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# Development of approaches to definition, classification and evaluation of "expectations gap"

**in the broader context of  
engagements provided by  
certified auditors**

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## Abstract

The conceptual definition of "expectations gap" considering all engagements governed by the International Standards is hereby proposed. There is elaborated the chain of study of the level of users' satisfaction with the engagements provided by certified auditors. There is considered the algorithm for the consideration of the information needs of the users of the results of the auditor's work while performing different types of engagements, classification and characteristics of information needs. There are analyzed the expectations of the users of engagements provided by certified auditors. There are grounded the characteristics of the different levels of service («desired» and «minimum» services, and the «zone of tolerance») while performing engagements provided by certified auditors. There are substantiated the five levels of the gap (in formation of expectations of users, in knowledge, in standards, in service and communications), the causes of their occurrence and ways of overcoming them. A distinctive feature of the proposed model is the selection of two components of the "gap in the formation of expectations" and "gap in communication": level of society and level of interaction of auditors with intended users, responsible party and management. The research findings will serve as the basis for determining the directions of development of the engagements provided by certified auditors (audit, review, other assurance engagements, related services) and improving its quality.

**Keywords:** assurance engagements, expectations gap, user information needs, user expectations

**JEL Classification:** R14, D18, P2

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## Introduction

In the professional literature on audit there is often used the term "differences in expectations" or "expectations gap" which means: (1) the discrepancy between the audit information provided by auditors and the expectations of the users of financial statements; (2) the discrepancy between the public opinion about the essence of the audit and the possibilities of a real audit process, limited to a certain scope. The need to identify the causes of this gap and their ways of elimination in the sphere of auditing is an extremely topical scientific problem.

Auditors work within the framework of legislation, according to particular International Standards on Auditing (ISA), which require them to express their opinion on whether the financial statements have been prepared in all material respects in accordance with the applicable conceptual framework. ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* emphasizes that the auditor's opinion only enhances the degree of confidence of intended users in the financial statements (paragraph 3). In paragraph 5 of ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* it is stated that due to the inherent limitations of an audit, there is an **unavoidable risk** that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISA. These provisions of the international standards quite vaguely define the requirements for auditors and generally **do not meet the expectations of users**. This is the very case, according to R. Adams, when the gap (i.e. differences, discrepancy) in the viewpoints arises: the auditors consider their goal in collecting reliable evidence and expressing their opinion on the financial statements and refer the detection of errors to the by-product of the audit, and users of the audit report consider that the duty of the auditor consists, first of all, in the identification of errors (intentional or accidental), and also in the preparation of such audit tests that will ensure the detection of abuses and inconsistencies (Adams, 1995, p. 379). This problem has not been resolved yet. Users believe that auditors have to identify all errors, frauds or misstatements in the financial statements. But in the International Standards on Auditing this duty is limited to terms "reasonable assurance" and "material misstatements". For example, in ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of*

*Financial Statements* is indicated: "The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management... An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatements, caused by fraud or error" (§ 4, 5).

There is an important aspect which should be noted: the problem of the "expectations gap" is mainly considered in relation to the audit of financial statements or audit engagements. But at the current stage of development of audit activity, it is necessary to take into account the significant transformations that took place in the structure of international standards (the introduction of the concept of "assurance engagement") and the types of engagements performed by certified auditors. Therefore, the issue of "expectations gap" is less considered in relation to other engagements considering their specific nature. In addition, it is important to investigate the "expectations gap" problem, given the set of engagements that:

(1) are currently governed by the International Standards on Quality Control, audit, review, other assurance and related services issued by the International Auditing and Assurance Standard Board (IAASB), International Federation of Accounting (IFAC), and include:

- audit of historical financial information;
- review of historical financial information;
- assurance engagements other than audit or review of historical financial information;
- related services;
- are not governed by Standards of IAASB;
- different types of consulting/advisory services;
- other services.

In view of this, we believe that it is necessary to pay attention to a comprehensive study of the gap in expectations, considering the whole range of engagements provided by certified auditors.

## 1. Literature review

The expectations gap has been acknowledged since the 1970's and studied extensively by academics and professionals.

The "expectations gap" and its components have been elaborated and presented by Porter (1991, 1993), Humphrey, Moizer & Turley (1992). These components were also analyzed in the textbook "Montgomery's Auditing" (1997, pp. 31-32). It focuses on users' expectations which are classified into reasonable and unreasonable ones, and their perceptions which in turn are presented as realistic and unrealistic, and the "expectations gap" is presented in the form of two components: (1) the gap between expectations and requirements (standards); (2) the gap between requirements (standards) and results. It is underlined that unreasonable expectations and false (irrational, unrealistic) perception of the results of the work performed can undermine the users' confidence in the auditor, and the information audited by the auditor can count as much as real errors in the audit work.

The review of the audit expectations gap literature from 1974 to 2007 was presented by Aljaadi (2009). A detailed study of modern concepts of audit expectations gap is also presented in the works of Salehi (2011, 2016), Ojo (2016).

The study of the perception of other assurance engagements is presented in Roebuck, Simnett & Ho (2000). The general issues of the relationship between assurance and expectations gap are analyzed by Dando & Swift (2003). A detailed study of expectations gap in the greenhouse gas emissions assurance context is presented in the paper of Green & Li (2011); the issues of reducing the expectation-performance gap in assurance of Global Reporting Initiative (GRI) Sustainability Reports in Brazil – are presented in a dissertation of Renzo Mori Junior (2014).

There is a lot of research on this subject and each study provides an exhaustive structure of the "expectations gap" and the ways to reduce it, but we consider expedient to analyze the "expectations gap" in the context of the whole range of engagements provided by certified auditors.

## **2. Scientific research methodology**

The research was carried out on the basis of the theory of scientific knowledge using a systematic approach of the study of the phenomena and processes of auditing and assurance. To achieve the goal set in the work,

there was used a complex of general scientific methods (analysis, synthesis, induction, deduction, abstraction) and relevant methods (systematization, generalization, review, comparison) of the research. The methodological basis of the study is the dialectical method which allowed studying the "expectations gap" in the modern system of socio-economic relations, to identify its problems and ways of reducing it. On the basis of the comparative analysis method, there were assessed the information needs of the users of the results of the auditor's work. There was applied the modeling method in developing the algorithm in consideration of the information needs of the users of the results of the auditor's work and the model of "expectations gap" in the context of the entire range of engagements performed by the auditor. To summarize the causes of different levels of "expectations gap" when perceiving engagements provided by certified auditors as professional services and ways to reduce them, there were used the method of system analysis, as well the historical and logical methods. Using the methods of analysis and synthesis, conclusions derived on the necessity and possibilities of practical application of research results.

The content analyses were used to evaluate the components of the "expectations gap". Several research techniques can be used to perform the content analysis. These techniques include (Krippendorff, 2004, pp. 44-45): (1) pragmatic content analysis; (2) semantic content analysis (designations analysis and attribution analysis); (3) sign-vehicle analysis.

It should be noted that the problem of the "expectations gap" exists in any kind of services, and marketing specialists pay enough attention to its research. Such an interpretation of the "expectations gap" arising in the process of performing audit engagements is close to the theory and practice of marketing services, within which methods have been developed to enable the assessment of the quality of services from the point of view of consumers. The logic of these methods is relevant, first of all, for all services because their quality is difficult to be assessed based on objective criteria, which is also true for auditing. Such methods include:

- (1) "Gap" model which reflects the basic requirements for the expected quality of services (Zeithaml, Berry, & Parasuraman 1998);
- (2) "SERVQUAL" model (acronym of "service quality") shows that the quality of service that is received is

determined by the difference between consumers' expectations and really perceived quality (Parasuraman, Berry, & Zeithaml, 1988);

- (3) "Zone of Tolerance" model (Johnston, 1995).

### 3. Elaboration of the "expectation gap" MODEL, based on the information needs and expectations of users

#### 3.1. The chain of study of the level of user satisfaction with respect to engagements provided by certified auditors

Understanding the necessity to take into account the needs of the users leads to the consideration of the process of performing audit, review or other assurance engagements and related services as a communication process. This process can take various forms and can be presented:

- (1) as an **action** (one-way signal transmission without feedback);
- (2) as an **interaction** (bilateral process of information exchange);
- (3) as a **communication** process in which participants continuously act as both source and recipient of information.

In the theory of communication, a significant number of models are applied. Their development pursues the greater consideration of the recipient's activity and social dependence, both in the content and in the form of communication (Sharkov, F., 2002, pp. 28-34).

This statement is fully applicable to the process of performing the engagements by certified auditors. Therefore, when determining the causes and essence of the "expectations gap" in the sphere of audit activities we should focus on the process of performing and presenting the engagements as professional services. This requires the study of two issues:

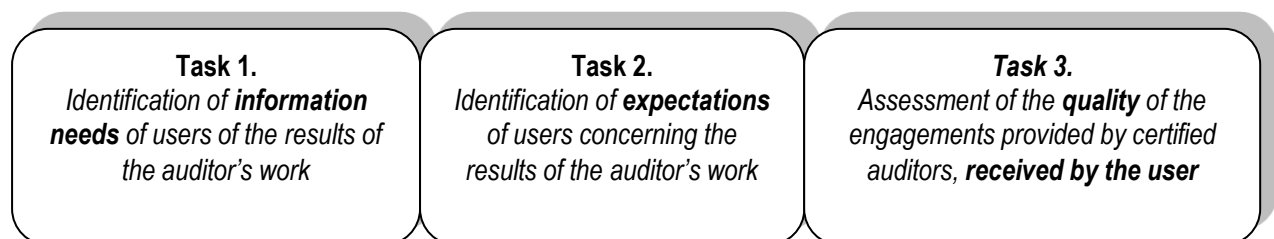
- (1) what the users will receive;
- (2) how it will be presented to them.

When conducting a survey of the level of satisfaction and the reasons for the occurrence of "expectations gap" the following tasks should be solved:

- (1) to identify the expectations of users;
- (2) to assess the quality of the service they received.

However, these two tasks do not fully characterize the process of identifying the "expectations gap" in the audit. The information needs of users as a basis of forming the expectations remain outside the sphere of vision. Therefore, this process should envisage three stages of successive solution of the following tasks (**Figure no. 1**).

**Figure no. 1. The chain of study of the level of users' satisfaction with engagements provided by certified auditors**



Source: Compiled by Authors

### 3.2. Identifying the information needs of the users of the results of the auditor's work

The first task is to identify the information needs of the users of the results of the auditor's work. As a

basis, it is possible to apply the algorithm for investigating the impact of the needs of different entities and their consideration when developing the audit requirements (Table no. 1).

Table no. 1. Algorithm for consideration of information needs of the users of the results of auditor's work	
Main stages of analysis	Issues to be investigated
Identification of entities interested in the audit function as a public institution	Which groups of entities cooperate with auditors? Which groups of entities use the results of different types of engagements provided by certified auditors? Which groups of entities are most interested in changes in audit requirements and relevant changes in legislative and regulatory acts?
Identification of the range of information needs of different groups of users	What are the information needs of these users? How do these needs relate to the goals and strategies of the users themselves?
Establishing the relationship between the interests of users and nature of engagements provided by certified auditors	How do the identified information needs generate the demand for engagements provided by certified auditors, and the results of their work?
Identification of the need to amend the legislative and regulatory documents related to audit activities, and the nature of these changes	What impact will the meeting of certain information needs have on the content of legislation of the auditing activities?
Identification of the need to amend other legislative and regulatory acts, the essence of these changes	What impact will the meeting of certain information needs have on the content of other legislative and regulatory documents?

Source: Compiled by Authors

Let us consider the information needs of the users of the results of assignments for the audit of financial statements in more detail. The identification of information needs of the users of audit results should occur in combination with the information needs of the users of the financial statements but taking into consideration that the needs of the users of the audit reports are somewhat different, it only increases the degree of their trust in information. For example, for the existing and potential owners or/and shareholders of a company it is important to assess the effectiveness of the company's activity. Such information needs for each group of users can be combined under the name the "general information need". The financial reporting should provide information on the profitability of the company, the directions of profit distribution, ways to increase the amount of dividends. If they are viewed as users of audit results, their information need is to obtain the auditor's opinion on the reliability of financial statements in order to reduce information risk in assessing the current and potential activities of the

company in terms of ensuring effective dividend policy, management effectiveness, performance of duties of the management in accordance with the specific goals and objectives.

In addition, depending on the correlation of information needs about the results of the audit and the requirements of the audit standards, the legislative and regulatory documents, it is possible to identify the basic and specific information needs which form the general information need. The *Basic information needs* correspond to the information that meets the main objective of the audit, that is, the auditor's information on whether the financial statements have been prepared in all material respects in accordance with the applicable conceptual framework. The users with *specific information needs* necessitate additional information that details or complements the main purpose of the audit, for example, in the information on the results of the assessment of compliance with the principle of business continuity.

It should be taken into account that the specific information needs of the specific groups of users are often the main priority for them. These specific information needs can be further classified. Depending on the content of the specific information needs, there can be identified the information needs related to the financial reporting audit process, and those that are not included in the scope of the audit procedures provided for in the audit standards, but require extended and additional procedures not provided for by the standards.

The first group includes, for example, information about:

- (1) the risks of fraud in accounting and financial reporting (ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statement);
- (2) internal control (ISA 315 Identification and Assessing the Risks of Material Misstatement

through Understanding the Entity and its Environment);

- (3) the appropriateness and relevance of applying fair value in the valuation of assets (ISA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures);
- (4) transactions with related parties (ISA 550 Related parties);
- (5) existence and impact of events after the balance sheet release date (ISA 560 Subsequent Events).

The second group can include the need for predictive appraisal of the financial condition, assessment of the management effectiveness, assessment of the compliance with the requirements of all legislative and regulatory documents affecting the financial and economic activities of the entity, etc.

Table no. 2. Characteristics of the information needs of the potential creditors as users of the results of audit engagement	
Needs	Characteristics
<i>General information need</i>	Identification of the appropriateness of granting a loan and the ability of a company to timely repay the interest and principal loan amount.
<i>Basic information need of the user</i>	The auditor's opinion on whether the financial statements used to assess the company's solvency are prepared in all material respects in accordance with the applicable financial reporting framework
<i>Specific information needs that can be met as part of the implementation of procedures provided for by the International Standards</i>	The opinion of the auditor (with the aim of increasing the degree of confidence in the result of their own assessments) about: <ul style="list-style-type: none"> <li>- probability of bankruptcy of the company (the company's compliance with the principle of business continuity);</li> <li>- compliance with the requirements of legislation in the process of financial and economic activity directly affects the identification of significant amounts and disclosure of information in the financial statements of the company;</li> <li>- risks of material misstatement of financial statements that are identified in the process of obtaining the understanding of the business entity and its environment, including the internal control system;</li> <li>- facts of fraud identification;</li> <li>- subjectivity when management determines accounting estimates in the process of preparing financial statements;</li> <li>- state of the company's internal control system;</li> <li>- litigations relating to the company that may lead to the risk of material misstatement of financial statements, the procedure for pre-trial settlement of a dispute, the payment of penalties.</li> </ul>
<i>Specific information needs that cannot be met in the framework of the implementation of the procedures provided for by the International Standards</i>	The opinion of the auditor (with the aim of increasing the degree of confidence in the result of their own assessments) about: <ul style="list-style-type: none"> <li>- current and predictive levels of the financial position of the company from the point of view of the expediency of granting a loan, identifying loan conditions and guarantees for loans, including assessment of the structure of the company's assets, its financial stability and solvency, liquidity of current liabilities, analysis of the composition, structures and ratio of accounts receivable and accounts payable, estimation of settlements on previously received short-term and long-term loans and borrowings;</li> <li>- compliance with the requirements of legislation which does not significantly affect the financial statements but relates to the financial and economic activities of the company;</li> <li>- management effectiveness;</li> <li>- other lawsuits that do not deal directly with the financial statements but concern the financial and economic activities of the company, the procedure for pre-trial settlement of the dispute, payment of penalties.</li> </ul>

Source: Compiled by Authors

In **Table no. 2**, for example, there are presented the characteristics of the information needs of such a group of external users as potential lenders that do not have direct connection with the enterprise, but have direct interest in its activities.

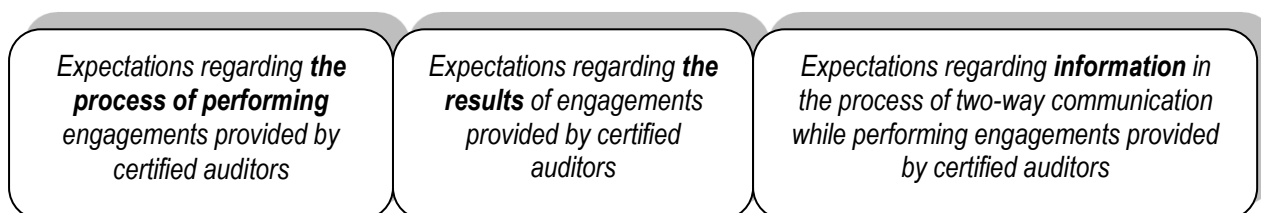
Such classification is useful for the analysis of the information needs of the users of other engagements: review of historical financial information, assurance engagements other than audit or review of historical financial information, and related services.

### 3.3. Identification of the expectations of users concerning the results of the auditor's work

The second task involves identifying the expectations of users about the service. According to Bychkova & Ityglova (2008, p. 20) the clients of audit firms may

have high expectations regarding the audit of financial statements and think that the auditor should absolutely guarantee the reliability of the reporting on the results of the audit. To be noted that the users of the professional opinion of the auditor, in addition to their needs, form their own expectations regarding the quality of the audit of financial statements which are related to the fact that the adoption of economic decisions based on the professional judgment of the auditor does not lead to negative consequences in the future and presents them in the form of two groups: expectations regarding the audit process and expectations regarding the results of the audit (Bychkova & Ityglova, 2008, p. 20). It is important to add to this classification the expectations of informing about the process and results of the audit. Therefore, we can represent the users' expectations comprehensively (see **Figure no. 2**).

**Figure no. 2. Expectations of the users of engagements provided by certified auditors**



Source: Compiled by Authors

The expectations of users in terms of compliance with the existing standards can be causally relevant (reasonable) and in this case it is necessary to improve the standards and work of auditors, that is, to follow the path of professional improvement. Other expectations may be unrealistic (causally irrelevant). In relation to them it is necessary to improve communication links with users in order to manage their expectations in respect of the requirements, and the impossibility of changing standards, to be ready for misunderstandings and to try to overcome the consequences of such misunderstandings.

At the same time, the addition of the requirements to the "overstated" group should take into account the specific situation in which the engagement is carried out, its

objectives and users. As an example, we may consider the situation with the definition of the level of materiality. This issue in the context of investigating the role of auditing standards in reducing the expectations gap was emphasized by Ojo (2016). If an initiative audit of individual elements, accounts or financial reporting items, is carried out in accordance with ISA 805 *Specific Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of Financial Statement*, for example, such items of financial reporting as current obligations for settlements with the budget, the customer's requirements to establish a sufficiently low level of materiality are causally relevant because: (1) they are due to the

existing liability for tax, administrative and criminal legislation: (2) and they must complete the tax reporting in certain monetary units. Such a requirement of the user, which is the consequence of its need to have information about the maximum number of errors or any other inconsistencies, distortions in order to prevent the imposition of fines on the business entity by the fiscal authorities, is causally relevant and should be considered in the work of auditors.

On the contrary, the requirement to establish an extremely low level of materiality when conducting a mandatory audit is causally irrelevant since materiality is linked to the economic decisions of users made on the basis of financial statements. The range of key users of the results of mandatory audit includes those individuals who rely on financial statements as the main source of information and cannot require other reports compiled in accordance with their needs. Therefore, the materiality when conducting a mandatory audit should be established on the basis that the indicators of the financial statements are prepared and provided on the basis of a certain level of materiality. In this case, the auditor must prove and justify the inexpediency of setting overstated requirements.

Another example is the assessment of the financial condition of a company. If, during the performance of engagements for auditing financial statements within the framework of international auditing standards, users make a requirement to assess in detail and forecast the financial condition of the company, such expectations are causally irrelevant, since the performance of engagements for auditing financial statements provides for checking only the compliance with the principle of business continuity. The auditor should explain the unrealistic nature of these requirements and propose to perform the assessment and forecasting of the financial condition within the framework of the assignment of providing other assurance, if the appropriate assessment criteria are

agreed with the customer, or within the framework of consulting services. On the other hand, if users expect that after auditing financial statements the auditor will inform them about the results of the assessment of the company's compliance with the principle of business continuity, such expectations should be recognized as causally relevant, since such duties are expressly provided for by the current ISA 570 *Going Concern*.

In the theory and practice of marketing (Zeithaml, Berry, & Parasuraman, 1993, pp. 1-12; Pashchuk, 2005, pp. 148-149), expectations are presented in the form of various elements, in particular:

- (1) the desired service (the service that customers hope to receive with the level of a combination of what, in the opinion of the buyers, may be, and what is given to them in the context of their personal needs);
- (2) proper service (maximum, the lowest level of expectation, minimum level of service which the buyer will take without significant dissatisfaction);
- (3) expected service (the level of service that customers actually expect to receive);
- (4) tolerance zone (located between the desired and the appropriate level of service and is represented by a certain interval in which users do not pay special attention to the process of providing the service, but if the service exceeds the specified range they react either positively or negatively).

For example, taking into account possible information needs, the desired service for audit engagement can be formed on the basis of the general information need. The identification of the minimum level of service in audit should be formed considering the need to apply the concept of reasonable (sufficient) confidence to the audit process which establishes the limited opportunities inherent in the audit and affects the ability of the auditor to detect distortions in the financial statements. According to ISA 200 *General*



objectives of the independent auditor and the conduct of an audit in accordance with *International Standards on Auditing*, an audit is designed to provide sufficient (relevant) assurance that the financial statements, as a whole, are free from material misstatement (paragraph 11a). Therefore, the appropriate level of engagements, provided by certified auditors, is a certain level of reasonable (sufficient) confidence that consumers

of audit services perceive as minimal. The zone of tolerance covers the interval of expectations between the characteristics of the desired and the minimum service.

The relationship between the minimum and desired level of engagements provided by certified auditors, as well as the characteristics of the tolerance zone, are shown in **Figure no. 3**.

**Figure no. 3. Characteristics of different levels of service while performing engagements provided by certified auditors**

**The minimum level:**

- (1) the user receives information only about the results of the engagements;
- (2) only the basic information need of the user is satisfied;
- (3) satisfaction of the basic information need occurs at the level of reasonable (sufficient) confidence with a corresponding identification of the level of materiality that users perceive as the minimum possible;
- (4) the user received the information only after the completion of the engagements;
- (5) the information is passed on time; the appropriateness of the data is ensured.

**Tolerance zone:**

***the interval of expectations which in one way or another is taken into account:***

- (1) the need to provide information on the actual process of performing engagements, and not only on their results;
- (2) the need to meet the specific information needs;
- (3) the need to meet the user requirements for the level of materiality;
- (4) the need to provide information in the process of performing the engagements and on-time.

**Desired level:**

- (1) the user receives information not only about the results of the engagements but also about the process (stages, applied procedures, etc.);
- (2) the general information need of the users about the results of the engagements is satisfied, and this general information need involves the basic information needs and specific information needs that require procedures within the framework of *International Standards* and extended supplementary procedures;
- (3) the satisfaction of the basic and specific information needs takes place considering the requirements of the users in terms of the level of materiality;
- (4) the user receives information both during the performing of the engagement and at its completion;
- (5) the transfer of information occurs in a timely manner in order to ensure the appropriateness of the data.

Source: Compiled by Authors

### 3.4. Problems of evaluation the quality of the auditor's work as perceived by the users

The third task is to evaluate the perceived quality of the service. One of the main differences between goods and services is that it is more difficult for customers to assess services. All services can be placed in a certain interval, starting with the criterion "easy to assess" and ending with the criterion "difficult to assess", depending on how important the attributes of searching, experience or

trusting are. Such a classification of benefits is proposed in the theory of transaction costs in interpreting the costs of measurement, which are carried out both before the acquisition of goods (ex ante) and after (ex post). They are based on three categories of benefits:

- (1) experienced (have extremely high ex ante measurement costs and low ex post costs);
- (2) research (have low ex ante measurement costs and low ex post costs);
- (3) trusting (have extremely high ex ante measurement costs and high ex post costs) (Korneichuk, B., 2007, pp. 136-137).

The information that becomes the subject matter of assurance engagements and is the result of assurance engagements relates to trusting goods. This group of services is characterized by two specific features:

- (1) there is an extraordinary complexity of particularization of the positive result;
- (2) this positive result does not always receive an identical assessment from different consumers and different specialists.

In general, there is a tendency to consider most of the services to which engagements provided by certified auditors belong, namely, as trust assets. Thus, it is emphasized the importance of the trust attribute for

consumers (compared to such attributes as searching and experience), reflecting two main differences between goods and services:

- (1) the lack of sense of performing the service;
- (2) and the lack of clarity of the assessment of what was invested and received which often causes quality control problems.

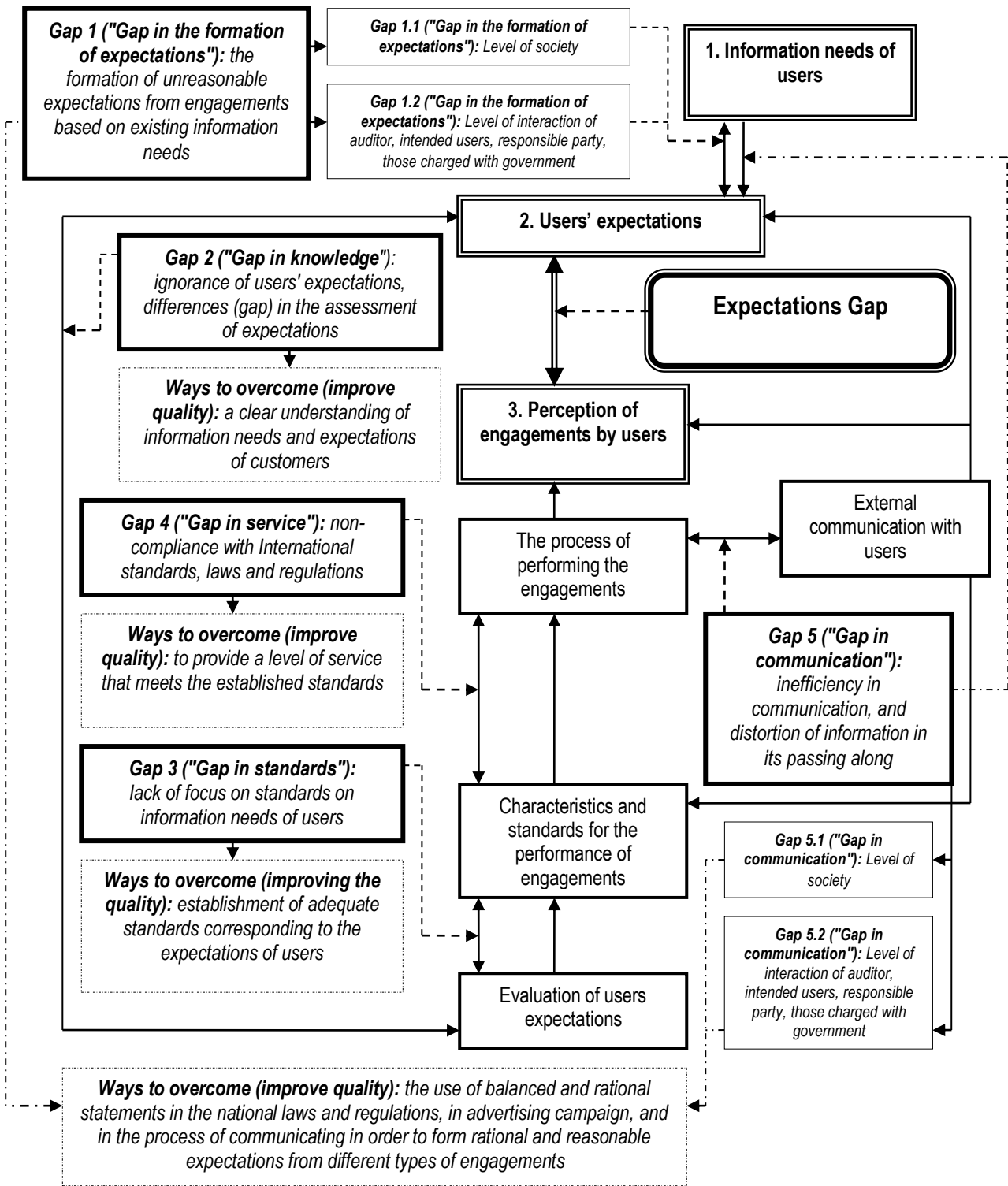
The differences between the users' expectations and what they believe to have received are:

- (1) in the deviations of the work of auditors from the existing standards which requires its improvement;
- (2) in the unrealistic perception of the results of engagements provided by certified auditors, and a distorted understanding of the essence of the different types of engagements which requires users to pay special attention to the process of informing about its content.

### 4. "Expectation Gap" model in engagements provided by certified auditors

The "expectation gap" model in engagements provided by certified auditors is presented in **Figure no. 4**. It shows the presence of several (five) gaps and the main ways to overcome them. In the professional literature there were suggested different ways of reducing the "expectations gap" and these measures should be classified according to the levels of the "expectations gap" shown in **Figure no. 4** and they should be expanded according to the types of engagements provided by certified auditors.

**Figure no. 4. A model of "expectations gap" in the engagements provided by certified auditors**



Source: Compiled by Authors

## 5. Analysis of the causes of different levels of "expectations gap" and ways of reducing it

Summary of the results of the study of the causes of the appearance of different levels of

"expectations gap" and possible ways of their elimination are given in Table no. 3.

At the moment, the main focus on developing ways to improve the quality of performance of various engagements provided by certified auditors, is to reduce the "gap in service" in order to ensure compliance with the standards.

**Table no. 3. Causes of different levels of "expectations gap" when perceiving engagements provided by certified auditors, as professional services and ways to reduce them**

Gap Level	Causes of certain levels of gap	Ways to decreasing the gap
<b>Gap 2.</b> The gap between the awareness and perceptions of the auditors of the interests, needs and expectations of users (" <b>Gap in knowledge</b> ")	Lack of interaction with users in identifying their needs and expectations.	The allocation of users by the results of different types of engagements provided by certified auditors, the creation of the system to study their interests, needs and expectations. Analysis and assessment of users' needs by the results of engagements provided by certified auditors, their understanding of the main goal and by-effects.
<b>Gap 3.</b> The gap between the standards of work of auditors and the interests, needs and expectations of users with absolutely correct understanding of them (" <b>Gap in standards</b> ")	Fears of assuming big obligations, underestimation of own capabilities, understating requirements in standards, regulatory and legislative documents. The lack of clear methods for performing different types of engagements provided by certified auditors (primarily for other assurance engagements) that would limit the possibility of abuse of the right to apply "professional judgment" without a clear explanation of what lies at its base. Low quality of the legislation regulating auditor's activity and discrepancy among various legal acts.	Improvement of the legislation on audit issues, taking into account the information needs of users. Establishment of the audit management system that would ensure that user requirements are taken into account. Improving the quality of the system of legislative and regulatory documents of audit activities.
<b>Gap 4.</b> The gap between audit standards and the actual level of service (" <b>Gap in service</b> ")	Low level of internal system of quality control of engagements provided by certified auditors (at the level of the certified auditors and audit firms). Absence of a clear system of responsibility of auditors in cases of inadequate performance their professional duties.	Development of external and internal standards of the quality system. Increasing of requirements for the independence of auditors. Establishment of clear recommendations for identifying the extent of the auditor's responsibility.

Gap Level		Causes of certain levels of gap		Ways to decreasing the gap
<b>Gap 1.</b> The gap between the client's expectations, its subjective understanding of the essence of engagements provided by certified auditors, and the real characteristics of various engagements provided by the standards (" <b>Gap in the formation of expectations</b> ")	<b>Gap 5.</b> The gap between the information about the nature of the audit and the quality of the engagements provided by certified auditors, which is passed along by the auditors, their actual state (" <b>Gap in communication</b> ")	<b>Gap 1.1 ("Gap in the formation of expectations")</b> <b>Gap 5.1 ("Gap in communication")</b> <i>Level of society</i>	Absence (insufficiency) of transparency within the audit system. Insufficient level of quality of legislative and normative documents on providing information on the nature of engagements and their function. Insufficient level of public awareness of fundamental differences between different engagements provided by certified auditors.	Increasing the informativeness of legislative and regulatory documents governing various types of engagements, provided by certified auditors, primarily statutory audit. Creation of an adequate system of informing society about the principles and standards of engagements, performed by the certified auditor.  Increasing attention to the process of communicating with the intended users, responsible parties, and management, their information while agreeing the terms of engagements, planning and performing. Increasing the informativeness of the final documents (audit reports, reports on the results of other assurance engagements, related and consulting services) as a tool of providing the information needs of the external users.
		<b>Gap 1.2 ("Gap in the formation of expectations")</b> <b>Gap 5.2 ("Gap in communication")</b> <i>Level of interaction of auditor, intended users, responsible party, those charged with government</i>	Lack of close two-way communication with the client and the management of a company which is the subject to an audit. Insufficient level of informativeness of audit reports, reports on the results of other engagements (other assurance engagements, related services). Low information support of contracts on performance of engagements, provided by certified auditors, concerning the rights and duties of auditors, etc.	

Source: Compiled by Authors

But other reasons are also important: the "gap in the formation of expectations" and the "gap in communication", the gap in the awareness of auditors and their perception of users' expectations ("gap in knowledge"). Overcoming this gap should lead to the change in the standards of work and accordingly to the narrowing of the "gap in standards".

In this case, the two gaps (the first "gap in the formation of expectations" and the fifth "gap in communication") actually have similar reasons (that is shown in **Table no. 3**) but it is the presence of the fifth gap that generates a vicious circle, the result of which is:

- (1) fixing the primary overstated or generally incorrect expectations of the users of the results of engagements;
- (2) formation of the new overstated or distorted expectations.

If we consider the complexity of engagements provided by certified auditors, in general, then the

significant impact is the lack and shortcomings of clarity in the users' understanding the nature of different types of engagements and the lack of clear recommendations on the delineation and identification of audit, review and other assurance engagements, related and consulting services.

The lack of understanding the differences among users of the different types of engagements provided by certified auditors very often leads to the formation of the wrong expectations of users and their dissatisfaction with the results of the auditor's work.

A distinctive feature of the proposed model is the selection of two components of the "gap in the formation of expectations" and the "gap in communication":

- (1) the level of society (macro level), and
- (2) the level of interaction of auditors with the intended users, responsible party and those charged with government (management personnel).

The first level (component) prevails at this stage in Ukraine, where the introduction of the audit concept has taken place recently (in comparison with other countries). The reasons for the gap in communications at the macro level that exists at this stage of social and economic development of the country and determines the distortion of the public opinion about the engagements provided by the certified auditors, are as follows:

- (1) incomplete consistency between the provisions of the Ukrainian legislation on auditing and the International Standards of Quality Control, Auditing, Review, Other Assurance and Related Services;
- (2) insufficient awareness of the differences between audit engagements, review engagements, other assurance engagements, related services and other services (for example, consulting);
- (3) misuse of the terms "audit" and "auditor" in the practice of other government and non-government bodies without taking into account the existing world practice and experience;
- (4) arbitrary use of the term "audit" in the normative and legislative documents that relate to entirely different issues.

It is also necessary to draw attention to the shortcoming of using the term which would summarize all services provided by the auditor. The term "audit services" is used in the Ukrainian legislation and regulations. The same term is sometimes used in foreign publications, in particular, Tritschler (2014). But its application does not allow users to immediately perceive the difference between the engagements performed by the auditor and the ones regulated by the International Standards of the IAASB. Therefore, in the title of the article we deliberately used the term "engagements provided by certified auditors".

In the context of these proposals, it is advisable to draw attention to the developments of other countries and international organizations. In particular, the Federation of European Accountants has been offered the Survey on the Provision of Alternative Assurance and Related Services across Europe which analyzes the differences between different services. In November 2015, the Australian

government (the Department of Finance) issued guidance on the delimitation of the concepts of "audit and assurance" (Resource Management Guide No. 210 Clarification of the Terms "Audit" and "Assurance"), the purpose of which was to provide detailed recommendations for users about these elements. They provide the analysis of the various situations and issues arising from the use of terms "audit" and "assurance" and suggestions on how to avoid them. They contain only a few examples, but qualitative bases can be used to develop recommendations for choosing the optimal type of engagement for a particular user, considering his/her information needs and expectations.

The effect of education on reducing the expectations gap (primarily, "gap in formation of expectations" and "gap in knowledge") is very important. This issue is widely discussed by Siddiqui, Nasreeen, & Choudhury-Lema (2009), Bui, & Porter (2010), Ihendinihu, & Robert (2014), Cordos, Fulop, & Tiron-Tudor (2016). This issue is also extremely relevant for the Ukrainian education system.

If a specific engagement is used as the basis (audit of historical financial information; review of historical financial information; assurance engagements other than audit or review of historical financial information; related services), then in order to determine ways of eliminating the "expectations gap" it is possible to distinguish its levels depending on the stages of the task (Table no. 4).

While agreeing the terms of the assignment and carrying it out, the reason for the gap is the lack of sufficient communication between the auditors and the management, the customer, insufficient attention to the information needs and expectations of users. Overcoming it will eliminate the causally unreasonable expectations, as well as the shortcomings in the performance indicators that are allowed, but which do not exist in reality. As a result, it will reduce the "gap in communication". The narrowing of this gap is strongly influenced by the improvement of public awareness of the principles and standards of auditing in order to build public confidence that professional standards and national legislation adequately take into account the requirements of users.

Gap levels	Stages of performing the engagement		
	Agreeing the terms of the assignment	Completing the engagement	Provision of final documents (reports, additional information)
<b>Gap 1.2 "Gap in the formation of expectations"</b>	Insufficient level of quality of the legislative and regulatory documents on providing information on the characteristics of different engagements and their functions. Absence (or insufficiency) of the communication links in the process of agreeing the terms of the assignment.	Low information content of contracts on the characteristics of different goals, rights and duties of auditors, etc. Absence (or insufficiency) of the communication links in the course of the assignment.	The difficulty in presenting the information in reports. Low informativeness of reports, presence of inadequate, veiled statements about the nature and characteristics of different engagements.
<b>Gap 2. "Gap in knowledge"</b>	Insufficient attention to information needs and expectations of the users or their misunderstandings	Insufficient attention to the needs of users regarding the audit process or their misunderstanding.	Insufficient attention to the needs of the users regarding the content of documents, the order of their presentation and disclosure. Failure to understand these needs.
<b>Gap 3. "Gap in standards"</b>	Lack of responsiveness in the contract and standards of the users' requirements	Lack of responsiveness in the standards of the users' requirements for the process of carrying out the assignment	Lack of responsiveness in the standards of the users' requirements for the process of carrying out the assignment
<b>Gap 4. "Gap in service"</b>	Inconsistency of the content and structure of the contract with the existing requirements of the legislative and normative acts	Inconsistency in the process of fulfilling the engagement to the established standards	Inconsistency of the content of reports with the requirements of standards, legislative and regulatory documents. Inconsistency in the process of submission and disclosure of auditors' reports.
<b>Gap 5.2 "Gap in communication"</b>	Insufficient information content of contracts on the characteristics of different goals, rights and duties of auditors, etc. Low level of quality of the legislative and regulatory documents on providing information on the characteristics of different engagements and their functions. Absence (or insufficiency) of the communication links in the process of agreeing the terms of the assignment.	Absence (or insufficiency) of the communication links in the course of the assignment.	The difficulty in presenting the information in reports. Low information content of reports, presence of inadequate, veiled statements about the nature and characteristics of different engagements.

Source: Compiled by Authors

It is particularly important to inform the users of the final documents (reports) about what they can expect. If it is,

for example, a statutory audit, then its requirements should be covered in special legislative documents

regulating the activities of a certain economic entity. The contract terms are important while carrying out the initiative engagements. At the stage of presenting the results of the engagements, it is important to ensure the qualitative characteristics of the reports, in particular, completeness, relevance, comprehensibility, as well as the process of submitting them to the users and officially publishing them, if necessary.

## 6. Conclusions

The results of the research of the «expectation gap» problem in the audit only show possible ways of solving this complex problem which undoubtedly is relevant and important. After all, engagements provided by certified auditors cannot exist on their own. These exist in the form of professional services that have certain demands and must satisfy the requirements of the users to help increase the importance of auditing and assurance in the society.

It is advisable that the study of the reasons for the "expectations gap" in the audit to be carried out with the help of methods that allow assessing the quality of services from the point of view of their consumers. Their modification in accordance with the specific features of engagements provided by certified auditors as professional services allowed formulating three tasks to be investigated: (1) identification of the information needs of users by the results of the auditor's work; (2) identifying the users' expectations with respect to the services that in one way or another take into account the need to provide information about the audit process itself, the need to meet "specific" information needs, the users' requirements for the level of materiality, the need to provide information in the process of auditing; (3) assessment of the quality received.

The expectations of the users that characterize the "standard", "minimal" quality of engagements provided by certified auditors, and the "tolerance zone" are specified to some extent that takes into account the need to provide information about the process of the engagement itself, the need to meet "specific" information needs, the users' requirements for the level of materiality, the need

to submit information in the process of performing the engagements.

The proposed method makes it possible to determine the reasons of the five levels of the expectations gap in the engagements provided by certified auditors:

- (1) *gap in the formation of expectations* (the formation of overstated and/or reasonably irrelevant expectations);
- (2) *gap in knowledge* (the gap in the auditors' awareness and perception of the interests, needs and expectations of the users as a result of ignorant or mistaken perception by auditors of what the users expect to receive, which leads to the gap between the expectations of clients and the perception of auditors of such expectations);
- (3) *gap in standards* (inability and/or reluctance of auditors to establish the quality standards that meet the expectations of clients with their absolutely correct understanding);
- (4) *gap in service* (insolvency of an auditor to ensure the quality of service that meets the established standards);
- (5) *gap in communication* (inconsistency of information about the nature of the audit, review, other assurance engagements, related services and other services, performed by auditors, their actual characteristics, as provided by the International Standards of Quality Control, Auditing, Review, Other Assurance, and Related Services).

The importance of overcoming gaps in formation of expectations, knowledge and, first of all, in communication has been grounded, since its presence creates a vicious circle, the result of which is the fixation of primary overstated or, in general, incorrect expectations of the users of engagements provided by certified auditors, the formation of new overstated or distorted expectations. Therefore, it is important to inform users about the fundamental differences between the different types of engagements provided by certified auditors.



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