
Extensive review of the audit expectation gap

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ABSTRACT

This paper offers an extensive review of the audit expectation gap, examining a range of studies conducted across diverse countries and contexts. The audit expectation gap, a prominent concern in the field of auditing, is consistently found to persist in various forms, driven by factors such as unrealistic expectations, delays in adapting to evolving societal norms, low audit fees, and instances of suboptimal auditor performance. This gap significantly affects stakeholders' confidence in financial statement, thus making it necessary to bridge it. Proposed solutions to narrow the audit expectation gap encompasses public education efforts aimed at enlightening users of financial statements about the objectives of audit and the roles and responsibilities of auditors. Additionally, the implementation of robust quality control mechanism within audit firms is recommended to ensure higher performance standards among auditors.

Keywords: Audit Expectation Gap, Auditors, Stakeholders

1. INTRODUCTION

The audit expectation gap arises when stakeholders lack a clear understanding of an auditor's exact responsibilities. Oyewobi and Adetunji (2019) posit that, this gap emerges due to a failure to recognize the dynamics of the business environment and the role of auditors. Jannat (2022) also emphasizes that investors' expectations are shaped by their perceptions of auditors' performance in fulfilling their audit responsibilities. The audit expectation gap, as defined by Kamau, Kuvure, and Lokuta (2023), is the disparity between what is expected of auditors and what they actually deliver. It represents the difference between the auditors' actual obligations and what stakeholders and the general public perceive as the auditor's responsibilities.

Factors such as illiteracy, moral laxity in business practices, inadequate technical skills and training, as well as low levels of corporate accountability, transparency, disclosure, external auditor independence, and internal auditor effectiveness contribute to the widening of the audit expectation gap. These issues have not only undermined confidence in audit reports but also compromised the integrity of financial reporting. Consequently, this study aims to extensively evaluate the audit expectation gap from the existing literature. The remainder of this paper is divided into sections covering conceptual review, theoretical review, empirical review, methodology, conclusion and recommendations.

2. LITERATURE REVIEW

Concept of Audit Expectation Gap.

The audit expectation gap is a concept that has garnered global research attention. It isn't unique to the auditing profession, it exists in other profession such as law, medicine and even within the accounting field itself this gap arises from the disparity between the confidence stakeholders have in auditors and the perceived outcomes, particularly failures that occur. Lee et al (2010) define the audit expectation gap as the difference between public expectations of the audit function and what the audit profession deems its objectives to be. Salehi (2016) characterizes it as a difference in expectations between those with expertise and those relying on that expertise, encompassing perceptions of auditors' actual performance versus expected performance.

Azagaku and Aku (2018) proposes that the audit expectation gap reflects a mismatch between Essentially, role senders are dissatisfied with the information provided in audit report. Deepal and Jayamaha (2022) define the audit expectation gap as the difference between societal expectations of what auditors should do and what auditors actually do during audits. Kamau (2022) highlights the contrast between the public's and financial statements users' beliefs about auditors' responsibilities and what auditors perceive as their obligations. This definition emphasizes the reasonableness gap between public beliefs and practical expectations. In essence, the audit expectation gap represents a discrepancy between the public's perception of audit work and the actual execution of audits. This gap can be attributed to various factors, including the complexity of auditing, the general public's lack of awareness of audit processes and stakeholders' unrealistic expectations regarding auditors' roles in detecting fraud and irregularities.

Sources of Audit Expectation Gap

Salehi (2016) and Ebimobowei (2018) identified the following as the sources of audit expectation gap. They include:-

The probabilistic nature of auditing.

The ignorance, naivety, misunderstanding and unreasonable expectations of non-auditors about the audit function

Evaluating audit performance based on information not available to auditors during the audit.

The evolving nature of audit responsibilities, leading time lags in responding to changing expectations to..

Cooperate crises that results in new expectations and accountability requirements.

Efforts by the profession to influence the direction and outcome of the expectation debate to maintain the status quo.

Components of Audit Expectation Gap

Porter (1993), breaks down the components of the audit expectation gap into: “the reasonableness gap” representing the difference between what society expects auditors to do and what is realistically achievable. The “performance gap”, which denotes the difference between society’s reasonable expectations of auditors and what auditors are perceived to deliver. “Deficient standard gap”, illustrating the disparity between expected auditors responsibilities and what auditors are legally or professionally obligated to perform. “Deficient performance gap” highlighting the contrast between society’s expected performance standards and what is perceived to be delivered. In addition, Akthar and Xu (2020) emphasize that the performance gap signifies the difference between the expected standard of auditors’ performance and the public’s perception of auditors’ actual performance. The standard gap on the other hand represents the distinction between sensible expectations from auditors and their existing duties as defined by law and professional standards. The differentiation leads to two types of audit expectation gaps: the unreasonable gap and the sensible gap

Mitigating the Audit Expectation Gap

Kamau (2023) identified several strategies to address the audit expectation gap:

- a) Auditor Efforts: Auditors can take proactive steps to address the audit processes. This includes going the extra mile to dictate fraud even though is

not their primary responsibility. Additionally, effort and resources dedicated to this endeavor can contribute to reducing the audit expectation gap.

- b) Auditor Skills; Expertise within the field of auditing is essential for mitigating the audit expectation gap. It's not sufficient for auditors to exert efforts alone, they must possess the necessary knowledge and skills to effectively detect fraud and meet public expectations.
- c) Audit Methodologies: The choice of audit methodologies plays a crucial role in narrowing the audit expectation gap. Unstructured or inappropriate audit methodologies may lead to inconsistencies between audit work and user expectations, potentially reducing audit quality. Structured audit methodologies can help align audit practices with user expectations.
- d) Audit Independence: Auditors should maintain their independence throughout the audit process, free from undue influence by the organization's management or employees. Any compromise to their independence may hinder the quality of audit work and, in turn, erode user confidence, thereby widening the expectation gap
- e) Society's knowledge: To bridge the audit expectation gap, it's essential to educate the public and users of financial information about what they should realistically expect from auditors, improved awareness and understanding of auditors' roles and limitations can narrow the expectation gap.
- f) Audit Scope: some experts argue that the current audit scope is limited, preventing it from fully meeting user needs. Expanding the audit scope to encompass fraud detection could significantly reduce the audit expectation gap. Therefore, there is a perceived relationship between the scope of audits and the extent of the expectation gap.

Theoretical Framework

Role Theory

One of the theories that provides an explanation for the existence of an audit expectation gap is the Role Theory, adapted from the work of Azagaku an Aku (2018). This theory views an auditor as occupying a particular status or position as a professional within the social system. Auditors are expected to adhere to the societal prescriptions associated with their role. Failure to confirm to these prescribed roles or meet role expectations can lead to social actions aimed at enforcing conformity and penalizing non conformity (Davidson 1975).

Davidson (1975) further explains that the role of an auditor is subject to the normative expectations of various interest groups within society, often referred to as different “role senders.” These groups which may include management, regulatory bodies like the security and exchange commission, institutional investors, financial analysts, auditors and accountants may hold diverse expectations of auditors. These expectations can change overtime due to evolving role requirements and interactions with other societal forces. Consequently, auditors find themselves in multifaceted roles with varying expectations.

Agency Theory

Another theory that is relevant to the audit expectation gap is Agency Theory. This theory focuses on the relationship between principals (e.g., shareholders) and agents (e.g., management) and how conflicts of interest between them can lead to information asymmetry and agency problems. (Bebeji, Mohammed & Tanko, 2015). Jensen and Meckling (1976), define the agency relationship in terms of “a contract under which one or more persons (the principal(s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent”

In the context of editing, the agency theory suggests that the audit expectation gap can rise because auditors are seen as agents serving the interest of both the company’s management (the agent) and the shareholders (the principal). Auditors are expected to provide an independent assessment of the company’s financial statements to protect the interest of shareholders. However, there can be conflicts of interest if auditors rely too heavily on management or if shareholders have unrealistic expectations of what auditors can realistically deliver. Agency Theory provides insight into the audit expectation gap by emphasizing the challenges that arise when auditors serve as intermediaries between different stakeholders with varying interests.

Empirical Review

Akther and Xu (2020): in their study on audit expectation gap employed the use of survey research method and discovered that the audit expectation gap manifests in various aspects of an auditor’s role, including responsibilities related to fraud detection, the interpretation and usefulness of the auditors’ report, the provision of non-audit services, going concern assessments, and the demand for other assurance services. Their findings suggest that the audit expectation gap negatively affects stakeholders’ confidence. However, they propose that maintaining perceived independence and improving communication can help bridge the gap and boost stakeholders’ confidence. They also highlight the importance of independent audit

oversight, such as the financial reporting council, in maintaining auditors' perceived independence and ensuring greater confidence in audit services.

In a similar study, Salehi (2016), conducted a research on audit Expectation in Iran. Survey research method was adopted and his investigation revealed evidence of an expectation gap between auditors and investors in Iran. To mitigate this gap, salehi suggests several steps: Reducing the "deficient standard gap" by introducing more stringent audit standards through amendments to the companies Act in Iran. Disseminating audit ethics to various segments of society, including auditors themselves. Enhancing the scope of financial reporting commitments by making auditors responsible for verifying the entire financial reporting process adopted by management. Examining the feasibility of mandatory implementation of audit rotation and peer reviews to improve audit quality. These steps align with Kamau's (2023) emphasis on expanding the audit scope, particularly to include fraud detection, as a means of mitigating the audit expectation gap.

Azagaku and Aku (2018), conducted a study on Audit expectation Gap in Nigeria. They employed the use of survey research design in their study. The study reveals that an audit expectation gap exists in Nigeria, specifically on issues relating to auditor's responsibility. Azagaku and Aku recommend clearly defining defining and expanding the existing duties and responsibilities of auditors to include fraud detection. They also advocate for public education regarding the objectives of an audit, auditors' roles and responsibilities, and the implementation of quality control in audit firms to ensure better performance by auditors and enhance investor confidence

Lee et al (2010), examined audits expectation gap in Thailand. Survey research questionnaire was employed for the study. The results of the study confirm that audit expectation gap exist is Thailand. Similarly, the present study also found that the auditees and audit beneficiaries have an expectation of auditors' duties that is far in excess of that of the auditors themselves and concluded that immediate action is necessary from all parties with interests in the audit function to reduce the expectation gap. They emphasized that concerted efforts from all stakeholders could lead to a resolution of this issue, benefiting the nation.

Dung and Taun (2019) conducted a research on audit expectation gap in Vietnam survey research design was used to gather data for the study, Dung and Taun observed that the Audit Expectation Gap is an inherent aspect of the auditing profession. They emphasized that a larger audit expectation gap can be detrimental to the profession and highlighted the need for appropriate policies to narrow this gap.

3. METHODOLOGY

Descriptive research design was adopted for the study and data were obtained from secondary sources such as existing articles on the subject matter and they were extensively reviewed.

4. CONCLUSION

In conclusion, this comprehensive review of the audit expectation gap, based on various studies conducted in different countries and contexts, has consistently highlighted the persistent existence of this gap. It is evident that the audit expectation gap emerges from a variety of factors, including unreasonable expectations, delays in adapting to evolving societal norms, low audit fees and instances of suboptimal auditor performance, among others.

5. RECOMMENDATIONS

The impact of the audit expectation gap on stakeholder confidence in financial statements cannot be understated. It erodes trust and undermines the credibility of financial reporting. Therefore, addressing the gap is imperative. Proposed measures to bridge the audit expectation gap encompasses public enlightenment efforts aimed at educating users of financial statements about the objectives of audits and the roles and responsibilities of auditors. Additionally, the implementation of rigorous quality control mechanisms within audit firms can ensure higher performance standards among auditors.

In a global landscape marked by dynamic economic environments and evolving financial markets, the ongoing scrutiny and research into the audit expectation gap remain essential. Bridging this gap not only enhances the reliability of financial information but also reinforces stakeholder confidence in the integrity of the auditing profession. By adopting these measures and continuing to explore innovative solutions, we can strive towards a more transparent and accountable financial reporting ecosystem.

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