identified the same duties as duties which auditors should perform. The similarity of the opinions of the two groups is underscored by the results of the chi-square test. These indicate that for 15 of the 30 duties listed in the questionnaire there is no statistically significant difference in the proportions of auditees and financial community audit beneficiaries who consider that the duties in question should be performed by auditors (see Appendix 5e). Notwithstanding the similarity of the opinions of the two role sender groups, the proportion of the financial community audit beneficiaries who indicated that relevant duties should (or should not) be performed by auditors tends to be higher than the corresponding proportion of auditees. This indicates greater agreement among members of this group, compared with that of auditees.

More than 20% of respondents from the auditees and financial community audit beneficiaries groups recognised 25 of the suggested duties listed in the questionnaire as duties which auditors should perform (see Figure 28). These include the 18 duties identified as such duties from the means of the groups' responses, and an additional seven duties. These seven duties, and the relevant response rates from both role sender groups, are presented in Figure 30. It is observed that, despite more than 20% of auditees and financial community audit beneficiaries indicating that auditors should perform these seven duties, the responses from each group have large negative means for some of the duties and, in one case for each group, reaches -53% (duty no. 2.2 for auditees and duty no. 2.18 for financial community audit beneficiaries). It is also pertinent to note that although more than 20% of the total survey group indicated that auditors should detect and disclose in the audit report illegal acts which do not directly impact on the company's accounts (duty nos. 2.13b and 2.14b), fewer than 20% of the auditees and financial community audit beneficiaries groups signified that auditors should perform these duties.

Figure 30: Duties which more than 20% of auditees and financial community audit beneficiaries consider should be performed by auditors, but not identified as such duties from the means of their responses

Duty no.	*Suggested duty of auditors*[1]	*Auditees* % signifying duty should be performed by auditors	*Auditees* Mean of responses with respect to duty	*Financial Community Audit Beneficiaries* % signifying duty should be performed by auditors	*Financial Community Audit Beneficiaries* Mean of responses with respect to duty
		%	%	%	%
2.4	Guarantee auditee co. is solvent	34	-25	36	-21
2.16	Examine & report on fairness of non-financial information	34	-24	28	-37
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	30	-31	42	-7
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	29	-30	33	-24
2.18	Examine & report on efficiency & effectiveness of co's management	28	-37	20	-53
2.2	Guarantee financial statements are accurate	22	-53	26	-44
2.7	Report breaches of tax laws to IRD	20	-49	28	-36

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

As for the analysis based on the means of responses, fewer duties were recognised by 20% or more of the auditor group as duties which auditors should perform, than were considered to be such duties by 20% or more of the other role sender groups. Further, apart from the duty to express doubts in the audit report about the continued existence of an auditee company (duty no. 2.5b), the proportion of auditor respondents identifying duties as duties which auditors should perform was smaller than that of the other role sender groups (see Figure 28). Nevertheless, as for the other groups, the duties recognised by more than 20% of the auditor group as duties which should be performed by auditors, support and extend the duties so identified from the means of the group's responses. Comparison of Figures 27 and 28 shows that, in addition to the 10 duties recognised from the means of auditor group responses, over 20% of auditor respondents considered that auditors should perform a further eight duties. Seven of these coincide with duties which were identified from the means of responses from the total survey group as duties which auditors should perform. (The means of the survey group's responses to these duties are positive: see Figure 27). These are the duties:

- to detect theft of corporate assets
  - by non-managerial employees (duty no. 2.8a);
  - by company directors/senior management (duty no. 2.8b);
- to report to a regulatory authority
  - doubts about the continued existence of an auditee company (duty no. 2.5a);
  - misappropriation of corporate assets by company directors/senior management (duty no. 2.10b);
  - deliberate distortion of financial information (duty no. 2.10c);
  - suspicions of fraud (duty no. 2.12);
  - illegal acts uncovered in an auditee company (duty no. 2.15).

Figure 27 and 28, respectively, show that the means of auditor group responses to these duties range from -2% to -51%, and that the percentage of auditor respondents who considered that the duties should be performed by auditors range from 23% to 44%. More than 20% of the auditor group recognised one further duty as a duty which auditors should perform, namely, the duty to examine and report on the fairness of non-financial information (duty no. 2.16). Notwithstanding that the mean of their responses is -49%, 22% of the auditor group considered that auditors should perform this duty.

The duties which more than 20% of respondents from the general public audit beneficiaries group considered that auditors should perform, include just one duty which is additional to the duties identified to be such duties based on the means of the group's responses. The additional duty is that of examining evidence to verify every transaction of the auditee company (duty no. 2.22). It is notable that while 31% of general public audit beneficiaries consider that auditors should perform this duty, none of the other major role sender groups shares their opinion. However, equally significant with respect to the duties which more than 20% of each of the role sender groups recognise as duties which auditors should perform, is the fact that the proportion of general public audit beneficiaries signifying that particular duties should be performed by auditors tends to be higher than the corresponding proportions of the other role sender groups. For most of the duties presented in the general public version of the questionnaire, over 70% of general public audit beneficiaries consider that the duty in question should be performed by auditors.

Opinions of the subgroups constituting auditors' major role sender groups regarding the duties which auditors should perform

Auditor subgroups

Reference to Figure 31 shows that, based on the means of their responses, audit partners identify only eight of the duties listed in the questionnaire as duties which auditors should perform, but non-partner audit staff recognise 14 of the duties to be such duties. (The means of responses for these duties are positive). However, the higher absolute values of the means of responses from audit partners indicate that, in general, there is greater agreement among this subgroup about the duties which auditors should and should not perform, than there is among their non-partner staff.

It is pertinent to observe from Figure 31 that, based on the means of their responses, neither of the auditor subgroups recognise as duties which auditors should perform, the duties of detecting theft of corporate assets by non-managerial employees (duty no. 2.8a) or by company directors/senior management (duty no. 2.8b). Yet, as noted in section 7.2.3, these duties are defined by case law to be existing duties of auditors. It is further observed that audit partner respondents did not identify as duties which should be performed by auditors, their existing duties of ensuring that audit clients comply with companies' legislation (duty no. 2.6) and disclosing in the audit report misappropriation of corporate assets by company directors/senior management (duty no. 2.11b). However, although the means of audit partner responses to these duties are negative they are not statistically significant (see Appendix 5f3).

Figure 31: The duties for which the opinions of the auditor subgroups appear to differ regarding the duties which auditors should perform

Duty No.	Role Sender Subgroup *No. of respondents in subgroups*	*Means of responses* Audit Partners *99*	 Non-Partner Audit Staff *97*	*% signifying that duty should be performed by auditors* Audit Partners *99*	 Non-Partner Audit Staff *97*
	***Suggested duties of auditors*[1]**	%	%	%	%
2.3	State whether financial statements fairly reflect co's affairs	96	96	98	98
2.9	Detect deliberate distortion of financial information	91	77	95	88
2.5b	Express doubts in audit report about co's continued existence	83	78	90	88
2.11c	Disclose in audit report deliberate distortion of financial information	78	66	86	81
2.19	Audit published half-yearly co. reports	37	16*	64	55
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	27	6*	59	51
2.20	Examine & report on fairness of financial forecasts	22*	14*	56	55
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	6*	15*	47	53
2.6	Ensure compliance with cos' legislation	-2*	54	48	75
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/ senior management	-34	27	29	59
2.17	Examine & report on co's internal controls	-4*	20*	44	56
2.10c	Report to a regulatory authority deliberate distortion of financial information	-22	19*	34	55
2.11b	Disclose in audit report theft of corporate assets by non-managerial employees	-6*	18*	42	56
2.15	Report to a regulatory authority illegal acts uncovered in co.	-41	14*	22	54
2.5a	Report to a regulatory authority doubts about co's continued existence	-28	-9*	30	40
2.12	Report to a regulatory authority suspicions of fraud	-45	-17*	21	37
2.8b	Detect theft of corporate assets by co. directors/senior management	-37	-24	27	36
2.16	Examine & report on fairness of non-financial information	-60	-38	16	29
2.8a	Detect theft of corporate assets by non-managerial employees	-54	-47	20	26
2.4	Guarantee auditee co. is solvent	-78	-51	9	24
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	-84	-51	5	22
2.18	Examine & report on efficiency & effectiveness of co's management	-73	-56	9	21

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
* The results of the Wilcoxon signed-ranks test indicates that no valid generalised conclusions can be drawn as to whether the subgroup considers the duty should or should not be performed by auditors.

Reference to Figure 31 shows that, as for the total survey group and the major role sender groups, significantly more duties were recognised as duties which auditors should perform by 20% or more respondents from the auditor subgroups, than were considered to be such duties by the subgroups overall (as reflected in the positive means of their responses). More than 20% of audit partners recognised 10 more duties as duties which auditors should perform than were identified as such from the means of their responses. Six of these additional duties were identified by the non-partner audit staff group as duties which should be performed by auditors (reflected in the positive means of their responses) (duty nos. 2.6, 2.10b, 2.10c, 2.11b, 2.15 and 2.17: see Figure 31). The four other additional duties recognised by audit partners as duties which auditors should perform were similarly identified by more than 20% of non-partner audit staff (duty nos. 2.5a, 2.8a, 2.8b and 2.12: see Figure 31). More than 20% of non-partner audit staff also recognised a further four duties as duties which auditors should perform (duty nos. 2.4, 2.10a, 2.18 and 2.16). However, as Figure 31 shows, less than 20% of audit partners considered that auditors should perform these duties.

Notwithstanding the differences of opinion which are evident in the responses from audit partners and non-partner audit staff with respect to the duties which auditors should perform, the results of the Mann-Whitney test indicate that for 20 of the 30 duties listed in the questionnaire there is no statistically significant difference in the responses from the two subgroups (see Appendix 5f4). Similarly, for 19 of the 30 duties, the results of the chi-square test suggest that differences in the proportions of the two subgroups signifying that the duties should be performed by auditors are not statistically significant (see Appendix 5f5).

Auditee subgroups

Unlike the auditor role sender subgroups, the opinions of the auditee subgroups regarding the duties which auditors should perform are characterised by their similarity. Reference to Appendix 5g1 shows that, based on the means of their responses, the opinions of the subgroups differ only with respect to 5 duties (see Figure 32). These are the duties:

- to report to a regulatory authority
    - doubts about the continued existence of an auditee company (duty no. 2.5a);
    - illegal acts uncovered in an auditee company (duty no. 2.15);

Figure 32: The duties for which the opinions of the auditee subgroups appear to differ regarding the duties which auditors should perform

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*	*Means of responses* Executives/ Directors[2] 186	 Company Accountants 99	 Internal Auditors 73	*% signifying duty should be performed by auditors* Executives/ Directors 186	 Company Accountants 99	 Internal Auditors 73
	Suggested duty of auditors[1]	%	%	%	%	%	%
2.5a	Report to a regulatory authority doubts about co's continued existence	-2*	25	31	43	57	54
2.8a	Detect theft of corporate assets by non-managerial employees	17	-19*	7*	55	38	47
2.15	Report to a regulatory authority illegal acts uncovered in co.	3*	-3*	41	47	39	66
2.16	Examine & report on fairness of non-financial information	-38	-30	21*	28	32	56
2.18	Examine & report on efficiency & effectiveness of co's management	-53	-54	25*	21	19	59
2.2	Guarantee financial statements are accurate	-48	-66	-56	24	15	21
2.7	Report breaches of tax laws to IRD	-58	-60	-17	16	15	33
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-26	-50	-20	32	19	34
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	-69	-68	-13	13	11	37
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-70	-70	-23	12	9	31
2.21	Consider & report on co's impact on its local community	-86	-85	-44	5	5	24

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of company executives and non-executive directors.
* The results of the Wilcoxon signed-ranks test indicate that no valid generalised conclusions can be drawn as to whether the subgroup considers the duty should or should not be performed by auditors.

- to detect theft of corporate assets by non-managerial employees (duty no. 2.8a);
- to examine and report on
  - the fairness of non-financial information (duty no. 2.16);
  - the efficiency and effectiveness of the auditee company's management (duty no. 2.18).

It is pertinent to observe that in each case where the opinion of one of the subgroups differs from that held by the other two, the Wilcoxon signed-ranks test indicates that the survey finding is not statistically significant (see Appendix 3g3). The similarity of the opinions of the subgroups is underscored by the results of the Mann-Whitney test. These indicate that in only a few instances are the differences which are evident in the responses from the three subgroups statistically significant (see Appendix 5g4).

Reviewing the duties which the auditee subgroups recognise as duties which auditors should perform, it is pertinent to observe that, like the two auditor subgroups, company accountants appear to believe that auditors should not perform the duty of detecting theft of corporate assets by non-managerial employees (duty no. 2.8a) – one of their existing duties (see section 7.2.3). (The mean of company accountants' responses to this duty is -19%). However, reference to Figure 32 shows that, notwithstanding the opinion reflected in the mean of their responses, 38% of the subgroup consider that auditors should perform this duty.

The similarity of opinion which is reflected in the means of responses from the auditee subgroups regarding the duties which auditors should perform, is also reflected in the duties which 20% or more respondents from each of the subgroups signified to be such duties. Reference to Appendix 3g2 shows that the duties so recognised by 20% or more of each of the auditee subgroups differ only with respect to the duties:

- to guarantee that audited financial statements are accurate (duty no. 2.2);
- to report breaches of tax laws to the Inland Revenue Department (duty no. 2.7);
- to disclose in the audit report theft of corporate assets by non-managerial employees (duty no. 2.11a);
- to detect, and to disclose in the audit report, illegal acts by company officials which do not directly impact on the company's accounts (duty nos. 2.13b and 2.14b);
- to examine and report on the efficiency and effectiveness of the auditee company's management (duty no. 2.18);
- to consider and report on the impact of the auditee company on its local community (duty no. 2.21).

As shown in Figure 32, while more than 20% of internal auditors consider that external auditors should perform all of these duties, this opinion is not shared with respect to any of the duties by 20% or more company accountants. The combined executives/ directors group adopt an intermediate stance, with more than 20% of this group recognising three of the duties as duties which auditors should perform (duty nos. 2.2, 2.11a and 2.18: see Figure 32).

Although differences are evident in the duties which are identified by 20% or more of the auditee subgroups (as noted above), the results of the chi-square test presented in Appendix 5g5 indicate that there is no statistically significant difference in the proportions of the three subgroups who signified that auditors should guarantee that audited financial statements are accurate (duty no. 2.2). Similarly, there is no statistically significant difference in the proportions of the executives/directors group and company accountants who signified that auditors should perform the other duties noted above, with the exception of the duty to disclose in the audit report theft of corporate assets by non-managerial employees (duty no. 2.11a). In the case of this duty (duty no. 2.11a) the chi-square test indicates that there is no significant difference in the proportions of the executives/directors group and internal auditors who consider that it should be a duty of auditors.

Financial community audit beneficiaries subgroups

As for the auditee role sender subgroups, the opinions of the financial community audit beneficiaries subgroups regarding the duties which auditors should perform are characterised by their similarity. Reference to Appendix 5h1 shows that the combined analyst/stockbroker/investor group and corporate bankers identify the same duties as duties which auditors should perform. However, with respect to five duties, auditing academics do not appear to share the opinion of the other subgroups (see Figure 33). Unlike the other subgroups, auditing academics do not consider that auditors should perform the duties:

- to detect theft of corporate assets by non-managerial employees (duty no. 2.8a);
- to disclose in the audit report misappropriation of corporate assets by company directors/senior management (duty no. 2.11b);

Figure 33: The duties for which the opinions of the financial community audit beneficiaries subgroups appear to differ regarding the duties which auditors should perform

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*	*Means of responses*			*% signifying duty should be performed by auditors*		
		Analysts Stockbrokers Investors[2] 144	Corporate Bankers 100	Auditing Academics 16	Analysts Stockbrokers Investors[2] 144	Corporate Bankers 100	Auditing Academics 16
	Suggested duty of auditors[1]	%	%	%	%	%	%
2.8a	Detect theft of corporate assets by non-managerial employees	**36**	**40**	-31*	**61**	**65**	19
2.11b	Disclose in audit report mis-appropriation of co. assets by co. directors/senior management	**56**	**55**	-13*	**75**	**76**	**38**
2.12	Report to a regulatory authority suspicions of fraud	**49**	**46**	-50*	**70**	**72**	19
2.15	Report to a regulatory authority illegal acts uncovered in co.	**24**	**51**	-13*	**56**	**72**	**33**
2.16	Examine & report on fairness of non-financial information	-35	-53	**25***	**28**	**22**	**56**
2.2	Guarantee financial statements are accurate	-47	-34	-88	**25**	**30**	6
2.7	Report breaches of tax laws to IRD	-52	-11*	-56	**20**	**41**	19
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	-4*	-4*	-75	**42**	**43**	6
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-22	-17*	-75	**32**	**38**	6
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-57	-52	-40*	17	**20**	**20**
2.18	Examine & report on efficiency & effectiveness of co's management	-58	-51	-19*	16	**21**	**38**

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of financial analysts, stockbrokers and institutional investors.
* The results of the Wilcoxon signed-ranks test indicate that no valid conclusion can be drawn as to whether the subgroup considers the duty should or should not be performed by auditors.

- to report to a regulatory authority
  - suspicions of fraud (duty no. 2.12);
  - illegal acts uncovered in an auditee company (duty no. 2.15).

Also contrary to the other subgroups, auditing academics consider that auditors should perform the duty of examining and reporting on the fairness of non-financial information (duty no. 2.16).

Reviewing the duties for which the opinions of auditing academics appear to differ from those of the other financial community audit beneficiaries subgroups, it is pertinent to observe that the auditing academics subgroup has only 16 members. Nonetheless, it is also significant to note that, like the auditor subgroups and company accountants, auditing academics do not recognise as a duty which auditors should perform, the duty of detecting theft of corporate assets by non-managerial employees (duty no. 2.8a) – one of auditors' existing duties (see section 7.2.3). Similarly, auditing academics, like audit partners, do not consider that auditors should perform the duty of disclosing in the audit report misappropriation of corporate assets by company directors/senior management (duty no. 2.11b). This is another of auditors' existing duties (see section 7.2.3).

As for the auditee role sender subgroups, the similarity of opinion which is reflected in the means of responses from the financial community audit beneficiaries subgroups regarding the duties which auditors should perform, is underscored by the results of the Mann-Whitney test. Examination of Appendix 5h4 shows that for most duties differences of opinion which are evident in the responses from the subgroups are not statistically significant.

The duties which 20% or more respondents from the financial community audit beneficiaries subgroups recognised as duties which auditors should perform are, like the duties identified from the means of the subgroup responses, characterised by their similarity. From Appendix 5h2 it is seen that the duties recognised by 20% or more of each of the three subgroups as duties which auditors should perform, differ only with respect to the duties:

- to guarantee that audited financial statements are accurate (duty no. 2.2);
- to report breaches of tax laws to the Inland Revenue Department (duty no. 2.7);
- to detect, to disclose in the audit report, and to report to a regulatory authority, theft of corporate assets by non-managerial employees (duty nos. 2.8a, 2.10a and 2.11a);
- to report to a regulatory authority suspicions of fraud (duty no. 2.12);
- to disclose in the audit report illegal acts which do not directly impact on the company's accounts (duty no. 2.14b);

- to examine and report on the efficiency and effectiveness of the auditee company's management (duty no. 2.18).

From Figure 33 it is seen that more than 20% of corporate bankers considered that auditors should perform all of the above duties. However, fewer than 20% of the combined analyst/stockbroker/investor group believed that auditors should perform two of these duties (duty nos. 2.14b and 2.18b). Similarly, fewer than 20% of auditing academics identified duty nos. 2.2, 2.7, 2.8a, 2.10a, 2.11a and 2.12 as duties which should be performed by auditors.

Comparing the duties for which differences of opinion are evident among the subgroups constituting the auditee and financial community audit beneficiaries role sender groups, it is observed that three of the five duties for which a difference of opinion is reflected in the means of responses from the auditee subgroups, coincide with duties for which a difference of opinion is reflected in the means of responses from the financial community audit beneficiaries subgroups. These are the duties:

- to detect theft of corporate assets by non-managerial employees (duty no. 2.8a);
- to report to a regulatory authority illegal acts uncovered in an auditee company (duty no. 2.15);
- to examine and report on the fairness of non-financial information (duty no. 2.16).

It is similarly observed that, of the seven duties for which a difference of opinion is reflected in the duties which are identified by 20% or more respondents from the auditee subgroups as duties which auditors should perform, five coincide with the duties for which a similar difference of opinion is reflected in the responses from the financial community audit beneficiaries subgroups. These are duty nos. 2.2, 2.7, 2.11a, 2.14b and 2.18 (see Figures 32 and 33).

General public audit beneficiaries subgroups

Appendix 5i1 shows that, as for the auditee and financial community audit beneficiaries subgroups, based on the means of their responses, the opinions of the general public audit beneficiaries subgroups (branch bank managers, lawyers, financial journalists, and the group selected from the electoral rolls) are very similar. The subgroups agree that it should not be a duty of auditors to prepare the auditee company's financial statements (duty no. 2.1) or to consider and report on the company's impact on its local community (duty no. 2.21). Further, all the subgroups, other than the group selected from the electoral rolls, consider that auditors should not perform the duty of verifying every transaction of the auditee company (duty no. 2.22).

With the exception of lawyers, the subgroups identify all of the other duties listed in the general public version of the questionnaire as duties which auditors should perform. Lawyers consider that auditors should not perform a further three duties. These are the duties:

- to guarantee that
    - audited financial statements are accurate (duty no. 2.2);
    - the auditee company is solvent (duty no. 2.4);
- to report breaches of tax laws to the Inland Revenue Department (duty no. 2.7).

In summary, it is seen from Appendix 5i1 (and the positive means of relevant subgroup responses) that branch bank managers and financial journalists identify the same duties as duties which auditors should perform, the group selected from the electoral rolls recognise one additional duty (duty no. 2.22) and lawyers, three less duties (duty nos. 2.2, 2.4 and 2.7). The duties for which a difference of opinion is evident among the general public audit beneficiaries subgroups are shown in Figure 34.

As for the auditee and financial community audit beneficiaries subgroups, the similarity of opinion of the general public audit beneficiaries subgroups is reflected in the results of the Mann-Whitney test (see Appendix 5i4). The responses from the various subgroups are noticeable for their general lack of statistically significant differences. The

Figure 34: The duties for which the opinions of the general public audit beneficiaries subgroups appear to differ regarding the duties which auditors should perform

Duty No.	Role Sender Subgroup *No. of Respondents*	*Means of responses* Branch Bank Managers *86*	Lawyers *72*	Fin Jnlsts[2] *41*	Electoral Roles Group[3] *259*	*% signifying duty should be performed by auditors* Branch Bank Managers *86*	Lawyers *72*	Fin Jnlsts[2] *41*	Electoral Rolls Group[3] *259*
	Suggested duty of auditors[1]	%	%	%	%	%	%	%	%
2.2	Guarantee financial statements are accurate	22*	-29	5*	61	57	33	50	76
2.4	Guarantee auditee co. is solvent	7*	-26*	11*	41	49	32	50	62
2.7	Report breaches of tax laws to IRD	33	-53	37	17	61	20	61	49
2.22	Verify every transaction of auditee co.	-43	-67	-18*	6*	22	14	29	43
2.1	Prepare auditee co's financial statements	-72	-86	-66	-36	12	5	13	27
2.21	Consider & report on co's impact on its local community	-66	-82	-61	-20	10	6	13	28

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Financial Journalists.
3 The group selected from the electoral rolls
* The results of the Wilcoxon signed-ranks test indicate that no valid generalised conclusion can be drawn as to whether the subgroup considers the duty should or should not be performed by auditors.

greatest difference of opinion is seen to exist between the lawyers and the group selected from the electoral rolls. Responses from these groups are statistically significantly different with respect to eight duties (see Appendix 5i4).

As for the other role sender groups, 20% or more respondents from the general public audit beneficiaries subgroups recognised more duties as duties which auditors should perform, than were identified to be such duties from the means of the subgroup responses. Further, like the duties recognised on the basis of the means of subgroup responses, the duties which 20% or more respondents from the subgroups signified to be duties which auditors should perform, are characterised by their similarity (see Appendix 5i2). More than 20% of the subgroup selected from the electoral rolls considered that all of the duties listed in the questionnaire should be performed by auditors. Over 20% of the branch bank managers and financial journalists were of the same opinion with respect to all but two of the duties. The two exceptions are the duties:

- to prepare the auditee company's financial statements (duty no. 2.1);

- to consider and report on the auditee company's impact on its local community (duty no. 2.21).

More than 20% of lawyer respondents identified all of the duties listed in the questionnaire as duties which auditors should perform, other than the two duties not recognised as such duties by the bank managers and financial journalists (duty nos. 2.1 and 2.21) and also the duty to verify every transaction of the auditee company (duty no. 2.22).

The high level of agreement among the general public audit beneficiaries subgroups regarding the duties which auditors should perform, and the large number of duties which the subgroups identified as such, are striking. However, even more notable is the large proportion of respondents from these subgroups who signified that the duties in question should be performed by auditors. Appendix 5i2 shows that most of the duties listed in the questionnaire were considered to be duties which auditors should perform by over 70% of respondents from each of the four general public audit beneficiaries subgroups.

7.4.3 Summary: the duties auditors should perform according to their role senders

From the above review of the opinions of auditors' role sender groups regarding the duties which auditors should perform, it is evident that there is a significant amount of agreement among the role sender groups. As Figure 35 demonstrates, the similarity of opinion is reflected in both the means of role sender group responses and in the duties which 20% or more respondents from the role sender groups identified as duties which auditors should perform.

Notwithstanding the overall similarity of opinion of the role sender groups, reference to Figure 35 shows that differences do exist. While auditees and financial community

Figure 35: Duties auditors should perform according to their role senders[1]

Duty no.	Suggested Duties of Auditors[2]	Total Survey Group		Auditors		Auditees		Audit Beneficiaries: Financial Community		Audit Beneficiaries: General Public	
	Existing duties of auditors[3]	*Mean*	20%	*Mean*	20%	*Mean*	20%	*Mean*	20%	*Mean*	20%
2.3	State whether financial statements fairly reflect co's affairs	S	S	S	S	S	S	S	S	S	S
2.5b	Express doubts in audit report about co's continued existence	S	S	S	S	S	S	S	S	S	S
2.6	Ensure compliance with cos' legislation	S	S	S	S	S	S	S	S	S	S
2.8a	Detect theft of corporate assets by non-managerial employees	S	S	N	S	S*	S	S	S	S	S
2.8b	Detect theft of corporate assets by co. directors/ senior management	S	S	N	S	S	S	S	S	S	S
2.9	Detect deliberate distortion of financial information	S	S	S	S	S	S	S	S	-	-
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	S	S	S*	S	S	S	S	S	S	S
2.11c	Disclose in audit report deliberate distortion of financial information	S	S	S	S	S	S	S	S	S	S
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	S	S	S	S	S	S	S	S	S	S
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	S	S	S*	S	S	S	S	S	S	S
	Not Existing Duties of Auditors										
2.1	Prepare auditee co's financial statements	N	N	N	N	N	N	N	N	N	N
2.2	Guarantee financial statements are accurate	N	S	N	N	N	S	N	S	S	S
2.4	Guarantee auditee co. is solvent	N	S	N	N	N	S	N	S	S	S
2.5a	Report to a regulatory authority doubts about co's continued existence	S	S	N	S	S	S	S	S	-	-
2.7	Report breaches of tax laws to IRD	N	S	N	N	N	S	N	S	S*	S
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	U	S	N	N	N	S	N*	S	S	S
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	S	S	N*	S	S	S	S	S	S	S
2.10c	Report to a regulatory authority deliberate distortion of financial information	S	S	N*	S	S	S	S	S	S	S
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	N*	S	N	N	N	S	N	S	S	S
2.12	Report to a regulatory authority suspicions of fraud	S	S	N	S	S	S	S	S	-	-
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	N	S	N	N	N	N	N	N	S	S
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	N	S	N	N	N	N	N	N	S	S
2.15	Report to a regulatory authority illegal acts uncovered in co.	S	S	N*	S	S*	S	S	S	S	S
2.16	Examine & report on fairness of non-financial info.	N	S	N	S	N	S	N	S	-	-
2.17	Examine & report on co's internal controls	S	S	S*	S	S	S	S	S	-	-
2.18	Examine & report on efficiency & effectiveness of co's management	N	S	N	N	N	S	N	S	-	-
2.19	Audit published half-yearly co. reports	S	S	S	S	S	S	S	S	-	-
2.20	Examine & report on fairness of financial forecasts	S	S	S	S	S	S	S	S	-	-
2.21	Consider & report on co's impact on its local community	N	N	N	N	N	N	N	N	N	N
2.22	Verify every transaction of auditee co.	N	N	N	N	N	N	N	N	N	S
S	Duties auditors should perform	18	27	8	19	16	25	18	25	18[4]	20[4]
S*	Duties considered by sample to be duties which auditors should perform; validity of generalisation is uncertain	-	-	3	-	2	-	-	-	1	-
N	Duties auditors should not perform	10	3	16	11	12	5	11	5	3	2
N*	Duties which sample considered auditors should not perform; validity of generalisation is uncertain	1	-	3	-	-	-	1	-	-	-
U	Duty for which no 'yes' or 'no' opinion is evident	1	-	-	-	-	-	-	-	-	-

1 Based on the means of responses and 20% of a role sender group signifying auditors should perform the duty.
2 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
3 Existing duties identified by reference to the law and professional promulgations.
4 Some of the duties shown separately in the table are embraced by a single duty in the general public version of the questionnaire (see footnote 17).

audit beneficiaries appear to occupy a middle ground with respect to the duties they consider auditors should perform, auditors seem to adopt a more cautious approach and general public audit beneficiaries a more liberal perspective. However, given the potential increase in auditors' exposure to liability which attaches to any extension of their duties, and the greater distance of general public audit beneficiaries from the audit function relative to that of other role sender groups, these survey findings are not surprising.

From Figure 35 it can be seen that, based on the means of their responses, the total survey group considers that auditors should perform 18 of the duties listed in the questionnaire and that the group is undecided about one other duty, that of reporting to a regulatory authority theft of corporate assets by non-managerial employees (duty no. 2.10a). The views of the total survey group are reflected in the opinions of auditees and financial community audit beneficiaries. These groups recognise as duties which auditors should perform, the same 18 duties as the survey group as a whole. However, for two of these duties (duty nos. 2.8a and 2.15), although the means of responses from the auditees are positive the Wilcoxon signed-ranks test indicates that they are not statistically significant. The same applies to one duty (duty no. 2.10a) which, based on the negative mean of responses from financial community audit beneficiaries, is not recognised as a duty which auditors should perform.

As noted above, the opinions of the auditor role sender group, regarding the duties which auditors should perform, reflect a more cautious approach. This group considers that auditors should perform 11 of the duties listed in the questionnaire but, for three of these duties (duty nos. 2.11b, 2.14a and 2.17), the Wilcoxon signed-ranks test indicates that the survey results are not statistically significant. This also applies to three duties (duty nos. 2.10b, 2.10c and 2.15) which auditor respondents considered that auditors should not perform. (The means of auditor responses to these duties are negative).

The views of general public audit beneficiaries contrast sharply with those of auditors. This group, adopting a more liberal approach, considers that only three of the duties listed in their version of the questionnaire should not be performed by auditors (duty nos. 2.1, 2.21 and 2.22: see Figure 35).

Figure 35 shows that a similar pattern of opinion is reflected in the duties which 20% or more respondents from the role sender groups recognised as duties which auditors should perform. It also shows that, for each role sender group, more duties are identified on this basis as duties which auditors should perform, than are recognised as such from the means of the role sender group responses (see foot of Figure 35). This finding is not unexpected. However, the large number of duties which over 65% of respondents from the role sender groups signified to be duties which auditors should perform is rather surprising. From Figure 28 (page 232) it may be seen that, of the 27 duties which over 20% of the total survey group recognised as duties which should be performed by auditors, 12 (44%) are considered to be such duties by 65% or more respondents. This increases to 69% in the case of general public audit beneficiaries, but drops to 21% for auditors.

Apart from presenting a summary of the duties which auditors' role senders consider that auditors should perform, Figure 35 demonstrates that there is a significant disparity between these duties and the duties which are defined by the law or professional promulgations to be existing duties of auditors. From Figure 35 it is seen that, based on the means of their responses, the survey group as a whole considered that auditors should perform eight duties additional to their 10 existing duties. These are the duties:

- to report to a regulatory authority
    - doubts about the continued existence of an auditee company (duty no. 2.5a);
    - misappropriation of corporate assets by company directors/senior management (duty no. 2.10b);

- deliberate distortion of financial information (duty no. 2.10c);
- suspicions of fraud (duty no. 2.12);
- illegal acts uncovered in an auditee company (duty no. 2.15);

- to examine and report on the auditee company's internal controls (duty no. 2.17);
- to audit published half-yearly company reports (duty no. 2.19);
- to examine and report on the fairness of financial forecasts (duty no. 2.20).

Based on 20% or more of auditors' role senders recognising duties as duties which auditors should perform, a further nine duties are identified as such duties. These are:

- to guarantee that
  - the audited financial statements are accurate (duty no. 2.2);
  - the auditee company is solvent (duty no. 2.4);
- to report breaches of tax laws to the Inland Revenue Department (duty no. 2.7);
- to report to a regulatory authority, and to disclose in the audit report, theft of corporate assets by non-managerial employees (duty nos. 2.10a and 2.11a);
- to detect, and to disclose in the audit report, illegal acts uncovered in auditee companies which do not directly impact on the company's accounts (duty nos. 2.13b and 2.14b);
- to examine and report on
  - the fairness of non-financial information (duty no. 2.16);
  - the efficiency and effectiveness of the auditee company's management (duty no. 2.18).

7.5 SUMMARY

In this chapter, the survey results relating to auditors' duties have been discussed. More specifically, the opinions of auditors' role senders with respect to auditors' existing duties, the standard of performance of these duties, and the duties which auditors should perform have been analysed, and differences of opinion between and within the role sender groups have been identified. Auditors' existing duties have been determined by reference to the law and professional promulgations, and the relative knowledge gap of auditors' role sender groups with respect to these duties has been estimated. Additionally, the duties constituting the deficient performance component of the audit expectation-performance gap, and the relative contribution of each of the duties to the gap, have been discussed. The chapter also provides an analysis of the duties which auditors' role senders consider auditors should perform, and identifies the discrepancy between these and auditors' existing duties, as defined by the law and professional promulgations.

CHAPTER 8: ANALYSIS OF EMPIRICAL RESEARCH RESULTS PART II: AUDITORS' ROLE IN SOCIETY AND THE DUTIES REASONABLY EXPECTED OF AUDITORS

8.1 INTRODUCTION

This is the second of two chapters in which the survey findings are described and analysed. In this chapter, the expectations of auditors' role senders with respect to auditors' standing and function in society are identified. They are also assessed to determine whether they accord with the postulated social position of auditors, namely, that of members of a recognised profession acting as instruments of social control within the corporate accountability process.

Additionally, the duties which may reasonably be expected of auditors are ascertained. This is accomplished by establishing whether the duties which are identified by 20% or more of a role sender group as duties which auditors should perform, are compatible with auditors' role in society and cost-effective for auditors to perform. Once identified, the duties reasonably expected of auditors are compared with auditors' existing duties, as defined by the law and professional promulgations, and with the duties which 20% or more of a non-auditor role sender group consider that auditors should perform. These comparisons permit discrepancies to be determined, and the existence and composition of the deficient standards and reasonableness gap components of the audit expectation-performance gap to be established.

8.2 THE ROLE OF EXTERNAL AUDITORS IN SOCIETY

8.2.1 Methodology of analysis

In Chapter 5, it was postulated that the role of external auditors in society is constituted by the attitudes, values and behaviour ascribed to the social position occupied by external auditors, by individuals and groups in society who have an identifiable relationship with that role position. These individuals and groups are referred to as role senders. It was also postulated that auditors' social position is that of members of a recognised profession acting as instruments of social control within the corporate accountability process.

In this section, survey responses are analysed to ascertain whether role sender group expectations are consistent with the postulated social position of external auditors. As explained in Chapter 6, propositions presented in Part 3 of the questionnaire were designed to establish the expectations of auditors' role senders with respect to auditors' professional standing and specialist function in society. Specifically, as shown in Figure 36, propositions were presented in the questionnaire which addressed three aspects of auditors' standing as professionals (competence in a specialised service, independence, and the existence of a controlling professional body) and two facets of their function as instruments of social control (monitoring accountability reports and acting as society's corporate watchdogs). As shown in Figure 37, the propositions relating to auditors' function as instruments of social control are supported by all but one of the suggested duties of auditors listed in Part 2 of the questionnaire. The exception is the duty to prepare the auditee company's financial statements (duty no. 2.1). This duty is not related to either monitoring (as distinct from preparing) accountability reports or acting as corporate watchdogs.

Figure 36: Propositions presented in the questionnaire relating to auditors' professional standing and specialist function in society

Prop no.	Propositions[1]	*Professional Standing*			*Specialist Function*	
		Competence in a specialised service	Independence	Controlling professional body	Monitoring accountability reports	Society's corporate watchdogs
3.1	An unqualified audit reports gives confidence that financial statements are reliable	X			X	
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	X			X	
3.3	A qualified audit report indicates that financial statements are not reliable	X			X	
3.12	Auditing involves little judgement	X				
3.5	Auditors are not unduly influenced by co. directors/management		X			
3.6a	Auditors give assistance to co. managements on accounting matters		X			
3.6b	Auditors give assistance to co. management on non-accounting matters		X			
3.7	Auditors may be directors of auditee cos.		X			
3.8	Auditors may invest in auditee cos.		X			
3.14	Auditors must report reasons for resignation or removal to Registrar of Companies		X			X
3.15	Financial statements with qualified audit reports may not be filed		X			
3.16	Auditors are appointed by co. shareholders		X			X
3.17	Auditors negotiate fees with co. directors/management		X			X
3.9	Confidence exists in work of auditors because they belong to NZSA			X		
3.10	NZSA adequately disciplines members for sub-standard audits			X		
3.13	Periodic peer review ensures high quality audits			X		
3.4	Auditors act for: - co's shareholders - co's stakeholders - society as a whole					X
3.11	The NZSA's disciplinary body includes laypersons					X

1 The propositions as expressed in the questionnaires are shown in Appendix 1a and 1b.

As explained in Chapter 6, in order to eliminate, as far as possible, the impact of knowledge of the auditing provisions of the Companies Act 1955 on responses from survey participants, respondents were asked to signify whether they agreed, disagreed or were

Figure 37: Duties presented in the questionnaire relating to aspects of auditors' specialist function in society

Duty no.	*Suggested Duties of Auditors*[1]	Monitoring accountability reports	Society's corporate watchdogs
2.2	Guarantee financial statements are accurate	X	
2.3	State whether financial statements fairly reflect co's affairs	X	
2.4	Guarantee the auditee company is solvent		X
2.5a	Report to a regulatory authority doubts about co's continued existence		X
2.5b	Express doubts in audit report about co's continued existence	X	
2.6	Ensure compliance with cos' legislation		X
2.7	Report breaches of tax laws to IRD		X
2.8a	Detect theft of corporate assets by non-managerial employees		X
2.8b	Detect theft of corporate assets by co. directors/senior management		X
2.9	Detect deliberate distortion of financial information	X	
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees		X
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/ senior management		X
2.10c	Report to a regulatory authority deliberate distortion of financial information		X
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees		X
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management		X
2.11c	Disclose in audit report deliberate distortion of financial information	X	
2.12	Report to a regulatory authority suspicions of fraud		X
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	X	
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts		X
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	X	
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts		X
2.15	Report to a regulatory authority illegal acts uncovered in co.		X
2.16	Examine & report on fairness of non-financial information	X	
2.17	Examine & report on co's internal controls		X
2.18	Examine & report on efficiency & effectiveness of co's management		X
2.19	Audit published half-yearly co. reports	X	
2.20	Examine & report on fairness of financial forecasts	X	
2.21	Consider & report on co's impact on its local community		X
2.22	Verify every transaction of auditee company	X	

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

uncertain about, each position presented in Part 3 of the questionnaire, on two bases, namely:

- as circumstances exist at the present time (section a);
- as circumstances should exist (section b).

It is submitted that the expectations of auditors' role senders which are pertinent to defining auditors' role in society are those which are free from restraining influences caused by knowledge of present legal and professional promulgations. It is considered that these expectations are best reflected in responses to section (b) of Part 3 of the questionnaire (see above). Therefore, in the analysis which follows, the expectations of auditors' role sender groups with respect to auditors' social position are established by reference to the means of role sender group responses to the propositions presented in Part 3, section (b), of the questionnaire. Additionally, the duties which role senders consider auditors should perform, identified from the means of their responses to Part 2, section 2, of the questionnaire (see section 7.4.3), are used to support the analysis of role sender group expectations with respect to auditors' specialist function in society (see Figure 37).

In order to determine whether generalised conclusions may be drawn from the survey findings, the Wilcoxon signed-ranks test has been applied to role sender group responses to the propositions and duties presented in the questionnaire. Similarly, the Mann-Whitney test has been used to establish whether apparent differences of opinion between the role sender groups are statistically significant.

Details of the survey findings relating to the expectations of auditors' role sender groups with respect to auditors' professional standing and specialist function in society, and the results of the statistical tests performed on the survey data, are presented in Appendices 6a to 6g. Appendices 6a to 6c provide the following information:

- 6a: the means of responses from the survey group as a whole, and from the four major role sender groups (auditors, auditees, financial community and general public audit beneficiaries), to each of the propositions in Part 3, section (b), of the questionnaire;
- 6b: the results of the Wilcoxon signed-ranks test, as applied to the above responses from the total survey group and the four major role sender groups;
- 6c: the results of the Mann-Whitney test, showing the significance of differences evident in the responses from the four major role sender groups to Part 3, section (b), of the questionnaire.

Appendices 6d to 6g present similar sets of data for each of the subgroups constituting auditors' major role sender groups. Additionally, comments provided by survey participants in response to open-ended questions included in the questionnaire are presented (appropriately classified) in Appendix 7.

8.2.2 Role sender group expectations with respect to auditors as professionals

Reference to Figure 38 shows that auditors' role sender groups have very similar expectations with respect to the professional attributes of auditors addressed by the questionnaire. This is reflected in the small differences of opinion which are evident both within and between the role sender groups. The large number of means of responses with high absolute values indicates that there is widespread agreement within each role sender group as to what is expected of auditors in terms of their competence to perform a specialised service, their independence, and the existence of a controlling professional body [the New Zealand Society of Accountants (NZSA)]. The similarity of expectations within the role sender groups is also reflected in the small differences of opinion which are evident among the subgroups constituting the major role sender groups. Examination of Appendices 6d to 6g reveals that differences in the means of responses from related subgroups are generally small, and the results of the Mann-Whitney test indicate that these differences are statistically significant in only a few cases.

The similarity of expectations which is evident within the role sender groups regarding auditors' professional standing is also reflected in the similarity of responses from the different role sender groups. From Figure 38 it is seen that the expectations of auditees and financial community audit beneficiaries are particularly closely aligned. However, the larger absolute values of means of responses from financial community audit beneficiaries indicates that agreement tends to be greater among this group than it is among auditees. The greatest difference in expectations with respect to the professional attributes of auditors addressed by the questionnaire, is seen to exist between auditors and general public audit beneficiaries. In view of the differing relationships which these two role sender groups have with auditors, a difference in their expectations is not unexpected.

Figure 38: Means of role sender group responses reflecting their expectations of auditors as professionals

	Role Sender Group *No. of respondents in group*	Total Survey Group *1184*	Auditors *196*	Auditees *342*	Audit Beneficiaries Financial Community *243*	Audit Beneficiaries General Public *454*
Prop. No.	*Proposition*[1]	*mean* %	*mean* %	*mean* %	*mean* %	*mean* %
	Competence in a specialised service					
3.1	An unqualified audit report gives confidence that financial statements are reliable	94	97	95	97	89
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	X	-67	-15	-19	73
3.3	A qualified audit report indicates financial statements are not reliable	33	35	28	37	-
3.12	Auditing involves little judgement+	-69	-94	-81	-80	-39
	Independence					
3.5	Auditors are not unduly influenced by co. directors/management	92	91	90	91	96
3.6a	Auditors give assistance to co. managements on accounting matters+	69	90	66	56	-
3.6b	Auditors give assistance to co. managements on non-accounting matters+	-48	-10*	-58	-66	-
3.7	Auditors may be directors of auditee cos.+	-91	-98	-94	-94	-84
3.8	Auditors may invest in auditee cos.+	-63	-90	-55	-56	-61
3.14	Auditors must report reasons for resignation or removal to Registrar of Companies	62	43	53	72	72
3.15	Financial statements with qualified audit reports may not be filed	-45	-30	-52	-47	-
3.16	Auditors are appointed by co. shareholders+	69	90	82	71	46
3.17	Auditors negotiate fees with co. directors/management+	49	76	73	57	11
	Controlling professional body					
3.9	Confidence exists in work of auditors because they belong to NZSA	86	92	82	83	87
3.10	NZSA adequately disciplines members for sub-standard audits	86	84	86	92	83
3.13	Periodic peer review ensures high quality audits	10	-6*	4*	29	-

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.
\+ To reflect expectations which correspond with auditors displaying professional characteristics, the means of role sender group responses to these propositions should be negative.
X As this proposition was expressed differently in the financial community and general public versions of the questionnaire no meaningful mean can be calculated for the total survey group.
* The results of the Wilcoxon signed-ranks test indicate that no valid generalised conclusion can be drawn about the expectations of the role sender group with respect to this proposition.

The similarities and differences in role sender group expectations are underscored by the results of the Mann-Whitney test. As Appendix 6c shows, differences which are evident in the responses from auditees and financial community audit beneficiaries are statistically significant in only four cases, namely:

- periodic peer review ensures high quality audits (proposition 3.13);
- auditors must report the reasons for their resignation or removal to the Registrar of Companies (proposition 3.14);

- auditors are appointed by auditee company shareholders (proposition 3.16);
- auditors negotiate their fees with auditee company directors/management (proposition 3.17).

In contrast to this, the responses from auditors and general public audit beneficiaries are significantly different for all but the following propositions:

- auditors act for auditee company stakeholders (proposition 3.4b);
- auditors are not unduly influenced by auditee company directors and managers (proposition 3.5);
- the NZSA adequately disciplines members for sub-standard audits (proposition 3.10).

The expectations of auditors' role sender groups are discussed below in relation to the three aspects of auditors' professional standing addressed by the questionnaire, namely, competence in a specialised service, independence, and the existence of a controlling professional body (NZSA). Role senders' expectations of auditors are also evaluated to determine whether they correspond with the proposition that auditors occupy a social position associated with members of a recognised profession.

Auditors' competence in a specialised service

One of the hallmarks of a profession noted in Chapter 4 (section 4.3.2) is competence in a service which requires knowledge in a specialised field of learning. Further, the service provided by a profession requires the exercise of considerable judgement. From Figure 38 it is seen that role sender group responses to the propositions presented in the questionnaire which relate to auditors' competence in a specialised service generally correspond with auditors being regarded as professionals.

Responses from the role sender groups suggest that auditors are expected to be competent in verifying financial statements and in expressing an opinion about their reliability. This task is one which requires knowledge in the specialist areas of both auditing and accounting (see section 4.3.5). More specifically, the means of role sender group responses to the proposition that an unqualified audit report gives confidence that financial statements are reliable (proposition 3.1) are positive and uniformly high (see Figure 38). This indicates that the role sender groups widely expect to be able to rely on unqualified audit reports.

The positive means of role sender group responses to the proposition that a qualified audit report indicates that financial statements are not reliable (proposition 3.3), suggest that role senders expect to be able to rely on qualified audit reports in the same way as they expect to be able to rely on those which are unqualified. However, as Figure 38 shows, there is less uniformity in expectations within each role sender group with respect to qualified audit reports than there is for unqualified reports (the means of responses to proposition 3.3 have smaller values than those for proposition 3.1). Reference to Appendices 6d to 6f also shows that, while the expectations of the two auditor subgroups regarding qualified audit reports are similar (the means of their responses to proposition 3.3 are 37% for audit partners and 34% for non-partner audit staff), the expectations of the auditee and financial community audit beneficiaries subgroups appear to differ. The means of responses from the auditee subgroups range from 36% for the combined executives/directors group to 7% for company accountants; those for the financial community audit beneficiaries subgroups range from 69% for auditing academics to 29% for corporate bankers. (This proposition was omitted from the general public version of the questionnaire). Nonetheless, despite the apparent differences in the expectations of the subgroups constituting the auditee and financial community audit beneficiaries role sender groups, the results of the Mann-Whitney test indicate that the only difference in the responses from related subgroups which is statistically significant is that between the executives/directors group and company accountants.

With respect to the proposition that knowledge that a company's financial statements are audited gives confidence to invest in the company (proposition 3.2), it appears from Figure 38 that the role sender group responses are in conflict. The means of responses from the financial community role sender groups (auditors, auditees, and financial community audit beneficiaries) are negative, while that for general public audit beneficiaries is positive. However, such a finding is in accord with the different expressions of the proposition in the financial community and general public versions of the questionnaire.

In the financial community version, the proposition was expressed:

> "Knowing that a company's financial statements have been audited gives you confidence to invest in that company's shares, whether or not you read the audit report" (see Appendix 1a).

The negative means of responses from the financial community role sender groups signify that they do not agree with the proposition. This seems to suggest that members of these groups expect to read the audit report before gaining confidence to invest in the company. This, in turn, seems to imply that these role sender groups expect auditors to have competence in their specialist areas of auditing and accounting which enables them to express a professional opinion about the reliability, or otherwise, of the financial statements.

However, it is observed that, although overall the auditee and financial community audit beneficiaries groups do not agree with the proposition, the opinion is not widely shared among members of these groups (the mean of their responses is -15% and -19%, respectively). Further, analysis of the survey data shows that 40% and 39%, respectively, of these two role sender groups agree with the proposition. Additionally, although the mean of responses from the auditor role sender group is -67%, the level of disagreement with the proposition by auditors is not as high as might be expected.

The significant number of role senders from the financial community agreeing with proposition 3.2 is difficult to explain. It appears to suggest that they expect to have confidence to invest in a company without reading the audit report; that they ignore, or are unaware of the possibility, that the audit report may state that in the auditor's opinion the financial statements do not give a true and fair view of the company's financial affairs. It may be that these role senders consider (wrongly) that the presence of the auditor in the auditee company, and the audit process, are sufficient to ensure that, inter alia, the company's financial statements are reliable. Alternatively, they may consider that if auditors express the view that financial statements are not reliable, this fact will be drawn to their attention through the news media. However, neither of these explanations is entirely satisfactory.

Further, reference to Appendices 6e and 6f shows that the low level of agreement with respect to proposition 3.2 which is evident within the auditee and financial community audit beneficiaries role sender groups cannot be accounted for by differences of opinion amongst their respective subgroups; the mean of responses from the related subgroups constituting each of the role sender groups is very similar. It is suggested that the expression of the proposition in the financial community version of the questionnaire may not have conveyed a clear meaning for some survey participants. This is supported by the observation that responses from auditees and financial community audit beneficiaries to proposition 3.2 appear not to be entirely consistent with their responses to the propositions relating to unqualified and qualified audit reports (propositions 3.1 and 3.3). As noted above, responses to proposition 3.2 seem to suggest that a significant number of role senders from the financial community do not expect to rely on audit reports to gain confidence to invest in a company. Yet, notwithstanding the lesser agreement of the financial community role sender groups with respect to proposition 3.3, in general, their responses to propositions 3.1 and 3.3 indicate that they expect audit reports to give them confidence that financial statements are reliable, or unreliable, as the case might be.

In the general public version of the questionnaire proposition 3.2 was expressed:

> "You would ONLY invest in a company whose financial statements are audited" (see Appendix 1b).

The large positive mean of responses from general public audit beneficiaries reflects widespread agreement amongst this role sender group with this proposition.

Proposition 3.2 was expressed in this form, and the proposition relating to qualified audit reports (proposition 3.3) was omitted from the general public version of the questionnaire, in an attempt to simplify the questionnaire for general public audit beneficiaries. However, this is regretted, as it has precluded meaningful comparisons of the expectations of this role sender group with those of the role sender groups from the financial community. Nevertheless, it is submitted that the large positive mean of responses from the general public audit beneficiaries to proposition 3.2 may be interpreted as implying that this group expects auditors to perform audits which require them to be competent in the fields of both auditing and accounting. Their responses, therefore, appear to provide support for the point at issue, namely, whether the expectations of auditors' role senders accord with the proposition that auditors possess the professional characteristic of providing a service which requires knowledge in a specialised field of learning.

In relation to the characteristic of exercising professional judgement, the negative means of role sender group responses to the proposition that auditing involves little judgement (proposition 3.12) indicate that all of the groups disagree with the proposition and that, by implication, they expect auditors to exercise judgement in the performance of their duties. The high value of the means of responses from the financial community role sender groups (auditors, auditees and financial community audit beneficiaries) shows that the expectation is widely shared by members of these groups. However, the lower value of the mean of responses from general public audit beneficiaries indicates that there is significantly less agreement among members of this group. From

Appendices 6d to 6g it is seen that, not only are the absolute values of the means of responses from the subgroups of general public audit beneficiaries to proposition 3.12 lower than those of the financial community role sender subgroups, they are also more variable. They range from -61% for financial journalists to -24% for the group selected from the electoral rolls. It is suggested that the lesser agreement which is evident among the general public audit beneficiaries, compared to the high level of agreement among the financial community role senders, may result from the greater distance of the general public groups from the audit function.

Notwithstanding the difficulty of finding a satisfactory explanation for a significant proportion of auditees and financial community audit beneficiaries agreeing with the proposition that knowing that a company's financial statements are audited gives confidence to invest in the company, whether or not the audit report is read (proposition 3.2), from a review of the role sender group responses to the propositions relating to auditors' competence, it is concluded that role senders expect auditors to be competent to provide a service which requires specialist knowledge and the exercise of judgement. This corresponds with auditors occupying the social position of members of a profession. However, comments made by survey participants in response to open-ended questions provided in the questionnaire also suggest that, at the present time, the competence of at least some auditors falls short of what is expected of them: 38 respondents (3% of the total survey group) stated that, in their view, auditors are not competent (see Appendix 7, ref. E.1). It is significant that 18 of the 38 respondents making this observation were auditees and that a further 7 were auditors.

Auditors' independence

According to Benson (1981) independence is "above all, [the characteristic] which distinguishes a profession from other occupations" (see Chapter 4, section 4.3.2). Thus, in order to conclude that auditors occupy the social position of members of a recognised profession, it is necessary to establish that their role senders expect them to be independent. As shown in Figure 36, nine propositions included in the questionnaire addressed the issue of auditors' independence. These are discussed below in two groups:

Group 1:
- auditors are not unduly influenced by auditee company directors or management (proposition 3.5);
- auditors give assistance to auditee company managers on non-accounting matters (proposition 3.6b);
- auditors may be directors of auditee companies (proposition 3.7);
- auditors may invest in auditee companies (proposition 3.8);
- auditors must report the reasons for their resignation or removal to the Registrar of Companies (proposition 3.14).

Group 2:
- auditors give assistance to auditee company managers on accounting matters (proposition 3.6a);
- financial statements with qualified audit reports may not be filed (proposition 3.15);
- auditors are appointed by company shareholders (proposition 3.16);
- auditors negotiate their fees with auditee company directors or senior management (proposition 3.17).

Group 1 propositions: Role sender group responses to the propositions in group 1 above appear to reflect expectations of auditors being independent. The large positive means of role sender group responses to proposition 3.5 (see Figure 38) show that auditors' role senders are almost unanimous in their expectation that auditors will not be unduly influenced by auditee company directors or managers. Similarly, the large negative means of their responses to proposition 3.7 show that they are equally united in their expectation that auditors will not be directors of auditee companies. In relation to these propositions, the only mean of responses which has an absolute value of less than 90% is that of general public audit beneficiaries to proposition 3.7 and, even in this case, is still very high at 84%. From Appendices 6d to 6g it is seen that uniformly high expectations of auditors with respect to these propositions are also reflected in the means of responses from all of the subgroups constituting the major role sender groups.

From Figure 38 it is seen that the role sender groups do not agree with the proposition that auditors may invest in auditee companies (proposition 3.8) (the means of their responses to this proposition are negative). It is also seen that role senders agree with the proposition that auditors must report the reasons for their resignation or removal to the Registrar of Companies (proposition 3.14). However, the means of responses to these propositions (3.8 and 3.14), in general, have lower absolute values than those of propositions 3.5 and 3.7, which suggests that there is less agreement within the role sender groups with respect to these propositions. Reference to Appendices 6d to 6g shows that these lower levels of agreement do not, in general, result from different expectations being held by related subgroups. Rather, the means of responses from the related subgroups constituting each of the major role sender groups are very similar. The greatest difference is that found among the subgroups of financial community audit beneficiaries in relation to proposition 3.14. The means of their responses to this proposition range from 76% for corporate bankers to 31% for auditing academics. Further, although the absolute values of means of responses to propositions 3.8 and 3.14 are lower than those for propositions 3.5 and 3.7, they are nevertheless generally high. They range from -90% for auditors to -55% for auditees with respect to proposition 3.8, and from 72% for both groups of audit beneficiaries to 43% for auditors in the case of proposition 3.14. These generally high absolute values signify that all of the role sender groups widely expect auditors not to invest in auditee companies, and to report the reasons for their resignation or removal to the Registrar of Companies.

The negative means of responses from auditors, auditees and financial community audit beneficiaries to proposition 3.6b indicate that these role sender groups do not expect auditors to give assistance to auditee company managements on non-accounting matters. (This proposition was omitted from the general public version of the questionnaire). As for the propositions discussed above, this finding is consistent with expectations of auditors being independent of their audit clients. As many commentators from both inside and outside the auditing fraternity have recognised, (for example, Briloff, 1986; Dingell, 1985) the provision of management advisory services, whether of an accounting or non-accounting nature, is likely to result in compromising auditor independence in appearance, if not in fact.

However, in relation to proposition 3.6b it is pertinent to observe that the means of role sender groups responses show a marked variation, ranging from -66% for financial community audit beneficiaries to -10% for auditors. Further, although the mean of auditor responses is negative, the results of the Wilcoxon signed-ranks test indicate that it is not statistically significant. From Appendices 6d to 6f it is seen that a similar (but less marked) variation in expectations is reflected in the means of responses from related subgroups constituting the major role sender groups. The means of responses from the financial community audit beneficiaries subgroups range from -81% for auditing academics to -65% for corporate bankers (see Appendix $6f_1$); among the auditee subgroups the range is from -71% for the combined executives/directors group to -29% for internal auditors (see Appendix $6e_1$); and for the auditor subgroups the response means are -19% for non-partner audit staff and -1% for audit partners (see Appendix $6d_1$).

It is significant that responses from financial community audit beneficiaries reflect fairly widespread expectations of auditors not providing advisory services to company managements on non-accounting matters. In contrast, responses from auditors and, in particular, audit partners show a much lower level of expectation in this regard. It is suggested that this finding may be interpreted to imply that, although financial community audit beneficiaries, as primary users of financial statements and the output of auditors' services, are conscious of the importance of maintaining auditor independence, auditors themselves consider that they can provide advice to audit clients on non-accounting matters without compromising their independence.

Alternatively, it may be that in today's highly competitive auditing environment, auditors have been more conscious of their desire to extend their fee base than they have of the impact that such an extension may have on their independence. This suggestion seems to gain some support from the means of responses of audit partners (who have responsibility for their firm's business) vis-à-vis those from non-partner audit staff.

The provision of management advice by auditors on accounting matters is discussed below.

Group 2 propositions: Unlike role sender group responses to the propositions in group 1, discussed above, those to the propositions in group 2 (propositions 3.6a, 3.15, 3.16 and 3.17) appear to reflect opinions which are not consistent with an expectation that auditors will be independent of the company they audit.

From Figure 38 it is seen that the means of responses from auditors, auditees and financial community audit beneficiaries to proposition 3.6a are positive and fairly large. (Proposition 3.6a was not included in the general public version of the questionnaire). This indicates that these groups widely expect auditors to provide advice to auditee company managements on accounting matters. It may be that this finding reflects an appreciation by role senders of auditors' competence in accounting matters. This conclusion appears to be supported by the negative means of role sender group responses to proposition 3.6b which indicate that role senders do not expect auditors to provide advice to auditee company managers on non-accounting matters (see Figure 38). However, while not discounting the value of advice given by auditors to audit clients on accounting matters, as noted earlier, the provision of management advisory services by auditors, whether they be related to accounting or non-accounting matters, is considered by many commentators to result in compromised independence - in appearance if not in fact.

Reviewing the means of responses to propositions 3.6a and 3.6b in Figure 38 and in Appendices 6d to 6f, it is interesting to observe that, while financial community audit beneficiaries appear to have the most widely shared expectation of auditors not providing assistance to company managements on non-accounting matters, this role sender group also appears to have the least widely shared expectation of auditors providing assistance to audit clients on accounting matters. In contrast, while the mean of responses from auditors (and, in particular, audit partners) reflects the least disagreement with the proposition that auditors provide assistance to auditees on non-accounting matters (proposition 3.6b), their responses indicate widespread agreement with the proposition that auditors provide assistance to company managements on accounting matters (proposition 3.6a). It is notable that audit partners are almost unanimous in their agreement with proposition 3.6a (the mean of their responses is 95%: see Appendix $6d_1$).

These findings seem to support the suggestion made earlier, that financial community audit beneficiaries (as primary users of audited financial statements) are particularly conscious of the importance of auditors' independence, but that the issue is less significant for auditors. This may be because auditors consider that they can maintain control over their involvement with their audit clients such that their independence is not impaired. Alternatively, it may be that they have not given due consideration to the impact of the provision of management advisory services on their professional independence.

Role sender group responses to proposition 3.16 are positive and generally large, indicating that all of the role sender groups widely expect auditors to be appointed by auditee company shareholders (the means of responses range from 90% for auditors to 46% for general public audit beneficiaries: see Figure 38). This finding appears to be inconsistent with expectations of auditors being independent of auditee companies. However, written comments from survey participants to open-ended questions provided in the questionnaire make it clear that some members of each role sender group consider that auditors are currently appointed by auditee company managements, rather than by shareholders. Respondents observed that auditors should be appointed genuinely by shareholders, in accordance with their legal right and duty under the Companies Act 1955, rather than shareholders merely ratifying an appointment made by the company's management. Respondents further noted that actual appointment by shareholders would strengthen auditor independence. Seen from this perspective, the survey findings seem to accord more closely with expectations of auditor independence. Nonetheless, it is also pertinent to observe that, contrary to notions of auditors being independent of their audit clients, 61 respondents (5% of the total survey group) signified that auditors should be appointed by the auditee company's directors (see Appendix 7, ref. D.1). However, other views were also expressed. For example, 52 respondents (4% of survey participants) suggested that auditors should be appointed by an independent authority; three of these identified the Stock Exchange as the body which should appoint the auditors of listed public companies. A further 23 survey participants (2% of the total) indicated that auditors should be appointed jointly by all parties who have a direct interest in the company (that is, by the company's stakeholders) (see Appendix 7, ref. D.2).

The means of role sender group responses to proposition 3.17 are all positive and, apart from that of general public audit beneficiaries (whose response mean is 11%), exceed 50% (see Figure 38). This indicates that role senders widely expect auditors to negotiate their fees with auditee company directors or management. This appears to be incompatible with expectations of auditor independence and is not easily explained. Appendices 6d to 6g show that expectations vary between the related subgroups constituting each of the major role sender groups but, in each case, the mean of their responses is positive and for the subgroups from the financial community it is substantial. Within the financial community, the means of responses from the role sender subgroups range from 83% for audit partners to 38% for auditing academics.

Among the subgroups of general public audit beneficiaries, the means of responses range from 21% for branch bank managers to 5% for both financial journalists and the group selected from the electoral rolls. In these latter cases, although the means of responses are positive, the Wilcoxon signed-ranks test indicates that they are not significant.

Particularly in the light of the high values of means of responses from the financial community groups, it seems possible that respondents may have expressed their expectation of auditors negotiating their fees with company managements constrained by knowledge of the present situation, or, they may have concluded that there is no satisfactory alternative. However, as Appendix 7 (ref. C) shows, other alternatives were suggested. For example, 61 respondents (5% of the survey group) suggested that auditors should negotiate their fees with a committee comprising representatives of directors and shareholders of the auditee company; another 42 (4% of the total) indicated that audit fees should be set by an independent body; 13 specified that the body should be the NZSA, and three suggested that a standard fee should be set by the Justice Department for work done for society at large, and that an additional fee should be negotiated with the company's management for audit work performed specifically for the company and its members. A further 34 respondents (3% of the survey group) signified that audit fees should be set according to a standard rate per hour, or a standard rate based on company size, with the implication that such standard rate would be set by an independent body.

The expectations of auditors' role senders regarding the proposition that financial statements with qualified audit reports may not be filed (proposition 3.15), as for the other propositions in group 2 (propositions 3.6a, 3.16 and 3.17) appear, at least initially, to be inconsistent with notions of auditor independence. This proposition was excluded from the general public version of the questionnaire, but the means of responses from all of the financial community role sender groups are negative, ranging from -52% for auditees to -30% for auditors (see Figure 38). This indicates that these role sender groups consider that financial statements should be accepted for filing by the Registrar of Companies, whether or not they carry a qualified audit report.

However, if role senders expect auditors to remain independent of auditee company managements, it seems logical for them to endorse a mechanism which would apparently strengthen the position of auditors vis-à-vis that of company managements. At present, if auditors consider that financial statements do not fairly represent the financial affairs of an auditee company, they are required to issue an appropriately qualified audit report. But, if they do so, it may be at the risk of being removed from office by the company's management. Further, if auditors qualify their reports because they believe that financial statements do not give the required true and fair view of the company's financial affairs, there is no operative supporting device that will ensure that their report is viewed seriously by the company. Unless there is something very exceptional, the Registrar of Companies currently accepts for filing all financial statements which comply with the required legal form, whatever type of audit report they carry.[24] It would seem that, if the Registrar did not accept 'tagged' financial statements, a qualified audit report would become a more severe sanction than at present. This would increase auditors' power vis-à-vis that of auditee company managements, thereby strengthening auditors' ability to act in a professionally independent manner (see Stewart, 1977).

Such ideas were reflected in the comments received from some of the 29 respondents (2% of the total survey group) who noted that auditors need to be given statutory or professional support (see Appendix 7, ref. E.6). The following are typical examples:

- "There should be some adverse effects on companies getting qualified accounts. Some companies have tended to "thumb their nose" at auditors who have insisted on acceptable standards. Auditors have no teeth at present."
- "The Registrar of Companies or a similar body should give more support to auditors when accounts are qualified and to make directors more accountable."

- "There is a lack of support when tagged audit reports are issued. If more pressure were applied to directors when tagged reports come in, a lot of auditors' present problems would go away."

From the above discussion, it appears that role sender group expectations of the Registrar of Companies accepting for filing financial statements with qualified audit reports (as reflected in the negative means of responses to proposition 3.15) are at variance with notions of maintaining and strengthening auditors' professional independence. It may be that the survey findings reflect conservative attitudes of auditors' role senders and a passive acceptance of the status quo. Alternatively, role senders may not perceive a connection between the proposition that companies may not file financial statements with a qualified audit report and auditors' independence. A further possible explanation is that role senders are aware of cases when genuine differences of opinion have arisen between the auditor and auditee about the truth and fairness of financial information and they consider that it would not be equitable, or in the best interests of users of financial statements, to insist that, irrespective of the circumstances, the auditors' opinion must prevail. However, it is also observed that if the Registrar of Companies did not accept for filing financial statements with qualified audit reports, contrary to initial impressions, this could, in fact, weaken rather than strengthen auditor independence. Faced by more serious consequences of presenting financial statements which attract a qualified audit report, company managements may increase their pressure on auditors (in the form of threat of removal) to accommodate their wishes.

From the review of role sender group responses to the nine propositions in the questionnaire which addressed auditor independence, it is submitted that, in general, they reflect expectations which accord with expectations of auditors maintaining a fairly high level of professional independence. It is acknowledged that some of the survey findings do not appear to support this conclusion [for example, role sender group responses to the proposition that auditors negotiate their fees with auditee company officials (proposition 3.17), and that they give assistance to auditee company managements on accounting matters (proposition 3.6a)]. However, it is considered that, overall, the evidence derived from the survey indicates that role senders expect auditors to maintain a level of independence which is commensurate with their being recognised as members of a profession.

Controlling professional body

A further hallmark of professions noted in Chapter 4 (section 4.3.2) is that of a governing body which has power to control and discipline its members. Through this body, high standards of performance befitting of members of the profession may be maintained. As shown in Figure 36, this aspect of auditors' professional standing was addressed in the questionnaire by three propositions, namely:

- confidence exists in the work of auditors because they belong to the NZSA (proposition 3.9);
- the NZSA adequately disciplines members who perform sub-standard audits (proposition 3.10);
- periodic peer review ensures high quality audits (proposition 3.13).

From Figure 38 it is seen that the means of responses from all of the role sender groups with respect to propositions 3.9 and 3.10 are positive and uniformly high. This signifies that auditors' role senders widely expect to have confidence in the work of auditors because they are members of the professional association (NZSA) and, further, that they expect the NZSA to adequately discipline members who perform sub-standard audits. Examination of Appendices 6d to 6g shows that the similarity of expectations which is evident among the major role sender groups with respect to these propositions is also found among the subgroups constituting the major groups. In all cases, the means of subgroup responses are positive and uniformly high. The lowest mean of responses to these propositions is that of the financial journalists subgroup to proposition 3.9. The mean of their responses to this proposition is 74% (see Appendix $6f_1$).

Responses to the proposition that peer review ensures high quality audits (proposition 3.13) reflect greater differences in the expectations of the financial community role sender groups than for any other proposition relating to auditors' social position as a professional. (Proposition 3.13 was excluded from the general public version of the questionnaire). Figure 38 shows that, while the mean of responses from financial community audit beneficiaries to proposition 3.13 is 29%, indicating that this role sender groups agrees with the proposition, that of auditees and auditors is 4% and -6%, respectively. In these latter cases, the results of the Wilcoxon signed-ranks test indicate that no generalised conclusion can be drawn from the survey findings. The lack of clear agreement among the auditor group with respect to this proposition is particularly interesting in the light of the resolution to introduce a form of peer review for all public practices (which includes all firms which audit company accounts) as from 1 July 1990, which was passed at the NZSA's annual conference in October 1989.

From Appendices 6d to 6f it is seen that the difference of opinion which is evident among auditors' major role sender groups in relation to proposition 3.13 is also found among the auditee and financial community audit beneficiaries subgroups. Among the auditee subgroups, the means of responses range from 35% for internal auditors to -10% for company accountants (see Appendix $6e_1$). For financial community audit beneficiaries subgroups, the range is from 56% for auditing academics to 15% for the combined analyst/stockbroker/investor group (see Appendix $6f_1$). However, the Mann-Whitney test indicates that there is no statistically significant difference in the responses from these latter groups, but that a significant difference does exist between the responses from the combined group and those from corporate bankers (see Appendix $6f_3$). The mean of responses from corporate bankers to proposition 3.13 is 50%.

Although the survey findings with respect to proposition 3.13 are somewhat inconclusive, it is submitted that the responses to the three propositions in the questionnaire relating to the existence of a professional body, reflect opinions which are consistent with the recognition of a professional association and expectations that the controlling professional body will maintain high standards of performance by its members.

From the above review of role sender group responses to the propositions in the questionnaire which addressed aspects of auditors' professional standing in society, namely, competence in a specialised service, independence, and the existence of a controlling professional body, it is submitted that, overall, the survey results are consistent with the proposition that auditors occupy the social position of members of a recognised profession. It is acknowledged that some of the survey findings appear not to support this conclusion [for example, role sender group responses to the proposition that auditors negotiate their fees with company managements (proposition 3.17)], or that they are inconclusive, as in the case of responses to the proposition that peer review ensures high quality audits (proposition 3.13). However, it is nonetheless considered that, on balance, the survey results reflect expectations of auditors which accord with their being recognised by their role senders as members of an established profession.

8.2.3 Role sender group expectations with respect to auditors as instruments of social control within the corporate accountability process

It was noted in section 8.2.1 that, in addition to occupying a social position as members of a profession, auditors are conceived to have a social position acting as instruments of social control within the corporate accountability process. It is shown in Figure 36 that the questionnaire included propositions which addressed two aspects of this function of auditors, namely:

- monitoring accountability reports;

- acting as society's corporate watchdogs.

Figure 37 shows that the propositions relating to each of these aspects of auditors' function were supported by suggested duties of auditors listed in Part 2 of the questionnaire.

It may be observed from Figure 36 that some of the propositions discussed above in relation to auditors' professional standing also help to identify the expectations of role senders regarding auditors' specialist function in society. However, in order to avoid unnecessary repetition, in the analysis which follows propositions which have already been discussed in detail are referred to only in general terms. The same applies to the suggested duties of auditors which help to determine role senders' expectations in relation to auditors' function in society. These duties have been discussed in Chapter 7 (section 7.4) and they are referred to only briefly in this section.

Auditors monitoring accountability reports

From Figure 39 it is seen that three propositions were included in the questionnaire to help identify role sender group expectations with respect to auditors' function as monitors of accountability reports, namely,

- an unqualified audit report gives confidence that financial statements are reliable (proposition 3.1);
- knowledge that a company's financial statements are audited gives confidence to invest in the company, whether or not the audit report is read (proposition 3.2: financial community version of the questionnaire). You would only invest in a company whose financial statements are audited (proposition 3.2: general public version);
- a qualified audit report indicates that financial statements are not reliable (proposition 3.3).

All of these propositions were discussed in relation to auditors' competence in a specialised service (see section 8.2.2).

Figure 39: Means of role sender group responses to propositions and duties reflecting their expectations of auditors as instruments of social control

	Role Sender Group *No. of respondents in group*	Total Survey Group *1184*	Auditors *196*	Auditees *342*	Audit Beneficiaries Financial Community *243*	 General Public *454*
	Monitoring accountability reports	*mean* %	*mean* %	*mean* %	*mean* %	*mean* %
Prop No.	*Proposition*[1]					
3.1	An unqualified audit report gives confidence that financial statements are reliable	94	97	95	97	89
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	X	-67	-15	-19	73
3.3	A qualified audit report indicates financial statements are not reliable	33	35	28	37	-
Duty no.	*Relevant suggested duties of* auditors[1]					
2.3	State whether financial statements fairly reflect co's affairs	96	96	98	98	94
2.5b	Express doubts in audit report about co's continued existence	67	81	63	67	60
2.9	Detect deliberate distortion of financial information	93	84	97	95	-
2.11c	Disclose in audit report deliberate distortion of financial information	74	72	84	89	58
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	43	16	36	54	57
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	39	11*	34	39	58
2.19	Audit published half-yearly co. reports	32	26	24	45	-
2.2	Guarantee financial statements are accurate	-30	-92	-53	-44	29
2.16	Examine & report on fairness of non-financial information	-34	-49	-24	-37	-
2.20	Examine & report on fairness of financial forecasts	30	18	36	27	-
2.22	Verify every transaction of auditee co.	-65	-97	-88	-79	-21
	Society's corporate watchdogs					
Prop. No.	*Proposition*[1]					
3.4	Auditors act for:					
3.4a	- co's shareholders+	-43	-25	-29	-41	-63
3.4b	- co's stakeholders+	-44	-42	-47	-41	-44
3.4c	- society as a whole	-15	-35	-29	-21	9*
3.11	The NZSA's disciplinary body includes laypersons	27	12*	33	34	-
3.14	Auditors must report reasons for resignation or removal to Registrar of Companies	62	43	53	72	72
3.16	Auditors are appointed by co. shareholders+	69	90	82	71	46
3.17	Auditors negotiate their fees with co. directors/ management+	49	76	73	57	11
Duty No.	*Relevant suggested duties of auditors*[1]					
2.5a	Report to a regulatory authority doubts about co's continued existence	12	-19	13	35	-
2.6	Ensure compliance with cos' legislation	50	26	54	46	55
2.8a	Detect theft of corporate assets by non-managerial employees	28	-51	6*	34	81
2.8b	Detect theft of corporate assets by co. directors/senior management	44	-31	33	61	
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	48	-4*	44	62	67
2.10c	Report to a regulatory authority deliberate distortion of financial information	51	-2*	52	68	
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	43	6*	41	52	58

Figure 39 cont ...

	Role Sender Group *No. of respondents in group*	Total Survey Group *1184*	Auditors *196*	Auditees *342*	Audit Beneficiaries Financial Community *243*	Audit Beneficiaries General Public *454*
	Society's corporate watchdogs (cont)	*mean* %	*mean* %	*mean* %	*mean* %	*mean* %
Duty No.	*Relevant suggested duties of auditors*[1]					
2.12	Report to a regulatory authority suspicions of fraud	14	-31	15	42	-
2.15	Report to a regulatory authority illegal acts uncovered in co.	31	-14*	11*	32	67
2.17	Examine & report on co's internal controls	41	8*	49	55	-
2.4	Guarantee auditee co. is solvent	-17	-64	-25	-21	-17
2.7	Report breaches of tax laws to IRD	-30	-75	-49	-36	10*
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	0*	-67	-31	-7*	67
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-7*	-71	-30	-24	58
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	-21	-78	-56	-57	57
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-21	-80	-59	-53	58
2.18	Examine & report on efficiency & effectiveness of co's management	-48	-64	-37	-53	-
2.21	Consider & report on co's impact on its local community	-71	-88	-77	-90	-47

1 The propositions and duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
\+ To reflect expectations which correspond with auditors acting for society, the means of role sender groups' responses to these propositions should be negative.
X As this proposition was expressed differently in the financial community and general public versions of the questionnaire no meaningful mean can be calculated for the total survey group.
* The results of the Wilcoxon signed-ranks test indicate that no valid generalised conclusion can be drawn about the expectations of the role sender group regarding this proposition or duty, as applicable.

Figure 39 shows that the mean of role sender groups responses to propositions 3.1 and 3.3 are positive, indicating that role senders agree with the propositions and, thus, that they expect auditors to examine and to express a professional opinion on the reliability or otherwise of audited financial statements. Accepting that financial statements are accountability reports (see Chapter 4, section 4.4.6) this finding accords with auditors being expected to fulfil a function as monitors of accountability reports.

The positive mean of responses from general public audit beneficiaries to proposition 3.2 signifies that members of this role sender group would only invest in a company whose financial statements are audited. The negative means of responses from auditors, auditees and financial community audit beneficiaries to proposition 3.2 indicate that these role sender groups do not agree with the proposition that knowing that a company's financial statements are audited gives confidence to invest in the company, whether or not the audit report is read. The proposition as expressed in the general public version of the questionnaire did not directly address the issue of whether audit reports are read. However, responses from the financial community role sender groups seem to imply that these groups expect to read auditors' reports in order to ascertain the auditor's opinion about the reliability of the financial statements before having confidence to invest in a company. As auditors' reports are the outcome of auditors' monitoring activities, this survey finding appears to be consistent with expectations of auditors monitoring accountability reports.

Reference to Figure 37 shows that 11 of the suggested duties presented in the questionnaire are perceived to relate to the postulated function of auditors as monitors of accountability reports. These are shown in Figure 39, together with the relevant means of role sender groups responses. Reviewing these means of responses, it is submitted that in relation to the following duties they reflect expectations of auditors fulfilling a function as monitors of accountability reports:

- to state whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3);
- to express doubts in the audit report about the continued existence of an auditee company (duty no. 2.5b);
- to detect, and to disclose in the audit report, deliberate distortion of financial information (duty nos. 2.9 and 2.11c);
- to detect, and to disclose in the audit report, illegal acts which directly impact on the company's accounts (duty nos. 2.13a and 2.14a);
- to audit published half-yearly company reports (duty no. 2.19).

For each of these duties the means of role sender groups responses are positive, reflecting expectations of auditors performing these duties. This finding lends support to the proposition that role senders expect auditors to monitor accountability reports.

However, role sender group responses to four other duties do not seem to accord with the postulated function of auditors. The duties in question are:

- to examine and report on
  - the fairness of non-financial information included in company annual reports (duty no. 2.16);
  - financial forecasts included in company annual reports (duty no. 2.20);
- to guarantee that audited financial statements are accurate (duty no. 2.2);
- to verify every transaction of the auditee company (duty no. 2.22).

It is noted that duty nos. 2.16 and 2.20 were omitted from the general public version of the questionnaire.

On the basis of the discussion presented in Chapter 4 (section 4.4.6), it is submitted that all of the information provided by company managements in their published annual reports which relates to the company's activities over the reporting period, is encompassed by the term 'accountability reporting'. This applies irrespective of whether the information is financial or non-financial in nature. Therefore, it is suggested that expecting auditors to examine and report on the fairness of non-financial information which is included in company annual reports (duty no. 2.16) is consistent with auditors' function of monitoring accountability reports. Yet, the negative means of role sender group responses show that role senders do not expect auditors to perform this duty. (The mean of responses range from -49% for auditors to -24% for auditees: see Figure 39). This duty is discussed in section 8.3 below, where it is shown that role senders appear to consider that, at the present time, it would not be cost-effective for auditors to perform this duty.

Unlike reporting both financial and non-financial information which relates to the (past) reporting period, financial forecasts involve company managements reporting their best estimates and expectations with respect to future periods. Certainly, in the future (after the event) managements may be held accountable for forecasts they have made but, at the time forecasts are made, they relate to a future period. They do not provide information (at least, not directly) on company activities during the (past) reporting period for which management is held accountable. Therefore, it is concluded that financial forecasts do not form part of accountability reporting. Consequently, expectations of auditors performing the duty of examining and reporting on the fairness of financial forecasts in company annual reports (duty no. 2.20) do not seem to accord with auditors fulfilling a function as monitors of accountability reports. Yet, the positive means of role sender group responses to duty no. 2.20 indicate that role senders expect auditors to perform this duty. However, this apparent inconsistency may result from role senders expressing a *desire* for auditors to provide them with an assurance about the projected future fortunes of the auditee company, rather than *expecting* them to express an opinion on the truth and fairness of financial forecasts. It is submitted that auditors can verify events which have happened and, therefore, they can monitor reports which provide information on past events. However, particularly in the present uncertain and rapidly changing socio-economic environment of the western world, auditors cannot provide assurance about what might occur in the future. Therefore, they cannot provide an assurance about the reliability of financial forecasts. It is suggested that, if the results of the company's activities during the (past) reporting period are fully disclosed, and if auditors examine and report on the fairness or otherwise of the information provided, then readers of the accountability reports should be able to judge for themselves whether financial forecasts provided by management in the company's annual report appear to be reasonable.

The duties of guaranteeing that audited financial statements are completely accurate and of verifying every transaction of the auditee company (duty nos. 2.2 and 2.22), appear to be in accord with notions of auditors monitoring accountability reports. Yet, the means of role sender group responses to these duties are negative, indicating that role senders consider that they should not be performed by auditors. This finding seems to signal an inconsistency between the expectations of auditors' role senders and the postulated function of auditors as monitors of accountability reports. However, as is shown in section 8.3 below, role senders appear to believe that it would not be cost-beneficial for auditors to *guarantee* that financial statements are completely accurate, or to verify every transaction of the auditee company. Instead, auditors seem to be expected to express a professional opinion on the financial statements which provides reasonable assurance as to the reliability (or otherwise) of the information they contain. (This was discussed in Chapter 2, section 2.3.2). To perform this duty, auditing techniques are available which enable the auditor to examine a sample of transactions, rather than verifying every transaction of the auditee company. It is therefore concluded that although role sender group expectations, as reflected in the negative means of their responses to duty nos. 2.2 and 2.22, seem not to accord with the postulated function of auditors as monitors of accountability reports, this may result from role senders' assessment of these duties as not cost-beneficial for auditors to perform rather than expectations which are in conflict with the postulated function.

It is recognised that in relation to the duties discussed above (duty nos. 2.2, 2.16, 2.20 and 2.22) the survey findings do not appear to support the proposition that auditors have a function monitoring accountability reports. However, it is submitted that plausible reasons can be offered to explain role sender group responses to these duties and that, overall, the expectations of auditors' role senders accord with the proposition that auditors have a social function monitoring accountability reports.

Auditors acting as society's corporate watchdogs

In Chapter 4 (section 4.4) it was postulated that, as economic organisations have grown in size and extended their power and influence in society, so the level of accountability expected of their managers has increased. The parties to whom corporate managers are accountable has been widened from shareholders, to stakeholders, to society at large. At the same time, because it is a function of auditors to monitor the accountability reports provided by company managers for those to whom they are accountable, the parties on whose behalf auditors act have been similarly extended from shareholders, through stakeholders, to society at large. It was further proposed that, because auditors have a unique, unrestricted right of access to auditee companies' records, and the right to obtain any information and explanations they require in the performance of their duties, they are expected to monitor corporate activities to ensure that they conform with society's norms. This latter function of auditors has been termed 'acting as society's corporate watchdogs'.

Propositions were presented in the questionnaire which were designed to ascertain whether auditors' role senders expect auditors to act for society as a whole, or for a more narrowly defined section of society, such as the auditee company's shareholders or stakeholders. Complementing these propositions, suggested duties of auditors listed in the questionnaire sought to ascertain role senders' expectations regarding auditors' performance of duties associated with a corporate watchdog function. As shown in Figure 39, the question of the parties for whom auditors act was addressed by the propositions:

- auditors act for
    - only the auditee company's shareholders (proposition 3.4a);
    - only the auditee company's stakeholders (proposition 3.4b);
    - society as a whole (proposition 3.4c);
- the NZSA's disciplinary body includes laypersons (proposition 3.11);
- auditors must report the reasons for their resignation or removal to the Registrar of Companies (proposition 3.14);
- auditors are appointed by auditee company shareholders (proposition 3.16);
- auditors negotiate their fees with auditee company directors or management (proposition 3.17).

Additionally, 18 of the 30 duties listed in the questionnaire help to identify role senders' expectations with respect to auditors acting as corporate watchdogs. These are shown in Figure 39.

Some of the propositions relating to the parties for whom auditors act (specifically propositions 3.14, 3.16 and 3.17) have been discussed in section 8.2.2 and in the analysis presented below these propositions are referred to only in general terms. Similarly, the duties which are relevant to auditors acting as society's corporate watchdogs have been discussed in section 7.4 and in this section they are referred to only briefly.

Proposition 3.4 directly addressed the question of the parties for whom auditors act. Respondents were asked to signify whether auditors should act only for the auditee company's shareholders, only for the company's stakeholders (those who have some contractual arrangement with the company, including shareholders), or for society as a whole (including stakeholders). From Figure 39 it is seen that the mean of responses from the survey group as a whole is negative for each of the options provided by proposition 3.4. This indicates that the majority of auditors' role senders consider that auditors should not act only for shareholders, nor should they act only for stakeholders, nor for society as a whole. It is suggested that this finding may be a consequence of the options being tightly defined. To some respondents the word 'only', associated with shareholders and stakeholders, may have seemed too restrictive, but 'society as a whole' was too broad. The options were intended to be progressively inclusive and were designed to correspond with ideas on the extension of corporate accountability developed in Chapter 4. While acknowledging that there are numerous combinations of possible parties for whom auditors might act, it is difficult to conceive of other options, within the overall framework of the present analysis, which could have been appropriately provided in the questionnaire which might have generated positive means of responses.[25]

Analysis of the survey results relating to proposition 3.4 shows that the negative mean of responses from the survey group as a whole is smallest for the option of auditors acting for society as a whole. It is -15% for this option, compared with -43% for the option of auditors acting for shareholders, and -44% for auditors acting for stakeholders (see

Figure 39). Further, it is the only option for which the mean of responses from a role sender group is positive – that of general public audit beneficiaries is 9%. However, it is observed that the results of the Wilcoxon signed-ranks test indicate that this result is not statistically significant (see Appendix 6b2). This notwithstanding, Figure 39 shows that the means of responses from both financial community and general public audit beneficiaries suggest that, of the three options provided, these role sender groups prefer the one of auditors acting for society. The means of responses from auditees indicate that this group is indifferent between the options of auditors acting only for the auditee company's shareholders and auditors acting for society. Auditors are the only role sender group who prefer an alternative to that of auditors acting for society; the mean of their responses indicates a preference for the option of auditors acting solely for shareholders (see Figure 39). Such a finding is understandable in the light of auditors' potential exposure to legal liability. The parties to whom they may be held to owe a duty of care within society at large extend well beyond the auditee company's shareholders.

An unexpected feature of the survey findings in relation to proposition 3.4 is the similarity of the means of responses from each role sender group, for each of the options provided in the questionnaire (see Figure 39). Indeed, the results of the Mann-Whitney test presented in Appendix 6c indicate that there is no statistically significant difference in the responses of auditors, auditees and financial community audit beneficiaries to all three options, and for all of the role sender groups (including general public audit beneficiaries) for the option of auditors acting only for stakeholders (proposition 3.4b).

Reference to Appendices 6d to 6g reveals that corresponding means of responses from the subgroups constituting each of the major role sender groups are also noticeably similar. The results of the Mann-Whitney test indicate that there is no statistically significant difference between the responses of any of the related subgroups with respect to the option that auditors act only for stakeholders (proposition 3.4b). Where differences between means of responses from related subgroups in relation to the options that auditors act only for shareholders, or for society as a whole (propositions 3.4a and 3.4c) are statistically significant, they are nevertheless relatively small.

It is acknowledged that the negative means of role sender group responses to proposition 3.4c suggest that auditors' role senders (with the possible exception of general public audit beneficiaries) disagree with the proposition that auditors act for society as a whole and, consequently, the survey findings appear to be inconsistent with the postulated function of auditors acting as society's corporate watchdogs. However, it has been observed that, of the three options provided for proposition 3.4, that of auditors acting for society as a whole (proposition 3.4c) has the smallest negative mean of responses from the total survey group and it is suggested that it may, therefore, be accepted as the preferred option. It is also noted that the means of responses to this option from seven of the role sender subgroups are shown by the Wilcoxon signed-ranks test to be too small for generalised conclusions to be drawn. The groups and the means of their responses are as follows:

- financial journalists -13%
- corporate bankers -10%
- non-partner audit staff -9%
- internal auditors -8%
- branch bank managers 2%
- lawyers 4%
- auditing academics 6%

Additionally, the mean of responses to proposition 3.4c from the group selected from the electoral rolls is 20%, a result which the Wilcoxon signed-ranks test indicates is statistically significant. Neither of the alternative propositions [auditors acting only for shareholders (3.4a) or acting only for stakeholders (3.4b)] have results of this nature. For these options, the mean of responses from all of the role sender subgroups are negative and in all but two cases for each proposition the opinion they reflect can be generalised to the population from which the subgroup samples were drawn. (The Wilcoxon signed-ranks test indicates that the means of responses from audit partners and the combined company executives/directors group with respect to proposition 3.4a, and from auditing academics and financial journalists for proposition 3.4b, are not statistically significant).

Notwithstanding that the evidence is inconclusive, on the basis of the above discussion, it is submitted that the survey findings in relation to proposition 3.4 lend support to the suggestion that role senders have expectations which accord more closely with the notion that auditors act for society as a whole, than with ideas that they act for a more limited section of society, such as auditee company shareholders or stakeholders.

Support for this conclusion seems to be provided by role sender group responses to the propositions that the NZSA's disciplinary body includes laypersons (proposition 3.11), and that auditors must report the reasons for their resignation or removal to the Registrar of Companies (proposition 3.14). The means of responses from all of the role sender groups with respect to both of these propositions are positive, signifying agreement with them. However, in the case of the mean of auditors' responses to proposition 3.11 (12%), the Wilcoxon signed-ranks test indicates that the survey result is not statistically significant. It is also noted that proposition 3.11 was not included in the general public version of the questionnaire.

Reference to Figure 39 shows that the means of responses from auditees and financial community audit beneficiaries to the proposition that the NZSA's disciplinary body includes laypersons (proposition 3.11) are very similar (33% and 34%, respectively). However, it also shows that the mean of responses from auditors is significantly lower (12%) and, as noted above, the survey result is not statistically significant. The findings suggest that, although a reasonable majority of auditees and financial community audit beneficiaries agree that the NZSA's disciplinary body should include laypersons, the opinion of auditors is much less clear. The expectations of auditees and financial community audit beneficiaries accord with the general trend in New Zealand and overseas for the professions (for example, lawyers and doctors) to include laypersons on their disciplinary bodies. The difference in the view of auditors may indicate that a significant number of them consider that laypersons do not have sufficient knowledge to participate in the disciplinary process of the accountancy profession and that the profession is best left to look after its own affairs. However, it is pertinent to note from Appendix $6d_2$ that the mean of responses from audit partners to proposition 3.11 is 31%, which approximates those noted above for auditees and financial community audit beneficiaries, but the mean of responses from non-partner audit staff is -7%. While acknowledging that the Wilcoxon signed-ranks test indicates that this latter finding is not statistically significant, it is evident that non-partner audit staff are substantially less agreed than audit partners about laypersons being on the profession's disciplinary body, and they may disagree with the proposition. Reasons for their viewpoint, beyond those mentioned above in relation to the auditor group as a whole, are difficult to find. The responses from non-partner audit staff are particularly interesting in view of the fact that the NZSA has recently made application to Government, requesting it to pass the necessary legislation to effect a change in the Society's Rules. The proposed change would enable laypersons to become members of the Society's Disciplinary Committee.[26]

It is submitted that the positive means of role sender group responses signifying agreement with proposition 3.11, may be interpreted as implying that role senders consider that auditors are responsible to society at large. To expect laypersons to be included on the profession's disciplinary body seems to suggest that role senders (with the possible exception of non-partner audit staff) consider that the accountancy profession, like all professions, serves, and is answerable to, society at large (see section 4.3). Related to this, it is suggested that role senders' expectations of laypersons being members of the disciplinary body may indicate that they wish to ensure that the NZSA applies appropriate disciplinary measures in the event of sub-standard performance by its members, and that it does not protect its members against the interests of society, or individuals or groups within society (see section 4.3.4 above).

As observed in the discussion on auditors' professional independence (see section 8.2.2), the means of role sender group responses to the proposition that auditors should report the reasons for their resignation or removal to the Registrar of Companies (proposition 3.14) are positive, ranging from 72% for both groups of audit beneficiaries to 43% for auditors (see Figure 39). This indicates that all of the groups widely agree with this proposition. Such agreement suggests that role senders view auditors as acting for sections of society beyond the company's shareholders or stakeholders. The Companies Act 1955 contains provisions which enable auditors to inform auditee company shareholders of the reasons for their resignation or removal, and this group has the legal right and duty to approve or re-appoint auditors of their choice. The survey responses seem to imply that role senders consider that further protection is required for auditors, and it is suggested that this would not be the case if auditors were regarded as acting solely for the auditee company's shareholders or even its stakeholders. It seems more likely that role sender expectations of auditors reporting the reasons for their resignation or removal to the Registrar of Companies (a representative of society) reflect a belief that auditors act (or should act) for society as a whole.

Although responses to propositions 3.4, 3.11 and 3.14 provide some support for the notion that role senders expect auditors to act for society as a whole, the means of role sender group responses to the propositions that auditors are appointed by the auditee company's shareholders (proposition 3.16) and that auditors negotiate their fees with auditee company directors or management (proposition 3.17), appear to be inconsistent with it. The means of responses from all of the role sender groups to both propositions are positive, ranging from 90% for auditors to 46% for general public audit beneficiaries in the case of proposition 3.16, and from 76% for auditors to 11% for general public audit beneficiaries for proposition 3.17 (see Figure 39). If role senders expected auditors to act for society as a whole, it might be anticipated that they would consider that auditors should be appointed by, and negotiate their fees with, a party representing society's interests and thus the means of their responses to propositions 3.16 and 3.17 would be negative rather than positive. However, it is pertinent to note that in response to open-ended questions provided in the questionnaire, 80 respondents (7% of the survey group) observed that auditors should be appointed by parties other than auditee company shareholders or directors. These include 49 respondents (4% of the total group) who specified that auditors should be appointed by an independent authority, and a further 23 (2% of the survey group) who signified that they should be appointed by all parties interested in the company, that is, by stakeholders (see Appendix 7, ref. D.3 and D.2). Similarly, 76 respondents (6% of the survey group) suggested that audit fees should be set by, or negotiated with, parties more representative of society than auditee company officials. For example, 26 respondents (2% of the total group) stated that audit fees should be set by an independent body, and another 13 (1% of the survey group) indicated that they should be set by the NZSA (see Appendix 7, ref. C.2 and C.3). Nonetheless, it is also observed that 61 respondents (5% of the total survey group) signified that they believe that auditors should negotiate their fees with a body comprising representatives of auditee company directors and shareholders (see Appendix 7, ref. C.1). This finding, is difficult to reconcile with expectations of auditors acting for society.

It is acknowledged that a number of difficulties attach to the survey findings with respect to the propositions relating to auditors acting for society as a whole, and that in some cases they appear to be inconsistent with notions of auditors so acting. Nevertheless, from a review of the survey results overall, giving particular emphasis to those relating to proposition 3.4 which directly addressed the issue of the parties for whom auditors act, it is concluded that, on balance, the evidence of role sender group responses to relevant propositions is more in favour of auditors acting for society than it is for auditors acting for auditee company shareholders or stakeholders.

General support for this conclusion is provided by ten of the suggested duties of auditors which relate to a corporate watchdog function, which role senders consider auditors should perform (the means of responses to these duties from the survey group as a whole are positive). As shown in Figure 39, these are the duties:

- to report to a regulatory authority doubts about the continued existence of an auditee company (duty no. 2.5a);
- to ensure that auditee companies comply with companies' legislation (duty no. 2.6);
- to detect theft of corporate assets
    - by non-managerial employees (duty no. 2.8a);
    - by company directors/senior management (duty no. 2.8b);
- to disclose in the audit report, and to report to a regulatory authority, misappropriation of corporate assets by company directors/senior management (duty nos. 2.10b and 2.11b);
- to report to a regulatory authority
    - deliberate distortion of financial information (duty no. 2.10c);
    - suspicions of fraud (duty no. 2.12);
    - illegal acts uncovered in an auditee company (duty no. 2.15);
- to examine and report on the auditee company's internal controls (duty no. 2.17).

That role senders expect auditors to perform these duties suggests that they are conscious of auditors' unique legal right of access to discover what is happening in auditee companies, and that they expect auditors to ascertain whether auditee company managements are complying with society's norms (many of which are embodied in legislation). Role senders apparently also expect auditors to ensure that breaches of society's norms are reported publicly (through the auditors' report) and/or privately to a regulatory authority which has power to impose appropriate sanctions. It is submitted that expectations of auditors performing these duties are consistent with auditors fulfilling a function as society's corporate watchdogs.

However, the means of role sender group responses to a further eight suggested duties of auditors reflect role sender opinions which appear to be at variance with expectations of auditors acting as corporate watchdogs (see Figure 39). These are the duties:

- to guarantee that the auditee company is solvent (duty no. 2.4);
- to report breaches of tax laws to the Inland Revenue Department (duty no. 2.7).
- to disclose in the audit report, and to report to a regulatory authority, theft of corporate assets by non-managerial employees (duty nos. 2.10a and 2.11a);
- to detect, and to disclose in the audit report, illegal acts by company officials which do not directly impact on the auditee company's accounts (duty nos. 2.13b and 2.14b);
- to examine and report on
  - the efficiency and effectiveness of the auditee company's management (duty no. 2.18)
  - the impact of the auditee company on its local community (duty no. 2.21).

All of these duties appear to be compatible with a corporate watchdog function and, therefore, it could be anticipated that if role senders expect auditors to fulfil this function they would signify that they expect auditors to perform these duties. However, as Figure 39 shows, the means of responses from the survey group as a whole with respect to these duties are negative or zero. This indicates that role senders consider that auditors should not perform these duties. Nevertheless, it is suggested that this survey finding can be explained fairly readily on grounds of cost-effectiveness, with respect to all of the duties other than that of reporting breaches of tax laws to the Inland Revenue Department (duty no. 2.7). For example, as will be shown in section 8.3, auditors' role senders apparently do not consider that it would be cost-effective for auditors to conduct the exhaustive examination which would be required if they were to *guarantee* that an auditee company is solvent. It appears that role senders regard it as sufficient for auditors to disclose in the audit report, and to report to a regulatory authority, doubts they have about the continued existence of an auditee company (duty nos. 2.5b and 2.5a, both of which are identified as duties which auditors should perform: see Figure 39).

Similarly, it may be argued that, if auditors detect theft of corporate assets by non-managerial employees (duty no. 2.8a) and report such theft to management, and if they examine and report on the auditee company's internal controls (duty no. 2.17) which are intended, inter alia, to prevent and detect theft and other forms of fraud by non-managerial employees, then, under normal circumstances, this is the extent of auditors' duty in this regard (see Chapter 2, section 2.3.4). As is shown in section 8.3 below, it appears that role senders do not consider that it would be cost-effective for auditors to also report this type of theft in the audit report and/or to a regulatory authority (duty nos. 2.10a and 2.11a). It may be maintained further, that, to expect auditors to detect and disclose illegal acts which do not directly impact on the auditee company's accounts (duty nos. 2.13b and 2.14b), and to expect them to examine and report on the efficiency and effectiveness of the auditee company's management and on the impact of the company on its local community (duty nos. 2.18 and 2.21), would be to expect them to perform duties which are outside their field of professional expertise. Auditors could overcome this difficulty and perform these duties but, at the present time, it appears that role senders do not believe that it would be cost-effective for them to do so (see section 8.3 below).

Although it seems that the apparent inconsistency between role senders' expectations with respect to the above duties and the postulated function of auditors as society's corporate watchdogs can be explained fairly readily, the same does not appear to be true of the duty to report breaches of tax laws to the Inland Revenue Department (duty no. 2.7). It is difficult to find satisfactory reasons (other than client confidentiality, which has little relevance in the context of the present analysis) to explain the negative mean of responses from the total survey group, which indicates that role senders consider that auditors should not perform this duty (see Figure 39). Further, among the major role sender groups, only the mean of responses from general public audit beneficiaries is positive (10%) and, even in this case, the Wilcoxon signed-ranks test indicates that no generalised conclusion may be drawn from the survey responses. Yet, the duty is one which is within the professional expertise of auditors and is one which, logically, company managements cannot be expected to perform. It is submitted that, if role senders expect auditors to act for society to ensure that auditee company managements comply with society's norms then, they would expect auditors to perform this duty. (Auditors' performance of this duty is discussed further in section 8.3 below).

From the above discussion of propositions and duties presented in the questionnaire which relate to the postulated function of auditors as society's corporate watchdogs, it is evident that some of the survey findings are not easy to reconcile with the postulated function. However, if role sender group responses to relevant propositions and duties are viewed as a whole, it is seen that, on balance, they support the view that role senders expect auditors to act for society, rather than for auditee company shareholders or stakeholders. The responses, overall, are also seen to support the notion that role senders expect auditors to perform duties which accord with a corporate watchdog function, providing the duties are cost-effective for auditors to perform. In this regard it is noted that, in response to open-ended questions presented in the questionnaire, 19 respondents (2% of the survey group) explicitly expressed the view that auditors are "society's corporate watchdogs". However, 10 others observed that auditors are "agents of the shareholders" (see Appendix 7, ref. E.9 and E.8).

In summary, while acknowledging that the survey results are not conclusive, it is submitted that they provide general support for the proposition that role senders expect auditors to act for society as corporate watchdogs. This, combined with the conclusion reached earlier that, in general, the survey findings accord with the postulated function of auditors as monitors of accountability reports, seems to permit tentative acceptance of the proposition that auditors are instruments of social control within the corporate accountability process.

8.2.4 The role of external auditors in society

In this thesis, the role of external auditors in society has been defined as the combined expectations of those who occupy the social position of auditors, by groups and individuals in society who have an identifiable relationship with that position. It has also been postulated that the social position of auditors is that of members of a recognised profession acting as instruments of social control within the corporate accountability process.

In this section, the responses of auditors' role senders to propositions and duties presented in the questionnaire have been analysed to ascertain whether they reflect expectations which accord with the postulated social position of auditors. More specifically, role sender group responses have been examined to determine role senders' expectations with respect to three attributes of auditors as professionals (competence in a specialised service, independence, and the existence of a controlling professional body), and two facets of auditors' function as instruments of social control within the corporate accountability process (monitoring accountability reports and acting as society's corporate watchdogs).

It is acknowledged that some of the survey results do not appear to be consistent with the postulated social position of auditors. It is nevertheless submitted that, in general, the survey findings support the conclusion that role senders' expectations accord with the proposition that auditors are professionals who act as instruments of social control within the corporate accountability process - that is, they monitor accountability reports and otherwise act for society as corporate watchdogs.

In the section which follows, this conclusion is used to help identify the duties which may reasonably be expected of auditors.

8.3 THE DUTIES REASONABLY EXPECTED OF AUDITORS

8.3.1 Methodology of analysis

In Chapter 2, the audit expectation-performance gap was defined as the gap between society's expectations of auditors and auditors' performance, as perceived by society. It was postulated that the gap has two major components:

- a reasonableness gap – a gap between society's expectations of auditors and the duties they may reasonably be expected to perform;
- a performance gap – a gap between the duties reasonably expected of auditors and auditors' performance, as perceived by society. This gap is subdivided into:
  - deficient standards – a gap between the duties reasonably expected of auditors and auditors' existing duties; and
  - deficient performance – a gap between expected performance of auditors' existing duties and perceived sub-standard performance of these duties (see section 7.3.3).

It is noted that in the structure of the audit expectation-performance gap, the duties which are reasonably expected of auditors constitute the boundary between the reasonableness gap and the performance gap. In Chapter 2 (section 2.4) it was submitted that these duties form the linchpin in narrowing the audit expectation-performance gap – it is these duties which must be performed by practitioners (thus eliminating the performance gap) and it is these duties about which members of society need to be informed (to close the reasonableness gap).

In this section the survey results are analysed to ascertain the duties which may reasonably be expected of auditors. It is considered that in order for duties to be reasonably expected of auditors they must meet two criteria. They must be:

- compatible with auditors' role in society; and
- cost-beneficial for auditors to perform.

In Chapter 7 (section 7.4) it was submitted that, notwithstanding the arbitrariness of the point measurement selected, if 20% or more of a major role sender group consider that auditors should perform a particular duty, then it warrants further evaluation to determine whether it is, or is not, a duty which is reasonable to expect of auditors. The duties identified in Chapter 7 (section 7.4.3) as duties which 20% or more of a role sender group consider that auditors should perform (see Figure 35) are thus the starting point in the analysis presented in this section. These duties are examined to see if they meet the two criteria noted above to qualify as duties which are reasonable to expect of auditors.

In order to determine whether the duties are compatible with auditors' role in society, each duty is assessed to ascertain whether it is consistent with auditors' social position as a member of a recognised profession acting as an instrument of social control within the corporate accountability process. In fact, all of the duties identified in section 7.4.3 as duties which at least 20% of a role sender group consider auditors should perform, have been included in the analysis of auditors' social position presented in section 8.2, and in this section reference is made to the conclusions reached in that section with respect to these duties.

It was reported in Chapter 2 that cost-benefit analysis has not been performed as part of this study. While recognising that conclusive statements about the duties which are cost-beneficial for auditors to perform must await formal analysis, it is considered that an acceptable surrogate for cost-benefit analysis may be obtained from a parallel to the "objective test" of "the ordinary reasonable man" (O'Keefe and Farrands, 1978, p. 206) as applied by New Zealand courts of law. In numerous contexts, in order to establish whether a defendant is guilty or innocent, the courts have evaluated his or her conduct (or intentions) against that (or those) which might be expected from an ordinary reasonable citizen. In *Blythe* v *Birmingham Waterworks Co.* (1856) II Exch 781, for example, Aldersen B. applied the test in a case involving negligence. He explained (at 784):

> Negligence is the omission to do something which a reasonable man, guided upon those considerations which ordinarily regulate the conduct of human affairs, would do, or doing something which a prudent and reasonable man would not do.

The standard applied is that of 'a man of ordinary prudence' [*Vaughan* v *Menlove* (1837) 3 Bing NC 468 at 475 (per Tindal CJ)], a man using 'ordinary care and skill' [*Heaven* v *Pender* (1883) II QBD 503 at 507 (per Brett MR)], a 'hypothetical man' [*King* v *Phillips* [1953] I QB 429 at 441 (per Denning LJ] who has no personal identity or vested interest. His is a disinterested, objective viewpoint, representative of all sections of society.

If such a 'reasonable man' was given a list of duties (all of which were compatible with auditors' role in society) and he was asked to identify those which auditors should perform, it seems logical to assume that he would select those duties which he considered were cost-beneficial for auditors to perform. Because the hypothetical reasonable man represents all sections of society, it may be assumed that he would incorporate in his decision, consideration of the costs and benefits attaching to auditors' performance of the duties, as perceived by all those who have an identifiable relationship with auditors [that is, by definition, all of auditors' role senders, inclusive of auditors (see section 4.2)]. Following from this, it is reasoned that a representative view of the duties which are cost-beneficial for auditors to perform may be obtained from the duties which auditors' role senders as a whole identify as duties which auditors should perform. Thus, in the absence of formal cost-benefit analysis, a surrogate measure used in this study to identify the duties which are cost-beneficial for auditors to perform, is a positive mean of responses from the total survey group in relation to duties which auditors should perform.

In accepting this measure it is observed that, of all the indicators provided by the survey results to ascertain auditors' existing duties, that which provided the best approximation of the actual position was the mean of responses from the total survey group. This finding may be interpreted to imply that the mean of responses from the survey group as a whole provides a representative viewpoint (approximating that of 'the reasonable man'), in which the biases of individual role sender groups are offset. However, it is also acknowledged that adopting a positive mean of responses from the total survey group as a surrogate for cost-benefit analysis requires caution, and that the validity of this measure may be questioned as respondents were not asked to consider cost factors when identifying the duties which auditors should perform. Nevertheless, despite its apparent shortcomings, a positive mean of responses from the total survey group is considered to be the best measure available from the survey data, to identify the duties which are cost-beneficial for auditors to perform.

8.3.2 Identifying the duties reasonably expected of auditors

In Chapter 7 (section 7.4) it was established that all but two of the duties listed in the questionnaire were considered by 20% or more of a role sender group to be duties which auditors should perform. The exceptions are the duties:

- to prepare the auditee company's financial statements (duty no. 2.1);
- to consider and report on the impact of the auditee company on its local community (duty no. 2.21).

Of the 28 duties identified as duties which auditors should perform, all but one appear to be compatible with auditors' function as instruments of social control within the corporate accountability process. The exception is that of the duty to examine and report on the fairness of financial forecasts included in company annual reports (duty no. 2.20). As discussed in section 8.2.2, it is difficult to reconcile the provision of financial forecasts (which are oriented towards future performance) with the discharge of corporate management's accountability (which relates to the acceptability or otherwise of past performance). As a result, it is concluded that the duty of examining and reporting on financial forecasts included in annual reports is not consistent with auditors' function of monitoring accountability reports. All of the remaining duties appear to be compatible with one or other of auditors' twin functions of monitoring accountability reports and acting as society's corporate watchdogs (see section 8.2.2 and Figure 40).

Although only one duty fails the role compatibility test (duty no. 2.20) a further 10 fail to qualify as duties which are reasonably expected of auditors on grounds that they do not meet the cost-benefit criterion. As explained above, in this study, the duties accepted as being cost-beneficial for auditors to perform are those identified from the positive means of responses from the total survey group as duties which auditors should perform (see Figure 27). The duties failing to meet the cost-benefit test are as follows:

- to guarantee that the audited financial statements are accurate (duty no. 2.2);
- to guarantee that the auditee company is solvent (duty no. 2.4);
- to report breaches of tax laws to the Inland Revenue Department (duty no. 2.7);
- to disclose in the audit report, and to report to a regulatory authority, theft of corporate assets by non-managerial employees (duty nos. 2.11a and 2.10a);
- to detect, and to disclose in the audit report, illegal acts which do not directly impact on the auditee company's accounts (duty nos. 2.13b and 2.14b);
- to examine and report on
    - the fairness of non-financial information (duty no. 2.16);
    - the efficiency and effectiveness of the auditee company's management (duty no. 2.18);
- to examine every transaction of the auditee company (duty no. 2.22).

A review of the above duties shows that their failure to meet the cost-benefit test is not difficult to explain. For example, if auditors were to *guarantee* that the audited financial statements are accurate or that the auditee company is solvent (duty nos. 2.2

Figure 40: The duties reasonably expected of auditors

Duty no.	*Suggested duty of auditors1*	Duties auditors should perform	Compatible with auditors' role in society	Cost-beneficial for auditors to perform	Duties reasonably expected of auditors
2.1	Prepare auditee co's financial statements	*	-	-	X
2.2	Guarantee financial statements are accurate	S	Cm	-	X
2.3	State whether financial statements fairly reflect co's affairs	S	Cm	Cb	RE
2.4	Guarantee auditee co. is solvent	S	Cm	-	X
2.5a	Report to a regulatory authority doubts about co's continued existence	S	Cs	Cb	RE
2.5b	Express doubts in audit report about co's continued existence	S	Cm	Cb	RE
2.6	Ensure compliance with cos' legislation	S	Cs	Cb	RE
2.7	Report breaches of tax laws to IRD	S	Cs	-	X
2.8a	Detect theft of corporate assets by non-managerial employees	S	Cs	Cb	RE
2.8b	Detect theft of corporate assets by co. directors/ senior management	S	Cs	Cb	RE
2.9	Detect deliberate distortion of financial information	S	Cm	Cb	RE
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	S	Cs	-	X
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	S	Cs	Cb	RE
2.10c	Report to a regulatory authority deliberate distortion of financial information	S	Cs	Cb	RE
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	S	Cs	-	X
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	S	Cs	Cb	RE
2.11c	Disclose in audit report deliberate distortion of financial information	S	Cm	Cb	RE
2.12	Report to a regulatory authority suspicions of fraud	S	Cs	Cb	RE
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	S	Cm	Cb	RE
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	S	Cs	-	X
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	S	Cm	Cb	RE
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	S	Cs	-	X
2.15	Report to a regulatory authority illegal acts uncovered in co.	S	Cs	Cb	RE
2.16	Examine & report on fairness of non-financial information	S	Cm	-	X
2.17	Examine & report on co's internal controls	S	Cs	Cb	RE
2.18	Examine & report on efficiency & effectiveness of co's management	S	Cs	-	X
2.19	Audit published half-yearly co. reports	S	Cm	Cb	RE
2.20	Examine & report on fairness of financial forecasts	S	-	Cb	X
2.21	Consider & report on co's impact on its local community	*	-	-	X
2.22	Verify every transaction of auditee co.	S	Cm	-	X
	No. of duties:	28	27	18	17

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b
S Duty identified by 20% or more of at least one role sender group as a duty auditors should perform.
* Duty not identified by 20% or more of a role sender group as a duty auditors should perform, therefore not evaluated further.
Cm Compatible with role of auditors: monitoring accountability reports.
Cs Compatible with role of auditors: acting as society's corporate watchdogs.
Cb Duty cost-beneficial for auditors to perform (identified from means of responses from total survey group as duty auditors should perform: see Figure 27).
RE Duty reasonably expected of auditors.
X Duty not reasonably expected of auditors.

and 2.4) they would almost certainly have to examine every transaction of the auditee company (duty no. 2.22). Such an undertaking, even in moderately sized economic organisations, would appear to necessitate greatly increased expenditure of resources on the audit function. It seems likely that the increased expenditure would outweigh the incremental benefit derived from added assurance about the quality of the financial information provided by the company's management and the solvency of the enterprise.

With respect to the duties of reporting theft of corporate assets by non-managerial employees (duty nos. 2.10a and 2.11a), it was noted in section 8.2.3 that corporate managements establish systems of internal control, inter alia, to prevent and detect such theft. It is an existing duty of auditors to detect all but immaterial theft of corporate assets by non-managerial employees which is not caught by the internal control net (see section 7.2) but, providing they report such theft to the company's management that is generally where their responsibility ends (see Chapter 2, sections 2.3.4 and 2.3.6). To require them also to report theft of this nature in the audit report, or to a regulatory authority, would involve additional audit costs, and may also have an adverse effect on labour relations within the audit client and on auditor/client-personnel relations. It does not seem likely that benefits resulting from such reporting of theft by non-managerial employees would be commensurate with the additional costs which would be incurred.

The duties of detecting and disclosing illegal acts which do not directly impact on an auditee company's accounts (duty nos. 2.13b and 2.14b), and of examining and reporting (in the published audit report) on the fairness of non-financial information and on the efficiency and effectiveness of the auditee company's management (duty nos. 2.16 and 2.18), all seem to be rather remote from auditors' traditional specialist field of accountancy. Although the competence of auditors (or audit teams) could, no doubt, be extended to accommodate these duties, or auditors could use the services of other experts to perform the duties (as they already do in a number of situations, for example, valuing specialised inventory such as jewels), at the present time it seems that the costs involved would outweigh the benefits derived from requiring auditors to perform these duties.

The most difficult duty to explain, in terms of its rejection on cost-benefit grounds as a duty which is reasonable to expect of auditors, is that of reporting breaches of tax laws to the Inland Revenue Department (duty no. 2.7). As noted in section 8.2.3, this is a duty which falls within auditors' traditional expertise in accountancy and it appears that its performance would involve little additional audit cost. Further, some social benefit could be anticipated in terms of increased government revenues for social spending. However, in New Zealand at the present time there seems to be widespread antagonism towards the Inland Revenue Department and a sense that tax avoidance is fair game. It is therefore considered that the main costs attaching to auditors performing this duty lie in the negative attitudes towards auditors which seem likely to result. Where such attitudes caused management/auditor relations to deteriorate, other tasks of the audit function might also become more difficult, time consuming and costly to perform. On balance, it seems that the social and economic costs resulting from auditors performing this duty might well outweigh the social and economic benefits gained.

As shown in Figure 40, once the role compatibility and cost-benefit tests have been applied to the duties which 20% or more of a role sender group consider to be duties which auditors should perform, 17 remain as duties reasonably expected of auditors. It was observed in section 8.3.1 that these duties constitute the boundary between the deficient standards and reasonableness gap components of the audit expectation-performance gap. It was also noted in the introduction to this chapter that, once the duties reasonably expected of auditors were identified, the composition of the reasonableness gap and deficient standards components of the audit expectation-performance gap could be ascertained. This is addressed in the following section.

8.4 THE DEFICIENT STANDARDS AND REASONABLENESS GAP COMPONENTS OF THE AUDIT EXPECTATION-PERFORMANCE GAP

The audit expectation-performance gap has been defined as the gap between society's expectations of auditors and auditors' performance, as perceived by society. 'Society' has been defined to mean the population at large, exclusive of auditors, and thus coincides with non-auditor role senders (see footnote 3). It follows, that the duties constituting the audit expectation-performance gap are the duties expected of auditors by non-auditor role senders, which are either not performed, or which are performed but not to the expected standard. It was noted in section 8.3.1, that if a duty is identified by 20% or more of a role sender group as a duty which auditors should perform, then it is considered to warrant further evaluation to establish whether it is, or is not, a duty which is reasonable to expect of auditors. As a consequence, the duties expected of auditors by non-auditor role senders which constitute the audit expectation-performance gap, are the duties which are expected of auditors by 20% or more of a non-auditor role sender group.[27]

If a duty is expected of auditors by 20% or more of a non-auditor role sender group but, upon evaluation, is found to be a duty which is not reasonable to expect of auditors (see section 8.3), then the duty is an element of the reasonableness gap.[28] However, if a duty which is expected of auditors is assessed as reasonable for auditors to perform, but it is not an existing duty of auditors, then it contributes to the deficient standards gap.

Reference to Figure 35 (and section 7.4) shows that the 28 duties recognised by 20% or more of a role sender group as duties which auditors should perform, are so recognised by one or more of the non-auditor role sender groups. Therefore, the 28 duties analysed in section 8.3 to establish whether or not they are reasonable to expect of auditors, are duties expected of auditors by non-auditor role sender groups (that is, by society, as defined). These provide the starting point in ascertaining the duties which constitute the deficient standards and reasonableness gap components of the audit expectation-performance gap.

Deficient standards gap

Reference to Figure 41 shows that of the 17 duties which meet the role compatibility and cost-benefit criteria to qualify as duties which are reasonable to expect of auditors, 10 are existing duties of auditors (these were discussed in section 7.2). The other seven duties, which are reasonably expected but not currently required of auditors, contribute to the deficient standards component of the audit expectation-performance gap. Auditing standards need to be extended so that they encompass these duties, which are as follows:

- to report to a regulatory authority
    - doubts about the continued existence of an auditee company (duty no. 2.5a);
    - misappropriation of corporate assets by company directors/senior management (duty no. 2.10b);
    - deliberate distortion of financial information (duty no. 2.10c);
    - suspicions of fraud (duty no. 2.12);
    - illegal acts uncovered in an auditee company (duty no. 2.15).
- to examine and report on the auditee company's internal controls (duty no. 2.17);
- to audit published half-yearly company reports (duty no. 2.19).

Two significant observations emerge from a review of these duties, namely:

1. Five of the seven duties involve reporting to a regulatory authority matters of concern uncovered during an audit. It appears that auditors' duties could be extended fairly easily, and with little additional audit cost, to embrace these duties. However, legislation would be required to establish (or designate) the appropriate regulatory authority to whom auditors should report, and to provide protection for auditors against possible claims of breach of client-confidentiality and, in some cases, defamation of character.

Figure 41: Relative contribution of relevant duties to the deficient standards and reasonableness gap components of the audit expectation-performance gap

Duty No.	*Suggested duties of auditors*[1]	Existing duties	Deficient standards duties	Duties reasonably expected of auditors	Reasonable-ness gap duties	Duties expected of auditors
			%[2]		%[2]	
2.2	Guarantee financial statements are accurate	-	-	-	39	S
2.3	State whether financial statements fairly reflect co's affairs	D	-	RE	-	S
2.4	Guarantee auditee co. is solvent	-	-	-	41	S
2.5a	Report to a regulatory authority doubts about co's continued existence	-	55	RE	-	S
2.5b	Express doubts in audit report about co's continued existence	D	-	RE	-	S
2.6	Ensure compliance with cos' legislation	D	-	RE	-	S
2.7	Report breaches of tax laws to IRD	-	-	-	33	S
2.8a	Detect theft of corporate assets by non-managerial employees	D	-	RE	-	S
2.8b	Detect theft of corporate assets by co. directors/senior management	D	-	RE	-	S
2.9	Detect deliberate distortion of financial information	D	-	RE	-	S
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	-	-	-	51	S
2.10b	Report to a regulatory authority mis-appropriation of co. assets by co. directors/ senior management	-	74	RE	-	S
2.10c	Report to a regulatory authority deliberate distortion of financial information	-	76	RE	-	S
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-	-	-	47	S
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	D	-	RE	-	S
2.11c	Disclose in audit report deliberate distortion of financial information	D	-	RE	-	S
2.12	Report to a regulatory authority suspicions of fraud	-	60	RE	-	S
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	D	-	RE	-	S
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	-	-	-	40	S
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	D	-	RE	-	S
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-	-	-	40	S
2.15	Report to a regulatory authority illegal acts uncovered in co.	-	64	RE	-	S
2.16	Examine & report on fairness of non-financial information	-	-	-	32	S
2.17	Examine & report on co's internal controls	-	75	RE	-	S
2.18	Examine & report on efficiency & effectiveness of co's management	-	-	-	25	S
2.19	Audit published half-yearly co. reports	-	62	RE	-	S
2.20	Examine & report on fairness of financial forecasts	-	-	-	63	S
2.22	Verify every transaction of auditee co.	-	-	-	16	S
	No. of duties	10	7	17	11	28
	Measure of unfulfilled expectations attaching to the component of the audit expectation-performance gap	-	466	-	427	-

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 The percentage of the society group signifying these duties should be performed by auditors.
D Existing duty of auditors, identified by reference to the law and professional promulgations.
RE Duty expected of auditors which is compatible with auditors' role in society and cost-beneficial for auditors to perform.
S Duty identified by 20% or more of at least one non-auditor role sender group as a duty which auditors should perform.

2. Six of the seven duties relate to auditors' function as society's corporate watchdogs. This compares with five of auditors' existing duties relating to this function and five to their function of monitoring accountability reports. It is suggested that this finding may infer that society is becoming more aware of the importance of auditors acting as society's corporate watchdogs and that further extensions of auditors' duties in this area may be expected in the future. This observation appears to gain support from the recent judgement by the Privy Council in the *Caparo* case (see Chapter 5, section 5.2.3).

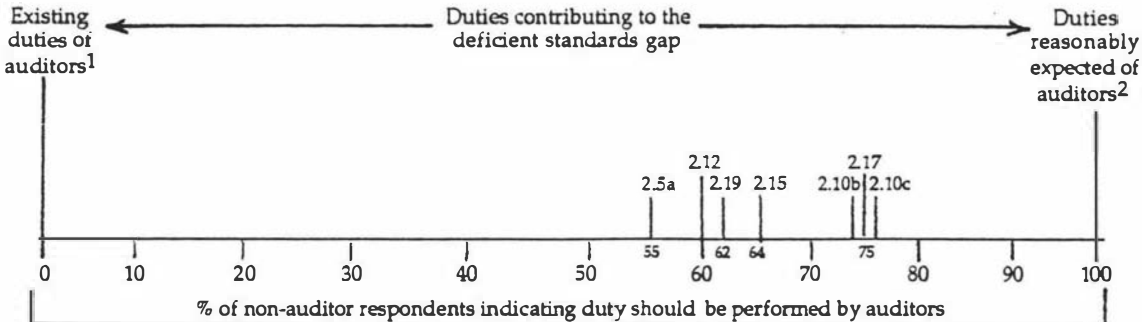
Both of these observations, and the means by which the deficient standards gap may be narrowed, are discussed in Chapter 9.

As observed in section 7.3.3 in relation to the deficient performance gap, a useful indicator of the relative contribution of each relevant duty to the deficient standards component of the audit expectation-performance gap, is provided by the proportion of non-auditor role senders (designated the society group) who signified that they expect auditors to perform the duty in question. The greater the proportion of the group who considered that the duty should be performed by auditors, the greater the level of unfulfilled expectations resulting from the non-performance of the duty and thus the greater the contribution of the duty to the deficient standards gap. The relative contribution of the relevant duties to the deficient standards gap are shown in Figure 41 and represented in Figure 42.

Two particularly interesting points emerge from Figure 42. These are:

- the relative importance which society (as defined: see footnote 3) places on auditors reporting management fraud (whether it be in the form of deliberate distortion of financial information or misappropriation of corporate assets) and reporting on the company's internal controls, established, inter alia, to prevent and detect non-managerial fraud;

Figure 42: The relative contribution of relevant duties to the deficient standards component of the audit expectation-performance gap



Duty no.	Duty of Auditors
2.5a	Report to a regulatory authority doubts about the company's continued existence
2.12	Report to a regulatory authority suspicions of fraud
2.19	Audit published half-yearly company reports
2.15	Report to a regulatory authority illegal acts uncovered in an auditee company
2.10b	Report to a regulatory authority misappropriation of corporate assets by company directors/ senior management
2.17	Examine & report on the company's internal controls
2.10c	Report to a regulatory authority deliberate distortion of financial information

1 Existing duties defined by reference to the law and professional promulgations.
2 Duties compatible with auditors' role in society and cost-beneficial for auditors to perform.

- the lesser importance, relative to the other duties, which society places on auditors reporting doubts about the continued existence of an auditee company to a regulatory authority (duty no. 2.5a). The 55% of non-auditor respondents who indicated that this duty should be performed by auditors, compares with 79% who signified that auditors should report doubts about the continued existence of an auditee company in the audit report (duty no. 2.5b).

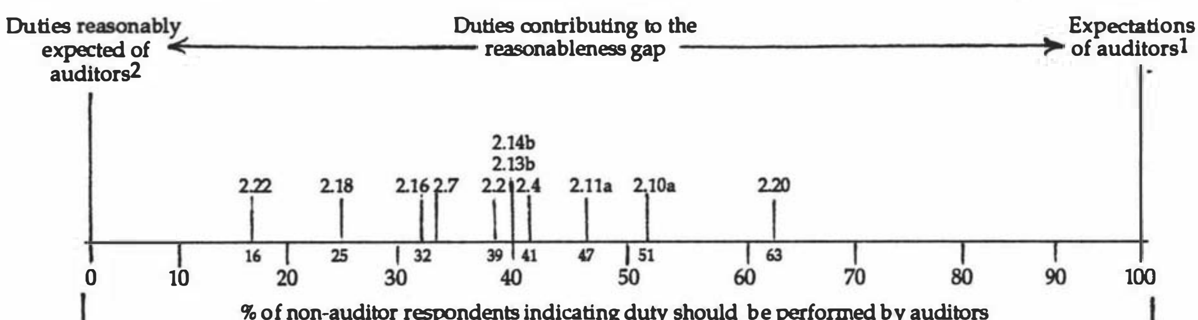
These points are discussed more fully in Chapter 9.

Reasonableness gap

Comparison of the duties which 20% or more of a non-auditor role sender group consider auditors should perform with the duties which are reasonable to expect of auditors, shows that eleven duties are unreasonably expected of auditors (see Figure 41). These duties, which contribute to the reasonableness gap component of the audit expectation-performance gap, are either not compatible with auditors' role in society or not cost-beneficial for auditors to perform (see footnote 28). (These duties have been discussed in section 8.3.2).

As for the duties which contribute to the deficient standards and deficient performance components of the audit expectation-performance gap, the relative significance of each of the duties contributing to the reasonableness gap may be estimated by reference to the proportion of the society group (non-auditor respondents) who indicated that the duty in question should be performed by auditors. The greater the proportion of the group who (unreasonably) expect auditors to perform the duty, the greater the level of unfulfilled expectations attaching to the duty and contributing to the reasonableness gap. The relative contribution of the relevant duties to the reasonableness gap is shown in Figure 41 and depicted in Figure 43.

Figure 43: The relative contribution of relevant duties to the reasonableness gap component of the audit expectation-performance gap



Duty no.	Duty of Auditors
2.22	Verify every transaction of the auditee company
2.18	Examine & report on the efficiency and effectiveness of the company's management
2.16	Examine & report on the fairness of non-financial information
2.7	Report breaches of tax laws to IRD
2.2	Guarantee that the audited financial statements are accurate
2.13b	Detect illegal acts by company officials which do not directly impact on the company's accounts
2.14b	Disclose in the audit report illegal acts which do not directly impact on the company's accounts
2.4	Guarantee that the auditee company is solvent
2.11a	Disclose in the audit report theft of corporate assets by non-managerial employees
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees
2.20	Examine & report on the fairness of financial forecasts

1 Duties expected of auditors by 20% or more of a non-auditor role sender group.
2 Duties compatible with auditors' role in society and cost-beneficial for auditors to perform.

It is observed from Figures 42 and 43 that the duties contributing to the reasonableness gap are, in all but one case, recognised as duties which auditors should perform by a smaller proportion of the society group than the duties contributing to the deficient standards component of the audit expectation-performance gap. While only one reasonableness gap duty (duty no. 2.20) was recognised as a duty which auditors should perform by at least 55% of non-auditor respondents, all of the duties contributing to the deficient standards gap possessed this characteristic. This suggests that the unfulfilled expectations attaching to duties which contribute to the deficient standards gap are greater than those for the duties which are elements of the reasonableness gap.[29] This is discussed further in Chapter 9.

8.5 SUMMARY

In Chapter 7, the responses of survey participants were analysed in order to ascertain role senders' expectations regarding auditors' existing duties, how well these duties are performed, and the duties which auditors should perform. In this chapter, analysis of the survey data has been extended to establish role senders' expectations with respect to auditors' social position. More specifically, role sender group responses have been examined to determine role senders' expectations in relation to three attributes of auditors as members of a profession (competence in a specialised service, independence, and the existence of a controlling professional body) and two aspects of their specialist function in society (monitoring accountability reports and acting as society's corporate watchdogs). Although some of the survey results are not easy to reconcile with the postulated social position of auditors, in general, the findings support the proposition that auditors are members of a recognised profession acting as instruments of social control within the corporate accountability process.

In the latter part of this chapter, the duties which may reasonably be expected of auditors have been established. This has been accomplished by assessing each of the duties considered by 20% or more of a role sender group to be a duty which auditors should perform (as identified in section 7.4), to determine whether it is compatible with auditors' role in society and cost-beneficial for auditors to perform. Once identified, the duties reasonably expected of auditors were compared with auditors' existing duties (established in section 7.2) to ascertain the duties which are reasonably expected, but not currently required, of auditors. These duties are elements of the deficient standards component of the audit expectation-performance gap. Similarly, the duties reasonably expected of auditors were compared with the duties which 20% or more of a non-auditor role sender group consider that auditors should perform, in order to identify the duties which are unreasonably expected of auditors. These duties constitute the reasonableness gap. Additionally, the relative contribution of relevant duties to their respective components of the audit expectation-performance gap was estimated by reference to the proportion of the society group (that is, non-auditor respondents) who signified that they consider that the duty in question should be performed by auditors, and whose expectations are currently not being fulfilled.

In Chapter 9, the duties contributing to the deficient standards and reasonableness gaps, together with those identified in section 7.3 as constituting the deficient performance gap, provide the framework for establishing the structure of the audit expectation-performance gap. Measures which may be taken by the profession to narrow each component of the gap are also discussed.

CHAPTER 9: THE AUDIT EXPECTATION-PERFORMANCE GAP: ITS STRUCTURE AND MEANS TO CLOSE IT

9.1 INTRODUCTION: REVIEW OF THE RESEARCH PROJECT

In the Introduction to this thesis reference was made to the significant amount of resources which are expended each year on statutory audits in New Zealand. The question was raised as to what role auditors play in society which makes their function so valuable. It was also observed that auditing "is in a period of serious turmoil and doubt" (Lee, 1977, p. 105) and that auditors throughout the English-speaking world are facing "a liability and a credibility crisis" (Russell, 1986, p. 58). It was postulated that these crises are a manifestation of the audit expectation-performance gap – the gap between society's expectations of auditors and auditors' performance, as perceived by society. It was further postulated that the root cause of this gap is the lack of a satisfactory theory to explain the role of external auditors in society. Unless and until both auditors and those whom they serve have a clear understanding of auditors' role in society, a disparity between the duties expected of, and the service provided by, external auditors seems likely to remain.

An extensive literature review of issues exemplifying the audit expectation-performance gap has been conducted and, resulting from this, the gap has been formally defined and its structure identified. As explained in Chapter 2, the gap is perceived to consist of two major constituent parts: a reasonableness gap and a performance gap, the latter being subdivided into deficient standards and deficient performance components. It was noted that the boundary between the reasonableness and performance gaps is constituted by the duties which are reasonably expected of auditors. It was further observed that these duties form the linchpin in narrowing the audit expectation-performance gap – it is these duties about which society must be educated (to close the reasonableness gap) and it is these duties which auditors must perform (to eliminate the performance gap). In order for duties to be reasonably expected of auditors they must meet two criteria: they must be compatible with auditors' role in society and cost-beneficial for auditors to perform.

It follows from the above that, in order to narrow the audit expectation-performance gap, the duties which may reasonably be expected of auditors need to be identified. It also follows that, in order to identify these duties, the role of external auditors in society must be defined. This seems to lend support to the proposition that the lack of a clear understanding of auditors' role in society is the root cause of the audit expectation-performance gap. It also underscores the need for a satisfactory theory to explain this role.

In Chapter 3, theories which have been advanced to explain the role of auditors, as distilled from the literature, were reviewed and evaluated. However, none was found to be satisfactory. The most common deficiency encountered, particularly amongst the inductivist theories, such as the policeman and lending credibility theories, was their inability to accommodate changes in the objectives of auditing which have accompanied changes in the socio-economic environment. Nonetheless, some fruitful ideas were found to have been generated by researchers such as Flint (1971, 1988), Tricker (1982) and Gilling (1976) and these laid the foundation for a normatively derived theory based on a model of the auditor as an instrument of social control within the corporate accountability process. A conceptual framework to support this theory was developed in Chapter 4.

The framework was constructed from three basic elements, namely, the concept of role, the attributes of auditors as professionals, and the concept, development and discharge of corporate accountability. Resulting from a literature-based analysis of each of these components, it was postulated that the role of external auditors in society is constituted by the attitudes, values and behaviour ascribed to the social position occupied by auditors by relevant role senders. It was further postulated that the social position of auditors is that of members of a recognised profession acting as instruments of social control within the corporate accountability process.

It was reasoned that as financial, human and other resources have been increasingly channelled to economic enterprises, particularly since the 1930s, these organisations have gained great power and influence in society. In a western democracy, no individual or group is given power without checks and balances being set in place to prevent possible abuse of that power. It was submitted that accountability has been imposed on corporate managers as a check on the power accorded them by society through the provision of resources. It was noted that the primary means by which these managers discharge their accountability is through the provision of accountability reports to those to whom they are accountable. However, the mere provision of information in accountability reports is not enough. For accountability to be secured, the information must be monitored to see if it accords with the facts. It has been argued that it is the task of auditors to monitor the accountability reports prepared by corporate managers for parties outside the organisation. This involves not only reviewing the reports, but also verifying the information they contain against the available evidence. In order to accomplish their monitoring function, auditors have been given a unique legal right of access to investigate the affairs of auditee companies. It has been suggested that this has given rise to an additional function for auditors, namely, that of verifying that corporate activities are conducted in accordance with society's norms, or, alternatively expressed, to act as society's corporate watchdogs.

A theory to explain the role of external auditors in society, based on the conceptual framework developed in Chapter 4, was proposed in Chapter 5, and its merits were evaluated. It was concluded that there appears to be support for the notion that external auditors occupy the social position of members of a recognised profession acting as instruments of social control within the corporate accountability process. However, it was asserted that before the normatively derived explanation of auditors' role in society, or the structure of the audit expectation-performance gap as postulated in Chapter 2, could be accepted, they needed to be subjected to empirical investigation.

In Chapter 6, details were provided of a mail survey which was conducted to ascertain auditors' role senders' expectations regarding auditors' duties and their professional standing and specialist function in society. It was reported that over 1700 questionnaires were mailed to (mainly) randomly selected members of auditors' role sender groups, including auditors (audit partners and non-partner audit staff), auditees (company executives, directors, accountants, and internal auditors), financial community audit beneficiaries (financial analysts, stockbrokers, institutional investors, corporate bankers, and auditing academics) and general public audit beneficiaries (branch bank managers, lawyers, financial journalists, and a group selected from the electoral rolls). The exceptions to random selection were groups for whom a 100% sample was taken, for example, financial journalists and auditing academics.

In Chapters 7 and 8 the survey findings were described and analysed. In Chapter 7, the focus was on the expectations of auditors' role senders with respect to auditors' duties: their existing duties, the standard of performance of these duties, and the duties which auditors should perform. The analysis of role senders' assessment of the standard of performance of auditors' existing duties provided support for the postulated deficient performance component of the audit expectation-performance gap. Additionally, the discrepancy which was found between auditors' existing duties, as defined by the law and professional promulgations, and the duties which role senders identified as existing duties of auditors, provided evidence of a considerable 'knowledge gap' about auditors' duties amongst their role senders. It was noted in Chapter 6, that lack of knowledge about the work of auditors is perceived to be the major cause of the reasonableness gap. This is discussed more fully in section 9.3.3 below.

In Chapter 8, attention was directed towards role senders' expectations with respect to auditors' professional standing and specialist function in society – more specifically, towards their expectations regarding three attributes of auditors' standing as professionals (their competence in a specialised service, their independence, and the existence of a controlling professional body) and two aspects of their social function (monitoring accountability reports and acting as society's corporate watchdogs). Although some of the survey results appeared not to be consistent with the postulated social position of auditors, in general, they were found to support the proposition that external auditors are members of a recognised profession acting as instruments of social control within the corporate accountability process.

Also in Chapter 8, the duties which may reasonably be expected of auditors were established and the duties constituting the deficient standards and reasonableness gap components of the audit expectation-performance gap were identified. This brought together the survey findings relating to the existing duties of auditors, the duties which role senders consider auditors should perform, and role senders' expectations with respect to auditors' social position. Each duty identified by 20% or more of a non-auditor role sender group as a duty which auditors should perform, was assessed to determine whether it met two criteria. If the duty was found to be both compatible with auditors' role in society and cost-beneficial for auditors to perform it was identified as a duty which was reasonable to expect of auditors. The first criterion embodied role senders' expectations with respect to auditors' social position; the second was based on the duties which the majority of role senders expect auditors to perform. (The positive means of responses from the total survey group with respect to the duties which auditors should perform, were used as a surrogate for cost-benefit analysis). Once identified, the duties reasonably expected of auditors were compared with both auditors' existing duties, as defined by the law and professional promulgations, and with the duties which 20% or more of non-auditor respondents identified as duties which auditors should perform. These comparisons permitted the duties contributing to the deficient standards and reasonableness gap components of the audit expectation-performance gap, respectively, to be established.

In this chapter, the structure of the audit expectation-performance gap is examined and the means by which the gap may be narrowed are discussed. Additionally, the contribution of the study is assessed and areas for future research are identified.

9.2 THE STRUCTURE OF THE AUDIT EXPECTATION-PERFORMANCE GAP

The audit expectation-performance gap has been defined as the gap between society's expectations of auditors and auditors' performance, as perceived by society. In this context 'society' is defined to mean the population at large, exclusive of auditors, and thus coincides with non-auditor role senders (see footnote 3). For the purposes of this study, the duties which 20% or more of a non-auditor role sender group recognise as duties which auditors should perform have been adopted as a surrogate for society's expectations of auditors (see section 8.4).[30] Similarly, the duties which non-auditor role senders adjudge auditors to perform poorly have been adopted as a surrogate for auditors' perceived performance (see section 7.3 and footnote 30). These latter duties have been identified from the means of responses from non-auditor role senders which indicate that the duties are perceived to be performed deficiently, or from 20% or more of a non-auditor role sender group signifying that the duty in question is poorly performed by auditors. It is considered that if 20% or more of a role sender group identify a duty as one which auditors should perform, then it warrants further evaluation to establish whether it is a duty which is reasonable to expect of auditors. In the same way, if 20% or more of a role sender group indicate that they regard auditors' performance of a duty to be poor, then it considered that dissatisfaction is sufficiently widespread to warrant the auditing profession initiating remedial action (see sections 7.3 and 7.4).

As explained in section 8.4, the duties constituting the reasonableness gap component of the audit expectation-performance gap have been established by comparing the duties which are reasonably expected of auditors with the duties which 20% or more of a non-auditor role sender group consider that auditors should perform. Similarly, the duties constituting the deficient standards gap have been established by comparing the duties which are reasonably expected of auditors with auditors' existing duties, as defined by the law and professional promulgations. The duties comprising the deficient performance component of the audit expectation-performance gap have been identified on the basis of non-auditor role senders signifying that auditors perform the duties to an unsatisfactory standard (see above).

From Figure 44 it is seen that all but five of the duties listed in the questionnaire contribute to the audit expectation-performance gap. The exceptions include the duties of preparing the auditee company's financial statements (duty no. 2.1), and considering and reporting on the impact of the auditee company on its local community (duty no. 2.21). These duties are neither existing duties of auditors nor are they identified by role senders as duties which auditors should perform (see Chapter 7). The other three duties which do not contribute to the gap, are existing duties of auditors which non-auditor role senders consider that auditors perform satisfactorily (see section 7.3). These are the duties:

- to state whether the financial statements fairly reflect the auditee company's financial affairs (duty no. 2.3);
- to ensure that auditee companies comply with companies' legislation (duty no. 2.6);
- to detect deliberate distortion of financial information (duty no. 2.9).

Reference to Figure 44 shows that, of the remaining 25 duties listed in the questionnaire, seven contribute to the deficient performance gap, seven to the deficient standards gap and eleven to the reasonableness gap.

Figure 44: The relative contribution of duties to components and of components to the audit expectation-performance gap

Duty no.	Suggested duties of auditors[1]	Existing duties of auditors	Contribution of duties to: Deficient performance gap	Deficient standards gap	Reasonableness gap	Duties expected of auditors
			%[2]	%[2]	%[2]	
2.1	Prepare auditee co's financial statements	-	-	-	-	-
2.2	Guarantee financial statements are accurate	-	-	-	39	S
2.3	State whether financial statements fairly reflect co's affairs	D	-	-	-	S
2.4	Guarantee auditee co. is solvent	-	-	-	41	S
2.5a	Report to a regulatory authority doubts about co's continued existence*	-	-	55	-	S
2.5b	Express doubts in audit report about co's continued existence	D	37	-	-	S
2.6	Ensure compliance with cos' legislation	D	-	-	-	S
2.7	Report breaches of tax laws to IRD	-	-	-	33	S
2.8a	Detect theft of corporate assets by non-managerial employees	D	19	-	-	S
2.8b	Detect theft of corporate assets by co. directors/senior management	D	21	-	-	S
2.9	Detect deliberate distortion of financial information*	D	-	-	-	S
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	-	-	-	51	S
2.10b	Report to a regulatory authority mis-appropriation of co. assets by co. directors/senior management	-	-	74	-	S
2.10c	Report to a regulatory authority deliberate distortion of financial information	-	-	76	-	S
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-	-	-	47	S
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	D	25	-	-	S
2.11c	Disclose in audit report deliberate distortion of financial information	D	27	-	-	S
2.12	Report to a regulatory authority suspicions of fraud*	-	-	60	-	S
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	D	21	-	-	S
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	-	-	-	40	S
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	D	25	-	-	S
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-	-	-	40	S
2.15	Report to a regulatory authority illegal acts uncovered in co.	-	-	64	-	S
2.16	Examine & report on fairness of non-financial information*	-	-	-	32	S
2.17	Examine & report on co's internal controls*	-	-	75	-	S
2.18	Examine & report on efficiency & effectiveness of co's management*	-	-	-	25	S
2.19	Audit published half-yearly co. reports*	-	-	62	-	S
2.20	Examine & report on fairness of financial forecasts*	-	-	-	63	S
2.21	Consider & report on co's impact on its local community	-	-	-	-	-
2.22	Verify every transaction of auditee co.	-	-	-	16	S
	Total contribution of component	-	175	466	427	-
	Proportion of audit expectation-performance gap contributed by component	-	16%	44%	40%	-

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Percentage of non-auditor respondents signifying that the duty is poorly performed, or that the duty should be performed by auditors, as applicable.

* These duties were excluded from the general public version of the questionnaire; percentages shown represent the proportion of non-auditor role senders from the financial community who consider that the duty should be performed by auditors.

D Existing duty of auditors, identified by reference to the law and professional promulgations.

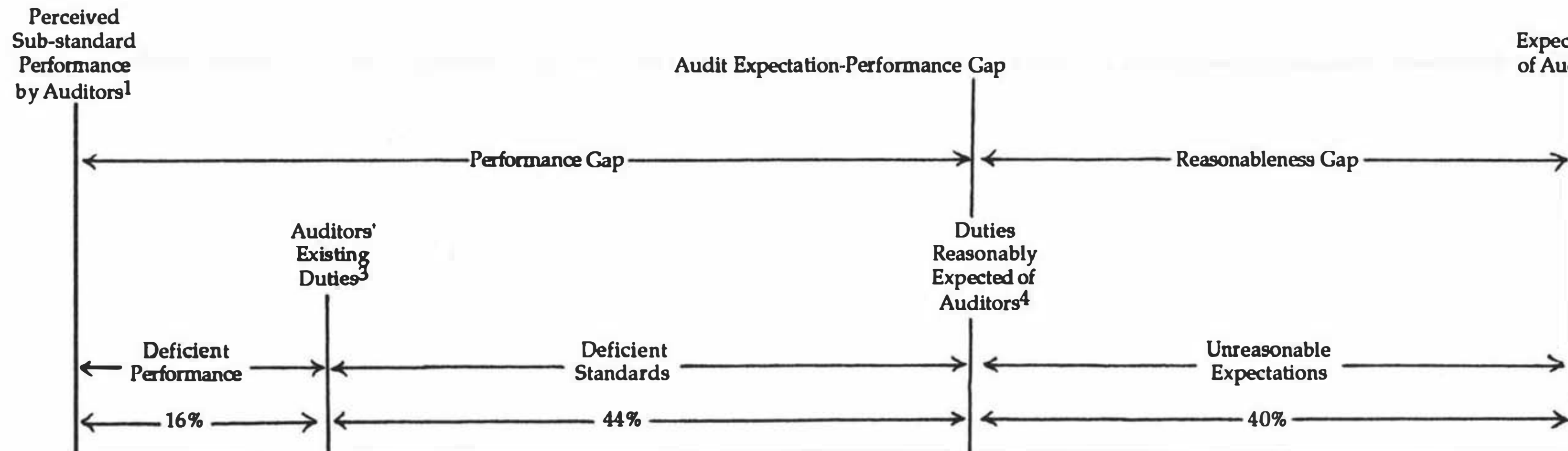
S Duty identified by 20% of a non-auditor role sender group as a duty which auditors should perform.

In sections 7.3 and 8.4 it was suggested that the relative contribution of each duty to its respective component of the audit expectation-performance gap may be estimated by reference to the proportion of non-auditor role senders whose expectations with respect to the duty are currently not being fulfilled. If non-auditor role senders signify that they perceive auditors' performance of a duty to be unsatisfactory, they are clearly not having their expectations with respect to that duty satisfied. The proportion of non-auditor role senders who indicate that their expectations regarding the performance of the duty are not being met, provides an estimate of the unfulfilled expectations attaching to the duty, and thus the contribution of the duty to the deficient performance gap. In the same way, if non-auditor role senders consider that auditors should perform a duty but the duty is not an existing duty of auditors, their expectations of the duty being performed are not being satisfied. The proportion of non-auditor role senders whose expectations with respect to the duty are not being fulfilled, gives a measure of the contribution of the duty either to the deficient standards or the reasonableness gap, depending on whether the duty in question is, or is not, one which is reasonably expected of auditors. The measure of unfulfilled expectations attaching to each duty, and the relative contribution of each duty to its respective component of the audit expectation-performance gap, are shown in Figure 44.

The process of ascertaining the relative contribution of relevant duties to their respective components of the audit expectation-performance gap may be taken one step further, to estimate the relative contribution of each component to the overall gap between society's expectations of auditors and auditors' perceived performance. If the measures of unfulfilled expectations associated with the duties contributing to a particular component of the audit expectation-performance gap are summed, a measure of the unfulfilled expectations attaching to the component is obtained. From this the relative contribution of each component to the audit expectation-performance gap may be calculated. From Figures 44 and 45 it is seen that, calculated in this way, the greatest portion of the gap (44%) is attributable to deficient standards and a further

Figure 45: The relative contribution of duties to components and of components to the audit expectation-performance gap

(The key to duties identified by number is presented in Figure 44)



Deficient Performance

Duty	Response %5	Contrib. %6
2.5b	37	21
2.11c	27	16
2.11b	25	14
2.14a	25	14
2.8b	21	12
2.13a	21	12
2.8a	19	11
	175	100

(see also fig. 27)

Deficient Standards

Duty	Response %5	Contrib. %6
2.10c	76	16
2.17	75	16
2.10b	74	16
2.15	64	14
2.19	62	13
2.12	60	13
2.5a	55	12
	466	100

(see also fig. 44)

Unreasonable Expectations

Duty	Response %5	Contrib. %6	Duty	Response %5	Contrib. %6
2.20	63	15			
2.10a	51	12	2.2	39	9
2.11a	47	11	2.7	33	8
2.4	41	10	2.16	32	7
2.13b	40	9	2.18	25	6
2.14b	40	9	2.22	16	4
				427	100

(see also fig. 45)

1 Auditors duties perceived by the society group, or by 20% or more of a non-auditor role sender group, to be performed deficiently.
2 Duties expected of auditors by 20% or more of a non-auditor role sender group.
3 Existing duties defined by reference to the law and professional promulgations.
4 Duties compatible with auditors' role in society and cost-beneficial for auditors to perform, as established in Chapter 4 and summarised in Figure 40.
5 Response % reflects proportion of society group (non-auditor role senders) whose expectations with respect to the duty are not being fulfilled.
6 Relative contribution of duties to the component.

40% results from society's unreasonable expectations. It is estimated that only 16% of the gap derives from perceived sub-standard performance by auditors of their existing duties.

It is considered that ascertaining the relative contribution of duties to their respective components, and of the components to the overall audit expectation-performance gap, is pertinent and helpful for identifying, and setting priorities among, appropriate measures which may be adopted to narrow the gap. These measures are discussed below.

9.3 CLOSING THE AUDIT EXPECTATION-PERFORMANCE GAP

9.3.1 Narrowing the deficient performance gap

The deficient performance component of the audit expectation-performance gap is the gap between the expected performance of auditors' existing duties and perceived sub-standard performance of these duties (see section 7.3.3). As noted above, this is the smallest component of the audit expectation-performance gap (constituting 16% of the total) and it may therefore be thought that the auditing profession, in taking steps to reduce the gap, should accord a lower priority to this component than to the deficient standards and reasonableness gaps. However, unlike these latter components, narrowing the deficient performance gap does not, in general, depend on the co-operation of external parties. It is primarily under the control of the profession and, consequently, it may be the component which can be narrowed most readily.

One of the most notable features of the seven duties contributing to the deficient performance gap (see Figures 44 and 45) is that five are not recognised as existing duties by auditors (see section 7.2). These are the duties:

- to detect theft of corporate assets
    - by non-managerial employees (duty no. 2.8a);
    - by company directors/senior management (duty no. 2.8b);
- to disclose in the audit report misappropriation of corporate assets by company directors/senior management (duty no. 2.11b);
- to detect, and to disclose in the audit report, illegal acts by company officials which directly impact on the auditee company's accounts (duty nos. 2.13a and 2.14a).

As can be seen, each of these duties relates to detecting or reporting theft of corporate assets or other illegal acts by company officials which directly impact on the company's accounts. These duties are not explicitly stated to be auditors' duties in professional promulgations in New Zealand and, as observed in Chapter 2, the auditing profession throughout the English-speaking world has tried to avoid accepting responsibility for them. Instead, it has emphasised the difficulties which auditors face in detecting fraud and other illegal acts, and the fact that audits are not designed and cannot be relied on to detect them. Nevertheless, as shown in section 7.2, case law establishes that the five duties listed above are existing duties of auditors.

Given the situation outlined above, it appears that the deficient performance gap could be narrowed significantly if auditors were made more aware of their existing duties. This could be achieved through improved education programmes, both before and after gaining entry to the profession. Pre-entry courses should ensure that all those entering the profession are thoroughly conversant with auditors' duties, whether they be embodied in statute law, case law or professional promulgations. Further, post-qualification education courses should ensure that all practicing auditors remain fully aware of changes which are made to their duties, irrespective of the means by which the changes are effected. In relation to this issue, it is interesting to note that seven respondents from the auditor group observed that higher standards of pre- and post-entry education and training are required in New Zealand. For example, one auditor respondent wrote: "More rigorous entry requirements to the profession are required". Another commented: "Closer monitoring is needed of members' training and keeping up to date with current developments after gaining entry to the profession".

However, it is submitted that improved education courses, essential though they are for ensuring that auditors are cognisant of their duties, are not enough. In order to ensure that auditors incorporate these duties into their audit programmes they also need to be embodied in professional promulgations. As observed in Chapter 2, in Britain and the United States auditing standards relating to fraud and other illegal acts have been revised in recent months, and the new standards (albeit in Exposure Draft form in Britain) give far greater acknowledgement to auditors' responsibilities with respect to detecting and reporting corporate fraud and other illegal acts than has hitherto been the case. This is a lead which the New Zealand profession could follow to advantage for, in so doing, it would take a step to correct auditors' misconceptions, which may well be the prime cause of the perceived sub-standard performance of five of the seven duties contributing to the deficient performance gap.

The other two duties (the two which make the greatest contribution to the deficient performance component of the audit expectation-performance gap) are recognised by auditors as existing duties. These are the duties to disclose in the audit report doubts about the continued existence of an auditee company (duty no. 2.5b) and instances of deliberate distortion of financial information (duty no. 2.11c). Figure 45 shows that 37% and 27%, respectively, of non-auditor role senders consider that auditors perform these duties poorly.

The high level of dissatisfaction with auditors' performance of their reporting duties is also reflected in unsolicited comments received from respondents. From Appendix 7 (ref. A.4) it is seen that 38 respondents (3% of the survey group) called for more forthright reporting by auditors. Rather surprisingly, four of these respondents were auditors and a further 14 were auditees. It was anticipated that comments of this nature were more likely to come from audit beneficiaries; 20 were derived from this source. Observations by respondents make it clear that they consider that auditors' failure to report audit findings clearly and candidly stems from their over-concern about the loss of the audit client if they do so and, further, that it is resulting in loss of public respect for, and confidence in, auditors. The following representative comments from respondents illustrate these points:

- "The professional standing of auditors has taken something of a battering in recent times because of the state of company failures and huge losses which have often not be warned to shareholders and other interested parties beforehand. The auditing profession as a whole has only itself to blame for this. Auditors must realise that their first loyalty should be to users of financial statements and not be so concerned about losing the fee if they step out of line."
- "Unless and until the audit report can be *totally* relied on by the public at large, and particularly the investing public, auditors may also be viewed with suspicion."
- "Because of their insecurity of tenure, auditors are intimidated in what they report."

It is interesting to note that only one respondent referred to the likelihood of a self-fulfilling prophecy in the event of auditors reporting doubts they have about the continued existence of an auditee company. As observed in Chapter 2, this has traditionally been the justification given (particularly by auditors) for auditors not reporting their doubts about the future well-being of auditee companies. Despite the dilemma which auditors and others perceive that auditors face with respect to this issue, both professional promulgations and the expectations of auditors' role senders are clear – auditors should report clearly and frankly concerns they have about the future existence of an audit client. More generally, as the following (typical) remarks testify, role senders are demanding far clearer, more informative audit reports.

- "More specific, user friendly, audit reports are required which provide more information."
- "Auditors should write a more comprehensive and thorough audit letter rather than the customary non-informative disclosure attached to most accounts."

It appears that, if auditors complied with the wishes of their role senders (as revealed by the survey results) and provided more informative, forthright audit reports, including, in appropriate cases, reference to doubts about the auditee company as a going concern and any instances of deliberate distortion of financial information which they encountered, then the deficient performance gap would be narrowed significantly. However, it is submitted that this requires the professional body (NZSA) to amend its promulgations relating to audit reports (Auditing Guideline 2, NZSA, 1986b, and Auditing Standard 10, NZSA, 1986a) to encourage auditors to move away from the "standard, stereotype, legalistic audit report which discloses little of real consequence" (survey respondent) towards a more "user friendly", comprehensive, informative report. However, such a change would not be costless and it is noted that, after considerable debate of this issue (particularly in the United States and Britain), opinion regarding which type of report is most beneficial for financial statement users remains divided (for example, Batley, 1983: Gniewosz, 1980). It is pertinent to observe that, in 1988, the AICPA issued an auditing standard (SAS no. 58, AICPA, 1988d) which requires auditors in the United States to use a standard long-form audit report. This explains the nature of an audit and the level of assurance which readers should derive from an audit report. Additionally, if auditors have doubts about the continued existence of an audit client they are explicitly required to add a paragraph to their report explaining the position. In contrast to this, in 1989, the International Auditing Practices Committee of the International Federation of Accountants (IFAC) issued a revised International Auditing

Guideline (IAG-13, IFAC, 1989) which endorses the use of a standard short-form report, similar to that currently in use in Britain and Australia.

While it is not considered appropriate to rehearse the arguments of the long-form versus short-form audit report debate here, in view of the expectations expressed by survey participants, it is submitted that a longer, more informative and less formal report than that currently in use, should be adopted for use in New Zealand. But, in order to avoid each auditor using different expressions to convey essentially the same message, which could cause considerable confusion among financial statement users, it is thought that some standardised wording is beneficial. In short, it is submitted that the AICPA's report is an appropriate model for the New Zealand profession to adopt, and to adapt to suit the New Zealand environment.

However, adopting a new form of audit report does not solve the problem of auditors bending to the wishes of management in order to retain the audit client. In this regard the survey findings in relation to the following propositions, reported and discussed in Chapter 8, are relevant:

- auditors must report the reasons for their resignation or removal to the Registrar of Companies (proposition 3.14);
- financial statements with qualified audit reports may not be filed (proposition 3.15);
- auditors negotiate their fees with auditee company directors/management (proposition 3.17).

Unlike the other steps which can be taken to narrow the deficient performance component of the audit expectation-performance gap, which are within the control of the auditing profession (such as improving pre- and post-qualification education programmes and adopting a new form of audit report), tackling the independence issue appears (at least on the face of it) to require outside assistance.

In Chapter 8 (section 8.2) it was noted that respondents supported the proposition that auditors must report the reasons for their resignation or removal to the Registrar of Companies and that this corresponds with notions of strengthening auditors' independence. However, it was also observed that respondents indicated that auditors should negotiate their audit fees with auditee company officials, and that financial statements with qualified audit reports should be accepted for filing. These findings appear to be inconsistent with ideas of maintaining and strengthening auditors' independence.

With respect to auditors negotiating their fees with company officials (proposition 3.17), it was noted in section 8.2 that 29 respondents suggested that audit fees should be set by an independent body and that another 13 intimated that they should be set by the NZSA (see Appendix 7, ref. C.2 and C.3). However, without discussing the issues further here, it is submitted that setting audit fees is a complex process which depends on a wide range of variables (size and nature of company, quality of internal controls, initial or subsequent audit, integrity, competence and experience of company personnel, location of company – to name but a few) and that, at the present time, there is no satisfactory practical alternative to auditors negotiating their fees with company officials. Nevertheless, it is a problematical area and one which warrants detailed investigation. (It is identified as an area for future research in section 9.5 below).

As regards filing financial statements which carry qualified audit reports, it is interesting to observe that, notwithstanding the general rejection of proposition 3.15 by auditors' role senders (see section 8.2), 29 respondents (2% of the survey group) signified that there is a need for auditors to have statutory or professional support to strengthen their independence (see Appendix 7, ref. E.6). A significant proportion of these respondents recorded comments such as those following:

- " 'Whistle blowing' where appropriate must become more common, but unless supported by the Registrar of Companies the effort normally only results in job loss or loss of contract."
- "I believe that the auditing profession has a lack of credibility at the present time due to the fact that the Registrar will apparently accept accounts for filing which have qualified opinions."

Notwithstanding these and similar observations, prohibiting the filing of financial statements with qualified audit reports is not without difficulties. One of the most serious problems is that it could exacerbate the situation it is ostensibly intended to ease – it could well result in company managements increasing the pressure on auditors not to express qualified opinions. Another problem is the need to find a mechanism to deal with cases where there is a genuine difference of opinion between the auditors and the company's management. It cannot be assumed that the auditor's opinion is correct in every case, irrespective of the circumstances. As observed in section 8.2, if financial statements with qualified audit reports could not be filed, there would need to be some sort of review board to act as an arbitrator between the parties.

Given that such a Review Board does not currently exist (see footnote 24), and noting that not permitting financial statements with qualified audit reports to be filed may have an adverse impact on auditor independence and, further, that respondents clearly signified that they do not favour the option, it is considered inappropriate for the profession to pursue this course of action at the present time. However, the strategy of requiring auditors to report the reasons for their resignation or removal does appear to warrant pursuing. This means of strengthening auditors' power vis-à-vis that of the company's management is strongly supported by all of the role sender groups (the least support, somewhat surprisingly, being shown by auditors; the mean of their responses with respect to this proposition (proposition 3.14) is 43%, compared with that of each of the audit beneficiaries groups of 72%: see Figure 38). Further, it is an option which has been adopted (in some form) in the United States, Australia and Britain and, additionally, it is an alternative which the professional body (NZSA) could impose upon its members. As all auditors appointed under New Zealand companies and securities legislation must be members of the NZSA (or an equivalent overseas body), if the NZSA required its members to formally report to it the reasons for their resignation or removal as auditors, virtually all auditors in New Zealand would be bound by the requirement.

It is submitted that significant advantages would accrue from the NZSA taking such a step. For example, the objective of strengthening auditors' power vis-à-vis that of company managements, and thus their independence (Stewart, 1977), could be achieved without necessitating legislation; a requirement for auditors to report the reasons for their resignation or removal to the NZSA could be introduced expeditiously by the profession; a requirement for them to report to the Registrar of Companies would require legislation to be passed. The NZSA could further strengthen the impact of the above reporting requirement, by requiring a vacancy created by the resignation or removal of an auditor to be 'cleared' before permitting a replacement auditor to accept appointment. With this additional provision, company managements would have to be very cautious about bringing undue pressure to bear on an auditor to comply with their wishes. A survey respondent observed that: "Auditors are currently in a 'no win' situation. If they do their job properly and thereby embarrass the directors, they might not get re-appointed." If the NZSA introduced a 'clearance' requirement, which must be satisfied before replacement auditors can accept appointment, should company managements cause the resignation or removal of auditors because they performed their duties in a properly professional manner (and in so doing uncovered things which management would have preferred they had not), they might find it difficult to appoint replacement auditors.

It is submitted that, if the NZSA introduced reporting and clearance requirements as outlined above, its prestige within New Zealand society would be enhanced. It would be taking steps to strengthen auditors' independence in a manner which the survey results suggest society favours, and it would also be perceived to be giving professional leadership and support. As noted above, 29 respondents signified that auditors need statutory or professional support; eight of these expressed the view that insufficient support is available from the NZSA for auditors facing undue pressure from company managements. It is also observed that such a move by the NZSA would help to reduce a cause of serious criticism levelled against auditors by survey respondents. The following (representative) comments illustrate this point:

- "Auditors' professional standing is at an all time low as a result of numerous examples of acquiescence to manipulative and often unscrupulous company directors."
- "Auditors are too gullible and too willing to accept the company's wish for creative accounting."

It is pertinent to note that if the NZSA took the initiative and introduced reporting and clearance requirements as outlined above, it would be adopting further measures designed to narrow the deficient performance gap which, like changes to auditing education courses and to professional promulgations, are under the control of the profession. It would eliminate the need to rely on the co-operation of Government to pass legislation to require auditors to report the reasons for their resignation or removal to the Registrar of Companies.

In addition to the seven duties listed in the questionnaire which were identified by non-auditor role senders as being poorly performed by auditors, 79 respondents (7% of the survey group) recorded separate comments signifying that, in their view, audits are not performed to a satisfactory standard. This compares with 32 respondents (3% of the survey group) who observed that audits are performed satisfactorily, and 14 (1% of the survey group) who indicated that they consider that the quality of audits varies markedly between auditors and audit firms (see Appendix 7, ref. A.1, A.2 and A.3). It is instructive to review specific comments recorded by respondents as these help to identify some of the factors (additional to those discussed above) which contribute to perceived sub-standard performance by auditors. As demonstrated in the following (representative) comments, in some cases respondents also identified possible solutions to perceived deficiencies:

- "Often junior staff are sent by themselves to audit. Many lack the experience to detect irregularities and defalcations. Greater training and supervision of junior staff is required."
- "External auditors are immature and naïve and lack the necessary experience and knowledge to conduct audits and to form the required judgements about a company's financial statements."
- "Many auditors are unaware of what the business is. Their commercial judgement is frequently, and understandably, naïve."
- "An audit team should include a senior member with industry experience as opposed to just accounting experience. Their industry/business knowledge should be at least as good as that of the personnel of the company being audited."
- "Audit staff change too frequently. Company staff teach auditors the details of the business and when the personnel change the explanations change. This places company personnel in a powerful position vis-à-vis the auditor."
- "Competition for audit work is tough, budgets are tight, cost-cutting and shortcuts are often taken."
- "There is insufficient enforcement of auditing standards by the auditing profession."
- "More publicity should be given to inadequate auditing procedures and the sanctions imposed therefore. More stringent disciplinary procedures are required."

With respect to criticisms embodied in the above quotations which relate to auditors' competence and to disciplinary measures taken by the profession, it is noted that 38 respondents (3% of the survey group) observed that auditors need to be more competent and 12 (1% of the survey group) stated that the profession needs to adopt stricter disciplinary procedures (see Appendix 7, ref. E.1 and E.4).

Recommendations

Based on the above discussion, and observations from respondents, it is recommended that the profession take the following steps to reduce the deficient performance component of the audit expectation-performance gap:

1. **Introduce improved pre- and post-qualifying education and training programmes:** These programmes need to ensure that all those entering the auditing profession and practising as qualified auditors are thoroughly conversant with auditors' duties as defined by statute law, case law and professional promulgations. They must also be made aware of the required standard of performance of these duties and be given education and training which will equip them with the knowledge and experience necessary to perform their duties competently. To ensure that auditors are able to evaluate properly the evidence which supports a company's accountability reports and to perform their other 'watchdog' duties, it is essential that pre- and post-qualifying education and training programmes provide them with adequate knowledge, not only in auditing, but also in the fields of accounting and business.

   However, not only must auditors know what their duties are, and possess the technical competence required to fulfil them satisfactorily, they must also develop and maintain professional attitudes. In particular, the professional standards of integrity, independence and service above reward, must be instilled in them. As expressed by a survey respondent, "auditors must be above suspicion and appear clean and white in all their professional tasks. They should be required to maintain the highest degree of expertise, competence, integrity and professional independence". This may appear to be an unattainable ideal but, if the auditing profession is to command a respected position, and fulfil a useful function in society, it must be an ideal which is kept before trainee and practising auditors as the goal to be striven towards. Education and training courses must be presented in such a way that professional attitudes are an essential accompaniment to, and an integral part of, technical competence.

Because of the extensive and specialist nature of the education and training required for members of the auditing profession, it is recommended that those wishing to enter the profession be required to take a specialist post-graduate course in auditing. This should incorporate both academic and practical components and should conclude with a two-part examination. The parts of the examination should focus, respectively, on (i) technical knowledge and competence in auditing (this would include knowledge of accounting and business) and (ii) professionalism.

To ensure that practising auditors maintain their technical knowledge and competence in auditing, and their professionalism, they should be required to attend a minimum of 20 hours Continuing Education each year. However, mere attendance at Continuing Education courses to meet a formal 20 hour requirement is not enough. A short test on the topics covered needs to be provided at the end of each course to ensure that participants are maintaining the standards expected of members of the profession.

2. **Ensure auditing standards are maintained:** Irrespective of how good education and training programmes may be, there will always be members of the profession who will not perform their duties to the required standard. Such members can cause immeasurable damage to the reputation and credibility of the profession as a whole. It is therefore essential that the performance of members of the

profession be monitored and that, in appropriate cases, disciplinary action be taken.

At the October 1989 Annual General Meeting of the NZSA, members resolved that Practice Review be introduced. As from 1 July 1990, the work of all members of the NZSA who hold a Public Practice Certificate (which includes all audit partners) will be subject to review at least once every five years. If Practice Review lives up to expectations it should ensure that auditors' performance is monitored. However, in view of the observations of respondents, it is recommended that those charged with reviewing auditors' performance pay particular attention to their compliance with Auditing Standard 1: *Integrity, Objectivity and Independence*; 3: *Skills and Competence*, and 4: *Work Performed by Assistants* (NZSA, 1986a).

In cases where sub-standard performance is found, it is important that disciplinary action both be taken, and be seen to be taken. The latter is important to ensure that other would-be errant members are clear that unpleasant consequences are likely to follow if they perform their duties in a manner which is not befitting of members of the auditing profession. It is also important, so that non-members, who are aware of the sub-standard performance in question, can be confident that the profession's controlling body takes adequate steps to ensure that its standards are maintained.

From a review of the disciplinary procedures of the NZSA (which are set out in the Society's Rules, NZSA, 1988b) and from discussions with members of the Society's Disciplinary Committee, it is considered that, in cases where the disciplinary body becomes aware of sub-standard performance, it takes adequate steps to discipline offending member(s). However, from comments received from survey participants, it appears that inadequate publicity is given to the disciplining of delinquent members and to the sanctions imposed thereon. To ensure that the professional body is perceived by interested outside parties to be maintaining professional standards, by taking adequate disciplinary measures in appropriate cases, it is recommended that publicity of disciplinary action be increased. To increase public confidence in the adequacy of the disciplinary procedures of the profession, it is also recommended that suitable laypersons be included on the disciplinary body and that their membership thereof be well advertised.[31]

3. **Strengthen auditor independence:** As discussed above, it is recommended that the NZSA require auditor members to formally report to it the reasons for their resignation or removal from office. It is further recommended that this measure be supported by a requirement for all vacancies created by an auditor resignation or removal to be 'cleared' before a replacement auditor can accept appointment. Such clearance should be withheld in cases where the resignation or removal was the outcome of undue pressure being brought to bear on the auditor by the auditee company's management, to perform his or her duties in a sub-professional manner. The failure to fill the vacancy (and the reasons therefore) is likely to come to the attention of the Registrar of Companies because, under Section 163 of the Companies Act 1955, if a company's directors are unable to fill the position of auditor within one month of it becoming vacant, the Registrar of Companies may make an appointment.

4. **Develop a new audit report:** As noted earlier, the survey has shown that role senders demand far more forthright and informative reporting by auditors than is currently provided, and it is recommended that a new form of audit report be developed for use in New Zealand. It is recommended that this be modelled on the long-form report adopted recently in the United States, but that it be adapted to meet the needs of the New Zealand environment – in particular, to

meet the requirements of Section 166 of the Companies Act 1955. Such a report should be sufficiently standardised to avoid confusion among readers as to its basic message (that is, whether, in the auditor's opinion, the company's report does, or does not, fairly reflect the company's affairs). But it must also be flexible enough for auditors to report clearly concerns they have about the company. Further, because of the high level of dissatisfaction registered by respondents in relation to auditors' failure to report doubts they have about the continued existence of auditee companies, it is recommended that, as in the United States, auditors in New Zealand be explicitly required to add a paragraph to the audit report explaining the position, in cases where they have doubts about the viability of the auditee company.

5. **Amend auditing promulgations:** The changes recommended above necessitate changes to Auditing Standard 10: *Audit Reporting* (NZSA, 1986a), Auditing Guideline 2: *Audit Report* (NZSA, 1986b) and Auditing Guideline 13: *Going Concern* (NZSA, 1986e). With respect to amending Auditing Guideline 13, it is acknowledged that auditors are already required by the Guideline to express doubts they have about the continued existence of auditee companies. However, the survey results reveal that this duty is poorly performed by auditors and it is considered that it needs greater emphasis. This could be achieved by the Guideline explicitly requiring auditors to add an explanatory paragraph to their audit report in cases where they have doubts about auditee companies as going concerns. Such an amendment to Auditing Guideline 13 would also demonstrate to dissatisfied role senders that the profession is actively taking steps to ensure that auditors better meet their needs and expectations in this regard.

As noted in the discussion on the sub-standard performance of auditors' duties to detect and report fraud and other illegal acts, it is recommended that professional promulgations be amended to acknowledge explicitly that auditors have a responsibility:

- to detect all but immaterial theft of corporate assets
  - by non-managerial employees;
  - by company directors and senior management;
- to disclose in the audit report misappropriation of corporate assets by senior company officials;
- to detect, and to disclose in the audit report, illegal acts by company officials which directly impact on the company's accounts.

It is considered that the most appropriate way to effect these changes is to incorporate acknowledgement of auditors' duties to detect and report fraud in Auditing Guideline 9: *Fraud and Error* (NZSA, 1986d) and to develop a new Auditing Guideline on auditors' duties to detect and report other illegal acts. It is considered that the AICPA's SAS no. 54: *Illegal Acts by Clients* (AICPA, 1988b) provides an appropriate model which could be adopted, and adapted to suit the New Zealand environment.

It is evident that a number of initiatives are recommended for adoption by the profession (more specifically, by the professional body, the NZSA) as a means to narrow the deficient performance component of the audit expectation-performance gap. It is also clear that these will not be costless. Additionally, it is observed that the survey results indicate that even if all of the recommendations outlined above are implemented and deficient performance is eliminated, the total gap between society's expectations of auditors and auditors' perceived (sub-standard) performance will be reduced by only 16% (see Figure 45). However, it has also been noted that, unlike narrowing the deficient standards and reasonableness gaps, reducing the deficient performance component is within the control of the auditing profession. If the recommendations are carefully reviewed (they are summarised in section 9.3.4 below), it will be seen that their implementation could be effected fairly readily by the profession without necessitating large expenditures of resources.

9.3.2 Narrowing the deficient standards gap

The deficient standards component of the audit expectation-performance gap comprises duties which are reasonably expected, but not currently required, of auditors (see Figure 45). In direct contrast to the deficient performance gap, the deficient standards gap is the component which makes the greatest contribution to the audit expectation-performance gap (44%) and it is the component which the profession is least able to narrow without the assistance of outside parties.

In Chapter 8 (section 8.4) it was observed that five of the seven duties constituting the deficient standards gap involve auditors reporting matters of concern uncovered during an audit (for example, doubts about a company's future existence, fraud and other illegal acts) to a regulatory authority. It is submitted that performance of these duties would require only a small extension to auditors' existing duties; they merely involve auditors reporting to a third party certain matters which they detect in the course of their normal duties. It appears that the duties could be incorporated readily into professional promulgations (so that their performance is required) and that they could be performed at little additional cost. However, before auditors can accept these duties, government action is needed in the following respects.

- The Government needs to identify the regulatory authorities to whom auditors should report. It may be considered evident that fraud and other illegal acts should be reported to the police. However, the Government has recently established a Serious Fraud Office (SFO) and it may be thought appropriate for auditors to report corporate fraud uncovered during an audit to this office. It may also be considered appropriate for auditors to report corporate crime falling outside the ambit of the SFO to another authority. Additionally, clarification is needed as to whom auditors should report concerns about potential company collapse. It cannot be assumed that the Companies Office is necessarily the appropriate authority – nor, indeed, any other office of the Justice Department.

- The Government also needs to pass legislation to protect auditors against possible litigation for breach of client-confidentiality or defamation of character, in cases where they report matters of concern to regulatory authorities in good faith and on reasonable grounds. It is pertinent to note that the Government has passed legislation of this nature to apply in restricted circumstances, for example, under the Reserve Bank of New Zealand Act 1964 (as amended, 1986) and the Securities Act 1978 (see Chapter 2, section 2.3.6). However, it is submitted that the survey results indicate that auditors' role senders expect auditors to report to regulatory authorities doubts about a company's continued existence and corporate crime uncovered during an audit, as a general rule, not just in the narrow circumstances specified by legislation with limited application.

The survey findings indicate that society expects auditors to report matters of concern uncovered during an audit to regulatory authorities and, also, that such expectations are reasonable. The survey results suggest further, that auditors' failure to perform this task constitutes 31% of the audit expectation-performance gap (71% of the 44% resulting from deficient standards: see Figure 45). It is submitted that, as in Britain (see Chapter 2, section 2.3.6), auditors in New Zealand are likely to face increasing public and political pressure to accept a duty to report to regulatory authorities and that eventual acceptance of this duty is inevitable. It is recommended that, rather than resisting acceptance of this additional duty, the auditing profession be pro-active and seek assistance from Government to narrow the deficient standards gap. It should specifically request (and, if necessary, pressure) Government to identify regulatory authorities to which auditors should report matters of concern uncovered during audits and to pass legislation providing auditors with the protection they need (see above). As soon as the legislation is in place, professional promulgations should be amended to require auditors to report to appropriate regulatory authorities doubts about the continued existence of auditee companies, and corporate fraud and other illegal acts uncovered in the course of their duties.

It was observed above that the survey data indicate that 31% of the audit expectation-performance gap derives from the five duties which involve auditors reporting to regulatory authorities. It is evident from this, that acceptance of these duties by auditors would be a major step towards narrowing the gap. This would produce major benefits for the profession in terms of reduced public criticism and increased credibility. It is submitted that these would far outweigh the costs of preparing a case and submitting it to Government and, if necessary, securing support from other interested parties such as the Stock Exchange and the New Zealand Society of Investment Analysts. It is also considered that if the profession initiates an extension to auditors' reporting duties by requesting Government to pass the required legislation, rather than reacting to demands that it accept these duties when public and political pressure builds up, this will do much to enhance the profession's reputation and standing in society.

In the light of the survey results, and the recently announced Stock Exchange requirement for listed companies to show to their auditors their interim results prior to the results being announced to the Stock Exchange (Stock Exchange Listing Requirements, Clause 8.3.2), it is considered that a future requirement for published half-yearly company reports to be subject to audit is inevitable. However, in the light of cost-benefit considerations, it seems more likely that, rather than a full audit, auditor review resulting in a negative assurance report will be required. It is observed that some respondents specified this as the preferred option and, further, that it is already embodied in some legislation. For example, the Reserve Bank of New Zealand Act 1964 requires specified institutions to present to the Reserve Bank annual financial statements which are fully audited, and interim reports which only need be reviewed by an auditor and accompanied by the auditor's statement of negative assurance.

Although a requirement for companies' published half-yearly reports to be subject to auditor review appears inevitable, it seems unlikely that companies will adopt this policy voluntarily. Company managements are likely to perceive the financial and inconvenience costs involved as outweighing any benefits which may accrue to the company from readers of the reports having greater confidence in their reliability. It therefore seems likely that a formal requirement through legislation, Government Regulations or Stock Exchange Rules will be needed before published half-yearly annual reports will be reviewed or audited. It is considered that the Stock Exchange Rules are the most likely avenue for the requirement to be forthcoming, as it is the Stock Exchange, not the companies legislation, which requires companies under its jurisdiction to publish half-yearly financial reports. Further, as noted above, the Stock Exchange has already taken an initial step in the direction of requiring interim reports to be subject to auditor review. Although the Stock Exchange Rules apply only to public listed companies, it is thought likely that, if the Stock Exchange introduced a requirement for half-yearly company reports to be reviewed by an auditor, pressure from investors and other interested parties would soon ensure that other (non-listed) companies producing such reports followed suit.

The fact that a formal requirement for half-yearly company reports to be reviewed or audited appears to await a change in Stock Exchange Rules (or, possibly, legislation) does not mean that the profession should wait until public pressure mounts to the point where the Stock Exchange (or Government) is spurred into action. Notwithstanding the absence of an audit requirement for half-yearly reports, the survey results indicate that auditors' failure to perform this duty is contributing to the deficient standards gap and, is thus helping to fuel the criticism of, and loss of public respect for, auditors. It is therefore recommended that, as for auditors reporting to regulatory authorities, the profession be pro-active and prepare a case to present to the Stock Exchange requesting that it amend its Rules, to require half-yearly reports of companies under its jurisdiction to be subject to auditor review. Such a move could be viewed with scepticism by cynics who may allege that auditors are merely seeking to secure additional work for themselves. However, the survey results suggest that there is a clear demand for half-yearly company reports to be audited (62% of non-auditor role senders signified that they expect this duty to be performed by auditors: see Figure 44) and, therefore, it is considered that, in general, the move would be well received and that it would enhance the reputation and credibility of the profession.

Unlike the other duties which contribute to the deficient standards component of the audit expectation-performance gap, that of examining and reporting on the auditee company's internal controls is within the control of the profession. Further, it is observed that the proportion of the deficient standards gap deriving from this duty (that is, 16%: see Figure 45) can apparently be narrowed with comparatively little increase in audit costs. Auditing Standard 7: *Accounting Systems and Internal Control* (NZSA, 1986a) requires auditors to "gain a preliminary understanding of the principal features of the accounting system and related internal controls to assist in determining the nature, timing and extent of audit procedures" and to "study, evaluate and test, as appropriate, the operation of those controls upon which reliance is to be placed" (p. 22). It is acknowledged that in some cases auditors do not place reliance on a company's internal controls as envisaged by Auditing Standard 7 and where this applies they are not obliged to study and test the controls in detail. Nevertheless, it is submitted that, in gaining their understanding of the client and its affairs, and in assessing factors of audit risk, both of which are fundamental to the modern audit process, all auditors undertake a general assessment of the quality of the auditee company's internal controls and are (or should be) in a position to report accordingly. It is also observed that, at the conclusion of an audit, auditors usually routinely provide a management letter to the directors of the auditee company informing them, inter alia, of weaknesses detected in the internal controls and indicating ways in which these might be rectified. The detail of the information in the management letter relating to the company's internal controls reflects the extent to which they were studied and tested during the audit.

It does not seem to be a major step for auditors to move from their current position to that required to meet role senders' expectations of them examining and reporting (in the published audit report) on the auditee company's internal controls. Further, such a move would be broadly in accord with developments overseas, particularly in the United States (see footnote 22). In this regard it is noted that the SEC is reported to be considering requiring public company managements to assess and report (in the company's published annual report) on the effectiveness of their company's internal controls, and requiring auditors to verify management's assessment of the controls' effectiveness (Report, Financial Manager, 1990). It is accepted that auditors in New Zealand would probably prefer to verify a report by management on the effectiveness of their company's internal controls, rather than to report on their own account. However, it is submitted that a requirement for company managements to provide such a report would have to come from the Stock Exchange (for public listed companies) or from the Government, and that such a development would take time and is beyond the control of the auditing profession.

It is evident from the survey results that role senders expect auditors to examine and report on the quality of auditee companies' internal controls and that their failure to do so is contributing to the audit expectation-performance gap. It is considered to be in the profession's best interests to meet society's expectations in this regard, by adopting the course of action which is within its control. It is therefore recommended that the profession accept the duty to examine and report on the quality of auditee company's internal controls and that professional promulgations be amended accordingly. More specifically, it is recommended that Auditing Standard 10: *Audit Reporting* (NZSA, 1986a) and Auditing Guideline 2: *The Audit Report* (NZSA, 1986b), be amended to require auditors to report, at least in general terms, on the quality of auditee companies' internal controls. It is not considered appropriate to amend Auditing Standard 7: *Accounting Systems and Internal Control* (NZSA, 1986a, pp 22-26) to require auditors to undertake a thorough examination of audit clients' internal controls irrespective of whether reliance is to be placed on them for the conduct of the audit. Rather, in cases where auditors do not examine a company's internal controls because they believe they cannot be relied on to protect the integrity of the financial data, this fact should be reported in the audit report.

As observed above, this recommended change in auditors' duties is perceived to involve a comparatively small step from the present position and it is considered that the accompanying additional costs would also be relatively small. However, in contrast to the costs, it is believed that considerable benefits would accrue to the reputation and credibility of auditors as a result of the change as it would eliminate the second largest single contributor to the deficient standards component of the audit expectation-performance gap (see Figure 45). The profession has little power to combat the portions of the deficient standards gap which derive from auditors' duties to report to regulatory authorities and to audit half-yearly company reports, beyond making submissions to the Government and to the Stock Exchange requesting that relevant legislation or Rules (as applicable) be introduced. However, it is within the profession's control to remedy role senders' dissatisfaction arising from their unfulfilled expectations with respect to auditors examining and reporting on auditee companies' internal controls. It is therefore recommended that the profession amend relevant promulgations expeditiously to make this a duty of auditors.

9.3.3 Narrowing the reasonableness gap

The duties contributing to the reasonableness gap are duties which non-auditor role senders consider auditors should perform, but which are not reasonable to expect of auditors (see section 8.3). It is not reasonable to expect auditors to examine and report on the fairness of financial forecasts included in published annual reports, as this duty is not compatible with their role in society (see section 8.2). Similarly, it is not reasonable to expect auditors to perform duties which society considers are not cost-beneficial for them to perform (see section 8.3). This applies to the duties:

- to guarantee that
  - audited financial statements are accurate (duty no. 2.2);
  - the auditee company is solvent (duty no. 2.4);
- to report breaches of tax laws to the Inland Revenue Department (duty no. 2.7);
- to report in the audit report, and to a regulatory authority, theft of corporate assets by non-managerial employees (duty nos. 2.10a and 2.11a);
- to detect, and to report in the audit report, illegal acts by company officials which do not directly impact on the company's accounts (duty nos. 2.13b and 2.14b);
- to examine and report on
  - the fairness of non-financial information (duty no. 2.16);
  - the efficiency and effectiveness of the auditee company's management (duty no. 2.18);
- to verify every transaction of the auditee company (duty no. 2.22).

Reasons for these duties failing the cost-benefit test were discussed in Chapter 8 (section 8.3).

As the reasonableness gap derives from role senders expecting auditors to perform duties which are either not compatible with their role in society or not cost-beneficial for them to perform, this component of the audit expectation-performance gap seems to stem from lack of knowledge about the audit function. That role senders have a 'knowledge gap' with respect to auditors' duties was established in Chapter 7 (section 7.2.4). Based on the proportion of respondents from each role sender group who exhibited a lack of knowledge about auditors' existing duties, it was shown that about

30% of auditees and financial community audit beneficiaries, and over 50% of general public audit beneficiaries, appear to have little, if any, knowledge about the work of auditors.

As the reasonableness gap is perceived to derive principally from lack of knowledge about auditing, it is considered that it may be narrowed through improved communication and education. However, as the relationship of each role sender group with auditors differs, and as the extent of each group's knowledge gap varies, it is submitted that the auditing profession needs to adopt means of communication, and to develop education programmes, which are designed specifically to meet the needs of each group.

It was observed above, that the survey results indicate that over 50% of general public audit beneficiaries have little, if any, knowledge of the audit function. The auditing profession may take the view that this group is so remote from auditing that their lack of knowledge need not be addressed. However, notwithstanding their distant and indirect relationship with auditing and auditors, the lack of knowledge of this group is potentially very damaging for the profession. The survey results show, for example, that 61% of general public audit beneficiaries expect auditors to guarantee that audited financial statements are completely accurate, 52% expect auditors to guarantee that auditee companies are solvent, and 31% expect auditors to examine evidence to verify every transaction of auditee companies (see Figure 28). It has been found that these three duties are not cost-beneficial for auditors to perform and, therefore, are not reasonable to expect of auditors (see Chapter 8, section 8.3). The lack of knowledge of general public audit beneficiaries gives rise to unreasonable expectations of auditors and, when companies collapse unexpectedly, especially in cases where there are attendant allegations of fraud or reckless dealings by the companies' directors, general public audit beneficiaries find that their expectations of auditors have not been fulfilled. As a consequence their confidence in auditors is undermined and they are very critical of the profession. This is damaging to the profession's reputation and social standing. Further, it needs to be remembered that if claims of negligence are laid against auditors and they appear in court, the jury and the journalists who report the case will be general public audit beneficiaries. If they lack knowledge of auditing, the jury and the journalists may evaluate the evidence presented in the case against unrealistic expectations and, as a result, may be unduly critical of the actions of the auditors(s) in question. This is costly, not only for the auditors(s) concerned; it also brings into question the credibility of the profession as a whole.

Mindful of the potential damage which lack of knowledge among general public audit beneficiaries can cause the profession, and conscious of the extent of this group's knowledge gap, it is recommended that the profession take steps to redress the deficiency as a matter of high priority. In this regard it is pertinent to note that 11 of the survey's respondents (1% of the survey group), 10 of whom were from the auditor group, referred to the need for the public to be educated about auditing (see Appendix 7, ref. E.13). The following remarks serve as examples:

- "The audit function is poorly understood, as has been shown by the public's comments following numerous company collapses. The public need to be educated about the role of auditing. This is necessary to ensure that the profession is highly regarded by the public."
- "More education of the public by the NZSA about the duties and functions of auditors is required."

It is submitted that the most effective and efficient means of providing general public audit beneficiaries with information about the audit function is through short, easily understood articles in newspapers and popular magazines. For members of this role sender group whose knowledge of auditing is deficient, but who are familiar with, and interested in, business and financial affairs, the measures recommended below for addressing the knowledge gap of financial community audit beneficiaries are likely to be appropriate.

Lack of knowledge about the audit function among auditees and financial community audit beneficiaries is less than among general public audit beneficiaries (see section 7.2.4) but this does not mean that it can be ignored by the profession. These groups have a direct relationship with auditors and their opinions have a significant impact on the credibility and reputation of the profession. It is therefore in the interests of the profession to ensure that these groups are better informed than at present about the duties which are reasonable to expect of auditors. It is observed, for example, that 36% of financial community audit beneficiaries and 34% of auditees expect auditors to guarantee that auditee companies are solvent, and that 26% and 22% of each group, respectively, expect auditors to guarantee that audited financial statements are completely accurate (see Figure 28). As noted above, the survey results indicate that it is not cost-beneficial for auditors to perform these duties. Further, 65% and 60% of auditees and financial community audit beneficiaries, respectively, expect auditors to examine and report on financial forecasts – a duty which is not consistent with their function as instruments of social control within the corporate accountability process (see section 8.2).

Financial community audit beneficiaries have a direct relationship with auditors as users of audited company reports. If they have unreasonable expectations of auditors (such as the performance of the duties noted above) and these are not fulfilled, they are likely to lose confidence in the work of auditors and to question the value of the audit function. It is recommended that the profession reduce the knowledge gap of this role sender group through articles in financial and business journals, and through seminars, which explain the audit function and the work of auditors. In addition, it is considered that the adoption of a more informative audit report, as discussed in section 9.3.1 above, would help to correct some of the misconceptions about auditing held by financial community audit beneficiaries who read audit reports.

While financial community audit beneficiaries primarily interact with auditors as users of audited company reports, auditees are the targets of auditors' work. The work of auditors is subject to close and direct scrutiny by auditees and, if auditees have unreasonable expectations of auditors and, as a result, auditors do not perform the duties expected of them, auditees are likely to be highly critical and sceptical. As may be seen from Figure 22 (page 198), the survey results indicate that about 30% of this role sender group are in error or uncertain about auditors' duties and it is submitted that the profession must address their lack of knowledge. As members of this role sender group are readily identifiable, and as their interest in auditing is relatively homogeneous, it is recommended that the profession prepare a booklet to inform the group about the audit function and the duties of auditors. It is suggested that the booklet would be particularly useful for auditees if it contained a section explaining how company personnel can assist their auditors and, as a result, reduce audit time and costs. It is considered that a booklet of this nature would not only narrow the knowledge gap of auditees and, thereby, reduce unjustified criticism of auditors, it would also significantly enhance auditor-client relations.

The duties constituting the reasonableness gap component of the audit expectation-performance gap are those which non-auditor role senders expect auditors to perform, but which are either not compatible with auditors' role in society or not cost-beneficial for auditors to perform. It has been proposed that this gap primarily stems from a lack of knowledge about the duties and function of auditors by auditees and audit beneficiaries. The survey results indicate that the reasonableness gap constitutes about 40% of the overall gap between society's expectations of auditors and auditors' perceived performance (see Figure 45) and, therefore, it is essential that steps are taken to reduce it. However, from a review of the measures outlined above, it is seen that narrowing the reasonableness gap is not entirely within the control of the profession – it depends on the co-operation of third parties. The profession can provide the means for auditees and audit beneficiaries to become better informed about the duties and function of auditors but education and communication is a two way process. Therefore, narrowing the reasonableness gap depends, in part, on the willingness of non-auditor role senders to become better informed about auditing.

Nonetheless, reducing the reasonableness gap is more under the control of the profession than narrowing the deficient standards gap (discussed in section 9.3.2 above). The articles, seminars and booklet, which it has been recommended the profession produce, can be designed to meet the needs and interests of specific role sender groups (financial community or general public audit beneficiaries, or auditees). Given appropriate material, it is considered that at least some members of these role sender groups will become better informed about auditors' duties and function in society, and that this will effect some reduction in the reasonableness gap. Unlike most of the measures needed to narrow the deficient standards gap (which are largely under the control of parties such as the Government or the Stock Exchange) the profession may institute the steps needed to reduce the reasonableness gap. It is recommended that the profession initiate these steps promptly.

Over the longer term, the profession has the additional task of monitoring changed expectations of auditors. It may be recalled that the role of auditors has been defined as the attitudes, values and behaviour expected of those who occupy the social position of auditors, by those who have an identifiable relationship with the role position (see Chapter 4, section 4.2). The behaviour expected of auditors encompasses the duties which they are expected to perform. As society evolves, its needs, attitudes and values change. This brings changed expectations of auditors. Over time, auditors' social position may change and this may bring changes in the duties which are compatible with their social position. Similarly, as society's needs and expectations change, duties which are considered by role senders not to be cost-beneficial for auditors to perform at the present time may, in the future, be evaluated differently. Thus, as society evolves, the duties which are reasonably expected of auditors (and, thus, the duties contributing to the reasonableness gap, and to the other components of the audit expectation-performance gap) may change.

The profession should take steps to reduce the reasonableness gap by designing and implementing education programmes targeted to reduce the knowledge gaps of its role sender groups. However, it must also remain alert to changes in its socio-economic environment which might alter the composition or extent of the audit expectation-performance gap and the components thereof, and adjust its strategies accordingly.

9.3.4 Summary of recommendations to narrow the audit expectation-performance gap

In sections 9.3.1 to 9.3.3 the following measures have been recommended as steps the auditing profession (through its controlling body, the NZSA) should take, in order to narrow the audit expectation-performance gap.

1. Introduce specialist pre-qualifying education and training programmes in auditing which conclude with a two-part examination; one part testing competence in auditing, the other professionalism.
2. Introduce compulsory continuing education for practising auditors: each course to conclude with a short test.
3. Increase the publicity of disciplinary measures taken in cases of sub-standard performance by members.
4. Include laypersons on the profession's disciplinary body (see footnote 31).
5. Introduce a requirement for auditors to report to the NZSA the reasons for their resignation or removal from office.

6. Introduce a vacancy clearance requirement whereby vacancies created by the resignation or removal of auditors must be 'cleared' before replacement auditors can accept appointment.
7. Develop a new audit report for use in New Zealand along the lines of the report recently adopted in the United States. The American model should be adapted to suit the New Zealand environment. The report should include specific reference to the quality of the auditee company's internal controls and, in appropriate cases, disclose matters of concern uncovered during the audit. In particular, where auditors have doubts about an auditee company's continued existence, they should be required to include a paragraph in their report explaining the position.
8. Amend professional promulgations to incorporate specific reference to auditors' duties to detect, and to report, corporate fraud and other illegal acts by company officials. Professional promulgations also need to be amended to accommodate the proposed new audit report.
9. Prepare and present a submission to Government, requesting it to identify regulatory authorities to whom auditors may report matters of concern uncovered during an audit, and to pass legislation providing protection for auditors in cases where they report matters of concern to regulatory authorities in good faith and on reasonable grounds.
10. Prepare and present a submission to the Stock Exchange requesting it to change its Rules to require published half-yearly company reports to be reviewed by an auditor and accompanied by the auditor's negative assurance report.
11. Prepare articles for publication in newspapers and popular magazines, designed to inform general public audit beneficiaries about the function and duties of auditors.
12. Prepare articles for publication in financial and business journals, and present seminars, which are designed to raise the knowledge of financial community audit beneficiaries about the function and duties of auditors.

13. Prepare, and make available for distribution, a booklet designed to inform auditees about the function and duties of auditors. This should include a section explaining how company personnel may assist the work of their auditors.

Reviewing these recommendations it may be considered that they are too costly for the profession to bear. However, if each recommendation is analysed it is seen that it would not involve large expenditures of resources. Further, when the costs of putting the above recommendations into effect are compared with the costs to the profession of criticism, litigation, loss of credibility and loss of a respected place in society, which seem almost certain to result if the audit expectation-performance gap is not narrowed, it is seen that the costs of the recommended steps are costs which the profession cannot afford not to bear.

9.4 CONTRIBUTION OF THE RESEARCH PROJECT

In the Introduction to this thesis, reference was made to the criticism and litigation which auditors currently face throughout the English-speaking world. It was postulated that this criticism and litigation stem from the audit expectation-performance gap. It was further postulated that the root cause of this gap is a lack of understanding by auditors and those whom they serve about auditors' role in society. Until the role of auditors is defined and understood there is no sound basis on which both society and auditors can establish the duties which may reasonably be expected of auditors. As noted in section 1.2, with this background, research was commenced with two main aims:

1. to analyse the gap between society's expectations of external auditors and auditors' perceived performance (the audit expectation-performance gap);
2. to define a theory to explain the role of external auditors in New Zealand.

In achieving these aims the research has advanced significantly the work of previous studies. A review of auditing literature revealed no extant theory which provided a satisfactory explanation of the role of external auditors in society. However, some useful ideas, advanced primarily by Flint (1971, 1988), Gilling (1976) and Tricker (1982), were found, and these provided the foundation for the development of a theory based on a model of the auditor as an instrument of social control within the corporate accountability process. Although the earlier researchers had generated ideas, the task remained to construct a comprehensive conceptual framework to support a general theory. The present study has developed such a framework from three elements: the concept of role, the attributes of auditors as professionals, and the concept, development and discharge of corporate accountability. Based on this framework, a theory of the role of external auditors in society has been tentatively defined. This conceives the role of external auditors to be constituted by the attitudes, values and behaviour ascribed to the social position occupied by external auditors, by individuals and groups in society who have an identifiable relationship with that role position. The auditor's social position is postulated to be that of a member of a recognised profession acting as an instrument of social control within the accountability process required of economic entities.

After examining this theory on a normative basis and finding no major flaws, it was subjected to empirical testing. In a few instances the survey results do not appear to be entirely consistent with the postulated social position of auditors and these require further investigation (see section 9.5 below), however, in general, the findings provide support for it. The empirical testing of the proposed theory represents an advance on earlier studies, for it appears that previous expositions of the role of external auditors (discussed in Chapter 3) have not been subjected to such testing.

Although it is considered that this study has made a significant contribution towards defining the role of external auditors in society, it is submitted that its greatest contribution is in redefining the audit expectation-performance gap, identifying its structure, ascertaining the duties which constitute each component of the gap, and in estimating the relative contribution of each duty to its respective component, and of each component to the overall gap between society's expectations of auditors and auditors' perceived performance. The analysis has provided new insights into the audit expectation-performance gap which signal a new approach to narrowing it. Once a discrepancy between society's expectations of auditors and auditors' performance is detected in relation to a particular duty (that is, once auditors' performance of, or failure to perform, a duty is criticised), the duty needs to be analysed to ascertain which component of the gap it represents. Once this has been determined, the appropriate corrective action is readily identified. In short, the research has enabled efforts to narrow the audit expectation-performance gap to be placed on a rational, comprehensive footing. It is thus submitted that the study has made a major contribution towards narrowing the gap.

The analysis and measurement of the audit expectation-performance gap which this research has provided, represents a significant advance over previous studies. For example, the reports of the Cohen Commission (CAR, 1978) and the Macdonald Commission (CICA, 1988) are qualitative and generalistic in approach. These studies, conducted under the auspices of professional bodies, involved extensive enquiries which included public meetings, meetings with selected representatives of business, financial and accounting organisations, seminars, presentations, interviews and commissioned research studies. However, their investigations tended to focus on broad issues, such as the role of auditors, auditor independence, the purpose and content of financial statements, and the responsibility of auditors with respect to fraud, rather than ascertaining, on a detailed level, public expectations regarding individual duties of auditors. As a result, compared with the present project, the earlier studies lack precision. For example, both the Cohen Commission (CAR, 1978) and the Macdonald Commission (CICA, 1988) concluded that, in general, the public's expectations of auditors are reasonable and achievable. However, neither report identifies duties which the public expects auditors to perform which are not reasonable. Nor does either report (or indeed, any other study) give guidance on means to identify "what auditors can reasonably expect to accomplish" (CAR, 1978, p. xi; CICA, 1988, p. 1). Further, apart from the 1988 Canadian study (CICA, 1988), previous investigations of the audit expectation-performance gap have not addressed the structure of the gap and have generally ignored the portion of the gap which derives from sub-standard performance by auditors.

The present study also represents an advance on the quantitative research conducted by researchers such as Lee (1970) and Beck (1973). Beck (1973), investigating the social role of public accountants in Australia, presented 27 statements on auditing and accounting issues to shareholders of two public listed companies, and to members of both professional accountancy bodies, in Australia. He asked them to signify whether they agreed or disagreed with the statements in question. Lee (1970), investigating the nature of audit objectives in Britain, presented a list of 13 suggested company audit objectives to members of 10 role sender groups. These included three auditee groups, three auditor groups, and four audit beneficiaries groups. Survey participants were asked to select the objectives they believed to be current audit objectives.

The survey conducted as part of the present research extended Beck's and Lee's surveys in terms of both the role sender groups surveyed and the comprehensiveness of the questionnaire. The questionnaire was sent to members of 16 role sender groups (see Figure 18, page 157) and was designed to ascertain role senders' expectations in relation to auditors' duties, and their professional standing and specialist function in society. Further, unlike previous empirical investigations, the present study also sought to ascertain role senders' assessment of the standard of performance of auditors' existing duties.

An additional contribution of the present study derives from the fact that it is the first extensive investigation of role senders' expectations of auditors in New Zealand. Major studies have been conducted under the auspices of the relevant professional bodies in:

- Britain – for example, the Working Party on The Future of the Audit (ICAEW, 1986);
- United States – for example, The Commission on Auditors' Responsibilities, (CAR, 1978) and the National Commission on Fraudulent Financial Reporting, (AICPA, 1987);
- Canada – for example, the Special Committee to Examine the Role of the Auditor (CICA, 1978) and the Commission to Study the Public's Expectations of Audits (CICA, 1988);
- Australia – for example, the Professional Standards Review Committee (ICAA, 1978);
- South Africa – for example, The Commission of Enquiry into Developments in the Accountancy Profession in South Africa (NCCA, PAAB, 1980).

However, no comparable study has been conducted previously in New Zealand and it is therefore submitted that the present investigation makes a particular and valuable contribution to auditing and auditing research in New Zealand.

9.5 IDENTIFICATION OF AREAS FOR FUTURE RESEARCH

During the course of this research it has become evident that some questions remain unanswered, some issues remain unaddressed, and that there are a number of opportunities to develop further the empirical research which has been conducted. For example, in section 8.2 it was explained that in order for duties to be reasonably expected of auditors they must meet two criteria: they must be compatible with auditors' role in society and they must be cost-beneficial for auditors to perform. Although the study has addressed the issue of auditors' role in society, it has not included formal cost-benefit analysis. For the purposes of this project, a surrogate measure was derived from a parallel to the reasonable man test applied in New Zealand courts of law. However, it is submitted that before the duties which are cost-beneficial for auditors to perform can be conclusively identified, the relevant duties need to be subjected to formal and rigorous cost-benefit analysis.

Further, in Chapter 8 it was noted that some of the survey results are not entirely consistent with the postulated social position of auditors. For example, role senders signified that they consider auditors should negotiate their audit fees with audit company directors or management. This finding appears to be inconsistent with the fundamental characteristic of auditors as professionals, namely, their independence, and also with the proposition that auditors act on behalf of society (rather than the auditee company's shareholders). Respondents may have selected this option as a matter of expediency, that is, they could not identify an alternative that is both practical and equally acceptable. However, some respondents suggested other options and it is considered that the issue needs further investigation.

Similarly, other survey results relating to the postulated social position of auditors are not easily explained and require further examination. An example is afforded by role sender group responses to the proposition that knowledge that a company's financial statements are audited provides confidence to invest in the company (proposition 3.2: see Figure 39, page 280). More specifically, reasons for the small negative means of responses from auditees and financial community audit beneficiaries need to be ascertained. Another finding which requires further study relates to the parties on whose behalf the auditor acts. The three options provided in the questionnaire (shareholders, stakeholders and society as a whole) were linked to ideas on the development of corporate accountability presented in Chapter 4. However, as noted in Chapter 8 (section 8.2.3), the means of survey group responses to all three options are negative, indicating that role senders consider that auditors do not act exclusively for any of the (progressively inclusive) groups mentioned. It is therefore considered that other alternatives, such as auditors acting for investors (embracing both institutional and private investors), should be investigated. Role sender opinions with respect to alternatives should not only be ascertained; their impact on the theory of the role of external auditors in society as proposed in this thesis (see section 5.1) and, in particular, their impact on the postulated function of auditors within the corporate accountability process, should also be evaluated.

Another area which this study has identified as requiring further research is that of published company reports. It has been proposed in Chapter 4 (section 4.4) that annual company reports are accountability reports produced by company managements for those to whom they are accountable. It has also been submitted that, given this purpose, these reports should provide information on all of the company's activities over the reporting period, whether the information be financial or non-financial in nature. Extensive research has been conducted throughout the English-speaking world on the purpose, content and users of annual financial statements (see, for example, Craswell, 1985; Anderson, 1981; Lee and Tweedie, 1975). Some research has also been conducted into the desirability of social reporting by companies (for example, Gray, 1989; Mathews, 1985; Demers and Wayland, 1982). However, in both cases, the research results have tended to be conflicting and inconclusive. It is submitted that there is a need for detailed investigation into the purpose, content and users of published company annual reports in New Zealand, which spans both financial and non-financial information.

It has been postulated that the role of external auditors in society is constituted by the expectations of those who occupy the social position of auditors, by those who have an identifiable relationship with that role position. It has also been proposed that auditors are professionals and that a fundamental characteristic of a profession is that it serves a specialist need in society (see Chapter 4, section 4.3). Based on the discussion of the concept of role presented in Chapter 4 (section 4.2), it is submitted that the role of external auditors in New Zealand is defined by relevant role senders who embody the prevailing norms and values of New Zealand society. It is also submitted that the specialist social need which auditors serve in New Zealand is embodied in, and specific to, New Zealand's current socio-economic environment. As society evolves, its expectations and needs change. The findings of the present empirical investigation, which was conducted in New Zealand in 1989, reflect the expectations and needs of New Zealand society at that time. It is considered that further opportunities for valuable research are provided by both longitudinal studies and comparative studies overseas. For example, although it has been ascertained that the results of the present survey are in general agreement with those of earlier studies conducted overseas and, in particular, with those of Lee (1970), Beck (1973), the Cohen Commission (CAR, 1978) and the Macdonald Commission (CICA, 1988), a detailed comparison has not been undertaken. This provides an opportunity for a useful longitudinal study. However, it is submitted that of even greater value to research in auditing would be studies which replicated the survey conducted in New Zealand in 1989, elsewhere in the English-speaking world during the early 1990s and in New Zealand in 1999. Such studies would provide useful insights into the impact of differences in cultural and environmental factors at approximately the same point in time, and of changes in the socio-economic environment which take place over time, on role senders' expectations of external auditors.

9.6 CONCLUSION

It has been observed that the auditing profession throughout the English-speaking world is currently facing widespread criticism and litigation. It has been postulated that this is a manifestation of the gap which exists between society's expectations of auditors and auditors' performance as perceived by society – that is, the audit expectation-performance gap. It has been further postulated that this gap stems from the lack of a satisfactory theory to explain the role of external auditors in society. Without such a theory there is no basis for identifying the duties which are reasonable to expect of auditors and therefore no common focus towards which expectations of auditors and auditors' performance can be directed.

Literature-based and empirical research has been conducted to investigate both the audit expectation-performance gap and the role of auditors in society. This has generated a normatively derived and empirically tested theory of the role of auditors, which conceives external auditors to be members of a recognised profession acting as instruments of social control within the corporate accountability process. The research has also identified the structure of the audit expectation-performance gap and established the duties which constitute its reasonableness gap, deficient standards and deficient performance components. In addition it has ascertained the relative contribution of each duty to its respective component, and of each component to the overall gap between society's expectations of auditors and auditors' perceived performance.

The linchpin in narrowing the audit expectation-performance gap has been identified as the duties which are reasonably expected of auditors. It is these duties about which groups in society must be educated (to reduce the reasonableness gap) and it is these duties which must be encompassed by auditing standards and performed by practitioners (thus eliminating the deficient standards and deficient performance components, respectively). In order to be reasonably expected of auditors, duties must be compatible with auditors' role in society. Thus, identifying these duties links the two aims of the research project: analysing the audit expectation-performance gap and defining the role of external auditors in society.

The research has enabled measures which may be taken to reduce the gap to be identified. These have been embodied in specific recommendations which, if adopted, would tackle the gap on three fronts. They would ensure that society is better informed about the audit function and what can reasonably be expected of auditors, thus dissipating unreasonable expectations; auditing standards would be amended to encompass all those duties which are reasonably expected, but not currently required, of auditors; and sub-standard performance by auditors would be eliminated. A review of the recommendations reveals that narrowing the gap is largely in the profession's hands. Indeed, eliminating the deficient performance component is entirely within the control of the profession and reducing the reasonableness gap is largely so.

Some members of the profession may take the view that the costs of implementing the recommendations are too high for the profession to bear. However, analysis shows that the measures would not involve large expenditures and, more importantly, when compared with the costs of litigation, loss of credibility, and loss of the public's confidence in, and respect for, the profession, all of which are attributed to the existence of the audit expectation-performance gap, it is submitted that the costs involved are costs which the profession cannot afford not to bear.

The research has provided new insights into the cause of the profession's present problems and ways in which the profession might move towards solving them. In the light of the deterioration in the profession's reputation and standing in society in recent months, which has accompanied the collapse of many companies in the wake of the October 1987 Stockmarket Crash, frequently without warning and, all too often, amidst allegations of fraud or similar disreputable activities by company directors (see footnote 2), it is submitted that time is not on the side of the profession. As expressed by a respondent:

> "While the role of auditors has been questioned for many years as to both effectiveness and professionalism, it has, since the 1987 Crash, become of greater

> media interest. We as members of the NZSA must feel increasingly concerned as to the quality and conduct of many audits performed today. If we as members of the profession can take little comfort in the presence of an audit report, then to suggest that our general public do so is ridiculous. Action must be taken to assure the public that an audit is performed from a position of strength, independence and professionalism. And that must happen now!"

The profession has the findings of extensive research available to it. If these are used, and if measures which have been recommended to narrow the three components of the audit expectation-performance gap are adopted, it is submitted that the profession will eliminate the causes of public criticism and that it will regain its valued and respected position in society.

FOOTNOTES

1. Section 152 requires the directors of every company, at least once in every calendar year, to lay before the company in general meeting a Balance Sheet and Profit and Loss Account. Section 160 requires the auditor's report to be attached to the Balance Sheet and Section 166 sets out the items to be included in that report. Section 162 further requires that copies of the audited financial statements be sent, not less than 14 days before the general meeting, to all persons entitled to receive notices of general meetings of the company.

   Under the provisions of Section 354, private companies are exempted from the requirement to send copies of their financial statements to members, but they are bound to supply a copy to any member who requests it. Additionally, such companies need not appoint an auditor, provided a resolution to that effect is passed unanimously by the company's shareholders. In practice, private companies usually provide their members with copies of the company's annual financial statements but these are not audited.

2. Until recent times, widespread criticism and litigation were characteristics of the auditing environment primarily in the United States and Britain. However, as companies have collapsed in New Zealand in the wake of the October 1987 Stockmarket Crash, and allegations of dishonest and illegal activities by company directors have been given publicity in the media, the credibility of auditors and the value of the audit function in New Zealand have been called into question. At the present time, almost all of the major international firms of Chartered Accountants, and a number of the smaller firms, in New Zealand are facing litigation based on claims of auditors' negligence.

3. The phrase 'the public' as used by the Cohen Commission (CAR, 1978) appears to mean the population at large, inclusive of investors and other users of financial statements, but exclusive of auditors. It thus equates to non-auditors within the population. The Commission also used the word 'society' to mean the same thing. In this thesis, in order to avoid confusion between 'the public' in the above sense (which embraces auditees and financial community audit beneficiaries) and the more narrowly defined general public audit beneficiaries role sender group, 'society' is used to mean the population at large exclusive of auditors, that is, all non-auditors. If a different meaning is ascribed to the word in a particular context, this is explicitly stated in the text.

4. This is one of nine Statements on Auditing Standards issued by the AICPA in April 1988, specifically designed to narrow 'the expectation gap' (Guy and Sullivan, 1988).

5. Auditing Guideline 9, like the other Auditing Guidelines promulgated by the New Zealand Society of Accountants, is based on the corresponding International Auditing Guideline (IAG-11) issued by the International Federation of Accountants.

6. Although set up under the auspices of the AICPA, this Commission was an independent body, primarily comprising members drawn from outside the auditing profession.

7.
   - Working Party of the Institute of Chartered Accountants in England and Wales.
   - Working Party of the Institute of Chartered Accountants in Scotland.
   - Working Party of the Chartered Association of Certified Accountants.

8. From cases in New Zealand known to the writer, it appears that if auditors discover (or strongly suspect) management fraud, they prefer to withdraw from the engagement rather than continue in office and disclose their findings in their report to shareholders.

9. The AICPA, in SAS nos. 53 and 54, has specified four circumstances in which an auditor may have a duty to disclose information to third parties, namely:
   (a) When the entity reports an auditor change under the appropriate securities law on Form 8-K;
   (b) To a successor auditor when the successor makes enquiries in accordance with SAS no. 7, *Communications Between Predecessor and Successor Auditors*;
   (c) In response to a subpoena;
   (d) To a funding agency or other specified agency in accordance with requirements for the audits of entities that receive financial assistance from a government agency.

10. The British Auditing Guideline (ICAEW, 1988a) is in Exposure Draft stage, and the new Auditing Standards in the United States did not become effective until 1 January 1989.

11. In social science literature the term 'social position' is now generally used in place of 'status'.

12. This is illustrated by legislation recently passed in Britain in relation to the financial services sector. From press statements, it is evident that in the mid-1980s auditors in Britain were not fulfilling society's expectations of them in relation to detecting fraud

and reporting detected and suspected fraud to regulatory authorities (see Chapter 2). New duties imposed on auditors under the Financial Services Act 1986 [UK] have moved auditors' duties in these regards much closer to the public's expectations.

13. Significant economic entities are those entities whose activities have significant economic implications for the community as a whole (ASSC, 1975, para 1.2). The ASSC's definition is discussed on pages 114-115.

14. It is significant that the Cohen Commission conducted its research and wrote its report during and shortly after the time of the Watergate scandal and the revelations which led to the passing of the Foreign Corrupt Practices Act 1977.

15. Davis (1976, p. 16) links these changes to the upward movement of western societies through Maslow's hierarchy of needs. He suggests that in these advanced societies, in which physical and security needs are relatively well satisfied, social needs have come to dominate public expectations.

16. As noted in Chapter 2, this study focuses on defining auditors' role in society as the initial step in narrowing the audit expectation-performance gap. Formal cost-benefit analysis has not been performed and is identified in Chapter 9 as an area for future research. However, the duties which are cost-beneficial for auditors to perform are ascertained by applying a measure which parallels the 'objective test' of the 'ordinary reasonable man' (O'Keefe and Farrands, 1978, p. 206) as applied by New Zealand courts of law. Duties which are considered by the survey group as a whole to be duties which auditors should perform, are accepted as being cost-beneficial for auditors to perform. (This is explained in Chapter 8, section 8.3.)

17. Some of the suggested duties of auditors presented in Part 2 of the general public version of the questionnaire were expressed in general terms and embraced more than one suggested duty in the financial community version. Specifically, one suggested duty in the general public version embraced more than one duty in the financial community version in the following cases:

	General Public Version	Financial Community Version
Duty number:	2.6	2.8a, 2.8b
Duty number:	2.7	2.13a, 2.13b
Duty number:	2.8	2.11a, 2.11b, 2.11c, 2.14a, 2.14b
Duty number:	2.9	2.10a, 2.10b, 2.10c, 2.15

It is also noted that duty nos. 2.5a, 2.9, 2.12 and 2.16 to 2.20 in the financial community version of the questionnaire had no equivalent in the general public version. Similarly, proposition nos. 3.3, 3.6a, 3.6b, 3.11, 3.13 and 3.15, which appeared in Part 3 of the financial community version of the questionnaire, were omitted from the general public version (see Appendices 1a and 1b).

18. The Kruskal-Wallis test, like its parametric counterpart, anova, tests the hypothesis that *K* samples (where *K* is a number greater than 2) come from populations with the same distribution. The test is based on rankings. All cases (observations) from the samples being tested are combined and ranked. Where there are ties, average ranks are assigned. The ranks applicable to each sample are summed and the Kruskal-Wallis H statistic is computed. The H statistic has a distribution which approximates that of chi-square.

    The SPSS/PC+ output for the Kruskal-Wallis test specifies the number of cases in each sample, the mean rank of each sample, the chi-square statistic and its associated significance level.

19. The Mann-Whitney statistic tests the hypothesis that two independent samples come from populations with the same distribution. Like the Kruskal-Wallis test, the Mann-Whitney test is based on rankings. The observations from both samples under review are combined and ranked. Where there are ties, average ranks are assigned. The ranks for each of the two samples are then summed. If the populations have the same distribution, the distribution of ranks in the samples (and therefore their rank sums) should be similar.

    The SPSS/PC+ output for the Mann-Whitney test specifies the number of cases and mean rank for each sample. It also shows the sum of the ranks for the observations in each sample, the equivalent standard normal deviate (z score) and its associated two-tailed probability.

20. The Wilcoxon signed-ranks statistic incorporates information about the size and direction of differences between pairs of observations. It is computed by calculating differences between the observations, and ranking the differences ignoring the signs. In the case of ties, average ranks are assigned. The ranks for the positive and negative differences are then calculated.

In order to apply the Wilcoxon signed-ranks test to the survey data, each response to the duties listed in Part 2, sections 1a and 2, and to the propositions presented in Part 3 of the questionnaire, was matched against a dummy variable with value zero. As explained in section 6.7.2, the values +1, 0, -1 were assigned to 'Yes', 'Not Sure', and 'No' responses, respectively, in Part 2, and to 'Agree', 'Uncertain' and 'Disagree', respectively, in Part 3 of the questionnaire. The Wilcoxon-signed ranks statistic was calculated on the basis of differences between the survey responses (+1, 0, -1) and the dummy variable (0).

For the Wilcoxon signed-ranks test, the SPSS/PC+ output specifies the number of cases with a negative rank (that is, for the survey data, 'No'/'Disagree' responses), the number of cases with a positive rank ('Yes'/'Agree' responses) and the number of cases tying with dummy ('Not Sure'/'Uncertain' responses). It also shows the mean positive, and mean negative ranks, the standard normal deviate (z score) and the associated 2-tailed probability. If the hypothesis that a sample of survey responses has no particular positive or negative tendancy is true, the z score will be small and the observed significance level associated with the test large.

21. The chi-square test of independence tests the hypothesis that two variables are independent of each other. More precisely, it provides a measure of the discrepancy between expected and observed frequencies falling into each cell of a cross-tabulation. The expected frequency of observations for each cell is the product of the marginal probabilities of the two categories defining the cell.

The chi-square statistic (χ^2) is calculated by summing over all the cells in the table, the squared differences between observed and expected frequencies, divided by the expected frequencies. The calculated χ^2 is compared to the critical points of the theoretical χ^2 distribution to produce an estimate of how likely (or unlikely) the calculated value is if the two variables are in fact independent. The theoretical χ^2 distribution varies according to the degrees of freedom of the table. For an $R \times C$ table, the degrees of freedom are (R-1) x (C-1). As the relevant survey data were tested using a 2 x 2 table, there was 1 degree of freedom.

Certain conditions must be met for the χ^2 distribution to be a good approximation of the theoretical distribution of the statistic. The data must be random samples from multinominal distributions and the expected values must not be too small. While it has been recommended that all expected frequencies be at least 5, recent studies indicate that this is probably too stringent and can be relaxed (Norusis, 1988, p. B.99).

In order to improve the approximation in the case of a 2 x 2 table, Yates' correction for continuity may be applied. This has been applied in testing the survey data.

The SPSS/PC+ output specifies for each cell, the number of observations, the percentage of all observations in the row, and the percentage of all observations in the column, which fall into the cell. For each row and column, the number of observations and the percentage of the total observations included in the table, which appear in the relevant row or column, are shown. Additionally, the output specifies the calculated chi-square statistic, the degrees of freedom for the table, the minimum expected frequency in any cell, and the number of cells for which the expected frequency is less than 5.

22. In the United States auditors are required by SAS no. 55 (AICPA, 1988c) to examine the three elements of their audit client's internal control structure, namely, the control environment, the accounting system and control procedures, in order to gain "a sufficient understanding of each of the three elements to plan the audit" (para 2).

They are further required by SAS no. 60 (AICPA, 1988f) to identify and report to the company's audit committee (or equivalent body with oversight responsibility for the company's financial statements) any "reportable conditions". Reportable conditions are defined as "matters coming to the auditor's attention that, in his judgement, should be communicated to the audit committee because they represent significant deficiencies in the design or operation of the internal control structure, which could adversely affect the organisation's ability to record, process, summarise, and report financial data consistent with the assertions of management in the financial statements" (para 2).

However, it is significant that the AICPA also requires auditors to state in their report to the audit committee, that the report "is intended solely for the information and use of the audit committee, management and others within the organisation" (para 10). Thus, although auditors in the United States are required to examine their audit clients' internal controls and to report reportable conditions to the company's audit committee (or equivalent body) there has not, as yet, been a move to require auditors to report, in their published audit reports, on the quality of their auditees' internal controls. However, it is reported that the SEC is considering requiring company managements to report (in their published annual reports) on the effectiveness of their company's internal controls, and requiring auditors to verify management's assessment of the controls' effectiveness (Report, Financial Manager, 1990).

23. It is acknowledged that Auditing Standard 7 (NZSA, 1986a) states that: "The auditor should gain a preliminary understanding of the principal features of the accounting system and related internal controls to assist in determining the nature, timing and extent of audit procedures. The auditor should study, evaluate and test, as appropriate, the operation of those internal controls upon which reliance is to be placed" (p. 22).

    However, it is observed that this Standard does not require auditors to examine an auditee company's internal controls in all cases. The duty is only required in those instances when the auditor plans to place reliance on the internal controls to protect the integrity of the financial data. If auditors do not plan to rely on a company's internal controls they are not required to examine them.

24. If the recommendations of the Securities Commission, currently under consideration by the Minister of Justice, are implemented, then an Accounting Standards Review Board (ASRB) will come into existence. This Board, in addition to dealing with genuine differences of opinion between auditors and their client companies, will also have referred to it for review, the financial statements of any economic enterprise to which the Securities legislation applies (that is, organisations which offer securities to the public) which have qualified audit reports.

25. An option which might have been included in proposition 3.4, is that of auditors acting for investors – embracing both financial community investors and the investing public. Although this might appear to be an attractive alternative it is not easily accommodated within the issue currently under investigation, namely, the social position of auditors as instruments of social control within the corporate accountability process. However, the possibility of the auditors' social position being specifically linked to the interests of investors is considered to be worthy of study and is identified as an area for future research in Chapter 9.

26. As the Society's Rules are made under the authority of The New Zealand Society of Accountants Act 1958, legislation is required for the Rules to be changed. (The information regarding the application for a Rule change was obtained from informed sources at the NZSA).

27. As the duties constituting the audit expectation-performance gap may be expected of auditors by a significant minority group within society (20% of a non-auditor role sender group), rather than by society as a whole, it is considered appropriate to delete the word 'society' from the boundary of the audit expectation-performance gap designated

'society's expectations of auditors' (see figure 1) and to refer, instead, to 'expectations of auditors'.

28. In this study, the duties reasonably expected of auditors are defined to be those duties which are compatible with auditors' role in society and cost-beneficial for auditors to perform. Auditors' role in society has been defined as the expectations of those who occupy the social position of auditors, by those who have an identifiable relationship with that role position. Thus, auditors' role in society reflects the 'average' expectations of all of their role senders. Similarly in this study, duties identified by a majority of auditors' role senders as duties which auditors should perform have been accepted as duties which are cost-beneficial for auditors to perform.

As a result of the above, the duties which are assessed as reasonable to expect of auditors, in essence, coincide with the duties which the majority of role senders expect auditors to perform. However, although auditors' role in society reflects the 'average' expectations of their role senders, it is a global expression of those expectations. An individual duty may be identified as a duty which auditors should perform by a majority of their role senders and yet, still be incompatible with auditors' role in society.

In this study, all of the duties which are identified by 20% or more of a non-auditor role sender group as duties which auditors should perform, are assessed to determine whether they are duties which are reasonable to expect of auditors. However, as noted above, most of the duties assessed as reasonable to expect of auditors coincide with the duties which the majority of role senders expect auditors to perform. As a result, the reasonableness gap component of the audit expectation-performance gap (that is, the duties which are unreasonably expected of auditors), broadly equates with those duties which are expected of auditors by a significant minority group in society. However, it also includes duties which are incompatible with auditors' role in society but which the majority of role senders, nevertheless, (unreasonably) expect auditors to perform.

29. It follows from footnote 28, that the proportion of the society group (non-auditor role senders) who expect auditors to perform duties which are elements of the reasonableness gap will, in most cases, be less than 50%. The exceptions will be duties which the majority of the society group expects auditors to perform, but which are not compatible with their role in society. Similarly, because all of the duties which contribute to the deficient standards gap are, by definition, reasonably expected of auditors, the

proportion of the society group signifying that these duties should be performed by auditors will exceed 50%.

30. As noted in footnote 27, the duties constituting the audit expectation-performance gap may be expected of auditors by a significant minority group in society, rather than by society as a whole. As a result, it has been considered appropriate to delete the word 'society' from the designation of the relevant boundary of the gap and to refer instead to 'expectations of auditors'. Similarly, as noted in section 7.3.3, in the analysis of the deficient performance component of the audit expectation-performance gap the focus of attention is perceived deficient performance by auditors. Accordingly, this boundary of the gap has been designated 'perceived sub-standard performance by auditors', instead of 'auditors' performance' (see figures 1 and 45).

31. As noted in section 8.2.3, the NZSA has made application to the Government requesting it to pass the necessary legislation to effect a change in the Society's Rules. The proposed change will enable laypersons to become members of the Disciplinary Committee (see also footnote 26).

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Appendix 1a - Financial community version of the questionnaire

1.

PART 1: PERSONAL DETAILS

Please provide the following personal details:

1.1 INTEREST GROUP:

Please tick all of the groups to which you belong, or to which you have belonged in the past 5 years.

		Now	In past 5 years			Now	In past 5 years	
1.	Audit partner	☐ 1	☐ 2	2.	Non-partner Audit Staff	☐ 1	☐ 2	5-6
3.	Company manager (top level)	☐ 1	☐ 2	4.	Company accountant	☐ 1	☐ 2	7-8
5.	Executive Director	☐ 1	☐ 2	6.	Non-Executive Director	☐ 1	☐ 2	9-10
7.	Audit Committee Member	☐ 1	☐ 2	8.	Internal Auditor	☐ 1	☐ 2	11-12
9.	Member of the NZ Stock Exchange	☐ 1	☐ 2	10.	Financial Analyst	☐ 1	☐ 2	13-14
11.	Stockbroker	☐ 1	☐ 2	12.	Banker - Corporate or Commercial Sections	☐ 1	☐ 2	15-16
13.	Banker - Branch Manager	☐ 1	☐ 2	14.	Investor on behalf of an Institution	☐ 1	☐ 2	17-18
15.	Private Shareholder	☐ 1	☐ 2	16.	Private debenture-holder	☐ 1	☐ 2	19-20
17.	Member of an Employees' Union	☐ 1	☐ 2	18.	Member of the General Public	☑ 1		21-22
19.	Member of Parliament	☐ 1	☐ 2	20.	Lawyer	☐ 1	☐ 2	23-24
21.	Financial journalist	☐ 1	☐ 2	22.	Employed by the IRD	☐ 1	☐ 2	25-26
23.	Employed by the Justice Department	☐ 1	☐ 2	24.	Employed by the Commerce Commission	☐ 1	☐ 2	27-28
25.	Employed by the Securities Commission	☐ 1	☐ 2	26.	Employed by the Audit Office	☐ 1	☐ 2	29-30
27.	Member of the NZSA	☐ 1	☐ 2	28.	Auditing academic	☐ 1	☐ 2	31-32

1.2 **AGE:** Please tick the appropriate box

Under 30 years	30-45 years	46-60 years	Over 60 years	
☐ 1	☐ 2	☐ 3	☐ 4	33

For Questions 1.3 and 1.4, please tick the appropriate box:

1.3 **INTEREST IN FINANCIAL STATEMENTS:**

You read the annual financial statements of companies:

Never	Occasionally	Frequently	
☐ 1	☐ 2	☐ 3	34

("Read" means look at financial statements in order to obtain some information from them, for example, about the company's profit and/or financial position. "Read" is to be distinguished from a "quick glance").

1.4 **INTEREST IN THE AUDITOR'S REPORT:**

When you read companies' published financial statements you read the auditor's report:

Never	Rarely	Occasionally	Usually	
☐ 1	☐ 2	☐ 3	☐ 4	35

Please turn to Part 2 on the next page.

PART 2: THE DUTIES OF AUDITORS

Please complete BOTH sections 1 and 2.

Section 1a **Please complete section 1a** by ticking the appropriate box to indicate whether you think the duty listed IS or IS NOT AN EXISTING DUTY of auditors, or whether you are not sure.

Section 1b. IF you ticked 'Yes' in section 1a please complete section 1b by ticking the appropriate box to indicate how well you think auditors perform the duty.

Section 2. **Please complete section 2** by ticking the appropriate box to indicate whether you think the duty listed SHOULD or SHOULD NOT BE performed by auditors, or whether you are not sure.

Duties of Auditors are:		Section 1a: Please complete this section. It IS AN EXISTING DUTY of auditors — Yes	No	Not Sure		Section 1b: Please answer this section if you ticked "YES" in section 1a. HOW WELL Existing duties are performed — Poorly	Adequately	Well	Unable to judge		Section 2: Please complete this section. Auditors SHOULD perform this duty — Yes	No	Not Sure	
2.1 To prepare the company's financial statements	2.1	☐ 1	☐ 2	☐ 3	38	☐ 1	☐ 2	☐ 3	☐ 4	55	☐ 1	☐ 2	☐ 3	72
2.2 To guarantee that the audited financial statements are completely accurate	2.2	☐ 1	☐ 2	☐ 3	39	☐ 1	☐ 2	☐ 3	☐ 4	56	☐ 1	☐ 2	☐ 3	73
2.3 To state whether or not the financial statements fairly reflect the company's financial affairs	2.3	☐ 1	☐ 2	☐ 3	40	☐ 1	☐ 2	☐ 3	☐ 4	57	☐ 1	☐ 2	☐ 3	74
2.4 To guarantee that a company whose financial statements have been given an unqualified ("clean") audit report is financially sound	2.4	☐ 1	☐ 2	☐ 3	41	☐ 1	☐ 2	☐ 3	☐ 4	58	☐ 1	☐ 2	☐ 3	75
2.5 Where the auditor has doubts about the continued existence of the company under audit, to express such doubts:														
a) Privately to a regulatory authority, such as the Registrar of Companies or the Reserve Bank	2.5a	☐ 1	☐ 2	☐ 3	42	☐ 1	☐ 2	☐ 3	☐ 4	59	☐ 1	☐ 2	☐ 3	76
b) In the published auditor's report, (i.e. the report which is attached to the company's published financial statements)	2.5b	☐ 1	☐ 2	☐ 3	43	☐ 1	☐ 2	☐ 3	☐ 4	60	☐ 1	☐ 2	☐ 3	77
2.6 To ensure that all the legal requirements of the Companies legislation have been complied with by the company	2.6	☐ 1	☐ 2	☐ 3	44	☐ 1	☐ 2	☐ 3	☐ 4	61	☐ 1	☐ 2	☐ 3	78
2.7 To report to the Inland Revenue Department breaches of tax laws discovered during an audit	2.7	☐ 1	☐ 2	☐ 3	45	☐ 1	☐ 2	☐ 3	☐ 4	62	☐ 1	☐ 2	☐ 3	79
2.8 To detect theft (other than petty theft) which has been committed in the company under audit by:														
a) non-managerial employees	2.8a	☐ 1	☐ 2	☐ 3	46	☐ 1	☐ 2	☐ 3	☐ 4	63	☐ 1	☐ 2	☐ 3	80
b) company directors/senior management	2.8b	☐ 1	☐ 2	☐ 3	47	☐ 1	☐ 2	☐ 3	☐ 4	64	☐ 1	☐ 2	☐ 3	81
2.9 To detect deliberate distortion of the figures (or other information) presented in the company's financial statements	2.9	☐ 1	☐ 2	☐ 3	48	☐ 1	☐ 2	☐ 3	☐ 4	65	☐ 1	☐ 2	☐ 3	82
2.10 To report privately to a regulatory authority, such as the Corporate Fraud Unit or the Registrar of Companies, if during the audit it is discovered that:														
a) theft has been committed by non-managerial employees	2.10a	☐ 1	☐ 2	☐ 3	49	☐ 1	☐ 2	☐ 3	☐ 4	66	☐ 1	☐ 2	☐ 3	83
b) company directors/senior management have misappropriated company assets	2.10b	☐ 1	☐ 2	☐ 3	50	☐ 1	☐ 2	☐ 3	☐ 4	67	☐ 1	☐ 2	☐ 3	84
c) the information presented in the financial statements has been deliberately distorted	2.10c	☐ 1	☐ 2	☐ 3	51	☐ 1	☐ 2	☐ 3	☐ 4	68	☐ 1	☐ 2	☐ 3	85
2.11 To disclose the fact in the published auditor's report if during the audit it is discovered that:														
a) theft has been committed by non-managerial employees	2.11a	☐ 1	☐ 2	☐ 3	52	☐ 1	☐ 2	☐ 3	☐ 4	69	☐ 1	☐ 2	☐ 3	86
b) company directors/senior management have misappropriated company assets	2.11b	☐ 1	☐ 2	☐ 3	53	☐ 1	☐ 2	☐ 3	☐ 4	70	☐ 1	☐ 2	☐ 3	87
c) the information presented in the financial statements has been deliberately distorted	2.11c	☐ 1	☐ 2	☐ 3	54	☐ 1	☐ 2	☐ 3	☐ 4	71	☐ 1	☐ 2	☐ 3	88

2.12 To report privately to a regulatory authority, such as the Corporate Fraud Unit or the Registrar of Companies, if during the audit suspicious circumstances are encountered, suggesting that theft or deliberate distortion of the financial information may have occurred in the company ....

2.13 To detect illegal acts committed by the company's management:

a) Which directly impact on the company's accounts (such as bribery and political payoffs) ....

b) Which DO NOT directly impact on the company's accounts (such as breaches of occupational safety and environmental laws and regulations) ....

2.14 To disclose in the published auditor's report illegal acts committed by the company's management which are discovered during the audit:

a) Which directly impact on the company's accounts (such as bribery and political payoffs) ....

b) Which DO NOT directly impact on the company's accounts (such as breaches of occupational safety and environmental laws and regulations) ....

2.15 To report privately to a regulatory authority, such as the Registrar of Companies or the Police, if during an audit it is discovered that illegal acts have been committed by company officials ....

2.16 To examine and report (in the published auditor's report) on the fairness of non-financial information contained in the company's annual report (for example, information about employees, product and occupational safety records) ....

2.17 To examine and report (in the published auditor's report) on the efficiency and effectiveness of the company's internal accounting controls ....

2.18 To examine and report (in the published auditor's report) on the efficiency and effectiveness of the company's management, its plans, policies and administration ....

2.19 To audit published half-yearly company reports ....

2.20 To examine and report (in a published auditor's report) on the fairness of financial forecasts included in the annual reports of companies ....

2.21 To consider and report (in a published auditor's report) on the impact (good and bad) which the company has on its local community ....

2.22 To examine evidence to verify every transaction entered into by the company ....

	Section 1a Please complete this section It IS AN EXISTING DUTY of auditors				Section 1b Please answer this section if you ticked "YES" in section 1a HOW WELL Existing duties are performed					Section 2 Please complete this section Duties Auditors SHOULD perform			
	Yes	No	Not Sure	2	Poorly	Adequately	Well	Unable to judge	2	Yes	No	Not Sure	2
2.12	☐ 1	☐ 2	☐ 3	3	☐ 1	☐ 2	☐ 3	☐ 4	16	☐ 1	☐ 2	☐ 3	29
2.13a	☐ 1	☐ 2	☐ 3	4	☐ 1	☐ 2	☐ 3	☐ 4	17	☐ 1	☐ 2	☐ 3	30
2.13b	☐ 1	☐ 2	☐ 3	5	☐ 1	☐ 2	☐ 3	☐ 4	18	☐ 1	☐ 2	☐ 3	31
2.14a	☐ 1	☐ 2	☐ 3	6	☐ 1	☐ 2	☐ 3	☐ 4	19	☐ 1	☐ 2	☐ 3	32
2.14b	☐ 1	☐ 2	☐ 3	7	☐ 1	☐ 2	☐ 3	☐ 4	20	☐ 1	☐ 2	☐ 3	33
2.15	☐ 1	☐ 2	☐ 3	8	☐ 1	☐ 2	☐ 3	☐ 4	21	☐ 1	☐ 2	☐ 3	34
2.16	☐ 1	☐ 2	☐ 3	9	☐ 1	☐ 2	☐ 3	☐ 4	22	☐ 1	☐ 2	☐ 3	35
2.17	☐ 1	☐ 2	☐ 3	10	☐ 1	☐ 2	☐ 3	☐ 4	23	☐ 1	☐ 2	☐ 3	36
2.18	☐ 1	☐ 2	☐ 3	11	☐ 1	☐ 2	☐ 3	☐ 4	24	☐ 1	☐ 2	☐ 3	37
2.19	☐ 1	☐ 2	☐ 3	12	☐ 1	☐ 2	☐ 3	☐ 4	25	☐ 1	☐ 2	☐ 3	38
2.20	☐ 1	☐ 2	☐ 3	13	☐ 1	☐ 2	☐ 3	☐ 4	26	☐ 1	☐ 2	☐ 3	39
2.21	☐ 1	☐ 2	☐ 3	14	☐ 1	☐ 2	☐ 3	☐ 4	27	☐ 1	☐ 2	☐ 3	40
2.22	☐ 1	☐ 2	☐ 3	15	☐ 1	☐ 2	☐ 3	☐ 4	28	☐ 1	☐ 2	☐ 3	41

Please add any further comments you consider relevant to:

2.23 The present duties of auditors and how they are performed

....

....

42-43

44-45

2.24 The duties which auditors should, but do not currently, perform

....

....

46-47

48-49

Please turn to Part 3 on the next page.

PART 3: THE STANDING AND FUNCTION OF AUDITORS IN NEW ZEALAND

Please tick the appropriate box to indicate whether you agree, disagree, or are uncertain about the following statements:

Section (a) as they apply at the present time.

Section (b) as you think they SHOULD apply.

3.1 An unqualified ("clean") audit report gives you confidence that financial statements are reliable ....

3.2 Knowing that a company's financial statements have been audited gives you confidence to invest in that company's shares, whether or not you read the audit report ....

3.3 An auditor's report which is qualified in some way, indicates that the financial statements should not be regarded as completely reliable ....

3.4 The auditor acts for and on behalf of

a) ONLY the company's shareholders ....

b) ONLY those who have some contractual arrangement with the company (shareholders, employees, creditors, the Government) ....

c) society as a whole ....

3.5 The auditor does not "bend" to pressures from the directors or managers of the company under audit ....

3.6 Auditors give advice and assistance to client company managers on:

a) accounting matters (such as appropriate accounting policies, tax planning and financial planning) ....

b) non-accounting matters (such as factory layout, marketing and personnel policies) ....

3.7 An auditor may act as a director of a company he or she is auditing ....

3.8 An auditor may own shares in, or lend money to, a company he or she is auditing ....

3.9 You have confidence in the work of the auditor because he or she is a member of the New Zealand Society of Accountants (or an equivalent professional association) ....

3.10 The New Zealand Society of Accountants takes adequate steps to discipline members who perform poor quality audits ....

3.11 Lay persons (that is people who are NOT members of the New Zealand Society of Accountants) are members of the profession's disciplinary body ....

3.12 Auditing requires very little judgement or decision-making by auditors: they merely have to follow professional Auditing Standards and Guidelines ....

3.13 The work of one audit firm is periodically reviewed by another audit firm as a means of ensuring high quality audits are performed ....

3.14 If auditors resign or are removed from their position as auditors by company directors, the auditors must report the reasons for their resignation or removal to the Registrar of Companies ....

3.15 Companies are not allowed to file with the Registrar of Companies, financial statements which have a qualified audit report (i.e. which have "tagged" reports) ....

3.16 The auditor is appointed by the company's shareholders ....

3.17 The auditor negotiates audit fees with the client company's directors or managers ....

	Section (a) As at the present time: Agree	Disagree	Uncertain	2	Section (b) As SHOULD BE the case: Agree	Disagree	Uncertain	2
3.1	☐ 1	☐ 2	☐ 3	50	☐ 1	☐ 2	☐ 3	70
3.2	☐ 1	☐ 2	☐ 3	51	☐ 1	☐ 2	☐ 3	71
3.3	☐ 1	☐ 2	☐ 3	52	☐ 1	☐ 2	☐ 3	72
3.4a	☐ 1	☐ 2	☐ 3	53	☐ 1	☐ 2	☐ 3	73
3.4b	☐ 1	☐ 2	☐ 3	54	☐ 1	☐ 2	☐ 3	74
3.4c	☐ 1	☐ 2	☐ 3	55	☐ 1	☐ 2	☐ 3	75
3.5	☐ 1	☐ 2	☐ 3	56	☐ 1	☐ 2	☐ 3	76
3.6a	☐ 1	☐ 2	☐ 3	57	☐ 1	☐ 2	☐ 3	77
3.6b	☐ 1	☐ 2	☐ 3	58	☐ 1	☐ 2	☐ 3	78
3.7	☐ 1	☐ 2	☐ 3	59	☐ 1	☐ 2	☐ 3	79
3.8	☐ 1	☐ 2	☐ 3	60	☐ 1	☐ 2	☐ 3	80
								3
3.9	☐ 1	☐ 2	☐ 3	61	☐ 1	☐ 2	☐ 3	3
3.10	☐ 1	☐ 2	☐ 3	62	☐ 1	☐ 2	☐ 3	4
3.11	☐ 1	☐ 2	☐ 3	63	☐ 1	☐ 2	☐ 3	5
3.12	☐ 1	☐ 2	☐ 3	64	☐ 1	☐ 2	☐ 3	6
3.13	☐ 1	☐ 2	☐ 3	65	☐ 1	☐ 2	☐ 3	7
3.14	☐ 1	☐ 2	☐ 3	66	☐ 1	☐ 2	☐ 3	8
3.15	☐ 1	☐ 2	☐ 3	67	☐ 1	☐ 2	☐ 3	9
3.16	☐ 1	☐ 2	☐ 3	68	☐ 1	☐ 2	☐ 3	10
3.17	☐ 1	☐ 2	☐ 3	69	☐ 1	☐ 2	☐ 3	[illegible]

3.19 IF you consider auditors DO (or SHOULD) NOT negotiate their fees with the client company's directors or managers, indicate how you think audit fees should be set.

....

.... 12-13 14-15

3.20 IF you consider auditors ARE (OR SHOULD) NOT be appointed by the company's shareholders, indicate who you think should appoint the auditors.

....

.... 16-17 18-19

3.21 Please add any further comments you consider relevant to the professional standing of auditors, or the function of auditors in society.

....

.... 20-21 22-24

THANK YOU FOR YOUR HELP.

Please return your completed questionnaire in the reply-paid envelope enclosed.

Appendix 1b - General public version of the questionnaire

PART 1: PERSONAL DETAILS

Please provide the following personal details:

1.1 **INTEREST GROUP:**

Please tick all of the groups to which you belong, or to which you have belonged in the past 5 years.

		Now	In past 5 years			Now	In past 5 years	Code
1.	Audit partner	☐ 1	☐ 2	2.	Non-partner Audit Staff	☐ 1	☐ 2	5-6
3.	Company manager (top level)	☐ 1	☐ 2	4.	Company accountant	☐ 1	☐ 2	7-8
5.	Executive Director	☐ 1	☐ 2	6.	Non-Executive Director	☐ 1	☐ 2	9-10
7.	Audit Committee Member	☐ 1	☐ 2	8.	Internal Auditor	☐ 1	☐ 2	11-12
9.	Member of the NZ Stock Exchange	☐ 1	☐ 2	10.	Financial Analyst	☐ 1	☐ 2	13-14
11.	Stockbroker	☐ 1	☐ 2	12.	Banker - Corporate or Commercial Sections	☐ 1	☐ 2	15-16
13.	Banker - Branch Manager	☐ 1	☐ 2	14.	Investor on behalf of an institution	☐ 1	☐ 2	17-18
15.	Private Shareholder	☐ 1	☐ 2	16.	Private debenture-holder	☐ 1	☐ 2	19-20
17.	Member of an Employees' Union	☐ 1	☐ 2	18.	Member of the General Public	☐ 1		21-22
19.	Member of Parliament	☐ 1	☐ 2	20.	Lawyer	☐ 1	☐ 2	23-24
21.	Financial journalist	☐ 1	☐ 2	22.	Employed by the IRD	☐ 1	☐ 2	25-26
23.	Employed by the Justice Department	☐ 1	☐ 2	24.	Employed by the Commerce Commission	☐ 1	☐ 2	27-28
25.	Employed by the Securities Commission	☐ 1	☐ 2	26.	Employed by the Audit Office	☐ 1	☐ 2	29-30
27.	Member of the NZSA	☐ 1	☐ 2	28.	Auditing academic	☐ 1	☐ 2	31-32

1.2 **AGE:** Please tick the appropriate box.

Under 30 years	30-45 years	46-60 years	Over 60 years	
☐ 1	☐ 2	☐ 3	☐ 4	33

For Questions 1.3, 1.4 and 1.5 please tick the appropriate box:

1.3 **INTEREST IN FINANCIAL STATEMENTS:**

You read the annual financial statements of companies:

Never	Occasionally	Frequently	
☐ 1	☐ 2	☐ 3	34

("Read" means look at financial statements in order to obtain some information from them, for example, information about the company's profit and/or financial position. "Read" is to be distinguished from a "quick glance").

1.4 **INTEREST IN THE AUDITOR'S REPORT:**

When you read companies' published financial statements you read the auditor's report:

Never	Rarely	Fairly Often	Usually	
☐ 1	☐ 2	☐ 3	☐ 4	35

1.5 **AWARENESS OF AUDITING:**

You are aware of what auditors do:

Not at all	Vaguely	Yes	
☐ 1	☐ 2	☐ 3	36

If you have SOME idea (however limited) about what auditors do, **please complete Parts 2 and 3** on the following pages.

If you have NO idea about what auditors do, please return your questionnaire (with Part 1 completed) in the enclosed reply-paid envelope. Thank you for your help.

PART 2: THE DUTIES OF AUDITORS

Please complete BOTH sections 1 and 2.

Section 1a. **Please complete section 1a** by ticking the appropriate box to indicate whether you think the duty listed IS or IS NOT AN EXISTING DUTY of auditors, or whether you are not sure.

Section 1b. **IF you ticked 'Yes'** in section 1a please complete section 1b by ticking the appropriate box to indicate how well you think auditors perform the duty.

Section 2. **Please complete section 2** by ticking the appropriate box to indicate whether you think the duty listed SHOULD or SHOULD NOT BE performed by auditors, or whether you are not sure.

Duties of Auditors are:

2.1 To prepare the company's financial statements ....

2.2 To guarantee that the audited financial statements are completely accurate ....

2.3 To state whether or not the audited financial statements give a correct picture of the company's financial affairs ....

2.4 To guarantee that a company whose financial statements have received an unqualified ("clean") audit report is financially sound ....

2.5 Where the auditor has doubts about the continued existence of the company under audit, to express such doubts in the published auditor's report (i.e. the report which is attached to the company's published financial statements) ....

2.6 To detect fraud (other than petty theft) which has been committed in a company ....

2.7 To detect illegal acts (such as bribery) which have been committed by company officials ....

2.8 To disclose in the published auditor's report that fraud and/or illegal acts committed by company officials were discovered during the audit ....

2.9 To report privately to a regulatory authority (such as the Corporate Fraud Unit or the Registrar of Companies) fraud and/or illegal acts which are discovered during an audit ....

2.10 To report to the Inland Revenue Department breaches of tax laws discovered during an audit ....

2.11 To ensure that all the legal requirements of the Companies Legislation have been complied with by the company ....

2.12 To consider and report (in a published auditor's report) on the impact (good and bad) which the company has on its local community ....

2.13 To examine evidence to verify every transaction entered into by the company ....

Please add any further comments you consider relevant to:

2.14 The present duties of auditors and how they are performed

....

....

2.15 The duties which auditors should, but do not currently, perform.

....

....

	Section 1a				Section 1b					Section 2			
	Please complete this section				Please answer this section if you ticked "YES" in section 1a.					Please complete this section			
	It IS AN EXISTING DUTY of auditors				HOW WELL existing duties are performed					Auditors SHOULD perform this duty			
	Yes	No	Not Sure		Poorly	Adequately	Well	Unable to judge		Yes	No	Not Sure	
2.1	☐ 1	☐ 2	☐ 3	37	☐ 1	☐ 2	☐ 3	☐ 4	50	☐ 1	☐ 2	☐ 3	63
2.2	☐ 1	☐ 2	☐ 3	38	☐ 1	☐ 2	☐ 3	☐ 4	51	☐ 1	☐ 2	☐ 3	64
2.3	☐ 1	☐ 2	☐ 3	39	☐ 1	☐ 2	☐ 3	☐ 4	52	☐ 1	☐ 2	☐ 3	65
2.4	☐ 1	☐ 2	☐ 3	40	☐ 1	☐ 2	☐ 3	☐ 4	53	☐ 1	☐ 2	☐ 3	66
2.5	☐ 1	☐ 2	☐ 3	41	☐ 1	☐ 2	☐ 3	☐ 4	54	☐ 1	☐ 2	☐ 3	67
2.6	☐ 1	☐ 2	☐ 3	42	☐ 1	☐ 2	☐ 3	☐ 4	55	☐ 1	☐ 2	☐ 3	68
2.7	☐ 1	☐ 2	☐ 3	43	☐ 1	☐ 2	☐ 3	☐ 4	56	☐ 1	☐ 2	☐ 3	69
2.8	☐ 1	☐ 2	☐ 3	44	☐ 1	☐ 2	☐ 3	☐ 4	57	☐ 1	☐ 2	☐ 3	70
2.9	☐ 1	☐ 2	☐ 3	45	☐ 1	☐ 2	☐ 3	☐ 4	58	☐ 1	☐ 2	☐ 3	71
2.10	☐ 1	☐ 2	☐ 3	46	☐ 1	☐ 2	☐ 3	☐ 4	59	☐ 1	☐ 2	☐ 3	72
2.11	☐ 1	☐ 2	☐ 3	47	☐ 1	☐ 2	☐ 3	☐ 4	60	☐ 1	☐ 2	☐ 3	73
2.12	☐ 1	☐ 2	☐ 3	48	☐ 1	☐ 2	☐ 3	☐ 4	61	☐ 1	☐ 2	☐ 3	74
2.13	☐ 1	☐ 2	☐ 3	49	☐ 1	☐ 2	☐ 3	☐ 4	62	☐ 1	☐ 2	☐ 3	75

Please turn to Part 3 on the next page

76-77
78-79

80-81
82-83

PART 3: THE STANDING AND FUNCTION OF AUDITORS IN NEW ZEALAND

Please tick the appropriate box to indicate whether you agree, disagree, or are uncertain about the following statements:

Section (a) as they apply at the present time.

Section (b) as you think they SHOULD apply.

3.1 If financial statements carry an unqualified ("clean") audit report, you feel confident that they are reliable......

3.2 You would ONLY invest in a company whose financial statements are audited...

3.3 The auditor acts for and on behalf of:

a) ONLY the company's shareholders...

b) ONLY those who have some contractual arrangement with the company (shareholders, employees, creditors, the Government) ....

c) society as a whole...

3.4 The auditor does not 'bend' to pressures from the directors or managers of the company under audit...

3.5 An auditor may act as a director of a company he or she is auditing...

3.6 An auditor may own shares in, or lend money to, a company he or she is auditing ....

3.7 You have confidence in the work of the auditor because he or she is a member of the New Zealand Society of Accountants (or an equivalent professional association) ....

3.8 The New Zealand Society of Accountants takes adequate steps to discipline members who perform poor quality audits...

3.9 Auditing requires very little judgement or decision-making by auditors, they merely have to follow professional Auditing Standards and Guidelines...

3.10 Auditors negotiate their fees with their client companies (i.e. with the directors or managers of the companies they audit)...

3.11 If auditors resign, or are removed from their position as auditors by company directors, the auditors must report the reasons for their resignation or removal to the Registrar of Companies.................................

3.12 Auditors are appointed by the company's shareholders ....

3.13 If you consider auditors ARE (OR SHOULD) NOT be appointed by the company's shareholders who do you think should appoint the auditors?

....

....

3.14 Please add any further comments you consider relevant to the professional standing of auditors, or the function of auditors in society.

....

....

	Section (a) As at the present time: Agree	Disagree	Uncertain	2	Section (b) As SHOULD BE the case: Agree	Disagree	Uncertain	2
3.1	☐ 1	☐ 2	☐ 3	3	☐ 1	☐ 2	☐ 3	17
3.2	☐ 1	☐ 2	☐ 3	4	☐ 1	☐ 2	☐ 3	18
3.3a	☐ 1	☐ 2	☐ 3	5	☐ 1	☐ 2	☐ 3	19
3.3b	☐ 1	☐ 2	☐ 3	6	☐ 1	☐ 2	☐ 3	20
3.3c	☐ 1	☐ 2	☐ 3	7	☐ 1	☐ 2	☐ 3	21
3.4	☐ 1	☐ 2	☐ 3	8	☐ 1	☐ 2	☐ 3	22
3.5	☐ 1	☐ 2	☐ 3	9	☐ 1	☐ 2	☐ 3	23
3.6	☐ 1	☐ 2	☐ 3	10	☐ 1	☐ 2	☐ 3	24
3.7	☐ 1	☐ 2	☐ 3	11	☐ 1	☐ 2	☐ 3	25
3.8	☐ 1	☐ 2	☐ 3	12	☐ 1	☐ 2	☐ 3	26
3.9	☐ 1	☐ 2	☐ 3	13	☐ 1	☐ 2	☐ 3	27
3.10	☐ 1	☐ 2	☐ 3	14	☐ 1	☐ 2	☐ 3	28
3.11	☐ 1	☐ 2	☐ 3	15	☐ 1	☐ 2	☐ 3	29
3.12	☐ 1	☐ 2	☐ 3	16	☐ 1	☐ 2	☐ 3	30

☐☐ 31-32
☐☐ 33-34

☐☐ 35-36
☐☐ 37-38

THANK YOU FOR YOUR HELP.

Please return your completed questionnaire in the reply-paid envelope enclosed.

Appendix 2a

Results of Kruskal-Wallis Test

Applied to responses from auditors' major role sender groups: auditors, auditees, financial community and general public audit beneficiaries

Questionnaire Part 2

Duty No.	*Suggested Duties of Auditors*[1]		Sections (1a) Is it a duty?	(1b) How well performed	(2) Should it be a duty?
2.1	Prepare auditee co's financial statements	χ^2	79.19	*	101.88
		signif	0.00	*	0.00
2.2	Guarantee financial statements are accurate	χ^2	218.08	*	258.08
		signif	0.00	*	0.00
2.3	State whether financial statements fairly reflect co's affairs	χ^2	35.60	110.04	9.59
		signif	0.00	0.00	0.14
2.4	Guarantee auditee co. is solvent	c2	64.63	*	102.32
		signif	0.00	*	0.00
2.5a	Report to a regulatory authority doubts about co's continued existence	χ^2	23.22	*	37.78
		signif	0.00	*	0.00
2.5b	Express doubts in audit report about co's continued existence	χ^2	91.97	51.48	21.80
		signif	0.00	0.00	0.00
2.6	Ensure compliance with cos' legislation	χ^2	14.96	48.01	31.66
		signif	0.02	0.00	0.00
2.7	Report breaches of tax laws to IRD	χ^2	146.09	*	136.69
		signif	0.00	*	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	χ^2	227.55	9.70	273.51
		signif	0.00	0.05	0.00
2.8b	Detect theft of corporate assets by co. directors/senior management	χ^2	203.60	17.02	221.21
		signif	0.00	0.01	0.00
2.9	Detect deliberate distortion of financial information	χ^2	6.71	42.18	21.00
		signif	0.24	0.00	0.00
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	χ^2	296.86	*	312.48
		signif	0.00	*	0.00
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	χ^2	106.00	*	99.12
		signif	0.00	*	0.00
2.10c	Report to a regulatory authority deliberate distortion of financial information	χ^2	89.16	*	102.20
		signif	0.00	*	0.00
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	χ^2	210.17	*	283.40
		signif	0.00	*	0.00
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	χ^2	46.05	6.37	53.74
		signif	0.00	0.27	0.00
2.11c	Disclose in audit report deliberate distortion of financial information	χ^2	122.70	35.66	51.23
		signif	0.00	0.00	0.00
2.12	Report to a regulatory authority suspicions of fraud	χ^2	52.74	*	75.32
		signif	0.00	*	0.00
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	χ^2	31.81	20.75	41.80
		signif	0.00	0.00	0.00
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	χ^2	397.55	*	398.69
		signif	0.00	*	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	χ^2	58.45	4.58	35.94
		signif	0.00	0.60	0.00
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	χ^2	390.42	*	412.39
		signif	0.00	*	0.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	χ^2	179.93	*	126.11
		signif	0.00	*	0.00
2.16	Examine & report on fairness of non-financial information	χ^2	28.08	*	11.07
		signif	0.00	*	0.05
2.17	Examine & report on co's internal controls	χ^2	37.16	*	43.64
		signif	0.00	*	0.00

Appendix 2a continued ...

Duty No.	*Suggested Duties of Auditors*[1]		Is it a duty?	How well performed	Should it be a duty?
2.18	Examine & report on efficiency & effectiveness of co's management	χ^2	40.19	*	17.97
		signif	0.00	*	0.00
2.19	Audit published half-yearly co. reports	χ^2	21.65	*	11.49
		signif	0.00	*	0.04
2.20	Examine & report on fairness of financial forecasts	χ^2	39.36	*	7.22
		signif	0.00	*	0.20
2.21	Consider & report on co's impact on its local community	χ^2	114.33	*	104.47
		signif	0.00	*	0.00
2.22	Verify every transaction of auditee co.	χ^2	225.89	*	231.14
		signif	0.00	*	0.00

Questionnaire Part 3

Prop. No.	*Propositions*[1]		Sections (a) As is now	Sections (b) As should be
3.1	An unqualified audit report gives confidence that financial statements are reliable	χ^2	84.77	18.30
		signif	0.00	0.01
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	χ^2	496.43	316.51
		signif	0.00	0.00
3.3	A qualified audit report indicates financial statements are not reliable	χ^2	1.81	3.55
		signif	0.88	0.62
3.4	Auditors act for - co's shareholders	χ^2	25.09	34.11
		signif	0.00	0.00
	- co's stakeholders	χ^2	11.38	1.79
		signif	0.08	0.94
	- society as whole	χ^2	29.30	42.93
		signif	0.00	0.00
3.5	Auditors are not unduly influenced by co. directors/management	χ^2	48.58	6.69
		signif	0.00	0.35
3.6a	Auditors give assistance to co. managements on accounting matters	χ^2	58.03	32.22
		signif	0.00	0.00
3.6b	Auditors give assistance to co. managements on non-accounting matters	χ^2	28.75	62.82
		signif	0.00	0.00
3.7	Auditors may be directors of auditee cos.	χ^2	54.65	30.48
		signif	0.00	0.00
3.8	Auditors may invest in auditee cos.	χ^2	62.30	40.04
		signif	0.00	0.00
3.9	Confidence exists in work of auditors because they belong to NZSA	χ^2	36.04	9.40
		signif	0.00	0.15
3.10	NZSA adequately disciplines members for sub-standard audits	χ^2	29.44	11.62
		signif	0.00	0.07
3.11	The NZSA's disciplinary body includes laypersons	χ^2	23.58	11.16
		signif	0.00	0.05
3.12	Auditing involves little judgement	χ^2	198.15	133.77
		signif	0.00	0.00
3.13	Periodic peer review ensures high quality audits	χ^2	39.04	19.20
		signif	0.00	0.00
3.14	Auditors must report reasons for resignation or removal to the Registrar of Companies	χ^2	143.13	39.23
		signif	0.00	0.00
3.15	Financial statements with qualified audit reports may not be filed	χ^2	6.82	8.30
		signif	0.23	0.14
3.16	Auditors are appointed by co. shareholders	χ^2	128.13	98.96
		signif	0.00	0.00
3.17	Auditors negotiate fees with co. directors/management	χ^2	247.76	150.64
		signif	0.00	0.00

1 The duties and propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 2b

Results of Kruskal-Wallis Test

Applied to responses from financial community groups: auditors, auditees, financial community audit beneficiaries

Questionnaire Part 2

Duty No.	*Suggested Duties of Auditors*[1]		Sections (1a) Is it a duty?	(1b) How well performed	(2) Should it be a duty?
2.1	Prepare auditee co's financial statements	χ^2	3.88	*	10.63
		signif	0.57	*	0.06
2.2	Guarantee financial statements are accurate	χ^2	26.82	*	50.43
		signif	0.00	*	0.00
2.3	State whether financial statements fairly reflect co's affairs	χ^2	3.70	65.77	2.00
		signif	0.59	0.00	0.85
2.4	Guarantee auditee co. is solvent	χ^2	14.73	*	32.70
		signif	0.01	*	0.00
2.5a	Report to a regulatory authority doubts about co's continued existence	χ^2	23.22	*	37.78
		signif	0.00	*	0.00
2.5b	Express doubts in audit report about co's continued existence	χ^2	44.17	48.88	15.30
		signif	0.00	0.00	0.01
2.6	Ensure compliance with cos' legislation	χ^2	13.78	23.86	29.80
		signif	0.02	0.00	0.00
2.7	Report breaches of tax laws to IRD	χ^2	16.68	*	32.69
		signif	0.01	*	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	χ^2	71.23	9.34	92.66
		signif	0.00	0.03	0.00
2.8b	Detect theft of corporate assets by co. directors/senior management	χ^2	84.38	14.99	111.10
		signif	0.00	0.01	0.00
2.9	Detect deliberate distortion of financial information	χ^2	6.71	42.18	21.00
		signif	0.24	0.00	0.00
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	χ^2	44.47	*	53.87
		signif	0.00	*	0.00
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	χ^2	23.11	*	69.84
		signif	0.00	*	0.00
2.10c	Report to a regulatory authority deliberate distortion of financial information	χ^2	38.45	*	79.73
		signif	0.00	*	0.00
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	χ^2	27.39	*	40.36
		signif	0.00	*	0.00
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	χ^2	17.16	6.82	37.55
		signif	0.00	0.15	0.00
2.11c	Disclose in audit report deliberate distortion of financial information	χ^2	7.58	31.58	12.84
		signif	0.18	0.00	0.03
2.12	Report to a regulatory authority suspicions of fraud	χ^2	52.74	*	75.32
		signif	0.00	*	0.00
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	χ^2	12.99	21.66	28.34
		signif	0.02	0.00	0.00
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	χ^2	27.92	*	16.27
		signif	0.00	*	0.01
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	χ^2	18.10	5.31	12.45
		signif	0.00	0.38	0.03
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	χ^2	24.39	*	28.06
		signif	0.00	*	0.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	χ^2	33.01	*	41.53
		signif	0.00	*	0.00
2.16	Examine & report on fairness of non-financial information	χ^2	28.08	*	11.07
		signif	0.00	*	0.05
2.17	Examine & report on co's internal controls	χ^2	37.16	*	43.64
		signif	0.00	*	0.00

Appendix 2b continued ...

Duty No.	*Suggested Duties of Auditors*[1]		Is it a duty?	How well performed	Should it be a duty?
2.18	Examine & report on efficiency & effectiveness of co's management	χ^2	40.19	*	17.97
		signif	0.00	*	0.00
2.19	Audit published half-yearly co. reports	χ^2	21.65	*	11.49
		signif	0.00	*	0.04
2.20	Examine & report on fairness of financial forecasts	χ^2	39.36	*	7.22
		signif	0.00	*	0.20
2.21	Consider & report on co's impact on its local community	χ^2	25.29	*	13.28
		signif	0.00	*	0.02
2.22	Verify every transaction of auditee co.	χ^2	21.03	*	18.66
		signif	0.00	*	0.00

Questionnaire Part 3

Prop No.	*Propositions*[1]		Sections (a) As is now	Sections (b) As should be
3.1	An unqualified audit report gives confidence that financial statements are reliable	χ^2	81.62	3.71
		signif	0.00	0.59
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	χ^2	19.42	48.28
		signif	0.00	0.00
3.3	A qualified audit report indicates financial statements are not reliable	χ^2	1.81	3.55
		signif	0.88	0.62
3.4	Auditors act for - co's shareholders	χ^2	9.17	8.55
		signif	0.10	0.13
	- co's stakeholders	χ^2	4.20	1.57
		signif	0.52	0.90
	- society as whole	χ^2	7.82	9.23
		signif	0.17	0.10
3.5	Auditors are not unduly influenced by co. directors/management	χ^2	18.18	1.94
		signif	0.00	0.86
3.6a	Auditors give assistance to co. managements on accounting matters	χ^2	58.03	32.22
		signif	0.00	0.00
3.6b	Auditors give assistance to co. managements on non-accounting matters	χ^2	28.75	62.82
		signif	0.00	0.00
3.7	Auditors may be directors of auditee cos.	χ^2	18.15	3.96
		signif	0.00	0.56
3.8	Auditors may invest in auditee cos.	χ^2	58.51	39.99
		signif	0.00	0.00
3.9	Confidence exists in work of auditors because they belong to NZSA	χ^2	30.63	9.38
		signif	0.00	0.09
3.10	NZSA adequately disciplines members for sub-standard audits	χ^2	11.11	7.08
		signif	0.05	0.22
3.11	The NZSA's disciplinary body includes laypersons	χ^2	23.58	11.16
		signif	0.00	0.05
3.12	Auditing involves little judgement	χ^2	37.40	13.35
		signif	0.00	0.02
3.13	Periodic peer review ensures high quality audits	χ^2	39.04	19.20
		signif	0.00	0.00
3.14	Auditors must report reasons for resignation or removal to the Registrar of Companies	χ^2	49.51	31.30
		signif	0.00	0.00
3.15	Financial statements with qualified audit reports may not be filed	χ^2	6.82	8.30
		signif	0.23	0.14
3.16	Auditors are appointed by co. shareholders	χ^2	9.59	23.36
		signif	0.09	0.00
3.17	Auditors negotiate fees with co. directors/management	χ^2	19.18	14.38
		signif	0.00	0.01

1 The duties and propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 2c

Results of Kruskal-Wallis Test

Applied to responses from selected subgroups of auditees: company executives and non-executive directors

Questionnaire Part 2

Duty No.	*Suggested Duties of Auditors*[1]		Sections (1a) Is it a duty?	(1b) How well performed	(2) Should it be a duty?
2.1	Prepare auditee co's financial statements	χ^2	1.48	*	1.45
		signif	0.48	*	0.48
2.2	Guarantee financial statements are accurate	χ^2	0.51	*	0.97
		signif	0.78	*	0.62
2.3	State whether financial statements fairly reflect co's affairs	χ^2	0.78	2.60	0.00
		signif	0.68	0.27	1.00
2.4	Guarantee auditee co. is solvent	χ^2	1.73	*	0.06
		signif	0.42	*	0.97
2.5a	Report to a regulatory authority doubts about co's continued existence.	χ^2	1.58	*	3.86
		signif	0.45	*	0.14
2.5b	Express doubts in audit report about co's continued existence	χ^2	4.24	5.65	1.47
		signif	0.12	0.06	0.48
2.6	Ensure compliance with cos' legislation	χ^2	0.90	1.73	3.23
		signif	0.64	0.42	0.20
2.7	Report breaches of tax laws to IRD	χ^2	1.01	*	2.98
		signif	0.60	*	0.23
2.8a	Detect theft of corporate assets by non-managerial employees	χ^2	2.65	4.27	4.77
		signif	0.27	0.12	0.09
2.8b	Detect theft of corporate assets by co. directors/senior management	χ^2	1.66	3.53	1.29
		signif	0.44	0.17	0.53
2.9	Detect deliberate distortion of financial information	χ^2	0.01	0.13	0.52
		signif	1.00	0.94	0.77
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	χ^2	1.12	*	0.04
		signif	0.57	*	0.98
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	χ^2	0.53	*	1.39
		signif	0.77	*	0.50
2.10c	Report to a regulatory authority deliberate distortion of financial information	χ^2	1.52	*	1.47
		signif	0.47	*	0.48
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	χ^2	2.67	*	0.48
		signif	0.26	*	0.79
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	χ^2	6.05	2.92	1.37
		signif	0.05	0.23	0.50
2.11c	Disclose in audit report deliberate distortion of financial information	χ^2	5.10	1.72	0.98
		signif	0.08	0.42	0.61
2.12	Report to a regulatory authority suspicions of fraud	χ^2	2.63	*	1.92
		signif	0.27	*	0.38
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	χ^2	4.13	4.28	0.50
		signif	0.13	0.12	0.78
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	χ^2	4.96	*	0.85
		signif	0.08	*	0.65
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	χ^2	1.39	2.10	1.03
		signif	0.50	0.35	0.60
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts.	χ^2	2.00	*	1.85
		signif	0.37	*	0.40
2.15	Report to a regulatory authority illegal acts uncovered in co	χ^2	3.04	*	0.20
		signif	0.22	*	0.90
2.16	Examine & report on fairness of non-financial information	χ^2	2.02	*	3.18
		signif	0.36	*	0.20
2.17	Examine & report on co's internal controls	χ^2	2.16	*	0.94
		signif	0.35	*	0.63

Appendix 2c continued ...

Duty No.	*Suggested Duties of Auditors*[1]		Is it a duty?	How well performed	Should it be a duty?
2.18	Examine & report on efficiency & effectiveness of co's management	χ^2	4.84	*	0.24
		signif	0.09	*	0.89
2.19	Audit published half-yearly co. reports	χ^2	2.62	*	2.32
		signif	0.27	*	0.31
2.20	Examine & report on fairness of financial forecasts	χ^2	1.55	*	1.76
		signif	0.46	*	0.42
2.21	Consider & report on co's impact on its local community	χ^2	1.35	*	0.04
		signif	0.51	*	0.98
2.22	Verify every transaction of auditee co.	χ^2	0.03	*	2.57
		signif	0.99	*	0.28

Questionnaire Part 3

Prop No.	*Propositions*[1]		Sections (a) As is now	(b) As should be
3.1	An unqualified audit report gives confidence that financial statements are reliable	χ^2	3.23	0.23
		signif	0.20	0.89
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	χ^2	1.35	1.07
		signif	0.51	0.59
3.3	A qualified audit report indicates financial statements are not reliable	χ^2	2.48	2.01
		signif	0.30	0.37
3.4	Auditors act for - co's shareholders	χ^2	1.90	1.20
		signif	0.39	0.55
	- co's stakeholders	χ^2	0.96	0.55
		signif	0.62	0.76
	- society as whole	χ^2	1.30	0.93
		signif	0.52	0.63
3.5	Auditors are not unduly influenced by co. directors/management	χ^2	0.99	1.30
		signif	0.61	0.52
3.6a	Auditors give assistance to co. managements on accounting matters	χ^2	5.90	2.13
		signif	0.05	0.34
3.6b	Auditors give assistance to co. managements on non-accounting matters	χ^2	0.46	2.23
		signif	0.80	0.33
3.7	Auditors may be directors of auditee cos.	χ^2	0.34	3.46
		signif	0.84	0.18
3.8	Auditors may invest in auditee cos.	χ^2	0.41	0.05
		signif	0.81	0.98
3.9	Confidence exists in work of auditors because they belong to NZSA	χ^2	0.77	5.99
		signif	0.68	0.05
3.10	NZSA adequately disciplines members for sub-standard audits	χ^2	1.44	1.10
		signif	0.49	0.58
3.11	The NZSA's disciplinary body includes laypersons	χ^2	2.27	1.26
		signif	0.32	0.53
3.12	Auditing involves little judgement	χ^2	3.01	0.67
		signif	0.22	0.72
3.13	Periodic peer review ensures high quality audits	χ^2	0.29	5.15
		signif	0.86	0.08
3.14	Auditors must report reasons for resignation or removal to the Registrar of Companies	χ^2	3.28	4.00
		signif	0.19	0.14
3.15	Financial statements with qualified audit reports may not be filed	χ^2	1.75	1.76
		signif	0.42	0.41
3.16	Auditors are appointed by co. shareholders	χ^2	1.32	5.82
		signif	0.52	0.05
3.17	Auditors negotiate fees with co. directors/management	χ^2	5.02	4.85
		signif	0.08	0.09

1 The duties and propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 2d

Results of Kruskal-Wallis Test

Applied to responses from selected subgroups of financial community audit beneficiaries: financial analysts, stockbrokers and institutional investors

Questionnaire Part 2

Duty No.	*Suggested Duties of Auditors*[1]		Sections (1a) Is it a duty?	(1b) How well performed	(2) Should it be a duty?
2.1	Prepare auditee co's financial statements	χ^2	3.51	*	0.95
		signif	0.62	*	0.97
2.2	Guarantee financial statements are accurate	χ^2	1.24	*	6.81
		signif	0.94	*	0.24
2.3	State whether financial statements fairly reflect co's affairs	χ^2	6.86	1.10	18.91
		signif	0.23	0.95	0.00
2.4	Guarantee auditee co. is solvent	χ^2	1.24	*	1.20
		signif	0.94	*	0.95
2.5a	Report to a regulatory authority doubts about co's continued existence	χ^2	4.79	*	5.75
		signif	0.44	*	0.33
2.5b	Express doubts in audit report about co's continued existence	χ^2	11.08	5.13	5.93
		signif	0.05	0.40	0.31
2.6	Ensure compliance with cos' legislation	χ^2	7.04	7.06	8.14
		signif	0.22	0.22	0.15
2.7	Report breaches of tax laws to IRD	χ^2	1.45	*	11.44
		signif	0.92	*	0.04
2.8a	Detect theft of corporate assets by non-managerial employees	χ^2	3.42	13.47	2.33
		signif	0.64	0.02	0.80
2.8b	Detect theft of corporate assets by co. directors/senior management	χ^2	3.34	5.08	1.80
		signif	0.65	0.41	0.88
2.9	Detect deliberate distortion of financial information	χ^2	7.17	2.74	8.17
		signif	0.21	0.74	0.15
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	χ^2	0.90	*	2.16
		signif	0.97	*	0.83
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management.	χ^2	3.51	*	6.38
		signif	0.62	*	0.27
2.10c	Report to a regulatory authority deliberate distortion of financial information	χ^2	0.34	*	6.21
		signif	1.00	*	0.29
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	χ^2	4.76	*	3.94
		signif	0.45	*	0.56
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	χ^2	7.66	11.90	5.42
		signif	0.18	0.04	0.37
2.11c	Disclose in audit report deliberate distortion of financial information	χ^2	14.81	7.68	4.15
		signif	0.01	0.17	0.53
2.12	Report to a regulatory authority suspicions of fraud	χ^2	4.18	*	5.54
		signif	0.53	*	0.35
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	χ^2	1.89	2.06	2.78
		signif	0.86	0.84	0.73
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	χ^2	3.88	*	4.89
		signif	0.57	*	0.43
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	χ^2	3.17	3.85	10.46
		signif	0.67	0.57	0.06
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	χ^2	2.13	*	2.45
		signif	0.83	*	0.78
2.15	Report to a regulatory authority illegal acts uncovered in co.	χ^2	5.67	*	12.65
		signif	0.34	*	0.03
2.16	Examine & report on fairness of non-financial information	χ^2	4.81	*	8.78
		signif	0.44	*	0.12
2.17	Examine & report on co's internal controls	χ^2	2.04	*	2.31
		signif	0.84	*	0.80

Appendix 2d continued ...

Duty No.	*Suggested Duties of Auditors*[1]		Is it a duty?	How well performed	Should it be a duty?
2.18	Examine & report on efficiency & effectiveness of co's management	χ^2	2.05	*	6.43
		signif	0.84	*	0.27
2.19	Audit published half-yearly co. reports	χ^2	0.25	*	2.47
		signif	1.00	*	0.78
2.20	Examine & report on fairness of financial forecasts	χ^2	6.83	*	9.52
		signif	0.23	*	0.09
2.21	Consider & report on co's impact on its local community	χ^2	4.12	*	2.91
		signif	0.53	*	0.71
2.22	Verify every transaction of auditee co.	χ^2	4.65	*	3.93
		signif	0.46	*	0.56

Questionnaire Part 3

Prop No.	*Propositions*[1]		Sections (a) As is now	Sections (b) As should be
3.1	An unqualified audit report gives confidence that financial statements are reliable	χ^2	13.17	2.62
		signif	0.02	0.76
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	χ^2	7.22	11.03
		signif	0.20	0.05
3.3	A qualified audit report indicates financial statements are not reliable	χ^2	4.63	3.80
		signif	0.46	0.58
3.4	Auditors act for - co's shareholders	χ^2	4.96	5.86
		signif	0.42	0.32
	- co's stakeholders	χ^2	7.13	1.28
		signif	0.21	0.94
	- society as whole	χ^2	6.72	6.30
		signif	0.24	0.28
3.5	Auditors are not unduly influenced by co. directors/management	χ^2	12.34	10.72
		signif	0.03	0.06
3.6a	Auditors give assistance to co. managements on accounting matters	χ^2	7.61	4.15
		signif	0.18	0.53
3.6b	Auditors give assistance to co. managements on non-accounting matters	χ^2	6.32	1.15
		signif	0.28	0.95
3.7	Auditors may be directors of auditee cos.	χ^2	3.37	3.57
		signif	0.64	0.61
3.8	Auditors may invest in auditee cos.	χ^2	3.26	1.01
		signif	0.66	0.96
3.9	Confidence exists in work of auditors because they belong to NZSA	χ^2	16.36	18.29
		signif	0.01	0.00
3.10	NZSA adequately disciplines members for sub-standard audits	χ^2	12.94	1.80
		signif	0.02	0.88
3.11	The NZSA's disciplinary body includes laypersons	χ^2	6.09	9.36
		signif	0.30	0.10
3.12	Auditing involves little judgement	χ^2	2.21	6.91
		signif	0.82	0.23
3.13	Periodic peer review ensures high quality audits	χ^2	4.74	7.50
		signif	0.45	0.19
3.14	Auditors must report reasons for resignation or removal to the Registrar of Companies	χ^2	3.53	1.65
		signif	0.62	0.90
3.15	Financial statements with qualified audit reports may not be filed	χ^2	2.25	10.57
		signif	0.81	0.06
3.16	Auditors are appointed by co. shareholders	χ^2	8.67	16.52
		signif	0.12	0.01
3.17	Auditors negotiate fees with co. directors/management	χ^2	3.12	12.61
		signif	0.68	0.03

1 The duties and propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 2e

Results of Kruskal-Wallis Test

Applied to responses from subgroups of general public audit beneficiaries: branch bank managers, lawyers, financial journalists, group selected from electoral roles

Questionnaire Part 2

Duty No.	*Suggested Duties of Auditors*[1]		Sections (1a) Is it a duty?	Sections (1b) How well performed	Sections (2) Should it be a duty?
2.1	Prepare auditee co's financial statements	χ^2	23.34	*	28.35
		signif	0.00	*	0.00
2.2	Guarantee financial statements are accurate	χ^2	59.36	*	49.11
		signif	0.00	*	0.00
2.3	State whether financial statements fairly reflect co's affairs	χ^2	9.77	13.71	8.16
		signif	0.02	0.00	0.04
2.4	Guarantee auditee co. is solvent	χ^2	32.86	*	26.56
		signif	0.00	*	0.00
2.5a	Report to a regulatory authority doubts about co's continued existence	χ^2	-	-	-
		signif	-	-	-
2.5b	Express doubts in audit report about co's continued existence	χ^2	8.53	~~3.38~~	~~2.60~~
		signif	0.04	~~0.34~~	~~0.46~~
2.6	Ensure compliance with cos' legislation	χ^2	50.86	~~1.13~~	36.48
		signif	0.00	~~0.77~~	0.00
2.7	Report breaches of tax laws to IRD	χ^2	38.57	-	42.08
		signif	0.00	-	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	χ^2	26.03	~~3.87~~	12.74
2.8b	Detect theft of corporate assets by co. directors/senior management	signif	0.00	~~0.28~~	0.01
2.9	Detect deliberate distortion of financial information	χ^2	-	-	-
		signif	-	-	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees				
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	χ^2	29.77	~~5.42~~	~~2.85~~
		signif	0.00	~~0.14~~	~~0.42~~
2.10c	Report to a regulatory authority deliberate distortion of financial information				
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees				
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	χ^2	11.07	~~1.23~~	~~1.95~~
		signif	0.01	~~0.74~~	~~0.58~~
2.11c	Disclose in audit report deliberate distortion of financial information				
2.12	Report to a regulatory authority suspicions of fraud	χ^2	-	-	-
		signif	-	-	-
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	χ^2	21.71	~~1.94~~	19.14
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	signif	0.00	~~0.58~~	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	χ^2	11.07	~~1.23~~	~~1.95~~
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	signif	0.01	~~0.74~~	~~0.58~~
2.15	Report to a regulatory authority illegal acts uncovered in co.	χ^2	29.77	*	~~2.85~~
		signif	0.00	*	~~0.42~~
2.16	Examine & report on fairness of non-financial information	χ^2	-	-	-
		signif	-	-	-
2.17	Examine & report on co's internal controls	χ^2	-	-	-
		signif	-	-	-

Appendix 2e continued ...

Questionnaire Part 2

Duty No.	*Suggested Duties of Auditors*[1]		Sections (1a) Is it a duty?	(1b) How well performed	(2) Should it be a duty?
2.18	Examine & report on efficiency & effectiveness of co's management	χ^2	-	-	-
		signif	-	-	-
2.19	Audit published half-yearly co. reports	χ^2	-	-	-
		signif	-	-	-
2.20	Examine and report on fairness of financial forecasts	χ^2	-	-	-
		signif	-	-	-
2.21	Consider and report on co's impact on its local community	χ^2	34.62	*	44.72
		signif	0.00	*	0.00
2.22	Verify every transaction of auditee co.	χ^2	49.53	*	41.40
		signif	0.00	*	0.00

Questionnaire Part 3

Prop No.	*Propositions*[1]		Sections (a) As is now	(b) As should be
3.1	An unqualified audit report gives confidence that financial statements are reliable	χ^2	26.14	13.72
		signif	0.00	0.00
3.2	Mere knowledge that a co's financial statements are audited gives confidence to invest in co.	χ^2	~~1.98~~	~~3.62~~
		signif	~~0.58~~	~~0.31~~
3.3	A qualified audit report indicates financial statements are not reliable	χ^2	-	-
		signif	-	-
3.4	Auditor acts for - co's shareholders	χ^2	10.18	~~6.19~~
		signif	0.02	~~0.10~~
	- co's stakeholders	χ^2	9.59	~~2.47~~
		signif	0.02	~~0.48~~
	- society as whole	χ^2	19.73	~~5.05~~
		signif	0.00	~~0.17~~
3.5	Auditors are not unduly influenced by co. directors/management	χ^2	29.42	~~1.94~~
		signif	0.00	~~0.59~~
3.6a	Auditors give assistance to co. managements on accounting matters	χ^2	-	-
		signif	-	-
3.6b	Auditors give assistance to co. managements on non-accounting matters	χ^2	-	-
		signif	-	-
3.7	Auditors may be directors of auditee co's.	χ^2	13.12	9.15
		signif	0.00	0.03
3.8	Auditors may invest in auditee co's.	χ^2	~~0.40~~	~~3.15~~
		signif	~~0.94~~	~~0.37~~
3.9	Confidence exists in work of auditors because they belong to NZSA	χ^2	29.35	~~4.29~~
		signif	0.00	~~0.24~~
3.10	NZSA adequately disciplines members for sub-standard audits	χ^2	13.38	~~4.40~~
		signif	0.00	~~0.22~~
3.11	The NZSA's disciplinary body includes laypersons	χ^2	-	-
		signif	-	-
3.12	Auditing involves little judgement	χ^2	~~4.75~~	10.62
		signif	~~0.19~~	0.01
3.13	Periodic peer review ensures high quality audits	χ^2	-	-
		signif	-	-
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	χ^2	18.73	~~4.86~~
		signif	0.00	~~0.18~~
3.15	Financial statements with qualified audit reports may not be filed	χ^2	-	-
		signif	-	-
3.16	Auditors are appointed by co. shareholders	χ^2	~~0.65~~	~~1.97~~
		signif	~~0.89~~	~~0.58~~
3.17	Auditors negotiate their fees with co. directors/management	χ^2	23.73	~~2.72~~
		signif	0.00	~~0.44~~

1 The duties and propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 3a

Auditors' Existing Duties

Means of responses from total survey group and auditors' major role sender groups

		Total Survey Group	Auditors	Auditees	Audit Beneficiaries: Financial Community	Audit Beneficiaries: General Public
	Role Sender Group					
	No. of respondents in group	*1184*	*196*	*342*	*243*	*454*[2]
Duty No.	***Suggested Duties of Auditors***[1]	*Mean* %	*Mean* %	*Mean* %	*Mean* %	*Mean* %
2.1	Prepare auditee co's financial statements	-86	-98	-96	-95	-69
2.2	Guarantee financial statements are accurate	-51	-96	-68	-72	-1
2.3	State whether financial statements fairly reflect co's affairs	93	98	95	97	86
2.4	Guarantee auditee co. is solvent	-59	-79	-61	-75	-38
2.5a	Report to a regulatory authority doubts about co's continued existence	-55	-67	-46	-61	-
2.5b	Express doubts in audit report about co's continued existence	35	78	39	31	12
2.6	Ensure compliance with cos' legislation	28	20	32	14	32
2.7	Report breaches of tax laws to IRD	-63	-89	-79	-72	-33
2.8a	Detect theft of corporate assets by non-managerial employees	7	-63	-14	4	
2.8b	Detect theft of corporate assets by co. directors/ senior management	14	-59	-2	19	57
2.9	Detect deliberate distortion of financial information	85	79	87	88	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	-42	-90	-66	-54	
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	-21	-60	-28	-30	10
2.10c	Report to a regulatory authority deliberate distortion of financial information	-15	-59	-18	-12	
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-37	-80	-55	-54	
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	-10	-33	-12	-17	9
2.11c	Disclose in audit report deliberate distortion of financial information	43	59	65	60	
2.12	Report to a regulatory authority suspicions of fraud	-61	-87	-56	-49	-
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	0	-22	-2	-2	17
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	-49	-96	-77	-82	
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	-14	-44	-12	-27	9
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-52	-97	-80	-79	
2.15	Report to a regulatory authority illegal acts uncovered in co.	-31	-72	-52	-39	10
2.16	Examine & report on fairness of non-financial information	-78	-91	-68	-83	-
2.17	Examine & report on co's internal controls	-12	-44	5	-13	-
2.18	Examine & report on efficiency & effectiveness of co's management	-80	-94	-69	-88	-
2.19	Audit published half-yearly co. reports	-58	-72	-47	-64	-
2.20	Examine & report on fairness of financial forecasts	-55	-77	-38	-62	-
2.21	Consider & report on co's impact on its local community	-85	-100	-90	-98	-67
2.22	Verify every transaction of auditee co.	-69	-99	-90	-85	-29

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Total of 454 includes 75 respondents who signified they had no knowledge of auditing and therefore could not respond to Part 2 of the questionnaire.

Appendix 3b

Auditors' Existing Duties

Results of Wilcoxon signed-ranks test applied to responses from total survey group and auditors' major role sender groups

Duty No.	Role Sender Group / *No. of respondents in group*		Total Survey Group *1184*	Auditors *196*	Auditees *342*	Audit Beneficiaries: Financial Community *243*	Audit Beneficiaries: General Public *454*
	Suggested Duties of Auditors[1]						
2.1	Prepare auditee co's financial statements	z score	-25.10	-11.86	-15.39	-12.82	-11.78
		probab	0.00	0.00	0.00	0.00	0.00
2.2	Guarantee financial statements are accurate	z score	-14.76	-11.64	-10.97	-9.85	-0.18
		probab	0.00	0.00	0.00	0.00	0.85
2.3	State whether financial statements fairly reflect co's affairs	z score	-27.16	-11.89	-15.32	-13.12	-15.08
		probab	0.00	0.00	0.00	0.00	0.00
2.4	Guarantee auditee co. is solvent	z score	-17.77	-9.64	-10.11	-10.44	-7.04
		probab	0.00	0.00	0.00	0.00	0.00
2.5a	Report to a regulatory authority doubts about co's continued existence.	z score	-14.15	-8.49	-8.22	-9.03	-
		probab	0.00	0.00	0.00	0.00	-
2.5b	Express doubts in audit report about co's continued existence.	z score	-10.79	-9.65	-6.58	-4.29	-2.25
		probab	0.00	0.00	0.00	0.00	0.02
2.6	Ensure compliance with cos' legislation	z score	-8.52	-2.43	-5.27	-1.98	-6.17
		probab	0.00	0.01	0.00	0.05	0.00
2.7	Report breaches of tax laws to IRD	z score	-20.06	-11.06	-13.42	-10.55	-6.68
		probab	0.00	0.00	0.00	0.00	0.00
2.8a	Detect theft of corporate assets by non-managerial employees.	z score	-2.08	-7.76	-2.34	-0.60	
		probab	0.04	0.00	0.02	0.55	-10.40
2.8b	Detect theft of corporate assets by co. directors/senior management	z score	-4.14	-7.26	-0.24	-2.75	0.00
		probab	0.00	0.00	0.81	0.01	
2.9	Detect deliberate distortion of financial information	z score	-20.22	-9.59	-14.00	-12.15	-
		probab	0.00	0.00	0.00	0.00	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-13.59	-11.29	-11.27	-8.09	
		probab	0.00	0.00	0.00	0.00	
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-6.90	-7.63	-4.86	-4.53	-2.02
		probab	0.00	0.00	0.00	0.00	0.04
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-4.75	-7.46	-3.17	-1.76	
		probab	0.00	0.00	0.00	0.08	
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-11.77	-9.81	-9.40	-7.89	
		probab	0.00	0.00	0.00	0.00	
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-3.24	-4.17	-2.09	-2.58	-1.84
		probab	0.00	0.00	0.04	0.01	0.07
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-13.46	-7.25	-10.96	-8.53	
		probab	0.00	0.00	0.00	0.00	
2.12	Report to a regulatory authority suspicions of fraud	z score	-15.53	-10.84	-9.84	-7.55	-
		probab	0.00	0.00	0.00	0.00	-
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-0.03	-2.77	-0.40	-0.25	-3.21
		probab	0.98	0.01	0.69	0.81	0.00
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-14.97	-11.80	-12.90	-11.79	
		probab	0.00	0.00	0.00	0.00	
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-4.28	-5.53	-2.11	-3.99	-1.84
		probab	0.00	0.00	0.04	0.00	0.07
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-16.27	-11.95	-13.43	-11.47	
		probab	0.00	0.00	0.00	0.00	
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-10.08	-9.08	-8.99	-5.85	-2.02
		probab	0.00	0.00	0.00	0.00	0.04

Appendix 3b continued ...

Duty No.	Role Sender Group *No. of respondents in group*		Total Survey Group *1184*	Auditors *196*	Auditees *342*	Audit Beneficiaries: Financial Community *243*	Audit Beneficiaries: General Public *454*
	Suggested Duties of Auditors [1]						
2.16	Examine & report on fairness of non-financial information	z score	-18.87	-11.17	-11.41	-11.75	-
		probab	0.00	0.00	0.00	0.00	-
2.17	Examine & report on co's internal controls	z score	-2.83	-5.38	-0.77	-1.78	-
		probab	0.00	0.00	0.44	0.07	-
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-19.32	-11.61	-11.51	-12.20	-
		probab	0.00	0.00	0.00	0.00	-
2.19	Audit published half-yearly co. reports	z score	-14.32	-8.93	-7.92	-9.12	-
		probab	0.00	0.00	0.00	0.00	-
2.20	Examine & report on fairness of financial forecasts	z score	-13.53	-9.54	-6.49	-8.77	-
		probab	0.00	0.00	0.00	0.00	-
2.21	Consider & report on co's impact on its local community	z score	-25.55	-12.11	-14.80	-13.37	-12.35
		probab	0.00	0.00	0.00	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-20.83	-11.98	-14.62	-11.83	-5.40
		probab	0.00	0.00	0.00	0.00	0.00

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 3c

Auditors' Existing Duties

Results of Mann-Whitney test comparing responses from role sender groups

Duty No.	Role sender groups whose responses are compared		Auditors/ Auditees	Auditors/ Fin Com[2]	Auditors/ Gen Pub[3]	Auditees/ Fin Com[2]	Auditees/ Gen Pub[3]	Fin Com[2]/ Gen Pub[3]
	Suggested Duties of Auditors[1]							
2.1	Prepare auditee co's financial statements	z score	-1.33	-1.51	-5.42	-0.30	-5.88	-4.74
		probab	0.18	0.13	0.00	0.76	0.00	0.00
2.2	Guarantee financial statements are accurate	z score	-4.93	-4.32	-11.37	-0.68	-9.22	-8.65
		probab	0.00	0.00	0.00	0.50	0.85	0.00
2.3	State whether financial statements fairly reflect co's affairs	z score	-1.51	-0.33	-3.85	-1.27	-3.41	-3.84
		probab	0.13	0.74	0.00	0.21	0.00	0.00
2.4	Guarantee auditee co. is solvent	z score	-2.76	-0.36	-5.84	-2.56	-3.82	-5.90
		probab	0.01	0.72	0.00	0.01	0.00	0.00
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-3.97	-1.29	-	-2.93	-	-
		probab	0.00	0.20	-	0.00	-	-
2.5b	Express doubts in audit report about co's continued existence	z score	-5.86	-6.35	-9.62	-1.14	-4.45	-2.57
		probab	0.00	0.00	0.00	0.26	0.00	0.01
2.6	Ensure compliance with cos' legislation	z score	-1.50	-0.71	-0.53	-2.50	-1.44	-1.56
		probab	0.13	0.48	0.59	0.01	0.15	0.12
2.7	Report breaches of tax laws to IRD	z score	-2.30	-3.65	-8.97	-1.79	-8.70	-6.01
		probab	0.02	0.00	0.00	0.07	0.00	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-5.68	-7.61	-13.63	-2.59	-9.48	-6.13
		probab	0.00	0.00	0.00	0.01	0.00	0.00
2.8b	Detect theft of corporate assets by co. directors/senior management	z score	-6.66	-8.78	-13.50	-2.86	-8.00	-4.44
		probab	0.00	0.00	0.00	0.00	0.00	0.00
2.9	Detect deliberate distortion of financial information	z score	-1.31	-1.24	-	-0.02	-	-
		probab	0.19	0.22	-	0.98	-	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-4.07	-6.30	-13.72	-2.87	-12.43	-8.80
		probab	0.00	0.00	0.00	0.00	0.00	0.00
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-3.90	-3.86	-9.31	-0.02	-5.91	-5.69
		probab	0.00	0.00	0.00	0.98	0.00	0.00
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-5.28	-5.72	-9.53	-0.84	-4.31	-2.91
		probab	0.00	0.00	0.00	0.40	0.00	0.00
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-3.95	-3.98	-11.38	-0.24	-9.97	-8.77
		probab	0.00	0.00	0.00	0.81	0.00	0.00
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-2.23	-1.80	-5.40	-0.39	-3.70	-3.80
		probab	0.03	0.07	0.00	0.70	0.00	0.00
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-0.38	-0.57	-6.54	-1.10	-8.72	-6.62
		probab	0.70	0.57	0.00	0.27	0.00	0.00
2.12	Report to a regulatory authority suspicions of fraud	z score	-5.71	-6.71	-	-1.51	-	-
		probab	0.00	0.00	-	0.13	-	-
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-2.64	-2.70	-5.24	-0.17	-2.99	-2.60
		probab	0.01	0.01	0.00	0.86	0.00	0.01

Appendix 3c continued ...

Duty No.	Role sender groups whose responses are compared / *Suggested Duties of Auditors* [1]		Auditors/ Auditees	Auditors/ Fin Com [2]	Auditors/ Gen Pub [3]	Auditees/ Fin Com [2]	Auditees/ Gen Pub [3]	Fin Com [2]/ Gen Pub [3]
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-4.74	-4.61	-14.12	-0.18	-13.47	-12.43
		probab	0.00	0.00	0.00	0.86	0.00	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-3.70	-1.88	-6.75	-1.96	-3.16	-5.13
		probab	0.00	0.06	0.00	0.05	0.00	0.00
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-4.26	-4.57	-14.03	-0.52	-13.72	-11.84
		probab	0.00	0.00	0.00	0.60	0.00	0.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-3.31	-5.02	-10.88	-2.31	-9.49	-6.10
		probab	0.00	0.00	0.00	0.02	0.00	0.00
2.16	Examine & report on fairness of non-financial information	z score	-4.68	-2.50	-	-2.57	-	-
		probab	0.00	0.01	-	0.01	-	-
2.17	Examine & report on co's internal controls	z score	-5.89	-3.72	-	-2.13	-	-
		probab	0.00	0.00	-	0.03	-	-
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-5.16	-2.20	-	-3.43	-	-
		probab	0.00	0.03	-	0.00	-	-
2.19	Audit published half-yearly co. reports	z score	-3.80	-1.31	-	-2.72	-	-
		probab	0.00	0.19	-	0.01	-	-
2.20	Examine & report on fairness of financial forecasts	z score	-5.66	-2.06	-	-3.85	-	-
		probab	0.00	0.04	-	0.00	-	-
2.21	Consider & report on co's impact on its local community	z score	-3.84	-1.51	-7.16	-2.97	-5.37	-6.88
		probab	0.00	0.13	0.00	0.00	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-3.04	-4.29	-10.10	-1.86	-10.42	-7.74
		probab	0.00	0.00	0.00	0.06	0.00	0.00

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Financial Community Audit Beneficiaries
3 General Public Audit Beneficiaries

Differences in responses not significant at a significance level of 0.05.

Appendix 3d1

Auditors' Existing Duties

Means of responses from subgroups of auditors

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*	Audit Partners *99*	Non-Partner Audit Staff *97*
	Suggested Duties of Auditors [1]	*Mean* %	*Mean* %
2.1	Prepare auditee co's financial statements	-100	-96
2.2	Guarantee financial statements are accurate	-96	-96
2.3	State whether financial statements fairly reflect co's affairs	98	98
2.4	Guarantee auditee co. is solvent	-86	-71
2.5a	Report to a regulatory authority doubts about co's continued existence	-76	-59
2.5b	Express doubts in audit report about co's continued existence	82	74
2.6	Ensure compliance with cos' legislation	-14	55
2.7	Report breaches of tax laws to IRD	-97	-80
2.8a	Detect theft of corporate assets by non-managerial employees	-66	-61
2.8b	Detect theft of corporate assets by co. directors/senior management	-60	-59
2.9	Detect deliberate distortion of financial information	89	68
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	-100	-80
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/ senior management	-81	-39
2.10c	Report to a regulatory authority deliberate distortion of financial information	-76	-42
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-85	-74
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management.	-31	-35
2.11c	Disclose in audit report deliberate distortion of financial information	67	51
2.12	Report to a regulatory authority suspicions of fraud	-98	-76
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	-16	-29
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	-99	-94
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	-43	-45
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-99	-95
2.15	Report to a regulatory authority illegal acts uncovered in co.	-92	-53
2.16	Examine & report on fairness of non-financial information	-100	-83
2.17	Examine & report on co's internal controls	-64	-24
2.18	Examine & report on efficiency & effectiveness of co's management	-99	-90
2.19	Audit published half-yearly co. reports	-94	-51
2.20	Examine & report on fairness of financial forecasts	-84	-69
2.21	Consider & report on co's impact on its local community	-100	-99
2.22	Verify every transaction of auditee co.	-100	-97

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

Appendix 3d2

Auditors' Existing Duties

Results of Wilcoxon signed-ranks test applied to responses from subgroups of auditors

Duty No.	Role Sender Subgroup		Audit Partners	Non-Partner Audit Staff
	No. of respondents in subgroup		*99*	*97*
	Suggested Duties of Auditors[1]			
2.1	Prepare auditee co's financial statements	z score	-8.64	-8.15
		probab	0.00	0.00
2.2	Guarantee financial statements are accurate	z score	-8.29	-8.20
		probab	0.00	0.00
2.3	State whether financial statements fairly reflect co's affairs	z score	-8.46	-8.37
		probab	0.00	0.00
2.4	Guarantee auditee co. is solvent	z score	-7.49	-6.15
		probab	0.00	0.00
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-6.61	-5.37
		probab	0.00	0.00
2.5b	Express doubts in audit report about co's continued existence	z score	-7.07	-6.59
		probab	0.00	0.00
2.6	Ensure compliance with cos' legislation	z score	-1.23	-4.72
		probab	0.22	0.00
2.7	Report breaches of tax laws to IRD	z score	-8.42	-7.22
		probab	0.00	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-5.73	-5.26
		probab	0.00	0.00
2.8b	Detect theft of corporate assets by co. directors/senior management	z score	-5.20	-5.08
		probab	0.00	0.00
2.9	Detect deliberate distortion of financial information	z score	-7.72	-5.85
		probab	0.00	0.00
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-8.64	-7.31
		probab	0.00	0.00
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-7.02	-3.65
		probab	0.00	0.00
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-6.61	-3.86
		probab	0.00	0.00
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-7.37	-6.52
		probab	0.00	0.00
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/ senior management	z score	-2.73	-3.18
		probab	0.01	0.00
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-5.79	-4.46
		probab	0.00	0.00
2.12	Report to a regulatory authority suspicions of fraud	z score	-8.46	-6.85
		probab	0.00	0.00
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-1.42	-2.51
		probab	0.16	0.01
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-8.59	-8.11
		probab	0.00	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-3.80	-4.03
		probab	0.00	0.00
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-8.59	-8.33
		probab	0.00	0.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-7.94	-4.80
		probab	0.00	0.00
2.16	Examine & report on fairness of non-financial information	z score	-8.64	-7.16
		probab	0.00	0.00
2.17	Examine & report on co's internal controls	z score	-5.50	-2.07
		probab	0.00	0.04

Appendix 3d2 continued ...

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*		Audit Partners *99*	Non-Partner Audit Staff *97*
	Suggested Duties of Auditors[1]			
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-8.59	-7.83
		probab	0.00	0.00
2.19	Audit published half-yearly co. reports	z score	-8.11	-4.46
		probab	0.00	0.00
2.20	Examine & report on fairness of financial forecasts	z score	-7.24	-6.24
		probab	0.00	0.00
2.21	Consider & report on co's impact on its local community	z score	-8.64	-8.51
		probab	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-8.64	-8.33
		probab	0.00	0.00

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 3d3

Auditors' Existing Duties

Results of Mann-Whitney test comparing responses from audit partners and non-partner audit staff

Duty No.	Role sender subgroups whose reponses are compared		Audit Partners/ Non-Partner Audit Staff
	Suggested Duties of Auditors [1]		
2.1	Prepare auditee co's financial statements	z score	-1.44
		probab	0.15
2.2	Guarantee financial statements are accurate	z score	-0.02
		probab	0.98
2.3	State whether financial statements fairly reflect co's affairs	z score	-0.01
		probab	0.99
2.4	Guarantee auditee co. is solvent.	z score	-1.63
		probab	0.10
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-2.19
		probab	0.03
2.5b	Express doubts in audit report about co's continued existence	z score	-1.41
		probab	0.16
2.6	Ensure compliance with cos' legislation	z score	-4.92
		probab	0.00
2.7	Report breaches of tax laws to IRD	z score	-3.15
		probab	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-0.44
		probab	0.66
2.8b	Detect theft of corporate assets by co. directors/senior management	z score	-0.07
		probab	0.94
2.9	Detect deliberate distortion of financial information	z score	-2.33
		probab	0.02
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-4.06
		probab	0.00
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/ senior management	z score	-4.36
		probab	0.00
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-3.41
		probab	0.00
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-1.54
		probab	0.12
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-0.06
		probab	0.95
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-1.65
		probab	0.10
2.12	Report to a regulatory authority suspicions of fraud	z score	-3.81
		probab	0.00
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-0.92
		probab	0.36
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-1.39
		probab	0.17
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-0.16
		probab	0.87
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-1.68
		probab	0.09
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-4.71
		probab	0.00
2.16	Examine & report on fairness of non-financial information	z score	-3.27
		probab	0.00
2.17	Examine & report on co's internal controls	z score	-3.26
		probab	0.00

Appendix 3d3 continued ...

Duty No.	Role sender subgroups whose reponses are compared		Audit Partners/ Non-Partner Audit Staff
	Suggested Duties of Auditors[1]		
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-2.20
		probab	0.0
2.19	Audit published half-yearly co. reports	z score	-4.76
		probab	0.00
2.20	Examine & report on fairness of financial forecasts	z score	-2.33
		probab	0.02
2.21	Consider & report on co's impact on its local community	z score	~~-1.01~~
		probab	~~0.31~~
2.22	Verify every transaction of auditee co.	z score	~~-1.43~~
		probab	~~0.15~~

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 3e1

Auditors' Existing Duties

Means of responses from subgroups of auditees

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*	Company Executives and Directors[2] *186*	Company Accountants *99*	Internal Auditors *73*
	Suggested Duties of Auditors[1]	*Mean* %	*Mean* %	*Mean* %
2.1	Prepare auditee co's financial statements	-96	-98	-93
2.2	Guarantee financial statements are accurate	-65	-79	-67
2.3	State whether financial statements fairly reflect co's affairs	99	97	84
2.4	Guarantee auditee co. is solvent	-63	-57	-60
2.5a	Report to a regulatory authority doubts about co's continued existence	-50	-46	-43
2.5b	Express doubts in audit report about co's continued existence	31	52	38
2.6	Ensure compliance with cos' legislation	21	38	58
2.7	Report breaches of tax laws to IRD	-84	-84	-64
2.8a	Detect theft of corporate assets by non-managerial employees	-4	-39	-10
2.8b	Detect theft of corporate assets by co. directors/senior management	10	-27	3
2.9	Detect deliberate distortion of financial information	86	90	85
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	-61	-85	-61
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	-29	-53	-6
2.10c	Report to a regulatory authority deliberate distortion of financial information	-25	-30	3
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-51	-75	-44
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/ senior management	-14	-21	0
2.11c	Disclose in audit report deliberate distortion of financial information	66	70	56
2.12	Report to a regulatory authority suspicions of fraud	-53	-75	-45
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	-2	-22	19
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	-83	-89	-49
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	-22	-16	4
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-86	-88	-54
2.15	Report to a regulatory authority illegal acts uncovered in co.	-53	-69	-32
2.16	Examine & report on fairness of non-financial information	-73	-80	-38
2.17	Examine & report on co's internal controls	9	-6	6
2.18	Examine & report on efficiency & effectiveness of co's management	-76	-85	-27
2.19	Audit published half-yearly co. reports	-49	-60	-22
2.20	Examine & report on fairness of financial forecasts	-39	-47	-22
2.21	Consider & report on co's impact on its local community	-95	-95	-71
2.22	Verify every transaction of auditee co.	-89	-98	-84

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Non-executive directors.

Appendix 3e2

Auditors' Existing Duties

Results of Wilcoxon signed-ranks test applied to responses from subgroups of auditees

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*		Company Executives and Directors *186*	Company Accountants *99*	Internal Auditors *73*
	Suggested Duties of Auditors [1]				
2.1	Prepare auditee co's financial statements	z score	-11.38	-8.46	-6.96
		probab	0.00	0.00	0.00
2.2	Guarantee financial statements are accurate	z score	-7.67	-6.84	-4.98
		probab	0.00	0.00	0.00
2.3	State whether financial statements fairly reflect co's affairs	z score	-11.67	-8.42	-6.38
		probab	0.00	0.00	0.00
2.4	Guarantee auditee co. is solvent	z score	-7.67	-4.96	-4.71
		probab	0.00	0.00	0.00
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-6.39	-4.40	-3.94
		probab	0.00	0.00	0.00
2.5b	Express doubts in audit report about co's continued existence	z score	-3.84	-4.64	-3.14
		probab	0.00	0.00	0.00
2.6	Ensure compliance with cos' legislation	z score	-2.59	-3.40	-4.49
		probab	0.01	0.00	0.00
2.7	Report breaches of tax laws to IRD	z score	-10.38	-7.56	-5.32
		probab	0.00	0.00	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-0.53	-3.44	-0.77
		probab	0.60	0.00	0.44
2.8b	Detect theft of corporate assets by co. directors/senior management	z score	-1.18	-2.43	-0.22
		probab	0.24	0.02	0.83
2.9	Detect deliberate distortion of financial information	z score	-10.19	-7.77	-6.44
		probab	0.00	0.00	0.00
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-7.72	-7.60	-4.86
		probab	0.00	0.00	0.00
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-3.58	-4.76	-0.45
		probab	0.00	0.00	0.65
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-3.17	-2.75	-0.23
		probab	0.00	0.01	0.82
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-6.41	-6.70	-3.72
		probab	0.00	0.00	0.00
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-1.78	-1.93	0.00
		probab	0.07	0.05	1.00
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-8.11	-6.08	-4.72
		probab	0.00	0.00	0.00
2.12	Report to a regulatory authority suspicions of fraud	z score	-6.85	-6.93	-3.94
		probab	0.00	0.00	0.00
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-0.20	-2.04	-1.57
		probab	0.84	0.04	0.12
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-10.15	-7.88	-3.90
		probab	0.00	0.00	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-2.68	-1.48	-0.35
		probab	0.01	0.14	0.73
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-10.52	-7.92	-4.42
		probab	0.00	0.00	0.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-6.76	-6.37	-2.60
		probab	0.00	0.00	0.01
2.16	Examine & report on fairness of non-financial information	z score	-8.94	-6.96	-3.20
		probab	0.00	0.00	0.00

Appendix 3e2 continued ...

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*		Company Executives and Directors *186*	Company Accountants *99*	Internal Auditors *73*
	Suggested Duties of Auditors[1]				
2.17	Examine & report on co's internal controls	z score	-1.05	-0.58	-0.42
		probab	0.30	0.59	0.67
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-9.28	-7.52	-2.21
		probab	0.00	0.00	0.03
2.19	Audit published half-yearly co. reports	z score	-6.04	-5.31	-1.89
		probab	0.00	0.00	0.06
2.20	Examine & report on fairness of financial forecasts	z score	-4.96	-4.21	-1.80
		probab	0.00	0.00	0.07
2.21	Consider & report on co's impact on its local community	z score	-11.47	-8.24	-5.74
		probab	0.00	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-10.70	-8.46	-6.38
		probab	0.00	0.00	0.00

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Non-executive directors.
Differences in responses not significant at a significance level of 0.05.

Appendix 3e3

Auditors' Existing Duties

Results of Mann-Whitney test comparing responses from subgroups of auditees

Duty No.	Role sender subgroups whose responses are compared		Ex & Dir[2]/ Accountants[3]	Ex & Dir[2]/ Int Aud[4]	Accountants[3]/ Int Aud[4]
	Suggested Duties of Auditors[1]				
2.1	Prepare auditee co's financial statements	z score	-0.96	-0.55	-1.32
		probab	0.34	0.58	0.19
2.2	Guarantee financial statements are accurate	z score	-1.59	-0.59	-0.78
		probab	0.11	0.55	0.43
2.3	State whether financial statements fairly reflect co's affairs	z score	-1.13	-4.02	-2.46
		probab	0.26	0.00	0.01
2.4	Guarantee auditee co. is solvent	z score	-0.41	-0.49	-0.08
		probab	0.68	0.63	0.93
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-0.24	-1.18	-0.85
		probab	0.81	0.24	0.39
2.5b	Express doubts in audit report about co's continued existence	z score	-1.99	-0.21	-1.59
		probab	0.05	0.83	0.11
2.6	Ensure compliance with cos' legislation	z score	-1.71	-3.11	-1.40
		probab	0.09	0.00	0.16
2.7	Report breaches of tax laws to IRD	z score	-0.13	-2.80	-2.50
		probab	0.90	0.01	0.01
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-3.18	-0.44	-2.39
		probab	0.00	0.66	0.02
2.8b	Detect theft of corporate assets by co. directors/ senior management	z score	-3.10	-0.69	-2.04
		probab	0.00	0.49	0.04
2.9	Detect deliberate distortion of financial information	z score	-0.83	-0.06	-0.77
		probab	0.41	0.95	0.44
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-3.03	-0.02	-2.63
		probab	0.00	0.98	0.01
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-2.44	-1.89	-3.73
		probab	0.01	0.06	0.00
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-0.67	-2.31	-2.59
		probab	0.51	0.02	0.01
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-2.80	-0.55	-2.99
		probab	0.01	0.58	0.00
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-0.96	-1.18	-1.86
		probab	0.34	0.24	0.06
2.11c	Disclose in audit report deliberate distortion of financial information	z score	0.72	-1.46	-1.88
		probab	0.47	0.15	0.06
2.12	Report to a regulatory authority suspicions of fraud	z score	-2.51	-0.97	-3.12
		probab	0.01	0.33	0.00
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-1.76	-1.60	-2.94
		probab	0.08	0.11	0.00
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-1.07	-3.79	-4.04
		probab	0.29	0.00	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-0.38	-1.93	-1.41
		probab	0.71	0.05	0.16
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-0.00	-4.08	-3.48
		probab	1.00	0.00	0.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-1.91	-1.99	-3.37
		probab	0.06	0.05	0.00
2.16	Examine & report on fairness of non-financial information	z score	-0.90	-4.05	-4.11
		probab	0.37	0.00	0.00
2.17	Examine & report on co's internal controls	z score	-1.52	-0.36	-0.93
		probab	0.13	0.72	0.35
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-1.08	-4.92	-5.03
		probab	0.28	0.00	0.00

Appendix 3e3 continued ...

Duty No.	Role sender subgroups whose responses are compared		Ex & Dir[2]/ Accountants[3]	Ex & Dir[2]/ Int Aud[4]	Accountants[3]/ Int Aud[4]
	Suggested Duties of Auditors[1]				
2.19	Audit published half-yearly co. reports	z score	-0.98	-2.48	-3.06
		probab	0.33	0.01	0.00
2.20	Examine & report on fairness of financial forecasts	z score	-0.91	-1.64	-2.18
		probab	0.36	0.10	0.03
2.21	Consider & report on co's impact on its local community	z score	-0.54	-4.34	-3.83
		probab	0.59	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-2.37	-0.81	-2.86
		probab	0.02	0.42	0.00

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of company executives and non-executive directors.
3 Company accountants
4 Internal auditors

Differences in responses not significant at a significance level of 0.05.

Appendix 3f1

Auditors' Existing Duties

Means of responses from subgroups of financial community audit beneficiaries

Duty No.	Role Sender Subgroup	Analysts Stockbrokers Investors[2]	Corporate Bankers	Auditing Academics
	No. of respondents in subgroup	*144*	*100*	*16*
		Mean %	*Mean* %	*Mean* %
	Suggested Duties of Auditors[1]			
2.1	Prepare auditee co's financial statements	-97	-92	-100
2.2	Guarantee financial statements are accurate	-72	-70	-100
2.3	State whether financial statements fairly reflect co's affairs	97	97	88
2.4	Guarantee auditee co. is solvent	-74	-77	-88
2.5a	Report to a regulatory authority doubts about co's continued existence	-63	-61	-56
2.5b	Express doubts in audit report about co's continued existence	39	15	38
2.6	Ensure compliance with cos' legislation	22	8	25
2.7	Report breaches of tax laws to IRD	-79	-58	-94
2.8a	Detect theft of corporate assets by non-managerial employees	5	10	-50
2.8b	Detect theft of corporate assets by co. directors/senior management	20	27	-25
2.9	Detect deliberate distortion of financial information	85	94	69
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	-54	-46	-94
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	-29	-28	-63
2.10c	Report to a regulatory authority deliberate distortion of financial information	-6	-12	-63
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-52	-48	-100
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	-17	-12	-75
2.11c	Disclose in audit report deliberate distortion of financial information	58	69	38
2.12	Report to a regulatory authority suspicions of fraud	-48	-40	-94
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	1	-3	-6
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	-84	-79	-94
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	-33	-20	-31
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-82	-75	-94
2.15	Report to a regulatory authority illegal acts uncovered in co.	-42	-29	-88
2.16	Examine & report on fairness of non-financial information	-82	-87	-81
2.17	Examine & report on co's internal controls	-9	-9	-75
2.18	Examine & report on efficiency & effectiveness of co's management	-92	-81	-100
2.19	Audit published half-yearly co. reports	-63	-58	-94
2.20	Examine & report on fairness of financial forecasts	-62	-61	-81
2.21	Consider & report on co's impact on its local community	-99	-96	-100
2.22	Verify every transaction of auditee co.	-84	-86	-100

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of financial analysts, stockbrokers and institutional investors.

Appendix 3f2

Auditors' Existing Duties

Results of Wilcoxon signed-ranks test applied to responses from subgroups of financial community audit beneficiaries

Duty No.	Role Sender Subgroup		Analysts Stockbrokers Investors[2]	Corporate Bankers	Auditing Academics
	No. of respondents in subgroup		*144*	*100*	*16*
	Suggested Duties of Auditors[1]				
2.1	Prepare auditee co's financial statements	z score	-10.08	-7.99	-3.52
		probab	0.00	0.00	0.00
2.2	Guarantee financial statements are accurate	z score	-7.47	-6.14	-3.52
		probab	0.00	0.00	0.00
2.3	State whether financial statements fairly reflect co's affairs	z score	-10.08	-8.42	-3.08
		probab	0.00	0.00	0.00
2.4	Guarantee auditee co. is solvent	z score	-7.83	-6.93	-3.08
		probab	0.00	0.00	0.00
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-7.12	-5.89	-2.20
		probab	0.00	0.00	0.03
2.5b	Express doubts in audit report about co's continued existence	z score	-4.23	-1.35	-1.32
		probab	0.00	0.18	0.19
2.6	Ensure compliance with cos' legislation	z score	-2.31	-0.74	-0.88
		probab	0.02	0.46	0.38
2.7	Report breaches of tax laws to IRD	z score	-8.70	-5.63	-3.41
		probab	0.00	0.00	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-0.54	-0.95	-1.88
		probab	0.59	0.34	0.06
2.8b	Detect theft of corporate assets by co. directors/senior management	z score	-2.23	-2.57	-0.94
		probab	0.03	0.01	0.35
2.9	Detect deliberate distortion of financial information	z score	-9.18	-8.33	-2.50
		probab	0.00	0.00	0.01
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-6.18	-4.71	-3.41
		probab	0.00	0.00	0.00
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-3.23	-2.87	-2.20
		probab	0.00	0.00	0.03
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-0.62	-1.17	-2.20
		probab	0.53	0.24	0.03
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-5.87	-4.72	-3.52
		probab	0.00	0.00	0.00
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-1.90	-1.18	-2.64
		probab	0.06	0.24	0.01
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-6.34	-6.42	-1.32
		probab	0.00	0.00	0.19
2.12	Report to a regulatory authority suspicions of fraud	z score	-5.58	-4.16	-3.41
		probab	0.00	0.00	0.00
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-0.08	-0.30	-0.23
		probab	0.94	0.77	0.82
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-9.24	-7.44	-3.41
		probab	0.00	0.00	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-3.68	-1.97	-1.14
		probab	0.00	0.05	0.26
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-8.91	-7.24	-3.41
		probab	0.00	0.00	0.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-4.79	-2.91	-3.08
		probab	0.00	0.00	0.00
2.16	Examine & report on fairness of non-financial information	z score	-8.91	-7.92	-2.95
		probab	0.00	0.00	0.00

Appendix 3f2 continued ...

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*		Analysts Stockbrokers Investors[2] *144*	Corporate Bankers *100*	Auditing Academics *16*
	Suggeste Duties of Auditors[1]				
2.17	Examine & report on co's internal controls	z score	-0.96	-0.83	-2.64
		probab	0.34	0.41	0.01
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-9.75	-7.37	-3.52
		probab	0.00	0.00	0.00
2.19	Audit published half-yearly co. reports	z score	-6.90	-5.37	-3.41
		probab	0.00	0.00	0.00
2.20	Examine & report on fairness of financial forecasts	z score	-6.75	-5.62	-2.95
		probab	0.00	0.00	0.00
2.21	Consider & report on co's impact on its local community	z score	-10.34	-8.51	-3.52
		probab	0.00	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-9.04	-7.70	-3.52
		probab	0.00	0.00	0.00

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of financial analysts, stockbrokers and institutional investors.
Differences in responses not significant at a significance level of 0.05.

Appendix 3f3

Auditors' Existing Duties

Results of Mann-Whitney test comparing responses from subgroups of financial community audit beneficiaries

Duty No.	Role sender subgroups whose responses are compared		Analysts Stockbrokers Investors[2]/ Bankers[3]	Analysts Stockbrokers Investors[2]/ Academics[4]	Bankers[3]/ Academics[4]
	Suggested Duties of Auditors[1]				
2.1	Prepare auditee co's financial statements	z score	-1.09	-0.60	-0.89
		probab	0.28	0.55	0.37
2.2	Guarantee financial statements are accurate	z score	-0.25	-1.68	-1.76
		probab	0.08	0.09	0.08
2.3	State whether financial statements fairly reflect co's affairs	z score	-0.17	-1.30	-1.33
		probab	0.86	0.20	0.18
2.4	Guarantee auditee co. is solvent	z score	-0.12	-0.89	-0.93
		probab	0.91	0.37	0.35
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-0.77	-0.45	-0.03
		probab	0.44	0.66	0.97
2.5b	Express doubts in audit report about co's continued existence	z score	-1.76	-0.14	-0.94
		probab	0.08	0.89	0.35
2.6	Ensure compliance with cos' legislation	z score	-1.77	-0.20	-1.03
		probab	0.08	0.84	0.30
2.7	Report breaches of tax laws to IRD	z score	-2.87	-1.06	-2.16
		probab	0.00	0.29	0.03
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-0.78	-2.12	-2.49
		probab	0.44	0.03	0.01
2.8b	Detect theft of corporate assets by co. directors/ senior management	z score	-0.55	-1.73	-2.00
		probab	0.58	0.08	0.05
2.9	Detect deliberate distortion of financial information	z score	-1.92	-0.98	-2.34
		probab	0.05	0.33	0.02
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-1.48	-2.09	-2.72
		probab	0.14	0.04	0.01
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-0.48	-1.63	-1.91
		probab	0.63	0.10	0.06
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-0.49	-2.34	-2.18
		probab	0.63	0.02	0.03
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-0.69	-2.60	-2.89
		probab	0.49	0.01	0.00
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-0.89	-2.52	-2.92
		probab	0.37	0.01	0.00
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-0.85	-0.64	-1.05
		probab	0.40	0.52	0.29
2.12	Report to a regulatory authority suspicions of fraud	z score	-1.10	-2.36	-2.86
		probab	0.27	0.02	0.00
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-0.06	-0.12	-0.09
		probab	0.95	0.91	0.93
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-1.65	-0.80	-1.44
		probab	0.10	0.42	0.15
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-1.87	-0.12	-0.76
		probab	0.06	0.91	0.45
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-1.96	-0.82	-1.61
		probab	0.05	0.41	0.11
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-1.78	-2.37	-3.08
		probab	0.08	0.02	0.00
2.16	Examine & report on fairness of non-financial information	z score	-0.05	-0.13	-0.10
		probab	0.96	0.90	0.92

Appendix 3f3 continued ...

Duty No.	Role sender subgroups whose responses are compared		Analysts Stockbrokers Investors[2]/ Bankers[3]	Analysts Stockbrokers Investors[2]/ Academics[4]	Bankers[3]/ Academics[4]
	Suggested Duties of Auditors[1]				
2.17	Examine & report on co's internal controls	z score	-0.09	-2.63	-2.70
		probab	0.92	0.01	0.01
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-2.68	-0.92	-1.69
		probab	0.01	0.36	0.09
2.19	Audit published half-yearly co. reports	z score	-0.58	-1.53	-1.74
		probab	0.56	0.13	0.08
2.20	Examine & report on fairness of financial forecasts	z score	-0.35	-1.07	-1.21
		probab	0.73	0.29	0.23
2.21	Consider & report on co's impact on its local community	z score	-1.04	-0.48	-0.77
		probab	0.30	0.63	0.44
2.22	Verify every transaction of auditee co.	z score	-0.07	-1.44	-1.46
		probab	0.94	0.15	0.15

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of financial analysts, stockbrokers and institutional investors.
3 Corporate bankers
4 Auditing academics

Differences in responses not significant at a significance level of 0.05.

Appendix 3g1

Auditors' Existing Duties

Means of responses from subgroups of general public audit beneficiaries

Duty No.	Role Sender Subgroup *No. of respondents in subgroup* ***Suggested Duties of Auditors***[1]	Branch Bank Managers *86* *Mean* %	Lawyers *72* *Mean* %	Financial Journalists *41* *Mean* %	Group From Electoral Rolls *259*[2] *Mean* %
2.1	Prepare auditee co's financial statements	-79	-92	-81	-51
2.2	Guarantee financial statements are accurate	-5	-63	-39	33
2.3	State whether financial statements fairly reflect co's affairs	91	94	88	81
2.4	Guarantee auditee co. is solvent	-44	-75	-56	-17
2.5a	Report to a regulatory authority doubts about co's continued existence.	-	-	-	-
2.5b	Express doubts in audit report about co's continued existence	-8	11	39	15
2.6	Ensure compliance with cos' legislation	55	-24	7	50
2.7	Report breaches of tax laws to IRD	-34	-78	-22	-17
2.8a	Detect theft of corporate assets by non-managerial employees				
2.8b	Detect theft of corporate assets by co. directors/ senior management	54	58	5	70
2.9	Detect deliberate distortion of financial information	-	-	-	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees				
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	13	-33	-10	27
2.10c	Report to a regulatory authority deliberate distortion of financial information				
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees				
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	-11	10	-7	23
2.11c	Disclose in audit report deliberate distortion of financial information				
2.12	Report to a regulatory authority suspicions of fraud	-	-	-	-
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	19	-14	-15	36
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts				
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	-11	10	-7	23
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts				
2.15	Report to a regulatory authority illegal acts uncovered in co.	13	-33	-10	27
2.16	Examine & report on fairness of non-financial information	-	-	-	-
2.17	Examine & report on co's internal controls	-	-	-	-
2.18	Examine & report on efficiency & effectiveness of co's management	-	-	-	-
2.19	Audit published half-yearly co. reports	-	-	-	-
2.20	Examine & report on fairness of financial forecasts	-	-	-	-
2.21	Consider & report on co's impact on its local community	-75	-90	-83	-49
2.22	Verify every transaction of auditee co.	-47	-78	-34	-1

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Total of 259 includes 75 respondents who signified they had no knowledge of auditing and therefore could not respond to Part 2 of the questionnaire.

Appendix 3g2

Auditors' Existing Duties

Results of Wilcoxon signed-ranks test applied to responses from subgroups of general public audit beneficiaries

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*		Branch Bank Managers *86*	Lawyers *72*	Financial Journalists *41*	Group From Electoral Rolls *259*
	Suggested Duties of Auditors [1]					
2.1	Prepare auditee co's financial statements	z score	-6.31	-6.86	-4.61	-6.10
		probab	0.00	0.00	0.00	0.00
2.2	Guarantee financial statements are accurate	z score	-0.38	-4.78	-2.26	-3.99
		probab	0.70	0.00	0.02	0.00
2.3	State whether financial statements fairly reflect co's affairs	z score	-7.25	-7.06	-5.09	-10.12
		probab	0.00	0.00	0.00	0.00
2.4	Guarantee auditee co. is solvent	z score	-3.62	-5.78	-3.30	-2.35
		probab	0.00	0.00	0.00	0.02
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-	-	-	-
		probab	-	-	-	-
2.5b	Express doubts in audit report about co's continued existence	z score	-0.73	-0.90	-2.39	-1.99
		probab	0.46	0.37	0.02	0.05
2.6	Ensure compliance with cos' legislation	z score	-4.78	-1.89	-0.47	-6.90
		probab	0.00	0.06	0.64	0.00
2.7	Report breaches of tax laws to IRD	z score	-3.28	-6.09	-1.51	-2.49
		probab	0.00	0.00	0.13	0.01
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-4.58	-4.43	-0.32	-8.89
2.8b	Detect theft of corporate assets by co. directors/ senior management	probab	0.00	0.00	0.75	0.00
2.9	Detect deliberate distortion of financial information	z score	-	-	-	-
		probab	-	-	-	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees					
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-1.34	-2.95	-0.71	-3.97
		probab	0.18	0.00	0.48	0.00
2.10c	Report to a regulatory authority deliberate distortion of financial information					
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees					
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-0.99	-0.82	-0.50	-3.31
		probab	0.32	0.41	0.61	0.00
2.11c	Disclose in audit report deliberate distortion of financial information					
2.12	Report to a regulatory authority suspicions of fraud	z score	-	-	-	-
		probab	-	-	-	-
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-1.66	-1.12	-0.96	-4.75
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	probab	0.10	0.26	0.34	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-0.99	-0.82	-0.50	-3.31
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	probab	0.32	0.41	0.61	0.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-1.34	-2.95	-0.71	-3.97
		probab	0.18	0.00	0.48	0.00
2.16	Examine & report on fairness of non-financial information	z score	-	-	-	-
		probab	-	-	-	-

Appendix 3g2 continued ...

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*		Branch Bank Managers *86*	Lawyers *72*	Financial Journalists *41*	Group From Electoral Rolls *259*
	Suggested Duties of Auditors [1]					
2.17	Examine & report on co's internal controls	z score	-	-	-	-
		probab	-	-	-	-
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-	-	-	-
		probab	-	-	-	-
2.19	Audit published half-yearly co. reports	z score	-	-	-	-
		probab	-	-	-	-
2.20	Examine & report on fairness of financial forecasts	z score	-	-	-	-
		probab	-	-	-	-
2.21	Consider & report on co's impact on its local community	z score	-6.46	-6.90	-4.81	-6.55
		probab	0.00	0.00	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-3.93	-5.99	-2.23	-0.14
		probab	0.00	0.00	0.03	0.89

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 3g3

Auditors' Existing Duties

Results of Mann-Whitney test comparing responses from subgroups of general public audit beneficiaries

Duty No.	Role sender subgroups whose responses are compared		Bankers[2]/ Lawyers	Bankers[2]/ Jnlsts[3]	Bankers[2]/ GER[4]	Lawyers/ Jnlsts[3]	Lawyers/ GER[4]	Jnlsts[3]/ GER[4]
	Suggested Duties of Auditors[1]							
2.1	Prepare auditee co's financial statements	z score	-1.55	-0.17	-2.79	-1.23	-3.98	-2.26
		probab	0.12	0.87	0.01	0.22	0.00	0.02
2.2	Guarantee financial statements are accurate	z score	-3.88	-1.93	-2.85	-1.43	-7.21	-4.46
		probab	0.00	0.05	0.00	0.15	0.00	0.00
2.3	State whether financial statements fairly reflect co's affairs	z score	-0.18	-1.07	-2.33	-1.21	-2.37	-0.81
		probab	0.86	0.29	0.02	0.23	0.02	0.42
2.4	Guarantee auditee co. is solvent	z score	-2.56	-0.88	-2.51	-1.32	-5.30	-2.90
		probab	0.01	0.38	0.01	0.19	0.00	0.00
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.5b	Express doubts in audit report about co's continued existence	z score	-1.27	-2.76	-1.88	-1.64	-0.16	-1.89
		probab	0.21	0.01	0.06	0.10	0.87	0.06
2.6	Ensure compliance with cos' legislation	z score	-5.60	-3.45	-1.20	-1.76	-6.19	-3.26
		probab	0.00	0.00	0.23	0.08	0.00	0.00
2.7	Report breaches of tax laws to IRD	z score	-4.32	-0.73	-1.66	-4.44	-6.15	-0.45
		probab	0.00	0.46	0.10	0.00	0.00	0.65
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-0.68	-3.22	-1.37	-3.61	-0.41	-5.11
2.8b	Detect theft of corporate assets by co. directors/ senior management	probab	0.50	0.00	0.17	0.00	0.68	0.00
2.9	Detect deliberate distortion of financial information	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees							
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-3.46	-1.23	-1.47	-1.78	-5.22	-2.48
		probab	0.00	0.22	0.14	0.07	0.00	0.01
2.10c	Report to a regulatory authority deliberate distortion of financial information							
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees							
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/ senior management	z score	-1.38	-0.07	-2.95	-1.10	-1.09	-2.27
		probab	0.17	0.94	0.00	0.27	0.28	0.02
2.11c	Disclose in audit report deliberate distortion of financial information							

Appendix 3g3 continued ...

Duty No.	Role sender subgroups whose responses are compared		Bankers[2]/ Lawyers	Bankers[2]/ Jnlsts[3]	Bankers[2]/ GER[4]	Lawyers/ Jnlsts[3]	Lawyers/ GER[4]	Jnlsts[3]/ GER[4]
	Suggested Duties of Auditors[1]							
2.12	Report to a regulatory authority suspicions of fraud	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-2.18	-1.96	-1.41	-0.01	-3.94	-3.43
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	probab	0.03	0.05	0.16	0.99	0.00	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-1.36	-0.07	-2.95	-1.10	-1.09	-2.27
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	probab	0.17	0.94	0.00	0.27	0.28	0.02
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-3.46	-1.23	-1.47	-1.78	-5.22	-2.48
		probab	0.00	0.22	0.14	0.07	0.00	0.01
2.16	Examine & report on fairness of non-financial information.	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.17	Examine & report on co's internal controls	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.19	Audit published half-yearly co. reports	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.20	Examine and report on fairness of financial forecasts	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.21	Consider and report on co's impact on its local community	z score	-2.21	-1.24	-3.02	-0.60	-4.85	-3.29
		probab	0.03	0.22	0.00	0.55	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-2.62	-1.08	-3.98	-3.59	-6.51	-2.24
		probab	0.01	0.28	0.00	-0.00	0.00	0.02

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Branch bank managers
3 Financial journalists
4 Group selected from electoral rolls

Differences in responses not significant at a significance level of 0.05.

Appendix 4a1

Standard of Performance of Auditors' Duties

Proportions of total survey group signifying how well auditors' duties are performed

Duty No.	*Suggested Duties of Auditors*[1]	No. Resp[2]	Response Options Poorly	OK[3]	Well	Unable to Judge
			%	%	%	%
2.3	State whether financial statements fairly reflect co's affairs	1042	14	53	21	12
2.5b	Express doubts in audit report about co's continued existence	666	33	40	12	15
2.6	Ensure compliance with cos' legislation	632	7	47	28	19
2.8a	Detect theft of corporate assets by non-managerial employees	524	19	41	9	32
2.8b	Detect theft of corporate assets by co. directors/senior management	560	20	38	8	34
2.9	Detect deliberate distortion of financial information	660	16	49	16	19
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	386	24	32	9	34
2.11c	Disclose in audit report deliberate distortion of financial information	682	24	38	13	25
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	462	21	39	6	33
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	375	25	36	8	32

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Number of respondents indicating how well the duty is performed.
3 Adequately.

Appendix 4a2

Standard of Performance of Auditors' Duties

Proportions of major role sender groups signifying how well auditors' duties are performed

Duty No.	*Suggested Duties of Auditors*[1]	Auditors				
		No. Resp[2]	Response Options			
			Poorly	OK[3]	Well	Unable to Judge
			%	%	%	%
2.3	State whether financial statements fairly reflect co's affairs	194	2	53	41	4
2.5b	Express doubts in audit report about co's continued existence	171	22	51	22	5
2.6	Ensure compliance with cos' legislation	116	7	43	45	5
2.8a	Detect theft of corporate assets by non-managerial employees	33	12	67	9	12
2.8b	Detect theft of corporate assets by co. directors/senior management	37	16	57	14	14
2.9	Detect deliberate distortion of financial information	172	5	59	26	11
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	58	22	41	9	28
2.11c	Disclose in audit report deliberate distortion of financial information	150	13	47	23	17
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	71	23	56	9	13
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	48	19	52	6	23

Duty No.	*Suggested Duties of Auditors*[1]	Auditees				
		No. Resp[2]	Response Options			
			Poorly	OK[3]	Well	Unable to Judge
			%	%	%	%
2.3	State whether financial statements fairly reflect co's affairs	328	12	53	24	11
2.5b	Express doubts in audit report about co's continued existence	220	39	33	9	19
2.6	Ensure compliance with cos' legislation	210	6	45	32	17
2.8a	Detect theft of corporate assets by non-managerial employees	133	18	36	8	38
2.8b	Detect theft of corporate assets by co. directors/senior management	154	21	36	5	38
2.9	Detect deliberate distortion of financial information	315	16	42	15	27
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	122	28	30	7	36
2.11c	Disclose in audit report deliberate distortion of financial information	257	27	35	11	28
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	143	22	37	3	39
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	128	29	34	5	32

Appendix 4a2 continued ...

		Financial Community Audit Beneficiaries				
			Response Options			
Duty No.	*Suggested Duties of Auditors*[1]	No. Resp[2]	Poorly	OK[3]	Well	Unable to Judge
			%	%	%	%
2.3	State whether financial statements fairly reflect co's affairs	237	23	62	12	3
2.5b	Express doubts in audit report about co's continued existence	148	41	40	8	11
2.6	Ensure compliance with cos' legislation	128	7	56	23	14
2.8a	Detect theft of corporate assets by non-managerial employees	107	12	42	9	36
2.8b	Detect theft of corporate assets by co. directors/senior management	124	16	36	6	42
2.9	Detect deliberate distortion of financial information	219	24	48	11	16
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	79	27	38	6	29
2.11c	Disclose in audit report deliberate distortion of financial information	171	32	41	7	20
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	94	20	39	3	37
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	68	28	41	2	29

		General Public Audit Beneficiaries				
			Response Options			
Duty No.	*Suggested Duties of Auditors*[1]	No. Resp[2]	Poorly	OK[3]	Well	Unable to Judge
			%	%	%	%
2.3	State whether financial statements fairly reflect co's affairs	332	15	48	13	24
2.5b	Express doubts in audit report about co's continued existence	160	30	37	11	23
2.6	Ensure compliance with cos' legislation	201	8	44	18	30
2.8a	Detect theft of corporate assets by non-managerial employees					
2.8b	Detect theft of corporate assets by co. directors/senior management	264	22	38	10	30
2.9	Detect deliberate distortion of financial information	-	-	-	-	-
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	149	21	30	13	36
2.11c	Disclose in audit report deliberate distortion of financial information					
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	178	22	35	9	34
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	149	21	30	13	36

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Number of respondents indicating how well the duty is performed.
3 Adequately.

Appendix 4b

Standard of Performance of Auditors' Duties

Results of Mann-Whitney test comparing responses from role sender groups

Duty No.	Role sender groups whose responses are compared		Auditors/ Auditees	Auditors/ Fin Com[2]	Auditors/ Gen Pub[3]	Auditees/ Fin Com[2]	Auditees/ Gen Pub[3]	Fin Com[2]/ Gen Pub[3]
	Suggested Duties of Auditors[1]							
2.3	State whether financial statements fairly reflect co's affairs	z score	-4.86	-7.91	-9.05	-2.88	-5.07	-2.49
		probab	0.00	0.00	0.00	0.00	0.00	0.01
2.5b	Express doubts in audit report about co's continued existence	z score	-6.49	-4.82	-5.26	-1.56	-0.76	-0.68
		probab	0.00	0.00	0.00	0.12	0.45	0.49
2.6	Ensure compliance with cos' legislation	z score	-2.57	-3.93	-5.67	-1.54	-3.60	-1.89
		probab	0.01	0.00	0.00	0.12	0.00	0.06
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-3.10	-2.23	-2.62	-0.94	-1.24	0.00
		probab	0.00	0.03	0.01	0.35	0.22	1.00
2.8b	Detect theft of corporate assets by co. directors/ senior management	z score	-3.18	-3.19	-2.33	-0.28	-1.72	-1.85
		probab	0.00	0.00	0.02	0.78	0.09	0.06
2.9	Detect deliberate distortion of financial information	z score	-5.32	-5.29	-	-0.64	-	-
		probab	0.00	0.00	-	0.52	-	-
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/ senior management	z score	-1.65	-0.36	-0.47	-1.43	-1.41	-0.12
		probab	0.10	0.72	0.64	0.15	0.16	0.90
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-4.34	-4.02	-4.36	-0.54	-0.85	-1.28
		probab	0.00	0.00	0.00	0.59	0.40	0.20
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-3.85	-3.43	-2.81	-0.17	-1.35	-0.99
		probab	0.00	0.00	0.01	0.86	0.18	0.32
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-1.98	-1.70	-1.31	-0.17	-0.57	-0.33
		probab	0.05	0.09	0.19	0.87	0.57	0.74

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Financial community audit beneficiaries
3 General public audit beneficiaries

Differences in responses not significant at a significance level of 0.05.

Appendix 4c

Standard of Performance of Auditors' Duties

Results of Chi-square test comparing the proportions of role sender groups signifying that auditors perform their duties poorly

Duty No.	Role sender groups the proportions of whose responses are compared / *Suggested Duties of Auditors*[1]		Auditors/ Auditees	Auditors/ Fin Com[2]	Auditors/ Gen Pub[3]	Auditees/ Fin Com[2]	Auditees/ Gen Pub[3]	Fin Com[2]/ Gen Pub[3]
2.3	State whether financial statements fairly reflect co's affairs	χ^2	12.31	38.74	19.37	13.86	1.28	7.40
		signif	0.00	0.00	0.00	0.00	0.26	0.01
2.5b	Express doubts in audit report about co's continued existence	χ^2	10.82	11.35	2.77	0.10	2.15	2.91
		signif	0.00	0.00	0.10	0.75	0.14	0.09
2.6	Ensure compliance with cos' legislation	χ^2	0.09	0.00	0.00	0.10	0.23	0.00
		signif	0.77	1.00	1.00	0.75	0.64	1.00
2.8a	Detect theft of corporate assets by non-managerial employees	χ^2	0.22	0.00	1.27	1.49	0.90	5.38
		signif	0.64	1.00	0.26	0.22	0.34	0.02
2.8b	Detect theft of corporate assets by co. directors/senior management	χ^2	0.28	0.00	0.64	0.59	0.08	1.57
		signif	0.59	1.00	0.42	0.44	0.78	0.21
2.9	Detect deliberate distortion of financial information	χ^2	10.77	27.40	-	7.02	-	-
		signif	0.00	0.00	-	0.01	-	-
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	χ^2	0.43	0.14	0.01	0.00	1.77	0.75
		signif	0.51	0.71	0.93	0.97	0.18	0.39
2.11c	Disclose in audit report deliberate distortion of financial information	χ^2	9.47	16.86	2.27	1.90	2.06	6.96
		signif	0.00	0.00	0.13	0.17	0.15	0.01
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	χ^2	0.00	0.05	0.06	0.02	0.02	0.00
		signif	1.00	0.82	0.81	0.89	0.88	1.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	χ^2	1.61	1.27	0.03	0.00	2.27	1.44
		signif	0.20	0.26	0.87	1.00	0.13	0.23

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Financial community audit beneficiaries
3 General public audit beneficiaries

Differences in proportions not significant at a significance level of 0.05.

Appendix 4d1

Standard of Performance of Auditors' Duties

Means of responses from subgroups of auditors

Duty No.	Role Sender Subgroup	Audit Partners	Non-Partner Audit Staff
	Suggested Duties of Auditors[1]	*Mean*[2]	*Mean*[2]
2.3	State whether financial statements fairly reflect co's affairs	2.4	2.4
2.5b	Express doubts in audit report about co's continued existence	2.0	2.0
2.6	Ensure compliance with cos' legislation	2.5	2.3
2.8a	Detect theft of corporate assets by non-managerial employees	1.8	2.1
2.8b	Detect theft of corporate assets by co. directors/senior management	1.9	2.0
2.9	Detect deliberate distortion of financial information	2.2	2.3
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	1.9	1.7
2.11c	Disclose in audit report deliberate distortion of financial information	2.1	2.1
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	1.9	1.8
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	1.9	1.8

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 1.9 has been adopted as the point of differentiation between satisfactory and unsatisfactory performance.

Appendix 4d2

Standard of Performance of Auditors' Duties

Proportions of subgroups of auditors signifying how well auditors' duties are performed

Duty No.	Role Sender Subgroup / *Suggested Duties of Auditors*[1]	Audit Partners: No. Resp[2]	Audit Partners: Poorly	Audit Partners: OK[3]	Audit Partners: Well	Audit Partners: Unable to Judge	Non-Partner Audit Staff: No. Resp[2]	Non-Partner Audit Staff: Poorly	Non-Partner Audit Staff: OK[3]	Non-Partner Audit Staff: Well	Non-Partner Audit Staff: Unable to Judge
			%	%	%	%		%	%	%	%
2.3	State whether financial statements fairly reflect co's affairs	98	3	53	42	2	96	1	52	41	6
2.5b	Express doubts in audit report about co's continued existence	90	19	59	20	2	81	26	42	25	7
2.6	Ensure compliance with cos' legislation	42	5	36	57	2	74	8	47	38	7
2.8a	Detect theft of corporate assets by non-managerial employees	15	27	53	7	13	18	0	78	11	11
2.8b	Detect theft of corporate assets by co. directors/ senior management	18	22	50	17	11	19	11	63	11	16
2.9	Detect deliberate distortion of financial information	91	7	58	26	9	81	3	61	25	12
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/ senior management	32	19	44	9	28	26	27	39	8	27
2.11c	Disclose in audit report deliberate distortion of financial information	80	11	54	24	11	70	14	40	23	23
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	39	26	49	13	13	32	19	66	3	13
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	25	20	52	8	20	23	17	52	4	26

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Number of respondents indicating how well the duty is performed.
3 Adequately.

Appendix 4d3

Standard of Performance of Auditors' Duties

Results of Mann-Whitney test comparing responses from audit partners and non-partner audit staff

Duty No.	Role sender subgroups whose reponses are compared		Audit Partners/ Non-Partner Audit Staff
	Suggested Duties of Auditors[1]		
2.3	State whether financial statements fairly reflect co's affairs	z score	-0.35
		probab	0.72
2.5b	Express doubts in audit report about co's continued existence	z score	-0.85
		probab	0.40
2.6	Ensure compliance with cos' legislation	z score	-2.09
		probab	0.04
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-1.56
		probab	0.12
2.8b	Detect theft of corporate assets by co. directors/senior management	z score	-0.03
		probab	0.97
2.9	Detect deliberate distortion of financial information	z score	-0.21
		probab	0.84
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-0.32
		probab	0.75
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-1.45
		probab	0.15
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-0.04
		probab	0.97
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-0.46
		probab	0.64

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 4d4

Standard of Performance of Auditors' Duties

Results of Chi-square test comparing proportions of audit partners and non-partner audit staff signifying that auditors perform their duties poorly

Duty No.	Role sender subgroups the proportions of whose reponses are compared		Audit Partners/ Non-Partner Audit Staff
	Suggested Duties of Auditors[1]		
2.3	State whether financial statements fairly reflect co's affairs	χ^2	0.23
		signif	0.63
2.5b	Express doubts in audit report about co's continued existence	χ^2	0.85
		signif	0.36
2.6	Ensure compliance with cos' legislation	χ^2	0.09
		signif	0.76
2.8a	Detect theft of corporate assets by non-managerial employees	χ^2	3.25
		signif	0.07
2.8b	Detect theft of corporate assets by co. directors/senior management	χ^2	0.27
		signif	0.60
2.9	Detect deliberate distortion of financial information	χ^2	0.85
		signif	0.36
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	χ^2	0.18
		signif	0.67
2.11c	Disclose in audit report deliberate distortion of financial information	χ^2	0.10
		signif	0.76
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	χ^2	0.16
		signif	0.68
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	χ^2	0.00
		signif	1.00

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in proportions not significant at a significance level of 0.05.

Appendix 4e1

Standard of Performance of Auditors' Duties

Means of responses from subgroups of auditees

Duty No.	Role Sender Subgroup	Company Executives and Directors[2]	Company Accountants	Internal Auditors
	Suggested Duties of Auditors[1]	*Mean*[3]	*Mean*[3]	*Mean*[3]
2.3	State whether financial statements fairly reflect co's affairs	2.1	2.2	2.1
2.5b	Express doubts in audit report about co's continued existence	1.7	1.6	1.5
2.6	Ensure compliance with cos' legislation	2.3	2.4	2.1
2.8a	Detect theft of corporate assets by non-managerial employees	1.8	1.9	1.8
2.8b	Detect theft of corporate assets by co. directors/senior management	1.7	1.8	1.7
2.9	Detect deliberate distortion of financial information	1.9	2.1	1.9
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	1.7	1.8	1.5
2.11c	Disclose in audit report deliberate distortion of financial information	1.8	1.9	1.7
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	1.7	1.6	1.6
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	1.6	1.8	1.6

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Non-executive directors.

3 1.9 has been adopted as the point of differentiation between satisfactory and unsatisfactory performance.

Appendix 4e2

Standard of Performance of Auditors' Duties

Proportions of subgroups of auditees signifying how well auditors' duties are performed

Duty No.	Role Sender Subgroup / *Suggested Duties of Auditors*[1]	Company Executives and Non-Executive Directors: No. Resp[2]	Poorly	OK[3]	Well	Unable to Judge	Company Accountants: No. Resp[2]	Poorly	OK[3]	Well	Unable to Judge
			%	%	%	%		%	%	%	%
2.3	State whether financial statements fairly reflect co's affairs	182	13	56	24	7	97	9	56	27	8
2.5b	Express doubts in audit report about co's continued existence	115	39	34	11	16	71	42	31	10	17
2.6	Ensure compliance with cos' legislation	104	6	49	32	14	66	5	49	41	6
2.8a	Detect theft of corporate assets by non-managerial employees	81	19	38	7	36	29	10	38	7	45
2.8b	Detect theft of corporate assets by co. directors/ senior management	95	21	37	5	37	33	12	46	0	42
2.9	Detect deliberate distortion of financial information	170	19	44	14	23	94	12	45	21	22
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/ senior management	66	26	27	6	41	34	27	32	12	29
2.11c	Disclose in audit report deliberate distortion of financial information	143	26	37	9	28	80	26	34	15	25
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	81	22	38	4	36	32	25	28	3	44
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	65	34	32	5	29	36	19	36	6	39

Duty No.	Role Sender Subgroup / *Suggested Duties of Auditors*[1]	Internal Auditors: No. Resp[2]	Poorly	OK[3]	Well	Unable to Judge
			%	%	%	%
2.3	State whether financial statements fairly reflect co's affairs	65	9	46	20	25
2.5b	Express doubts in audit report about co's continued existence	44	39	32	0	30
2.6	Ensure compliance with cos' legislation	53	9	38	19	34
2.8a	Detect theft of corporate assets by non-managerial employees	28	25	29	11	36
2.8b	Detect theft of corporate assets by co. directors/senior management	33	30	27	9	33
2.9	Detect deliberate distortion of financial information	66	11	41	8	41
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	27	33	30	0	37
2.11c	Disclose in audit report deliberate distortion of financial information	47	26	36	6	32
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	36	22	39	0	39
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	29	31	38	3	28

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Number of respondents indicating how well the duty is performed.
3 Adequately.

Appendix 4e3

Standard of Performance of Auditors' Duties

Results of Mann-Whitney test comparing responses from subgroups of auditees

Duty No.	Role sender subgroups whose responses are compared		Ex & Dir[2]/ Accountants[3]	Ex & Dir[2]/ Int Aud[4]	Accountants[3]/ Int Aud[4]
	Suggested Duties of Auditors [1]				
2.3	State whether financial statements fairly reflect co's affairs	z score	-0.77	-2.47	-2.68
		probab	0.44	0.01	0.01
2.5b	Express doubts in audit report about co's continued existence	z score	-0.65	-2.50	-1.88
		probab	0.51	0.01	0.06
2.6	Ensure compliance with cos' legislation	z score	-1.51	-3.05	-4.07
		probab	0.13	0.00	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-0.33	-0.03	-0.27
		probab	0.74	0.98	0.79
2.8b	Detect theft of corporate assets by co. directors/ senior management	z score	-0.17	-0.20	-0.30
		probab	0.87	0.84	0.76
2.9	Detect deliberate distortion of financial information	z score	-1.31	-2.24	-2.92
		probab	0.19	0.03	0.00
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-1.38	-0.28	-1.46
		probab	0.17	0.78	0.14
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-0.85	-0.78	-1.35
		probab	0.40	0.43	0.18
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-1.08	-0.58	-0.49
		probab	0.28	0.56	0.62
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-0.31	-0.38	-0.54
		probab	0.76	0.71	0.59

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of company executives and non-executive directors.
3 Company accountants
4 Internal auditors

Differences in responses not significant at a significance level of 0.05.

Appendix 4e4

Standard of Performance of Auditors' Existing Duties

Results of Chi-square test comparing proportions of subgroups of auditees signifying that auditors perform their duties poorly

Duty No.	Role sender subgroups the proportions of whose responses are compared		Ex & Dir[3]/ Accountants[4]	Ex & Dir[3]/ Int Aud[5]	Accountants[4]/ Int Aud[5]
	Suggested Duties of Auditors[1]				
2.3	State whether financial statements fairly reflect co's affairs	χ^2	0.73	0.48	0.00
		signif	0.39	0.49	1.00
2.5b	Express doubts in audit report about co's continued existence	χ^2	0.48	0.00	0.18
		signif	0.49	1.00	0.67
2.6	Ensure compliance with cos' legislation	χ^2	0.00	0.00	0.00
		signif	1.00	0.99	1.00
2.8a	Detect theft of corporate assets by non-managerial employees	χ^2	0.33	0.02	0.53
		signif	0.56	0.88	0.47
2.8b	Detect theft of corporate assets by co. directors/ senior management	χ^2	0.44	0.13	0.93
		signif	0.51	0.71	0.33
2.9	Detect deliberate distortion of financial information	χ^2	1.72	1.88	0.00
		signif	0.19	0.17	1.00
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	χ^2	0.00	0.03	0.00
		signif	0.97	0.86	1.00
2.11c	Disclose in audit report deliberate distortion of financial information	χ^2	0.00	0.00	0.00
		signif	1.00	1.00	1.00
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	χ^2	0.00	0.00	0.00
		signif	1.00	1.00	1.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	χ^2	1.36	0.04	0.25
		signif	0.24	0.84	0.62

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
3 Combined group of company executives and non-executive directors.
4 Company accountants
5 Internal auditors

Differences in responses not significant at a significance level of 0.05.

Appendix 4f1

Standard of Performance of Auditors' Duties

Means of responses from subgroups of financial community audit beneficiaries

Duty No.	Role Sender Subgroup	Analysts Stockbrokers Investors[2]	Corporate Bankers	Auditing Academics
	Suggested Duties of Auditors[1]	*Mean*[3]	*Mean*[3]	*Mean*[3]
2.3	State whether financial statements fairly reflect co's affairs	1.9	1.8	2.0
2.5b	Express doubts in audit report about co's continued existence	1.6	1.7	1.8
2.6	Ensure compliance with cos' legislation	2.2	2.1	2.5
2.8a	Detect theft of corporate assets by non-managerial employees	1.9	2.1	2.0
2.8b	Detect theft of corporate assets by co. directors/senior management	1.8	1.9	2.0
2.9	Detect deliberate distortion of financial information	1.8	1.9	2.4
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	1.7	1.8	1.0
2.11c	Disclose in audit report deliberate distortion of financial information	1.6	1.7	1.9
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	1.6	1.9	1.8
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	1.5	1.9	1.3

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of financial analysts, stockbrokers and institutional investors.
3 1.9 has been adopted as the point of differentiation between satisfactory and unsatisfactory performance.

Appendix 4f2

Standard of Performance of Auditors' Duties

Proportions of subgroups of financial community audit beneficiaries signifying how well auditors' duties are performed

Duty No.	Role Sender Subgroup / *Suggested Duties of Auditors*[1]	Financial Analysts, Stockbrokers and Institutional Investors: No. Resp[2]	Poorly	OK[3]	Well	Unable to Judge	Corporate Bankers: No. Resp[2]	Poorly	OK[3]	Well	Unable to Judge
			%	%	%	%		%	%	%	%
2.3	State whether financial statements fairly reflect co's affairs	140	21	65	11	3	97	26	60	10	4
2.5b	Express doubts in audit report about co's continued existence	93	44	38	7	12	54	39	41	9	11
2.6	Ensure compliance with cos' legislation	83	8	53	22	17	48	6	63	15	17
2.8a	Detect theft of corporate assets by non-managerial employees	66	15	32	9	44	45	7	56	13	24
2.8b	Detect theft of corporate assets by co. directors/ senior management	77	16	31	4	49	53	13	43	9	34
2.9	Detect deliberate distortion of financial information	127	27	46	11	17	94	21	52	11	16
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/ senior management	48	27	31	8	33	33	18	52	6	24
2.11c	Disclose in audit report deliberate distortion of financial information	100	35	36	7	22	76	29	46	8	17
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	59	22	37	0	41	36	11	47	6	36
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	39	31	36	0	33	28	14	57	4	25

Duty No.	Role Sender Subgroup / *Suggested Duties of Auditors*[1]	Auditing Academics: No. Resp[2]	Poorly	OK[3]	Well	Unable to Judge
			%	%	%	%
2.3	State whether financial statements fairly reflect co's affairs	15	20	46	27	7
2.5b	Express doubts in audit report about co's continued existence	11	36	36	18	9
2.6	Ensure compliance with cos' legislation	10	0	50	50	0
2.8a	Detect theft of corporate assets by non-managerial employees	2	0	100	0	0
2.8b	Detect theft of corporate assets by co. directors/senior management	4	25	50	25	0
2.9	Detect deliberate distortion of financial information	13	0	54	31	15
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management.	2	100	0	0	0
2.11c	Disclose in audit report deliberate distortion of financial information	9	33	33	22	11
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	7	29	29	14	29
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	5	60	20	0	20

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Number of respondents indicating how well the duty is performed.
3 Adequately.

Appendix 4f3

Standard of Performance of Auditors' Duties

Results of Mann-Whitney test comparing responses from subgroups of financial community audit beneficiaries

Duty No.	Role sender subgroups whose responses are compared		Analysts Stockbrokers Investors[2]/ Bankers[3]	Analysts Stockbrokers Investors[2]/ Academics[4]	Bankers[3]/ Academics[4]
	Suggested Duties of Auditors[1]				
2.3	State whether financial statements fairly reflect co's affairs	z score	-0.75	-0.67	-0.91
		probab	0.45	0.51	0.36
2.5b	Express doubts in audit report about co's continued existence	z score	-1.03	-0.83	-0.27
		probab	0.30	0.41	0.79
2.6	Ensure compliance with cos' legislation	z score	-0.30	-2.26	-2.29
		probab	0.77	0.02	0.02
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-2.09	-1.27	-0.62
		probab	0.04	0.20	0.54
2.8b	Detect theft of corporate assets by co. directors/ senior management	z score	-1.92	-2.12	-1.38
		probab	0.06	0.03	0.17
2.9	Detect deliberate distortion of financial information	z score	-0.33	-2.08	-2.01
		probab	0.74	0.04	0.04
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-1.25	-0.05	-0.78
		probab	0.21	0.96	0.43
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-1.27	-1.20	-0.68
		probab	0.20	0.23	0.50
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-1.58	-0.85	-0.04
		probab	0.11	0.40	0.97
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-1.97	-0.26	-0.03
		probab	0.05	0.79	0.30

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of financial analysts, stockbrokers and institutional investors.
3 Corporate bankers
4 Auditing academics

Differences in responses not significant at a significance level of 0.05.

Appendix 4f4

Standard of Performance of Auditors' Duties

Results of Chi-square test comparing proportions of subgroups of financial community audit beneficiaries signifying that auditors perform their duties poorly

Duty No.	Role sender subgroups the proportions of whose responses are compared		Analysts Stockbrokers Investors[3]/ Bankers[4]	Analysts Stockbrokers Investors[3]/ Academics[5]	Bankers[4]/ Academics[5]
	Suggested Duties of Auditors[1]				
2.3	State whether financial statements fairly reflect co's affairs	χ^2	0.46	0.00	0.06
		signif	0.50	1.00	0.81
2.5b	Express doubts in audit report about co's continued existence	χ^2	0.38	0.02	0.00
		signif	0.54	0.89	1.00
2.6	Ensure compliance with cos' legislation	χ^2	0.04	0.13	0.00
		signif	0.84	0.72	1.00
2.8a	Detect theft of corporate assets by non-managerial employees	χ^2	0.86	0.00	0.00
		signif	0.35	1.00	1.00
2.8b	Detect theft of corporate assets by co. directors/ senior management	χ^2	0.00	0.00	0.00
		signif	1.00	1.00	1.00
2.9	Detect deliberate distortion of financial information	χ^2	0.14	3.39	2.61
		signif	0.71	0.07	0.11
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	χ^2	0.21	1.86	2.70
		signif	0.64	0.17	0.10
2.11c	Disclose in audit report deliberate distortion of financial information	χ^2	0.69	0.00	0.00
		signif	0.41	1.00	1.00
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	χ^2	0.62	0.00	0.11
		signif	0.43	1.00	0.74
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	χ^2	1.43	0.38	2.21
		signif	0.23	0.54	0.14

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
3 Combined group of financial analysts, stockbrokers and institutional investors.
4 Corporate bankers
5 Auditing academics

Differences in responses not significant at a significance level of 0.05.

Appendix 4g1

Standard of Performance of Auditors' Duties

Means of responses from subgroups of general public audit beneficiaries

Duty No.	Role Sender Subgroup / *Suggested Duties of Auditors*[1]	Branch Bank Managers *Mean*[2]	Lawyers *Mean*[2]	Financial Journalists *Mean*[2]	Group From Electoral Rolls *Mean*[2]
2.3	State whether financial statements fairly reflect co's affairs	2.1	2.0	1.5	2.0
2.5b	Express doubts in audit report about co's continued existence	1.7	1.7	1.7	1.9
2.6	Ensure compliance with cos' legislation	2.2	2.0	2.1	2.2
2.8a	Detect theft of corporate assets by non-managerial employees				
2.8b	Detect theft of corporate assets by co. directors/senior management	2.0	1.5	1.6	1.9
2.9	Detect deliberate distortion of financial information	-	-	-	-
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	1.9	1.7	1.5	2.0
2.11c	Disclose in audit report deliberate distortion of financial information				
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	1.9	1.8	1.7	1.8
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	1.9	1.7	1.5	2.0

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 1.9 has been adopted as the point of differentiation between satisfactory and unsatisfactory performance.

Appendix 4g2

Standard of Performance of Auditors' Duties

Proportions of subgroups of general public audit beneficiaries signifying how well auditors' duties are performed

Duty No.	Role Sender Subgroup / ***Suggested Duties of Auditors***[1]	Branch Bank Managers: No. Resp[2]	Poorly	OK[3]	Well	Unable to Judge	Lawyers: No. Resp[2]	Poorly	OK[3]	Well	Unable to Judge
			%	%	%	%		%	%	%	%
2.3	State whether financial statements fairly reflect co's affairs	80	8	64	14	15	68	18	52	15	16
2.5b	Express doubts in audit report about co's continued existence	30	37	30	10	23	33	30	58	3	9
2.6	Ensure compliance with cos' legislation	59	2	51	17	31	22	14	64	14	9
2.8a	Detect theft of corporate assets by non-managerial employees	61	7	53	10	31	53	49	30	6	15
2.8b	Detect theft of corporate assets by co. directors/ senior management										
2.9	Detect deliberate distortion of financial information	-	-	-	-	-	-	-	-	-	-
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/ senior management	27	15	37	11	37	30	27	40	7	27
2.11c	Disclose in audit report deliberate distortion of financial information										
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	43	14	47	7	33	25	24	36	8	32
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	27	15	37	11	37	30	27	40	7	27

Appendix 4g2 continued over ...

Appendix 4g2 continued ...

Duty No.	Role Sender Subgroup *Suggested Duties of Auditors*[1]	Financial Journalists No. Resp[2]	Poorly	OK[3]	Well	Unable to Judge	Group from Electoral Rolls No. Resp[2]	Poorly	OK[3]	Well	Unable to Judge
			%	%	%	%		%	%	%	%
2.3	State whether financial statements fairly reflect co's affairs	37	41	38	3	19	151	13	38	16	33
2.5b	Express doubts in audit report about co's continued existence	25	36	44	12	8	74	24	27	16	32
2.6	Ensure compliance with cos' legislation	17	18	41	24	18	106	8	37	21	35
2.8a	Detect theft of corporate assets by non-managerial employees	16	31	25	6	38	137	18	36	12	34
2.8b	Detect theft of corporate assets by co. directors/ senior management.										
2.9	Detect deliberate distortion of financial information	-	-	-	-	-	-	-	-	-	-
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/ senior management	12	42	17	8	33	82	17	26	18	39
2.11c	Disclose in audit report deliberate distortion of financial information										
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	12	25	25	8	42	101	25	30	12	34
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	12	42	17	8	33	82	17	26	18	39

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Number of respondents indicating how well the duty is performed.
3 Adequately.

Appendix 4g3

Standard of Performance of Auditors' Duties

Results of Mann-Whitney test comparing responses from subgroups of general public audit beneficiaries

Duty No.	Role sender subgroups whose responses are compared		Bankers[2]/ Lawyers	Bankers[2]/ Jnlsts[3]	Bankers[2]/ GER[4]	Lawyers/ Jnlsts[3]	Lawyers/ GER[4]	Jnlsts[3]/ GER[4]
	***Suggested Duties of Auditors*[1]**							
2.3	State whether financial statements fairly reflect co's affairs	z score	-1.04	-3.72	-2.63	-2.55	-1.58	-0.96
		probab	0.30	0.00	0.01	0.01	0.11	0.34
2.5b	Express doubts in audit report about co's continued existence	z score	-1.26	-1.18	-0.17	-0.05	-1.36	-1.32
		probab	0.21	0.24	0.87	0.96	0.18	0.19
2.6	Ensure compliance with cos' legislation	z score	-0.42	-0.09	-0.57	-0.38	-0.98	-0.51
		probab	0.68	0.93	0.57	0.70	0.33	0.61
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-1.28	-1.91	-0.99	-1.50	-0.04	-1.29
2.8b	Detect theft of corporate assets by co. directors/ senior management.	probab	0.20	0.06	0.32	0.13	0.96	0.20
2.9	Detect deliberate distortion of financial information	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/ senior management	z score	-0.03	-1.03	-0.07	-1.26	-0.12	-0.93
		probab	0.97	0.30	0.94	0.21	0.90	0.35
2.11c	Disclose in audit report deliberate distortion of financial information							
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-0.68	-1.40	-0.61	-0.88	-0.17	-1.07
		probab	0.50	0.16	0.54	0.38	0.86	0.29
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-0.03	-1.03	-0.07	-1.26	-0.12	-0.93
		probab	0.97	0.30	0.94	0.21	0.90	0.35

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Branch bank managers
3 Financial journalists
4 Group selected from electoral rolls

Differences in responses not significant at a significance level of 0.05.

Appendix 4g4

Standard of Performance of Auditors' Duties

Results of Chi-square test comparing proportions of subgroups of general public audit beneficiaries signifying that auditors perform their duties poorly

Duty No.	Role sender subgroups the proportions of whose responses are compared		Bankers[3]/ Lawyers	Bankers[3]/ Jnlsts[4]	Bankers[3]/ GER[5]	Lawyers/ Jnlsts[4]	Lawyers/ GER[5]	Jnlsts[4]/ GER[5]
	Suggested Duties of Auditors[1]							
2.3	State whether financial statements fairly reflect co's affairs	χ^2	2.93	17.44	1.63	5.49	0.30	12.51
		signif	0.09	0.00	0.20	0.02	0.58	0.00
2.5b	Express doubts in audit report about co's continued existence	χ^2	0.03	0.00	0.98	0.04	0.21	0.91
		signif	0.86	1.00	0.32	0.84	0.64	0.34
2.6	Ensure compliance with cos' legislation	χ^2	3.08	4.67	1.54	0.00	0.41	1.18
		signif	0.08	0.03	0.21	1.00	0.52	0.28
2.8a	Detect theft of corporate assets by non-managerial employees	χ^2	24.51	5.75	3.32	0.72	18.29	1.22
2.8b	Detect theft of corporate assets by co. directors/ senior management.	signif	0.00	0.02	0.07	0.40	0.00	0.27
2.9	Detect deliberate distortion of financial information	χ^2	-	-	-	-	-	-
		signif	-	-	-	-	-	-
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/ senior management	χ^2	0.70	2.54	0.00	0.49	0.85	3.13
		signif	0.40	0.11	1.00	0.48	0.36	0.08
2.11c	Disclose in audit report deliberate distortion of financial information.							
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	χ^2	1.06	0.63	2.04	0.00	0.00	0.00
		signif	0.30	0.43	0.15	1.00	1.00	1.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	χ^2	0.70	2.54	0.00	0.49	0.85	3.13
		signif	0.40	0.11	1.00	0.48	0.36	0.08

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
3 Branch bank managers
4 Financial journalists
5 Group selected from electoral rolls

Differences in responses not significant at a significance level of 0.05.

Appendix 5a

Duties Auditors Should Perform

Means of responses from total survey group and auditors' major role sender groups

Duty No.	Role Sender Group *No. of respondents in group*	Total Survey Group *1184*	Auditors *196*	Auditees *342*	Audit Beneficiaries Financial Community *243*	 General Public *454*[2]
	Suggested Duties of Auditors[1]	*Mean* %	*Mean* %	*Mean* %	*Mean* %	*Mean* %
2.1	Prepare auditee co's financial statements	-80	-94	-94	-87	-57
2.2	Guarantee financial statements are accurate	-30	-92	-53	-44	29
2.3	State whether financial statements fairly reflect co's affairs	96	96	98	98	94
2.4	Guarantee auditee co. is solvent	-17	-64	-25	-21	17
2.5a	Report to a regulatory authority doubts about co's continued existence	12	-19	13	35	-
2.5b	Express doubts in audit report about co's continued existence	67	81	63	67	60
2.6	Ensure compliance with cos' legislation	50	26	54	46	55
2.7	Report breaches of tax laws to IRD	-30	-75	-49	-36	10
2.8a	Detect theft of corporate assets by non-managerial employees	28	-51	6	34	81
2.8b	Detect theft of corporate assets by co. directors/senior management	44	-31	33	61	81
2.9	Detect deliberate distortion of financial information	93	84	97	95	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	0	-67	-31	-7	
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	48	-4	44	62	67
2.10c	Report to a regulatory authority deliberate distortion of financial information	51	-2	52	68	
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-7	-71	-30	-24	
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	43	6	41	52	58
2.11c	Disclose in audit report deliberate distortion of financial information	74	72	84	89	
2.12	Report to a regulatory authority suspicions of fraud	14	-31	15	42	-
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	43	16	36	54	57
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	-21	-78	-56	-57	
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	39	11	34	39	58
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-21	-80	-59	-53	
2.15	Report to a regulatory authority illegal acts uncovered in co.	31	-14	11	32	67
2.16	Examine & report on fairness of non-financial information	-34	-49	-24	-37	-
2.17	Examine & report on co's internal controls	41	8	49	55	-
2.18	Examine & report on efficiency & effectiveness of co's management	-48	-64	-37	-53	-
2.19	Audit published half-yearly co. reports	32	26	24	45	-
2.20	Examine & report on fairness of financial forecasts	30	18	36	27	-
2.21	Consider & report on co's impact on its local community	-71	-88	-77	-90	-47
2.22	Verify every transaction of auditee co.	-65	-97	-88	-79	-21

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Total of 454 includes 75 responsdents who signified they had no knowledge of auditing and therefore could not respond to Part 2 of the questionnaire.

Appendix 5b

Duties Auditors Should Perform

Proportion of total survey group and auditors' major role sender groups selecting each response option

	Role Sender Group	Total Survey Group			Auditors			Auditees			Audit Beneficiaries: Financial Community			Audit Beneficiaries: General Public		
	No. of respondents in group	*1184*			*196*			*342*			*243*			*454*[2]		
Duty No.	***Suggested Duties of Auditors***[1]	Yes %	No %	Not Sure %	Yes %	No %	Not Sure %	Yes %	No %	Not Sure %	Yes %	No %	Not Sure %	Yes %	No %	Not Sure %
2.1	Prepare auditee co's financial statements	8	89	3	3	97	1	2	96	2	5	93	2	18	75	8
2.2	Guarantee financial statements are accurate	33	63	5	3	95	2	22	75	4	26	70	5	61	32	7
2.3	State whether financial statements fairly reflect co's affairs	97	1	2	98	2	0	98	1	1	99	1	0	95	1	4
2.4	Guarantee auditee co. is solvent	37	54	9	16	81	3	34	58	8	36	57	7	52	35	13
2.5a	Report to a regulatory authority doubts about co's continued existence	50	38	12	35	54	11	50	37	14	62	27	10	-	-	-
2.5b	Express doubts in audit report about co's continued existence	79	12	9	89	8	3	77	14	10	81	14	5	74	13	13
2.6	Ensure compliance with cos' legislation	71	21	8	61	35	4	75	21	4	70	24	6	70	15	15
2.7	Report breaches of tax laws to IRD	29	59	12	9	84	8	20	68	12	28	64	8	47	37	15
2.8a	Detect theft of corporate assets by non-managerial employees	60	32	8	23	74	4	49	43	8	60	27	13			
2.8b	Detect theft of corporate assets by co. directors/senior management	68	24	7	32	62	6	63	30	8	76	15	9	87	6	7
2.9	Detect deliberate distortion of financial information	96	3	1	91	7	2	99	1	0	98	2	0	-	-	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	45	45	10	13	81	6	30	61	10	42	49	10			
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	69	22	9	44	48	8	69	25	7	78	16	6	77	10	14
2.10c	Report to a regulatory authority deliberate distortion of financial information	71	20	9	44	46	9	72	21	7	81	14	5			
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	41	48	11	12	83	6	29	60	11	33	56	11			
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	67	24	9	49	43	8	66	25	9	73	21	6	73	15	12
2.11c	Disclose in audit report deliberate distortion of financial information	84	10	7	84	12	5	90	6	4	93	4	3			
2.12	Report to a regulatory authority suspicions of fraud	52	39	10	29	60	11	53	37	10	67	26	7	-	-	-

Appendix 5b continued ...

Duty No.	Role Sender Group / *No. of respondents in group* / ***Suggested Duties of Auditors*** [1]	Total Survey Group *1184*			Auditors *196*			Auditees *342*			Audit Beneficiaries: Financial Community *243*			Audit Beneficiaries: General Public *454* [2]		
		Yes	No	Not Sure	Yes	No	Not Sure	Yes	No	Not Sure	Yes	No	Not Sure	Yes	No	Not Sure
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	67	24	9	55	38	7	64	28	8	73	19	8			
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	35	56	10	8	86	6	17	74	9	18	74	8	72	15	13
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	65	25	10	50	40	11	63	29	8	65	26	9			
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	34	56	10	8	88	5	16	74	10	19	72	9	73	15	12
2.15	Report to a regulatory authority illegal acts uncovered in co	60	28	12	38	52	10	49	38	13	61	29	11	77	10	14
2.16	Examine & report on fairness of non-financial information	30	64	7	22	71	7	34	58	7	28	65	6	-	-	-
2.17	Examine & report on co's internal controls	68	27	5	50	43	7	72	23	5	76	21	3	-	-	-
2.18	Examine & report on efficiency & effectiveness of co's management	23	71	7	15	79	6	28	65	7	20	73	8	-	-	-
2.19	Audit published half-yearly co. reports	61	30	9	60	33	7	56	32	12	69	23	8	-	-	-
2.20	Examine & report on fairness of financial forecasts	61	32	7	55	37	8	65	28	7	60	33	7	-	-	-
2.21	Consider & report on co's impact on its local community	10	81	9	4	92	4	9	86	5	3	93	3	18	65	18
2.22	Verify every transaction of auditee co.	14	79	7	1	98	1	5	92	3	9	87	4	31	53	16

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Total of 454 includes 75 respondents who signified they had no knowledge of auditing and therefore could not respond to Part 2 of the questionnaire.

Appendix 5c

Duties Auditors Should Perform

Results of Wilcoxon signed-ranks test applied to responses from total survey group and auditors' major role sender groups

Duty No.	Role Sender Group		Total Survey Group	Auditors	Auditees	Audit Beneficiaries: Financial Community	Audit Beneficiaries: General Public
	No. of respondents in group		*1184*	*196*	*342*	*243*	*454*
	Suggested Duties of Auditors[1]						
2.1	Prepare auditee co's financial statements	z score	-23.25	-11.46	-15.05	-11.79	-9.77
		probab	0.00	0.00	0.00	0.00	0.00
2.2	Guarantee financial statements are accurate	z score	-8.78	-11.30	-8.60	-6.02	-4.99
		probab	0.00	0.00	0.00	0.00	0.00
2.3	State whether financial statements fairly reflect co's affairs	z score	-27.63	-11.64	-15.55	-13.21	-15.84
		probab	0.00	0.00	0.00	0.00	0.00
2.4	Guarantee auditee co. is solvent	z score	-5.05	-7.93	-4.05	-2.90	-3.00
		probab	0.00	0.00	0.00	0.00	0.00
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-2.93	-2.43	-2.25	-4.96	-
		probab	0.00	0.02	0.02	0.00	-
2.5b	Express doubts in audit report about co's continued existence	z score	-19.85	-9.94	-10.47	-9.19	-10.60
		probab	0.00	0.00	0.00	0.00	0.00
2.6	Ensure compliance with cos' legislation	z score	-14.69	-3.16	-8.66	-6.42	-9.78
		probab	0.00	0.00	0.00	0.00	0.00
2.7	Report breaches of tax laws to IRD	z score	-9.07	-9.48	-8.19	-4.98	-1.74
		probab	0.00	0.00	0.00	0.00	-0.08
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-8.18	-6.24	-0.99	-4.81	
		probab	0.00	0.00	-0.32	0.00	-13.78
2.8b	Detect theft of corporate assets by co. directors/senior management	z score	-13.02	-3.84	-5.37	-8.57	0.00
		probab	0.00	0.00	0.00	0.00	
2.9	Detect deliberate distortion of financial information	z score	-21.69	-10.30	-15.39	-12.78	-
		probab	0.00	0.00	0.00	0.00	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	~~-0.05~~	-8.44	-5.19	~~-1.00~~	
		probab	~~0.96~~	0.00	0.00	~~0.32~~	
2.10b	Report to a regulatory authority mis-appropriation of co. assets by co. directors/senior management	z score	-14.19	~~-0.52~~	-7.16	-8.57	-11.78
		probab	0.00	~~0.61~~	0.00	0.00	0.00
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-15.22	~~-0.26~~	-8.47	-9.34	
		probab	0.00	~~0.79~~	0.00	0.00	
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	~~-1.96~~	-8.86	-5.06	-3.33	
		probab	~~0.05~~	0.00	0.00	0.00	
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-12.82	~~-0.71~~	-6.78	-7.18	-10.11
		probab	0.00	~~0.48~~	0.00	0.00	0.00
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-21.61	-8.94	-13.46	-12.06	
		probab	0.00	0.00	0.00	0.00	
2.12	Report to a regulatory authority suspicions of fraud	z score	-3.26	-3.91	-2.54	-5.73	-
		probab	0.00	0.00	0.01	0.00	-
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-12.86	-2.03	-5.83	-7.48	
		probab	0.00	0.04	0.00	0.00	-10.08
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-6.26	-9.68	-9.24	-7.82	0.00
		probab	0.00	0.00	0.00	0.00	
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-11.63	~~-1.33~~	-5.53	-5.43	
		probab	0.00	~~0.18~~	0.00	0.00	-10.11
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-6.37	-9.88	-9.77	-7.34	0.00
		probab	0.00	0.00	0.00	0.00	

Appendix 5c continued ...

Duty No.	Role Sender Group / *No. of respondents in group*		Total Survey Group *1184*	Auditors *196*	Auditees *342*	Audit Beneficiaries: Financial Community *243*	Audit Beneficiaries: General Public *454*
	Suggested Duties of Auditors [1]						
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-9.48	-1.72	-1.79	-4.53	-11.78
		probab	0.00	0.09	0.07	0.00	0.00
2.16	Examine & report on fairness of non-financial information	z score	-8.19	-6.08	-3.92	-5.12	-
		probab	0.00	0.00	0.00	0.00	-
2.17	Examine & report on co's internal controls	z score	-9.73	-0.97	-7.84	-7.51	-
		probab	0.00	0.33	0.00	0.00	-
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-11.47	-8.01	-6.06	-7.36	-
		probab	0.00	0.00	0.00	0.00	-
2.19	Audit published half-yearly co. reports	z score	-7.69	-3.31	-4.07	-6.34	-
		probab	0.00	0.00	0.00	0.00	-
2.20	Examine & report on fairness of financial forecasts	z score	-7.08	-2.27	-5.95	-3.67	-
		probab	0.00	0.02	0.00	0.00	-
2.21	Consider & report on co's impact on its local community	z score	-21.15	-10.84	-12.49	-12.17	-8.43
		probab	0.00	0.00	0.00	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-19.12	-11.73	-13.98	-10.68	-3.80
		probab	0.00	0.00	0.00	0.00	0.00

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 5d

Duties Auditors Should Perform

Results of Mann-Whitney test comparing responses from role sender groups

Duty No.	Role sender groups whose responses are compared		Auditors/ Auditees	Auditors/ Fin Com[2]	Auditors/ Gen Pub[3]	Auditees/ Fin Com[2]	Auditees/ Gen Pub[3]	Fin Com[2]/ Gen Pub[3]
	Suggested Duties of Auditors[1]							
2.1	Prepare auditee co's financial statements	z score	~~-0.37~~	-2.39	-6.35	-2.47	-7.62	-4.68
		probab	~~0.71~~	0.02	0.00	0.01	0.00	0.00
2.2	Guarantee financial statements are accurate	z score	-5.77	-6.74	-13.74	~~-1.51~~	-10.63	-8.10
		probab	0.00	0.00	0.00	~~0.13~~	0.00	0.00
2.3	State whether financial statements fairly reflect co's affairs	z score	~~-0.13~~	~~-0.94~~	~~-1.37~~	~~-0.89~~	~~-1.81~~	-2.29
		probab	~~0.89~~	~~0.35~~	~~0.17~~	~~0.37~~	~~0.07~~	0.02
2.4	Guarantee auditee co. is solvent	z score	-4.85	-4.77	-9.46	~~-0.32~~	-5.62	-4.61
		probab	0.00	0.00	0.00	~~0.75~~	0.00	0.00
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-3.61	-5.84	-	-3.02	-	-
		probab	0.00	0.00	-	0.00	-	-
2.5b	Express doubts in audit report about co's continued existence	z score	-3.37	~~-1.89~~	-4.20	~~-1.44~~	~~-0.95~~	-2.30
		probab	0.00	~~0.06~~	0.00	~~0.15~~	~~0.34~~	0.02
2.6	Ensure compliance with cos' legislation	z score	-3.94	-2.55	-2.77	~~-1.22~~	~~-1.87~~	~~-0.34~~
		probab	0.00	0.01	0.01	~~0.22~~	~~0.06~~	~~0.73~~
2.7	Report breaches of tax laws to IRD	z score	-3.94	-5.05	-10.00	~~-1.77~~	-7.65	-4.75
		probab	0.00	0.00	0.00	~~0.08~~	0.00	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-6.56	-9.34	-15.74	-3.67	-10.76	-6.56
		probab	0.00	0.00	0.00	0.00	0.00	0.00
2.8b	Detect theft of corporate assets by co. directors/ senior management	z score	-7.08	-9.91	-13.84	-3.99	-7.62	-2.80
		probab	0.00	0.00	0.00	0.00	0.00	0.01
2.9	Detect deliberate distortion of financial information	z score	-3.65	-2.69	-	~~-0.61~~	-	-
		probab	0.00	0.01	-	~~0.54~~	-	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-4.11	-6.48	-15.43	-3.17	-13.50	-9.08
		probab	0.00	0.00	0.00	0.00	0.00	0.00
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-5.21	-7.12	-8.27	-2.75	-2.85	~~-0.54~~
		probab	0.00	0.00	0.00	0.01	0.00	~~0.59~~
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-6.22	-7.78	-8.37	-2.64	~~-1.73~~	~~-1.40~~
		probab	0.00	0.00	0.00	0.01	~~0.08~~	~~0.16~~
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-5.15	-5.56	-14.76	~~-0.90~~	-12.06	-10.01
		probab	0.00	0.00	0.00	~~0.37~~	0.00	0.00
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/ senior management	z score	-3.61	-5.03	-6.04	-2.09	-2.56	-0.01
		probab	0.00	0.00	0.00	0.04	0.01	1.00
2.11c	Disclose in audit report deliberate distortion of financial information	z score	~~-1.95~~	-2.90	-2.29	~~-1.29~~	-4.96	-5.42
		probab	~~0.05~~	0.00	0.02	~~0.20~~	0.00	0.00
2.12	Report to a regulatory authority suspicions of fraud	z score	-5.09	-7.97	-	-3.87	-	-
		probab	0.00	0.00	-	0.00	-	-

Appendix 5d continued ...

Duty No.	Role sender groups whose responses are compared		Auditors/ Auditees	Auditors/ Fin Com[2]	Auditors/ Gen Pub[3]	Auditees/ Fin Com[2]	Auditees/ Gen Pub[3]	Fin Com[2]/ Gen Pub[3]
	Suggested Duties of Auditors[1]							
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-2.65	-4.98	-5.47	-2.87	-3.01	-0.46
		probab	0.01	0.00	0.00	0.00	0.00	0.65
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-3.58	-3.30	-15.62	-0.04	-14.81	-13.20
		probab	0.00	0.00	0.00	0.96	0.00	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-2.61	-3.06	-5.78	-0.72	-3.35	-2.25
		probab	0.01	0.00	0.00	0.47	0.00	0.02
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-4.09	-4.37	-15.97	-0.66	-15.15	-12.98
		probab	0.00	0.00	0.00	0.51	0.00	0.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-2.55	-5.29	-9.32	-3.41	-7.66	-3.14
		probab	0.01	0.00	0.00	0.00	0.00	0.00
2.16	Examine & report on fairness of non-financial information	z score	-3.10	-1.13	-	-1.93	-	-
		probab	0.00	0.26	-	0.05	-	-
2.17	Examine & report on co's internal controls	z score	-5.26	-5.85	-	-1.30	-	-
		probab	0.00	0.00	-	0.19	-	-
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-3.91	-1.81	-	-2.14	-	-
		probab	0.00	0.07	-	0.03	-	-
2.19	Audit published half-yearly co. reports.	z score	-0.47	-2.42	-	-3.25	-	-
		probab	0.64	0.02	-	0.00	-	-
2.20	Examine & report on fairness of financial forecasts	z score	-2.13	-0.81	-	-1.28	-	-
		probab	0.03	0.42	-	0.20	-	-
2.21	Consider & report on co's impact on its local community	z score	-2.32	-0.66	-6.75	-3.05	-5.61	-7.56
		probab	0.02	0.51	0.00	0.00	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-2.76	-4.16	-10.46	-2.05	-10.90	-7.83
		probab	0.01	0.00	0.00	0.04	0.00	0.00

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Financial community audit beneficiaries
3 General public audit beneficiaries

Differences in responses not significant at a significance level of 0.05.

Appendix 5e

Duties Auditors Should Perform

Results of Chi-square test comparing proportions of role sender groups signifying auditors should perform the duty

Duty No.	Role sender groups the proportions of whose responses are compared		Auditors/ Auditees	Auditors/ Fin Com[2]	Auditors/ Gen Pub[3]	Auditees/ Fin Com[2]	Auditees/ Gen Pub[3]	Fin Com[2]/ Gen Pub[3]
	Suggested Duties of Auditors[1]							
2.1	Prepare auditee co's financial statements	χ^2	0.00	3.15	24.41	5.25	39.16	12.23
		signif	1.00	0.08	0.00	0.02	0.00	0.00
2.2	Guarantee financial statements are accurate	χ^2	29.90	39.56	161.60	1.52	96.10	55.70
		signif	0.00	0.00	0.00	0.22	0.00	0.00
2.3	State whether financial statements fairly reflect co's affairs	χ^2	0.00	0.28	1.39	0.29	2.58	4.28
		signif	1.00	0.60	0.24	0.59	0.11	0.04
2.4	Guarantee auditee co. is solvent	χ^2	14.85	16.52	60.61	0.19	21.89	12.99
		signif	0.00	0.00	0.00	0.66	0.00	0.00
2.5a	Report to a regulatory authority doubts about co's continued existence	χ^2	8.47	29.65	-	9.30	-	-
		signif	0.00	0.00	-	0.00	-	-
2.5b	Express doubts in audit report about co's continued existence	χ^2	11.35	3.04	18.23	2.28	0.92	6.12
		signif	0.00	0.08	0.00	0.13	0.34	0.01
2.6	Ensure compliance with cos' legislation	χ^2	13.67	4.92	2.76	1.35	5.70	0.65
		signif	0.00	0.03	0.10	0.24	0.02	0.42
2.7	Report breaches of tax laws to IRD	χ^2	9.86	25.97	73.85	6.17	47.18	12.61
		signif	0.00	0.00	0.00	0.01	0.00	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	χ^2	34.53	63.67	217.79	8.34	102.72	39.47
		signif	0.00	0.00	0.00	0.00	0.00	0.00
2.8b	Detect theft of corporate assets by co. directors/ senior management	χ^2	42.13	81.31	169.13	12.37	51.16	6.89
		signif	0.00	0.00	0.00	0.00	0.00	0.01
2.9	Detect deliberate distortion of financial information	χ^2	11.73	6.11	-	0.08	-	-
		signif	0.00	0.01	-	0.77	-	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	χ^2	12.65	35.80	184.69	9.33	143.55	61.58
		signif	0.00	0.00	0.00	0.00	0.00	0.00
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/ senior management	χ^2	24.67	47.12	49.98	6.72	4.19	0.70
		signif	0.00	0.00	0.00	0.01	0.04	0.40
2.10c	Report to a regulatory authority deliberate distortion of financial information	χ^2	34.56	58.47	51.68	6.74	1.17	2.84
		signif	0.00	0.00	0.00	0.01	0.28	0.09
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	χ^2	16.44	21.45	174.48	0.75	123.62	82.78
		signif	0.00	0.00	0.00	0.39	0.00	0.00
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	χ^2	9.50	22.67	26.71	4.42	4.50	0.06
		signif	0.00	0.00	0.00	0.04	0.03	0.81
2.11c	Disclose in audit report deliberate distortion of financial information	χ^2	2.89	7.14	5.91	1.25	24.33	28.49
		signif	0.08	0.01	0.02	0.26	0.00	0.00
2.12	Report to a regulatory authority suspicions of fraud	χ^2	23.12	61.73	-	14.80	-	-
		signif	0.00	0.00	-	0.00	-	-

Appendix 5e continued ...

Duty No.	Role sender groups the proportions of whose responses are compared		Auditors/ Auditees	Auditors/ Fin Com[2]	Auditors/ Gen Pub[3]	Auditees/ Fin Com[2]	Auditees/ Gen Pub[3]	Fin Com[2]/ Gen Pub[3]
	Suggested Duties of Auditors[1]							
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	χ^2	5.41	20.43	20.69	6.73	5.44	0.38
		signif	0.02	0.00	0.00	0.01	0.02	0.56
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	χ^2	9.35	9.17	195.89	0.00	182.12	140.10
		signif	0.00	0.00	0.00	0.95	0.00	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	χ^2	6.37	8.03	26.15	0.25	7.52	3.29
		signif	0.01	0.00	0.00	0.62	0.01	0.07
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	χ^2	9.40	13.20	205.61	0.60	196.69	137.31
		signif	0.00	0.00	0.00	0.44	0.00	0.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	χ^2	4.29	24.18	66.03	10.96	45.56	6.18
		signif	0.04	0.00	0.00	0.00	0.00	0.01
2.16	Examine & report on fairness of non-financial information	χ^2	8.52	1.40	-	2.47	-	-
		signif	0.00	0.22	-	0.12	-	-
2.17	Examine & report on co's internal controls	χ^2	25.82	34.04	-	1.67	-	-
		signif	0.00	0.00	-	0.20	-	-
2.18	Examine & report on efficiency & effectiveness of co's management	χ^2	14.20	2.18	-	4.87	-	-
		signif	0.00	0.14	-	0.03	-	-
2.19	Audit published half-yearly co. reports	χ^2	0.59	4.69	-	10.90	-	-
		signif	0.44	0.03	-	0.00	-	-
2.20	Examine & report on fairness of financial forecasts	χ^2	3.97	0.52	-	1.27	-	-
		signif	0.05	0.47	-	0.26	-	-
2.21	Consider & report on co's impact on its local community	χ^2	4.09	0.21	18.92	7.70	8.74	25.72
		signif	0.04	0.65	0.00	0.01	0.00	0.00
2.22	Verify every transaction of auditee co.	χ^2	3.03	10.35	62.44	3.46	71.28	33.23
		signif	0.08	0.00	0.00	0.06	0.00	0.00

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Financial community audit beneficiaries
3 General public audit beneficiaries

Differences in responses not significant at a significance level of 0.05.

Appendix 5f1

Duties Auditors Should Perform

Means of responses from subgroups of auditors

Duty No.	Role Sender Subgroup *No. of respondents in group*	Audit Partners *99*	Non-Partner Audit Staff *97*
	Suggested Duties of Auditors[1]	*Mean* %	*Mean* %
2.1	Prepare auditee co's financial statements	-93	-96
2.2	Guarantee financial statements are accurate	-95	-90
2.3	State whether financial statements fairly reflect co's affairs	96	96
2.4	Guarantee auditee co. is solvent	-78	-51
2.5a	Report to a regulatory authority doubts about co's continued existence	-28	-9
2.5b	Express doubts in audit report about co's continued existence	83	78
2.6	Ensure compliance with cos' legislation	-2	54
2.7	Report breaches of tax laws to IRD	-93	-57
2.8a	Detect theft of corporate assets by non-managerial employees	-54	-47
2.8b	Detect theft of corporate assets by co. directors/senior management	-37	-24
2.9	Detect deliberate distortion of financial information	91	77
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	-84	-51
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/ senior management	-34	27
2.10c	Report to a regulatory authority deliberate distortion of financial information	-22	19
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-75	-67
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	-6	18
2.11c	Disclose in audit report deliberate distortion of financial information	78	66
2.12	Report to a regulatory authority suspicions of fraud	-45	-17
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	27	6
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	-92	-64
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	6	15
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-89	-71
2.15	Report to a regulatory authority illegal acts uncovered in co.	-41	14
2.16	Examine & report on fairness of non-financial information	-60	-38
2.17	Examine & report on co's internal controls	-4	20
2.18	Examine & report on efficiency & effectiveness of co's management	-73	-56
2.19	Audit published half-yearly co. reports	37	16
2.20	Examine & report on fairness of financial forecasts	22	14
2.21	Consider & report on co's impact on its local community	-94	-83
2.22	Verify every transaction of auditee co.	-99	-95

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

Appendix 5f2

Duties Auditors Should Perform

Proportion of subgroups of auditors selecting each response option

Duty No.	Role Sender Subgroup *No. of respondents in subgroup* ***Suggested Duties of Auditors*** [1]	Audit Partners 99 Yes %	No %	Not Sure %	Non-Partner Audit Staff 97 Yes %	No %	Not Sure %
2.1	Prepare auditee co's financial statements	3	96	1	2	98	0
2.2	Guarantee financial statements are accurate	2	97	1	4	94	2
2.3	State whether financial statements fairly reflect co's affairs	98	2	0	98	2	0
2.4	Guarantee auditee co. is solvent	9	87	4	24	74	2
2.5a	Report to a regulatory authority doubts about co's continued existence	30	59	11	40	50	10
2.5b	Express doubts in audit report about co's continued existence	90	7	3	88	9	3
2.6	Ensure compliance with cos' legislation	48	50	3	75	21	4
2.7	Report breaches of tax laws to IRD	2	95	3	16	72	12
2.8a	Detect theft of corporate assets by non-managerial employees	20	74	6	26	73	1
2.8b	Detect theft of corporate assets by co. directors/senior management	27	65	8	36	60	4
2.9	Detect deliberate distortion of financial information	95	4	1	88	10	2
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	5	89	6	22	72	6
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	29	64	7	59	32	9
2.10c	Report to a regulatory authority deliberate distortion of financial information	34	57	9	55	36	9
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	10	84	7	14	81	4
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	42	49	9	56	38	6
2.11c	Disclose in audit report deliberate distortion of financial information	86	8	6	81	16	3
2.12	Report to a regulatory authority suspicions of fraud	21	66	14	37	54	9
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	59	32	10	51	44	5
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	1	93	6	16	79	5
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	47	41	12	53	38	9
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	4	93	3	11	83	6
2.15	Report to a regulatory authority illegal acts uncovered in co.	22	63	16	54	41	5
2.16	Examine & report on fairness of non-financial information	16	75	9	29	67	4
2.17	Examine & report on co's internal controls	44	49	7	56	37	7
2.18	Examine & report on efficiency & effectiveness of co's management	9	83	8	21	76	3
2.19	Audit published half-yearly co. reports	64	27	9	55	40	5
2.20	Examine & report on fairness of financial forecasts	56	34	10	55	40	5
2.21	Consider & report on co's impact on its local community	2	96	2	6	89	5
2.22	Verify every transaction of auditee co.	0	99	1	2	97	1

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

Appendix 5f3

Duties Auditors Should Perform

Results of Wilcoxon signed-ranks test applied to responses from subgroups of auditors

Duty No.	Role Sender Subgroup		Audit Partners	Non-Partner Audit Staff
	No. of respondents in subgroup		*99*	*97*
	Suggested Duties of Auditors[1]			
2.1	Prepare auditee co's financial statements	z score	-8.07	-8.15
		probab	0.00	0.00
2.2	Guarantee financial statements are accurate	z score	-8.24	-7.75
		probab	0.00	0.00
2.3	State whether financial statements fairly reflect co's affairs	z score	-8.29	-8.20
		probab	0.00	0.00
2.4	Guarantee auditee co. is solvent	z score	-6.86	-4.37
		probab	0.00	0.00
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-2.59	-0.84
		probab	0.01	0.40
2.5b	Express doubts in audit report about co's continued existence	z score	-7.27	-6.81
		probab	0.00	0.00
2.6	Ensure compliance with cos' legislation	z score	-0.18	-4.71
		probab	0.86	0.00
2.7	Report breaches of tax laws to IRD	z score	-8.15	-5.18
		probab	0.00	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-4.77	-4.08
		probab	0.00	0.00
2.8b	Detect theft of corporate assets by co. directors/senior management	z score	-3.37	-2.07
		probab	0.00	0.04
2.9	Detect deliberate distortion of financial information	z score	-7.89	-6.68
		probab	0.00	0.00
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-7.47	-4.46
		probab	0.00	0.00
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-3.08	-2.41
		probab	0.00	0.02
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-2.01	-1.67
		probab	0.04	0.10
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-6.70	-5.85
		probab	0.00	0.00
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-0.55	-1.55
		probab	0.58	0.12
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-6.93	-5.73
		probab	0.00	0.00
2.12	Report to a regulatory authority suspicions of fraud	z score	-4.10	-1.48
		probab	0.00	0.14
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-2.36	-0.55
		probab	0.02	0.58
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-8.10	-5.61
		probab	0.00	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-0.57	-1.31
		probab	0.57	0.19
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-7.70	-6.28
		probab	0.00	0.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-3.76	-1.18
		probab	0.00	0.24
2.16	Examine & report on fairness of non-financial information	z score	-5.37	-3.26
		probab	0.00	0.00
2.17	Examine & report on co's internal controls	z score	-0.37	-1.75
		probab	0.71	0.08

Appendix 5f3 continued ...

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*		Audit Partners *99*	Non-Partner Audit Staff *97*
	Suggested Duties of Auditors [1]			
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-6.54	-4.84
		probab	0.00	0.00
2.19	Audit published half-yearly co. reports	z score	-3.33	-1.37
		probab	0.00	0.17
2.20	Examine & report on fairness of financial forecasts	z score	-1.96	-1.27
		probab	0.05	0.21
2.21	Consider & report on co's impact on its local community	z score	-8.11	-7.24
		probab	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-8.51	-8.11
		probab	0.00	0.00

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 5f4

Duties Auditors Should Perform

Results of Mann-Whitney test comparing responses from audit partners and non-partner audit staff

Duty No.	Role sender subgroups whose reponses are compared		Audit Partners/ Non-Partner Audit Staff
	Suggested Duties of Auditors		
2.1	Prepare auditee co's financial statements	z score	-0.78
		probab	0.44
2.2	Guarantee financial statements are accurate	z score	-1.05
		probab	0.29
2.3	State whether financial statements fairly reflect co's affairs	z score	-0.02
		probab	0.98
2.4	Guarantee auditee co. is solvent	z score	-2.36
		probab	0.02
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-1.41
		probab	0.16
2.5b	Express doubts in audit report about co's continued existence	z score	-0.52
		probab	0.61
2.6	Ensure compliance with cos' legislation	z score	-4.09
		probab	0.00
2.7	Report breaches of tax laws to IRD	z score	-4.33
		probab	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-0.30
		probab	0.77
2.8b	Detect theft of corporate assets by co. directors/senior management	z score	-0.94
		probab	0.35
2.9	Detect deliberate distortion of financial information	z score	-1.82
		probab	0.07
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-3.11
		probab	0.00
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-4.46
		probab	0.00
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-2.99
		probab	0.00
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-0.56
		probab	0.58
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-1.73
		probab	0.08
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-0.96
		probab	0.34
2.12	Report to a regulatory authority suspicions of fraud	z score	-2.08
		probab	0.04
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-1.41
		probab	0.16
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-2.86
		probab	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-0.63
		probab	0.53
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-2.19
		probab	0.03
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-3.89
		probab	0.00
2.16	Examine & report on fairness of non-financial information	z score	-1.61
		probab	0.11
2.17	Examine & report on co's internal controls	z score	-1.72
		probab	0.08

Appendix 5f4 continued ...

Duty No.	Role sender subgroups whose reponses are compared		Audit Partners/ Non-Partner Audit Staff
	Suggested Duties of Auditors [1]		
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-1.30
		probab	0.19
2.19	Audit published half-yearly co. reports	z score	-1.52
		probab	0.13
2.20	Examine & report on fairness of financial forecasts	z score	-0.47
		probab	0.64
2.21	Consider & report on co's impact on its local community	z score	-1.88
		probab	0.06
2.22	Verify every transaction of auditee co.	z score	-1.03
		probab	0.30

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 5f5

Duties Auditors Should Perform

Results of Chi-square test comparing proportions of audit partners and non-partner audit staff signifying auditors should perform the duty

Duty No.	Role sender subgroups the proportions of whose reponses are compared		Audit Partners/ Non-Partner Audit Staff
	Suggested Duties of Auditors[1]		
2.1	Prepare auditee co's financial statements	χ^2	0.00
		signif	1.00
2.2	Guarantee financial statements are accurate	χ^2	0.19
		signif	0.66
2.3	State whether financial statements fairly reflect co's affairs	χ^2	0.00
		signif	1.00
2.4	Guarantee co. is solvent	χ^2	6.63
		signif	0.01
2.5a	Report to a regulatory authority doubts about co's continued existence	χ^2	1.69
		signif	0.19
2.5b	Express doubts in audit report about co's continued existence	χ^2	0.08
		signif	0.78
2.6	Ensure compliance with cos' legislation	χ^2	14.39
		signif	0.00
2.7	Report breaches of tax laws to IRD	χ^2	9.55
		signif	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	χ^2	0.57
		signif	0.45
2.8b	Detect theft of corporate assets by co. directors/senior management	χ^2	1.37
		signif	0.24
2.9	Detect deliberate distortion of financial information	χ^2	2.46
		signif	0.12
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	χ^2	10.33
		signif	0.00
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/ senior management	χ^2	16.10
		signif	0.00
2.10c	Report to a regulatory authority deliberate distortion of financial information	χ^2	7.37
		signif	0.01
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	χ^2	0.88
		signif	0.35
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	χ^2	2.93
		signif	0.09
2.11c	Disclose in audit report deliberate distortion of financial information	χ^2	0.41
		signif	0.52
2.12	Report to a regulatory authority suspicions of fraud	χ^2	5.44
		signif	0.02
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	χ^2	0.91
		signif	0.34
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	χ^2	11.51
		signif	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	χ^2	0.34
		signif	0.56
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	χ^2	2.60
		signif	0.11
2.15	Report to a regulatory authority illegal acts uncovered in co.	χ^2	19.89
		signif	0.00
2.16	Examine & report on fairness of non-financial information	χ^2	4.47
		signif	0.03
2.17	Examine & report on co's internal controls	χ^2	2.29
		signif	0.13

Appendix 5f5 continued ...

Duty No.	Role sender subgroups the proportions of whose reponses are compared		Audit Partners/ Non-Partner Audit Staff
	Suggested Duties of Auditors [1]		
2.18	Examine & report on efficiency & effectiveness of co's management	χ^2	4.05
		signif	0.04
2.19	Audit published half-yearly co. reports	χ^2	1.18
		signif	0.28
2.20	Examine & report on fairness of financial forecasts	χ^2	0.00
		signif	1.00
2.21	Consider & report on co's impact on its local community	χ^2	1.17
		signif	0.28
2.22	Verify every transaction of auditee co.	χ^2	0.52
		signif	0.47

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 5g1

Duties Auditors Should Perform

Means of responses from subgroups of auditees

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*	Company Executives and Directors[2] *186*	Company Accountants *99*	Internal Auditors *73*
	***Suggested Duties of Auditors*[1]**	*Mean* %	*Mean* %	*Mean* %
2.1	Prepare auditee co's financial statements	-94	-95	-92
2.2	Guarantee financial statements are accurate	-48	-66	-56
2.3	State whether financial statements fairly reflect co's affairs	100	100	89
2.4	Guarantee auditee co. is solvent	-24	-19	-31
2.5a	Report to a regulatory authority doubts about co's continued existence	-2	25	31
2.5b	Express doubts in audit report about co's continued existence	57	71	65
2.6	Ensure compliance with cos' legislation	47	58	68
2.7	Report breaches of tax laws to IRD	-58	-60	-17
2.8a	Detect theft of corporate assets by non-managerial employees	17	-19	7
2.8b	Detect theft of corporate assets by co. directors/senior management	39	18	33
2.9	Detect deliberate distortion of financial information	97	96	100
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	-29	-41	-26
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	42	44	49
2.10c	Report to a regulatory authority deliberate distortion of financial information	45	48	64
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-26	-50	-20
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	42	31	56
2.11c	Disclose in audit report deliberate distortion of financial information	86	86	79
2.12	Report to a regulatory authority suspicions of fraud	15	7	28
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	42	14	46
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	-69	-68	-13
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	27	38	38
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-70	-70	-23
2.15	Report to a regulatory authority illegal acts uncovered in co.	3	-3	41
2.16	Examine & report on fairness of non-financial information	-38	-30	21
2.17	Examine & report on co's internal controls	52	41	51
2.18	Examine & report on efficiency & effectiveness of co's management	-53	-54	25
2.19	Audit published half-yearly co. reports	22	23	36
2.20	Examine & report on fairness of financial forecasts	35	23	65
2.21	Consider & report on co's impact on its local community	-86	-85	-44
2.22	Verify every transaction of auditee co.	-86	-96	-80

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Non-executive directors.

Appendix 5g2

Duties Auditors Should Perform

Proportion of subgroups of auditees selecting each response option

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*	Company Executives and Directors[2] *186*			Company Accountants *99*			Internal Auditors *73*		
	Suggested Duties of Auditors[1]	Yes %	No %	Not Sure %	Yes %	No %	Not Sure %	Yes %	No %	Not Sure %
2.1	Prepare auditee co's financial statements	2	97	1	2	97	1	3	94	3
2.2	Guarantee financial statements are accurate	24	72	4	15	82	3	21	76	3
2.3	State whether financial statements fairly reflect co's affairs	100	0	0	100	0	0	92	3	6
2.4	Guarantee auditee co. is solvent	36	59	5	38	57	5	26	57	17
2.5a	Report to a regulatory authority doubts about co's continued existence	43	45	12	57	33	10	54	24	22
2.5b	Express doubts in audit report about co's continued existence	75	18	7	82	10	8	75	10	15
2.6	Ensure compliance with cos' legislation	72	25	3	78	19	3	81	13	7
2.7	Report breaches of tax laws to IRD	16	74	11	15	76	9	33	50	17
2.8a	Detect theft of corporate assets by non-managerial employees	55	38	7	38	57	5	47	40	13
2.8b	Detect theft of corporate assets by co. directors/senior management	67	27	6	55	37	8	63	29	8
2.9	Detect deliberate distortion of financial information	98	1	1	98	2	0	100	0	0
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	31	60	9	26	66	8	32	58	10
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	68	26	7	69	26	5	71	22	7
2.10c	Report to a regulatory authority deliberate distortion of financial information	69	24	7	71	24	5	78	14	8
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	32	58	10	19	68	13	34	54	13
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	68	26	7	60	29	11	72	17	11
2.11c	Disclose in audit report deliberate distortion of financial information	92	5	3	92	6	2	86	7	7
2.12	Report to a regulatory authority suspicions of fraud	53	39	8	46	39	14	60	32	8
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	69	27	5	54	39	7	66	20	14
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	13	81	6	11	79	9	37	49	14
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	60	33	7	67	29	4	63	25	11
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	12	81	7	9	79	11	31	54	16
2.15	Report to a regulatory authority illegal acts uncovered in co.	47	43	10	39	42	19	66	25	9
2.16	Examine & report on fairness of non-financial information	28	65	7	32	62	6	56	35	9
2.17	Examine & report on co's internal controls	74	22	5	69	28	3	71	20	9
2.18	Examine & report on efficiency & effectiveness of co's management	21	73	6	19	73	8	59	34	7
2.19	Audit published half-yearly co. reports	56	34	10	58	35	7	59	23	19
2.20	Examine & report on fairness of financial forecasts	64	30	6	58	35	7	78	13	10
2.21	Consider & report on co's impact on its local community	5	92	3	5	90	5	24	68	9
2.22	Verify every transaction of auditee co.	5	91	4	2	98	0	9	89	3

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Non-executive directors.

Appendix 5g3

Duties Auditors Should Perform

Results of Wilcoxon signed-ranks test applied to responses from subgroups of auditees

Duty No.	Role Sender Subgroup / *No. of respondents in subgroup*		Company Executives and Directors[2] *186*	Company Accountants *99*	Internal Auditors *73*
	***Suggested Duties of Auditors*[1]**				
2.1	Prepare auditee co's financial statements	z score	-11.05	-8.20	-6.86
		probab	0.00	0.00	0.00
2.2	Guarantee financial statements are accurate	z score	-5.74	-5.79	-4.16
		probab	0.00	0.00	0.00
2.3	State whether financial statements fairly reflect co's affairs	z score	-11.67	-8.60	-6.69
		probab	0.00	0.00	0.00
2.4	Guarantee auditee co. is solvent	z score	-2.85	-1.71	-2.47
		probab	0.00	0.09	0.01
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-0.21	-2.22	-2.56
		probab	0.84	0.03	0.01
2.5b	Express doubts in audit report about co's continued existence	z score	-6.91	-6.41	-5.23
		probab	0.00	0.00	0.00
2.6	Ensure compliance with cos' legislation	z score	-5.57	-5.08	-5.20
		probab	0.00	0.00	0.00
2.7	Report breaches of tax laws to IRD	z score	-7.18	-5.43	-1.35
		probab	0.00	0.00	0.18
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-2.01	-1.71	-0.55
		probab	0.04	0.09	0.58
2.8b	Detect theft of corporate assets by co. directors/ senior management	z score	-4.74	-1.65	-2.57
		probab	0.00	0.10	0.01
2.9	Detect deliberate distortion of financial information	z score	-11.34	-8.20	-7.32
		probab	0.00	0.00	0.00
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-3.60	-3.66	-2.05
		probab	0.00	0.00	0.04
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-5.09	-3.87	-3.72
		probab	0.00	0.00	0.00
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-5.44	-4.23	-4.92
		probab	0.00	0.00	0.00
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-3.13	-4.55	-1.55
		probab	0.00	0.00	0.12
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-5.03	-2.81	-4.35
		probab	0.00	0.00	0.00
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-10.15	-7.39	-5.99
		probab	0.00	0.00	0.00
2.12	Report to a regulatory authority suspicions of fraud	z score	-1.73	-0.67	-2.14
		probab	0.08	0.50	0.03
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-4.95	-1.28	-3.59
		probab	0.00	0.20	0.00
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-8.13	-6.11	-1.00
		probab	0.00	0.00	0.32
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-3.27	-3.33	-2.96
		probab	0.00	0.00	0.00
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-8.31	-6.37	-1.80
		probab	0.00	0.00	0.07
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-0.41	-0.29	-3.13
		probab	0.68	0.77	0.00
2.16	Examine & report on fairness of non-financial information	z score	-4.47	-2.64	-1.62
		probab	0.00	0.01	0.11

Appendix 5g3 continued ...

Duty No.	Role Sender Subgroup / *No. of respondents in subgroup* / ***Suggested Duties of Auditors*** [1]		Company Executives and Directors *186*	Company Accountants *99*	Internal Auditors *73*
2.17	Examine & report on co's internal controls	z score	-6.06	-3.58	-3.91
		probab	0.00	0.00	0.00
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-6.28	-4.81	-1.93
		probab	0.00	0.00	0.05
2.19	Audit published half-yearly co. reports	z score	-2.62	-2.01	-2.88
		probab	0.01	0.04	0.00
2.20	Examine & report on fairness of financial forecasts	z score	-4.09	-2.01	-5.00
		probab	0.00	0.04	0.00
2.21	Consider & report on co's impact on its local community	z score	-10.15	-7.42	-3.34
		probab	0.00	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-10.11	-8.20	-5.96
		probab	0.00	0.00	0.00

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Non-executive directors.
Differences in responses not significant at a significance level of 0.05.

Appendix 5g4

Duties Auditors Should Perform

Results of Mann-Whitney test comparing responses from subgroups of auditees

Duty No.	Role sender subgroups whose responses are compared		Ex & Dir[2]/ Accountants[3]	Ex & Dir[2]/ Int Aud[4]	Accountants[3]/ Int Aud[4]
	Suggested Duties of Auditors[1]				
2.1	Prepare auditee co's financial statements	z score	-0.10	-0.50	-0.36
		probab	0.92	0.61	0.72
2.2	Guarantee financial statements are accurate	z score	-1.81	-0.95	-0.63
		probab	0.07	0.34	0.53
2.3	State whether financial statements fairly reflect co's affairs	z score	0.00	-3.89	-2.92
		probab	1.00	0.00	0.00
2.4	Guarantee auditee co. is solvent	z score	-0.18	-0.32	-0.45
		probab	0.86	0.75	0.66
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-2.15	-2.47	-0.28
		probab	0.03	0.01	0.78
2.5b	Express doubts in audit report about co's continued existence	z score	-1.42	-0.44	-0.86
		probab	0.15	0.66	0.39
2.6	Ensure compliance with cos' legislation	z score	-1.15	-1.83	-0.72
		probab	0.25	0.07	0.47
2.7	Report breaches of tax laws to IRD	z score	-0.29	-3.69	-3.44
		probab	0.78	0.00	0.00
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-3.28	-0.84	-2.06
		probab	0.00	0.40	0.04
2.8b	Detect theft of corporate assets by co. directors/senior management	z score	-2.19	-0.49	-1.34
		probab	0.03	0.62	0.18
2.9	Detect deliberate distortion of financial information	z score	-0.21	-1.11	-1.22
		probab	0.83	0.27	0.22
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-1.03	-0.18	-1.00
		probab	0.31	0.86	0.32
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-0.14	-0.79	-0.59
		probab	0.89	0.43	0.56
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-0.17	-1.58	-1.29
		probab	0.87	0.11	0.20
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-2.11	-0.46	-2.22
		probab	0.04	0.64	0.03
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-1.04	-1.05	-1.84
		probab	0.30	0.29	0.07
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-0.11	-1.20	-1.13
		probab	0.92	0.23	0.26
2.12	Report to a regulatory authority suspicions of fraud	z score	-0.80	-0.85	-1.46
		probab	0.42	0.40	0.14
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-2.62	-0.01	-2.25
		probab	0.01	0.99	0.02
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-0.41	-5.00	-4.09
		probab	0.68	0.00	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-0.66	-0.96	-0.30
		probab	0.51	0.34	0.77
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-0.27	-4.28	-3.61
		probab	0.78	0.00	0.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-0.57	-2.79	-3.13
		probab	0.57	0.01	0.00
2.16	Examine & report on fairness of non-financial information	z score	-1.06	-4.40	-3.04
		probab	0.29	0.00	0.00
2.17	Examine & report on co's internal controls	z score	-1.03	-0.22	-0.67
		probab	0.30	0.83	0.51
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-0.01	-6.07	-5.40
		probab	0.99	0.00	0.00

Appendix 5g4 continued ...

Duty No.	Role sender subgroups whose responses are compared		Ex & Dir[2]/ Accountants[3]	Ex & Dir[2]/ Int Aud[4]	Accountants[3]/ Int Aud[4]
	Suggested Duties of Auditors[1]				
2.19	Audit published half-yearly co. reports	z score	-0.36	-0.72	-0.32
		probab	0.72	0.47	0.75
2.20	Examine & report on fairness of financial forecasts	z score	-1.04	-2.47	-3.12
		probab	0.30	0.01	0.00
2.21	Consider & report on co's impact on its local community	z score	-0.48	-4.82	-3.70
		probab	0.63	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-2.12	-0.67	-2.46
		probab	0.03	0.51	0.01

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of company executives and non-executive directors.
3 Company accountants
4 Internal auditors

Differences in responses not significant at a significance level of 0.05.

Appendix 5g5

Duties Auditors Should Perform

Results of Chi-square test comparing proportions of subgroups of auditees signifying auditors should perform the duty

Duty No.	Role sender subgroups the proportions of whose responses are compared		Ex & Dir[2]/ Accountants[3]	Ex & Dir[2]/ Int Aud[4]	Accountants[3]/ Int Aud[4]
	Suggested Duties of Auditors[1]				
2.1	Prepare auditee co's financial statements	χ^2	0.00	0.00	0.00
		signif	1.00	1.00	1.00
2.2	Guarantee financial statements are accurate	χ^2	2.44	0.42	0.24
		signif	0.12	0.52	0.63
2.3	State whether financial statements fairly reflect co's affairs	χ^2	-	11.82	6.27
		signif	-	0.00	0.01
2.4	Guarantee auditee co. is solvent	χ^2	0.00	1.68	1.67
		signif	0.97	0.19	0.20
2.5a	Report to a regulatory authority doubts about co's continued existence	χ^2	4.28	1.96	0.06
		signif	0.04	0.16	0.81
2.5b	Express doubts in audit report about co's continued existence	χ^2	1.31	0.00	0.64
		signif	0.25	1.00	0.42
2.6	Ensure compliance with cos' legislation	χ^2	0.94	2.06	0.14
		signif	0.33	0.15	0.71
2.7	Report breaches of tax laws to IRD	χ^2	0.00	8.87	6.65
		signif	1.00	0.00	0.01
2.8a	Detect theft of corporate assets by non-managerial employees	χ^2	8.42	0.99	1.70
		signif	0.00	0.32	0.19
2.8b	Detect theft of corporate assets by co. directors/ senior management	χ^2	4.21	0.17	1.21
		signif	0.04	0.68	0.27
2.9	Detect deliberate distortion of financial information	χ^2	0.00	0.22	0.25
		signif	1.00	0.64	0.62
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	χ^2	0.49	0.00	0.47
		signif	0.48	0.97	0.49
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	χ^2	0.01	0.35	0.10
		signif	0.93	0.56	0.75
2.10c	Report to a regulatory authority deliberate distortion of financial information	χ^2	0.02	1.65	0.85
		signif	0.90	0.20	0.36
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	χ^2	5.80	0.00	4.20
		signif	0.02	1.00	0.04
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	χ^2	1.13	0.38	2.23
		signif	0.29	0.54	0.14
2.11c	Disclose in audit report deliberate distortion of financial information	χ^2	0.00	1.00	0.89
		signif	1.00	0.32	0.34
2.12	Report to a regulatory authority suspicions of fraud	χ^2	1.22	0.40	2.43
		signif	0.27	0.53	0.12
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	χ^2	6.39	0.07	2.51
		signif	0.01	0.79	0.11
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	χ^2	0.00	16.77	12.56
		signif	1.00	0.00	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	χ^2	0.49	0.32	0.00
		signif	0.48	0.57	1.00
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	χ^2	0.15	10.38	10.19
		signif	0.70	0.00	0.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	χ^2	1.08	6.79	10.69
		signif	0.30	0.01	0.00
2.16	Examine & report on fairness of non-financial information	χ^2	1.03	16.47	6.94
		signif	0.31	0.00	0.01
2.17	Examine & report on co's internal controls	χ^2	0.60	0.04	0.06
		signif	0.44	0.84	0.81

Appendix 5g5 continued ...

Duty No.	Role sender subgroups the proportions of whose responses are compared		Ex & Dir[2]/ Accountants[3]	Ex & Dir[2]/ Int Aud[4]	Accountants[3]/ Int Aud[4]
	Suggested Duties of Auditors[1]				
2.18	Examine & report on efficiency & effectiveness of co's management	χ^2	0.01	34.23	27.62
		signif	0.91	0.00	0.00
2.19	Audit published half-yearly co. reports	χ^2	0.18	0.00	0.01
		signif	0.68	0.96	0.91
2.20	Examine & report on fairness of financial forecasts	χ^2	0.90	3.98	6.99
		signif	0.34	0.05	0.01
2.21	Consider & report on co's impact on its local community	χ^2	0.00	17.96	11.55
		signif	1.00	0.00	0.00
2.22	Verify every transaction of auditee co.	χ^2	0.54	0.72	2.39
		signif	0.46	0.39	0.12

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of company executives and non-executive directors.
3 Company accountants
4 Internal auditors

Differences in responses not significant at a significance level of 0.05.

Appendix 5h1

Duties Auditors Should Perform

Means of responses from subgroups of financial community audit beneficiaries

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*	Analysts Stockbrokers Investors[2] *144*	Corporate Bankers *100*	Auditing Academics *16*
	Suggested Duties of Auditors[1]	*Mean* %	*Mean* %	*Mean* %
2.1	Prepare auditee co's financial statements	-89	-84	-100
2.2	Guarantee financial statements are accurate	-47	-34	-88
2.3	State whether financial statements fairly reflect co's affairs	97	96	100
2.4	Guarantee auditee co. is solvent	-23	-16	-44
2.5a	Report to a regulatory authority doubts about co's continued existence	29	41	56
2.5b	Express doubts in audit report about co's continued existence	63	70	56
2.6	Ensure compliance with cos' legislation	45	52	38
2.7	Report breaches of tax laws to IRD	-52	-11	-56
2.8a	Detect theft of corporate assets by non-managerial employees	36	40	-31
2.8b	Detect theft of corporate assets by co. directors/senior management	65	63	19
2.9	Detect deliberate distortion of financial information	95	98	88
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	-4	-4	-75
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	64	68	6
2.10c	Report to a regulatory authority deliberate distortion of financial information	66	76	38
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	-22	-17	-75
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	56	55	-13
2.11c	Disclose in audit report deliberate distortion of financial information	90	93	69
2.12	Report to a regulatory authority suspicions of fraud	49	46	-50
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	46	60	56
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	-58	-56	-63
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	29	53	31
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	-57	-52	-40
2.15	Report to a regulatory authority illegal acts uncovered in co.	24	51	-13
2.16	Examine & report on fairness of non-financial information	-35	-53	25
2.17	Examine & report on co's internal controls	55	66	6
2.18	Examine & report on efficiency & effectiveness of co's management	-58	-51	-19
2.19	Audit published half-yearly co. reports	43	54	25
2.20	Examine & report on fairness of financial forecasts	19	41	6
2.21	Consider & report on co's impact on its local community	-88	-93	-88
2.22	Verify every transaction of auditee co.	-79	-79	-94

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Combined group of financial analysts, stockbrokers and institutional investors.

Appendix 5h2

Duties Auditors Should Perform

Proportion of subgroups of financial community audit beneficiaries selecting each response option

Duty No.	Role Sender Subgroup / *No. of respondents in subgroup*	Analysts Stockbrokers Investors[2] *144*			Corporate Bankers *100*			Auditing Academics *16*		
	Suggested Duties of Auditors[1]	Yes %	No %	Not Sure %	Yes %	No %	Not Sure %	Yes %	No %	Not Sure %
2.1	Prepare auditee co's financial statements	4	93	3	7	91	2	0	100	0
2.2	Guarantee financial statements are accurate	25	72	4	30	63	7	6	94	0
2.3	State whether financial statements fairly reflect co's affairs	99	1	0	98	2	0	100	0	0
2.4	Guarantee auditee co. is solvent	33	58	7	39	55	6	25	69	6
2.5a	Report to a regulatory authority doubts about co's continued existence	59	29	12	68	26	6	69	13	19
2.5b	Express doubts in audit report about co's continued existence	79	16	4	83	12	5	75	19	6
2.6	Ensure compliance with cos' legislation	70	25	5	74	21	5	63	25	13
2.7	Report breaches of tax laws to IRD	20	72	9	41	52	7	19	75	6
2.8a	Detect theft of corporate assets by non-managerial employees	61	25	14	65	26	9	19	50	31
2.8b	Detect theft of corporate assets by co. directors/senior management	77	12	11	79	15	6	50	31	19
2.9	Detect deliberate distortion of financial information	97	2	1	99	1	0	94	6	0
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	42	46	13	43	48	9	6	81	13
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	79	15	6	81	13	6	50	44	6
2.10c	Report to a regulatory authority deliberate distortion of financial information	80	14	6	87	11	2	63	25	13
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	32	54	14	38	55	7	6	81	13
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	75	19	6	76	20	4	38	50	13
2.11c	Disclose in audit report deliberate distortion of financial information	93	3	4	96	3	1	81	13	6
2.12	Report to a regulatory authority suspicions of fraud	70	21	9	72	26	2	19	69	13
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	69	23	8	77	16	7	69	13	19
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	17	75	9	19	76	5	13	75	13
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	61	31	8	72	19	9	56	25	19
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	17	73	10	20	72	7	20	60	20
2.15	Report to a regulatory authority illegal acts uncovered in co.	56	32	12	72	21	7	33	47	20
2.16	Examine & report on fairness of non-financial information	28	63	9	22	75	3	56	31	13
2.17	Examine & report on co's internal controls	75	20	5	83	17	1	50	44	6
2.18	Examine & report on efficiency & effectiveness of co's management	16	74	9	21	72	7	38	56	6
2.19	Audit published half-yearly co. reports	67	23	10	76	22	2	50	25	25
2.20	Examine & report on fairness of financial forecasts	55	36	9	69	28	3	50	44	6
2.21	Consider & report on co's impact on its local community	4	92	4	2	95	3	6	94	0
2.22	Verify every transaction of auditee co.	9	87	4	9	89	2	0	94	6

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Combined group of financial analysts, stockbrokers and institutional investors.

Appendix 5h3

Duties Auditors Should Perform

Results of Wilcoxon signed-ranks test applied to responses from subgroups of financial community audit beneficiaries

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*		Analysts Stockbrokers Investors[2] *144*	Corporate Bankers *100*	Auditing Academics *16*
	Suggested Duties of Auditors[1]				
2.1	Prepare auditee co's financial statements	z score	-9.31	-7.22	-3.52
		probab	0.00	0.00	0.00
2.2	Guarantee financial statements are accurate	z score	-4.97	-3.00	-3.08
		probab	0.00	0.00	0.00
2.3	State whether financial statements fairly reflect co's affairs	z score	-10.05	-8.24	-3.52
		probab	0.00	0.00	0.00
2.4	Guarantee auditee co. is solvent	z score	-2.42	-1.45	-1.59
		probab	0.02	0.15	0.11
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-3.25	-3.69	-2.20
		probab	0.00	0.00	0.03
2.5b	Express doubts in audit report about co's continued existence	z score	-6.65	-6.21	-2.04
		probab	0.00	0.00	0.04
2.6	Ensure compliance with cos' legislation	z score	-4.80	-4.59	-1.41
		probab	0.00	0.00	0.16
2.7	Report breaches of tax laws to IRD	z score	-5.58	-1.00	-2.04
		probab	0.00	0.32	0.04
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-4.02	-3.59	-1.33
		probab	0.00	0.00	0.18
2.8b	Detect theft of corporate assets by co. directors/senior management	z score	-7.11	-5.61	-0.73
		probab	0.00	0.00	0.46
2.9	Detect deliberate distortion of financial information	z score	-9.79	-8.42	-3.08
		probab	0.00	0.00	0.00
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-0.39	-0.37	-2.82
		probab	0.70	0.71	0.00
2.10b	Report to a regulatory authority misappropriation of of assets by co. directors/senior management	z score	-6.90	-6.03	-0.23
		probab	0.00	0.00	0.82
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	-7.09	-6.61	-1.41
		probab	0.00	0.00	0.16
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-2.45	-1.55	-2.82
		probab	0.01	0.12	0.00
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-5.89	-4.84	-0.47
		probab	0.00	0.00	0.64
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-9.40	-7.93	-2.50
		probab	0.00	0.00	0.01
2.12	Report to a regulatory authority suspicions of fraud	z score	-5.31	-3.94	-1.88
		probab	0.00	0.00	0.06
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-4.97	-5.37	-2.20
		probab	0.00	0.00	0.03
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-6.18	-4.88	-2.35
		probab	0.00	0.00	0.02
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-3.13	-4.68	-1.22
		probab	0.00	0.00	0.22
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-6.13	-4.56	-1.53
		probab	0.00	0.00	0.13
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-2.65	-4.51	-0.51
		probab	0.01	0.00	0.61
2.16	Examine & report on fairness of non-financial information	z score	-3.74	-4.59	-0.94
		probab	0.00	0.00	0.35

Appendix 5h3 continued ...

Duty No.	Role Sender Subgroup / *No. of respondents in subgroup*		Analysts Stockbrokers Investors[2] *144*	Corporate Bankers *100*	Auditing Academics *16*
	Suggested Duties of Auditors[1]				
2.17	Examine & report on co's internal controls	z score	-5.79	-5.67	-0.23
		probab	0.00	0.00	0.82
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-6.24	-4.51	-0.68
		probab	0.00	0.00	0.50
2.19	Audit published half-yearly co. reports	z score	-4.70	-4.66	-1.02
		probab	0.00	0.00	0.31
2.20	Examine & report on fairness of financial forecasts	z score	-2.06	-3.51	-0.23
		probab	0.04	0.00	0.82
2.21	Consider & report on co's impact on its local community	z score	-9.23	-7.97	-3.08
		probab	0.00	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-8.29	-6.81	-3.41
		probab	0.00	0.00	0.00

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Combined group of financial analysts, stockbrokers and institutional investors.

Differences in responses not significant at a significance level of 0.05.

Appendix 5h4

Duties Auditors Should Perform

Results of Mann-Whitney test comparing responses from subgroups of financial community audit beneficiaries

Duty No.	Role sender subgroups whose responses are compared		Analysts Stockbrokers Investors[2]/ Bankers[3]	Analysts Stockbrokers Investors[2]/ Academics[4]	Bankers[3]/ Academics[4]
	Suggested Duties of Auditors[1]				
2.1	Prepare auditee co's financial statements	z score	-0.69	-1.12	-1.31
		probab	0.49	0.26	0.19
2.2	Guarantee financial statements are accurate	z score	-1.55	-1.86	-2.46
		probab	0.12	0.06	0.01
2.3	State whether financial statements fairly reflect co's affairs	z score	-1.10	-0.49	0.00
		probab	0.27	0.63	1.00
2.4	Guarantee auditee co. is solvent	z score	-0.92	-0.73	-1.16
		probab	0.36	0.46	0.25
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-1.06	-1.09	-0.45
		probab	0.29	0.28	0.65
2.5b	Express doubts in audit report about co's continued existence	z score	-1.34	-0.28	-1.05
		probab	0.18	0.78	0.29
2.6	Ensure compliance with cos' legislation	z score	-0.49	-0.38	-0.65
		probab	0.63	0.70	0.52
2.7	Report breaches of tax laws to IRD	z score	-3.87	-0.19	-2.02
		probab	0.00	0.85	0.04
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-0.62	-3.02	-3.17
		probab	0.53	0.00	0.00
2.8b	Detect theft of corporate assets by co. directors/ senior management	z score	-0.29	-2.29	-2.25
		probab	0.77	0.02	0.02
2.9	Detect deliberate distortion of financial information	z score	-0.84	-0.69	-1.30
		probab	0.40	0.49	0.20
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	-0.21	-2.93	-2.80
		probab	0.83	0.00	0.01
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-0.51	-2.67	-2.82
		probab	0.61	0.01	0.00
2.10c	Report to a regulatory authority deliberate distortion of financial information.	z score	-1.15	-1.58	-2.23
		probab	0.25	0.11	0.03
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	-0.45	-2.20	-2.24
		probab	0.66	0.03	0.03
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-0.34	-3.09	-3.12
		probab	0.74	0.00	0.00
2.11c	Disclose in audit report deliberate distortion of financial information	z score	-0.70	-1.55	-1.93
		probab	0.48	0.12	0.05
2.12	Report to a regulatory authority suspicions of fraud	z score	-0.16	-4.19	-3.84
		probab	0.88	0.00	0.00
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-1.84	-0.26	-0.85
		probab	0.07	0.79	0.40
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	-0.49	-0.02	-0.27
		probab	0.63	0.99	0.79
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-2.34	-0.02	-1.38
		probab	0.02	0.98	0.17
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	-0.75	-1.08	-0.57
		probab	0.45	0.28	0.57
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-2.33	-1.67	-2.96
		probab	0.02	0.09	0.00
2.16	Examine & report on fairness of non-financial information	z score	-1.49	-2.65	-3.34
		probab	0.14	0.01	0.00

Appendix 5h4 continued ...

Duty No.	Role sender subgroups whose responses are compared		Analysts Stockbrokers Investors[2]/ Bankers[3]	Analysts Stockbrokers Investors[2]/ Academics[4]	Bankers[3]/ Academics[4]
	Suggested Duties of Auditors[1]				
2.17	Examine & report on co's internal controls	z score	-1.22	-2.14	-2.74
		probab	0.22	0.03	0.01
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-0.61	-1.82	-1.35
		probab	0.54	0.07	0.18
2.19	Audit published half-yearly co. reports	z score	-1.15	-0.97	-1.62
		probab	0.25	0.33	0.11
2.20	Examine & report on fairness of financial forecasts	z score	-2.09	-0.44	-1.53
		probab	0.04	0.66	0.13
2.21	Consider & report on co's impact on its local community	z score	-0.90	-0.24	-0.23
		probab	0.37	0.81	0.82
2.22	Verify every transaction of auditee co.	z score	-0.12	-0.88	-0.90
		probab	0.90	0.38	0.37

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of financial analysts, stockbrokers and institutional investors.
3 Corporate bankers
4 Auditing academics

Differences in responses not significant at a significance level of 0.05.

Appendix 5h5

Duties Auditors Should Perform

Results of Chi-square test comparing proportions of subgroups of financial community audit beneficiaries signifying auditors should perform the duty

Duty No.	Role sender subgroups the proportions of whose responses are compared		Analysts Stockbrokers Investors[2]/ Bankers[3]	Analysts Stockbrokers Investors[2]/ Academics[4]	Bankers[3]/ Academics[4]
	Suggested Duties of Auditors[1]				
2.1	Prepare auditee co's financial statements	z score	0.92	0.03	0.48
		probab	0.34	0.85	0.49
2.2	Guarantee financial statements are accurate	z score	1.02	1.77	3.16
		probab	0.31	0.18	0.08
2.3	State whether financial statements fairly reflect co's affairs	z score	0.14	0.00	-
		probab	0.71	1.00	-
2.4	Guarantee auditee co. is solvent	z score	0.78	0.15	0.75
		probab	0.38	0.70	0.39
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	1.38	0.30	0.00
		probab	0.24	0.58	1.00
2.5b	Express doubts in audit report about co's continued existence	z score	1.20	0.00	0.43
		probab	0.27	1.00	0.51
2.6	Ensure compliance with cos' legislation	z score	0.06	0.08	0.21
		probab	0.81	0.78	0.65
2.7	Report breaches of tax laws to IRD	z score	13.75	0.00	2.56
		probab	0.00	1.00	0.11
2.8a	Detect theft of corporate assets by non-managerial employees	z score	0.53	8.83	11.02
		probab	0.47	0.00	0.00
2.8b	Detect theft of corporate assets by co. directors/ senior management	z score	0.14	3.74	4.59
		probab	0.71	0.05	0.03
2.9	Detect deliberate distortion of financial information	z score	0.14	0.00	0.11
		probab	0.70	1.00	0.74
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees	z score	0.45	6.28	7.83
		probab	0.50	0.01	0.01
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	0.13	4.93	5.83
		probab	0.71	0.03	0.02
2.10c	Report to a regulatory authority deliberate distortion of financial information	z score	1.06	1.69	3.87
		probab	0.30	0.19	0.05
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees	z score	1.01	3.26	5.05
		probab	0.31	0.07	0.02
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	0.04	7.80	8.14
		probab	0.84	0.01	0.00
2.11c	Disclose in audit report deliberate distortion of financial information	z score	0.21	1.07	2.02
		probab	0.65	0.30	0.15
2.12	Report to a regulatory authority suspicions of fraud	z score	0.13	13.61	14.39
		probab	0.72	0.00	0.00
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	2.78	0.00	0.51
		probab	0.10	1.00	0.48
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	z score	0.55	0.00	0.14
		probab	0.46	1.00	0.71
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	4.25	0.00	1.48
		probab	0.04	0.98	0.22
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	z score	1.47	0.01	0.00
		probab	0.23	0.91	1.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	5.33	2.27	7.83
		probab	0.02	0.13	0.01
2.16	Examine & report on fairness of non-financial information	z score	0.30	4.56	5.94
		probab	0.58	0.03	0.01

Appendix 5h5 continued ...

Duty No.	Role sender subgroups the proportions of whose responses are compared		Analysts Stockbrokers Investors[2]/ Bankers[3]	Analysts Stockbrokers Investors[2]/ Academics[4]	Bankers[3]/ Academics[4]
	Suggested Duties of Auditors[1]				
2.17	Examine & report on co's internal controls	z score	1.47	3.17	6.40
		probab	0.23	0.08	0.01
2.18	Examine & report on efficiency & effectiveness of co's management	z score	0.95	3.56	1.14
		probab	0.33	0.06	0.28
2.19	Audit published half-yearly co. reports	z score	1.49	1.04	3.03
		probab	0.22	0.31	0.08
2.20	Examine & report on fairness of financial forecasts	z score	4.67	0.00	1.58
		probab	0.03	0.97	0.21
2.21	Consider & report on co's impact on its local community	z score	0.76	0.00	0.10
		probab	0.38	1.00	0.76
2.22	Verify every transaction of auditee co.	z score	0.10	0.58	0.88
		probab	0.76	0.45	0.35

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of financial analysts, stockbrokers and institutional investors.
3 Corporate bankers
4 Auditing academics

Differences in responses not significant at a significance level of 0.05.

Appendix 5I1

Duties Auditors Should Perform

Means of responses from subgroups of general public audit beneficiaries

Duty No.	Role Sender Subgroup *No. of respondents in subgroup* ***Suggested Duties of Auditors***[1]	Branch Bank Managers *86* *Mean* *%*	Lawyers *72* *Mean* *%*	Financial Journalists *41* *Mean* *%*	Group From Electoral Rolls *259*[2] *Mean* *%*
2.1	Prepare auditee co's financial statements	-72	-86	-66	-36
2.2	Guarantee financial statements are accurate	22	-29	5	61
2.3	State whether financial statements fairly reflect co's affairs	98	99	97	91
2.4	Guarantee auditee co. is solvent	7	-26	11	41
2.5a	Report to a regulatory authority doubts about co's continued existence				
2.5b	Express doubts in audit report about co's continued existence	56	65	76	58
2.6	Ensure compliance with cos' legislation	79	6	37	67
2.7	Report breaches of tax laws to IRD	33	-53	37	17
2.8a	Detect theft of corporate assets by non-managerial employees				
2.8b	Detect theft of corporate assets by co. directors/ senior management	76	80	61	89
2.9	Detect deliberate distortion of financial information	-	-	-	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees				
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	76	59	68	63
2.10c	Report to a regulatory authority deliberate distortion of financial information				
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees				
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	50	56	53	64
2.11c	Disclose in audit report deliberate distortion of financial information				
2.12	Report to a regulatory authority suspicions of fraud	-	-	-	-
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts				
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	57	35	29	73
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts				
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	50	56	53	64
2.15	Report to a regulatory authority illegal acts uncovered in co.	76	59	68	63
2.16	Examine & report on fairness of non-financial information	-	-	-	-
2.17	Examine & report on co's internal controls	-	-	-	-
2.18	Examine & report on efficiency & effectiveness of co's management	-	-	-	-
2.19	Audit published half-yearly co. reports	-	-	-	-
2.20	Examine & report on fairness of financial forecasts	-	-	-	-
2.21	Consider & report on co's impact on its local community	-66	-82	-61	-20
2.22	Verify every transaction of auditee co.	-43	-67	-18	6

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Total of 259 includes 75 respondents who signified they had no knowledge auditing and therefore could not respond to Part 2 of the questionnaire.

Appendix 5I2

Duties Auditors Should Perform

Proportion of subgroups of general public audit beneficiaries selecting each response option

	Role Sender Subgroup	Branch Bank Managers			Lawyers			Financial Journalists			Group From Electoral Rolls		
	No. of respondents in subgroup	*86*			*72*			*41*			*259*[2]		
Duty No.	***Suggested Duties of Auditors***[1]	Yes %	No %	Not Sure %	Yes %	No %	Not Sure %	Yes %	No %	Not Sure %	Yes %	No %	Not Sure %
2.1	Prepare auditee co's financial statements	12	84	4	5	91	5	13	79	8	27	63	10
2.2	Guarantee financial statements are accurate	57	35	7	33	62	5	50	45	5	76	15	9
2.3	State whether financial statements fairly reflect co's affairs	99	1	0	99	0	2	97	0	3	92	1	7
2.4	Guarantee auditee co. is solvent	49	42	10	32	58	11	50	40	11	62	22	16
2.5a	Report to a regulatory authority doubts about co's continued existence	-	-	-	-	-	-	-	-	-	-	-	-
2.5b	Express doubts in audit report about co's continued existence	72	16	12	79	14	8	82	5	13	71	14	15
2.6	Ensure compliance with cos' legislation	87	7	6	49	42	9	61	24	16	73	6	21
2.7	Report breaches of tax laws to IRD	61	28	11	20	73	8	61	24	16	49	31	20
2.8a	Detect theft of corporate assets by non-managerial employees	84	9	7	89	9	2	71	11	18	92	3	6
2.8b	Detect theft of corporate assets by co. directors/senior management												
2.9	Detect deliberate distortion of financial information	-	-	-	-	-	-	-	-	-	-	-	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees												
2.10b	Report to a regulatory authority mis-appropriation of co. assets by co. directors/senior management	84	9	7	73	14	14	74	5	21	74	11	15
2.10c	Report to a regulatory authority deliberate distortion of financial information												
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees												
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	68	18	13	74	18	8	71	18	11	75	11	13
2.11c	Disclose in audit report deliberate distortion of financial information												
2.12	Report to a regulatory authority suspicions of fraud	-	-	-	-	-	-	-	-	-	-	-	-
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts												
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	74	17	9	64	29	8	50	21	29	80	7	13
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts												
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	68	18	13	74	18	7	71	18	11	75	11	13
2.15	Report to a regulatory authority illegal acts uncovered in co.	84	9	7	73	14	14	74	5	21	74	11	15

Appendix 5I2 continued ...

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*	Branch Bank Managers *86*			Lawyers *72*			Financial Journalists *41*			Group From Electoral Rolls *259*[2]		
	Suggested Duties of Auditors[1]	Yes %	No %	Not Sure %	Yes %	No %	Not Sure %	Yes %	No %	Not Sure %	Yes %	No %	Not Sure %
2.16	Examine & report on fairness of non-financial information	-	-	-	-	-	-	-	-	-	-	-	-
2.17	Examine & report on co's internal controls	-	-	-	-	-	-	-	-	-	-	-	-
2.18	Examine & report on efficiency & effective-ness of co's management	-	-	-	-	-	-	-	-	-	-	-	-
2.19	Audit published half-yearly co. reports	-	-	-	-	-	-	-	-	-	-	-	-
2.20	Examine & report on fairness of financial forecasts	-	-	-	-	-	-	-	-	-	-	-	-
2.21	Consider & report on co's impact on its local community	10	76	15	6	88	6	13	74	13	28	48	24
2.22	Verify every transaction of auditee co.	22	65	13	14	80	6	29	47	24	43	37	19

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Total of 259 includes 75 respondents who signified they had no knowledge of auditing and therefore could not respond to Part 2 of the questionnaire.

Appendix 5I3

Duties Auditors Should Perform

Results of Wilcoxon signed-ranks test applied to responses from subgroups of general public audit beneficiaries

Duty No.	Role Sender Subgroup / *No. of respondents in subgroup*		Branch Bank Managers *86*	Lawyers *72*	Financial Journalists *41*	Group From Electoral Rolls *259*
	Suggested Duties of Auditors[1]					
2.1	Prepare auditee co's financial statements	z score	-5.77	-6.24	-3.69	-4.44
		probab	0.00	0.00	0.00	0.00
2.2	Guarantee financial statements are accurate	z score	~~-1.79~~	-2.08	~~-0.29~~	-7.27
		probab	~~0.07~~	0.04	~~0.77~~	0.00
2.3	State whether financial statements fairly reflect co's affairs	z score	-7.67	-7.06	-5.30	-10.80
		probab	0.00	0.00	0.00	0.00
2.4	Guarantee auditee co. is solvent	z score	~~-0.61~~	~~-1.92~~	~~-0.60~~	-5.03
		probab	~~0.54~~	~~0.05~~	~~0.55~~	0.00
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-	-	-	-
		probab	-	-	-	-
2.5b	Express doubts in audit report about co's continued existence	z score	-4.71	-4.79	-4.40	-7.13
		probab	0.00	0.00	0.00	0.00
2.6	Ensure compliance with cos' legislation	z score	-6.44	~~-0.45~~	-2.16	-8.57
		probab	0.00	~~0.65~~	0.03	0.00
2.7	Report breaches of tax laws to IRD	z score	-2.75	-3.90	-2.16	-2.13
		probab	0.01	0.00	0.03	0.03
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-6.18	-5.71	-3.61	-10.47
2.8b	Detect theft of corporate assets by co. directors/senior management	probab	0.00	0.00	0.00	0.00
2.9	Detect deliberate distortion of financial information	z score	-	-	-	-
		probab	-	-	-	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees					
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/senior management	z score	-6.18	-4.49	-4.14	-7.84
		probab	0.00	0.00	0.00	0.00
2.10c	Report to a regulatory authority deliberate distortion of financial information					
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees					
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	z score	-4.23	-4.12	-2.99	-7.84
		probab	0.00	0.00	0.00	0.00
2.11c	Disclose in audit report deliberate distortion of financial information					
2.12	Report to a regulatory authority suspicions of fraud	z score	-	-	-	-
		probab	-	-	-	-
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-4.72	-2.56	~~-1.85~~	-8.91
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	probab	0.00	0.01	~~0.06~~	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-4.23	-4.12	-2.99	-7.84
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	probab	0.00	0.00	0.00	0.00
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-6.18	-4.49	-4.14	-7.84
		probab	0.00	0.00	0.00	0.00
2.16	Examine & report on fairness of non-financial information	z score	-	-	-	-
		probab	-	-	-	-

Appendix 5I3 continued ...

Duty No.	Role Sender Subgroup *No. of respondents in subgroup*		Branch Bank Managers *86*	Lawyers *72*	Financial Journalists *41*	Group From Electoral Rolls *259*
	Suggested Duties of Auditors [1]					
2.17	Examine & report on co's internal controls	z score	-	-	-	-
		probab	-	-	-	-
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-	-	-	-
		probab	-	-	-	-
2.19	Audit published half-yearly co. reports	z score	-	-	-	-
		probab	-	-	-	-
2.20	Examine & report on fairness of financial forecasts	z score	-	-	-	-
		probab	-	-	-	-
2.21	Consider & report on co's impact on its local community	z score	-5.61	-5.96	-3.49	-2.72
		probab	0.00	0.00	0.00	0.01
2.22	Verify every transaction of auditee co.	z score	-3.61	-4.86	-1.14	-0.73
		probab	0.00	0.00	0.26	0.46

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 5I4

Duties Auditors Should Perform

Results of Mann-Whitney test comparing responses from subgroups of general public audit beneficiaries

Duty No.	Role sender subgroups whose responses are compared		Bankers[2]/ Lawyers	Bankers[2]/ Jnlsts[3]	Bankers[2]/ GER[4]	Lawyers/ Jnlsts[3]	Lawyers/ GER[4]	Jnlsts[3]/ GER[4]
	Suggested Duties of Auditors[1]							
2.1	Prepare auditee co's financial statements	z score	-1.60	-0.30	-3.29	-1.72	-4.51	-2.19
		probab	0.11	0.76	0.00	0.09	0.00	0.03
2.2	Guarantee financial statements are accurate	z score	-3.20	-0.95	-3.35	-1.69	-6.79	-3.64
		probab	0.00	0.34	0.00	0.09	0.00	0.00
2.3	State whether financial statements fairly reflect co's affairs	z score	-0.14	-0.56	-2.12	-0.42	-1.87	-1.15
		probab	0.89	0.58	0.03	0.68	0.06	0.25
2.4	Guarantee auditee co. is solvent	z score	-2.14	-0.10	-2.66	-1.85	-5.03	-1.89
		probab	0.03	0.92	0.01	0.06	0.00	0.06
2.5a	Report to a regulatory authority doubts about co's continued existence	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.5b	Express doubts in audit report about co's continued existence	z score	-0.87	-1.25	-0.03	-0.48	-0.97	-1.35
		probab	0.38	0.21	0.98	0.63	0.33	0.18
2.6	Ensure compliance with cos' legislation	z score	-5.21	-3.28	-2.18	-1.53	-4.75	-2.07
		probab	0.00	0.00	0.03	0.12	0.00	0.04
2.7	Report breaches of tax laws to IRD	z score	-5.68	-0.06	-1.58	-4.82	-5.49	-1.15
		probab	0.00	0.95	0.11	0.00	0.00	0.25
2.8a	Detect theft of corporate assets by non-managerial employees	z score	-0.82	-1.59	-1.85	-2.19	-0.62	-3.55
2.8b	Detect theft of corporate assets by co. directors/ senior management	probab	0.41	0.11	0.07	0.03	0.53	0.00
2.9	Detect deliberate distortion of financial information	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees							
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/ senior management	z score	-1.44	-0.85	-1.56	-0.48	-0.18	-0.37
		probab	0.15	0.40	0.12	0.65	0.86	0.71
2.10c	Report to a regulatory authority deliberate distortion of financial information							
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees							
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/ senior management	z score	-0.63	-0.19	-1.34	-0.33	-0.48	-0.77
		probab	0.53	0.85	0.18	0.75	0.65	0.44
2.11c	Disclose in audit report deliberate distortion of financial information							
2.12	Report to a regulatory authority suspicions of fraud	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-

Appendix 5i4 continued ...

Duty No.	Role sender subgroups whose responses are compared		Bankers[2]/ Lawyers	Bankers[2]/ Jnlsts[3]	Bankers[2]/ GER[4]	Lawyers/ Jnlsts[3]	Lawyers/ GER[4]	Jnlsts[3]/ GER[4]
	Suggested Duties of Auditors[1]							
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	z score	-1.56	-2.30	-1.31	-0.70	-3.14	-3.97
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	probab	0.12	0.02	0.19	0.48	0.00	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	z score	-0.63	-0.19	-1.34	-0.33	-0.45	-0.77
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	probab	0.53	0.85	0.18	0.75	0.65	0.44
2.15	Report to a regulatory authority illegal acts uncovered in co.	z score	-1.44	-0.85	-1.56	-0.45	-0.18	-0.37
		probab	0.15	0.40	0.12	0.65	0.86	0.71
2.16	Examine & report on fairness of non-financial information	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.17	Examine & report on co's internal controls	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.18	Examine & report on efficiency & effectiveness of co's management	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.19	Audit published half-yearly co. reports	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.20	Examine & report on fairness of financial forecasts	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
2.21	Consider & report on co's impact on its local community	z score	-2.12	-0.01	-4.18	-1.80	-5.65	-3.03
		probab	0.03	0.99	0.00	0.07	0.00	0.00
2.22	Verify every transaction of auditee co.	z score	-2.24	-1.37	-4.00	-3.26	-5.82	-1.73
		probab	0.03	0.17	0.00	0.00	0.00	0.08

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Branch bank managers
3 Financial journalists
4 Group selected from electoral rolls

Differences in responses not significant at a significance level of 0.05.

Appendix 5I5

Duties Auditors Should Perform

Results of Chi-Square test comparing proportions of subgroups of general public audit beneficiaries signifying auditors should perform the duty

Duty No.	Role sender subgroups the proportions of whose responses are compared / *Suggested Duties of Auditors*[1]		Bankers[2]/ Lawyers	Bankers[2]/ Jnlsts[3]	Bankers[2]/ GER[4]	Lawyers/ Jnlsts[3]	Lawyers/ GER[4]	Jnlsts[3]/ GER[4]
2.1	Prepare auditee co's financial statements.	χ^2	2.97	0.00	5.71	1.34	14.80	3.36
		signif	0.08	1.00	0.02	0.25	0.00	0.07
2.2	Guarantee financial statements are accurate	χ^2	7.75	0.39	8.65	2.02	37.10	9.71
		signif	0.01	0.53	0.00	0.16	0.00	0.00
2.3	State whether financial statements fairly reflect co's affairs	χ^2	0.00	0.00	3.48	0.00	2.46	0.63
		signif	1.00	1.00	0.06	1.00	0.12	0.43
2.4	Guarantee auditee co. is solvent	χ^2	3.83	0.00	3.70	2.50	17.11	1.69
		signif	0.05	1.00	0.05	0.11	0.00	0.19
2.5a	Report to a regulatory authority doubts about co's continued existence	χ^2	-	-	-	-	-	-
		signif	-	-	-	-	-	-
2.5b	Express doubts in audit report about co's continued existence	χ^2	0.57	0.76	0.00	0.00	0.96	1.07
		signif	0.45	0.38	1.00	0.95	0.33	0.30
2.6	Ensure compliance with cos' legislation	χ^2	23.58	9.23	5.03	0.88	12.20	2.02
		signif	0.00	0.00	0.02	0.35	0.00	0.16
2.7	Report breaches of tax laws to IRD	χ^2	25.89	0.00	3.38	16.04	16.55	1.05
		signif	0.00	0.98	0.07	0.00	0.00	0.31
2.8a	Detect theft of corporate assets by non-managerial employees	χ^2	0.46	2.18	2.41	4.60	0.07	10.71
2.8b	Detect theft of corporate assets by co. directors/ senior management	signif	0.50	0.14	0.12	0.03	0.80	0.00
2.9	Detect deliberate distortion of financial information	χ^2	-	-	-	-	-	-
		signif	-	-	-	-	-	-
2.10a	Report to a regulatory authority theft of corporate assets by non-managerial employees							
2.10b	Report to a regulatory authority misappropriation of co. assets by co. directors/ senior management	χ^2	1.68	0.67	2.28	0.00	0.00	0.00
		signif	0.20	0.41	0.13	1.00	1.00	1.00
2.10c	Report to a regulatory authority deliberate distortion of financial information							
2.11a	Disclose in audit report theft of corporate assets by non-managerial employees							
2.11b	Disclose in audit report misappropriation of co. assets by co. directors/senior management	χ^2	0.36	0.00	1.12	0.03	0.00	0.17
		signif	0.55	0.97	0.29	0.87	0.97	0.68
2.11c	Disclose in audit report deliberate distortion of financial information							
2.12	Report to a regulatory authority suspicions of fraud	χ^2	-	-	-	-	-	-
		signif	-	-	-	-	-	-

Appendix 5I5 continued ...

Duty No.	Role sender subgroups the proportions of whose responses are compared / *Suggested Duties of Auditors*[1]		Bankers[2]/ Lawyers	Bankers[2]/ Jnlsts[3]	Bankers[2]/ GER[4]	Lawyers/ Jnlsts[3]	Lawyers/ GER[4]	Jnlsts[3]/ GER[4]
2.13a	Detect illegal acts by co. officials which directly impact on co's accounts	χ^2	1.56	6.24	0.78	1.46	6.32	14.04
2.13b	Detect illegal acts by co. officials which do not directly impact on co's accounts	signif	0.21	0.01	0.38	0.23	0.01	0.00
2.14a	Disclose in audit report illegal acts which directly impact on co's accounts	χ^2	0.36	0.00	1.12	0.03	0.00	0.17
2.14b	Disclose in audit report illegal acts which do not directly impact on co's accounts	signif	0.55	0.97	0.29	0.87	0.97	0.68
2.15	Report to a regulatory authority illegal acts uncovered in co.	χ^2	1.68	0.67	2.28	0.00	0.00	0.00
		signif	0.20	0.41	0.13	1.00	1.00	1.00
2.16	Examine & report on fairness of non-financial information	χ^2	-	-	-	-	-	-
		signif	-	-	-	-	-	-
2.17	Examine and report on co's internal controls	χ^2	-	-	-	-	-	-
		signif	-	-	-	-	-	-
2.18	Examine & report on efficiency & effectiveness of co's management	χ^2	-	-	-	-	-	-
		signif	-	-	-	-	-	-
2.19	Audit published half-yearly co. reports	χ^2	-	-	-	-	-	-
		signif	-	-	-	-	-	-
2.20	Examine & report on fairness of financial forecasts	χ^2	-	-	-	-	-	-
		signif	-	-	-	-	-	-
2.21	Consider & report on co's impact on its local community	χ^2	0.78	0.00	9.24	0.61	13.67	3.83
		signif	0.38	1.00	0.00	0.43	0.00	0.05
2.22	Verify every transaction of auditee co.	χ^2	1.79	0.11	9.72	2.58	18.71	2.73
		signif	0.18	0.74	0.00	0.11	0.00	0.10

1 The duties as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Branch bank managers
3 Financial journalists
4 Group selected from electoral rolls

Differences in responses not significant at a significance level of 0.05.

Appendix 6a

Auditors' Professional Standing and Specialist Function in Society

Means of responses from total survey group and auditors' major role sender groups

Prop	Role Sender Group	Total Survey Group	Auditors	Auditees	Audit Beneficiaries: Financial Community	Audit Beneficiaries: General Public
	No. of respondents in group	*1184*	*196*	*342*	*243*	*454*[2]
No.	***Propositions***[1]	*Mean* %	*Mean* %	*Mean* %	*Mean* %	*Mean* %
3.1	An unqualified audit report gives confidence that financial statements are reliable	94	97	95	97	89
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	X	-67	-15	-19	73
3.3	A qualified audit report indicates financial statements are not reliable	33	35	28	37	-
3.4	Auditors act for - co's shareholders	-43	-25	-29	-41	-63
	- co's stakeholders	-44	-42	-47	-41	-44
	- society as whole	-15	-35	-29	-21	9
3.5	Auditors are not unduly influenced by co. directors/ management	92	91	90	91	96
3.6a	Auditors give assistance to co. managements on accounting matters	69	90	66	56	-
3.6b	Auditors give assistance to co. managements on non-accounting matters	-48	-10	-58	-66	-
3.7	Auditors may be directors of auditee cos.	-91	-98	-94	-94	-84
3.8	Auditors may invest in auditee cos.	-63	-90	-55	-56	-61
3.9	Confidence exists in work of auditors because they belong to NZSA	86	92	82	83	87
3.10	NZSA adequately disciplines members for sub-standard audits	86	84	86	92	83
3.11	The NZSA's disciplinary body includes laypersons	27	12	33	34	-
3.12	Auditing involves little judgement	-69	-94	-81	-80	-39
3.13	Periodic peer review ensures high quality audits	10	-6	4	29	-
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	62	43	53	72	72
3.15	Financial statements with qualified audit reports may not be filed	-45	-30	-52	-47	-
3.16	Auditors are appointed by co. shareholders	69	90	82	71	46
3.17	Auditors negotiate their fees with co. directors/ management	49	76	73	57	11

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Total of 454 includes 75 respondents who signified they had no knowledge of auditing and therefore could not respond to Part 3 of the questionnaire.

X As this proposition was expressed differently in the financial community and general public versions of the questionnaire no meaningful mean can be calculated for the total survey group.

Appendix 6b

Auditors' Professional Standing and Specialist Function in Society

Results of Wilcoxon signed-ranks test applied to responses from total survey group and auditors' major role sender groups

Prop No.	Role Sender Group / *No. of respondents in group*		Total Survey Group *1184*	Auditors *196*	Auditees *342*	Audit Beneficiaries: Financial Community *243*	Audit Beneficiaries: General Public *454*
	Propositions[1]						
3.1	An unqualified audit report gives confidence that financial statements are reliable	z score	-27.05	-11.83	-15.20	-13.09	-15.00
		probab	0.00	0.00	0.00	0.00	0.00
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	z score	-1.16	-8.18	-2.42	-2.56	-12.52
		probab	0.25	0.00	0.02	0.01	0.00
3.3	A qualified audit report indicates financial statements are not reliable	z score	-8.00	-4.42	-4.71	-5.05	-
		probab	0.00	0.00	0.00	0.00	-
3.4	Auditors act for - co's shareholders	z score	-12.45	-3.00	-4.59	-5.55	-10.81
		probab	0.00	0.00	0.00	0.00	0.00
	- co's stakeholders	z score	-12.77	-5.08	-7.53	-5.62	-7.49
		probab	0.00	0.00	0.00	0.00	0.00
	- society as whole	z score	-4.32	-4.26	-4.77	-2.87	-1.56
		probab	0.00	0.00	0.00	0.00	0.12
3.5	Auditors are not unduly influenced by co. directors/management	z score	-26.49	-11.16	-14.42	-12.36	-15.91
		probab	0.00	0.00	0.00	0.00	0.00
3.6a	Auditors give assistance to co. managements on accounting matters	z score	-16.17	-10.96	-10.72	-7.63	-
		probab	0.00	0.00	0.00	0.00	-
3.6b	Auditors give assistance to co. managements on non-accounting matters	z score	-11.52	-1.22	-9.59	-9.31	-
		probab	0.00	0.22	0.00	0.00	-
3.7	Auditors may be directors of auditee cos.	z score	-26.38	-11.86	-15.06	-12.78	-14.19
		probab	0.00	0.00	0.00	0.00	0.00
3.8	Auditors may invest in auditee cos.	z score	-18.52	-10.96	-9.13	-7.77	-10.53
		probab	0.00	0.00	0.00	0.00	0.00
3.9	Confidence exists in work of auditors because they belong to NZSA	z score	-24.96	-11.21	-13.36	-11.35	-14.68
		probab	0.00	0.00	0.00	0.00	0.00
3.10	NZSA adequately disciplines members for sub-standard audits	z score	-25.37	-10.48	-14.15	-12.58	-14.37
		probab	0.00	0.00	0.00	0.00	0.00
3.11	The NZSA's disciplinary body includes laypersons	z score	-6.76	-1.54	-5.74	-4.98	-
		probab	0.00	0.12	0.00	0.00	-
3.12	Auditing involves little judgement	z score	-20.30	-11.46	-13.00	-10.90	-6.90
		probab	0.00	0.00	0.00	0.00	0.00
3.13	Periodic peer review ensures high quality audits	z score	-2.41	-0.79	-0.76	-4.19	-
		probab	0.02	0.43	0.45	0.00	-
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	z score	-18.54	-5.43	-8.82	-10.09	-12.73
		probab	0.00	0.00	0.00	0.00	0.00
3.15	Financial statements with qualified audit reports may not be filed	z score	-10.89	-3.75	-8.75	-6.63	-
		probab	0.00	0.00	0.00	0.00	-
3.16	Auditors are appointed by co. shareholders	z score	-20.44	-11.04	-13.17	-9.84	-8.38
		probab	0.00	0.00	0.00	0.00	0.00
3.17	Auditors negotiate their fees with co. directors/management	z score	-14.80	-9.42	-11.92	-7.85	-2.03
		probab	0.00	0.00	0.00	0.00	0.04

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 6c

Auditors' Professional Standing and Specialist Function in Society

Results of Mann-Whitney test comparing responses from role sender groups

Prop No.	Role sender groups whose responses are compared / Propositions[1]		Auditors/ Auditees	Auditors/ Fin Com[2]	Auditors/ Gen Pub[3]	Auditees/ Fin Com[2]	Auditees/ Gen Pub[3]	Fin Com[2]/ Gen Pub[3]
3.1	An unqualified audit report gives confidence that financial statements are reliable	z score	-0.92	-0.14	-2.75	-1.10	-2.45	-3.00
		probab	0.36	0.89	0.01	0.27	0.01	0.00
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	z score	-6.44	-5.22	-16.54	-0.93	-12.19	-11.92
		probab	0.00	0.00	0.00	0.35	0.00	0.00
3.3	A qualified audit report indicates financial statements are not reliable	z score	-0.87	-0.28	-	-1.20	-	-
		probab	0.38	0.78	-	0.23	-	-
3.4	Auditors act for - co's shareholders	z score	-0.31	-1.74	-4.26	-1.63	-4.48	-2.23
		probab	0.75	0.08	0.00	0.10	0.00	0.03
	- co's stakeholders	z score	-0.50	-0.21	-0.17	-0.75	-0.82	-0.07
		probab	0.62	0.84	0.86	0.46	0.41	0.94
	- society as whole	z score	-0.40	-1.30	-4.44	-1.06	-4.78	-3.11
		probab	0.69	0.20	0.00	0.29	0.00	0.00
3.5	Auditors are not unduly influenced by co. directors/ management	z score	-0.07	-0.44	-1.99	-0.42	-2.10	-1.47
		probab	0.95	0.66	0.05	0.68	0.04	0.14
3.6a	Auditors give assistance to co. managements on accounting matters	z score	-4.26	-5.53	-	-1.84	-	-
		probab	0.00	0.00	-	0.07	-	-
3.6b	Auditors give assistance to co. managements on non-accounting matters	z score	-6.30	-6.87	-	-1.30	-	-
		probab	0.00	0.00	-	0.19	-	-
3.7	Auditors may be directors of auditee cos.	z score	-1.53	-1.52	-3.97	-0.05	-3.54	-3.00
		probab	0.13	0.13	0.00	0.96	0.00	0.00
3.8	Auditors may invest in auditee cos.	z score	-6.12	-5.62	-5.39	-0.26	-1.31	-0.87
		probab	0.00	0.00	0.00	0.79	0.19	0.39
3.9	Confidence exists in work of auditors because they belong to NZSA	z score	-2.71	-2.41	-2.30	-0.21	-0.68	-0.38
		probab	0.01	0.02	0.02	0.83	0.50	0.70
3.10	NZSA adequately disciplines members for sub-standard audits	z score	-0.43	-2.06	-0.78	-1.83	-1.44	-3.05
		probab	0.67	0.04	0.44	0.07	0.15	0.00
3.11	The NZSA's disciplinary body includes laypersons	z score	-2.36	-1.95	-	-0.28	-	-
		probab	0.02	0.05	-	0.78	-	-
3.12	Auditing involves little judgement	z score	-3.26	-3.37	-8.64	-0.26	-7.55	-6.36
		probab	0.00	0.00	0.00	0.79	0.00	0.00
3.13	Periodic peer review ensures high quality audits	z score	-1.15	-4.05	-	-3.43	-	-
		probab	0.25	0.00	-	0.00	-	-
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	z score	-0.36	-3.66	-3.00	-3.74	-3.07	-1.42
		probab	0.72	0.00	0.00	0.00	0.00	0.15
3.15	Financial statements with qualified audit reports may not be filed	z score	-2.69	-1.93	-	-0.58	-	-
		probab	0.01	0.05	-	0.57	-	-

Appendix 6c continued ...

Prop No.	Role sender groups whose responses are compared		Auditors/ Auditees	Auditors/ Fin Com[2]	Auditors/ Gen Pub[3]	Auditees/ Fin Com[2]	Auditees/ Gen Pub[3]	Fin Com[2]/ Gen Pub[3]
	Propositions [1]							
3.16	Auditors are appointed by co. shareholders	z score	-2.19	-4.04	-7.53	-2.39	-6.90	-3.79
		probab	0.03	0.00	0.00	0.02	0.00	0.00
3.17	Auditors negotiate their fees with co. directors/ management	z score	-0.80	-3.01	-8.77	-2.64	-9.67	-5.74
		probab	0.42	0.00	0.00	0.01	0.00	0.00

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Financial community audit beneficiaries.
3 General public audit beneficiaries.

Differences in responses not significant at a significance level of 0.05.

Appendix 6d1

Auditors' Professional Standing and Specialist Function in Society

Means of responses from subgroups of auditors

Prop No.	Role Sender Subgroup *No. of respondents in subgroup*	Audit Partners *99*	Non-Partner Audit Staff *97*
	Propositions[1]	*Mean* %	*Mean* %
3.1	An unqualified audit report gives confidence that financial statements are reliable	100	95
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	-61	-72
3.3	A qualified audit report indicates financial statements are not reliable	37	34
3.4	Auditors act for - co's shareholders	-5	-44
	- co's stakeholders	-33	-51
	- society as whole	-60	-9
3.5	Auditors are not unduly influenced by co. directors/management	98	84
3.6a	Auditors give assistance to co. managements on accounting matters	95	86
3.6b	Auditors give assistance to co. managements on non-accounting matters	-1	-19
3.7	Auditors may be directors of auditee cos.	-100	-96
3.8	Auditors may invest in auditee cos.	-92	-89
3.9	Confidence exists in work of auditors because they belong to NZSA	97	88
3.10	NZSA adequately disciplines members for sub-standard audits	90	78
3.11	The NZSA's disciplinary body includes laypersons	31	-7
3.12	Auditing involves little judgement	-94	-95
3.13	Periodic peer review ensures high quality audits	-6	-6
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	42	44
3.15	Financial statements with qualified audit reports may not be filed	-24	-36
3.16	Auditors are appointed by co. shareholders	92	89
3.17	Auditors negotiate their fees with co. directors/management	83	69

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.

Appendix 6d2

Auditors' Professional Standing and Specialist Function in Society

Results of Wilcoxon signed-ranks test applied to responses from subgroups of auditors

Prop No.	Role Sender Subgroup / *No. of respondents in subgroup* / ***Propositions***[1]		Audit Partners *99*	Non-Partner Audit Staff *97*
3.1	An unqualified audit report gives confidence that financial statements are reliable	z score	-8.59	-8.15
		probab	0.00	0.00
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	z score	-5.32	-6.27
		probab	0.00	0.00
3.3	A qualified audit report indicates financial statements are not reliable	z score	-3.33	-2.94
		probab	0.00	0.00
3.4	Auditors act for - co's shareholders	z score	-0.45	-3.79
		probab	0.66	0.00
	- co's stakeholders	z score	-2.87	-4.32
		probab	0.00	0.00
	- society as whole	z score	-5.26	-0.79
		probab	0.00	0.43
3.5	Auditors are not unduly influenced by co. directors/management	z score	-8.51	-7.29
		probab	0.00	0.00
3.6a	Auditors give assistance to co. managements on accounting matters	z score	-8.20	-7.32
		probab	0.00	0.00
3.6b	Auditors give assistance to co. managements on non-accounting matters	z score	-0.09	-1.65
		probab	0.93	0.10
3.7	Auditors may be directors of auditee cos.	z score	-8.59	-8.20
		probab	0.00	0.00
3.8	Auditors may invest in auditee cos.	z score	-7.89	-7.62
		probab	0.00	0.00
3.9	Confidence exists in work of auditors because they belong to NZSA	z score	-8.37	-7.49
		probab	0.00	0.00
3.10	NZSA adequately disciplines members for sub-standard audits	z score	-7.88	-6.96
		probab	0.00	0.00
3.11	The NZSA's disciplinary body includes laypersons	z score	-2.72	-0.70
		probab	0.01	0.48
3.12	Auditing involves little judgement	z score	-8.07	-8.15
		probab	0.00	0.00
3.13	Periodic peer review ensures high quality audits	z score	-0.58	-0.54
		probab	0.56	0.59
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	z score	-3.77	-3.91
		probab	0.00	0.00
3.15	Financial statements with qualified audit reports may not be filed	z score	-2.07	-3.26
		probab	0.04	0.00
3.16	Auditors are appointed by co. shareholders	z score	-7.93	-7.70
		probab	0.00	0.00
3.17	Auditors negotiate their fees with co. directors/management	z score	-7.24	-6.10
		probab	0.00	0.00

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 6d3

Auditors' Professional Standing and Specialist Function in Society

Results of Mann-Whitney test comparing responses from audit partners and non-partner audit staff

Prop No.	Role sender subgroups whose reponses are compared		Audit Partners/ Non-Partner Audit Staff
	Propositions[1]		
3.1	An unqualified audit report gives confidence that financial statements are reliable	z score	-1.75
		probab	0.08
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	z score	-0.95
		probab	0.34
3.3	A qualified audit report indicates financial statements are not reliable	z score	0.00
		probab	1.00
3.4	Auditors act for - co's shareholders	z score	-2.89
		probab	0.00
	- co's stakeholders	z score	-1.50
		probab	0.13
	- society as whole	z score	-3.73
		probab	0.00
3.5	Auditors are not unduly influenced by co. directors/management	z score	-2.43
		probab	0.02
3.6a	Auditors give assistance to co. managements on accounting matters	z score	-1.34
		probab	0.18
3.6b	Auditors give assistance to co. managements on non-accounting matters	z score	-1.25
		probab	0.21
3.7	Auditors may be directors of auditee cos.	z score	-1.43
		probab	0.15
3.8	Auditors may invest in auditee cos.	z score	-0.65
		probab	0.52
3.9	Confidence exists in work of auditors because they belong to NZSA	z score	-1.48
		probab	0.14
3.10	NZSA adequately disciplines members for sub-standard audits	z score	-1.65
		probab	0.10
3.11	The NZSA's disciplinary body includes laypersons	z score	-2.99
		probab	0.00
3.12	Auditing involves little judgement	z score	0.00
		probab	1.00
3.13	Periodic peer review ensures high quality audits	z score	-0.05
		probab	0.96
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	z score	-0.29
		probab	0.77
3.15	Financial statements with qualified audit reports may not be filed	z score	-0.80
		probab	0.42
3.16	Auditors are appointed by co. shareholders	z score	-0.59
		probab	0.55
3.17	Auditors negotiate their fees with co. directors/management	z score	-1.45
		probab	0.15

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 6e1

Auditors' Professional Standing and Specialist Function in Society

Means of responses from subgroups of auditees

Prop No.	Role Sender Subgroup *No. of respondents in subgroup* ***Propositions***[1]	Company Executives and Directors[2] *186* *Mean* %	Company Accountants *99* *Mean* %	Internal Auditors *73* *Mean* %
3.1	An unqualified audit report gives confidence that financial statements are reliable	95	95	94
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	-11	-22	-15
3.3	A qualified audit report indicates financial statements are not reliable	36	7	32
3.4	Auditors act for - co's shareholders	-16	-27	-57
	- co's stakeholders	-49	-55	-39
	- society as whole	-38	-29	-8
3.5	Auditors are not unduly influenced by co. directors/management	89	90	88
3.6a	Auditors give assistance to co. managements on accounting matters	71	72	51
3.6b	Auditors give assistance to co. managements on non-accounting matters	-71	-57	-29
3.7	Auditors may be directors of auditee cos.	-92	-94	-99
3.8	Auditors may invest in auditee cos.	-51	-55	-65
3.9	Confidence exists in work of auditors because they belong to NZSA	80	83	81
3.10	NZSA adequately disciplines members for sub-standard audits	86	87	86
3.11	The NZSA's disciplinary body includes laypersons	41	25	22
3.12	Auditing involves little judgement	-73	-89	-90
3.13	Periodic peer review ensures high quality audits	-1	-10	35
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	50	66	44
3.15	Financial statements with qualified audit reports may not be filed	-51	-68	-38
3.16	Auditors are appointed by co. shareholders	88	85	64
3.17	Auditors negotiate their fees with co. directors/management	78	73	57

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Non-executive directors

Appendix 6e2

Auditors' Professional Standing and Specialist Function in Society

Results of Wilcoxon signed-ranks test applied to responses from subgroups of auditees

Prop No.	Role Sender Subgroup *No. of respondents in subgroup*		Company Executives and Directors[2] *186*	Company Accountants *99*	Internal Auditors *73*
	Propositions[1]				
3.1	An unqualified audit report gives confidence that financial statements are reliable	z score	-11.22	-8.20	-7.06
		probab	0.00	0.00	0.00
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	z score	-1.31	-1.99	-1.15
		probab	0.19	0.05	0.25
3.3	A qualified audit report indicates financial statements are not reliable	z score	-4.39	-0.64	-2.56
		probab	0.00	0.52	0.01
3.4	Auditors act for - co's shareholders	z score	-1.86	-2.28	-4.29
		probab	0.06	0.02	0.00
	- co's stakeholders	z score	-5.79	-4.74	-2.91
		probab	0.00	0.00	0.00
	- society as whole	z score	-4.60	-2.46	-0.63
		probab	0.00	0.01	0.53
3.5	Auditors are not unduly influenced by co. directors/ management	z score	-10.48	-7.80	-6.59
		probab	0.00	0.00	0.00
3.6a	Auditors give assistance to co. managements on accounting matters	z score	-8.40	-6.26	-3.87
		probab	0.00	0.00	0.00
3.6b	Auditors give assistance to co. managements on non-accounting matters	z score	-8.54	-5.13	-2.26
		probab	0.00	0.00	0.02
3.7	Auditors may be directors of auditee cos.	z score	-10.89	-7.98	-7.32
		probab	0.00	0.00	0.00
3.8	Auditors may invest in auditee cos.	z score	-6.20	-4.88	-4.92
		probab	0.00	0.00	0.00
3.9	Confidence exists in work of auditors because they belong to NZSA	z score	-9.53	-7.22	-6.30
		probab	0.00	0.00	0.00
3.10	NZSA adequately disciplines members for sub-standard audits	z score	-10.48	-7.57	-6.63
		probab	0.00	0.00	0.00
3.11	The NZSA's disciplinary body includes laypersons	z score	-5.15	-2.30	-1.89
		probab	0.00	0.02	0.06
3.12	Auditing involves little judgement	z score	-8.75	-7.75	-6.55
		probab	0.00	0.00	0.00
3.13	Periodic peer review ensures high quality audits	z score	-0.07	-0.93	-2.74
		probab	0.94	0.35	0.01
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	z score	-6.12	-5.85	-3.65
		probab	0.00	0.00	0.00
3.15	Financial statements with qualified audit reports may not be filed	z score	-6.20	-5.97	-3.17
		probab	0.00	0.00	0.00
3.16	Auditors are appointed by co. shareholders	z score	-10.32	-7.27	-4.92
		probab	0.00	0.00	0.00
3.17	Auditors negotiate their fees with co. directors/ management	z score	-9.31	-6.39	-4.56
		probab	0.00	0.00	0.00

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Non-executive directors.

Differences in responses not significant at a significance level of 0.05.

Appendix 6e3

Auditors' Professional Standing and Specialist Function in Society

Results of Mann-Whitney test comparing responses from subgroups of auditees

Prop No.	Role sender subgroups whose responses are compared *Propositions* [1]		Ex & Dir[2]/ Accountants[2]	Ex & Dir[2]/ Int Aud[4]	Accountants[3]/ Int Aud[4]
3.1	An unqualified audit report gives confidence that financial statements are reliable	z score	-0.13	-0.54	-0.36
		probab	0.90	0.59	0.72
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	z score	-1.09	-0.44	-0.48
		probab	0.28	0.66	0.63
3.3	A qualified audit report indicates financial statements are not reliable	z score	-2.64	-0.91	-1.47
		probab	0.01	0.36	0.14
3.4	Auditors act for - co's shareholders	z score	-0.86	-3.06	-2.09
		probab	0.39	0.00	0.04
	- co's stakeholders	z score	-0.87	-0.81	-1.44
		probab	0.38	0.42	0.15
	- society as whole	z score	-0.96	-2.28	-1.18
		probab	0.34	0.02	0.24
3.5	Auditors are not unduly influenced by co. directors/ management	z score	-0.21	-1.14	-0.82
		probab	0.83	0.25	0.41
3.6a	Auditors give assistance to co. managements on accounting matters	z score	-0.25	-1.96	-1.90
		probab	0.81	0.05	0.06
3.6b	Auditors give assistance to co. managements on non-accounting matters	z score	-1.96	-3.77	-1.73
		probab	0.05	0.00	0.08
3.7	Auditors may be directors of auditee cos.	z score	-0.51	-1.20	-0.76
		probab	0.61	0.23	0.45
3.8	Auditors may invest in auditee cos.	z score	-0.32	-1.43	-1.05
		probab	0.75	0.15	0.29
3.9	Confidence exists in work of auditors because they belong to NZSA	z score	-0.53	-1.01	-1.34
		probab	0.60	0.31	0.18
3.10	NZSA adequately disciplines members for sub-standard audits	z score	-0.31	-0.02	-0.28
		probab	0.76	0.98	0.78
3.11	The NZSA's disciplinary body includes laypersons	z score	-1.80	-1.98	-0.24
		probab	0.07	0.05	0.81
3.12	Auditing involves little judgement	z score	-1.86	-1.95	-0.38
		probab	0.06	0.05	0.71
3.13	Periodic peer review ensures high quality audits	z score	-0.82	-2.45	-2.78
		probab	0.41	0.01	0.01
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	z score	-1.58	-0.77	-2.11
		probab	0.11	0.44	0.04
3.15	Financial statements with qualified audit reports may not be filed	z score	-1.92	-1.25	-2.84
		probab	0.05	0.21	0.00
3.16	Auditors are appointed by co. shareholders	z score	-0.67	-3.62	-2.46
		probab	0.50	0.00	0.01
3.17	Auditors negotiate their fees with co. directors/ management	z score	-0.90	-2.93	-1.76
		probab	0.37	0.00	0.08

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of company executives and non-executive directors.
3 Company accountants.
4 Internal auditors.

Differences in responses not significant at a significance level of 0.05.

Appendix 6f1

Auditors' Professional Standing and Specialist Function in Society

Means of responses from financial community audit beneficiaries

Prop No.	Role Sender Subgroup *No. of respondents in subgroup* ***Propositions***[1]	Analysts Stockbrokers Investors[2] *144* *Mean* %	Corporate Bankers *100* *Mean* %	Auditing Academics *16* *Mean* %
3.1	An unqualified audit report gives confidence that financial statements are reliable	97	97	100
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	-10	-31	-38
3.3	A qualified audit report indicates financial statements are not reliable	35	29	69
3.4	Auditors act for - co's shareholders	-25	-61	-69
	- co's stakeholders	-48	-32	31
	- society as whole	-31	-10	6
3.5	Auditors are not unduly influenced by co. directors/management	90	94	75
3.6a	Auditors give assistance to co. managements on accounting matters	57	48	81
3.6b	Auditors give assistance to co. managements on non-accounting matters	-66	-65	-81
3.7	Auditors may be directors of auditee cos.	-93	-93	-100
3.8	Auditors may invest in auditee cos.	-52	-57	-88
3.9	Confidence exists in work of auditors because they belong to NZSA	78	87	94
3.10	NZSA adequately disciplines members for sub-standard audits	90	98	81
3.11	The NZSA's disciplinary body includes laypersons	46	10	44
3.12	Auditing involves little judgement	-78	-79	-100
3.13	Periodic peer review ensures high quality audits	15	50	56
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	75	76	31
3.15	Financial statements with qualified audit reports may not be filed	-44	-52	-13
3.16	Auditors are appointed by co. shareholders	80	59	31
3.17	Auditors negotiate their fees with auditee co. directors/ management	69	42	38

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of financial analysts, stockbrokers and institutional investors.

Appendix 6f2

Auditors' Professional Standing and Specialist Function in Society

Results of Wilcoxon signed-ranks test applied to responses from subgroups of financial community audit beneficiaries

Prop No.	Role Sender Subgroup *No. of respondents in subgroup*		Analysts Stockbrokers Investors[2] *144*	Corporate Bankers *100*	Auditing Academics *16*
	Propositions[1]				
3.1	An unqualified audit report gives confidence that financial statements are reliable	z score	-10.08	-8.42	-3.52
		probab	0.00	0.00	0.00
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	z score	-1.03	-2.76	-1.32
		probab	0.30	0.01	0.19
3.3	A qualified audit report indicates financial statements are not reliable	z score	-3.69	-2.56	-2.50
		probab	0.00	0.01	0.01
3.4	Auditors act for - co's shareholders	z score	-2.62	-5.26	-2.50
		probab	0.01	0.00	0.01
	- co's stakeholders	z score	-5.04	-2.81	-1.14
		probab	0.00	0.01	0.26
	- society as whole	z score	-3.23	-0.88	-0.23
		probab	0.00	0.38	0.82
3.5	Auditors are not unduly influenced by co. directors/ management	z score	-9.39	-8.11	-2.64
		probab	0.00	0.00	0.01
3.6a	Auditors give assistance to co. managements on accounting matters	z score	-6.10	-4.14	-2.95
		probab	0.00	0.00	0.00
3.6b	Auditors give assistance to co. managements on non-accounting matters	z score	-7.26	-5.73	-2.95
		probab	0.00	0.00	0.00
3.7	Auditors may be directors of auditee cos.	z score	-9.79	-8.07	-3.52
		probab	0.00	0.00	0.00
3.8	Auditors may invest in auditee cos.	z score	-5.64	-5.02	-3.08
		probab	0.00	0.00	0.00
3.9	Confidence exists in work of auditors because they belong to NZSA	z score	-8.29	-7.54	-3.41
		probab	0.00	0.00	0.00
3.10	NZSA adequately disciplines members for sub-standard audits	z score	-9.45	-8.55	-2.95
		probab	0.00	0.00	0.00
3.11	The NZSA's disciplinary body includes laypersons	z score	-5.17	-0.97	-1.71
		probab	0.00	0.33	0.09
3.12	Auditing involves little judgement	z score	-8.23	-6.99	-3.52
		probab	0.00	0.00	0.00
3.13	Periodic peer review ensures high quality audits	z score	-1.66	-4.56	-2.04
		probab	0.10	0.00	0.04
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	z score	-8.01	-6.83	-1.22
		probab	0.00	0.00	0.22
3.15	Financial statements with qualified audit reports may not be filed	z score	-4.85	-4.66	-0.44
		probab	0.00	0.00	0.66
3.16	Auditors are appointed by co. shareholders	z score	-8.52	-5.25	-1.22
		probab	0.00	0.00	0.22
3.17	Auditors negotiate their fees with co. directors/ management	z score	-7.29	-3.76	-1.41
		probab	0.00	0.00	0.16

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Combined group of financial analysts, stockbrokers and institutional investors.

Differences in responses not significant at a significance level of 0.05.

Appendix 6f3

Auditors' Professional Standing and Specialist Function in Society

Results of Mann-Whitney test comparing responses from subgroups of financial community audit beneficiaries

Prop No.	Role sender subgroups whose responses are compared / Propositions[1]		Analysts Stockbrokers Investors[2] / Bankers[3]	Analysts Stockbrokers Investors[2] / Academics[4]	Bankers[3] / Academics[4]
3.1	An unqualified audit report gives confidence that financial statements are reliable	z score	-0.12	-0.60	-0.63
		probab	0.91	0.55	0.53
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	z score	-1.65	-1.15	-0.32
		probab	0.10	0.25	0.75
3.3	A qualified audit report indicates financial statements are not reliable	z score	-0.04	-1.36	-1.33
		probab	0.97	0.17	0.18
3.4	Auditors act for - co's shareholders	z score	-3.03	-1.68	-0.06
		probab	0.00	0.09	0.95
	- co's stakeholders	z score	-1.19	-0.78	-0.09
		probab	0.23	0.43	0.93
	- society as whole	z score	-1.62	-1.57	-0.60
		probab	0.11	0.12	0.55
3.5	Auditors are not unduly influenced by co. directors/ management	z score	-1.83	-0.90	-2.38
		probab	0.07	0.37	0.02
3.6a	Auditors give assistance to co. managements on accounting matters	z score	-0.56	-1.13	-1.34
		probab	0.57	0.26	0.18
3.6b	Auditors give assistance to co. managements on non-accounting matters	z score	-0.18	-0.95	-0.82
		probab	0.86	0.34	0.41
3.7	Auditors may be directors of auditee cos.	z score	-0.95	-0.93	-0.63
		probab	0.34	0.35	0.53
3.8	Auditors may invest in auditee cos.	z score	-0.56	-1.73	-1.44
		probab	0.58	0.08	0.15
3.9	Confidence exists in work of auditors because they belong to NZSA	z score	-1.88	-0.98	-0.02
		probab	0.06	0.33	0.98
3.10	NZSA adequately disciplines members for sub-standard audits	z score	-2.01	-0.72	-2.40
		probab	0.04	0.47	0.02
3.11	The NZSA's disciplinary body includes laypersons	z score	-2.98	-0.17	-1.33
		probab	0.00	0.87	0.18
3.12	Auditing involves little judgement	z score	-0.32	-1.45	-1.54
		probab	0.75	0.15	0.12
3.13	Periodic peer review ensures high quality audits	z score	-3.03	-1.90	-0.39
		probab	0.00	0.06	0.70
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	z score	-0.24	-2.51	-2.52
		probab	0.81	0.01	0.01
3.15	Financial statements with qualified audit reports may not be filed	z score	-1.44	-1.21	-1.89
		probab	0.15	0.23	0.06
3.16	Auditors are appointed by co. shareholders	z score	-1.87	-3.18	-1.68
		probab	0.06	0.00	0.09
3.17	Auditors negotiate their fees with co. directors/ management	z score	-2.39	-1.75	-0.25
		probab	0.02	0.08	0.81

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Combined group of financial analysts, stockbrokers and institutional investors.
3 Corporate bankers.
4 Auditing academics.

Differences in responses not significant at a significance level of 0.05.

Appendix 6g1

Auditors' Professional Standing and Specialist Function in Society

Means of responses from subgroups of general public audit beneficiaries

	Role Sender Subgroup *No. of respondents in subgroup*	Branch Bank Managers *86*	Lawyers *72*	Financial Journalists *41*	Group From Electoral Rolls *259*[2]
Prop No.	***Propositions***[1]	*Mean* %	*Mean* %	*Mean* %	*Mean* %
3.1	An unqualified audit report gives confidence that financial statements are reliable	98	90	95	82
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	66	62	74	82
3.3	A qualified audit report indicates financial statements are not reliable	-	-	-	-
3.4	Auditors act for - co's shareholders	-62	-45	-58	-72
	- co's stakeholders	-43	-57	-32	-43
	- society as whole	2	4	-13	20
3.5	Auditors are not unduly influenced by co. directors/ management	98	96	100	94
3.6a	Auditors give assistance to co. managements on accounting matters	-	-	-	-
3.6b	Auditors give assistance to co. managements on non-accounting matters	-	-	-	-
3.7	Auditors may be directors of auditee cos.	-95	-84	-87	-78
3.8	Auditors may invest in auditee cos.	-60	-58	-84	-59
3.9	Confidence exists in work of auditors because they belong to NZSA	89	85	74	89
3.10	NZSA adequately disciplines members for sub-standard audits	88	90	71	81
3.11	The NZSA's disciplinary body includes laypersons	-	-	-	-
3.12	Auditing involves little judgement	-51	-44	-61	-24
3.13	Periodic peer review ensures high quality audits	-	-	-	-
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	71	64	87	71
3.15	Financial statements with qualified audit reports may not be filed	-	-	-	-
3.16	Auditors are appointed by co. shareholders	48	48	57	43
3.17	Auditors negotiate their fees with co. directors/ management	21	19	5	5

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.

2 Total of 259 includes 75 respondents who signified that they had no knowledge of auditing and therefore could not respond to Part 3 of the questionnaire.

Appendix 6g2

Auditors' Professional Standing and Specialist Function in Society

Results of Wilcoxon signed-ranks test applied to responses from subgroups of general public audit beneficiaries

Prop No.	Role Sender Subgroup *No. of respondents in subgroup*		Branch Bank Managers *86*	Lawyers *72*	Financial Journalists *40*	Group From Electoral Rolls *259*
	Propositions [1]					
3.1	An unqualified audit report gives confidence that financial statements are reliable	z score	-7.72	-6.63	-5.09	-9.64
		probab	0.00	0.00	0.00	0.00
3.2	Knowledge that a co's financial statements are audited gives confidence to invest in co.	z score	-5.38	-4.56	-3.96	-9.82
		probab	0.00	0.00	0.00	0.00
3.3	A qualified audit report indicates financial statements are not reliable	z score	-	-	-	-
		probab	-	-	-	-
3.4	Auditors act for - co's shareholders	z score	-4.99	-3.34	-3.20	-8.61
		probab	0.00	0.00	0.00	0.00
	- co's stakeholders	z score	-3.45	-4.21	-1.74	-5.12
		probab	0.00	0.00	0.08	0.00
	- society as whole	z score	-0.19	-0.32	-0.72	-2.31
		probab	0.85	0.75	0.47	0.02
3.5	Auditors are not unduly influenced by co. directors/management	z score	-7.87	-6.96	-5.37	-10.81
		probab	0.00	0.00	0.00	0.00
3.6a	Auditors give assistance to co. managements on accounting matters	z score	-	-	-	-
		probab	-	-	-	-
3.6b	Auditors give assistance to co. managements on non-accounting matters	z score	-	-	-	-
		probab	-	-	-	-
3.7	Auditors may be directors of auditee cos.	z score	-7.67	-6.11	-4.73	-9.41
		probab	0.00	0.00	0.00	0.00
3.8	Auditors may invest in auditee cos.	z score	-4.80	-4.35	-4.79	-7.22
		probab	0.00	0.00	0.00	0.00
3.9	Confidence exists in work of auditors because they belong to NZSA	z score	-7.24	-6.21	-4.19	-10.49
		probab	0.00	0.00	0.00	0.00
3.10	NZSA adequately disciplines members for sub-standard audits	z score	-7.19	-6.85	-3.98	-9.77
		probab	0.00	0.00	0.00	0.00
3.11	The NZSA's disciplinary body includes laypersons	z score	-	-	-	-
		probab	-	-	-	-
3.12	Auditing involves little judgement	z score	-4.26	-3.43	-3.61	-3.14
		probab	0.00	0.00	0.00	0.00
3.13	Periodic peer review ensures high quality audits	z score	-	-	-	-
		probab	-	-	-	-
3.14	Auditors must report reasons for their resignation or removal to the Registrar of Companies	z score	-6.09	-5.02	-4.73	-8.80
		probab	0.00	0.00	0.00	0.00
3.15	Financial statements with qualified audit reports may not be filed	z score	-	-	-	-
		probab	-	-	-	-
3.16	Auditors are appointed by co. shareholders	z score	-4.04	-3.74	-3.29	-5.57
		probab	0.00	0.00	0.00	0.00
3.17	Auditors negotiate their fees with co. directors/ management	z score	-1.96	-1.52	-0.31	-0.61
		probab	0.05	0.13	0.76	0.54

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.

Differences in responses not significant at a significance level of 0.05.

Appendix 6g3

Auditors' Professional Standing and Specialist Function in Society

Results of Mann-Whitney test comparing responses from subgroups of general public audit beneficiaries

Prop No.	Role sender subgroups whose responses are compared / Propositions[1]		Bankers[2]/ Lawyers	Bankers[2]/ Jnlsts[3]	Bankers[2]/ GER[4]	Lawyers/ Jnlsts[3]	Lawyers/ GER[4]	Jnlsts[3]/ GER[4]
3.1	An unqualified audit report gives confidence that financial statements	z score	-1.56	-0.67	-2.88	-1.50	-1.47	-2.23
	are reliable	probab	0.12	0.50	0.00	0.13	0.14	0.03
3.2	Knowledge that a co's financial statements are audited gives confidence	z score	-0.42	-0.70	-1.27	-0.99	-1.72	-0.06
	to invest in co.	probab	0.68	0.48	0.20	0.32	0.08	0.95
3.3	A qualified audit report indicates financial statements are not	z score	-	-	-	-	-	-
	reliable	probab	-	-	-	-	-	-
3.4	Auditors act for - co's shareholders	z score	-1.58	-0.57	-0.48	-0.73	-2.44	-1.04
		probab	0.11	0.57	0.63	0.47	0.01	0.30
	- co's stakeholders	z score	-0.85	-0.75	-0.29	-1.45	-1.28	-0.64
		probab	0.40	0.45	0.77	0.15	0.20	0.52
	- society as whole	z score	-0.05	-1.01	-1.20	-0.96	-1.21	-2.05
		probab	0.96	0.31	0.23	0.34	0.23	0.04
3.5	Auditors are not unduly influenced by co. directors/	z score	-0.22	-0.95	-0.70	-1.05	-0.43	-1.25
	management	probab	0.83	0.34	0.48	0.29	0.67	0.21
3.6a	Auditors give assistance to co. managements on	z score	-	-	-	-	-	-
	accounting matters	probab	-	-	-	-	-	-
3.6b	Auditors give assistance to co. managements on non-	z score	-	-	-	-	-	-
	accounting matters	probab	-	-	-	-	-	-
3.7	Auditors may be directors of	z score	-1.38	-1.06	-2.83	-0.15	-1.30	-1.16
	auditee cos.	probab	0.17	0.29	0.00	0.88	0.19	0.25
3.8	Auditors may invest in	z score	-0.33	-1.30	-0.43	-1.57	-0.02	-1.76
	auditee cos.	probab	0.74	0.19	0.66	0.12	0.98	0.08
3.9	Confidence exists in work of auditors because they	z score	-0.41	-1.88	-0.52	-1.40	-0.01	-1.74
	belong to NZSA	probab	0.68	0.06	0.60	0.16	0.99	0.08
3.10	NZSA adequately disciplines members for sub-standard	z score	-0.31	-1.68	-1.56	-1.39	-1.18	-0.60
	audits	probab	0.75	0.09	0.12	0.16	0.24	0.55
3.11	The NZSA's disciplinary body	z score	-	-	-	-	-	-
	includes laypersons	probab	-	-	-	-	-	-
3.12	Auditing involves little	z score	-0.60	-0.56	-2.41	-1.08	-1.68	-2.51
	judgement	probab	0.55	0.58	0.02	0.28	0.09	0.01
3.13	Periodic peer review ensures	z score	-	-	-	-	-	-
	high quality audits	probab	-	-	-	-	-	-
3.14	Auditors must report reasons for their resignation or removal to the Registrar	z score	-0.89	-1.61	-0.36	-2.15	-0.70	-1.92
	of Companies	probab	0.37	0.11	0.72	0.03	0.48	0.05

Appendix 6g3 continued ...

Prop No.	Role sender subgroups whose responses are compared / *Propositions*[1]		Bankers[2]/ Lawyers	Bankers[2]/ Jnlsts[3]	Bankers[2]/ GER[4]	Lawyers/ Jnlsts[3]	Lawyers/ GER[4]	Jnlsts[3]/ GER[4]
3.15	Financial statements with qualified audit reports may not be filed.	z score	-	-	-	-	-	-
		probab	-	-	-	-	-	-
3.16	Auditors are appointed by co. shareholders	z score	-0.15	-0.33	-0.99	-0.45	-0.77	-1.13
		probab	0.88	0.74	0.32	0.66	0.44	0.26
3.17	Auditors negotiate their fees with auditee co. directors/ management	z score	-0.16	-0.96	-1.41	-0.79	-1.10	-0.07
		probab	0.87	0.34	0.16	0.43	0.27	0.94

1 The propositions as expressed in the questionnaires are shown in Appendices 1a and 1b.
2 Branch bank managers
3 Financial journalists
4 Group selected from the electoral rolls.

☐ Differences in responses not significant at a significance level of 0.05.

Appendix 7

Responses to open-ended questions from the total survey group and auditors' major role sender groups

Ref[1]	Role Sender Group *No. of respondents in group*	Total Survey Group *1184*		Auditors *196*		Auditees *342*		Financial Community *243*		General Public *454*	
A.	**Further comments on auditors' duties and how performed:**	No.	%	No.	%	No.	%	No.	%	No.	%
1	Audits are not performed satisfactorily	79	7	8	4	21	6	24	10	26	6
2	Audits are satisfactory	32	3	4	2	11	3	3	1	14	3
3	Audit quality varies	14	1	5	3	1	0	3	1	5	1
4	More forthright reporting is required	38	3	4	2	14	4	14	6	6	1
5	SSAPs and/or legislation is inadequate	24	2	7	4	8	2	8	3	1	0
B.	**Further comments on duties auditors should perform:**										
1	Report on efficiency & effectiveness of management	16	1	2	1	7	2	6	2	1	0
2	Report clearly on co's viability & future	17	1	0	0	0	0	11	5	6	1
3	Properly verify asset and profit valuations	14	1	1	1	3	1	2	1	8	2
4	Report concerns to regulatory authorities	12	1	1	1	7	2	1	0	3	1
5	Liaise with internal auditors	3	0	0	0	3	1	0	0	0	0
6	Auditors should guarantee financial information	6	1	0	0	3	1	2	1	1	0
7	Report concerns to directors	11	1	5	3	4	1	1	0	1	0
8	Other comments - not classified	20	2	5	3	6	2	7	3	2	0
C.	**How should audit fees be set?**										
1	Shareholders and directors jointly	61	5	13	7	21	6	27	11	-	-
2	By an independent body	26	2	6	3	11	3	9	4	-	-
3	By the NZSA	13	1	2	1	7	2	4	2	-	-
4	Standard rate per hour	27	2	3	2	15	4	9	4	-	-
5	Standard rate based on size	7	1	0	0	3	1	4	2	-	-
6	Standard fee set by Justice Dept + fee for work performed for the company	3	0	0	0	3	1	0	0	-	-
7	Other comments - not classified	2	0	0	0	2	1	0	0	-	-
D.	**Who should appoint auditors - if not shareholders?**										
1	Directors	61	5	4	2	19	6	16	7	22	5
2	Parties interested in the company (stakeholders)	23	2	5	3	5	1	10	4	3	1
3	Independent authority	49	4	2	1	8	2	8	3	31	7
4	Stock exchange (for listed companies)	3	0	0	0	1	0	1	0	1	0
5	NZSA	5	0	0	0	2	1	0	0	3	1
6	Auditors should rotate every 3-5 years	13	1	3	2	4	1	1	0	5	1

Appendix 7 continued ...

Ref[1]		Role Sender Group *No. of respondents in group*	Total Survey Group *1184*		Auditors *196*		Auditees *342*		Financial Community *243*		General Public *454*	
E.		**Other comments on standing & function of auditors**	No.	%	No.	%	No.	%	No.	%	No.	%
	1	Auditors need to be more competent	38	3	7	4	18	5	7	3	6	1
	2	Auditors abdicate their responsibilities	4	0	0	0	3	1	1	0	0	0
	3	Auditors need to be more independent	23	2	4	2	10	3	3	1	6	1
	4	Stricter disciplinary procedures are needed	12	1	1	1	4	1	6	2	1	0
	5	Should report reasons for removal or resignation	6	1	1	1	3	1	2	1	0	0
	6	Need statutory or professional support	29	2	14	7	7	2	2	1	6	1
	7	Should audit financial information only	18	2	8	4	6	2	4	2	0	0
	8	Auditors are agents of shareholders	10	1	5	3	3	1	2	1	0	0
	9	Auditors are society's corporate watchdogs	19	2	6	3	4	1	8	3	1	0
	10	Auditors' duties are too narrow	15	1	2	1	8	2	2	1	3	1
	11	Wider duties are hindered by cost & competence	18	2	10	5	7	2	1	0	0	0
	12	Auditors should have limited liability	5	0	3	2	0	0	1	0	1	0
	13	Public needs educating about the audit function	11	1	10	5	1	0	0	0	0	0
	14	Directors' responsibilities need to be stated	6	1	4	2	2	1	0	0	0	0
	15	Auditors provide a valuable service	14	1	3	2	4	1	1	0	6	1
	16	Other comments - not classified	11	1	2	1	3	1	3	1	3	1

1 Reference for identification in text.