

Deconstructing the Audit Expectation Gap Concept

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Abstract

The Audit Expectation Gap (AEG) concept appears to be, unarguably, as old as the accounting and auditing profession, hence has been variously researched. However, despite its apparent longevity in the accounting literature, there seems to be little consensus as to its precise definition. The concept displays a high degree of fluidity in both the academic and professional discourses. Interestingly, however, most of the discussions of the concept appear to have tried to introduce unity into a conception where the facts show utmost divergence in perceptions. Thus, the variability in the construction of the concept stands seemingly underestimated. This paper analyses the origins and definitions of the AEG concept with a view to contributing to clarifying and characterising it in the context of contemporary financial reporting and accounting ramifications. The paper argues that the conceptual hitches need to be addressed to bring clarity to bear on the conceptualisation, interpretation and application of the concept. It is contended that the lack of harmony in interpretation of the concept has the potential, perceived and/or real, of perpetuating the AEG problem as attempts at tackling a loosely couched phenomenon could prove ineffectual. This paper therefore is yet another modest contribution to providing useful view points and insights supportive of efforts at understanding and evaluating the AEG concept. This, it is believed, could provide added leverage to the incessant efforts and discourses aimed at devising strategies and mechanisms for addressing the existence and/or curtailing the escalation of the concept.

Keywords: Audit Limitations, Audit Expectation Gap, Financial Statements

Paper Type: Conceptual Paper

1.0 Introduction

Although the Audit Expectation Gap (AEG) concept appears to be as old as the accounting and auditing profession itself, it has been susceptible to varied descriptions and definitions. There seems to be little or no consensus as to the exact meaning of the concept; it exudes a high degree of fluidity in both academic and professional discourses. The lack of definitional precision in the concept has far-reaching ramifications for the reputation of the accountancy and auditing profession. According to, Fadzly and Ahmed (2004), the AEG is a critical issue in auditing because of the damage it has brought, and continues to bring to the essence of the auditing profession. Hence, if such confidence is betrayed, the professional function too is destroyed, since it becomes useless (Porter, Simon & Hatherly, 2005). In recent history, the accountancy profession seems to have been on the path of self-destruction due to the complicity of its members in serious financial frauds that have rocked the world. A renowned example is the collapse of Arthur Anderson as resulting from the Enron Scandal. Subsequently, the increasing incidence of financial scandals and corporate failures has revived research interest in this area (Pourheydari & Abousaiedi, 2011). According to Porter et al., (2012) the incidences of corporate scandals have contributed to widening the AEG. For instance, the sub-prime crisis revealed numerous issues that have been a source of adjustment within the financial sector (DiGabriele, 2016) in both developed and developing economies. The accounting and auditing literature has consistently reported the existence of the AEG in both developed and developing countries (Best et al., 2001; Fadzly & Ahmad, 2004; Dixon et al., 2006; Haniffa & Hudaib, 2007; Sidani, 2007; Onumah et al., 2009; Pourheydari & Abousaiedi, 2011). This series of empirical and theoretical concerns is calls and signals for further research into the understanding and nature of the AEG concept. This paper is therefore a response to an aspect of the clarion calls for clarity in the definition and characterization of the AEG concept.

The rest of the paper is structured into four sections. The next section deals with a conceptual overview of the AEG concept together with reviews of extant literature with specific emphasis on the existing definitions of the concept in the literature. A case for addressing the AEG is then made in the third section. The last section reiterates the propositions of the paper as well as the concluding remarks and observations of the authors.

2.0 Conceptual Overview of Theoretical Underpinnings

Several social science theories have been employed in examining the AEG concept, some of them including stakeholder theory; the theory of inspired confidence; the credibility theory, quasi-judicial theory etc. (see Salehi, 2011; Hayes et al., 1999). However, a cursory look suggests that the agency theory has been recognized in the literature as one of the most important theories employed in justifying the need for auditing and accounting. The

aged-old agency theory is noted to capture and explicates the kind of relationships that exist amongst shareholders (i.e. owners) and management (controllers) of firms. The bounded rationality of shareholders and managers is noted to result in agency problems, which problem results from the conflict of interest which exists between shareholders who are providers of capital and managers.

The bounded rationality of shareholders and managers indicates that both shareholders and managers have their own interests and each strives to maximize their interest (Jensen & Meckling, 1976). The consequence is that, the interests of shareholders and managers are not aligned to each other. Berle and Means, (1932) argue that the advent of the modern corporation created a separation between ownership and control of wealth. The huge capital outlay required to finance a firm has made it virtually impossible for an individual to provide such finance. The separation of ownership and management calls for managers to account to the owners; which comes with it the problems which auditors as third parties are to help ameliorate. A distinguishing mark of the accounting and auditing profession is its acceptance of the responsibility to act in the public interest. Hence the fact those shareholders and the other stakeholders are supposed to have confidence in the audit profession guides the profession's independent inspection of accounts of firms.

It is arguably in this light that Baker (2002) claims that public confidence in a group of professionals is the "living heart" of that profession. Public confidence wanes when trust is not fostered at all times between professionals and their clients. According to Diego, (2000), lack of trust in such relationships frustrates the cooperative behaviour of actors. The need therefore to continuously improve, maintain and restore public confidence in professions, causes professional bodies to enunciate and enforce self-regulatory ethical standards with the view to promoting their independence, transparency and objectivity (Sikka & Willmot, 1995). Promulgation of professional standards is often informed by some form of necessary hypothesis envisioned by the profession. For example, it is often believed that professional standards would gain legitimacy and authority to the extent that members of the profession would mandatorily abide by them. But the financial scandals of recent past (e.g. Enron, WorldCom, Parmalat and similar others) and the complicity of professional accountants thereto, points clearly to the opposite. However in dealing with the consequent dwindling image of auditors after these scandals, the accountancy fraternity and other regulatory bodies characteristically responded with even more standards/regulations. These standards and regulations seek to achieve dual purposes; manage the image of the profession and expand the substantive performance regarding the duties and responsibilities of the auditor/accountant that is required to restore the needed faith in the capital market. Auditing standards, like many other standards, arguably but frozen assumptions of reality perceived by the standard-setters and clothed with authority or with some restraining impulse on unprofessional conduct. Professional standards are artifacts, the artifacts of the profession and not natural phenomena/causes that would necessarily produce a known effect. Therefore the promulgation of professional standards alone will not ensure high quality, credible and timely information that is most needed by market participants.

Expectations and Expectation Gap

The demand for audit arises from the potential conflict of interest that exists between stakeholders and managers. As mentioned by Arens et al. (2006) the demand for audit services is triggered by many factors, including the remoteness gap between users of financial statements and the preparers of these statements; the conflict of interest between users of financial statements; the complexity of economic transactions; and the expected effect of financial statements on decision making. The demand for and supply of audit and accounting services give rise to the formation of expectations. These expectations are founded on the audit activity and its offerings. The creation of the profession and its workings are tacit assurance to the users of the provision of certain services. While the profession creates the audit activity and sets the boundaries within which it delivers its service offerings, the beneficiaries of audits on their part form expectations based on their information needs. The relevance of the interaction between the auditor and the user of financial information means that an audit must contribute to making a difference in the decision making process. Otherwise, users of financial statements will not depend on audits and their outcomes. The expected effect on decision-making means that the audit must have information content, that is, it must affect investment decisions, credit decisions and other similar variables. It is submitted that, it is in the light of the foregoing that the audit expectations and expectation gap emanate and their attendant research interest.

The AEG, irrespective of its definition, is consistently found to exist in both the developed and developing countries. In the definition of the expectations gap, the central thesis is that what the user public expects from the audit function differs from the profession's understanding of its duties (Kimberly, Lowe, & Smith, 2001). One question that this definition forces to be asked is 'when comes this understanding by auditors of their duties? Auditors are fiduciaries, and their responsibilities ought to be circumscribed by the nature and essence of their employment and the interests created thereby. Hence, a conceivable breach of trust arises, as pertains in almost all fiduciary functions when the auditor acts improperly. However, what the general public has relied upon to partly define what constitutes improper act on the part of the auditor, is what auditors have long

since rejected as a core function of auditing. The issue is the auditor's inability to detect material fraud. The profession has relied on terms it has self-defined and used in setting the boundaries of its reporting. For example terms like 'materiality', 'reasonable assurance', 'fair presentation' etc. are common phrases used by the profession in their reporting. As argued by Onulaka (2015), the use of these terms and the self-regulatory posture of the accounting and auditing profession exacerbate the expectations gap problem. These terms are often couched to limit the liability of, and shield auditors from potential lawsuits arising from their unintended audit failures. The profession has thus over the years functionally applied these concepts and precepts to meet its goals in the audit activity. Some commentators have argued that if the accountancy profession is to properly serve the interest of the public, it must avoid these escapist and liability-limiting phraseologies and terminologies which it adopts in the course of assurance provision on financial statements. The import of these concerns can be properly evaluated in the context of a critical look at the characterization of the AEG in both professional and academic discourses as well as theoretical and empirical literature.

Critiquing some of the Definitions of the Concept

The perceived illusiveness of the AEG is partly a creation of the profession, and partly the formation of perceptions and expectations by the user public. Therefore, a holistic examination and description of the concept must embrace this fact in a very balanced and unbiased manner. This view, it is believed, could engender progressive and constructive steps towards addressing the AEG problem pragmatically. But a cursory look at extant literature seems to suggest otherwise. The spyglass of criticisms appears to have been excessively focused on the nature and expectations of the users. Although some of these expectations admittedly tend to be excessive and in some cases largely unattainable, the accounting profession appears to have acted evasively over the years in its attempts at confronting the AEG problem. According to Tricker (1982), the expectations gap results from a natural time lag in the auditing profession in identifying and responding to continually evolving and expanding public expectations. This presupposes that a progressive and real-time response to the expectations of users as and when they are formed, and in some cases, the anticipation of ensuing expectations would contribute to keeping at bay some of the causative forces of the AEG problem. Although such calls radiate value-relevance on their own terms, the fluidity and complexity of the financial reporting activity and its attendant audit function make such real-time responses much more unfeasible. There is therefore unavoidably long time lag in responding to some germane concerns of users.

However, at the extreme end of the continuum are commentaries suggestive of a reticence and reluctance on the part of the accounting profession in responding to what they claim are the legitimate demands of users of financial statements. Some of these commentators have strongly argued that the AEG concept is the consequence of the contradictions in a self-regulated audit system operating with minimal government intervention (Hopwood, 1990; Humphrey et al., 1992; Sikka et al., 1992). Although these observations appear vitriolic, they are admittedly, instructive and worthy of evaluation in the interest of both the accounting profession and the user public. However, despite these observations, a common response of the accountancy profession has been to stress the misguided nature of external expectations. The argument of the profession is that the public expects too much and remains largely ignorant as to the precise nature, purpose and capacity of the audit function (Humphrey et al., 1993). Similarly, Lochner (1993) claimed that far too much weight was being placed on auditors' work, in part because even some businessmen were ignorant of how audits were performed and what audits represented.

We contend that this blame game has done little to clarify and resolve the AEG problem. On the contrary, the attitude of the profession seems rather to be operating to exacerbate the problem. We argue that the persistence of the AEG problem stems largely from its conceptualisation and/or construction fluidities. The concept seems not to have been couched in clear and certain terms. The terminology has been assigned different meanings, sometimes in a biased manner in certain contexts. On the one part, it is broadly defined such that it admits of and creates very remote and unachievable expectations. On the other part of the continuum, it appears narrowly defined such that it excludes very relevant and legitimate evolving expectations of users. There is yet another fundamental concern about the posture and response of the accounting profession in this contextual debate. Some commentators have submitted, with convincing appeals, that the response of the accounting profession has been nothing but a defensive shield (Sikka et al, 1992; Humphrey et al., 1992; Manson & Zaman, 2001) Others have argued that the response of the accounting profession is rather premised on a note of caution and the need for independence in view of the fact that the profession is largely self-regulating. Thus, the profession is mindful, some argue, of not acting and running counter to the age-old revered maxim, "*nemo iudex in causa sua*", to wit, "*one must not be a judge in one's own cause*". A critical look at some of the popular and widely cited definitions of the AEG concept lends credence to the positions of this paper.

Liggio (1974)

Unarguably, the premier application of the term "expectation gap" in the context of contemporary expectation

gap discourses is attributable to Liggio (1974). Here, the concept was defined as:

The difference between the levels of expected performance as envisioned by the independent accountant and by the user of financial statements.

This premier definition, it is humbly submitted, attempt to contrast the level or standard of performance expected by auditors and users; which resulting expectations are subjectively determinable by the actors. As observed by Porter (1993), this definition does not embrace the notion that auditors may not accomplish 'expected performance' or what they 'can and reasonably should'. This approach to the conceptualisation of the idea is problematic. There is no clarity in the absence of an objectively defined standard of performance devoid of the subjective perceptions of the actors involved.

Cohen Commission (1978)

In 1978, the definition proffered by Liggio (1974) was extended by the Commission on Auditors Responsibilities (CAR) (Cohen 1978). This Commission examined whether a gap exist between what the public expects or needs and what auditors can and should reasonably expect to accomplish (Porter & Gowthorpe, 2004). The Cohen Commission (1978) observed that some users of financial statements equate an unqualified audit report with a guarantee of the accuracy and reliability of the financial statements and the continued viability of the business under examination. As evidenced by the media and litigation(s) against auditors, when a business fails shortly after receiving an unqualified audit report, the public often perceives the failure as an audit failure. Investors and others then question why they were not warned about the company's financial difficulties.

It must be conceded that the Cohen Commission's work was one of a fact finding with a mandate to make recommendations for redressing the perceived gap existing. Thus, the Commission tended to emphasize the nature of the AEG existing rather than providing a conceptual definition of the AEG problem. Thus, the focus was on whether or not a difference exists between the expectations or needs of users and the feasible and reasonably accomplishable work of the auditors (*whether a gap exists between what the public expects or needs and what auditors can and should reasonably expect to accomplish*). It is observable here that the expectations of the accounting profession appear to be absent from the assessment. Thus, the deficiency in this definition stems from the omission of the expectations and demands of the one most significant actor in the auditing process; the accounting profession. We argue that, the expectations of the users (of financial statement) qua users, and same expectations of the auditors, qua auditors are inherently divergently biased for obvious reasons. First, these expectations or needs are subjectively defined and are thus laced with justifiable opportunistic behavioural motives. Users would naturally expect guarantee of security of their interest (complete protection of their investments), while auditors would seek protection from exposure to liability arising from audit failure by assuming less responsibility wherever possible. Second, the view of an independent arbiter, the accounting profession, will not only be authoritative; it will also provide basis for objectifying the standard of assessment of the duties and the requisite standard of performance of such duties in the conduct of an audit.

Guy and Sullivan (1988)

According to Guy and Sullivan (1988), the concept refers to:

The difference between what the public and financial statement users believe accountants and auditors themselves believe they are responsible for.

This definition appears equally deficient in merit in its attempt to capture the phenomenon of the AEG. The phrasing of the definition subjugates the conceptualisation of the concept to the beliefs of the two parties (the auditor and the user). Not only does it fail to the test of authoritativeness, but it relies on the beliefs of two of the actors. The view of the accounting profession on the matter is not espoused. As beliefs are inherently subjective, a window of opportunistic behaviour is opened. These beliefs invoke the push and pull forces of the actors and the display of power as opposed to the objective formulation of the concept. In some cases and situations, the lack of clear definition, both of the terminology and its supporting body of accounting knowledge is typically excused on the basis of different and changing circumstances (Lee 1994). In these instances, specific operational meaning is given to the prescribed terminology by individual accountants acting as auditors. This approach may not apply to the AEG issue. The disequilibrium in the balance of power between the parties, and the innate need to perpetuate this power imbalance puts the user-public at a disadvantage. The call for clarity and precision in the characterization of the differences in expectation is thus incessant and much more compelling in the context of contemporary complex and evolving business and economic environments.

AICPA (1993)

According to AICPA (1993), the AEG refers to:

The difference between what the public and financial statement users believe the responsibilities of auditors to be; and what auditors believe their responsibilities are.

This definition equally attracts reservations, if not more, as it emanates from a professional accounting

body. As this definition comes decades after the first application of the terminology, more clarity would have been expected. This aptly buttresses the point of Tricker (1982) that the expectations gap results from a natural time lag in the auditing profession in identifying and responding to continually evolving and expanding public expectations. The reticence of the profession should provoke interrogation as to why it refused or failed to act decades back. An earlier assertive pronouncement on the construct would have served in clarifying and providing bases for assessing and evaluating the expectations of the various actors. Thus, the failure of the profession or its acquiescence has contributed to the adoption of the easy way of passing the blame onto the user public's misunderstanding of the responsibility of the auditor in defence of the auditor. At the extreme, some genuine expectations of users have been unfairly characterised as unreasonable. This, we submit, is a misnomer. Users do not form expectations in the air. Most of the expectations are informed by decision needs and usefulness. We argue that these expectations are better described as unachievable rather than unreasonable which is apparently a slight on the value judgement of the user public.

Pierce and Kilcommins (1996)

According to Pierce and Kilcommins (1996), the AEG is when external auditors' understanding of their role and duties is compared to the expectations of user groups and the general public. The concept of an AEG suggests that the public expects auditors to act in ways which are different from what auditors themselves would expect to act (Koh & Woo, 1998). These and the immediately preceding definition postdate the introduction of the long form auditor's report which emanated from the recommendations of the Cohen Commission (1978).

Ojo (2006)

Ojo (2006) defines the expectations gap as the difference between what the public and users of financial statements perceive the role of an audit to be and what the audit profession claim is expected of them during the conduct of an audit. An antecedent of Ojo's (2006) definition is the one provided by Monroe and Woodliff (1993) who also defined the AEG as the difference in beliefs between auditors and the public about the duties and responsibilities assumed by auditors and the messages conveyed by audit reports.

Current Efforts at Redefining the AEG

Some significant efforts have been made and continue to be made with the view to clarifying and redefining the AEG concept in contemporary times. For example Dennis (2010) undertook a conceptual enquiry into the idea of the expectations gap, where expectations were explained from beliefs and desires about what is and what ought to be the duties of an auditor on the one hand and the reasonableness of those beliefs on the other. He relied on Porter and Gowthorpe's (2004) view that the non-financial community audit beneficiaries considered auditors duties to be far more extensive than were actually required to define what he termed as an 'ignorance gap'. Dennis (2010) and Adafula et al, (2016) contend that this gap can be remedied through education of such parties about the duties of auditors. Earlier works by Porter (1993) and Porter and Gowthorpe (2004) had set the performance-related context for defining the AEG. In those works the audit expectation-performance gap was defined as that between: (i) society's expectations of auditors; and (ii) auditors' performance as perceived by society. This gap was further broken into a 'reasonableness' and a 'performance' component. In both works Porter contends that the reasonableness gap is often perpetuated by society's increasing and often unrealistic demands for accountability. This view again puts the blame for the existence of the gap on the user public, whose interest is to be protected by the profession in the first place. After all, the auditor can go ahead and produce his report anyway, in so far as he follows the rules and methods sets by the profession.

3.0 The Way Forward

Rejoinders to a potentially widening expectation gap have come from both researchers and the accounting profession. A primary deficiency in existing expectation gap literature is that the focus has been on the overall audit process rather than the continuing evolving challenges faced by auditors (DiGabriele, 2016). This paper suggests possible ways of tackling the ramifications of the AEG as it is currently perceived in the literature, taking into considerations current challenges facing the audit profession in particular and financial reporting in general.

The Role of the Accounting Profession

The accounting profession progresses through regulatory promulgations, social, political, and standard-setting events (Boyce et al., 2012). The audit profession is presently traversing a risky course of complex reporting standards, new business technologies, and increased public judgment (Carlino, 2012). This paper presents a clarion call to accounting educators to align university curriculum and professional exams curriculum toward market expectations (see Christensen et al., 2012) and perhaps proffer various regulations and standards to demystify complexities with financial reporting and audit. The accounting profession has to do more in

highlighting the different kinds and levels of assurance provided by the profession. The exposition and popularization of the principal assurance activities and functions should be given prime attention. This will provide bases for comparing the expectations of the user-public with those of the profession (but not those of the auditors) in establishing any gaps. This it is believed would facilitate the couching of the AEG in clear and uncertain terms. It will require that the accounting profession comes out of its defensive shield which tends to see little wrong with the performance of its members. It would be farfetched to presume that all auditors perform their task of assurance provision to the requisite standard of performance envisioned by the profession. Such a presumption would ignore the fundamental principle that auditing is socially constructed. Just like other socially constructed activities, auditing is performed in a context of interacting factors that both enable and/or constrain actions. In this regard, subjectivity is bound to arise in the process. As a practical matter for example, financial resource and time constraints inevitably often compel the auditor to conduct the audit in specific costs versus benefits ways which he describes as efficient and effective (Imhoff, 2003). Related to the preceding is the role of professional skepticism, which skepticism appears to have played a part in perpetuating the AEG. The requirement of the exercise of professional skepticism in the provision of judgment in financial reporting seemingly feeds into a sense of timidity in the professional accountant. It is proposed that the accounting profession takes pragmatic steps along the following lines in an attempt to address the perennial issue of the AEG.

Broadening the Scope of Auditor Responsibility for Fraud Detection

The AEG has been found to be particularly wide regarding the issues of auditors' responsibility for fraud prevention, maintenance of accounting records, and auditor judgment in the selection of audit procedures (Dixon et al., 2006). So in the area of mainstream auditing of financial statements, the accounting profession must take bold steps in embracing and responding to the incessant calls for the broadening of the scope of the work of the auditor in the area of fraud detections in particular. The need for auditing arises precisely to counter those risks of material fraud that the absentee-investor faces due to the potential opportunistic behaviour of managers. Thus if the auditor was unable to detect such material frauds due to a narrow conception of what the scope of his work was, then there is need for genuine efforts to broaden that scope to encompass the rational expectations of the public. For auditors to be effective in finding fraud they need to add foundational forensic accounting skills in the performance of an audit (DiGabriele, 2016).

Simplification and Elaboration of the Duties Imposed on the Auditor

Furthermore, an elaboration and a simplification of the responsibilities currently imposed on auditor by the profession in the conduct of an audit would contribute to enlightening the user public and redefine their expectation through time and practice. Consequently, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest an accountant should observe and comply with the requirements of the fundamental principles.

Explanation of Areas of Expectations not Achievable from Audits

A painstaking explanation of the expectations that appear to fuel the expectation gap problem should be mandatory in the reporting process. The auditor's report should explain in clear terms the respective responsibilities of directors and auditors regarding the financial statements audited. It should expressly outline the particular issues of expectations that are not achievable from audits. This would contribute to redirecting the minds of the users to focus on areas of performance that are the prime emphasis of an audit.

The Role of the Users of Audited Financial Statements and other Assurance Services

Assertiveness of Users Should be encouraged

The average user appears generally reticent and docile. This attitude of users contributes to the relinquishing on the part of the user, and the arrogation of excessive powers by the auditor. This attitude seemingly distorts the balance of power in favour of the auditor. The provision of assurance and the reliance on assurance provided operates in a demand and supply fashion. Regardless of the type of assurance provided by the auditor, the auditor owes a duty of care to not only the user who commissioned the assurance work, but also to those reasonably foreseeable of relying on the assurance so provided. Therefore, the primary users with direct financial interest (investors and lenders) must apprise themselves of the legal protections arising from statute and/or common law and make use of same as and when warranted. The investor who appoints the auditor is the master in this context. Thus, areas of audit failures that border on professional negligence should be addressed separately. These must not be attributed to expectations gap. Similarly, the concealment of fraudulent reporting practices and the use of creative accounting techniques that are reasonably discoverable through the exercise of professional due care and diligence that remain undetected should attract liability. After all, it is the potential for such fraudulent activities that lie at the heart of the agency problem, and are the measles of the absentee investor.

Proactive Engagement with the User Public

The objective of financial reporting is that the information should be useful to users for making economic decisions. The accountancy profession should proactively engage with the user public to understand the main areas of discord in perceptions with the view to containing same. As contended by Sikka, Willmott, and Cooper (1998), auditing takes place in a social context that is subject to constantly shifting meanings on the back of continuously changing perspectives through interaction and negotiation and that 'the meaning of audit cannot be fixed' (p.319). Thus the laid back approach on the part of the profession that waits and only responds to crisis should be reformed in favour of an active and continuous engagement with the public. This approach will enable users of financial statements take it upon themselves to learn and understand the rudiments of financial reporting and its attendant auditing function and thereby reduce the AEG.

4.0 Conclusion

We conceptually examine the definitions of AEG and throw up issues for the attention of stakeholders in the financial reporting supply chain with the view to contributing to curtailing the widening of the AEG. This work provides added value for measuring, comparing and evaluating the progressive developments and the nuances of the AEG concept. The AEG can arise on any issues on which auditors and respective stakeholders have different opinions (Lee & Ali, 2008). This gap may be due to deficit performance of auditors due to unreasonable (unachievable) expectations of stakeholders. But in order to reduce this gap it is important to highlight the key factors, the areas which are important and that contribute towards the creation of this gap (Gay, Schelluch, & Baines, 1998). We suggest that one of the surest ways of tackling the AEG problem is the entrenchment of audit quality. Audit quality describes how well an audit detects and reports material misstatements of financial statements, reduces information asymmetry between management and stockholders and therefore helps protect the interests of stockholders. High audit quality should be associated with high information quality of financial statements as financial statements audited by high quality auditors are less likely to contain material misstatements.

Drawing on Porter's (1993) seminal work, other researchers have more recently provided highly instructive insights into the AEG. Nonetheless, early critics claimed that the responses to the expectations issues were defensive. Though, these criticisms may hold some weight, it would appear from subsequent responses that these early steps were on a cautious note for obvious and defensible professional reasons. It can be argued that these responses were aimed at addressing multiple issues, which among other things include but not limited to the following: (1) responding to the legitimate concerns of users in a practical and feasible manner, (2) clarifying the areas of expectations remotely achievable from audits, (3) re-emphasising the fundamental function of the independent audit activity, (4) defining and circumscribing the areas of responsibility of the auditor for purposes of gauging professional liability, and (5) ensuring that the flood gates of expectations were not widely opened as to lead to exaggerated and even wild expectations that may confuse the accounting profession.

We therefore contend that despite the much progress of the various attempts at clarifying the AEG concept, there is still a need for more specific comparative empirical indicators to grasp the complexity and diversity of the AEG manifestations. This, it is suggested, requires a systematic and contextual classification of the AEG. We believe that such clarifications would enable accounting practitioners and scholars to more systematically trace, analyse and attempt to address the AEG phenomenon holistically. This paper thus suggests general clarifications for narrowing the expectation gap regarding: (1) the accounting profession's role, (2) broadening the scope of auditor responsibility for fraud detection, (3) simplification and elaboration of the duties imposed on the auditor, (4) explanation of the areas of expectations not reasonably achievable from audits, (5) the role of the reasonableness of the knowledge of users of audited financial statements and other assurance services, (6) encouragement of assertiveness of users, and (7) promotion of proactive engagement with the user public.

Supportive of the need to arrive at an encompassing depiction of the AEG, we propose a broad and multifaceted description of the concept. This provides for a focused analysis of the expectations of the accounting profession on the one hand, and their relative comparison with the expectations of the users of financial information on the other. This, it is submitted must take into account the reasonableness of the following: (1) achievability of the expectations of users of financial statements, (2) users knowledge of financial reporting in general and auditing in particular, (3) knowledge of users regarding the duties and responsibilities of the auditor, (4) users knowledge of the audit process and procedures, and (5) level of users appreciation of the degree of assurance feasibly attainable from audits.

In furtherance of this end, *we propose a characterisation of the expectations of users of audited financial statements into two broad classes; reasonably achievable expectations and reasonably unachievable expectations.* This, it is believed, has added value-relevance in clarifying the various expectations from audits. First, it does not only acknowledge and preserve Porter's (1993) tripartite categorisation of the AEG which distinguishes between reasonableness and unreasonableness gaps and provided sub-dimensions, but it attempts to

extend and add clarity to the nature of users expectations from audits. Second, it advocates for a description which seeks to purge the AEG concept of unreasonable expectations, the admission of which may exacerbate the auditor liability crisis. Third, it seeks to limit the tendency to unnecessarily question the credibility of the audit activity and at the same time raise the costs of assurance services.

The central idea espoused herein hinges on the proposition that a positive view of audit and audit expectations would greatly contribute to improving the market value of financial information. This has the added potential of strengthening and/or reinforcing the central importance of the attestation function of audit. However, for these perceived benefits and efficiencies to flow to the capital market through the attempts suggested in this paper, various pragmatic steps are, but essential. First, it is critically important to enlighten stakeholders to rethink the AEG concept and appreciate the functions of auditing in context. Second, it is crucial to understand that continuous and additional training in audit and its reportage are necessary prerequisites to improving the value judgments of practitioners, and stakeholders in particular, with the view to meeting stakeholders' expectations. These issues, if properly addressed could largely contribute to reducing the recurrence of the reasonably unachievable expectations gap in many facets of the financial reporting supply chain. This could provide an opportunity for developing pragmatic steps aimed at addressing the surging concerns of users on the reliability of audited financial statements and relative decision usefulness in capital markets of varied business and economic environments.

It must be stressed that this discussion could greatly benefit from development of more systematic empirical analysis and clarification of the AEG concept in specific and comparative contexts. This paper is thus a call for a progressive and constructive attitude towards the interpretation and discussion of the AEG concept. This view is particularly resonating in contemporary discourses of the AEG concept as the changing and evolving nature of the multifaceted business and economic environments create new as well as modify existing audit expectations from the view point of users of financial statements. Thus, there are more nuances in the facts that operate to define and construct the AEG concept than originally perceived. Hence, current discussions must acknowledge and incorporate these nuances that influence what meanings are attributed to auditing pronouncements on the one hand, and how these pronouncements mean on the other to the beneficiaries of audit work. This proposal appears to fall in line with the suggestion that the accounting profession's progress will be through regulatory promulgations, social, political, and standard-setting events (Boyce *et al.*, 2012). These should be targeted to traverse the current risky course of complex reporting standards, new business technologies, and increased public interest in financial reporting. The ramifications of these evolving and complex issues raise further issues of the meaning of reasonability of assurance, and thus question whether there are objective standards of definition of reasonability of expectations of users of financial statements. Thus, the debate on the conceptualisation and construction of the AEG is unlikely to recede now and in the foreseeable future. More and more calls for clarity in the construction of the AEG concept are to be expected as modest attempts of the current form are made to contribute to and further the interrogation of this age old concept.

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