

The audit expectation gap: A review of the academic literature

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Abstract

The audit expectation gap is a phenomenon that exists for many years. In particular, the audited financial statements beneficiaries' expectations exceed what auditors can reasonably be expected to accomplish. This paper reviews the extensive body of academic literature which has investigated the audit expectation gap for many years. The focus lies on survey-based research which is the dominating research method applied. The objective is to provide an overview of the existing literature and to summarize its findings and implications. The most frequently identified gaps refer to fraud detection. Education and the expansion of the auditor report are two response strategies often analysed by prior research.

Practical relevance

Misperceptions of auditors' roles and responsibilities may compromise the benefit of statutory audits and the reputation of the profession. Therefore, this literature review is of interest to auditors, users of financial statements, standard setters and regulators. Auditors may consider to overfulfill their existing duties and users can find out about their unreasonable expectations and modify them. Standard setters and regulators must take actions to close or at least to narrow the audit expectation gap, and, therefore, need to know what misperceptions exist and how they differ between various stakeholder groups.

Keywords

Audit expectation gap, auditor report, education, fraud

1. Introduction

External auditing and assurance are key contributors to financial stability, trust and market confidence, because auditors provide an independent professional opinion on whether the financial statements give a true and fair view. In order to enhance the reliability of financial statements, which are used by investors to make decisions, the auditor issues an auditor report, which investors use as one basis for making sound judgments, which in turn promotes efficient capital markets. Hence, the basic function of statutory audits is to reduce agency costs.

Auditors are regularly criticized whenever companies fail shortly after an unmodified audit opinion was issued or when auditors fail to detect fraud (recent cases include e.g. Voltabox and Steinhoff in Germany, Carillion and BHS in the UK, Toshiba in Japan, and Linkway Trading owned

by the Gupta family in South Africa). Such allegations are often driven by the fact that the public has specific expectations of the scope of the statutory audit and auditors' services which exceed auditors' performance as perceived by the public (Ruhnke and Schmidt 2014). Thus, an expectation gap may arise through diverse perceptions of the role of auditors (Dixon et al. 2006). For decades, the audit expectation gap (AEG) and how it might be narrowed has been of interest to academics, regulators, professional accounting bodies and users of audited financial statements.

The AEG is detrimental to the financial reporting and auditing process, as the public may perceive the work performed by external auditors as unsatisfactory. Therefore, the AEG is critical to the auditing profession, because greater unfulfilled expectations from the public impair the

value of auditing and the reputation of auditors and, accordingly, the credibility, earnings potential and prestige associated with the work of auditors (Lee and Ali 2008; Lee et al. 2009a).

It is the purpose of this paper to review the existing, and extensive, literature on the AEG. The following section provides a general overview on the AEG and defines it, distinguishes its components, mentions typical areas where differences in expectations arise, and discusses causes for and response strategies to the AEG. In the next section an overview on prior research is given and its findings are discussed. A final concluding section discusses implications, mainly for regulators, makes suggestions for future research, and points out limitations of this literature review.

2. Definition, primary issues, causes and countermeasures

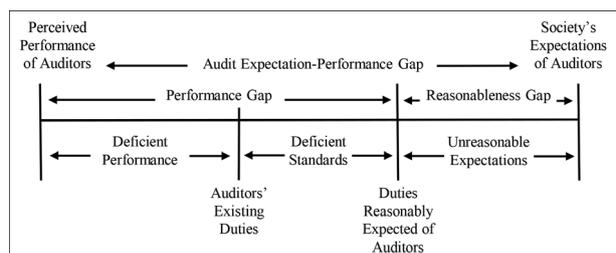
Liggio (1974) defined the AEG as the difference between the levels of expected performance as envisioned by both the user of financial statements and the independent accountant. A frequently used definition of the AEG is quite similar: The AEG refers to what the public and financial statement users perceive auditors' responsibilities to be, and what auditors believe their responsibilities to entail (e.g. Jennings et al. 1993; Monroe and Woodliff 1993; McEnroe and Martens 2001; Frank et al. 2001).

Porter (1993) gave a more sophisticated definition of the AEG (Ruhnke and Schmidt (2014) apply a similar definition). According to her, the AEG refers to the difference between society's expectations of the auditor and the financial statement audit, and auditor performance as perceived by society. Thus, there are two major components of the AEG (Figure 1):

- (1) The reasonableness gap, which is the gap between what society expects auditors to achieve (unreasonable expectations) and what they can reasonably be expected to accomplish; and
- (2) The performance gap, which is the gap between what society can reasonably expect auditors to accomplish and what they are perceived to achieve.

The performance gap can be further subdivided into a gap between the duties which can be reasonably expected of auditors and auditors' existing duties as defined by regulation

Figure 1. Structure of the AEG. Source: Porter (1993).



(deficient standards), and a gap between the expected standard of performance of auditors' existing duties and auditors' perceived actual performance (deficient performance).

Typical areas where differences in expectations arise are (Sweeney 1997):

- the role of auditors in fraud cases (Hassink et al. 2009),
- the belief that an unqualified opinion means that the entity is financially sound,
- the idea that the auditor should interpret the financial statements in such a manner that the user could evaluate whether to invest in the entity (McEnroe and Martens 2001),
- the provision of an early warning of future insolvency,
- the provision of an evaluation of management performance,
- the nature and level of assurance provided by the auditor report (Schelluch and Gay 2006), and
- the level of quality in the performance of audits (Humphrey et al. 1992).

Different underlying explanations have been suggested for the existence of the AEG. In particular, the auditing profession has attributed it to a misperception of audits by users and the public (Lin and Chen 2004). Users and the public expect too much and remain largely ignorant of the precise nature, purpose and capacities of the audit function (Humphrey et al. 1993). Tricker (1982) viewed the AEG as the result of a natural time lag. The auditing profession does not identify and respond to continually evolving and expanding public expectations on a timely basis. Other authors argued that the AEG is an outcome of the contradiction of minimum government regulation and the profession's self-regulation, and that the related actions of the profession must be seen in a more self-interested light (e.g. Humphrey et al. 1992; Sikka et al. 1992). Lastly, the AEG is affected by the uncertainty surrounding auditor independence, because the auditor report is worthless if an auditor lacks independence from the client with respect to giving an impartial opinion and independence perceptions vary (Yost 1995; Sikka et al. 1998; Lin and Chen 2004; Salehi et al. 2009; Toumeh et al. 2018). Independence is a bedrock principle upon which audit quality is based. The fulfilment of the main function of audits, which is to increase trust into financial statements, requires that the auditor acts independently (independence of mind) and expresses an uninfluenced conclusion. Thus, independence is prescribed by laws and by standards (e.g. IESBA, 400.1). A violation of the principle of independence by an auditor represents a deficient performance and thus, potentially causes an AEG. Moreover, auditors must also be perceived as independent by users (independence in appearance; IESBA 400.5). Otherwise they lose confidence in the auditor's work. It may certainly happen that users erroneously perceive the auditor as not independent, e.g. in conjunction with the provision of non-audit services (e.g. Van Liempd et al. 2019). Such expectations are unreasonable.

There are two main response strategies to the AEG, namely a defensive and a constructive approach (Humphrey et al. 1992). The defensive approach focuses on education and reassuring of the public as to what the auditors recognize as their duties and responsibilities. One specific element of this approach is the expansion of the auditor report, which informs users of what auditors actually do and thereby improves the communication between auditors and users (Hatherly et al. 1991; Koh and Woo 1998; Innes et al. 1997; Mansur and Tangl 2018). The constructive approach seeks to change audit activities to meet public concern, i.e. to broaden the responsibilities of auditors in areas like fraud or illegal acts, and to strengthen the perceived independence of auditors. Further suggestions include structured audit methodologies and an enhancement of auditors' performance (Koh and Woo 1998; Lee et al. 2009a).

3. Analysis of prior literature

We conducted a broad search of the literature with the keyword „expectation gap“ combined with „audit“ or „auditor“. I focused on major auditing (IJA, AJPT, MAJ) and accounting research journals (from the latest journal ranking of the German Academic Association for Business Research¹), but also made sure to include more remote sources from a broad Google Scholar and Google search. I then examined the titles and abstracts of promising publications. Additionally, I considered relevant studies in the bibliographies of the identified publications. However, I did not systematically search for working papers and books or book chapters. Surveys are the predominant research method and Table 1 provides an extensive overview on the survey based research on the AEG. I found 88 related articles to be relevant.

It is important to note that Table 1 also includes “grey” literature, i.e. papers published in journals not included in the journal ranking I used. Such research papers are marked with a grey background. On average, the scientific quality of such papers is lower, e.g. due to deficiencies in the application of research method, an incomplete description of the methodology or the fact that they are just replication studies. Nevertheless, their inclusion is necessary to provide a comprehensive overview.

From the survey-based AEG research results I can conclude that the most frequently identified gaps refer to the prevention, the detection and the disclosure of major errors, fraud and illegal acts (e.g. Humphrey et al. 1993; Koh 2000). Users often do not recognize that the primary responsibility for the prevention and detection of fraud rests with those charged with governance of the entity and the management. The auditor only has a secondary responsibility and has to obtain reasonable assurance that there is no fraud which leads to material misstatements in the financial statements. In addition, the risk that a material misstatement due to fraud remains undetected is greater than the risk that a material misstatement due to

error remains undetected. This is because fraud is often accompanied by concealment, override of controls, and collusion, all of which may produce falsified information which may be persuasive to the auditor (ISA 240.4-6). Addresses of audit financial statements do not acknowledge such a higher detection risk. Moreover, users and the public have different expectations regarding the assurance level and often assume absolute assurance (e.g. Epstein and Geiger 1994; Enofe et al. 2013), whereas according to auditing standards the auditor only has to obtain reasonable assurance that there are no material misstatements in the financial statements (ISA 200.11). Stakeholders also frequently believe that the auditor is responsible for maintaining accounting records and preparing financial statements (e.g. Best et al. 2001; Frank et al. 2001). Another gap which is often revealed by survey-based research is related to the soundness of the internal controls (e.g. Fadzly and Ahmad 2004; Pourheydari and Abousaiedi 2011). Providers of capital believe that the auditor is responsible for the soundness of the internal control structure of the client company, however, the auditor just has to evaluate the effectiveness of internal controls in preventing or detecting material misstatements on a timely basis. Furthermore, an unqualified audit opinion, which expresses that a company's financial statements are fairly and appropriately presented, is often misinterpreted and viewed as a guarantee for financial health (e.g. Gbadago 2015; Salehi 2016) and for the going concern of the audited entity (e.g. Olagunju and Leyira 2012). In addition, the audit beneficiaries commonly believe that the auditor reviews management quality (e.g. Beck 1973; Ali et al. 2015). Finally, research reveals an AEG in conjunction with auditor independence in general (e.g. Schleifer and Shockley 1991; Beattie et al. 1998) and the provision of non-audit services in particular (e.g. Haniffa and Hudaib 2007). Besides these frequently identified areas of the AEG, survey-based research reveals other areas from time to time, like for example the materiality level (Boterenbrood 2017) – users expect a stricter threshold, forecast reliability (Schelluch and Gay 2006) – addresses assume that forecasts are reliable, but the auditor can only assess their plausibility, audit scope (Gbadago 2015) – society assumes a complete audit whereas the auditor often works sample-based, or the audit of information outside the financial statements (Bedard et al. 2012) – which is not audited, but perceived as such by investors.

Concerning the components of the AEG, prior survey-based research demonstrates that unreasonable expectations and deficient performance are the key drivers, with deficient performance contributing to a much lesser extent (e.g. Porter 1993; Porter et al. 2009; Lee et al. 2010; Salehi 2016; Masoud 2017).

Two response strategies to the AEG are intensively researched. On the one hand, the AEG prevails where users have little experience and a lack of accounting and auditing related knowledge (De Martinis et al. 2000). In that regard, a defensive approach may be appropriate. Research findings show that education can reduce, but not eliminate

Table 1. Survey research on the AEG.

Author(s)	Year	Country/ Countries	Subjects	Objectives/Methodology	Key Results
Beck	1973	Australia	shareholders	<ul style="list-style-type: none"> role that society assigns to auditors 32 assertions about accountants 	<ul style="list-style-type: none"> society also expects the provision of assurance about the company and its officials and a protection against inefficiencies and managerial malfunctions
Baron/ Johnson/ Searfoss/ Smith	1977	USA	large-firm audit partners, small-firm CPAs, bank loan officers, financial analysts, corporate financial managers	<ul style="list-style-type: none"> auditor's responsibility for detecting and disclosing corporate irregularities and illegal acts 	<ul style="list-style-type: none"> non-auditors indicate a higher level of responsibility than auditors adoption of professional standards can narrow the AEG
Campbell/ Mutchler	1988	USA	auditors, commercial lending officers	<ul style="list-style-type: none"> perceptions about auditor's role in the presence of going concern uncertainties and the nature of the going-concern opinion 	<ul style="list-style-type: none"> AEG in auditor's role is not wide
Jennings/ Reckers/ Kneer	1991	USA	judges	<ul style="list-style-type: none"> nine different beliefs, including auditor's responsibility for fraud detection 	<ul style="list-style-type: none"> auditors are expected to actively search for fraud significant differences between auditors and judges concerning the role and responsibility of auditors
Schleifer/ Shockley	1991	USA	Big 8 auditors, non-Big 8 auditors, bank loan officers, certified financial analysts	<ul style="list-style-type: none"> accountants' and financial statement users' reactions to 14 policies designed to enhance auditors independence 	<ul style="list-style-type: none"> support of the fourteen policies to enhance auditor independence differs significantly between groups
Hatherly/ Innes/ Brown	1991	UK	MBA students	<ul style="list-style-type: none"> whether an expanded auditor report can close the AEG 	<ul style="list-style-type: none"> expanded auditor report changes reader perceptions expanded auditor reports heightens expectations with regard to aspects not included in the report, i.e. a halo effect might even widen the AEG
Humphrey/ Moizer/ Turley	1993	UK	chartered accountants in public practice, corporate finance directors, investment analysts, bank lending officers, financial journalists	<ul style="list-style-type: none"> principal aspects of the audit process and the nature of auditor responsibilities assessment of the performance of auditors against various attributes perceptions about auditors' reporting of information and the extent of audit work (six mini case studies) 	<ul style="list-style-type: none"> AEG for various aspects of the nature of the audit function and the perceived performance of auditors critical components of the AEG include the auditor's role in relation to fraud detection; the extent of auditor's responsibility to third parties; the nature of balance sheet valuations; auditors' independence; and aspects of the conduct of audit work
Garcia-Benau/ Humphrey/ Moizer/ Turley	1993	UK/Spain	chartered accountants in public practice, corporate financial directors, users of financial deposits (including investment analysts, bankers, and financial journalists)	<ul style="list-style-type: none"> nature of audit expectations and perceptions of audit performance in Spain and the UK a semantic differential testing instrument containing 19 key auditing activity constructs, with 62 questions on the role and nature of auditing and the performance of auditors 	<ul style="list-style-type: none"> AEGs are observed in both countries between auditors, financial directors, and users of financial statements, but they are far less extensive in Spain
Porter	1993	New Zealand	financial community (e.g. auditors, officers of public companies, financial analysts, auditing academics), general public (such as lawyers, financial journalists, and members of the general public)	<ul style="list-style-type: none"> 30 suggested duties of the auditor 	<ul style="list-style-type: none"> components of the AEG: half (50 %) is attributable to deficient standards, 34 % results from society holding unreasonable expectations of auditors, and 16 % derives from perceived sub-standard performance by auditors

Author(s)	Year	Country/ Countries	Subjects	Objectives/Methodology	Key Results
Gloeck/ De Jager	1993	South Africa	auditors, company directors and chairpersons, internal auditors, brokers, bank managers, accountants, others	<ul style="list-style-type: none"> perceptions and opinions of financially knowledgeable persons regarding the audit function compared to those of auditors focus point of the local AEG against the background of the international scenario 	<ul style="list-style-type: none"> AEG focuses on the lack of independence and objectivity of auditors, uncertainties regarding the role of the auditor; and the dissatisfaction with the compulsory audit of small owner-managed companies
Lowe	1994	USA	judges, auditors	<ul style="list-style-type: none"> judicial and auditor attitudes toward the auditing profession 8 questions on audit knowledge, the auditor's role, and the general attitude toward the profession 	<ul style="list-style-type: none"> large divergence in perceptions between the two groups
Epstein/ Geiger	1994	USA	investors	<ul style="list-style-type: none"> level of assurance for detecting material misstatements as a result of error and as a result of fraud 	<ul style="list-style-type: none"> 47 % (71 %) wanted absolute assurance that financial statements are free of material misstatements due to errors (due to fraud)
Monroe/ Woodliff	1994	Australia	auditors, accountants, directors, creditors, shareholders, students	<ul style="list-style-type: none"> impact of a change in the wording of the auditor report 48 bipolar phrases about relative responsibilities of auditors, preparers of financial reports, reliability of the underlying financial information, evaluation of the future prospects of the firm 	<ul style="list-style-type: none"> AEG between auditors and user groups confirmed modified wording of the auditor report eliminates some differences, but also creates new AEGs
Gramling/ Schatzberg/ Wallace	1996	USA	students, auditors	<ul style="list-style-type: none"> auditing and the auditing process the auditor's role with respect to audit clients and audited financial statements parties to whom auditors should be responsible prohibitions and regulations of an audit firm performance attributes of auditing likely actions to be taken by auditors in specific circumstances 	<ul style="list-style-type: none"> although the perceptions regarding some components of the audit process and the roles and responsibilities of auditors did change after students completed an auditing course, significant differences in perceptions still exist between professional auditors and students
Pierce/ Kilcommins	1996	Ireland	students	<ul style="list-style-type: none"> user misunderstanding AEG including four elements: duties, ethical and legislative framework, liability, and auditor report impact of education on the misunderstanding AEG 	<ul style="list-style-type: none"> significant reduction in all elements of the misunderstanding AEG for those groups who had studied either a module or a course in auditing during the period
Innes/ Brown/ Hatherly	1997	UK	auditors, MBA students	<ul style="list-style-type: none"> impact of an expanded auditor report on the AEG 18 dimensions of audit attributes 	<ul style="list-style-type: none"> existence of an AEG expanded auditor report reduces AEG and did not create new AEG in some cases perceptions are moved away from those of auditors by expansion
Beattie/ Brandt/ Fearnley	1998	UK	financial journalists	<ul style="list-style-type: none"> views on auditor independence 	<ul style="list-style-type: none"> perceptions of auditor independence are a fundamental part of AEG regulatory changes have reduced the AEG, although problems still exist in the area of non-audit services most significant threat to independence is economic and personal pressure on the partner as an individual, an area difficult to regulate

Author(s)	Year	Country/ Countries	Subjects	Objectives/Methodology	Key Results
De Martinis/ Kim/ Aw	2000	Singapore	auditors, preparers, users (e.g. financial controllers, financial/ credit analyst, lawyers, bankers, company directors, tax consultants)	<ul style="list-style-type: none"> extent of the AEG with regard to expectations and perceptions about the duties and responsibilities of auditors, including those related to fraud prevention and detection 	<ul style="list-style-type: none"> AEG prevails where respondents have relatively little business work experience and no university qualifications AEG is not affected or constrained by political, legal, social, or economic factors
Koh	2000	Singapore	auditors, managers	<ul style="list-style-type: none"> existence of an AEG with respect to audit objectives list of 13 possible audit objectives 	<ul style="list-style-type: none"> non-auditors place greater demands on audits and auditors non-auditors expect auditors to detect and prevent major errors, fraud and illegal acts and to guarantee the accuracy of financial reports, and to satisfy tax and other government authorities
McEnroe/ Martens	2001	USA	audit partners, investors	<ul style="list-style-type: none"> auditors' responsibilities involving various dimensions of the attest function, i.e. mainly items of the auditor report 	<ul style="list-style-type: none"> existence of an AEG investors have higher expectations for various facets and/or assurances of the audit than auditors
Best/ Buckby/ Tan	2001	Singapore	auditors, bankers, investors (general public, financial analysts, brokers)	<ul style="list-style-type: none"> messages communicated by the short-form audit report in Singapore 	<ul style="list-style-type: none"> evidence of a wide AEG, particularly in the areas of auditor responsibility for fraud prevention and detection and maintenance of accounting records, the freedom of the entity from fraud and the exertion of auditor judgment in the selection of audit procedures
Frank/ Lowe/ Smith	2001	USA	auditors, jurors, students	<ul style="list-style-type: none"> eight questions categorized into three groups: (1) audit knowledge; (2) the auditor's role; and (3) general attitudes toward the profession 	<ul style="list-style-type: none"> large divergence in perceptions among group perceptions from jurors are different, e.g. regarding managements' and auditors' responsibilities for the financial statements or auditor's role in fraud detection
Leung/ Chau	2001	Hong Kong	bankers, auditors	<ul style="list-style-type: none"> whether an expanded auditor report can close the AEG 	<ul style="list-style-type: none"> expanded auditor report reduces perceptual differences on dimensions addressed in the report, but could lead to a larger AEG in the long run
Manson/ Zaman	2001	UK	auditors, financial directors, investment analysts, corporate bankers	<ul style="list-style-type: none"> whether an expanded auditor report can align the views of auditors, preparers and users 	<ul style="list-style-type: none"> expansions are successful with regard to issues dealt with in the expanded auditor report
Dewing/ Russel	2002	UK	fund managers	<ul style="list-style-type: none"> perceptions of the definition of the AEG, its constituents, and the extent to which the AEG might be narrowed by audit regulation 	<ul style="list-style-type: none"> awareness of AEG and concern about the scope and responsibilities of the auditor, and the monitoring of auditor's work, and agreement on the potential of increased regulation to narrow the AEG fund managers who were not qualified accountants were particularly concerned that auditors were not perceived as independent establishment of an Accountancy Foundation should provide greater independence to the investigation and disciplinary processes
Fadzly/ Ahmad	2004	Malaysia	auditors, investors, brokers, bankers	<ul style="list-style-type: none"> opinions and beliefs about the audit functions 17 semantic differential belief statements grouped into three factors: responsibility, reliability, and usefulness 	<ul style="list-style-type: none"> results indicate wide AEGs and misconceptions about audit AEGs are mainly related to the responsibilities concerning the preparation of financial statements, internal control, accounting records, and fraud

Author(s)	Year	Country/ Countries	Subjects	Objectives/Methodology	Key Results
Porter/ Gowthorpe	2004	UK/New Zealand	auditors, auditees, audit beneficiaries from the financial community, audit beneficiaries from outside the financial community	<ul style="list-style-type: none"> • structure, composition and extent of the AEG • identification and tentative explanation differences in the AEGs in UK and NZ, and from 1989 and 1999 • 51 actual and potential responsibilities of auditors 	<ul style="list-style-type: none"> • extent of AEG in UK and NZ similar, but AEG's components differ (reasonableness gap main UK driver; deficient standards gap main NZ driver) • AEG narrowed over time
Lin/ Chen	2004	China	audit beneficiaries (e.g., investors, creditors, government officials, business management, and academics), auditors	<ul style="list-style-type: none"> • rise of the AEG and related auditing issues contextual to the business and auditing environment in China 	<ul style="list-style-type: none"> • groups agree that the audit function potentially enhances the truthfulness and reliability of financial statements and play a positive role in the Chinese economy • rising AEG with respect to audit objectives, auditor's obligation to detect frauds, auditor independence, third-party liability of auditors, and the impact of government sponsorship on the credibility of audit services
Specht/ Sandlin	2004	USA	auditors	<ul style="list-style-type: none"> • appropriateness and efficacy of fraud renouncement 	<ul style="list-style-type: none"> • scepticism among auditors regarding its effectiveness in reducing the AEG
Alleyne/ Howard	2005	Barbados	auditors and users	<ul style="list-style-type: none"> • auditors' responsibility for uncovering fraud, the nature and extent of fraud 	<ul style="list-style-type: none"> • AEG is wide, as auditors felt that the detection of fraud is management's responsibility, while users and management disagreed
Dixon/ Woodhead/ Sohlman	2006	Egypt	auditors, investors, bankers	<ul style="list-style-type: none"> • AEG between auditors and financial statement users • semantic differential belief statements grouped into three factors: responsibility, reliability, and usefulness 	<ul style="list-style-type: none"> • wide AEG in the areas of auditor responsibilities for fraud prevention, maintenance of accounting records, and auditor judgment in the selection of audit procedures • smaller AEG concerning the reliability of audits and audited financial statements, and the usefulness of audits
Schelluch/ Gay	2006	Australia	company secretaries/ accountants, shareholders, auditors	<ul style="list-style-type: none"> • messages communicated through auditor reports on prospective financial information • 47 unique bipolar adjectival statements 	<ul style="list-style-type: none"> • significant differences in beliefs between auditors, users and preparers of prospective financial information, concerning forecast reliability and the role and responsibilities of auditors and management • auditors believe that forecasts are more reliable than users or preparers, and that they have a higher level of responsibility and accountability than is attributed to them by users or preparers • beliefs were affected by the type of auditor report (positive vs. negative)
Sidani	2007	Lebanon	accounting and non-accounting professionals	<ul style="list-style-type: none"> • existence of an AEG • 9 questions covering aspects of the AEG 	<ul style="list-style-type: none"> • significant reasonableness gap • AEG concerning the understanding of the audit profession • significant difference in perceptions of the role of the auditor with respect to fraud detection
Haniffa/ Hudaib	2007	Saudi Arabia	auditors (large and small), financial directors, credit managers, investment analysts/funds managers, shareholders (substantial and non-substantial), representatives from governmental bodies	<ul style="list-style-type: none"> • perceptions about audit performance of auditors • impact of the business and social environment on the perceptions of audit performance 	<ul style="list-style-type: none"> • AEG concerning responsibilities arising from legal pronouncements, responsibilities related to detecting and reporting fraud, and provision of non-audit services • performance gap arises from four factors in the auditing environment: licensing policy, recruitment process, political and legal structure, and dominant societal values

Author(s)	Year	Country/ Countries	Subjects	Objectives/Methodology	Key Results
Lee/ Gloeck/ Palaniappan	2007	Malaysia	auditors, auditees (bankers, investors, brokers, general public), audit beneficiaries (company directors, accountants)	<ul style="list-style-type: none"> existence and nature of an AEG 48 duties of the auditor covered in 34 questions 	<ul style="list-style-type: none"> auditees and audit beneficiaries placed much higher expectations on the auditors' duties than auditors unreasonable expectations by users; deficient standards of auditing; and deficient performance of auditors
Lee/ Ali	2008	Malaysia	auditors, corporate managers	<ul style="list-style-type: none"> knowledge of the auditors and corporate managers of the auditors' duties perceived performance of auditors in relation to these required duties 26 items related to the legal requirements of auditors 	<ul style="list-style-type: none"> existence of knowledge gap and deficient performance gap
Saha/ Baruah	2008	India	chief finance officers, chartered accountants in practice, bankers, financial journalists	<ul style="list-style-type: none"> levels of expectation difference series of statements of assertions designed to elicit opinion on the role and nature of auditing 	<ul style="list-style-type: none"> significant differences between auditors (CAs in practice) and other audit user groups in their views and opinions as to the precise nature of auditing and the work that auditors perform AEG is an outcome of a variety of aspects such as the nature of the audit process, the audit function, the constituent boundaries surrounding the audit and the performance of the auditors the AEG is not a consequence of a general negative attitude toward the profession views of society and users of auditor reports about the intensity of audit work not totally irrational
Salehi/ Azary	2008	Iran	auditors, bankers	<ul style="list-style-type: none"> AEG in auditor's responsibility between auditors and bankers five statements about importance of auditing and financial reports, 13 statements on audit responsibilities regarding fraud and illegal acts 	<ul style="list-style-type: none"> significant AEG in areas of auditor's responsibilities to detection of fraud and illegal acts
Mahadevaswamy/ Salehi	2008	India, Iran	auditors, investors	<ul style="list-style-type: none"> existence of an AEG and country comparison seven-section questionnaire 	<ul style="list-style-type: none"> wide AEG in both countries and little differences
Kasim/ Hanafi	2008	Malaysia	auditors, accountants, accounting educators	<ul style="list-style-type: none"> existence of an AEG six independent variables: auditors and audit process, auditors' roles with respect to audited financial statements, auditors' roles with respect to audited client, parties to whom auditors should be responsible, possible prohibition and regulation on audit firm, and performance attributes of auditors 	<ul style="list-style-type: none"> existence of an AEG
Hassink/ Bollen/ Meuwissen/ De Vries	2009	Netherlands	business managers (CFOs, financial controllers, supervisory board members), bankers, auditors	<ul style="list-style-type: none"> AEG concerning the role of the auditor in corporate fraud cases several statements about the definition and scope of fraud and auditors' responsibilities concerning fraud among audit clients 	<ul style="list-style-type: none"> substantial AEG in the context of fraud, both with respect to the auditor's performance as well as the auditor's formal obligations standards compared to bankers, business managers are less inclined to judge auditors' performance of existing duties as inadequate

Author(s)	Year	Country/ Countries	Subjects	Objectives/Methodology	Key Results
Salehi/ Mansoury/ Azary	2009	Iran	investors, chartered accountants	<ul style="list-style-type: none"> auditor independence as a key element of the AEG 9 questions regarding to the level of audit independence 	<ul style="list-style-type: none"> significant difference regarding the actual level of economic dependence of the auditor from the client auditors believe that external factors are more relevant for independence than internal factors, while investors believe the opposite
Siddiqui/ Nasreen/ Choudhury-Lema	2009	Bangladesh	auditors, bankers, students	<ul style="list-style-type: none"> existence of an AEG 12 questions on auditor responsibility, audit reliability, and decision usefulness of audited financial statements the effect of audit education in reducing the AEG 	<ul style="list-style-type: none"> significant AEG audit education significantly reduces the AEG, especially in the area of audit reliability the introduction of accounting scandal cases in the auditing curricula creates some unreasonable expectations regarding audit responsibility
Onumah/ Simpson/ Babonyire	2009	Ghana	auditors, company accountants, shareholders, bank loan officers, lawyers, general public	<ul style="list-style-type: none"> existence of an AEG and factors influencing it 	<ul style="list-style-type: none"> different understanding of the work of auditors, different perceptions with regard to auditors' responsibility for detecting and reporting fraud and irregularities, users expect a higher level of assurance views of company accountants are close to those of auditors
Noghondari/ Foong	2009	Iran	bank loan officers	<ul style="list-style-type: none"> effect of accounting knowledge and experience on the AEG 	<ul style="list-style-type: none"> existence of a large AEG accounting knowledge mitigates the extent of the AEG, but not accounting experience negative relationship between the AEG and loan decision performance
Porter/ Ó hÓgartaigh/ Baskerville	2009	UK/New Zealand	auditors, auditees, financial community audit beneficiaries, non-financial community audit beneficiaries	<ul style="list-style-type: none"> structure, composition and extent of the AEG differences between the countries and over time list of 55 actual and potential responsibilities of auditors 	<ul style="list-style-type: none"> structure and composition of the AEG are similar in both countries AEG is significantly wider in NZ in UK the AEG narrowed substantially over time, in NZ it widened slightly deficient standards and reasonableness components contribute most
Lee/ Ali/ Gloeck/ Yap / Ng / Boonyanet	2010	Thailand	auditors, financial analysts, brokers, managers, company accountants	<ul style="list-style-type: none"> existence and nature of an AEG 48 duties of the auditor covered in 34 questions 	<ul style="list-style-type: none"> AEG exists with respect to 18 duties unreasonable expectations and deficient standards are the more relevant components
Adeyemi/ Uadiale	2011	Nigeria	auditors, stock brokers, investors, company accountants, managers	<ul style="list-style-type: none"> existence of an AEG and the perceptions of user groups on its existence 	<ul style="list-style-type: none"> different perceptions on the existence of an AEG, existing duties and responsibilities of auditors, and the usefulness of the auditor report for investment decisions
Adeyemi/ Olowookere	2011	Nigeria	auditors, bankers, investors, stockbrokers, students, company accountants	<ul style="list-style-type: none"> existence and nature of an AEG 	<ul style="list-style-type: none"> wide AEG in the areas of auditors' responsibility for fraud prevention and detection
Pourheydari/ Abousaiedi	2011	Iran	auditors, investors, brokers, bankers	<ul style="list-style-type: none"> perceptions on the role of auditors existence of an AEG 17 semantic differential belief statements on responsibility, reliability, and decision usefulness 	<ul style="list-style-type: none"> AEG exists in the areas of auditor responsibility for fraud detection, soundness of the internal controls, and preparation of the financial statements

Author(s)	Year	Country/ Countries	Subjects	Objectives/Methodology	Key Results
Bedard/ Sutton/ Arnold/ Phillips	2012	USA	professional investors, non-professional investors	<ul style="list-style-type: none"> whether investors understand that information outside the financial statements is not audited and differentiate the level of assurance 	<ul style="list-style-type: none"> professionals are more likely than non-professionals to correctly identify which financial statement components are audited many investors in both groups believe that information outside of the financial statements is audited when in fact it is not demand for audits of information that is currently unaudited
Porter/ Ó hÓgartaigh/ Baskerville	2012a	UK/New Zealand	auditors, auditees, financial and non- financial community audit beneficiaries	<ul style="list-style-type: none"> differences in the extent, structure and composition of the AEG in NZ and UK integrated list of 55 actual and potential responsibilities of auditors 	<ul style="list-style-type: none"> similarity in the responsibilities comprising the components of the AEG in the two countries extent of AEG 40 % wider in NZ than in UK
Gunathilaka	2012	Sri Lanka	auditors, business managers, investors	<ul style="list-style-type: none"> AEG in terms of auditor responsibility, reliability of audit function and usefulness of audit 20 statements on auditor responsibilities, reliability and usefulness of audit service 	<ul style="list-style-type: none"> significant perceptual differences in the areas of responsibility for frauds detection and prevention; preparation and presentation of financial statements; assurance on financial statements; objectivity of auditors; and auditor independence auditors place a lesser degree of reliability on audit than the society accounting education significantly reduces AEG
Eny/ Ifurueze/ Enyi	2012	Nigeria	auditors, accountants in business, bankers, investors	<ul style="list-style-type: none"> existence and components of an AEG 	<ul style="list-style-type: none"> different expectations regarding the role of audits, the reliance upon an unqualified audit opinion, and the independence of auditors
Oseni/ Ehimi	2012	Nigeria	auditors, investors, stockbrokers, managers	<ul style="list-style-type: none"> existence, level and nature of an AEG 	<ul style="list-style-type: none"> wide AEG regarding auditor duties and responsibilities, in particular concerning fraud prevention and detection
Olagunju/ Leyira	2012	Nigeria	auditors, users	<ul style="list-style-type: none"> existence of an AEG 	<ul style="list-style-type: none"> misunderstanding gap misperceptions relate e.g. to going concern, fraud detection and independence
Saeidi	2012	Iran	auditors, financial managers, investors	<ul style="list-style-type: none"> existence of an AEG concerning auditors' responsibilities for preventing and detecting fraud 34 statements on fraud definition, auditors' responsibility for detecting fraud, auditors' responsibility for further investigating suspicions of fraud, and reporting detected fraud 	<ul style="list-style-type: none"> financial managers and investors have higher expectations than auditors with respect to fraud detection and prevention
Kamau	2013	Kenia	auditors	<ul style="list-style-type: none"> existence of an AEG 	<ul style="list-style-type: none"> AEG exists auditor efforts, lack of auditor skills to detect frauds, and little society/ public knowledge significantly influence the AEG lack of structured audit methodologies, lack of auditor independence and narrower audit scope do not
Olowookere/ Soyemi	2013	Nigeria	auditors, bankers, investors	<ul style="list-style-type: none"> existence of an AEG 13 semantic differential belief statements grouped into three factors: responsibility, reliability, and decision usefulness 	<ul style="list-style-type: none"> AEG exists expectations of auditors and users differ with regard to auditors' duty for fraud detection and prevention and with regard to the assurance level

Author(s)	Year	Country/ Countries	Subjects	Objectives/Methodology	Key Results
Enofe/ Mgbame/ Aronmwan/ Ogbeide	2013	Nigeria	auditors, managers, investors, public	<ul style="list-style-type: none"> reasonableness AEG questionnaire with 13 questions 	<ul style="list-style-type: none"> existing AEG regarding assurance level, financial report preparation, fraud prevention and detection, auditors' responsibilities to shareholders
Okafor/ Otor	2013	Nigeria	accounting students and teachers, accountants in practice, investing public	<ul style="list-style-type: none"> role of the auditing profession in narrowing the AEG 	<ul style="list-style-type: none"> many of the public expectations are unreasonable
Tanko/ Dabo	2013	Nigeria	chartered accountants in practice, chartered accountants not in practice, bankers, financial directors, credit managers, investment analysts, fund managers, accountancy students, shareholders, government employees	<ul style="list-style-type: none"> whether the auditor report can reduce or even eliminate the AEG 61 construct question items 	<ul style="list-style-type: none"> AEG exists improved auditor report is necessary
Agyei/ Kusi Aye/ Owusu-Yeboah	2013	Ghana	auditors, stockbrokers	<ul style="list-style-type: none"> existence of an AEG 	<ul style="list-style-type: none"> AEG concerning auditor responsibility for fraud detection and prevention, and the soundness of the internal control structure of the auditee
Devi/Devi	2014	Pakistan	bankers, investors	<ul style="list-style-type: none"> variables that cause an AEG variables are audit reliability, audit responsibility and usefulness of audited financial statements 16 semantic differential belief statements 	<ul style="list-style-type: none"> AEG is caused by reliability and usefulness of audited financial statement reason behind AEG is lack of proper education and understanding regarding audit standards and audit practices so it will be reduced by giving adequate knowledge and awareness of audit to the users of financial statements
Ruhnke/ Schmidt	2014	Germany	auditors, academic faculty, financial journalists, investors, bank representatives, management representatives, supervisory board members	<ul style="list-style-type: none"> causes of the AEG impact of proposed changes to the current statutory audit regime key issues: compliance with financial reporting standards, level of assurance, going concern, fraud, management audit 	<ul style="list-style-type: none"> public has exaggerated expectations of auditors' responsibilities under current standards other causes of the AEG: public's difficulty in assessing the performance of auditors, deficiencies in auditors' performance auditors are not fully aware of their responsibilities increased information content of auditor report is expected to narrow the AEG mandatory rotation and ban on non-audit services may reduce AEG to a lesser extent
Rien	2014	Indonesia	bankers, accountant educators	<ul style="list-style-type: none"> existence of an AEG 16 semantic differential belief statements 	<ul style="list-style-type: none"> evidence of AEG, in particular regarding auditor responsibility for fraud prevention and detection and maintaining accounting records
Idowu/ Oluwatoyin	2014	Nigeria	accounting students	<ul style="list-style-type: none"> impact of audit education on an AEG questionnaire with 10 statements 	<ul style="list-style-type: none"> knowledge and exposure of accounting students reduce the existing AEG misperceptions with regard to e.g. discovering fraud and disclosing illegal acts
Ogbonna/ Appah	2014	Nigeria	representatives of firms	<ul style="list-style-type: none"> AEG variables and accounting performance indicators relationship between an AEG and firms' performance 	<ul style="list-style-type: none"> variations in earnings per share and return on capital employed are attributable to variations in error and fraud detection and the expressed audit opinion

Author(s)	Year	Country/ Countries	Subjects	Objectives/Methodology	Key Results
Onulaka	2014	Nigeria	auditors, fund managers, stockbrokers, financial analysts	<ul style="list-style-type: none"> perceptions on the existence of the AEG and on the usefulness of the audit process whether the AEG has an effect on the volume of transactions on capital markets 	<ul style="list-style-type: none"> wide AEG in the areas of auditors' responsibility for fraud prevention and detection AEG has a negative impact on the transaction volume
Onulaka	2015	Nigeria	auditors, accountants not in public practice, investors, stockbrokers, financial analysts	<ul style="list-style-type: none"> relationship between the self-regulation of the accounting and auditing profession and an AEG whether the establishment of the Financial Reporting Council affects an AEG whether self-regulation contributes to a deficient standard gap list of semantic differential belief statements 	<ul style="list-style-type: none"> strong relationship between self-regulation and AEG establishment of an independent public oversight board has a positive impact on AEG deficient standard gap is not only associated with self-regulation but also with other legal pronouncements
Köse/ Erdoğan	2015	Turkey	auditors, bankers, investment analysts	<ul style="list-style-type: none"> existence of an AEG between auditors and the beneficiaries of the audit services questionnaire with statements about the role of audit and auditors and the responsibility of auditors 	<ul style="list-style-type: none"> existence of an AEG expectations of users exceed the responsibilities and the role of auditors there is both the reasonableness gap and the performance gap unreasonable expectations decrease with experience as education level increases the AEG diminishes
Gbadago	2015	Ghana	final year MBA accounting students	<ul style="list-style-type: none"> level of knowledge of students on auditors' responsibilities 	<ul style="list-style-type: none"> existence of an AEG, e.g. regarding assurance level, scope of the audit of transactions, auditor report guarantees financial soundness
Litjens/ Van Buuren/ Vergoossen	2015	Netherlands	bankers, preparers, auditors	<ul style="list-style-type: none"> whether the AEG may be explained and reduced by frequently mentioned user information needs and changes in the auditor report 	<ul style="list-style-type: none"> bankers have the largest AEG followed by managers and auditors bankers require additional information, management is reluctant to let the auditor provide sensitive information and auditors try to minimize their risks impact of the frequently proposed actions on the AEG is limited and differs significantly between groups only information about the audit process and the continuity of the audited entity may reduce AEG of all groups
Salifu/ Mahama	2015	Ghana	auditors, bankers, students of the Institute of Chartered Accountants	<ul style="list-style-type: none"> existence of an AEG 	<ul style="list-style-type: none"> wide AEG with respect to detecting and preventing fraud and errors, the soundness of the internal control structure, the exercise of professional judgment, the level of assurance, and that an unqualified auditor report means that the entity is well managed
Füredi-Fülöp	2015	Hungary	finance and accounting managers and accountancy service providers, bankers and financial consultants, auditors	<ul style="list-style-type: none"> causes and typical compositions of an AEG auditors' functions, tasks, responsibilities and independence 	<ul style="list-style-type: none"> AEG stems from the combination of the deficient performance of auditors, deficiencies in audit standards, unreasonable expectations and false interpretations of audit functions
Ali/ Aamir/ Raza / Naqvi	2015	Pakistan	auditors, accountants, accounting educators	<ul style="list-style-type: none"> existence of an AEG 	<ul style="list-style-type: none"> AEG exists, e.g. regarding management efficiency, fraud detection, internal control quality
Bazrafshan	2016	Iran	auditors, university students	<ul style="list-style-type: none"> AEG concerning fraud risk indicators questionnaire with 61 fraud risk indicators 	<ul style="list-style-type: none"> significant difference in evaluating importance of fraud risk indicators between groups

Author(s)	Year	Country/ Countries	Subjects	Objectives/Methodology	Key Results
Salehi	2016	Iran	certified accountants, professional investors	<ul style="list-style-type: none"> existence and extent of an AEG perceptions on actual and expected levels of audit effectiveness 	<ul style="list-style-type: none"> AEGs regarding measuring financial performance (e.g. assurance on financial health), financial control (e.g. preventing fraud and error), finding misstatements (e.g. detecting illegal acts by management), mainly driven by reasonableness gap
DiGabriele	2017	USA	accounting academics, accounting practitioners, users of financial statements	<ul style="list-style-type: none"> existence of an AEG with regard to the financial evaluation fitness of auditors 	<ul style="list-style-type: none"> significant differences in the expectations between users and practitioners and between users and academics
Füredi-Fülöp	2017	Hungary	preparers, analysts, beneficiaries of financial statements	<ul style="list-style-type: none"> causes and typical composition of an AEG appropriate combinations of solutions for narrowing the AEG 	<ul style="list-style-type: none"> AEG stems from the combination of the deficient performance of auditors, deficiencies in audit standards, unreasonable expectations and false interpretations of audit functions users expect greater responsibilities of auditors for fraud prevention and detection enhanced auditor reports could narrow AEG users are not completely satisfied with auditor independence
Masoud	2017	Libya	auditors, auditees, audit beneficiaries	<ul style="list-style-type: none"> existence and extent of an AEG 	<ul style="list-style-type: none"> existence of an AEG deficient standards account for 49 %, deficient performance for 15 % and unreasonable expectations for 36 %
Boterenbrood	2017	Netherlands	auditors, preparers	<ul style="list-style-type: none"> AEG measured by total materiality 	<ul style="list-style-type: none"> preparers assume lower materiality levels than auditors
Shikdar/ Faruk/ Chowdhury	2018	Bangladesh	university faculty members of accounting and auditing, auditors, students of accounting bodies	<ul style="list-style-type: none"> variables that reduce the audit AEG variables include e.g. audit education, expanded auditor reports, structured audit methodology, external monitoring, improved internal quality control, audit committees 	<ul style="list-style-type: none"> the identified variables reduce the AEG significantly
Toume/ Yahya/ Siam	2018	Jordan	auditors	<ul style="list-style-type: none"> factors that affect an AEG and solutions that may narrow it to a least possible extent 	<ul style="list-style-type: none"> lack of awareness (unreasonable expectations) amongst users of financial statements has greatest impact on increasing AEG uncertainty in auditor's independence has less impact on increasing AEG in the audit process strengthening of auditor independence and improving supervision of auditing profession are suggested
Alawi/ Wadi/ Kukreja	2018	Bahrain	(unclear)	<ul style="list-style-type: none"> determinants of an AEG potential determinants are the efforts of auditors, the skills of auditors, the knowledge of the public about the audit profession and the users' needs from auditors 	<ul style="list-style-type: none"> the level of the AEG is affected by auditor efforts, the number of users' needs, the possessed skills of auditors, and (to a lower extent) the knowledge of society
Azagaku/ Aku	2018	Nigeria	customers, investors, employees, managers, general public	<ul style="list-style-type: none"> existence of an AEG 	<ul style="list-style-type: none"> existence of an AEG, e.g. with regard to auditor responsibility toward fraud
Hussain/ Khalid/ Ashraf	2018	Pakistan	shareholders, directors	<ul style="list-style-type: none"> major factors causing the AEG 	<ul style="list-style-type: none"> failure to detect errors, fraud and illegal acts are main drivers
Fulop/ Tiron-Tudor/ Cordos	2019	Romania	students, used as proxies for different categories of stakeholders	<ul style="list-style-type: none"> whether audit education has an effect on the existence of the AEG 	<ul style="list-style-type: none"> audit education is impactful on the audit reasonableness gap

the AEG (e.g. Gramling et al. 1996; Pierce and Kilcommins 1996; Siddiqui et al. 2009). On the other hand, expanded auditor reports are a frequently researched means. Such research finds that the expansion of auditor reports potentially narrows the existing AEG, but could also cause new gaps (e.g. Hatherly et al. 1991; Monroe and Woodliff 1994; Innes et al. 1997; Leung and Chau 2001; Manson and Zaman 2001; Litjens et al. 2015). Further strategies dealt with by survey-based research refer to a constructive approach, i.e. regulatory changes (e.g. Beattie et al. 1998), mainly related to the strengthening of auditor independence (Toumeh et al. 2018), e.g. by a mandatory rotation of audit firms or a ban of non-audit services (Ruhnke and Schmidt 2014), and an improved supervision of the audit profession (Onulaka 2015). Such regulatory changes potentially improve audit quality, shift auditors' duties towards society's expectations, and thereby narrow the AEG.

Beyond surveys, a considerable number of experimental studies on the AEG exists. They also deal with the two predominating response strategies. Education may be an effective approach to narrow the gap (for Australia: Monroe and Woodliff 1993; for Malaysia: Fadzly and Ahmand 2004; for Nigeria: Ihendinihu and Robert 2014), but a positive effect of a revised or expanded auditor report is questionable (for the US: Bailey et al. 1983; for the UK and New Zealand: Porter et al. 2009; for Germany: Gold et al. 2012). Other experimental findings, apart from the Australian study by Gay et al. (1998) all from the US, are that there is a lack of consensus with regard to the materiality threshold (Jennings et al. 1987), that ambiguous language contributes to the AEG (Kinney and Nelson 1996), that predictions of the attribution theory apply to the AEG (Arrington et al. 1983), and that users perceive that review reports provide less assurance than auditor reports (Gay et al. 1998). Finally, studies by Anderson et al. (1993; 1998) investigate perception differences between auditors and judges. The latter present an important user group, particularly in the US where auditors are exposed to high litigation risk.

Interview-based research on the AEG shows that an AEG exists (Chowdhury and Innes 1998 for Bangladesh), reveals causes for the AEG (Lee et al. 2009b for Malaysia), demonstrates misperceptions on the concept of materiality (Houghton et al. 2011 for Australia), and finds that the adoption of an effective corporate accountability system could narrow the gap (Shbeilat et al. 2017 for Jordan). A US content analysis by Cohen et al. (2017) suggests that the media causes unreasonable expectations.

4. Discussion of selected papers

In the following, more detailed information on selected articles is provided. Quality and reputation of the journal, recency, and relevance from a European perspective are used as selection criteria.

Dewing and Russell (2002) present the results of a postal questionnaire survey. They describe the percep-

tions of UK fund managers as to the definition of the AEG, its constituents, and the extent to which the gap might be narrowed by audit regulation. Fund managers are aware of the AEG and are particularly concerned about the scope and responsibilities of the auditor, and monitoring of auditors' work. They perceive a need to strengthen auditor independence, prefer a more frequent rotation of audit engagement partners, and wish to extend the scope and responsibility of auditors in respect of fraud and going concern. The respondents agree that increased regulation offers potential to narrow the AEG, especially as regards monitoring and discipline of auditors. A point of criticism is the fact that the authors just consider the perceptions of one stakeholder group. Fund managers are above-average informed subjects and less informed groups might perceive more and larger gaps.

A survey by Porter et al. (2012a) identifies differences in the AEG in the UK and New Zealand. Participants were from the auditor (audit partner and staff), auditee (internal auditors, financial directors, chief executives and nonexecutive directors) and financial (stockbrokers, financial analysts, bankers involved in corporate lending, auditing and accounting regulators, auditing academics) and non-financial audit beneficiaries (solicitors, financial journalists, general public) interest groups. The questionnaire lists 55 actual and potential responsibilities of auditors identified by reference to law, stock exchange listing rules, professional promulgations, auditing literature and leading audit practitioners. For each, the respondents had to state whether the responsibility is an existing one of auditors, if so, how well it is performed, and whether the responsibility should be a responsibility of auditors. The results show that the composition and structure of the AEG are broadly similar in both countries. The deficient standards and reasonable components contribute most to the AEG in UK, as well as in New Zealand. Unreasonable expectations include e.g. a guarantee that the client is financially sound, the detection and disclosure of minor thefts, detection and disclosure of illegal acts, examination and reporting regarding the client's non-financial controls, or examination and reporting of the client's procedures for identifying financial and operational risks. However, the AEG was nearly 40 % wider in New Zealand. The authors suggest that this difference may be traced to greater awareness of audit issues and more stringent monitoring of the auditing profession in the UK. Porter et al. (2012b) also investigate changes in the AEG. In the UK, widespread discussion of the environmental developments and related audit issues, along with more stringent monitoring of auditors' performance, resulted in a narrowing of the reasonableness and deficient performance gaps. In New Zealand, lacking these factors, these gaps widened. Additionally, changes to auditing standards resulted in some 'reasonably expected' responsibilities becoming actual responsibilities of auditors and, in both countries, the deficient standards gap narrowed. An outstanding advantage of this study is the wide range of issues as

well as of stakeholder groups. Unfortunately, however, the researchers do not fully differentiate their findings between the different stakeholder groups.

Based on a questionnaire survey conducted in Germany, Ruhnke and Schmidt (2014) analyze causes of the AEG and the impact of changes to the statutory audit regime. The participants cover an extensive bandwidth of subject groups (auditors, academics, financial journalists, investors, bankers, directors and supervisory board members). The authors reveal exaggerated public expectations, find public's difficulties in assessing auditor performance, but also deficiencies in auditor performance, and demonstrate that auditors are not fully aware of their responsibilities. In particular, the public is unaware of the level of assurance provided by the auditor. Surprisingly, the majority of participants disagrees with the proposition that identifying all instances of fraud is auditor's responsibility. The results also indicate that the public has an exaggerated expectation of auditors performing a management audit. Auditors are not completely familiar with the concept of reasonable assurance. A substantial proportion of external stakeholders believe a lack of independence and the limited information content of the auditor report to be sources of the AEG. Furthermore, the authors show that expanding the auditor reports by information on the achieved assurance level and the sources of material estimation uncertainties can narrow the gap, whereas the impact of a mandatory rotation of audit firms, a prohibition of non-audit services and joint audits is only marginal. This study's findings indicate that the European regulator might have been wrong when further limiting the provision of non-audit services, introducing mandatory rotation of audit firms, and fostering joint audits. However, these results regarding the effect of such regulatory changes have to be interpreted with caution, because perceptions might be different after the implementation of related amendments.

Hassink et al. (2009) deal with the AEG concerning the role of auditors in corporate fraud cases. They survey the perceptions of business managers (CFOs, financial controllers, supervisory board members), bankers, and auditors in the Netherlands. The authors find clear evidence of a substantial AEG in the context of fraud, both with respect to auditor performance as well as the auditor's formal obligations. Regarding a performance gap, this study finds that business managers and bankers consider fraud detection significantly stronger a duty of the auditor. Business managers also have higher expectations concerning a further investigation of fraud suspicion. There is an inverse gap related to the situation when the audit client refuses to redress material fraud, i.e. auditors agree more than stakeholders that they then should resign. In contrast, business managers were less sure than auditors that the latter are sufficiently independent to successfully urge audit clients to redress detected fraud. Concerning the standards gap, the authors find that business managers believe more than auditors that even non-material fraud should be reported. Both groups argue

that material fraud should be reported to a central governmental reporting agency, whereas standards require such reporting only if the audit client refuses to redress fraud. Business managers also think auditors should report material fraud to society by including it in the auditor report, while auditors themselves are neutral on this issue. Finally, there is moderate agreement among business managers that auditors should resign if they discover non-redressed employee fraud, and all sample groups are in favor of such a reaction in case of management fraud. With regard to the reasonableness gap, business managers have the unreasonable expectation that auditors should detect material fraud, even in the case of collusion, and non-material fraud. In comparison to bankers, business managers are less inclined to judge auditor performance of existing duties as inadequate and see fewer points where auditing standards should be amended. This study confirms very clearly that auditor's responsibility regarding fraud is one of the key areas of the AEG.

In Australia, Houghton et al. (2011) use focus groups and conduct face-to-face office interviews with stakeholders (users of auditor reports, purchasers of audit services, auditors, auditing standard setters, regulators of the market) in the market for audit services. They focus on the issue of materiality judgments and the need for public disclosure of materiality thresholds. Stakeholders perceive that the concept of materiality is not well understood. There is also agreement that more education is needed to improve understanding of the concept, especially in relation to qualitative materiality and to non-professional investors. Some interviewees suggest turning to the auditing standards for this education process. With respect to undergraduate auditing education, the authors recommend an earlier introduction of a unit on auditing and that the concept of materiality is brought to the early stages of the course outline. There are mixed views as to whether materiality for the financial statements as a whole should be disclosed, with some feeling that it might be detrimental or dangerous. Interviews provide a source of data richness as the researcher is able to enquire further into the complexity of issues. Such personal interaction, however, restricts the number of interviews that can be conducted within a reasonable time frame. As a consequence, the expressed opinions may not be representative.

An expanded auditor report is an attempt to educate users and to clarify certain matters pertaining to the audit function. Manson and Zaman (2001) investigate the extent to which an expansion of the report can align the views of audit partners, finance directors as preparers and investment analysts and corporate bankers as users about issues communicated by the auditor report, and the extent to which these groups consider that it would be useful for additional matters to be reported upon by the auditor. Their study is based on a questionnaire survey. UK expansions from 1993 had been successful in clarifying the purpose of the audit and the respective responsibilities of auditors and directors. Nevertheless, users do not consid-

er the wording to clearly indicate auditors' responsibility for the detection of fraud and illegal acts. Additionally, the auditor report needs to provide more information about the findings of the audit. Finally, users are particularly keen for the auditors to include statements on the going concern status of the client, the extent to which the auditors have examined and relied upon the internal controls, and the materiality level they used.

To test the effectiveness of additional information in the auditor report, provided by the revised ISA 700 which came into force in 2007, Gold et al. (2012) conducted a web-based experiment with German auditors and financial statement users as participants. They read a summary of a firm's financial statements and an auditor report which was either a traditional one or an expanded one with explanations of auditor versus management responsibilities and of the nature, scope and procedures of the audit. The authors find strong evidence for a persistent expectation gap with respect to the auditor's responsibilities. On the other hand, auditors and users reach a reasonable belief consensus regarding management's responsibilities and financial statement reliability. Overall, the expansions of the auditor report do not result in a smaller expectation gap. Thus, the findings suggest that the audit opinion alone may signal sufficient relevant information to users.

A study by Litjens et al. (2015) uses a survey approach with participants from the Netherlands to examine information needs regarding their potential effect on narrowing the AEG. Subjects are bankers, preparers and auditors. The results indicate that bankers require additional information, management is reluctant to let the auditor provide sensitive information and auditors try to minimize their risks. Bankers consider information regarding the entity, such as breaching covenants, quality of controls, and accounting policies, as well as information regarding the audit process, such as audit procedures regarding the going concern of the entity and applied materiality, important. Moreover, only information about the audit process with respect to continuity and the reporting of errors in the financial statements may reduce bankers' AEG. The AEG of managers may be reduced if information regarding fraud is provided. Entity information regarding breaching covenants may reduce auditors' expectation gap. Format changes to the auditor report are not effective. Unfortunately, this study just includes one external stakeholder group, bankers. In particular, the expectations of investors are not investigated.

5. Conclusion

Research on the AEG is comprehensive, exists for almost 50 years, and covers a broad range of countries. This contradicts assumptions that this research is mainly limited to the UK and New Zealand (Porter 2014; Hay 2020). However, most of the prior research is performed in Anglo-Saxon countries and in emerging/developing countries from Asia and Africa, like e.g. Iran and Nigeria. There is still a lack of research with regard to Continental European countries.

The AEG exists for a long time and numerous regulatory efforts to narrow it were only partially successful. Research findings suggest that education might be a promising approach. However, the possibilities to implement this proposal are limited, because it seems to be impossible to educate millions of stakeholders. Another promising avenue is the expanded auditor report. The auditor report is the primary means of communication between the auditor and users of financial statements. It is the objective of expansions of the auditor report like the disclosure of key audit matters (KAM) to increase both its information content and its transparency, thereby increasing its information value and leading to the efficiency of capital markets. However, the auditor report loses its usefulness if users misunderstand it, and the disclosure of KAMs may then have the opposite effect. It should also be noted that it potentially narrows the existing gap, e.g. by avoiding unreasonable expectations, but could also create new gaps if the information is not adequately disclosed and understood. Users may e.g. perceive auditors to be responsible for the preparation of financial statements or misinterpret KAMs as qualifications of the auditor opinion. Prior experimental and archival research on KAM analyzes whether the related information is decision-useful for the providers of capital and often fails to find a significant impact (Christensen et al. 2014; Boolaky and Quick 2016; Gutierrez et al. 2018; Lennox et al. 2019; Bédard et al. 2019). KAM disclosure could also impact auditor liability, however, the direction is unclear (Brasel et al. 2016; Gimbar et al. 2016; Kachelmeier et al. 2017; Backof et al. 2017). With regard to the AEG a study by Kachelmeier et al. (2019) is of particular interest. It tests the effects of disclosing a KAM, showing that such a disclosure lowers user perceptions of audit assurance and responsibility and thus, narrows the AEG. Therefore, it would be of interest to further analyze the impact of the revised IAASB auditor report standards on the AEG.

A good example for the constructive approach are the regulatory changes regarding auditors' responsibility for fraud detection. Historically, the main auditing objective was the discovery of defalcations. However, the emphasis on fraud detection dissipated over time. Regulators shifted auditors' focus away from fraud detection and determining fairness of the financial statements became the focus. However, recurring major fraudulent accounting scandals resulted in a public perception of misconduct, which in turn caused regulators to increase auditors' responsibility for fraud detection step by step (Chong 2013). Today, according to ISA 240, the auditor has to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. However, the standard setter allows a higher detection risk for fraud-based misstatements.

The auditor only has a secondary responsibility and has to obtain reasonable assurance that there is no fraud which lead to material misstatements in the financial statements. In addition, the risk that a material misstatement due to fraud remains undetected is greater than the risk that a material misstatement due to error remains undetected.

Prior research reveals that the AEG differs significantly between countries (Garcia-Benau et al. 1993; Porter and Gowthorpe 2004; Porter et al. 2009; Porter et al. 2012a and 2012b). Consequently, the AEG problem cannot be solved solely by actions taken by international standard-setters. These must be supplemented by national legislative actions to consider national characteristics. Moreover, what stakeholders expect auditors to achieve varies by subject group (Schleifer and Shockley 1991; Jennings et al. 1993; Hassink et al. 2009; Litjens et al. 2015). Consequently, this causes a grave problem for regulators, who have to decide to which stakeholder group they should align legislative actions.

This literature review is subject to a specific limitation. Despite an extensive and thorough search, I cannot guarantee completeness. I systematically searched for journal papers but not for working papers and books or book chapters. In addition, my review is limited to pub-

lications having the term AEG in the title or the abstract. Furthermore, I only searched for papers written in English. Finally, it was not possible to finalize my Google search (approximately 28 million hits for AEG).

Surveys are the predominant research method. They allow researchers to analyze a broad range of topics. However, participants can easily identify the research objective which in turn increases the risk for biased responses. Therefore, future research should more frequently apply experimental research approaches. In addition, given that the AEG is a very complex phenomenon, and that the previous qualitative research on the AEG is not only limited but also mostly very specific, future research projects could use interview techniques. There is also a lack of cross-country studies. Finally, a promising avenue for future might be investigations regarding the impact of recent regulatory changes, like KAM reporting or stricter regulations regarding the provision of non-audit services, on the AEG.

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Note

1. This list can be found online: <https://vhbonline.org/vhb4you/vhb-jourqual/vhb-jourqual-3/gesamtlste>. The rankings are quite similar to those from other organizations, like that one from the Australian Business Deans Council.

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