

A new method for measuring audit expectation gap

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ABSTRACT

The term of audit expectation gap (AEG) was created nearly 50 years ago and has received the attention of many researchers. Despite a lot of research on AEG, the method of measuring AEG remains controversial. The number of studies which propose the method of measuring AEG is limited and there are many problems when applying these methods in empirical studies. Inherited from previous studies, this paper aims to develop a new method of measuring AEG and proves it by the results from the application of this method in empirical research in Vietnam. The article achieves two important results: (1) Proposing a new method of measuring AEG based on the Porter's definition and structure of AEG; and (2) Proving the results from the application of the new method for measuring AEG by conducting empirical research in Vietnam.

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1. Introduction

The existence of AEG has damaged the reputation of the audit profession and reduced the confidence of users in the role of auditors. Porter et al. (2005) argued that when the credibility and reputation of the auditor is reduced to a certain extent, the audit profession will become useless. Therefore, it is important to identify and measure the AEG to establish appropriate plans which ensure the reputation of the profession and maintain the public confidence in the audit. However, because of the complex and multidimensional nature of the AEG, only a few researchers have proposed the method of measuring this gap. In addition, there are many controversial issues when applying these methods in empirical studies. This study inherited from the previous studies, especially the study of Porter (1993) aims to develop a new method of measuring AEG in the new research context - Vietnam. This article achieves two important results:

- (1) Proposing a new method of measuring AEG based on the Porter's (1993) definition and structure of AEG.
- (2) Proving the results from the application of the new method for measuring AEG by conducting empirical research in Vietnam.

The remaining sections of the paper are organized as follows. Section 2 reviews the literature on AEG including definition, structure and measurement methods of AEG. Section 3 presents the theoretical framework and proposes a new method of measuring AEG inspired from the study of Porter (1993). Section 4 is the application of the proposed method for measuring AEG in Vietnam. The last section is the conclusion and direction for the future research.

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2. Literature review

2.1. Definition of the audit expectation gap

This subsection aims to provide an in-depth discussion of the issues pertaining to the AEG. Through a review of auditing literature, the following two approaches of the AEG appear relevant as suggested by He (2010). According to He (2010), the definitions of the AEG can be divided into two groups:

- (1) For the first group: AEG is the difference in expectation and perception between users and auditors. The definitions based on this approach are such as that of Liggio (1974), Guy and Sullivan (1988), AICPA (1993), Jennings et al. (1993), Monroe and Woodliff (1993), Epstein and Geiger (1994), McEnroe and Martens (2001).
- (2) For the second group: AEG is the difference in expectation and perception of only one party such as the public, society or the users of financial statements. The definitions proposed by Cohen Commission (1978), MacDonald (1988), Porter (1993) are of this category.

Between two groups indicated above, the second one is more appropriate because of following reasons:

- (1) The second group is in line with the nature of AEG. That means the difference between the expectation and the perception of only one party regarding the audit results. In our opinion, the difference in expectation and perception between the users and auditors as defined by the first group cannot be the expectation gap because it simply reflects the misunderstanding on evaluating the audit results of two groups of parties that are always of different interests. Hence, this difference is a kind of perception gap rather than expectation gap.
- (2) The second approach of definition takes into account the users' points of view. Thus, it ensures the objectivity and reliability of the research, especially in empirical studies because it guarantees uniformity in samples and benefits. Therefore, for the purpose of this research, we decided to rely on the second approach of AEG definition, taking into account the perspective of users in order to develop the research's model and method for measuring AEG. Accordingly, the audit expectation gap is the difference between society's expectations of auditors and auditors' performance as perceived by society (Porter, 1983).

2.2. Structure of the audit expectation gap

MacDonald (1988) and Porter (1993) clarified the AEG's structure as follows:

According to MacDonald (1988), AEG comprises standard gap and performance gap:

- (1) Standard gap arises when the public's expectations go beyond the existing standards. This gap is constituted by unreasonable and reasonable expectations of the public which are not met by current standards.
- (2) Performance gap arises when the public believes that the audit's quality does not achieve the requirements of current standards. The cause of this gap is due to the auditors' performance or the public's incorrect assessment of the audit's results.

According to Porter (1993), AEG consists two major components:

- (1) Reasonableness gap: a gap between what society expects auditors to achieve and what they can reasonably be expected to accomplish.
- (2) Performance gap: a gap between what society can reasonably expect auditors to accomplish and what they are perceived to achieve. This gap is subdivided into:
 - (2.1) Deficient standard: a gap between the duties which can reasonably be expected of auditors and auditors' existing duties as defined by the law and professional promulgations.
 - (2.2) Deficient performance: a gap between the expected standard of performance of auditors' existing duties and auditors' perceived performance, as expected and perceived by society.

As mentioned above, the model of Porter (1993) not only ensures the conformance with the definition of AEG but also ensures the completeness and objectivity of the components; hence, this research takes into account the Porter's (1993) AEG structure to design the method of measuring AEG.

2.3. Literature review of methods of measuring AEG

The number of studies on measuring AEG is limited, and Porter (1993) is considered as the first researcher who designed and conducted empirical research on measuring AEG related to auditors' responsibilities.

The method of measuring AEG in Porter's (1993) study was designed as follows:

- The research questionnaire includes auditors' duties that exist and do not exist in the current auditing standards. The respondents will answer 3 questions for each duty:

- (1) Is the duty an existing duty of auditors?

(2) If the duty is an existing duty of auditors, how well is it performed?

(3) Should the duty be performed by auditors?

- The existing duties of auditors which public believes that auditors have not performed well will contribute the deficient performance (DP).

- The duties that are not included in current standards but have at least one group of respondents with a percentage that agree more than 20% ($\geq 20\%$) or a positive average value (>0) are identified as the duties that the auditor should perform. These duties, which are agreed by both the auditee and the financial community will be reasonable duties and contribute to the deficient standard (DS). On the other hand, duties which only auditee or only the financial community agree with will be unreasonable duties and contribute to the reasonableness gap (RG).

Based on the number of respondents and their rating, Porter (1993) determined the duties which contributed to the gap and percentages of each component of AEG.

Other later studies inherited from the research of Porter (1993) to measure AEG are that of Hassink et al. (2009) and Litjens et al. (2015). However, these studies relied on the difference between average evaluation scores of users and auditors to measure the AEG and its components; thus, they are a departure from the Porter's (1993) AEG definition and AEG structure model.

3. Theoretical framework and a new method of measuring AEG

3.1. Theoretical framework

3.1.1. Theory of inspired confidence

Theory of inspired confidence was developed by Limperg in 1926. Limperg (1926) believed that auditors should do everything to meet the public's reasonable expectations. Limperg's framework is based on the greatest possible level of the satisfaction of users with the auditor's work. To achieve this objective, the auditors must perform enough work to meet the expectation they have aroused in society. Therefore, this research is based on the highest level of user expectations (5 points according to the 5-Point Likert scale) to determine the extent of AEG and its components.

3.1.2. Agency theory

Agency theory analyses the relationship between investors and managers: the agent (manager) undertakes to perform certain duties for the principal (investors) and the principal undertakes to reward the agent (Jensen & Meckling, 1976). Agency theory also shows that the auditors have the same role as an executive in the company, they supervise the relationship between the agent and the principal. An audit provides an independent check on the work of agents and of the information provided by an agent which helps to maintain confidence and trust (ICAEW, 2005). Therefore, there are some conflicts of interest and risks between the auditor and the manager, investors, which leads to the existence of AEG. Based on the agency theory, the auditor's duties in the research will be classified as reasonable expectations if both auditor and user agree that they are the jobs of the auditor, because in this case there is no conflict of interest and risk between the parties. Conversely, the auditor's duties are unreasonable when they are expected by the users, but auditors do not agree with that.

3.2. Proposal a new method of measuring audit expectation gap

This research inherits the AEG definition and structure of Porter (1993). Accordingly, AEG will be considered from the perspective of users, and it includes three components: reasonableness gap (RG), deficient standard (DS), and deficient performance (DP).

The questionnaire in the study includes auditor's duties which are and are not in the existing standards similar to the Porter's (1993) framework. However, the way to determine reasonable or unreasonable expectation and the method of measuring AEG in this research are different from that of Porter (1993).

Firstly, Porter (1993) classified the duties that are not in the existing standards to reasonable or unreasonable expectations based on the consensus of the auditee and the financial community. However, in our study, the classification of reasonable and unreasonable expectations is based on the consensus between users and auditors because in Vietnam, most of the users are inexperienced and do not have a deep understanding of auditing.

Secondly, the extent of AEG in Porter (1993) is scaled by 100%, and its components (RG, DS, DP) are measured in percentage of 100%. Unlike Porter (1993), our research relied on the inspired confidence theory of Limperg (1926) so that AEG and its components are measured by the difference between the users' assessment of auditor's performance and their expectations at the highest level of satisfaction (5 points according to the 5 – point Likert scale, the benchmark). The formulas of measurement AEG and its components are as follows:

✓ Reasonableness Gap i (RG i) = 5 – User’s assessment of auditor’s performance of unreasonable expectation i

Total reasonableness gap (\sum RG) = $\sum_{i=1}^n$ RG i

Reasonableness Gap (RG) = $\frac{\text{Total reasonableness gap}}{\text{Number of unreasonable expectations}} = \frac{\sum \text{RG}}{n} = \frac{\sum_{i=1}^n \text{RG } i}{n}$

✓ Deficient Standard i (DS i) = 5 – User’s assessment of auditor’s performance of reasonable expectation not in existing standards i

Total deficient standard (\sum DS) = $\sum_{i=1}^n$ DS i

Deficient Standard (DS) = $\frac{\text{Total deficient standard}}{\text{Number of reasonable expectations not in existing standards}} = \frac{\sum \text{DS}}{n} = \frac{\sum_{i=1}^n \text{DS } i}{n}$

* Deficient performance i (DP i) = 5 – User’s assessment of auditor’s performance of their existing duty i

Total deficient performance (\sum DP) = $\sum_{i=1}^n$ DP i

Deficient performance (DP) = $\frac{\text{Total deficient performance}}{\text{Number of auditor's existing duties}} = \frac{\sum \text{DP}}{n} = \frac{\sum_{i=1}^n \text{DP } i}{n}$

* Total audit expectation gap (\sum AEG) = $\sum_{i=1}^n$ (5- User’s assessment of auditor’s performance of expectation i) = $\sum \text{RG} + \sum \text{DS} + \sum \text{DP}$

Audit Expectation Gap (AEG) = $\frac{\text{Total audit expectation gap}}{\text{Number of expectations}} = \frac{\sum \text{RG} + \sum \text{DS} + \sum \text{DP}}{n}$

4. Application of the proposed method for measuring AEG in Vietnam

4.1. The research hypotheses

From the proposed method for measuring AEG above, the research hypotheses are stated as follows:

H₁: *There exists a reasonableness gap in financial audit in Vietnam.*

H₂: *There exists a deficient standard gap in financial audit in Vietnam.*

H₃: *There exists a deficient performance gap in financial audit in Vietnam.*

H₄: *There exists an audit expectation gap in financial audit in Vietnam.*

4.2. The research design

4.2.1. Sample

The respondents of this research are divided into two groups: auditees (board of directors, accountants and internal auditors) and the group has direct interests from the audit (investors, bankers, financial analysts). The study also examines the auditors’ assessment about the possibility of their duties which are and are not in the current regulations. However, the research only uses the auditors’ assessment to classify reasonable and unreasonable expectations and does not use this result to measure AEG. Participants in these groups were selected using systematic random sampling.

4.2.2. Questionnaire

From the current regulations in the Vietnamese Law of Independent Audit, Vietnamese Standards on Auditing and previous studies, 25 auditor’s duties (9 duties are existing and 16 duties are not existing in the current regulations) were put into the questionnaire. In the questionnaire, the existing and non-existing duties are arranged interlaced but still in groups of similar expectations such as statements related to fraud, the possibility of continuous operation or internal control system.

The questionnaire for users consists of 2 questions for each duty: (1) Should the duty be performed by auditors? and (2) How well is it performed? However, the questionnaire for auditors only has a question: “Should the duty be performed by auditors?”, the answer “yes” or “no” are provided and coded 1, 0 respectively. For the question 2 “How well is it performed?”, respondents rather than auditors were asked to select the appropriate response from “very poorly”, “poorly”, “fairly”, “well”, “very well”. These responses are coded 1, 2, 3, 4, and 5 respectively.

4.3. The empirical results

4.3.1. Sample and response rates

The questionnaire was sent to 450 users (including auditees and direct beneficiaries) and 150 auditors. Responses are shown in Table 1. The results of Table 1 indicate that overall response rates are 67.78% from the user group and 75.33% from the auditor group.

Table 1
Sample and response rates

Group	No. of survey sent	Responses received		Usage responses (%)
		n	%	
<i>Auditees</i>	130	101	33.1	77.69
Board of directors	50	34	11.1	68
Accountants/Internal auditors	80	67	22	83.75
<i>Audit direct beneficiaries</i>	320	204	69.9	63.75
Investors	80	51	17.4	63.75
Bankers	80	55	20	68.75
Stockbrokers	80	53	18	66.25
Others	80	45	14.7	56.25
Total users	450	305	100	67.78
<i>Auditors</i>	150	113	100	75.33
Audit partners	30	15	13.27	50
Audit staff	120	98	86.73	81.67
Total auditors	150	113	100	75.33

4.3.2. Classification of the expectations

There are 25 auditor's duties in the questionnaire: 9 duties are included and 16 duties are not included in the current regulations. The research based on the responses from users and auditors for the question 1 "Should the duty be performed by auditors?" classifies these 16 duties into reasonable and unreasonable expectations.

Table 2
Mean scores from responses for question 1

Codes of expectations	Statements	Mean scores from responses for question 1	
		Users	Auditors
Unreasonable expectations			
EX2	To detect all fraud	.87	.31
EX3	To prevent all fraud	.70	.19
EX10	To detect and disclose in auditor's report the illegal acts committed by the company's management which DO NOT directly impact on the company's accounts	.90	.46
EX22	To absolutely ensure that the audited financial statements contain no significant accidental errors	1.00	.46
EX23	To absolutely ensure that all legal requirements as laid down by the Companies Act and other statutes have been complied with by the auditee	.96	.41
EX25	To absolutely ensure that a satisfactory system of internal control is being operated	.98	.46
Reasonable expectations not in existing standards			
EX4	To report in auditor's report on any deficiencies or failure on the manner accounting and other records are kept by the auditee	.96	.67
EX5	To examine and report in auditor's report on the fairness of all information included in the annual reports of companies	.81	.81
EX6	For listed company, examine and report in auditor's report the compliance with all corporate governance requirements	.84	.90
EX11	To examine and report in auditor's report on the soundness of the internal control structure of the company	.96	.67
EX12	To examine and report in auditor's report the efficiency and effectiveness of the company's management, its plans, policies and administration	1.00	.63
EX14	To examine and report in auditor's report on the fairness of non-financial information contained in the company's annual report	.98	.61
EX15	To examine and report in auditor's report on the fairness of financial forecasts included in the annual reports of companies	.98	.90
EX19	To report in auditor's report on failures of auditors in obtaining all the information and explanation in forming their opinion on the company's accounts	.94	.81
EX21	The extent of audit work performed is clearly explained in auditor's report	1.00	.58
EX24	The extent of assurance given by the auditor is clearly indicated in auditor's report	.99	.51
Existing duties			
EX1	To issue an opinion on the true and fair view of the financial statements	1.00	1.00
EX7	To detect and disclose deliberate distortion of financial information with material impact on financial statements	.97	.71
EX8	To report to a regulatory agency the doubt of the deliberate distortion of information with material impact on financial statements	.81	.53
EX9	To detect and report in auditor's report on the illegal acts committed by the company's management: which directly impact on the company's accounts	.93	.71
EX13	Examine and communicate with management about the adequacy of control procedure to identify or manage the financial risks of auditee	.98	1.00
EX16	To assess the going concern ability of the auditee	1.00	1.00
EX17	To communicate with appropriate management the doubts about the auditee's going concern ability	.98	1.00
EX18	To disclose in auditor's report the doubts about the auditee's going concern ability	1.00	.90
EX20	To comply with Code of Ethics for professional	1.00	1.00

The results shown in Table 2 indicate that 6 duties not included in the current regulations were expected by users (mean scores ≥ 0.5), but auditors believed that they should not undertake these duties (mean scores < 0.5). Due to the disagreement between users and auditors, these duties were identified as unreasonable expectations. On the other hand, the remaining 10 duties not in the current regulations which are expected by the users (mean scores ≥ 0.5) and the auditors also stated that they should do these duties (mean scores ≥ 0.5) are classified as reasonable expectations.

4.3.3. Scale reliability

Study used Cronbach's coefficient alpha to measure the reliability of the research's scales. Table 3 indicates that the Cronbach's coefficient values of reasonableness gap (RG), deficient standard gap (DS) and deficient performance (DP) are all over 0.7. In addition, the Corrected item – total correlation values of all items are > 0.3 . Therefore, all scales in this research ensure the reliability to use to measure the AEG in Vietnam.

4.3.4. Hypotheses testing

This study uses One Sample T-test to determine the existence of AEG components and AEG in Vietnam.

Table 3
Cronbach's coefficients values and One sample T-test results

Codes of users' assessment of auditors' performance	Cronbach's coefficients values		Codes of AEG's components	One Sample T-test with test value = 5	
	Corrected Item-Total Correlation	Cronbach Alpha if Item Deleted		Sig. (2-tailed)	Mean Difference
Reasonableness Gap (RG): Cronbach Alpha = 0.796					
PF2	.387	.703	RG1	.000	-1.449
PF3	.322	.718	RG2	.000	-1.823
PF10	.376	.705	RG3	.000	-1.459
PF22	.554	.684	RG4	.000	-1.039
PF23	.447	.697	RG5	.000	-1.079
PF25	.328	.712	RG6	.000	-1.508
Deficient Standard (DS): Cronbach's Alpha = 0.720					
PF4	.337	.794	DS1	.000	-.823
PF5	.448	.781	DS2	.000	-1.148
PF6	.492	.776	DS3	.000	-.895
PF11	.437	.783	DS4	.000	-.830
PF12	.465	.780	DS5	.000	-.902
PF14	.456	.780	DS6	.000	-1.036
PF15	.520	.773	DS7	.000	-1.046
PF19	.513	.774	DS8	.000	-1.167
PF21	.479	.777	DS9	.000	-1.046
PF24	.559	.768	DS10	.000	-1.033
Deficient Performance Gap (DP): Cronbach's Alpha = 0.725					
PF1	.415	.691	DP1	.000	-1.177
PF7	.523	.670	DP2	.000	-1.357
PF8	.417	.693	DP3	.000	-1.469
PF9	.380	.699	DP4	.000	-1.285
PF13	.419	.692	DP5	.000	-1.187
PF16	.367	.701	DP6	.000	-.941
PF17	.353	.702	DP7	.000	-1.131
PF18	.384	.697	DP8	.000	-1.138
PF20	.304	.711	DP9	.000	-1.020

The results from Table 3 show that all expectations of auditors' performance assessed by the users are significantly different (sig. < 0.05) from the test value of 5 (the benchmark), so these expectations constitute the audit expectation gap (AEG). The results of measuring the AEG and its components as follows:

* *Reasonableness Gap (RG)* is measured by the difference between the users' assessment of auditors' performance of unreasonable expectation and the test value.

✓ Reasonableness Gap i (RG $_i$) is shown in the Table 3.

✓ Total reasonableness gap ($\sum RG$) = $\sum_{i=1}^n RG_i = 8.357$

✓ Reasonableness Gap (RG) = $\frac{\text{Total reasonableness gap}}{\text{Number of unreasonable expectations}} = \frac{8.357}{6} = 1.393$

As a result, the hypothesis H1 was accepted with 99% confidence interval, indicating that there exists a reasonableness gap in financial audit in Vietnam.

* *Deficient Standard (DS)* is measured by the difference between the users' assessment of auditors' performance of reasonable expectation not in existing standards and the test value.

✓ Deficient Standard i (DS $_i$) is shown in the Table 3.

✓ Total deficient standard ($\sum DS$) = $\sum_{i=1}^n DS_i = 9.926$

$$\checkmark \text{ Deficient Standard (DS)} = \frac{\text{Total deficient standard}}{\text{Number of reasonable expectations not in existing standards}} = \frac{9,926}{10} = 0,993$$

Consequently, the hypothesis H2 was accepted with 99% confidence interval, indicating that there exists a deficient standard gap in financial audit in Vietnam.

* *Deficient performance (DP)* is measured by the difference between the users' assessment of auditors' performance of existing duties and the test value.

✓ Deficient performance i (DPi) is shown in the Table 3.

✓ Total deficient performance ($\sum DP$) = $\sum_{i=1}^n DP_i = 10,705$

$$\checkmark \text{ Deficient performance (DP)} = \frac{\text{Total deficient performance}}{\text{Number of auditor's existing duties}} = \frac{10,705}{9} = 1.189$$

Therefore, the hypothesis H3 was accepted with 99% confidence interval that means there exists a deficient performance gap in financial audit in Vietnam.

* *Audit Expectation Gap (AEG)* is measured by the difference between the users' assessment of auditors' performance of the expectation and the test value.

✓ Total audit expectation gap ($\sum AEG$) = $\sum RG + \sum DS + \sum DP = 8.357 + 9.926 + 10.705 = 28.988$

$$\checkmark \text{ Audit Expectation Gap (AEG)} = \frac{\text{Total audit expectation gap}}{\text{Number of expectations}} = \frac{28,988}{25} = 1.160$$

Hence, the hypothesis H4 was accepted with 99% confidence interval that proves that there exists an audit expectation gap in financial audit in Vietnam. The results of applying the proposed method in measuring the AEG components and AEG in Vietnam are shown in the Table 4.

Table 4

Results from measuring AEG components and AEG in Vietnam

	Reasonableness gap (RG)	Deficient Standard (DS)	Deficient Performance (DP)	Audit expectation gap (AEG)
The total	8.357	9.926	10.705	34.952
The gap	1.393	0.993	1.189	1.160
The percentage	28.83%	34.24%	36.93%	100%

5. Conclusion and direction for future research

Based on Porter's (1993) AEG definition and AEG structure, the study has developed a new method of measuring the AEG components and AEG from the users' perspectives. The proposed method ensures the objectivity of the AEG definition, respects the AEG structure of Porter (1993) and quantifies the extent of AEG components and AEG with the 5 – point Likert scale. Moreover, this research applied the proposed method by conducting an empirical study in order to examine the existence and quantify the extents of specific components of AEG in Vietnam. However, due to the nature of exploratory research, this study cannot avoid some limitations. The survey questions are limited to the auditors' duties and do not consider other aspects of the audit engagement such as the assurance level and the information conveyed by the audit report. Therefore, the future research could be extended by adding other aspects of the audit engagement. Finally, based on the research results, it would be useful to examine the factors that influence the AEG in Vietnam.

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