

The Auditor's Report and the Audit Expectation Gap: An Impact Analysis

Sagar ADHAU, DBA Scholar,

SP Jain School of Global Management,

e-mail: sagar.dj21dba005@spjain.org,

ORCID ID: 0000-0002-8912-8865 (Corresponding author)

Univ. Prof. Elango RENGASAMY, Ph. D.,

Adjunct Professor of Finance, SDM Institute

for Management Development,

e-mail: drelan63@gmail.com

Rajashree GUJARATHI, Ph. D.,

Adjunct Faculty, S.P. Jain School of Global Management,

e-mail: rajashreegujarathi@gmail.com

Abstract

This paper investigates the impact of an auditor's report on the audit expectation gap. It establishes a connection between existing literature concerning auditors' reports and the audit expectation gap, elucidating how the essential contents and characteristics of auditors' reports influence various components of the audit expectation gap. This study employs a qualitative methodology, using a systematic literature review technique. The findings suggest that the main contents and characteristics of the auditor's report affect specific components of the audit expectation gap. Furthermore, the auditor's report not only impacts the knowledge gap but also influences the performance and evolution gaps. Importantly, it provides an innovative framework to illustrate the influence of auditors' reports on various components of the audit expectation gap. This study introduces a novel model that has not been examined in practical contexts, and its applicability may vary in real-world settings. A significant limitation lies in the challenges associated with ensuring the thoroughness of the existing literature analyzed. The findings may serve as a foundation for future revisions to the auditor's report format, and provide a robust basis for subsequent studies on auditor's reports.

Key words: audit expectation gap; auditor's report; external audit; audit report; bridging the audit expectation gap;

JEL Classification: M420

To cite this article:

Adhau, S., Rengasamy, E., Gujarathi, R. (2025), The Auditor's Report and the Audit Expectation Gap: An Impact Analysis, *Audit Financiar*, vol. XXIII, no. 4(180)/2025, pp.848-861, DOI: 10.20869/AUDITF/2025/180/028

To link this article:

<http://dx.doi.org/10.20869/AUDITF/2025/180/028>

Received: 9.05.2025

Revised: 19.05.2025

Accepted: 26.06.2025

1. Introduction and research problem

The audit expectation gap has been a topic of scholarly discussion since the inception of auditing. Since Liggio's ground-breaking study on the audit expectation gap in 1974, there has been scholarly consensus regarding the existence of this phenomenon (Quick, 2020; Imen Jedidi & Humphrey, 2024).

Scholars have described the Audit Expectation Gap as a disparity between stakeholders' expectations of audits and the actual scope, objectives, and assurance provided by the auditor. In the realm of auditing literature, academics have persistently identified the audit expectation gap as a significant barrier to the successful execution of audit functions (Liggio, 1974; Salehi et al., 2009; ACCA, 2019; Sirois et al., 2018).

In light of the concerted efforts of standard setters, regulators, and scholars worldwide to narrow the audit expectation gap, numerous studies have been conducted to assess its causes, identify its constituents, and devise strategies to bridge this gap. Research indicates that the effective communication of audit findings (Quick, 2020) and how auditors interact with stakeholders (Akther & Xu, 2020) may serve as instrumental tools for narrowing the audit expectation gap (Çeltikci, 2024).

The auditor's report serves as a primary conduit for conveying audit results; for many stakeholders, it constitutes the sole form of communication received from auditors. Given the critical role of auditor's reports in facilitating communication between auditors and stakeholders, they must provide the necessary audit-related information regarding the outcomes of audits and elucidate various aspects that would aid intended-users in their decision-making or evaluation processes.

In the aftermath of financial scandals that have plagued markets over the past few decades, stakeholders now demand more comprehensive information from auditors to understand the audit process better, thereby ensuring confidence in audit quality and obtaining further insights (Goicoechea et al., 2021; Foy, 2024). Users of auditor's reports perceive that these reports predominantly consist of standardised content dictated by auditing standards, offering minimal entity-specific information and limited insight into the audit execution process. Consequently, auditor's reports often fall short of meeting users' informational needs. As a result, stakeholders' trust in

auditors appears to be waning, leading them to seek information from alternative sources increasingly (Barghathi et al., 2017).

Although the auditor's report possesses the potential to address the audit expectation gap, its effectiveness in this regard has yet to be thoroughly investigated. A limited number of studies have explored the key contents and features of the report that influence the gap, and even fewer have established a direct correlation between these elements and the components of the audit expectation gap itself.

The examination of existing literature indicates that the investigation of the audit expectation gap and audit reports has typically been conducted in isolation. Research tends to either explore the factors contributing to the audit expectation gap, evaluate its elements, or assess the efficacy of audit reports. Notably, the relationship between audit reports and the elements of the audit expectation gap has mainly remained underexplored. This gap appears to stem from the absence of a comprehensive conceptual or theoretical framework that explains the connection between the content and characteristics of audit reports and the components of audit expectation gaps.

In light of this knowledge gap, our study aims to evaluate the existing literature on the subject and investigate the key contents and characteristics of auditors' reports that can impact the audit expectation gap. The study examines how an auditor's report can be enhanced to serve as a more effective tool for bridging the audit expectation gap. The innovative model introduced in this study is expected to create a significant basis for scholars to explore and examine the relationship between audit reports and the elements of the audit expectation gap in a practical setting.

This paper follows the structure recommended by Fisch and Block (2018) for literature review-based research in the fields of management and business. It begins with the introduction section, then outlines the research problem, questions, and methodology, and subsequently evaluates and synthesizes the findings from the literature review. In the final section, we present the conclusions, implications, limitations of this study, and future research perspectives.

2. Research questions and objectives

This study examines auditing literature and evaluates research on audit expectation gaps and auditor's reports. We provide a comprehensive analysis of seminal works, tracing the evolution of the audit expectation gap from its inception in 1974 to the most contemporary studies up to 2025 regarding auditor reports and their influence on the expectation gap. Through an extensive literature review, this study articulates a novel theoretical framework that elucidates the relationship between auditor reports and the audit expectation gap. Furthermore, our critical assessment of the literature reveals significant research deficiencies, prompting the formulation of research questions that we rigorously explore in this paper.

2.1 Research questions:

1. What are the significant factors influencing the audit expectation gap, and how do they affect its different components?
2. Which contents of the auditor's report are critical in narrowing the audit expectation gap?
3. How do the key components and characteristics of auditors' reports directly influence the various dimensions of the audit expectation gap?
4. What changes to the existing format of the auditor's report would make it a more effective tool for narrowing the audit expectation gap?

2.2 Research Objectives

The study was conducted with the following target objectives:

1. To evaluate the relationship between significant factors that give rise to the audit expectation gap and components of the audit expectation gap.
2. To identify the contents of the auditor's report that are critical in narrowing the audit expectation gap.
3. To explore the relationship between the key components and characteristics of auditors' reports and the components of the audit expectation gap.
4. To identify the changes to the content and structure of the auditor's report that would make it more effective in narrowing the audit expectation gap.

3. Research methodology

We adopted a qualitative research approach based on the evaluation and synthesis of existing literature in auditing, with a focus on the auditor's report and the audit expectation gap. The key components and characteristics of auditors' reports that could impact the audit expectation gap were identified, evaluated, and analysed.

The study relied on peer-reviewed articles and research papers from professional accounting organisations published after 2017. This approach ensures that the research is informed by current scholarly discussions, avoiding conclusions based on outdated perspectives. As expectations for audits and audit reports evolve to reflect the contemporary economic and business landscape, it is crucial to incorporate the latest scholarly findings whenever possible. Recent studies present current models that earlier research may not address while also engaging with older literature and offering newer, rigorously tested insights.

Some critical and classic studies before 2017 were used as references to ensure comprehensive coverage of existing literature on the topic. **Figure no. 1** summarises the structure of the research framework used.

4. Discussion, analysis and outcomes

To achieve the objectives of this study, it is crucial to evaluate and contrast how the audit expectation gap has been explained and identify the significant factors contributing to this gap. This subsection will initially examine the diverse definitions of the audit expectation gap as articulated by various scholars. Following this, it will assess the component-based model of the audit expectation gap proposed by the ACCA. In conclusion, this section will summarise a component and factor analysis of the audit expectation gap.

4.1 Audit Expectation Gap

The concept of the audit expectation gap has been explored and studied since the 1970s (Liggio, 1974). Over the decades, scholars have examined the audit expectation gap from various perspectives. Literature reveals not only a range of definitions but also ongoing debates regarding its nature, causes, and solutions.

Figure no. 1. Research Framework

Key contents and characteristics of auditor's report		Audit Expectation Gap
IR: Information on Auditor's and Management's responsibilities	Impacts	"Knowledge gap" - Lack of clarity among stakeholders on auditors and management's role and responsibilities
	Knowledge gap	
CA: Clarity on the level of assurance and opinion expressed	Impacts	
	Knowledge gap	
II: Information on Auditor's Independence	Impacts	"Performance gap" - Deficiency in audit performed by the auditor
	Knowledge gap	
IC: Information on internal control testing	Impacts	
	Performance gap	
AF: Key audit matters and critical findings	Impacts	"Evolution gap" - Auditing standards and regulations do not meet users' expectations for audits.
	Performance gap	
CA: Information on the conduct of the audit	Impacts	
	Performance and evolution gap	
UR: Understandability and readability	Impacts	all three elements of the audit expectation gap

Source: author's projection

The approach adopted by scholars and organisations for explaining the concept of audit expectation gap can be broadly classified under two categories: i) Explanatory approach (explaining what it is) and ii) Causal or Component approach (explaining what it is, its components and its causes).

4.1.1 Explanatory approach

Over the past fifty years, many scholars have defined the audit expectation gap using an explanatory approach. Below are some key definitions that follow this approach.

Considered one of the first studies on audit expectation, in 1974, Carl Liggio defined the audit expectation gap as the difference between the expected level of auditors'

performance, as understood by the user of financial statements, and the auditor's performance (Liggio, 1974).

Monroe and Woodliff defined the audit expectation gap slightly differently, as the differences between the user's and auditors' understanding of auditors' duties and responsibilities, as well as differences in the understanding of the information provided in the auditor's report (Monroe & Woodliff, 1993).

Gold et al. defined the audit expectation gap similarly to Monroe and Woodliff. They highlighted that it arises due to differences in understanding of the role and responsibilities of auditors, as perceived by stakeholders and auditors (Gold et al., 2012).

The explanatory approach defines the audit expectation gap as a perceptual mismatch between auditors and stakeholders. Although these definitions serve as a foundation, they face criticism for being descriptive rather than diagnostic. They acknowledge a gap but do not explore its causes or how to address it. Furthermore, they provide a static view of stakeholder expectations, treating them as a homogeneous group and overlooking diversity. It also lacks the analytical rigour necessary to inform policy or practice.

4.1.2 Component-Based Approach

In a pivotal study, Porter conducted a comprehensive analysis of audit expectations, highlighting its key components. He articulated that the audit expectation gap is composed of two principal components: the Reasonableness Gap and the Performance Gap. The reasonableness gap is “the gap between what the public expects auditors to achieve and what the auditors can reasonably be expected to accomplish,” and the performance gap is “the gap between what the public can reasonably expect auditors to accomplish and what they are perceived to have achieved.” (Porter, 1993)

While Porter’s (1993) model is widely cited and used as a basis for the component-based approach, some scholars argue that it oversimplifies the issue by not considering the regulatory and market factors.

Turner et al. (2010) further explored the component-based model of the audit expectation gap. They explained it as consisting of four components: the research gap, the standards gap, the delivery gap, and the communication gap.

Füredi-Fülöp (2017) studied audit expectations as consisting of three gaps: performance failure of the auditor’s performance, the Standard gap - deficiencies in auditing standards, and the Reasonableness gap - lack of interpretation of the audit function.

A recent study suggests that the audit expectation gap comprises five components: perceptual gap, knowledge gap, standardisation gap, functional gap, and communication gap (Abdul-Azeez et al., 2023).

ACCA conducted a comprehensive survey-based study to investigate the existence of the audit expectation gap and the measures that could effectively bridge it. In this study, ACCA recommended an approach to regard the audit expectation gap as comprising three key components, followed by taking targeted measures to address these

gaps (ACCA, 2019). ACCA proposed categorising the audit expectation gap into these three components in this study:

“Knowledge gap” – which it defines as the difference between what public thinks auditors do and what auditors do.

“Performance gap” – which it defines as the difference between what auditors do and what auditors are supposed to do.

“Evolution gap” – which it defines as the difference between what auditors are supposed to do if they follow the requirements of auditing standards and regulation and what the public wants auditors to do.

This model is advantageous due to its practical methodology and empirical basis, derived from a worldwide survey. It introduces the evolution gap, a novel concept that highlights the changing expectations in a dynamic business environment. However, it may still overlook the institutional and cultural elements that influence expectations in different jurisdictions.

These component-based models indicate a growing recognition that the AEG is multi-faceted. However, a lack of consensus remains concerning the number and characteristics of these components, which raises concerns about both conceptual clarity and practical application.

While the explanatory approach effectively elucidates the audit expectation, it does not adequately address the research objectives, which concentrate on investigating the components of the audit expectations and how auditor reports can effectively respond to these specific components. Consequently, after reviewing the existing literature, we adopted a component-based model for our study. Given that the analysis conducted by ACCA is among the most recent studies, characterised by a substantial survey size, a component-based framework, and a robust connection to the existing literature for the development of a practical model, we considered this approach suitable as the basis for our research. Consequently, we will use this model to direct our investigation into the other objectives of our study. However, to confirm the model’s reliability and relevance as a foundational framework, we also analysed the elements of the audit expectation gap outlined by the ACCA, utilising existing literature.

4.1.3 Evaluation of ACCA's model

Knowledge gap - This gap arises because stakeholders lack a thorough understanding of the roles and responsibilities of auditors as defined by auditing standards and regulations. This leads to unrealistic expectations from some stakeholders regarding audits (Sirois et al., 2018; Jabbarzadeh et al., 2017). The knowledge gap primarily stems from the following:

- unrealistic expectations from auditors concerning their responsibilities related to fraud identification and reporting (Rodgers et al., 2019; Widiarti, 2025);
- the assessment of the going concern assumption (Muñoz-Izquierdo et al., 2019); and
- the level of assurance that auditors provide (Manoel & Quel, 2017).

Performance gap - A performance gap occurs when the auditor fails to conduct an audit by established requirements and standards. This may result from factors such as:

- auditors not putting in the necessary effort or lacking the required skills (Alawi et al., 2018);
- deficiencies or ambiguities in auditing standards (Masoud, 2017); and
- inadequate audit quality (Salehi et al., 2016).

Evolution gap - This gap arises due to auditing standards or regulations being insufficient to meet user expectations from audits. This has been recognised in aspects such as:

- auditors' verification and reporting on the effectiveness of internal controls (Fadzly & Ahmad, 2004; Pourheydari & Abousaiedi, 2011);
- delays in developing standards or guidance to address environmental changes, such as technology and risks associated with going concerns in a volatile economic environment (Brunelli et al., 2020).

Thus, the ACCA's audit expectation gap is well supported by existing literature; consequently, we have utilised this model as a basis for our evaluation.

4.1.4 Specific factors resulting in audit expectation gap

Füredi-Fülöp (2017) noted that the audit expectation gap arises from several factors, including unrealistic

expectations of stakeholders and the overall quality of audit performance. Additionally, Schelluch and Gay (2006) emphasised that a core misperception exists regarding auditors' responsibilities, audit quality, auditor regulation, and the clarity of information provided in the auditor's report are pivotal elements that exacerbate the audit expectation gap. Sweeney (1997) identified issues related to fraud, persistent concerns, as well as the performance and independence of auditors as primary contributors to this gap.

Consequently, utilising the ACCA's model as a foundational framework, the subsequent sections will delineate the components of the audit expectation gap and elucidate the factors that contribute to each component based on the observations synthesized from the aforementioned studies (**Figure no. 2**).

4.1.5 Critical Analysis of research methodologies used in studies on Audit Expectation Gap

Research methods on the audit expectation gap reveal diverse designs, underscoring the complexity of the topic. Initial studies, such as Liggio's (1974), concentrated on conceptual methods that prioritised theoretical frameworks and qualitative perspectives. Subsequent research from Porter (1993), Monroe & Woodliff (1993), and Humphrey et al. (1993) utilised surveys to collect views from auditors and users of financial statements. Although these approaches provide valuable insights into stakeholder expectations, they frequently struggle with issues of sample representation and response bias. In contrast, research by Gold et al. (2012) and Turner et al. (2010) used experimental designs to investigate the behavioural dimensions of the AEG, offering deeper insights but raising concerns regarding replicability. Despite progress, literature still faces limitations. While some studies, such as ACCA (2019), provide detailed insights into institutional perspectives, they primarily represent the views of auditors and regulators, omitting broader stakeholder viewpoints.

In summary, even though the literature presents a varied methodological landscape, future studies could enhance understanding by employing triangulated methods and incorporating cross-cultural validation.

Figure no. 2. Audit Expectation Gap, component and factor-based analysis

Audit Expectation Gap This is a result of:
<p>Knowledge gap - Lack of clarity among stakeholders on auditors and management's role and responsibilities, specifically on the following aspects:</p> <ul style="list-style-type: none"> • Fraud detection and reporting • Going Concern assessment/entity's failure • Preparation of financial statements • Level of assurance • Scope and extent of audit • Internal controls
<p>Performance gap - Deficiency in audit performed by the auditor, which could be a result of:</p> <ul style="list-style-type: none"> • Flaw in audit methodology • Ambiguity/lack of clarity in the auditing standards • Flaw in audit performance • Inadequate/inappropriate quality management process
<p>Evolution gap - Auditing standards and regulations do not meet users' expectations from audits because of:</p> <ul style="list-style-type: none"> • Lag in the development of standards and guidance • Change in environment. • Evolving technologies • Unreasonable expectations of users (cost-benefit aspects)

Source: author's projection

4.2 The influence of key contents and characteristics of auditors' reports on different components of the audit expectation gap

This section seeks to explain the research framework developed through a thorough assessment of various definitions of the audit expectation gap alongside the component-based model proposed by the ACCA in the previous subsection. We will also examine how key elements and features of the auditor's report impact the components of the audit expectation gap.

4.2.1 Information on auditor's and management's responsibilities

The reports generated by auditors have a diverse readership, as various stakeholders rely on these reports to fulfil their informational needs. Nonetheless, not all users possess a comprehensive understanding of the distinct roles and responsibilities of both auditors and management nor do they fully grasp what to expect from auditors regarding the prevention and detection of fraud (Sule et al., 2019). This lack of understanding creates unrealistic expectations among readers regarding

auditors, further widening the audit expectation gap (Rodgers et al., 2019; Al-Dhubaibi, 2020; Widiarti, 2025).

The ongoing gap between what readers expect from audits and the roles and responsibilities defined for auditors by auditing standards and regulations has consistently created a notable knowledge gap (Sirois et al., 2018). To effectively narrow the audit expectation gap, it is crucial to provide comprehensive information and clarity regarding the responsibilities of both auditors and management (Manoel & Quel, 2017).

Proposition 1: Providing sufficient information about the roles and responsibilities of auditors and management concerning accounting, financial statements, internal control systems, compliance with laws and regulations, and the prevention and detection of fraud helps to bridge the knowledge gap.

4.2.2 Clarity on level of assurance and audit opinion

The audit opinion section constitutes the most critical component of the auditor's report, as it articulates the auditor's assessment regarding the reliability of the audited information (Muñoz-Izquierdo et al., 2019). Therefore, the audit opinion must be clearly expressed to ensure that readers grasp its significance and minimise

any potential ambiguities. Research indicates that a substantial number of stakeholders lack a clear understanding of the level of assurance provided by auditors. A common misconception is that auditors provide absolute assurance, implying a guarantee that financial statements are free from misstatements; this assumption contributes to a significant knowledge gap. Misunderstandings about audit opinions impede efforts to close the expectation gap (Manoel & Quel, 2017; Enofe et al., 2013).

The content of the audit opinion must be sufficiently detailed to prevent confusion among readers while also delivering a comprehensive understanding of what the opinion signifies and emphasising that the assurance rendered is reasonable. A lack of clear audit opinion may deepen the existing knowledge gap (Salehi et al., 2016).

Backof et al. (2022) highlighted the importance of defining reasonable assurance, as it reduces the perceived risk of auditor negligence and enhances clarity for stakeholders. An audit report that effectively conveys the assurance offered provides considerable benefits to stakeholders (Boolaky & Quick, 2016).

Proposition 2: Providing adequate information on the audit opinion and the *level* of assurance offered by auditors in the auditor's report is essential for narrowing the knowledge gap.

4.2.3 Information on auditors' independence

For any assurance engagement to be effective, the assurance provider must maintain independence and impartiality throughout the work and when expressing an opinion. Auditing is no exception to this principle; in fact, it is even more critical for auditors to maintain their independence to preserve public trust in the integrity of the audited information (Yahaya & Onyabe, 2022).

It is not uncommon for audit firms to provide non-audit services to their audit clients. However, the provision of non-audit services by audit firms poses a potential risk to the independence of auditors. Although this risk may not always be clear, it is often perceived as such (Umar & Anandarajan, 2004). The impact of this perceived risk on users' trust in auditor reports varies based on the type of services provided. Not every service threatens auditor independence, and even when risks exist, audit firms might have established adequate safeguards. Stakeholders often hold differing views on the impact of non-audit activities on audit opinions (Ramzan et al., 2020).

However, users generally do not have access to this information, which could result in a knowledge gap, as users might have an incorrect understanding of the auditor's independence and its implications for the audit.

Proposition 3: The inclusion of adequate information in the auditor's report *regarding* the auditor's independence, non-audit services provided to clients, and safeguards implemented may serve as an effective mechanism for bridging the knowledge gap.

4.2.4 Key findings from internal control assessment

Numerous studies have demonstrated that many stakeholders assume auditors bear the responsibility for ensuring that appropriate internal controls are established (Pourheydari & Abousaiedi, 2011). While auditors may opt to place reliance on internal controls and conduct testing thereof, such testing typically focuses only on those controls that could impact the financial statements. This misunderstanding significantly contributes to the audit expectation gap (Salifu & Mahama, 2015).

Users of auditor reports generally seek to understand the effectiveness of an entity's internal control systems, as well as the risks associated with their inadequacies (Tušek & Ježovita, 2020). Consequently, stakeholders expect auditors to provide greater transparency regarding their testing of these internal controls and the subsequent observations (Asare & Wright, 2012). The information on internal controls can assist users' decision-making and offer greater clarity regarding the work conducted by the auditors. The information on internal control assessment can be instrumental in bridging the performance gap, as auditors will need to provide details on the outcome of internal control testing and the degree of reliance they place on internal controls.

Proposition 4: The inclusion of adequate information in the auditors' report *regarding* internal control testing, encompassing the scope, key findings, and the degree of reliance placed by the auditor, could help in reducing the performance gap.

4.2.5 Key audit matters and findings

The key audit matters and findings could provide critical information and insights into the audit performance. Though the requirements for reporting key audit matters in the auditor's reports of the Public Interested Entity have been in practice in many countries for the last few years, scholars' views on the benefits of this additional

information are divided. At the same time, some feel that KAM is an essential addition to the audit and is critical in communicating the high-risk items and how auditors respond to them (Zhou, 2019; Goh et al., 2019; Trpeska et al., 2017), while some have expressed different views (Boolaky & Quick, 2016; Segal, 2019). However, all the studies have highlighted the importance of providing information on the areas where auditors made significant professional judgments, which required substantial estimations and auditing efforts to the stakeholders.

The auditor's report does not include information on misstatements and other issues, like non-compliance, identified during the audit unless they impact the auditor's opinion. However, this information can provide valuable information to the stakeholders (Goicoechea et al., 2021). Suppose information on key audit findings is included in the auditor's report. In that case, it can effectively provide insight into the outcome of an audit performed by the auditor and bridge the audit expectation gap (Prasad & Chand, 2017).

The inclusion of information about key audit matters, critical audit findings, and auditors' responses to such matters is essential for providing users with insights into the audit's performance. Consequently, this practice could enhance the quality of the audit conducted.

Proposition 5: Including adequate information on key audit matters, key *findings*, and the auditor's response to these matters is instrumental in bridging the performance gap.

4.2.6 Information on the conduct of the audit

The conduct of an audit is a crucial component in maintaining transparency and accountability. Users who possess insights into the auditors' methodologies are better positioned to comprehend the efforts undertaken by auditors, as well as the inherent limitations of the audit process. This transparency fosters trust, providing users with a clearer understanding of the auditor's approach and the rationale behind the opinions expressed (Mock et al., 2013).

Auditors encounter a variety of constraints and judgment-related challenges during the execution of audits. Detailed information regarding audit methodologies, including significant elements that influence audit performance, such as materiality thresholds and assessments of going concern, is essential for users in their decision-making processes (Goicoechea et al., 2021; Tušek & Ježovita, 2020). By equipping users with adequate knowledge

about audit procedures, the audit expectation gap can be effectively narrowed.

Furthermore, the inclusion of information about the conduct of the audit indirectly reinforces auditors' adherence to established auditing standards, thereby exerting pressure on them to maintain the integrity of the audit process. Standard setters and regulatory bodies also stand to gain from such disclosures, as they help identify critical deficiencies and propose solutions to bridge these gaps.

Proposition 6: Inclusion of information on the conduct of audit can help in narrowing the performance gap as auditors will have to provide a more transparent account of procedures *performed*, and this will also give more clarity to the users and standard setter on the performance of the audit and if any improvements are required in terms of auditing standards and guidance.

4.2.7 Understandability and readability

Despite the auditor's report providing the necessary information to its users, its value diminishes significantly if the users are unable to comprehend its content and derive meaningful insights from the information provided (Bédard et al., 2014). The qualitative facets of readability, encompassing the linguistic complexity, sentence structure, and the length and number of words, can significantly affect users' understanding of the information conveyed. Conversely, it is essential to balance the quantitative dimensions of the information to prevent shareholders from being inundated with excessive data, necessitating the filtration of irrelevant information.

Research has indicated that current formats of auditor's reports exhibit deficiencies in terms of readability. Expanded auditor's reports are often perceived as challenging to comprehend, rendering them ineffective in addressing the audit expectation gap (Segal, 2019). While considerations of information overload and readability are imperative, they should not constitute the sole focus of attention. Consequently, standard setters must judiciously balance these elements while developing templates and content for auditor's reports.

The enhancement of readability in auditor's reports is paramount, as a lack thereof impedes the reports' ability to fulfil their intended purpose (Mohammadzadeh Moghadam, Salehi, & Hajiha, 2025). The constructs of sentence length and word choice in auditor's reports do not appear to satisfy established readability standards, thereby rendering the documents challenging for users to read and comprehend (Fakhfakh, 2016).

Proposition 7: The understandability and readability of auditor's reports **represent** critical overarching elements that influence all three components of the audit expectation gap.

5. Contribution to theory, literature, and practice

Auditor reports play a significant role in reducing the audit expectation gap. Despite this, there has been a lack of research on how the contents and characteristics of auditor's reports affect the audit expectation gap. This study aims to fill this void by investigating existing literature on audit expectation gap and auditor's reports and creating models that provide a comprehensive understanding of the factors contributing to the audit expectation gap, the components that constitute it, and the impact of different elements and key characteristics of auditor reports on the audit expectation gap.

The findings of this study and the model we have developed will be helpful for the standard setters, regulators, and researchers interested in better understanding the audit expectation gap and finding ways to address it. The component-based models developed in this study can also serve as a practical tool for conducting further studies to understand better and refine the model. Ultimately, the results of this research can be utilised to guide the development of future standards, guidance and templates for audit reporting. By doing so, the study has the potential to contribute significantly enhances the quality of auditing practices and ensures the reliability of audit reports.

6. Conclusion, limitations & future scope

6.1 Conclusion

The findings of this study suggest that an auditor's report serves as an effective instrument for bridging the audit expectation gap. The findings indicate that the auditor's report not only impacts the knowledge gap but also indirectly affects the performance and evolution gaps. A review of existing literature provides a robust foundation for ACCA's component-based audit expectation gap model.

The model developed from the literature on the audit expectation gap offers critical insights into the factors influencing its components and contributes to a comprehensive understanding of these factors.

The findings underscore that specific components and characteristics of auditor's reports affect particular components of the audit expectation, thus providing substantial support for regulators and standard-setters in formulating standards and guidelines that address each aspect of the audit expectation gap. This study lays a strong groundwork for regulators to contemplate more detailed reporting by auditors, potentially aiding in the reduction of the audit expectation gap.

The model presented in **Figure no. 3** elucidates the interplay between components and characteristics of the auditor's report and the audit expectation gap.

6.2. Limitations and Future Scope

It is important to acknowledge certain limitations in this study. Given the extensive research surrounding the audit expectation gap and auditors' reports, ensuring completeness presents a practical challenge. Additionally, due to the study's specific focus, we were limited to selecting only those existing studies pertinent to connecting the two research areas.

The Audit Expectation Gap varies among different stakeholder groups and is impacted by the audience of auditors' reports. For example, public sector reports often reach a broader audience, suggesting that the model's relevance may differ in practical settings among these demographics. Since this study relies solely on a literature review, it does not consider the feasibility of real-world application. It requires assessment in actual contexts to determine its effectiveness across various groups.

To ensure robustness, the findings of this study should be further studied in a practical and real-life setting using a quantitative approach. This would help solidify the findings and gain more clarity on the significance and impact of key contents and characteristics of the auditor's report on the audit expectation gap in different country settings and users.

It is essential to recognise that this study is based on existing literature. As the environment evolves, the factors influencing the audit expectation gap and their level of impact are likely to change over time and across various jurisdictions.

Figure no. 3. Findings of this study

Contents and characteristics of auditor's report		
		Audit Expectation Gap
IR: Information on Auditor's and Management's responsibilities	helps in bridging the Knowledge gap	"Knowledge gap" - The difference between what the public thinks auditors do and what do auditors do?
CA: Clarity on the level of assurance and opinion expressed	helps in bridging the Knowledge gap	
AO: Auditors Independence	helps in bridging the Knowledge gap	
IC: Key findings from internal control assessment	helps in bridging the Performance gap (but information overload should be avoided)	"Performance gap" - Where auditors do not do what auditing standards or regulations require
AF: Key audit findings	could help in bridging the Performance gap (if the information is easy to understand and crisp)	
IV: Information value-Informativeness	helps in bridging the Performance and evolution gap	"Evolution gap"- Areas of the audit where there is a need for evolution,
CA: Information on the conduct of the audit	could help in bridging the Performance and evolution gap (if the information is easy to understand and crisp)	
UR: Understandability and readability	Impacts all three elements of the audit expectation gap	

Source: author's projection

Therefore, the model developed from the findings of this study may need adjustments before any further research is undertaken.

Analysing the model within practical settings might present potential challenges, particularly when its relevance is evaluated in a specific manner. Therefore, it is advisable to assess the model across different stakeholder groups in varied contexts, including audit reports of both for-profit organisations and non-profit entities.

Subsequent research could enhance the model by investigating frameworks derived from other component-based models related to audit expectation gaps. Alternatively, a mixed-methods approach may be employed to investigate how the essential content and characteristics of audit reports influence the elements of the audit expectation gap. Furthermore, given the intrinsic complexity of public sector audits and their vital importance in the auditing profession, it is essential to evaluate the model from a public sector viewpoint.

Bibliography

1. Abdul-Azeez, A., Akingunola, R. O., & Akintoye, I. R. (2023/10/). Corporate Governance, Audit Quality and Audit Expectation Gap: Theoretical and Conceptual Perspectives. *International Journal of Commerce and Finance*, 9(2), 92-107. <https://www.proquest.com/scholarly-journals/corporate-governance-audit-quality-expectation/docview/3049918643/se-2>
2. ACCA (2019). Closing the expectation gap in audit | ACCA Global. www.accaglobal.com. <https://www.accaglobal.com/gb/en/professional-insights/global-profession/expectation-gap.html>
3. Ahmed Alawi, S. A., Abu Wadi, R. M., & Kukreja, G. (2018). The Determinants of Audit Expectation Gap: An Empirical Study from Kingdom of Bahrain. *Accounting and Finance Research*, 7(3), 54. <https://doi.org/10.5430/afr.v7n3p54>
4. Akther, T., & Xu, F. (2020). Existence of the Audit Expectation Gap and Its Impact on Stakeholders' Confidence: The Moderating Role of the Financial Reporting Council. *International Journal of Financial Studies*, 8(1), 4. <https://doi.org/10.3390/ijfs8010004>
5. Al-Dhubaibi, A. A. S. (2020). Auditors' responsibility for fraud detection: Views of auditors, preparers, and users of financial statements in Saudi Arabia. *Accounting*, 279-290. <https://doi.org/10.5267/j.ac.2020.2.007>
6. Asare, S. K., & Wright, A. M. (2012). Investors', Auditors', and Lenders' Understanding of the Message Conveyed by the Standard Audit Report on the Financial Statements. *Accounting Horizons*, 26(2), 193-217. <https://doi.org/10.2308/acch-50138>
7. Backof, A. G., Bowlin, K., & Goodson, B. M. (2022). The Importance of Clarification of Auditors' Responsibilities Under the New Auditor's reporting Standards. *Contemporary Accounting Research*. <https://doi.org/10.1111/1911-3846.12802>
8. Barghathi, Y., Collison, D., & Crawford, L. (2017). Earnings management and audit quality: stakeholders' perceptions. *Journal of Management and Governance*, 22(3), 629-659. <https://doi.org/10.1007/s10997-017-9396-2>
9. Bédard, J., Gonthier-Besacier, N., & Schatt, A. (2019). Consequences of Expanded Auditor's reports: Evidence from the Justifications of Assessments in France. *Auditing: A Journal of Practice & Theory*, 38(3), 23-45. <https://doi.org/10.2308/ajpt-52339>
10. Boolaky, P. K., & Quick, R. (2016). Bank Directors' Perceptions of Expanded Auditor's Reports. *International Journal of Auditing*, 20(2), 158-174. <https://doi.org/10.1111/ijau.12063>
11. Brunelli, S., Carlino, C., Castellano, R., & Giosi, A. (2020). Going concern modifications and related disclosures in the Italian stock market: do regulatory improvements help investors in capturing financial distress? *Journal of Management and Governance*, 25(2), 433-473. <https://doi.org/10.1007/s10997-020-09537-7>
12. Çeltikci, N. P. (2024). Audit Expectation Gap: A Bibliometric Analysis Based on Scopus and WoS Data (1992-2024). *Ege Akademik Bakis*, 24(3), 463-480. <https://doi.org/10.21121/eab.20240308>
13. Conteh, S., & Hamidah, H. (2021). Audit Expectation GAP in The Public Sector of The Gambia. *The Indonesian Accounting Review*, 11(2), 127. <https://doi.org/10.14414/tiar.v11i2.2489>
14. Enofe, A. O., Chijoke Oscar Mgbame, Edosa Joshua Aronmwan, & Ivie Eloghosa Ogbeide. (2013).
15. Audit Reasonableness Expectation Gap: Users' Perception in Nigeria. *International Journal of Business and Social Research*, 3(3), 154-163. <https://doi.org/10.18533/ijbsr.v3i3.65>
16. Fakhfakh, M. (2016). Understandability of unmodified auditor's report on consolidated financial statements: A normative and advanced study of the international normalization. *Cogent Business & Management*, 3(1). <https://doi.org/10.1080/23311975.2016.1258134>
17. Fisch, C., & Block, J. (2018). Six tips for your (systematic) literature review in business and management research. *Management Review Quarterly*, 68(2), 103-106. <https://doi.org/10.1007/s11301-018-0142-x>
18. Foy, S. (2024/05/21/, 2024 May 21). Think-tank raises concern on quality of audit reports: Financial services. *Financial Times*, <https://www.proquest.com/newspapers/think-tank-raises-concern-on-quality-audit/docview/3069658276/se-2>
19. Füredi-Fülöp, J. (2017). Factors Leading to Audit Expectation Gap: An Empirical Study in a Hungarian Context. *Theory, Methodology, Practice*, 13(2), 13-23. <https://doi.org/10.18096/tmp.2017.02.02>
20. Goh, B. W., Li, D., & Wang, M. (2019). Informativeness of the Expanded Auditor's report: Evidence from China. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.3432107>
21. Goicoechea, E., Gómez-Bezares, F., & Ugarte, J. V. (2021). Improving Auditor's reports: A Consensus between Auditors and Users. *International Journal of Financial Studies*, 9(2), 25. <https://doi.org/10.3390/ijfs9020025>
22. Gold, A., Gronewold, U., & Pott, C. (2012). The ISA 700 Auditor's Report and the Audit Expectation Gap - Do Explanations Matter? *International Journal of Auditing*, 16(3), 286-307. <https://doi.org/10.1111/j.1099-1123.2012.00452.x>
23. Humphrey, C., Moizer, P., & Turley, S. (1993). The Audit Expectations Gap in Britain: An Empirical Investigation. *Accounting and Business*

- Research, 23(sup1), 395-411.
<https://doi.org/10.1080/00014788.1993.9729907>
24. Issahaku Salifu, & Muntari Mahama. (2015). The Evaluation of Evidence of the Audit Expectation Gap in Ghana. *Research Journal of Finance and Accounting*, 6(24), 20-30.
25. Jabbarzadeh Kangarlou, S., & Aalizadeh, A. (2017). The expectation gap in auditing. *Accounting*, 19-22.
<https://doi.org/10.5267/j.ac.2016.6.001>
26. Jamal, K., & Sunder, S. (2011). Is mandated independence necessary for audit quality? *Accounting, Organizations and Society*, 36(4-5), 284-292.
<https://doi.org/10.1016/j.aos.2011.03.001>
27. Imen Jedidi, & Humphrey, C. (2024). Auditing standards and the persistence of the audit expectations gap: Evidencing the absence of French "exceptionalism." *International Journal of Auditing*, 29(1), 34-52.
<https://doi.org/10.1111/ijau.12351>
28. Li, H., Hay, D., & Lau, D. (2019). Assessing the impact of the new auditor's report. *Pacific Accounting Review*, 31(1), 110-132. <https://doi.org/10.1108/par-02-2018-0011>
29. Liggio, C. D. (1975). The expectation gap: The accountant's legal Waterloo?. *The CPA* (pre-1986), 45(000007), 23.
30. Manoel, J., & Quel, L. F. (2017). Innovation in the international standards for the new independent auditor's report. *Journal on Innovation and Sustainability*, 8(1), 130-143.
31. Masoud, N. (2017). An empirical study of audit expectation-performance gap: The case of Libya. *Research in International Business and Finance*, 41(41), 1-15.
<https://doi.org/10.1016/j.ribaf.2017.04.012>
32. Mock, T. J., Bédard, J., Coram, P. J., Davis, S. M., Espahbodi, R., & Warne, R. C. (2013). The Auditor's reporting Model: Current Research Synthesis and Implications. *Auditing: A Journal of Practice & Theory*, 32(Supplement 1), 323-351. <https://doi.org/10.2308/ajpt-50294>
33. Mohammadzadeh Moghadam, H., Salehi, M., & Hajiha, Z. (2025). The Effect of Financial Statement Readability on Audit Report Readability. *International Journal of Finance & Managerial Accounting*, 10(39), 215-232.
<https://doi.org/10.30495/ijfma.2024.70971.1951>
34. Monroe, G. S., & Woodliff, D. R. (1993). The Effect of Education on the Audit Expectation Gap. *Accounting & Finance*, 33(1), 61-78. <https://doi.org/10.1111/j.1467-629x.1993.tb00195.x>
35. Muñoz-Izquierdo, N., Camacho-Miñano, M.-M., Segovia-Vargas, M.-J., & Pascual-Ezama, D. (2019). Is the External Auditor's report Useful for Bankruptcy Prediction? Evidence Using Artificial Intelligence. *International Journal of Financial Studies*, 7(2), 20.
<https://doi.org/10.3390/ijfs7020020>
36. Nazri Fadzly, M., & Ahmad, Z. (2004). Audit expectation gap. *Managerial Auditing Journal*, 19(7), 897-915.
<https://doi.org/10.1108/02686900410549420>
37. Porter, B. (1993). An Empirical Study of the Audit Expectation-Performance Gap. *Accounting and Business Research*, 24(93), 49-68.
<https://doi.org/10.1080/00014788.1993.9729463>
38. Pourheydari, O., & Abousaiedi, M. (2011). An empirical investigation of the audit expectations gap in Iran. *Journal of Islamic Accounting and Business Research*, 2(1), 63-76.
<https://doi.org/10.1108/17590811111129517>
39. Prasad, P., & Chand, P. (2017). The Changing Face of the Auditor's Report: Implications for Suppliers and Users of Financial Statements. *Australian Accounting Review*, 27(4), 348-367. <https://doi.org/10.1111/auar.12137>
40. Quick, R. (2020). The audit expectation gap: A review of the academic literature. *Maandblad Voor Accountancy En Bedrijfseconomie*, 94(1/2), 5-25.
<https://doi.org/10.5117/mab.94.47895>
41. Ramzan, M., Ahmed, I., & Rafay, A. (2020). Is Auditor Independence Influenced by Non-Audit Services? A Stakeholder's Viewpoint. *Pakistan Journal of Commerce and Social Sciences*, 14(1), 388-408.
42. Rodgers, W., Guiral, A., & Gonzalo, J. A. (2019). Trusting/Distrusting Auditors' Opinions. *Sustainability*, 11(6), 1666. <https://doi.org/10.3390/su11061666>
43. Salehi, M., Mansoury, A., & Azary, Z. (2009). Audit Independence and Expectation Gap: Empirical Evidences from Iran. *International Journal of Economics and Finance*, 1(1). <https://doi.org/10.5539/ijef.v1n1p165>
44. Salehi, M. (2016). Quantifying Audit Expectation Gap: A New approach to Measuring Expectation Gap. *Zagreb International Review of Economics and Business*, 19(1), 25-44. <https://doi.org/10.1515/zireb-2016-0002>
45. Salifu, I., & Mahama, M. (2015). The evaluation of evidence of the audit expectation gap in Ghana. *Evaluation*, 6(24).
46. Schelluch, P., & Gay, G. (2006). Assurance provided by auditors' reports on prospective financial information: implications for the expectation gap. *Accounting and Finance*, 46(4), 653-676. <https://doi.org/10.1111/j.1467-629x.2006.00187.x>
47. Segal, M. (2019). Key audit matters: insight from audit experts. *Meditari Accountancy Research*, 27(3), 472-494.
<https://doi.org/10.1108/medar-06-2018-0355>
48. Sirois, L.-P., Bédard, J., & Bera, P. (2018). The Informational Value of Key Audit Matters in the Auditor's Report: Evidence from an Eye-Tracking Study. *Accounting Horizons*, 32(2), 141-162. <https://doi.org/10.2308/acch-52047>
49. Sule, S., Yusof, N. Z. M., & Bahador, K. M. K. (2019). Users' Perceptions on Auditors' Responsibilities for Fraud Prevention, Detection and Audit Expectation GAP in

- Nigeria. *Asian Journal of Economics, Business and Accounting*, 10(1), 1–10.
<https://doi.org/10.9734/ajeba/2019/46832>
50. Sweeney, B. (1997). Bridging the expectations gap-on shaky foundations. *Accountancy Ireland*, 29, 18-20.
51. Trpeska, M., Atanasovski, A., & Bozinovska Lazarevska, Z. (2017). The relevance of financial information and contents of the new auditor's report for lending decisions of commercial banks. *Journal of Accounting and Management Information Systems*, 16(4), 455–471.
<https://doi.org/10.24818/jamis.2017.04002>
52. Turner, K. F., Bienstock, C. C., & Reed, R. O. (2010). An Application of The Conceptual Model of Service Quality to Independent Auditing Services. *Journal of Applied Business Research (JABR)*, 26(4).
<https://doi.org/10.19030/jabr.v26i4.300>
53. Tušek, B., & Ježovita, A. (2020). Trends on Reporting Materiality Information in the Independent Auditor's Report – Case of Croatia. *InterEULawEast: Journal for the International and European Law, Economics and Market Integrations*, 7(2), 85–130.
<https://doi.org/10.22598/iele.2020.7.2.4>
54. Umar, A., & Anandarajan, A. (2004). Dimensions of pressures faced by auditors and its impact on auditors' independence. *Managerial Auditing Journal*, 19(1), 99–116.
<https://doi.org/10.1108/02686900410509848>
55. Widiarti, P. A. (2025). Legal Risks Faced by Auditors: Liability for Errors in Audit Opinions. *Advances in Managerial Auditing Research*, 3(1), 57–69.
<https://doi.org/10.60079/amar.v3i1.456>
56. Xu, F., & Akther, T. (2019). A Partial Least-Squares Structural Equation Modeling Approach to Investigate the Audit Expectation Gap and Its Impact on Investor Confidence: Perspectives from a Developing Country. *Sustainability*, 11(20), 5798.
<https://doi.org/10.3390/su11205798>
57. Yahaya, O. A., & Onyabe, J. M. (2022). Do Audit Fees and Auditor Independence Influence Audit Quality? *Asian Journal of Finance and Accounting*, 14(1), 66–80.
<https://doi.org/doi,10.5296/ajfa.v14i1.18936x>
58. Zhou, M. (2019). The Effect of Key Audit Matters on Firms' Capital Cost: Evidence from Chinese Market. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.3470587>