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Whether the audit expectation-performance gap is expanding amid changes in audit landscape? New evidence from an emerging economy

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Abstract

Purpose – The purpose of this study is to provide fresh insights into whether there is an expectation gap between external auditors' and other stakeholders' perceptions of external auditors' responsibilities in an emerging economy, in light of recent changes to the global audit landscape.
Design/methodology/approach – A quantitative approach in the positivistic paradigm was adopted, and a structured questionnaire was used to gather data.
Findings – The findings suggested that there was a statistically significant discrepancy between external auditors' and social groups' perceptions of the responsibilities of external auditors. More than half of the gap was due to deficiency in standards, 19% due to unreasonable expectations by society, while 25% of the gap was found to be due to deficient performance.
Research limitations/implications – The study focused on the duties of external auditors and not on the duties of other types of auditors while examining the audit expectation-performance gap (AEG), and this was due to the drastic differences in the scope of their duties.
Practical implications – The findings of this study are likely to have direct policy implications for regulators, authorities, educators and auditing professionals, who should take immediate actions and measures to reduce the AEG in light of the current global audit landscape advancements and changes.
Originality/value – The present study used a substantially updated model to measure the AEG to suit the contemporary changes in the auditing landscape, and could be considered as a pioneering study that measures the AEG in an emerging economy amid recent changes.

Keywords Audit expectations gap, Deficient performance, Duties of auditors, External auditors, Unreasonable expectations
Paper type Research paper

Erratum: It has come to the attention of the publisher that the article Kumari, J.S. and Ajward, R. (2023), "Whether the audit expectation-performance gap is expanding amid changes in audit landscape? New evidence from an emerging economy", *Asian Journal of Accounting Research*, Vol. 8 No. 1, pp. 53-65. https://doi.org/10.1108/AJAR-12-2021-0267, was originally published with the tables/figures presented as supplementary material via external links that do not meet Emerald's latest repository requirements; these have now been amended and the supplementary material hosted here to ensure that it remains accessible in perpetuity: https://doi.org/10.1108/AJAR-12-2021-0267

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1. Introduction

Auditing could be considered as a social phenomenon whose purpose is to fulfill social expectations while being exposed to continuous change based on the interplay between the public and the audit profession (Sikka *et al.*, 1998). Further, Shelahi *et al.* (2009) have asserted that the service of an external auditor is a necessary requirement to report on the truth and fairness of financial statements because that is what those who use financial statements indeed expect. The public has unique expectations about the function and scope of an external audit and the role of external auditors, and this is particularly well pronounced in the context of listed entities (Ruhnke and Schmidt, 2014). However, in certain instances, the auditors may not deliver this reality as expected by users. This gap in expectations, particularly in the context of an external audit, is deemed as the audit expectation-performance gap (AEG), which is an issue that has been examined by several researchers in the past. Shelahi *et al.* (2009) explain that such an expectation gap arises due to the divergence between societal expectations on external auditors' duties and what the external auditor in fact offers. Research pertaining to the audit expectation gap originally commenced due to the regular occurrence of various audit failures, corporate collapses and charges against audit firms as the integrity of external auditors were progressively being probed (Porter, 1993). We can still find that this is the case as evidenced by recent accounting scandals. As it is stung by the criticisms, the audit profession should pay serious attention to any incidence of the expectation gap as it could strongly undermine the reliability and trustworthiness of the audit profession. Although many studies on the AEG have been performed in several jurisdictions of the world since 1970 (Nguyen and Nguyen, 2020; Behzadian and Nia, 2017; Masoud, 2017), we observe a dearth of studies in the recent past amid significant changes that had taken place in the auditing landscape. This is particularly important as research suggests that changes to the audit regime may create an AEG through increased regulation (Ruhnke and Schmidt, 2014). It should be noted that the International Auditing and Assurance Standards Board (IAASB, 2015) announced revised international auditing standards in 2016, which contained many revisions, particularly to those audit reporting standards that have a direct impact on the users. In addition, the International Ethics Standards Board for Accountants (IESBA) updated and published the Code of Ethics for Professional Accountants, in which certain critical amendments were made to the ethical requirements that external auditors have to meet (IESBA, 2017). These developments are expected to have a substantial influence on the environment of external audits, which may, in turn, widen the audit expectation gap, wherein prompt remedial actions should be taken. The AEG diminishes the value of the information conveyed through the financial statements when that is so essential for making vital decisions. Research also indicates that legal actions and negative perceptions about the external auditors' failure to meet the expectations of society are evidently having a significant adverse impact on the auditing profession (Porter *et al.*, 2012). As a result, lawsuits are filed, audit fees are raised and audit work is increased. They may, in the end, have an impact on the value of the shareholders. Therefore, the phenomenon of the AEG should be considered seriously by the audit profession as it has serious consequences for the image of auditors and the goodwill they command in contemporary society. Thus, having considered the contemporary importance of this phenomenon amid the changes occurring in the audit landscape, the main aim of this paper is to examine the AEG in the light of new evidence in the context of an emerging economy, i.e. Sri Lanka. The attempt to restore the established good reputation of the audit profession by minimizing the possible expectation gap is emphasized as a critical need today, and further, this is perceived as a main responsibility of the accountancy and auditing profession. Thus, this study attempts to address this critical issue. Additionally, Sri Lanka has obtained the membership of the International Federation of Accountants (IFAC) for a long period of time and by virtue of being a member, has adopted international standards in accounting and auditing. The country has been following these practices for a long time and adopted a regulatory regime that is similar to other emerging economies. Therefore, the Sri Lankan setting is expected to provide an appropriate context, and it is believed the findings will be beneficial to other countries as well.

The rest of this paper is structured and presented as follows. In the following section, a review of the key extant literature will be presented. In the third section, the research approach will be discussed, which will be followed by a section on results and discussion. The final section presents the conclusion while pointing out the limitations and offering suggestions on the direction for future research.

2. Literature review

2.1 Regulatory background and duties

As an emerging nation, auditing and accounting systems in Sri Lanka were first shaped by the British influence and further developed by adhering to international regulations, promulgations and traditions (Report of Asian Development Bank, 2002). As the national authority, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) is authorized to adopt appropriate auditing and accounting regulations periodically, which are primarily based on international promulgations. Accordingly, the International Standards on Auditing (ISAs) promulgated by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) are used as the basis of auditing standards in Sri Lanka (CA Sri Lanka, 2021). Thus, as a member of IFAC, Sri Lanka works toward the implementation of ISAs (Report of Asian Development Bank, 2002). In addition to being a member of IFAC, CA Sri Lanka also has membership in the Confederation of Asian Pacific Accountants and the South Asian Federation of Accountants, thereby complying with the regional and international requirements. Being the main accounting authority, CA Sri Lanka issues practicing licenses for external auditors in Sri Lanka, as only such licensed members can perform audits of the listed companies (IFAC, 2018). To ensure legal compliance, all external auditors are required to follow the legal framework that is based mainly on the stipulations of the Companies Act and the auditing standards. Accordingly, in the audit report, the auditors are required to assure that the external audit has been carried out in conformity with the stipulated standards on auditing and that accounting standards were properly followed in preparing and presenting the financial statements (CA Sri Lanka, 2017). Thus, based on the information presented, the regulatory framework on auditing adopted in the Sri Lankan context complies with international requirements and standards.

2.2 Expectation of duties

The primary objective of an external audit is to provide an independent judgment on the truth and fairness of financial statements compiled and presented by an entity's management (International Federation of Accountants, 2009). Entities could have a myriad of stakeholders (shareholders, standard setters, regulators, accounting firms, etc.) and their expectations could differ regarding an external audit, and therefore there is a necessity to find strategies for managing their expectations (Institute of Chartered Accountants in England and Wales, 2008). Further, extant studies emphasize the variety of dimensions of the function of an external audit and the responsibilities of external auditors; they pertain to reporting, assurance, regulations and liabilities connected to external audits and independence of auditors. Moreover, a spate of corporate crises prompted demands for regulations and accountability, which then led to changes in audit practices (Humphrey, 1997). Accordingly, in all these dimensions, users of financial statements are observed to have higher expectations about the audit work than what they receive from external auditors (Institute of Chartered Accountants in England and Wales, 2008). Despite a number of progressive changes made to external auditors' duties and responsibilities, Porter (1993) claims that corporate fraud continues to persist and has become an economic and social issue of increasing significance. These concerns make it clear that the external auditors' duties or execution of those duties and responsibilities may still lag behind the expectations of society. Nguyen and Nguyen (2020), Kavrar and Yılmaz (2017) and Salehi *et al.* (2009) highlight that not only most informed financial statement users but also most of the public continue to insist that detection and reporting of fraud should be an essential and important audit objective in the context of external audit.

Denis (2013) argues that expectations of external auditors are founded on desires and beliefs, which may produce expectations gaps with other stakeholders. Thus, it appears that the auditing profession is facing a legal liability dilemma owing to societal conceptions of independent auditors' obligations. Users anticipate reassurance from audited financial accounts. Auditors, on the other hand, follow professional regulations and standards. There could be, therefore, a discrepancy between the performance delivered by external auditors and the degree of performance expected by users. Empirical findings obtained in national and international contexts relating to this gap are reviewed in the next section.

2.3 Audit expectation-performance gap

Liggio (1974) used the term "Audit Expectation Gap" to refer to the gap between external auditors' actual and expected performance. In 1978, the Cohen Commission also adopted this definition and highlighted that such a gap may be manifested based on the performance of duties by the external auditor. However, Porter (1993) argued that this definition is just too limited because it ignores the possibility that external auditors will fall short of the 'expected performance' or of what external auditors "can and reasonably should" achieve, as well as the fact that the definition of Liggio does not capture poor performance of external auditors. After comprehensively analyzing existing definitions and models, Porter (1993) proposes that the audit expectation gap can be divided into two main elements as the performance gap and the reasonableness gap. Porter (1993) explained the performance gap as the discrepancy between "what society can reasonably expect auditors to accomplish and what they are perceived to achieve" (p. 50). Thus, it could be concluded that the model proposed by Porter (1993) could be considered as a comprehensive model that can be used to define and capture the elements of the AEG (Fossung *et al.*, 2020).

A number of studies have examined the prevalence of the audit expectation gap in the national and international contexts. The AEG is not a new phenomenon, or it is restricted to a particular jurisdiction (Behzadian *et al.*, 2017; Porter *et al.*, 2012). Indeed, several studies on the audit expectation gap have been performed in several jurisdictions in the world (Nguyen and Nguyen, 2020; Ruhnke and Schmidt, 2014; Porter *et al.*, 2012), as well as nationally (Gunathilaka, 2012; Abayadeera, 2005). However, due to the significant changes that have occurred in the global audit landscape, a dearth of up-to-date studies is noted in this important area. Even though the model that was introduced by Porter in 1993 could be considered as the best model to identify the dimensions of the AEG, it must be noted that most of the duties of external auditors as recognized by Porter and other studies have not been updated and amended to keep them abreast of the contemporary advancements in the auditing landscape. The duties and responsibilities of external auditors need to be revised and updated according to the updated auditing standards and code of ethics. They govern the professional duties and responsibilities of professional accountants. An AEG may arise due to these changes in the audit landscape, as a result of increased regulation (Ruhuke and Schmidt, 2014). As a result of recent significant improvements in the external auditing arena that were caused by revisions of existing auditing standards and introduction of new standards including standards on Key Audit Matters (KAMs), emphasis of matters, along with Non-Compliances of Law and Regulations (NOCLARs), etc. The duties expected of external auditors have changed significantly. Thus, in this study, the duties of external auditors were identified in accordance with those contemporary changes. Accordingly, the Porter model was revised and updated in this research study for determining the AEG. This involved consideration of the major revisions made to the audit regulations in respect of the duties of auditors.

3. Research methodology

This section explains the strategies adopted to examine if there is a gap between the external auditors' perceptions and the perceptions of society on the responsibilities of independent external auditors in the context of an emerging economy, namely, Sri Lanka. The present study is performed under a positivist paradigm and by adopting a quantitative approach.

3.1 Population and sample

Selected stakeholder groups included practicing auditors, regulators and company officers who were involved in either accounting processes or nonaccounting processes or possibly both. Also included were auditing academics, undergraduate students representing both accounting and nonaccounting disciplines, shareholders, creditors, financial analysts and the general public (see Appendix 1 – supplementary material for details of subpopulations). Each group possesses a unique and distinct association with external auditors and the function of audit (Porter *et al.*, 2012). The random sampling method was applied to choose participants, ensuring the representation of the target population. Accordingly, the research data were secured via a self-administered structured questionnaire distributed to a sample size of 200 in each category.

3.2 Questionnaire development and analysis

After performing a comprehensive survey of the literature, the questionnaire of the research study was designed; it was then revised and updated based on the expert opinions of two academics and professional experts in the field of external auditing. The revised version was further updated after reviewing the feedback received from a pilot survey involving external auditors and other stakeholders. By following these measures, the validity of the questionnaire was ensured.

The demographic details of the participants were requested in Part 1 of the questionnaire; that included present position, gender, highest academic educational level, work experience, etc. In Part 2 of the questionnaire, 49 duties of external auditors were listed (i.e. duties listed as Items 1 to 20 represented deficient performance, duties listed as Items 21 to 35 represented deficient standards and duties listed as Items 36 to 49 were on unreasonable expectations). These duties were derived by researchers from the framework of Porter (1993), comprehensive extant literature review and expert opinions that captured the contemporary auditing landscape. Section 1 of the questionnaire requested the participants to give their opinion on whether the indicated duties are the existing duties of external auditors; Section 2 asked for their opinion on the performance of these duties by the external auditors; and Section 3 wanted their opinion on whether the indicated duties ought to be executed by the external auditors. The responses to the questions in Section 1 were coded as $+1$ if "Yes", -1 if "No" and 0 if "Not sure". Accordingly, a positive mean value given by the stakeholder group was interpreted to denote that such a responsibility "is"/"should be" borne by external auditors, based on the applicable section. In case a participant responded that a listed duty "is" an existing duty in Section 1, he/she had to rate how well it was executed by the external auditors by ticking appropriately using a scale of (1) = "poorly performed" to (5) = "excellently performed". Lastly, in Section 3, the respondents were asked if the duty should be performed by the external auditors, by selecting from the options as follows: "Yes" (coded as $+1$), "No" (coded as -1) or "Not certain" (coded as 0). The detailed methodology in the estimation of the AEG is elaborated in Appendix 2 (supplementary material).

After data had been screened and cleaned, one-way analysis of variance (ANOVA) with *post-hoc* analyses were performed to determine whether there were discrepancies between the perceptions of external auditors and other interest groups on external auditors' duties in listed companies. In addition, to ensure robustness, nonparametric tests (i.e. the Mann–Whitney test and the Kruskal–Wallis test) were also performed.

4. Results and discussion

Questionnaires were distributed to 1,468 individuals, and 1,025 usable questionnaires were obtained after following up personally. The results on the gaps between the perceptions of external auditors and the other interest groups regarding the duties of external auditors are presented in the subsequent sections: Existing duties of external auditors (in Section 1 – Part B of the Survey), Performance of their duties of external auditors (in Section 2 – Part B of the Survey) and Duties that external auditors should perform (in Section 3 – Part B of the Survey).

4.1 Analysis on the gap between external auditors' and other interest groups' perceptions of external auditors' duties

As explained in the methodology section, this study identified 20 duties as the existing auditing duties of an external auditor (see Appendix 3 – supplementary material), which was to capture deficient performance of him/her, which are grounded on a comprehensive review of the relevant literature, the opinions of experts, rules, regulations and Porter's framework (1993). Part B of the questionnaire lists 49 duties, of which 20 are actual existing auditing duties, which were included to determine the existence of a gap between the perceptions of external auditors and other interest groups in respect of the listed existing duties of external auditors under all three sections of the questionnaire (i.e. as indicated above).

The independent sample *t*-test finds (not tabulated) that a significant difference ($p < 0.05$) (with positive mean differences) exists between external auditors and other stakeholders (societal groups) on of all existing duties of external auditors. Further, it is observed that there is a difference that is significant ($p < 0.05$) between the external auditors' perceptions and the perceptions of societal groups on all the existing responsibilities/duties on external auditors' performance of their duties (Section 2). Furthermore, it is observed that under Section 3, there are statistically significant ($p < 0.05$) mean differences between the external auditors' perceptions and the perceptions of societal groups for all existing duties *except* the duty to reveal unlawful acts that directly impact an entity's accounts in the published audit report (fifth item in Appendix 3 – supplementary material), and the duty to report in the audit report that is published preadoption of any new or updated accounting standards (17th item in Appendix 3 – supplementary material).

In addition to the preceding analysis performed by considering the differences in perception based on duties individually, the mean differences between auditors and other stakeholder groups for all three sections *as a whole* for each was performed.

The independent sample *t*-test's results show that there is a difference that is significant ($p < 0.05$) between the external auditors' perceptions and other stakeholders' perceptions that comprise shareholders, regulators, creditors, financial analysts and the public on all three dimensions (i.e. accepting as existing duties, execution of those duties and duties that the external auditor should execute). Further, results show that there is a difference that is significant ($p < 0.05$) between external auditors and all groups except auditing academics and accounting undergraduates (Section 1) in terms of the existing duties. Further, surprisingly, there are differences that are significant ($p < 0.05$) in perceptions between external auditors and all stakeholder groups on the performance of their duties (Section 2). Also, it is noted that there is an insignificant difference ($p > 0.05$) between auditing academics, both accounting and nonaccounting students, company officers and professional auditors in respect of the duties auditors should perform (Section 3). It is noted that differences in perception between auditors and the society groups are the cause of the AEG, resulting in significant mean differences ($p < 0.05$) existing in all three sections (i.e. accepting as existing responsibilities/duties of external auditors, execution of those responsibilities and duties as external auditors and duties that the external auditor ought to execute).

In conclusion, according to the findings reported above, the existence of the AEG is established. Thus, having established its existence, we now need to dissect the AEG into different components, as this will facilitate any remedial steps required to minimize such specific gaps and restore the image of the auditing profession. Accordingly, the next section elaborates on the findings that have been made about the components of the AEG using the updated and expanded model used in this study.

4.2 Audit expectation-performance gap

Based on an examination of the existing duties of external auditors as defined by the rules, regulations and professional pronouncements, further validated by experts, 20 of the suggested duties (see Appendix 3 – supplementary material) of external auditors were deemed as existing duties of external auditors. In the preceding section, it was established that all groups had correctly identified these 20 duties as the existing duties of external auditors. Porter (1993) indicated that the perceived poor performance of external auditors could be detected by the application of two criteria: the mean (i.e. the average) of the respective interest group responses with the value of 2.9 or less, and 20% or more of stakeholder groups indicating that external auditors are executing their duties in a substandard manner. Appendix 4 (see supplementary material) shows that by application of these two criteria, societal groups (without auditors) considered certain existing duties of auditors as being satisfactorily performed, i.e. the mean value was 3 or above for duties that create a nondeficient performance gap. On the other hand, Appendix 4 (see supplementary material) also indicates that societal groups signaled unsatisfactory or borderline performance of external auditors regarding certain existing duties, as well as ten "unsatisfactorily performed" duties; thus, these ten duties were responsible for the deficient performance element of the AEG. Moreover, the external auditors as a party accepted that less than 20% of them executed their duties and functions in a substandard manner in relation to all their duties. As could be predicted, the societal groups agreed that 20% (i.e. the summation of the "poorly" and "can't judge" columns exceed this percentage of 20%) of the external auditors discharged their responsibilities/duties in a substandard manner (see Appendix 4 – supplementary material).

To distinguish between the gaps of deficient standards and the unreasonable expectations, it is critical to recognize that external auditors may be reasonably expected to fulfill only certain responsibilities while doing financial statement audits. The analysis of data collected from Section 3 (Part B) of the questionnaire could be employed to understand this phenomenon in greater depth. It is important to comprehend the different stakeholder perceptions on the duties that external auditors ought to (or ought not to) execute. Therefore, this section of the study is particularly crucial as it offers guidance on recognizing the duties and functions that an external auditor might be expected to reasonably discharge. Accordingly, the next section of this study discusses the analysis pertaining to this area. A cost-benefit analysis should be performed to identify the duties that one might reasonably expect external auditors to perform. However, past studies noted the nonexistence of such a formal cost-benefit analysis by the external auditors is observed (Masoud, 2017; Porter *et al.*, 2012). Therefore, for this study, the duties recognized by both corporate officers (i.e. auditees) and other stakeholders (i.e. shareholders, regulators, auditing academics, creditors, financial analysts and undergraduates) who are familiar with financial matters (here all financial community audit beneficiaries other than the public were considered) were deemed as "duties that external auditors should discharge", and treated as an appropriate proxy for cost-benefit analysis, as based on the existing literature (Masoud, 2017; Porter *et al.*, 2012). Corporate officers as auditees have experience of external audit and are expected to be fully informed of the costs associated, and thus, are likely to favor restricting the functions assigned to external auditors. In contrast, audit beneficiaries of the financial community who depend on the external audit are likely to be highly aware of the benefits of such an audit, and therefore, can be expected to support the expansion of external auditors' duties. These two interest groups are likely to be fairly conversant with external audit examination, but their perceptions may be totally contradictory.

Appendix 5 (see supplementary material) shows the results of the cost-benefit analysis. An unexpected but interesting finding is that, despite their conflicting perceptions and opposing biases, the corporate officers representing auditees and the audit beneficiaries recognized the same 41 duties as "duties that an external auditor ought to discharge". Thus, 41 duties that meet the cost-benefit criteria (i.e. where the mean value of both auditees and beneficiaries of the financial community is in the *same* direction) are perceived as duties that external auditors might reasonably be expected to do. Furthermore, out of these 41 duties, 20 are existing duties of auditors (not tabulated) and 15 are duties (i.e. duties denoted as deficient standards, which are numbered from 21 to 35 in the list), which external auditors might likely to be expected to perform but are not currently mandatory for external auditors (see Appendix 5 – supplementary material). These 15 duties contribute to the deficient standards segment of the AEG, and the relative contributory proportion of each duty is shown in Figure 1. However, six other duties (Duty Numbers: 36, 37, 39, 40, 42 and 43) are identified as duties of unreasonable expectation that meet the cost-benefit criterion (see Appendix 5 – supplementary material). Moreover, eight duties are observed to be as duties/responsibilities that cannot be reasonably expected of external auditors (Duty Numbers: 38, 41, 44, 45, 46, 47, 48 and 49), because they do not meet the cost-benefit criteria mentioned (see Appendix 5 – supplementary material). However, Duty Number 44 was deemed to be one of the duties that fall under unreasonable expectations, despite its mean value of 0 for the auditee and –6 for the audit beneficiary.

Based on the above analysis, duties could be classified under "deficient standards" and "reasonableness" gaps. Duties that were identified as deficient standards (duties from 21 to 35) clearly contribute to the AEG investigated in this study (see Appendix 5 – supplementary material). The fraction of the societal group (that consists of individuals other than external auditors) who claimed that the particular duty needs to be discharged by external auditors can be used to calculate the relative proportion of each duty considered as contributing to the reasonableness gap (calculations are not shown due to parsimony). It should be noted that the greater the percentage of the stakeholders that expects unreasonably that external auditors are obliged to discharge such a particular duty, the higher the degree of unmet expectations of that duty, and therefore, the greater the input to the reasonableness gap made by the external auditors. Figure 1 depicts the reasonableness gap, as well as the relative contributions of each of the duties performed.

It is clear from the responses that both those who believe auditors should perform a certain duty and those who believe auditors are executing a duty/responsibility substandardly (i.e. poorly) have expectations that fail to be met by external auditors when discharging their duties. Each duty carries a degree of society's unfulfilled expectations, contributing to the three elements of the AEG (i.e. reasonableness, deficient standards and deficient performance).

As shown in Figure 1, the AEG was found to be caused by 33 suggested duties of external auditors as indicated in the questionnaire; 10 of these by the gap signifying deficient performance, 15 by the deficient standards gap and 8 by the reasonableness gap. The relative proportion of the societal group whose expectations are not being fulfilled could be utilized to estimate the relative contribution of each of the duties to its respective component of the AEG, as explained earlier. The relative proportion of each component contributing to the total expectation gap between society's expectations of external auditors and their perceived performance was evaluated in this research. According to the AEG's components, the proportions of each component are displayed in Figure 1 (see "Reasonableness gap", Perceived performance by auditors[1] ← Audit Expectation-performance Gap → Society expectations of auditors[2]

← Performance Gap → ← Reasonableness Gap →

Auditors' existing duties[3]

Duties reasonably expected of auditors[4]

← Deficient Performance → ← Deficient Standards → ← Unreasonable Expectations →

← 25% → ← 56% → ← 19% →

Duty	response %[5]	Contr. %	Duty	response %[5]	Contr. %[6]	Duty	response %[5]	Contr. %[6]	Duty	response %[5]	Contr. %[6]
12	46	11	21	66	07	27	58	06	44	45	15
16	44	11	31	65	07	28	55	06	49	41	14
20	43	10	35	65	07	29	55	06	41	40	13
05	43	10	34	64	07	23	53	06	47	38	12
03	41	10	32	62	07	30	53	06	38	37	12
04	40	10	33	62	07		**898**	**100**	45	37	12
11	40	10	22	61	07				46	34	11
13	39	10	24	60	07				48	34	11
17	39	09	26	60	07					**306**	**100**
09	38	09	25	59	07						
	413	**100**									

Note(s): [1]Duties that are perceived by the societal group as being discharged deficiently (i.e., inadequately) by the external auditors, [2]Duties that are expected of external auditors exceeding 20% or more of a group of non-auditors, [3]Existing duties based on the rules, regulations, and professional pronouncements, [4]Duties that are cost-beneficial for external auditors to discharge, [5]Proportion of the societal group whose expectations on the duty and responsibilities are not being met, [6]Proportionate contribution of duties to the component

Figure 1. The relative contribution of duties to components and of components to the audit expectation-performance gap

"Deficient standards gap" and "Deficient performance gap" columns). It is possible to compute the relative proportion of each component contributing to the total gap. This can be estimated from the values given in Figure 1, where it is observed that more than half of the expectation gap (56%) is due to deficient standards (i.e. 898/(413 + 898 + 306)) as shown in the column headed "Deficient standards gap"; 19% (i.e. 306/(413 + 898 + 306)) of the gap is reflected in the column headed "Reasonableness gap", which stems from society having quite unreasonable expectations of external auditors; the remaining 25% (i.e. 413/(413 + 898 + 306)) of the gap is caused by the poor performance of external auditors, as can be seen from the column labeled "Deficient performance gap".

Findings of our updated model (which is based on the Porter model [1993]) on the AEG(Figure 1) indicated that the highest proportion of the total AEG is caused by the deficient standards gap, which is consistent with the findings of Masoud (2017), Porter *et al.* (2012), and Porter (1993). The relative contribution of each duty reveals that the greater portion of the deficient standard gap is derived from the following duties: "*Review and report on internal controls of the entity*" (21), "*Report to the appropriate agencies if the entity is engaged in laundering money, dealing with illegal takings, or terrorist financing*" (31) and "*Convey in the published audit report material/significant transactions or events*" (35). Further, all 15 duties specified in the questionnaire as the deficient standards gap were observed to be contributing to the AEG. Thus, these findings indicate that duties of deficient standards, which could be expected reasonably but not presently necessary of external auditors, caused deficient standards gap in the AEG. Therefore, to overcome this issue, auditing regulations need to be extended and expanded to include such duties as recommended by Porter *et al.* (2012) and Porter (1993).

In Figure 1, it can be also observed that the substandard performance of auditors contributes 25% of the total AEG. The proportionate contribution of each responsibility/duty shows that the greater proportion of the deficient performance gap is resulting from two duties, namely, "*Report any deficiencies or failures in the company's appropriate accounting and other record-keeping procedures including registers in the published auditor's report*" (12) and "*Communicate in the audit report any contingency relating to the future outcomes of unusual lawsuits or regulatory procedures that are likely to occur*" (16). This suggests that society considers itself inadequately informed by auditors of any deficiencies or failures in maintaining proper accounting and other records in the auditee companies. Duties such as, "*Disclose financial information distortion that is intentional in the audit report*" (3), "*Identify illegal deeds by corporate officers that directly impact the company's accounts*" (4) and "*Reveal unlawful acts that directly impact an entity's accounts in the published audit report*" (5), were also identified as duties of deficient performance in the studies of Masoud (2017), Porter *et al.* (2012), Porter and Gowthorpe (2004) and Porter (1993). These duties are related to auditors' responsibilities on uncovering and reporting fraud and other irregularities uncovered during external audits.

Furthermore, eight of the duties were observed as causing a reasonableness gap amounting to 19% of the total AEG, which shows that society has unfulfilled expectations. These duties consist of "*Guarantee that the financial statements audited are correct*" (44), "*Guarantee the solvency of the audit client*" (45), "*Guarantee that the auditee is financially sound via a clean audit report*" (47), "*Detect small (but not petty) asset theft by non-managerial staff*" (48), "*Audit all of the auditee's interim financial statements*" (49), "*Verify every audit client transaction*" (46), "*Conduct the audit to spot all the client's frauds*" (38) and "*Prepare financial statements of the audit client*" (41). Masoud (2017), Porter and Growphow (2004) and Porter (1993) also report similar findings. They reflect the increasing expectations of society regarding the functions of auditors.

This section analyzed and described the composition of the AEG based on the findings. The next section is devoted to the conclusions derived on these insights.

5. Conclusions

The main objective of this study was to examine the AEG in the context of listed firms in an emerging economy, given the recent changes in the global auditing arena. The recent widespread criticism of, as well as numerous cases of legal action taken against auditors, is the result of external auditors' inability to fulfill the expectations of society in respect of their work. This failure/inability to work to the satisfaction of clients has weakened their confidence in external auditors and in the functions they discharge. If irreversible harm to the reputation of the profession needs to be avoided, immediate and appropriate measures to minimize the AEG is required (Porter, 1993). A significantly revised and updated model was constructed to capture the AEG in this study, and the findings of the study provided valuable new evidence and supported the existence of a discrepancy between the perceptions of external auditors and other interest groups on the existing duties of external auditors, execution of the duties and the other duties that external auditors need to assume. It was recognized that more than half (56%) of the AEG was due to deficient standards, 19% was due to society's unreasonable expectations of external auditors and 25% was due to the perceived poor performance of external auditors. Overall 15 duties were identified as causing the deficient standard gap, while 10 duties were identified as contributing to the AEG's deficient performance, where these duties were deemed to be performed inadequately by auditors. On the other hand, 8 duties that auditors were expected to perform were identified as unreasonable demands of society.

In view of these findings, regulators, educators and the auditing profession need to initiate prompt action and minimize the observed AEG that has been observed recently in the changing global audit landscape. This will prevent any serious damage being caused by such a gap to the auditing profession and thus uphold the public trust in auditors. Particularly, as the findings of this study indicated that more than half of the gap is from deficient standards, to minimize this gap the auditing standards and promulgations should be further revised and upgraded. This will prevent any serious damage being caused by such a gap to the auditing profession and thus uphold the public trust in auditors.

There are certain limitations to this research that should be taken into consideration when interpreting the results. In determining the AEG, the study mainly considers the duties of the external auditors of public listed companies, and the duties of other types of auditors such as governmental auditors, internal auditors and so on are not considered due to the defined scope of the study. Future studies could take into consideration other types of audit contexts as well. Furthermore, an emerging country context was adopted for this study whereas future studies could consider the developed country context as well.

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Further reading

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Supplementary material

The supplementary material for this article can be found online.

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