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An Investigation of Audit Expectation Gap in Indonesia's Public Sector

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ABSTRACT

The audit expectation gap has been studied since the early 1970s, and several approaches have been used to resolve this problem. However, such a gap persists both in the private and public sectors. Meanwhile, there are only a few studies related to this topic in the public sector, so the need to undertake more research in this area is encouraged. This study investigates to what extent the audit expectation gap occurs in Indonesia's public sector. It also examines the effectiveness of the additional information in the audit report as mandated by the state financial auditing standards (SPKN, 2017) in closing the gap. A questionnaire was developed and administered to auditors, government officers, and students to capture their views. ANCOVA and Kruskal-Wallis were used to analyze the data collected from the questionnaires. The study discovered that the audit expectation gap in Indonesia's public sector is related to the auditor's responsibility. Such a gap is also found in frauds and errors in unqualified financial statements.

KEYWORDS:
Audit expectation gap; public sector; audit report; responsibility perception; unqualified

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INTRODUCTION

In a recent development, the audit profession has focused on improving audit quality following the global financial crisis, company failures, and scandals in many countries. Auditors are constantly criticized whenever businesses fail, or auditors fail to detect fraud after an unqualified audit opinion (Ruhnke & Schmidt, 2014). When auditors issue an unqualified/unmodified opinion on a financial statement, it implies that the financial statement presents an accurate and fair view in all material respect (International Standard on Auditing (ISA) 700 Revised, 2016). However, frequently, an unqualified opinion is perceived by users as an absolute assurance that their financial statement is free from any fraud and error. Previous studies reported that the public's expectation of auditors' responsibilities exceeded auditors' actual responsibilities, referred to as an audit expectation gap (Ruhnke & Schmidt, 2014).

Literature renders different definitions to express the audit expectation gap. Researchers, professional bodies, and related parties in the audit practice agree that the audit expectation gap remains an important topic in the audit practice, an issue that needs to be resolved, regardless of the various definition and underlying explanations of the existence of the gap. The audit expectation gap threatens the legitimacy of the audit profession, which can pose a severe problem to the profession (Ruhnke & Schmidt, 2014). An institution must be able to meet the public's expectations in order to be legitimate in the eyes of the public, or if it cannot fulfill the public's expectation, the organization has to communicate and justify why such condition cannot be achieved (Unerman & Deegan, 2011).

In resolving the matter, Porter (1993) expands the concept of the audit expectation gap. She argues that audit expectation comprises two variables, notably reasonableness gap and performance gap. The reasonableness gap is the difference between what the public expects auditors to accomplish and what the auditor reasonably could achieve. In contrast, the performance gap is the difference between what the public could reasonably expect auditors to achieve and what auditors believe in achieving. Several researchers use this model (e.g., Köse & Erdogan, 2015; Masoud, 2017) to analyze the audit expectation gap.

In an attempt to analyze the cause of the audit expectation gap more recently, Ruhnke and Schmidt (2014) introduced three types of failure attributed to the audit expectation gap: the public's failure, the auditor's failure, and the standard's failure. Failure of the public exists when the public does not recognize the responsibilities and capabilities of the auditor as mandated by the standard and regulation, or there is a divergence between auditors' actual performance and auditors' performance as perceived by the public. Failure of the auditor occurs when the auditor fails to fulfill their responsibilities or view their duties that differ from the standard and regulation. Failure of the standard-setter exists when the current audit standard could not communicate auditors' responsibility clearly to the public or provide an inconsistent standard.

As stated by Porter (1993), failure of the public relates to a reasonable gap, while the failure of the auditor refers to a performance gap. Both Porter (1993) also Ruhnke and Schmidt (2014) agree that examining the specific area where the audit expectation gaps exist are important in determining the effective approach to close or narrow the audit expectation gap. Thus, while investigating the gap existence, this study also attempts to investigate the cause of the gap in Indonesia's public sector based on the concept of

Ruhnke and Schmidt (2014), focusing only on the failure of the public and the failure of the auditor. The failure of the standard-setter is not observed as it requires respondents to read and interpret specific standards. At the same time, this study aims to analyze financial statement users' perceptions of an audit report.

The audit profession encompasses both the private and public sectors. While audit techniques are similar in both sectors, auditors in the public sector have a broader role due to different institutional and legal backgrounds (Jones & Pendlebury, 2000). Their duty is not limited to providing assurance regarding the financial statements but also assessing the stewardship and performance of government policies, programs, and operations (International Organization of Supreme Audit Institutions — INTOSAI), 2013). The audit report users (users of financial statements) include but are not limited to societies, parliament members, regulatory/ oversight agencies, audit institutions, other parties who partake in the process of donation, investment, and loans, as well as the government (Government Regulation Number 71 of 2010). These significant roles and various users potentially lead to the development of the audit expectation gap in the public sector if users do not have sufficient knowledge of auditing or auditors are not aware of their responsibilities. Most of the research that addresses the audit expectation gap was conducted in the private sector and left the gap in the public sector remain unexplored. Only a few studies have examined the gap in the public sector. The study to analyze the approach to narrow the gap is limited to one approach (the influence of education).

Specific statutes and regulations resulted in public sector audit being administered and executed by different institutions than auditing private company accounts (Jones & Pendlebury, 2000). This institution refers to the supreme audit institution, an oversight body for the Government, which the Constitution establishes. The Audit Board of the Republic of Indonesia (BPK) is an institution responsible for auditing government bodies and state-owned enterprises in Indonesia. BPK acts as an independent auditor for the Indonesian Government and a standard-setter for public sector audits. In January 2017, BPK issued a new State Financial Auditing Standard (Standar Pemeriksaan Keuangan Negara, SPKN 2017), replacing the previous standard used, which remained unchanged since 2007. The new standard comprises of general standard (Standar Pemeriksaan Keuangan Negara-Pernyataan Standar Pemeriksaan, SPKN-PSP 100), audit practice standard (SPKN-PSP 200), and audit reporting standard (SPKN-PSP 300).

This new audit reporting standard now provides an audit report template, thereby standardizing the audit reports' structure and wording. The standard requires auditors to explain BPK's responsibility and the Government's responsibility for the financial statements in the audit report. The new standard aims to improve the quality of audit reports so that the message conveyed by the auditors can be perceived by the users as intended. The first objective of this study is to investigate the existence of the audit expectation gap in Indonesia's Public Sector. The second purpose of the study is to examine whether additional information in the audit report concerning the responsibility of the Government and the auditor, as mandated by the SPKN 2017, can close the audit expectation gap.

This research contributes to the study concerning the audit expectation gap in the public sector in two main ways. First, it provides additional evidence of the existence of the gap (in Indonesia's public sector). Investigating the existence of the gap is the first step in aligning the audit practice and the public's

expectation of the audit practice. Second, it examines the effectiveness of the additional information in the audit report in closing the gap which has never been examined before in the public sector. This examination will help the standard-setter develop and design an effective audit report format to communicate the audit result and reduce the expectation gap.

LITERATURE REVIEW

The Theoretical Framework

This study investigates any different perceptions between the auditors and the users of the financial statement in the current state, focusing on the gap caused by the public's failure and the failure of the auditor (Ruhnke & Schmidt, 2014). These failures indicate that the public does not have sufficient information regarding the audit or that the auditor fails to understand their responsibilities. As a result, additional information on the related matter possibly shifts their perception and reduces the gap.

Provided that the second objective of this study is to examine the effectiveness of the new audit report format in resolving the gap issue, the gap area will be focused on the auditors' responsibility, the government's responsibility, and the unqualified opinion of the financial statements. These variables are where the standard-setter aims to improve user understanding through the audit report. The theoretical framework is developed, as seen in Figure 1.

The existence of audit expectation gap in Indonesia

Early studies on audit expectation gap report the existence of such in the UK (Hatherly, Innes, & Brown, 1991; Innes, Brown, & Hatherly, 1997), USA (Kneer, Reckers, & Jennings, 1996), New Zealand (Porter, 1993; Porter, Hógartaigh, & Baskerville, 2012), and Australia (Monroe & Woodliff, 1994). Followed by recent studies in other parts of the world, such as in Libya (Masoud, 2017), The Netherlands (Litjens, Buuren, & Vergoossen, 2015), Turkey (Köse & Erdogan, 2015), Lebanon (Sidani, 2007), China (Lin & Chen, 2004), Malaysia (Fadzly & Ahmad, 2004), and Singapore (Best, Buckby, & Tan, 2001). These studies signal that the gap is not unique to a particular country or region. In Indonesia, research on audit expectation has been done in the scope of Local Government (e.g., Yulianti, Winarna, & Setiawan, 2007; Rusliyawati, 2007; Setyorini, 2010; and Yandi, 2015) and has reported the existence of an audit expectation gap. These studies in various regions of Indonesia provide some insight to predict the existence of the gap in the broader scope of the central government.

The previous research involved participants with different degrees of knowledge and experience in audit and financial reporting, composed of financial analysts (Porter, 1993), bankers (Lin & Chen, 2004), supervi-

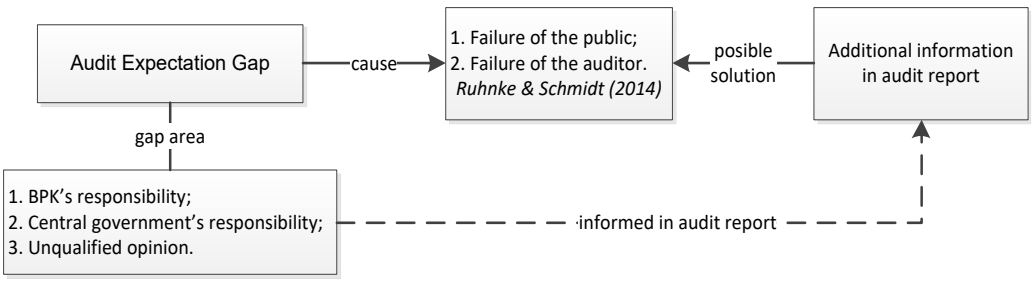

Figure 1. Theoretical Framework

sory board members (Ruhnke & Schmidt, 2014), government officials (Lin & Chen, 2004), judges (Lowe, 1994), a financial journalist (Ruhnke & Schmidt, 2014), and students (Gold, Gronewold, & Pott, 2012). There are frequent discoveries that users with more experience and knowledge of auditing have a slightly different perception of auditors than the gap between auditors and unsophisticated users. Government officials and students are selected in this study to represent users of the audit report.

In the public sector, Chowdhury, Innes, and Kouhy (2005) observed the different perceptions regarding audit reporting, accountability, auditor independence, auditor competence, audit evidence, and performance audit between the Supreme Audit Institution of Bangladesh (Comptroller and Auditor General, CAG) and the financial statement users, represented by Public Accounts Committee of the Parliament and International Funding Agencies. However, the study did not emphasize the influence of users' experience or knowledge on the audit expectation gap even though they compared the perception between the user groups. The result reports a different perception in those dimensions between the groups. The user groups believe that the audit report and auditor's performance should be improved as it has not satisfied their expectation. In contrast, the auditors perceive that they have accomplished their tasks and fulfilled their responsibilities. Even though they did not empirically analyze an approach to reduce the gap, they suggested that training provided to all parties involved may narrow the gap.

In Romania, Dana (2011) focused on students' perception concerning auditor's independence, public auditor's responsibility, and credibility to be compared with a benchmark based on literature (e.g., international published articles, audit standards and manuals, and information from Romanian Court of Account). The research reports that students who have finished an advanced audit course have a different perception regarding auditor's independence, public auditor's responsibility, and credibility compared to the benchmark. However, the gap between the students who have not completed the course and the benchmark is bigger. Dana's study supports Chowdhury et al. (2005), confirming that training for specific users may be provided to narrow the gap. However, financial statement users in the public sector are widely diverse. Therefore, assuming that all financial statement users have formal education in accounting or auditing is somehow unrealistic. This implies that the gap between auditors and users with less knowledge remains unresolved.

Assuming the previous studies in Indonesia pointed out that an audit expectation gap exists in the scope of local authorities, and the conclusion in other countries regarding the existence of the gap can be generalized to a broader scope of Indonesia, it is predicted that the audit expectation gap in the context of central government still exists. However, given that government officials have more experience in government accounting practice and financial management, their perception of audits may be closer to the auditor. On the other hand, students who do not have any experience with government practice may ascribe responsibility to auditors. In connection with the preceding, the hypothesis proposed are:

H1a: BPK's auditors and the report users (i.e., government officers and students) have a significantly different perception of BPK's responsibility under the new state audit report standard.

H1b: BPK's auditors and the report users (i.e., government officers and students) have a significantly different perception of the central government's responsibility under the new state audit report standard.

H1c: BPK's auditors and the report users (i.e., government officers and students) have a significantly different perception of unqualified audit opinion responsibility under the new state audit report standard.

The Effectiveness of Additional Information in Closing The Gap

As indicated, the study in the public sector is limited in examining the influence of education in narrowing the gap. This study extends the previous study in the public sector by considering another possible approach (additional information in the audit report) to reduce the gap which has not been empirically examined in the public sector. For that reason, this study focuses on the capability of an audit report in influencing the reader's perception by referring to the studies in the private sector.

Monroe and Woodliff (1994) studied the wording change of audit reports in Australia. They pointed out that the modified wording impacts the view of the financial statement users related to the nature of the audit and the responsibilities of auditors and the management. Kneer *et al.* (1996) also agreed that users' perception of auditors' responsibilities could be influenced by language style in the audit report. However, Chong and Pflugrath (2008) explained that different formats of audit reports, including one with plain language, did not significantly affect readers' perceptions.

In the different types of audit report modification, Hatherly *et al.* (1991) examined the ability of expanded audit reports based on Statement on Auditing Standards (SAS) 58 to shift readers' perception in the UK. Compared to the short form of the audit report, which was used in the UK at the time of the study, the expanded version included a description of managers' responsibility and auditors' responsibility, including the scope and nature of the audit. The result showed that the expanded report shifted readers' perception, thereby reducing the gap. Miller, Reed, and Strawser (1993) support the notion that additional information affects the perception of audit report users. Based on their observation, bank loan officers who read audit reports containing a paragraph specifying the responsibilities of the management and auditors and the audit scope have a better understanding of the responsibilities.

In addition, a survey conducted by Ruhnke and Schmidt (2014) in Germany revealed that the users of audit reports had the view that change in audit reporting had a significant influence to narrow the audit expectation gap compared to institutional change. In a slightly different experiment, Fadzly and Ahmad (2004) suggest that reading material informing users effectively provides a better understanding of the auditors' responsibilities and removes misconceptions regarding the responsibilities to prepare financial statement accounts between auditors and investors. However, Gold *et al.* (2012) and Litjens *et al.* (2015) concluded that the role of additional information in the audit report in closing the audit expectation gap was limited. The reason is that the information provided could not affect users' existing perception of what the auditor should be capable of doing and what information should be included in financial statements and audit reports.

As previously described, the attempt of the studies to examine the effectiveness of various audit reports modifications to narrow the audit expectation gap could not conclude the same result. Such mixed results indicate two issues. First, the audit expectation gap may not be removed, taking into account that public expectation constantly changes due to uncertainties in the related environ-

ment (Dana, 2011; Ruhnke & Schmidt, 2014). Ergo, any approaches applied to close the gap can only be effective temporarily, and as soon as the public's expectations change, the gap will again manifest. Second, a particular method may be only effective in certain conditions. Examining the same method in a different setting is essential (Gold *et al.*, 2012).

Concerning the capability of the modified audit report to close the gap, several studies reported that wording changes and additional information in the audit report are deemed effective to improve users' understanding of the audit. On the contrary, some studies presented a different result. Those studies argued that the effect of such modification was not significant in shifting users' perceptions. Given these mixed results and the fact that there is no previous study examining a similar approach in the public sector, it is difficult to expect any results. However, given the evidence that more informed financial statement users (users with more experience and knowledge) lead to a smaller degree of a gap, it can be predicted that additional information could narrow down the audit expectation gap. With the assumption that users pay attention and understand the information provided. Ergo, the following hypotheses of this study are:

H2a: Additional information in the audit report reduces the differences in perception between BPK's auditors and the report users (i.e., government officers and students) concerning BPK's responsibilities.

H2b: Additional information in the audit report reduces the differences in perception between BPK's auditors and the report users (i.e., government officers and students) concerning Central Government's responsibilities.

H2c: Additional information in the audit report reduces the differences in perception between BPK's auditors and the report users (i.e., government officers and students) concerning unqualified audit opinions.

RESEARCH METHOD

This study is intended as an empirical study of Indonesia's public sector and employs questionnaires to collect data. The study uses a quantitative approach which implies that research involving the collection of quantitative data (numerical data) and data analysis (Bryman, 2016) can verify or falsify the hypothesis. The participants were selected based on an assessment to meet the research objectives. The participating auditors (senior engagement team members) in BPK were assigned to conduct central government audits. Senior auditors are assumed to have more knowledge and understanding than junior auditors due to their experience regardless of the quality standards applied at BPK, which require all auditors to master competencies. Hence, their responses represent the nature of central government audits.

Users of financial statements are drawn from two different groups based on their experience in public sector financial reporting and auditing, following most of the research in this area (e.g., Fadzly & Ahmad, 2004; Chowdhury *et al.*, 2005; Dana, 2011; Gold *et al.*, 2012). Government officers from the Ministry of Finance with more than five years of experience were asked to participate in this study. This group represents experienced and internal users. It is assumed that based on their experience in government financial management and their involvement in preparing the financial statement, they would have sufficient information regarding audit and financial reporting.

Students studying at the Indonesian State College of Accountancy (PKN STAN) were

invited to participate in this study to represent inexperienced and external users. The information regarding an audit for this group is only provided from courses and classes without having experience in real-world practice. As a result, their audit knowledge is limited by the courses and classes they enroll in. This selection of financial statement users' groups allows the study to observe users' perceptions from two different perspectives.

Most of the studies on audit expectation gaps use questionnaires to extract participants' perceptions concerning the gap variables studied. The variables of the gap focused on in this study are BPK's responsibility, the central government's responsibility, and an unqualified opinion. BPK's responsibility is the responsibility attached to the auditor in conducting an audit, while the central government's responsibility is the responsibility of the government related to financial reporting and management. An *unqualified opinion* is an essence that characterizes the unqualified audit opinion. A questionnaire adapted from the instrument used in several studies was developed to extract the participants' perceptions concerning these variables (Gold *et al.,* 2012; Holt & Moizer, 1990; Hatherly *et al*., 1991; Miller *et al*., 1993; Ruhnke & Schmidt, 2014).

Table 1 illustrates the main questionnaire items in this study. Question 1 assesses the extent to which the participants assign the responsibility related to fraud and misappropriation of assets detection and prevention, the effectiveness of internal control, and the preparation and accuracy of the financial statement toward the auditor (relate to H1a & H2a). Question 2 assesses the extent to which the participants assign responsibility to fraud and misappropriation of assets detection and prevention, the effectiveness of internal control, and the preparation and accuracy of the financial statement toward the central government (relate to H1b & H2b). Question 3 assesses the perception of the participants regarding the unqualified audit opinion on financial statements (relate to H1c & H2c).

All the items in the questionnaire were scored on 5-point Likert Scale and labeled

Table 1. Instrument to Assess the Audit Expectation Gap

Q1. BPK is responsible for (H1a; H2a):
Detecting all fraud and misappropriation of assets (1); Preventing all fraud and misappropriation of assets (1); The effectiveness of internal control of the entity (1); Preparing and producing the financial statements (1); The accuracy of the financial statements (1).
Q2. The Central Government is responsible for (H1b; H2b):
Detecting all fraud and misappropriation of assets (5); Preventing all fraud and misappropriation of assets (5); The effectiveness of internal control of the entity (5); Preparing and producing the financial statements (5); The accuracy of the financial statements (5).
Q3. The unqualified financial statements mean that (H1c; H2c):
Report users can have absolute assurance that financial statements are free from material misstatements (1); The audited financial statements present a true and fair view of the financial position of the entity (1);* The entity is free from fraud (1); The audited financial statements comply with accepted accounting practice (1);* The audited financial statements contain no errors (1).
Q4. Does the audit report above provide an explanation about the responsibility of the central government and the BPK? (Yes/No)

**Reverse scoring.*

with 'strongly disagree' (score 1) at one end and 'strongly agree' (score 5) at another end. Participants were requested to rate all of the main items in the questionnaire using this scale. However, reverse scoring was applied to two items that measure the perception regarding unqualified opinions (see Table 1). Ergo, for these items, score one labeled as 'strongly agree' while the 'strongly disagree' label weighted 5 points. This data transformation (i.e., reverse scoring) maintains consistency in the response scoring (Sekaran & Bougie, 2016).

The expected score for all items concerning BPK's responsibility variable is 1, while the expected score for all the elements concerning the central government's responsibility variable is 5. Hence, the responsibilities concerning fraud and misappropriation of assets detection and prevention, the effectiveness of internal control, also the preparation and accuracy of the financial statement are more appropriately attached to the central government than BPK's auditor. The expected score for all items regarding the variable of the unqualified financial statement is 1. Thus, the unqualified financial statements do not indicate that users can have absolute assurance that financial statements are free from material misstatements, the entity is free from fraud, and the audited financial statements contain no errors. The unqualified financial statements imply that the audited financial statements present an accurate and fair view of the entity's financial position also comply with accepted accounting practice.

One of the purposes of this study is to examine the ability of additional information in the audit report to influence the readers' perception. Cramer (1994) explained that two important structures were applied in examining the effect of one or more variables' alteration on the other variables. First, only the existence of the variables whose effects are examined should be varied, and, second, the participants should be randomly assigned to the circumstance representing these differences. Hence, two versions of the questionnaire were generated. Questionnaire 1 contains unqualified audit reports (full-version), which include additional information about the responsibilities of the auditor and central government as suggested by the SPKN-PSP 300. In contrast, Questionnaire 2 has an opinion-only audit report (short-version), excluding additional information. Notwithstanding the audit report provided, both questionnaires have the same questions. Thus, the only difference between those questionnaires was the explanation paragraph related to the responsibilities of the auditor and central government.

The data collection was conducted via a web-based survey administered with cloud-based software. An invitation email that includes a link to the questionnaire was sent to 360 senior auditors in BPK, 300 government officers in the Ministry of Finance, and 150 students in PKN STAN. The link was set to direct the participants randomly to one of the questionnaires to avoid bias. Thereby each respondent had an equal probability of being assigned to either questionnaire. The participants were asked to read an unqualified audit report before being asked to rate their opinion on several statements related to the variables studied. Within each respondent, the order of the statements was randomized to avoid response bias. To check their awareness of the additional information, the participants asked whether the audit report provided in the questionnaire included additional information related to the auditor and central government (Question 4; see Table 1). At the end of the questionnaires, the participants were asked demographic questions (e.g., name, working/studying experience).

The main analysis in this research is to examine the mean difference between re-

spondent groups (test of difference) by using a statistical model. This study applied a parametric test following Gold *et al.* (2012), who examined the audit expectation gap in Germany's private sector. This study used ANCOVA to examine the difference in means between the respondents and the influence of additional information in the audit report on the respondents' perceptions. In addition, Kruskal-Wallis (nonparametric) was used to confirm the result of the main test. Additional Post Hoc Test was undertaken to compare the means between respondent groups. Only the data provided by the respondents assigned to Questionnaire 1 was used to test the first hypothesis. By doing so, the existence of the audit expectation gap under the current state can be determined without being affected by the participants' responses who read the modified audit report (Questionnaire 2). Next, the data collected from both questionnaires were tested to see any significant difference between the responses from both questionnaires.

RESULT AND DISCUSSION

The initial sample consisted of 360 auditors, 300 government officers, and 150 students. Responses were received from 100 auditors; most had 5-10 years of work experience (74%), while the rest had been an auditor for more than a decade. There was a total of 69 government officers answered and completed the questionnaire. About 59% of them had 5-10 years of work experience, and around 41% had been working for more than a decade. Sixty-five students completed the questionnaire with various levels of education, ranging from the first to the third year of college. Of 235 respondents, nine responses were deemed inappropriate and thus could not be used (Table 2) and were excluded from the analysis. However, the statistical test result was indifferent with or without the non-useable data.

Table 3 reports the response rate for each participant. Even though the number of responses received is considered small, it is sufficient to execute the analyses. Roscoe (1975, quoted in Sekaran & Bougie, 2016, p. 264) proposes that a sample size between 30 and 500 is appropriate when the sample is divided into subsamples for most research. Each subsample should have a minimum sample size of 30. In addition, a small sample size between 10 and 20 is possible to undergo a simple experiment with tight experimental controls. The response rate is also considered favorable compared to the re-

Table 2. Questionnaire Responses

Respondent	Response			
	Targeted	Received	Non-useable	Useable
Questionnaire 1				
Auditors	180	49	2	47
Government Officers	150	35	1	34
Students	75	33	1	32
Questionnaire 2				
Auditors	180	51	3	48
Government Officers	150	34	2	32
Students	75	33	-	33
Total	**810**	**235**	**9**	**226**

sponse rates for a similar study. For instance, Gold *et al.* (2012) reported a response rate of 11.24% and 28.61% from auditors and students, respectively, to a questionnaire for testing the effectiveness of explanation as instructed by the ISA 700 (revised) in narrowing the audit expectation gap.

Tabel 3. Response Rate

Respondent	Useable Response	Target	Response Rate
Auditors	95	360	26.39%
Government Officers	66	300	22.00%
Students	65	150	43.33%

The responses also demonstrate how good the respondents' awareness is of the additional information in the audit report. Table 4 shows that most of the respondents who complete Questionnaire 1 agree that they have read an audit report that explains the responsibility of the central government and BPK's auditor.

Tabel 4. Awareness of the Additional Information

Respondent	The audit report provides an explanation about the responsibility of the auditor and the entity (Q4)			
	Yes		No	
	Unit	%	Unit	%
Auditors	44	93.62	3	6.38
Government officers	30	88.24	4	11.76
Students	26	81.25	6	18.75

The variables of the audit expectation gap (i.e., BPK's responsibility, central government's responsibility, an unqualified audit opinion) were assessed with several items in the questionnaire. Cronbach's Alpha was undertaken to verify whether all items measuring the variable were reliable as a set of measurements. In general, a reliability test score of less than 0.60 is considered low, and the reliability of the data is questionable. Those in the range of 0.70 represent acceptable reliability, while over 0.80 is considered high, and the data is reliable (Sekaran & Bougie, 2016). If the items are reliable as a group, the main statistical test can be performed based on the average score of the item. On the other hand, a low-reliability score requires the items to be tested separately. The result for BPK's responsibility (Q1) and central government's responsibility (Q2) reveals a high Cronbach's Alpha score (score > 0.80) for both questionnaires. Subsequently, the variables were tested on the average score basis of all items measuring the variable. However, the reliability test for the unqualified audit opinion variable resulted in a low Cronbach's Alpha score for both questionnaires (score < 0.60), thus, a statistical test for this variable was conducted for each item.

The Result for Hypothesis 1 Test

ANCOVA and Kruskal-Wallis H were performed with the responsibility set as the dependent variable and respondent groups set as the independent variable to test H1a. Both tests indicate a significant difference in means between those surveyed at a 0.01 significant level (Table 5). The result supports H1a that BPK's auditors and the report users (i.e., government officers and students) have a significantly different perception regarding BPK's responsibility under SPKN 2017.

Further Post Hoc Test indicates a significant difference between auditor's and students' perceptions (p-value < 0.01). While there is a different perception between auditors and government officers (Δ = -0.175), the difference is not statistically significant (p-value > 0.05). Moreover, the perception gap between auditors and students (Δ = -0.679) is higher compared to the perception gap between auditors and the government officers (Δ = -0.175). However, the result indicates that the difference between the gaps is not statistically significant at a 0.05 significant level (p-value = 0.055).

Tabel 5. Statistical Test Result for H1a

ANCOVA						Kruskal-Wallis H	
Source	**Type III Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**	**Chi-Square**	**Asymp. Sig**
Respond-ent	9.024	2	4.512	5.888	0.004	11.927	0.003
Error	84.291	110	0.766				

Post Hoc Test				
Respondent		**Mean Difference**	**Std. Error**	**Sig.**
Auditor	Government Officer	-0.0175	0.19708	0.648
	Student	-0.0679	0.20062	**0.003**
Student	Government Officer	0.0504	0.21560	0.055

These findings indicate the existence of an audit expectation gap between BPK's senior auditors and the financial statement users (i.e., government officers and students) concerning BPK's responsibilities. The findings support most of the prior (e.g., Anderson, Maletta, & Wright, 1998; Best *et al.,* 2001; Gold *et al.*, 2012), which conclude that users of financial statements have a different perception regarding auditor's responsibilities than the auditors. The findings also agree that users of financial statements, such as government officers and students, impose greater responsibility upon the auditors. Those responsibilities include the prevention and detection of fraud and misappropriation of assets, the effectiveness of internal control, and the preparation and accuracy of the financial statements compared to what the auditors expect to accomplish.

According to BPK Regulation Number 1 of 2017, BPK's responsibilities related to fraud are limited to initial indication of fraud (red flags) that has a material impact on the financial statements (BPK RI, 2017). The auditors do not have any responsibilities to maintain the effectiveness of internal control and prepare the financial statement. The auditor is not liable to prevent and detect all fraud and misappropriation of assets. According to Ruhnke and Schmidt (2014), such a gap can be considered a public failure, bearing in mind that the gap exists due to the users' inability to recognize the auditor's responsibilities as mandated by the standard and regulations. This examination is consistent with Dana (2011), who reports that students place greater expectations upon auditors to fulfill their responsibility beyond what has been mandated by the standard. The suggested approach to narrow the gap resulting from public failure is to educate the financial statement users on the actual responsibilities of auditors as mandated by the standard. Such an approach can be pursued in various ways (e.g., formal education, reading materials, additional information on audit reports).

The survey's average result concerning the responsibilities assigned to the central government, as indicated in Question 2, suggests that most of the respondents strongly agreed that such responsibility should rest on the central government. Both tests by ANCOVA and Kruskal-Wallis confirmed that the auditors and the user groups did not have significantly different perception concerning the central government's responsibilities (p-value > 0.005). The Post Hoc test supports the results because all means of comparison between respondent groups are insignificant (Table 6). Ergo, the results are inconsistent with H1b, which predicted that BPK's audi-

tors and the report users (government officers and students) have a significantly different perception of the central government's responsibility under SPKN 2017.

These findings indicate that government officers are aware of their responsibilities. Moreover, students and auditors agree that the responsibilities in the prevention and detection of fraud, the effectiveness of internal control, and the preparation and accuracy of the financial statement lie on the government instead of the auditor. Thus, there is no evidence of an audit expectation gap concerning the central government's responsibilities. This result is consistent with Gold *et al.* (2012), who reported that auditors and users had reached a consensus regarding the management's responsibility.

Taking into account the result of the H1a test, it reveals that regardless of the user groups' view that the responsibilities lie on the government rather than the auditor, they expect the auditors to perform the same responsibilities apply. This deduction supports the literature, suggesting that the expansion of auditor's responsibilities may likely narrow the audit expectation gap (Humphrey, Mozier, & Turley, 1993; O'Malley, 1993). Further study is required to see the possibilities and the effectiveness of this approach in the public sector.

Statistical tests were undertaken for each measurement item (e.g., absolute assurance, accurate, and fair view) to test H1c. The measurement item was the dependent variable, and the respondent was the independent variable. The ANCOVA and Kruskal-Wallis H tests show an insignificant result for variables concerning absolute assurance, accurate and fair view, and accounting practice compliance (Table 7). Hence there is no evidence of the audit expectation found regarding these variables. On the other hand, a significant result at a 0.01 significant level was identified in the variables concerning statements that are free from fraud and error perceptions. As a result, auditors and users have a significantly different perceptions concerning these variables.

Further Post Hoc Test reports significant differences between all groups of respondents concerning statements that are free from fraud perception at 0.01 and 0.05 significant levels (Appendix 1). In addition, it shows that the gap between auditors and students (Δ = -1.404) is significantly greater at a 0.05 significant level (p-value = 0.048) compared to the gap between auditors and government officers (Δ = -0.784). Moreover, there is no statistically significant difference between auditors and government officers concerning free from error perception (p-value > 0.05). However, the gap between auditors and government officers (Δ = 0.023) significantly differs at 0.01 significant level (p-value = 0.004) with the gap be-

Tabel 6. Statistical Test Result for H1b

ANCOVA						Kruskal-Wallis H	
Source	**Type III Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**	**Chi-Square**	**Asymp. Sig**
Respondent	0.779	2	0.389	1.254	0.289	1.016	0.003
Error	34.160	110	0.311				

Post Hoc Test				
Respondent		**Mean Difference**	**Std. Error**	**Sig.**
Auditor	Government Officer	0.014	0.12546	0.993
	Student	0.190	0.12772	0.302
Student	Government Officer	-0.176	0.13725	0.409

Table 7. Statistical Test Result for H1c

	ANCOVA					Kruskal-Wallis H	
Source	**Type III Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**	**Chi-Square**	**Asymp. Sig**
Absolute assurance							
Respondent	0.889	2	0.444	0.392	0.677	1.113	0.573
Error	124.669	110	1.133				
True and fair view							
Respondent	0.022	2	0.011	0.031	0.970	0.441	0.802
Error	38.916	110	0.354				
Free from fraud							
Respondent	38.611	2	19.305	17.415	0.000	25.162	0.000
Error	121.938	110	1.109				
Accounting practice compliance							
Respondent	2.727	2	1.364	2.517	0.085	3.584	0.167
Error	59.591	110	0.542				
Free from error							
Respondent	16.475	2	8.237	7.107	0.001	12.128	0.002
Error	127.490	110	1.159				

tween auditors and students (Δ = - 0.838). These findings partially support H1c that BPK's auditors and the report users, notably government officers and students, have a significantly different perception of unqualified audit opinion responsibilities under SPKN 2017.

By observing the means of the responses' score for the absolute assurance item, it can be taken into consideration that the absence of an audit expectation gap is due to the perception of auditors that shifts toward the perception of financial statement users. The auditor's means, greater than 3 (on a 5-point scale), represents the level of agreement on the measurement item. It indicates that the auditors at a certain level believe that an unqualified opinion represents an absolute assurance that the financial statement is free from material misstatement. It is suspected that this condition was because the auditor's perception was affected by the constant demand of users asking for more assurance provided by the audit service. As a result, auditors are inadvertently attempting to provide assurance or get the sense that they have provided such assurance to be accepted by the users. Holm and Zaman (2012) explained that auditors had the ultimate goal to gain trust from the users to legitimize. In addition, auditors attempt to meet the public's interest in regaining legitimation, thereby accepting such excessive expectations (Masoud, 2017).

However, BPK Regulation Number 1 of 2017 stated that the audit is planned and performed to obtain reasonable assurance, as opposed to an absolute one, that financial statements are free from material misstatement. Even though there is no presence of an audit expectation gap regarding the item, this condition can be considered a failure of the auditor as auditors have their views regarding the level of assurance of an unqualified audit opinion that differs from the standard. Training or education may be nec-

essary to improve the auditor's understanding of this matter.

Moreover, the result suggests that auditors and the user groups agree that unqualified financial statements present an accurate and fair view of the entity's financial position and that the financial statements comply with accepted accounting practices. However, while auditors understand that unqualified financial statements are not necessarily free from fraud and error, the user groups expect that financial statements are free from fraud and error. About Ruhnke and Schmidt (2014), these gaps result from the public's failure. This result is consistent with a prior study in Indonesia's public sector (Rusliyawati, 2007), which reports an audit expectation gap in the perception of unqualified opinion between BPK's auditors and parliament members, local government officers, and the public. As mentioned in the preceding, a possible approach to narrow down the gap due to the public failure would be to inform users of the financial statement on the factors that have caused the gap.

The Result for Hypothesis 2 Test

Responses from all questionnaires were used to assess the effectiveness of additional information in reducing the audit expectation gap. ANCOVA was tested with BPK's responsibility and entered as the dependent variable, and respondent groups and audit report types were entered as independent variables to test H2a. The test shows a significant result for the respondent factor. However, the audit report and the interaction between respondents and the audit report did not significantly influence the respondents' perception regarding BPK's responsibility (Table 8). This finding does not support H2a, which predicts that additional information in the audit report reduces the differences in the perception concerning BPK's responsibility between BPK's auditors and the report users (i.e., government officers and students).

ANCOVA was performed with Central Government's responsibilities as the dependent variable, while respondent and audit reports were keyed in as independent variables to test H2b. The result indicates no significant influence of the independent variables tested on the respondents' perception concerning the Central Government's responsibilities (Table 9). The result rejects H2b, which predicts that additional information in the audit report reduces the differences in the perception of the Central Government's responsibility between BPK's auditors and the report users (i.e., government officers and students).

The H2a and H2b tests contrast with the previous study, which reports the modified audit report's capability to narrow the audit expectation gap (e.g., Hatherly *et al.*, 1991; Miller *et al.*, 1993). However, it is consistent with Gold *et al.* (2012), who discovers that additional information provided in audit re-

Table 8. Statistical Test Result for H2a

ANCOVA					
Source	**Type III Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
Corrected Model	17.651	5	3.530	4.563	**0.001**
Respondent	15.374	2	7.687	9.935	**0.000**
Audit report	0.925	1	0.925	1.195	0.275
Respondent x Audit report	1.498	2	0.749	0.968	0.382
Error	170.224	220	0.774		

Table 9. Statistical Test Result for H2b

ANCOVA					
Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	1.411	5	0.282	0.735	0.598
Respondent	0.574	2	0.287	0.747	0.475
Audit report	0.496	1	0.496	1.293	0.257
Respondent x Audit report	0.249	2	0.125	0.324	0.723
Error	84.498	220	0.384		

ports as mandated by revised ISA 700 does not affect the users' expectations. It is also consistent with Litjens *et al.* (2015), which conclude that the ability of additional information regarding the entity and the audit process on narrowing the audit expectation gap is limited. Three possible reasons can be drawn from this result. The first reason would be that the respondents ignored the additional information provided. Second, the respondents read the additional information, but the reader did not clearly understand the additional information. Third, the respondents have understood the additional information, but the information provided could not influence their perception, which demanded that auditors provide a higher assurance level (more responsibilities).

The response of user groups who read the full version audit report to Question 4 indicated that the user groups were aware of the additional information. Most of the respondents representing government officers (88.24%) agreed that they had read an audit report which included an explanation of the responsibility of the central government and BPK. In comparison, 81.25% of participants representing students confirmed that the audit report did contain such additional information. The first reason regarding the ineffectiveness of additional information in the audit report to close the audit expectation gap is not applicable. This experiment, however, could not analyze the remaining reasons. Further study is necessary to provide in-depth knowledge on the possibilities of additional information to reduce the audit expectation gap concerning auditor and entity's responsibilities.

Further ANCOVA was conducted for each measurement item for the unqualified opinion variable to assess the influence of additional information in the audit report on the variable. The test results show the effect of audit report type on each measurement item tested (see Appendix 2). There is no significant influence of the audit report type on the perception regarding absolute assurance and accurate and fair view of unqualified financial statements (p values > 0.05). On the other hand, the interaction between respondents and audit report type significantly influences respondents' perception of statements that are free from fraud, accounting practice compliance, and free from error of the unqualified financial statements. These findings partially support H2c, which assumes that additional information in the audit report reduces the differences in perception regarding unqualified audit opinion between BPK's auditors and the report users (i.e., government officers and students) in all items measuring the variable.

These findings are inconsistent with the result of Gold *et al.* (2012), which concludes that additional information in the audit report based on the revised ISA 700 does not bring users' perception related to the reliability of financial statements closer to the audi-

tors' perception. H1c test result indicates no evidence of an expectation gap in the perception of accounting practice compliance in unqualified financial statements under the current state. Because of that, it can be inferred that the additional information in the audit report, as mandated by the SPKN 2017, effectively closes the audit expectation gap in this dimension. Moreover, the additional information effectively narrows the gap in the perception of fraud and error-free unqualified financial statements even though the expectation gap persists under the current condition.

In summary, the hypothesis test result shows a significantly different perception between BPK's auditors and the report users, notably government officers and students, concerning the perception of BPK's responsibilities (H1a). However, a different perception is not found in the perception of the central government's responsibilities (H1b). The result also indicates that a significantly different perception between the auditor and the users concerning unqualified audit opinion is limited to the perception of fraud and error in an unqualified financial statement (H1c).

It can be concluded that additional information in the audit report could not reduce the differences in the perception between BPK's auditors and the report users (i.e., government officers and students) concerning BPK's responsibility (H2a) and Central Government's responsibility (H2b). The capability of the additional information in reducing the different perceptions between BPK's auditors and the report users is limited in reducing the gap concerning the accounting practice compliance and the presence of fraud and error in an unqualified financial statement (H2c).

CONCLUSION

The findings of this study report the existence of the audit expectation gap in Indonesia's public sector between auditors, government officers, and students. The gap exists in the perception regarding BPK's responsibilities and the presence of fraud and error in an unqualified financial statement. The findings are consistent with Chowdhury *et al.* (2005) and Dana (2011), who discover the existence of the gap in the Bangladesh and Romania's public sectors, respectively. This study also affirms most of the studies that address the audit expectation gap (e.g., Anderson *et al.*, 1998; Best *et al.*, 2001; Gold *et al.*, 2012), wherein the gap between auditors and inexperienced users (i.e., students) is greater than the gap between auditors and experienced users (i.e., government officers).

However, in line with Gold *et al.* (2012), this study fails to foresee the presence of the gap concerning the central government's responsibility. Further examination of the result concludes that the gap in Indonesia's Public sector is due to public failure in recognizing the responsibilities of the auditor and the meaning of unqualified financial statements as referred to in the standard. Moreover, the auditor's failure to understand the level of assurance service that they provide has shifted auditors' perception toward users' perception.

This study also revealed that the capability of the additional information in the audit report as provided by SPKN 2017 in closing the audit expectation gap is limited. The additional information is only effective in closing the gap concerning the accounting practice compliance of an unqualified financial statement. Furthermore, it effectively reduces the gap relating to the presence of fraud and errors in unqualified financial statements. The findings are consistent with the study that reports the limitation of additional infor-

mation in narrowing the audit expectation gap (Litjens *et al*., 2015). Two possible reasons are suspected to be the cause of such ineffectiveness of additional information in reducing the gap. First, the reader fails to understand the additional information provided, and second, the additional information cannot close the gap due to the high expectation from the users.

Further study is essential to analyze these issues as IAASB (2012) suggests that an audit report is the auditor's primary means of communicating with the stakeholders while demanding more appropriate information. Hence, an audit report remains one essential tool for closing the audit expectation gap without putting aside other approaches. However, the limited ability of the audit report to reduce the gap implies that the audit report alone may not be sufficient to resolve the issue. Hence, a combination of two or more approaches may be more likely to close the gap. Moreover, further study may need to consider another method that has never been explored in the public sector, such as the possibility of expanding the auditor's responsibilities to meet financial statement users' needs.

This study has some limitations that should be acknowledged. First, due to time constraints, the experiment is incapable of obtaining a bigger sample. The limited number of respondents involved in the experiments makes the result incapable of generalizing to a broader scope or a different setting. Involving a bigger sample for the following study may provide a different view and enhance the result. Second, the experiment is limited in comparing the perceptions of auditors, government officers, and students. There are other financial statement users whose perceptions are essentially as important to consider, such as parliament members and non-governmental organizations. Finally, the questionnaire used in the experiment was adapted from the previous studies, which were designed to investigate the audit expectation gap in the private sector. Therefore, this study assumes that the adjusted questionnaire can be applied to investigate the audit expectation gap in the context of the public sector. Designing a questionnaire specifically for a study in the public sector may improve the validity of the result.

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APPENDICES

Appendix 1. Post Hoc Test Result for Unqualified Opinion Variable

Post Hoc Test					
Items	**Respondent**		**Mean Difference**	**Std. Error**	**Sig.**
Absolute assurance	Auditor	Government Officer	0.076	0.240	0.946
		Student	-0.152	0.244	0.809
	Student	Government Officer	0.228	0.262	0.661
Accurate and fair view	Auditor	Government Officer	-0.033	0.134	0.967
		Student	-0.017	0.136	0.992
	Student	Government Officer	-0.017	0.146	0.993
Free from fraud	Auditor	Government Officer	-0.784	0.237	**0.004**
		Student	-1.404	0.241	**0.000**
	Student	Government Officer	0.619	0.259	**0.048**
Accounting practice compliance	Auditor	Government Officer	-0.213	0.166	0.407
		Student	0.193	0.169	0.487
	Student	Government Officer	-0.406	0.181	0.069
Free from error	Auditor	Government Officer	0.023	0.242	0.995
		Student	-0.838	0.247	**0.003**
	Student	Government Officer	0.860	0.265	**0.004**

Appendix 2. Statistical Test for H2c

ANCOVA						
Item	**Source**	**Type III Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
Absolute assurance	Corrected Model	3.489	5	0.698	0.676	0.642
	Respondent	0.396	2	0.198	0.192	0.826
	Audit report	0.479	1	0.479	0.464	0.497
	Respondent x Audit report	2.780	2	1.390	1.346	0.262
	Error	227.236	220	1.033		
True and fair view	Corrected Model	3.074	5	0.615	1.682	0.140
	Respondent	1.268	2	0.634	1.735	0.179
	Audit report	1.000	1	1.000	2.736	0.100
	Respondent x Audit report	1.027	2	0.514	1.405	0.247
	Error	80.417	220	0.366		
Free from fraud	Corrected Model	67.763	5	13.553	11.424	0.000
	Respondent	55.960	2	27.980	23.586	0.000
	Audit report	2.060	1	2.060	1.736	0.189
	Respondent x Audit report	10.155	2	5.077	4.280	0.015
	Error	260.984	220	1.186		
Accounting practice compliance	Corrected Model	14.225	5	2.845	5.520	0.000
	Respondent	10.694	2	5.347	10.374	0.000
	Audit report	0.808	1	0.808	1.567	0.212
	Respondent x Audit report	3.400	2	1.700	3.298	0.039
	Error	113.386	220	0.515		
Free from error	Corrected Model	26.778	5	5.356	4.839	0.000
	Respondent	14.467	2	7.233	6.536	0.002
	Audit report	0.004	1	0.004	0.003	0.954
	Respondent x Audit report	12.240	2	6.120	5.530	0.005
	Error	243.474	220	1.107		


gap