

## **Stakeholders' Perception on Auditors' Role and Its Impact on Audit Expectation Gap, with Special Consideration to Licensed Commercial Banks in Sri Lanka**

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### **Abstract**

External auditor is an individual third party who express an independent opinion on the financial statements in accordance with the Sri Lanka Financial Reporting Standards (SLFRS), Sri Lanka Accounting Standards (LKAS) and Sri Lanka Auditing Standards (SLAuS). An agency relationship exists between the management of the entity and the owners of the organizations, as the management and ownership are two different parties. Therefore, the auditors are responsible for expressing an independent opinion on the quality of financial statements prepared by the Management of the entity.

However, most of the stakeholders have misunderstood the responsibilities of management and the auditors and stakeholders (i.e., owners, customers, employees) expect much more from auditors in addition to expression of an opinion on the financial statements, such as investigate and prevent frauds, maintain proper internal control systems, prepare financial statements, etc. This results in an audit expectation gap.

Therefore, this study was conducted to understand the stakeholder's perception on auditor's role and its impact on audit expectation gap. A sample of 600 shareholders, employees and customers from different licensed commercial banks were selected for the study using convenience sampling method. Information collected through questionnaires were analyzed using a statistical software package, SPSS and used descriptive analysis and sample T test for analysis of data.

The study revealed that a gap exists between auditors and the stakeholders in aspects of audit responsibility, reliability and usefulness of audited financial statements. The reason behind this gap is lack of proper education and understanding regarding audit standards and audit practices. This gap can be reduced by giving adequate knowledge and awareness of audit to the stakeholders and the users of financial statements in general.

**Key words:** *Audit Expectation Gap, Stakeholders, Audit Education, Stewardship, Agency Relationship.*