African Journal of Commercial Studies (ISSN: 2958-2326)
Volume 1, Number 1, 2022 | pp 1 – 8

Considerations for bridging the Audit Expectation Gap: A Desk Review

Charles G. Kamau
Department of Accounting and Finance, Technical University of Mombasa

Abstract:
The difference between what the general public and users of financial information believe auditors are responsible for and what auditors actually believe their obligations are is known as the expectation gap. This study aims to identify the nature of the audit expectation gap and suggest ways to close it. This will include a focus on how technology can be deployed to address similar concerns. The study proposed a set of criteria that might be utilized to close the expectation gap between user needs and expectations and audit expectations, including society knowledge, audit report length, audit independence, auditor efforts, and auditor abilities. The study came to the further conclusion that technology is crucial for closing both the performance and reasonableness gaps.

Keywords: Audit Expectation Gap, Technology, CAATs, Blockchain, Data Analytics

DOI: 10.59413/ajocs/v1.i1.1
ARK: ark:/69431/AJoCS.v1i1.1

1. Introduction

The expectation gap is the mismatch between what the public and users of financial information think auditors are liable for and what auditors actually think their obligations are (Kamau, 2013). According to Koo and Sim (1999), the goal of accounting is to offer information that may be used to make decisions about how to allocate resources. They further contend that in order to fulfill this goal, accounting must deliver trustworthy financial data. The auditor's job is to keep an eye on a company's financial statements and to give assurance on them. The auditor has frequently been referred to be the watchdog since society expects them to faithfully perform such a duty.

The Kenyan Companies Act's seventh schedule lists the primary responsibilities of the auditor. These responsibilities include stating if they believe the company has maintained good books of account and has received proper returns from branches, they have not visited that are adequate for the purposes of their audit. Additionally, auditors must state if, in their opinion, according to their best knowledge, and in accordance with the justifications provided to them, the accounts in question provide the information needed by this Act in the way specified and provide a truthful and fair picture. The Companies Act makes it quite clear that one of the auditors' responsibilities does not include account preparation.

The trust of stakeholders in the audit is inversely correlated with the audit expectation gap, and the higher the audit expectation gap, the less confident the stakeholders are in the audit. Auditors will reduce the audit expectation gap and boost stakeholder confidence at the same time by retaining their perceived independence and increasing engagement with users. Additionally, the Financial Reporting Board's active involvement serves as a moderator to guarantee the auditors' perceived independence (Akther & Xu, 2020). Stakeholders' trust in auditors tends to close the expectation gap.

Due to the firms emphasizing issues that were not considered as significant by their users, there was a perception gap. These comprise social and environmental disclosures as well as certain marketing and promotional reporting. Users of integrated reports, on the other hand, need more details on matters like the capability and performance of individuals in charge of governance and how management has handled risk in order to ensure financial stability and avert financial disaster (Naynar, Ram, & Maroun, 2018). Even if they have a legal obligation, auditors also have a responsibility to consider the needs of those who use accounting information. This might aid in closing the gap between expectations.

According to Kimutai (2012), there is in Kenya a mismatch between expectations and the scope and nature of the auditor's responsibilities. She discovered that the auditor's duty for the compilation of the accounting records and the integrity of the entity's internal control framework was largely plagued by expectation gaps. In Kenya, the legislation and both international accounting and auditing standards explicitly define the duty of the auditor.

2. Study Objectives

In this study, the audit expectation gap will be reviewed in the literature. The purpose of the literature search is to determine the nature of the audit expectation gap and the methods for reducing it. This will include a focus on how technology can be used to address similar issues.

The researcher has incorporated the drivers of audit expectation gap based on the causes as mentioned by Salehi, Kimney, Canadian Institute of Chartered Accountants, and other researchers after carefully analyzing the literature and studies that have been conducted on the audit expectation gap. The performance gap and reasonableness gap are the main topics of this study. The standards gap has not received much attention in the studies.

3. Nature of Audit Expectation Gap

The Canadian Institute of Chartered Accountants (1988) developed an extensive audit expectation gap model, which is shown in Figure 1 below. The model breaks down the individual components of the expectation gap into three categories: unreasonable expectation, deficient performance, and deficient standard.

The reasonableness gap, as defined by the Canadian Institute of Chartered Accountants, is the discrepancy between what society expects of auditors and what can be fairly expected of them. Such a gap, according to Salehi (2011), is primarily brought on by user misunderstanding, user expectations that are unrealistic, ignorant users, user miscommunication, user interpretation, and users who are unaware of the constraints of audit practice. The Canadian Institute goes on to describe the defective standards gap as the difference between the obligations placed on auditors by legislation and professional standards and the obligations that can be reasonably anticipated of them. According to Kinney (1993), one of the reasons for the audit expectation gap is the discrepancy between what users may want and what professional standards give. The third gap was created and examined. Studies have demonstrated that the expectation gap is caused by a wide variety of factors, some of which, according to Salehi (2011), are as follows:

1. The auditing process's probabilistic nature;
2. Non-auditors' inexperience, obliviousness, misperception, and unrealistic expectations of the audit function;
3. The assessment of audit performance based on facts or data that the auditor did not have at the time the audit was concluded;
4. The duties for audits have evolved over time, which causes delays in responding to shifting expectations;
5. Corporate crises that result in higher standards of accountability;
6. The profession is making an effort to influence the course and result of the expectation debate in order to preserve the status quo. (Shaikh & Talha, 2003).

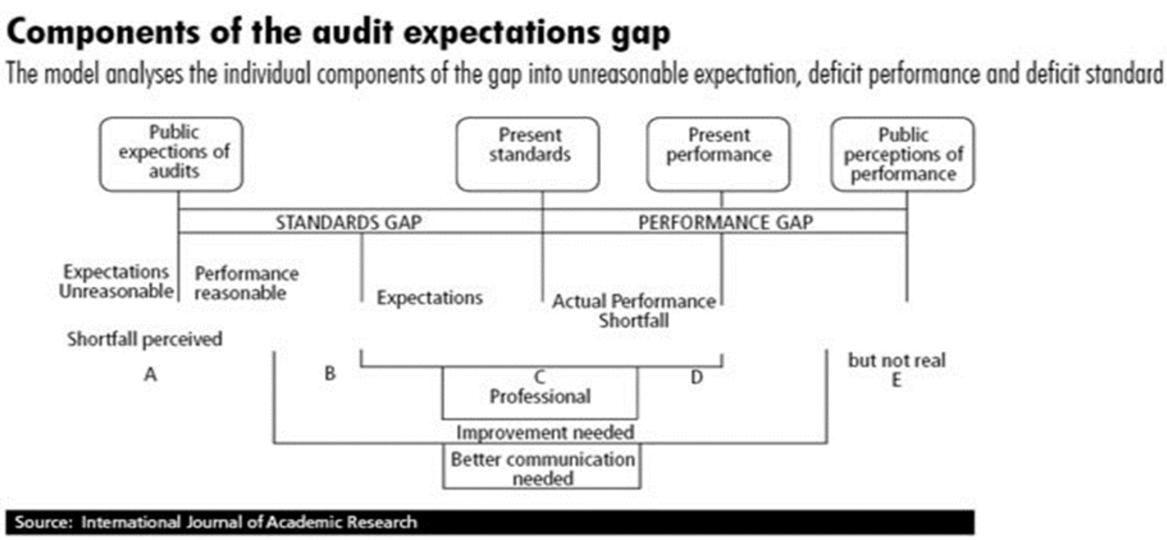

Fig 1: Audit Expectation Gap Model

These elements of the audit expectation gap that Salehi, Kimney, the Canadian Institute of Chartered Accountants, and other studies have discovered are combined and made simpler in this study. However, the performance difference and reasonableness gap are the main topics of this study. This report does not go into great detail about the standards disparity. The study has highlighted a number of important elements that may be considered in addressing both reasonableness and performance audit expectation gaps.

3.1 Bridging Audit Expectation Gap

According to several studies, audit lacks established methodology, therefore using decision aids for auditors more frequently may help to bridge the expectation gap and, ideally, lessen auditors' legal culpability. Adopting a more organized operating procedure could affect the caliber of audits completed (Koh & Woo, 1998). Purvis (1987) investigated the efficacy of auditors utilizing structured and semi-structured data collection techniques and came to the conclusion that imposing structure can have both functional and dysfunctional elements. The legal effects of the expanding use of structured audit procedures and audit decision aids in the audit environment were empirically evaluated by Jennings et al. in 1993. His research revealed that decision aids are employed by auditors as a replacement for their standards.

The contrast between what the general public and users of financial statements believe auditors are accountable for and what the auditors themselves believe their obligations are is referred to in this study as the "audit expectation gap." The audit expectation gap (i.e., both performance gap and reasonableness gap) is impacted and/or produced by the following elements. By focusing on these factors, the audit expectation gap might be addressed.

a) **Auditor efforts** - The auditor's apathy, self-interest, etc., may cause auditors to perform below expectations, failing to live up to user expectations. To detect fraud, auditors must put in a lot of effort and have patience and self-control. Since fraud detection and prevention are not the auditor's major responsibilities, they may not put forth as much effort to fulfil these duties. After all, they might not have the time or money needed to complete the intricate procedures necessary to uncover frauds.

b) **Auditor skills** - The auditor can be ready to put in a lot of effort, but they lack the necessary expertise to detect fraud, therefore failing to live up to the user's expectations. A high level of interrogation and research abilities are necessary for fraud detection. It necessitates that auditor pay close attention to even the smallest details. Since forensic audits in particular necessitate highly skilled people, most standard audit staff may lack these skills and hence be unable to uncover frauds as expected by the general public, especially the users of accounting information.

c) **Audit methodologies** – the audit methodologies available are not structured. In practice the auditors have the freedom to choose the methods they will use. This may lead to mismatch between the audit work and the users expectations. Audit has generally been dynamic in nature, if a lot of structure is imposed on the audit methodologies, it may have a negative effect on the quality of audit work but on the other hand it may create uniformity in audit work. With structured methodologies, the users of financial information may gain some certainty about what to expect from the audit. There is therefore a perceived relationship between structured audit methodologies and audit expectation gap.

d) **Audit independence** – auditors are supposed to carry their work without undue influence from the management or employees of the organization. When audit independence is lacking the - The present audit approaches lack structure. In actuality, the auditors are free to select the techniques they will employ. This could result in a discrepancy between the audit work and the expectations of the users. A lot of structure put on audit procedures may have a negative impact on the quality of the audit work, but it may also lead to uniformity in the audit work because audits have historically been dynamic in character. Users of financial information may have more assurance about what to anticipate from the audit if methodologies are organized. Therefore, it is believed that the audit expectation gap and structured audit procedures are related. auditor may fail to meet user’s expectations. Independent auditors are in a position to interrogate management and hence give a balanced opinion on the accounting records prepared by the organization.

e) **Society knowledge** - Some users lack the necessary understanding of the auditor's responsibilities, particularly about the parameters that the audit should adhere to. Poor communication between auditors and information users may be the root of this. The audit expectation gap has been ascribed by many scholars to a discrepancy between public and auditor knowledge of the actual function of the auditor.

f) **Audit scope** – According to some experts, the audit scope is limited, which may prevent it from fully meeting the needs of the user. The audit expectation gap, it is believed, would be greatly narrowed if the existing audit scope were expanded to include fraud detection. If so, we can claim that the audit scope influences the audit expectation gap.

g) **User's needs** – Users of financial information may have high expectations that the auditor may not be able to meet. It may be challenging for the auditor to meet all of the needs of the variety of information users because they all have different needs. Users' goals and the extent to which they will rely on the accounting data as it is provided in the financial statements are determined by their needs. As a result, they end up anticipating more than what the auditor is legally required to deliver, leading to the establishment of an audit expectation gap.

3.2 Technology's Role in Audit Expectation Gap

In the recent past, auditing procedures started making advantage of new technologies. The term "computer assisted audit tools and techniques" (CAATTs) refers to the new technology being used in auditing operations. These have developed to make it easier for auditors to check for errors in data files and to complete more studies with more evidence and less risk in a shorter amount of time. The auditor can filter, define, and generate equations using CAATTs, as well as find gaps, conduct statistical analyses, locate peer records, and categorize, sort, summarize, merge, and match data. The affected parties may view the results with skepticism because the auditor arrived at them by examining the sample used in the audit activities (Aksoy & Gurol, 2021). A study by Lim, (2021) observed that major external auditor's perception of emerging technology affects the use for fraud detection in audit testing. Therefore, using CAATs expedites and improves the accuracy of the audit process, which can help in narrowing the performance audit expectation gap.

Recently, blockchain technology has been used in a wide range of non-financial activities and is generating a lot of interest across many industries. The accounting, control, and auditing processes "Blockchain" are impacted by this technology. Technology utilization is starting to expand outside of banking and finance to other industries of application (Kamau & Ilamoya, 2021). Blockchain and data analytics, two emerging technologies, will help the auditors in these audit processes in a variety of ways. The auditors who possess IT-related abilities will remain competitive in the audit profession, which is evolving into a technical and data-driven profession (Sastry, Lee, & Teoh, 2021). The auditors process enormous volumes of data fast and effectively with the use of blockchain and data analytics technologies. This helps close the audit expectation gap by focusing more on the expectations of the stakeholders and saving time.

Technology, organizational structure, and environmental factors all have statistically significant effects on how appropriate and sufficient the evidence is. Additional ways to advance technological advancements in audit firms include better connectivity, applications software that would allow obtaining audit evidence in real time rather than relying on manual historical data, use of drones and the General Packet Radio Service (GPRS) for physical project verification, and more (Kimunguyi, 2020). The quality of audit reports is improved by real-time data gathering supported by specific data on audit objects. By increasing stakeholders' trust in the audit process, quality audit reports help to close the gap in audit expectations.

4. Conclusion

The primary responsibility of the auditor is to provide objective assurance regarding the representation of an accurate and fair perspective of the financial situation of the organization in the books of accounts and the resulting financial statements. In other words, the auditors must attest to the shareholders and other users of accounting information that there are no major omissions from the financial statements presented by management. The audit expectation gap is a result of the public's high expectations for auditors relative to their real functions, especially among users of accounting information. The contrast between what the general public and users of financial statements assume auditors are accountable for and what auditors actually believe their obligations are is known as the expectation gap.

This study came to the conclusion that there are numerous strategies to address the two key elements—performance expectation gap and reasonableness expectation gap—that have been identified by numerous academics. Improved audit efforts and fraud-detection abilities are two elements that could be used to close the performance expectation gap. The discrepancy between the public's expectations and the auditor's actual performance is known as the performance expectation gap. Some of the elements that may be used to address the reasonableness expectation gap include public knowledge and user needs. Reasonableness gap is a component of audit expectation gap that is expressed as the difference between what the society expects auditors to achieve and what they can reasonably expect to accomplish. In attempt to close the audit expectation gap, structured audit procedures, auditor independence, and audit scope are all helpful. Technology is essential for addressing the performance gap as well as the reasonableness gap. The framework of criteria that could be used to bridge the expectations gap in audit is shown in Fig. 2 below.

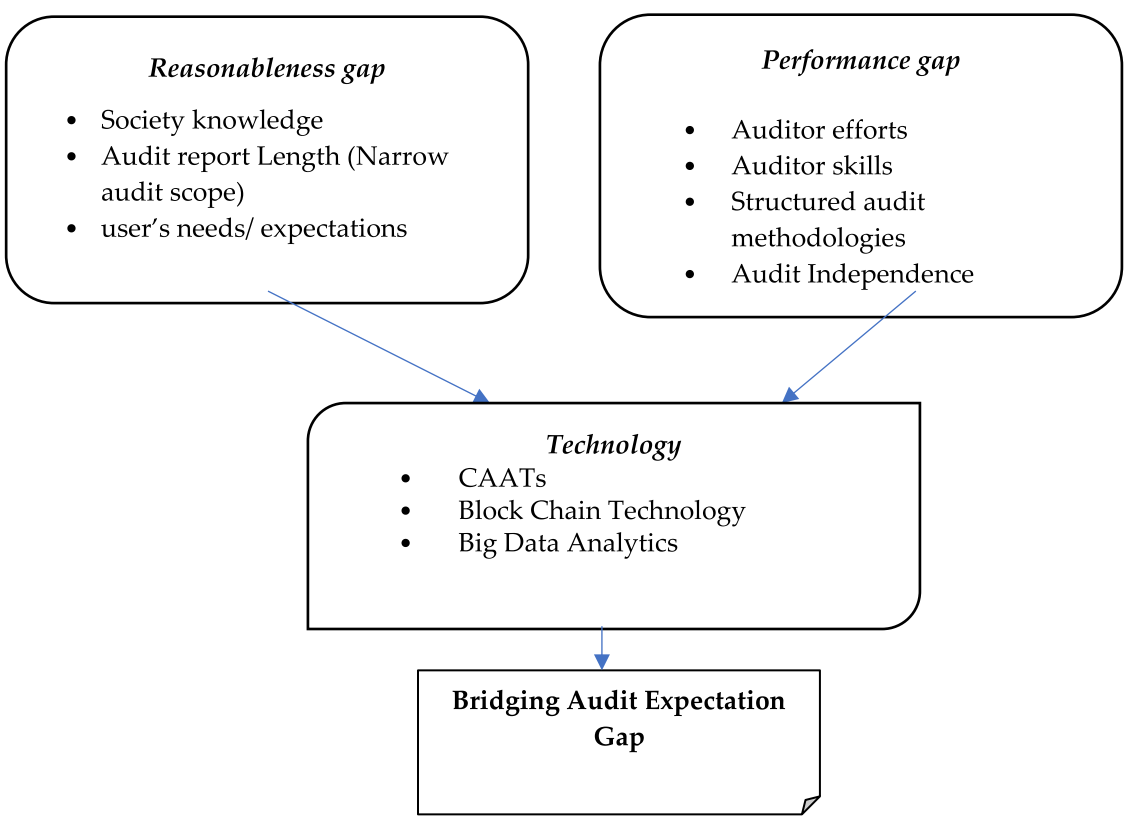

Fig 2: Framework for Bridging Audit Expectation Gap

References

Aksoy, T., & Gurol, B. (2021). Artificial Intelligence in Computer-Aided Auditing Techniques and Technologies (CAATTs) and an Application Proposal for Auditors. *Auditing Ecosystem and Strategic Accounting in the Digital Era*, 361–384. doi: https://doi.org/10.1007/978-3-030-72628-7_17

Akther, T., & Xu, F. (2020). Existence of the Audit Expectation Gap and Its Impact on Stakeholders' Confidence: The Moderating Role of the Financial Reporting Council. *International Journal of Financial Studies, 8*(1), 4. doi:https://doi.org/10.3390/ijfs8010004

Auditing Practices Board. (1992). *The Future Development of Auditing.*

Canadian Institute of Chartered Accountants. (1988). *Report of The Commission to Study the Public's Expectations of Audits.* Toronto, Canada: MacDonald Commission.

Jennings, M., Reckers, M., & Kneer, D. (1993). The significance of audit decision aids and precase jurists' attitudes on perceptions of audit firm culpability and liability. *Contemporary Accounting Research, 9*(Spring), 489-507. DOI: https://doi.org/10.1111/j.1911-3846.1993.tb00894.x

Kamau, C. G. (2013). Determinants of audit expectation gap: Evidence from limited companies in Kenya. *International Journal of Science and Research (IJSR), 2*(1), 480–491. doi:https://doi.org/10.5281/zenodo.6850648

Kamau, C. G., & Ilamoya, S. L. (2021). Accounting Profession: Steps into the Future (African Perspective). *SSRN E-Journals*. doi:https://dx.doi.org/10.2139/ssrn.3946885

Kimunguyi, S. (2020). *Effect of Technological Innovations on Audit Evidence in Kenya.* African Organisation of Supreme Audit Institutions. URL: https://afrosai.org/wp-content/uploads/2022/04/En_2020-AFROSAI-SCIENTIFIC-COMPETITION-Joint-2nd-article-SAMMY-KIMUNGUNYI-SAI-Kenya.pdf

Kimutai, I. J. (2012). *The expectation gap in the statutory audits of quoted companies in Kenya.* Nairobi: Kenyatta University. Retrieved from http://ir-library.ku.ac.ke/ir/handle/123456789/5248

Kinney, W. R. (1993). Auditor Liability: Opportunities for Research. *Journal of Economic Management Strategies, 2*, 349-360. DOI: https://doi.org/10.1111/j.1430-9134.1993.00349.x

Koh, H. C., & Woo, E.-S. (1998). The expectation gap in auditing. *Managerial Auditing Journal, 3*, 147 - 154. DOI: https://doi.org/10.1108/02686909810208038

Koo, C. M., & Sim, H. S. (1999). On the role conflict of auditors in Korea. *Accounting, Auditing & Accountability Journal, 12*(1), 206 – 219. DOI: https://doi.org/10.1108/09513579910270110

Lim, F. X. (2021). Emerging Technologies To Detect Fraud in Audit Testing: A Perception of Malaysian Big Four Auditors. *SSRN E-Journals*. doi:https://dx.doi.org/10.2139/ssrn.3877347

Naynar, N. R., Ram, A. J., & Maroun, W. (2018). Expectation gap between preparers and stakeholders in integrated reporting. *Meditari Accountancy Research, 26*(2), 241-262. doi:https://doi.org/10.1108/MEDAR-12-2017-0249

Purvis, C. (1987). *The impact of documentation format on auditors' preliminary evaluation of internal accounting control.* Centre of Accounting Research, University of Southern California.

Salehi, M. (2011). Audit Expectation Gap: Concept, nature and trace. *African Journal of Business Management, 5*(21), 8376-8392. URL: https://academicjournals.org/journal/AJBM/article-full-text-pdf/4C4AA7018778

Sastry, S., Lee, T. H., & Teoh, M. T. (2021). The Use of Blockchain Technology and Data Analytics in the Audit Profession. *Quantum Journal of Social Sciences and Humanities, 2*(4), 67-86. doi:https://doi.org/10.55197/qjssh.v2i4.89

Shaikh, J. M., & Talha, M. (2003). Credibility and Expectation Gap in Reporting on Uncertainties. *Manage. Audit. J, 118*(6/7), 517-529. doi: https://doi.org/10.1108/02686900310482650