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## The ability to reduce the expectation gap between financial reporting users and auditors: an analytical study of audit offices in Iraq

**Abstract.** As a result of the exposure of the audit profession to many criticisms directed by the financial community and users of financial reports, by failing to provide the desired services, resulting in a gap of expectation between the financial community and users of financial reports and auditors, the profession had to take into account the requirements of the financial community and users of financial reports to reduce the expectation gap between the financial community and users of financial reports and auditors. From this point, the study is based on examining the gap between the financial community and users of financial reports and auditors, as well as on ways to reduce this gap by an analytical study of the opinions of both auditors working in audit offices operating in Iraq and a number of users of financial reports employed in joint stock companies. In order to achieve these objectives, a survey was conducted in 2020, under which 140 questionnaires were distributed. One of the most important findings of the research is that a major reason for the gap of expectations in the audit profession from the point of view of users of financial reports is the underperformance of the auditor's responsibilities, and the lack of auditing standards is a major reason for the gap of expectations in the audit profession from the point of view of auditors.

**Keywords:** Financial Reports; Audit Offices; Analytical Approach; General Accounting

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### **Здатність зменшити розрив очікувань між користувачами фінансової звітності та аудиторами: аналітичне дослідження аудиторських установ в Іраку**

**Анотація.** Унаслідок того, що аудиторська професія зазнала значної критики з боку фінансової спільноти та користувачів фінансових звітів через ненадання бажаних послуг, що призвело до розриву очікувань між фінансовою спільнотою та користувачами фінансових звітів та аудиторами, представники даної професії повинні були враховувати вимоги фінансової спільноти та користувачів фінансових звітів, щоб зменшити розрив очікувань між фінансовою спільнотою та користувачами фінансових звітів та аудиторами. З огляду на це проведене автором дослідження ґрунтувалося на вивченні розриву між очікуваннями фінансового співтовариства та користувачів фінансових звітів та аудиторів, а також на вивченні можливостей зменшення цього розриву шляхом аналітичного дослідження думок як аудиторів, які працюють в аудиторських бюро Іраку, так і ряду користувачів фінансових звітів у акціонерних товариствах компаній приватного сектора. Для досягнення цієї мети було проведено опитування у 2020 році, під час якого було розповсюджено 140 анкет. Один із

найважливіших висновків проведеного дослідження полягає в тому, що однією з основних причин розриву очікувань у професії аудитора з точки зору користувачів фінансової звітності є недостатня ефективність відповідальності аудитора, у той час як відсутність стандартів аудиту є основною причиною розриву очікувань в аудиторській професії з точки зору аудиторів.

**Ключові слова:** фінансові звіти; аудиторські установи; аналітичний підхід; загальний облік.

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### **Способность сократить разрыв между ожиданиями пользователей финансовой отчетности и аудиторов: аналитическое исследование аудиторских бюро в Ираке**

**Аннотация.** В результате того, что аудиторская профессия подвергается значительной критике со стороны финансового сообщества и пользователей финансовых отчетов из-за неспособности предоставить желаемые услуги, что в свою очередь приводит к разрыву ожиданий между финансовым сообществом и пользователями финансовых отчетов и аудиторами, представители данной профессии вынуждены были принять во внимание требования финансового сообщества и пользователей финансовых отчетов, чтобы сократить разрыв между ожиданиями между финансовым сообществом, пользователями финансовых отчетов и аудиторами. С учетом изложенного выше проведенное автором исследование основывалось на изучении разрыва между ожиданиями финансового сообщества, пользователями финансовых отчетов и аудиторов, а также на изучении возможностей сокращения данного разрыва путем аналитического анализа мнений как аудиторов, работающих в Ираке, так и ряда пользователей финансовых отчетов в акционерных обществах компаний частного сектора. Для достижения этой цели был проведен опрос в 2020 году, во время которого было распространено 140 анкет. Одним из наиболее важных выводов исследования является то, что одной из основных причин разрыва ожиданий в профессии аудитора с точки зрения пользователей финансовой отчетности является низкая эффективность ответственности аудитора, в то время как отсутствие стандартов аудита является основной причиной разрыва ожиданий в аудиторской профессии с точки зрения аудиторов.

**Ключевые слова:** финансовые отчеты; аудиторские бюро; аналитический подход; общий бухгалтерский учет.

## **1. Introduction**

The concept of the expectation gap in the auditing profession emerged in the 1970s when it was defined in 1974 by Ligeio as the difference between the level of performance of the auditor expected as imagined by the auditor on the one hand, and as imagined by the users of the financial statements on the other. Many studies have dealt with audit literature, and over the past two decades the nature and scope of the expectation gap in the auditing profession between auditors on the one hand, and the multiple parties benefiting from audit services on the other. These studies have shown the existence of such a gap, in relation to many issues related to the profession and the work of auditors, such as the nature of the work of the profession, its objectives, organization, results, Responsibilities of auditors, their independence, and the implications of the reports prepared by them (Quick, 2020).

Many studies pointed to the importance of the expectation gap between auditor's users of financial statements, Salehi (2016, 2020) confirmed in his study to determine the extent of the gap of expectations between auditors and investors in Iranian companies, and the researcher relied in his study on the questionnaire form, and the study found a gap of expectations between investors in Iranian companies and auditors (Halbrügge et al., 2020). The Fotoh (2017) study aims to identify the importance of students' education of audit subjects and their contribution to narrowing the audit expectation gap resulting from a lack of understanding of audit regulations issued by auditing professional organizations. The Arung, Ali, & Wuryan (2017) study aims to examine the opinions of public sector auditors with the perceptions of users of financial statements on audited reports in Andnosia. The Masoud 2017 study aims to identify the causes of the gap in the expectation of scrutiny in Libya and its impact on the auditing profession. The study by Awadallah (2020) aimed to identify the extent of the gap of expectation of audit and determine its causes, and the sample of the study represented companies operating in the Nigerian public sector, and the study found that there is a gap of expectation between users of financial statements and auditors, and that one of the reasons for the gap of expectation of audit is the difference of opinion between users of financial statements and auditors about the responsibility and role of the auditor in the areas of efficiency, efficiency and economy (Coram & Wang, 2019; Fossung et al., 2020).

Overall, the main aim of the study is to analyze and figure out a way to reduce the expectation gap between financial reporting users and auditors.

## 2. Methods

### 2.1. The effects of the forecast gap in the check

The outlook gap has several implications for economic and financial life at the local and international levels, as it directly affects parties that use the auditor's report as a basis for making their decisions, as this report is of great benefit to the users of the financial statements, especially the three categories: shareholders, investors, and creditors (McElroy & Rosenow, 2019). The auditor's report is a means of communication and contains important information about the reality of the financial position of the facility and its future prospects (Awadallah, 2020). The existence of the expectation gap means a lack of supply of services and responsibilities of the audit profession as «or of a kind», which negatively affects society in the form of a lack of confidence and reliance on financial and non-financial information necessary for decision-making (Quick, 2020).

The fact that there is a gap in expectations between investors and auditors is an asymmetry of information about the facility between the two parties, which prevents the establishment of an efficient financial market in that country due to the destabilization of confidence in the audit profession (Fossung et al., 2020). The gap of expectations is harmful to the profession and society, as its presence and expansion has a positive role in activating the role of professional organizations, universities, and supervisory bodies in the stock exchanges in order to improve this situation, where the various organizations and bodies work to qualify the general framework of audit, rationality of expectations, and improve the performance of the auditors (Quick, 2020).

### 2.2. Ways to narrow the gap of predicting scrutiny

As differences between auditors and users of financial reports have intensified, many professional organizations and related entities have performed many diverse and distinctive activities in audit practices and procedures to cope with the clear and growing crisis of the forecast gap (Fulop et al., 2019). The burden of narrowing the expectation gap in audits is the performance of auditors, the expectations of financial reporting users from auditors, and other parties involved in the numbers and presentation of financial statements (Nickson & Neikirk, 2018). The existence and continuity gap between the performance of auditors and the expectations of financial reporting users is proof that the auditing profession has not kept pace with the pace of changes taking place in the financial reporting user environment (Alawi et al., 2018). Coram & Wang (2019) confirms that good quality auditisation is necessary to increase the level of guarantee required by investors, and that narrowing the expectation gap will restore investor confidence in the auditing profession as well as help investors better assess the real position of the company.

### 2.3. Expanded Checker Report

Several studies have researched and investigated messages received by auditing and the expectation of financial reporting users from auditors. The base of these studies is concentrated in the USA, Australia and the United Kingdom (Reid et al., 2019). In the United States of America, Pakaluk (2017) believes that the perceptions of financial reporting users about the relative responsibilities of management and auditors change through the expanded auditor's report, and that the perceptions of financial reporting users of the nature of the audit have changed significantly by regulating adjustments in audit reports.

Pantsar & Josefsson (2019) noted that financial reporting users in large and small banks have a strong response to the Expanded Audit Standard (58) issued by the American Institute of Chartered Accountants (AICPA) on (audited financial statement reports) to narrow the report gap. In Australia, audit reports prepared by auditors based on the revised audit applications list (a list of auditing standards issued in Australia) have significantly increased the understanding of financial reporting users of the audit process, the role of the auditor, the nature and specificity of financial reports, the responsibility of managers for financial errors, as well as the auditor's ability to formulate his opinion at the time of writing the report (Almulla & Bradbury, 2019). Dao et al. (2019) found that there was a gap between auditors and users of financial reports regarding the responsibilities of multiple parties to scrutinize the drafting of the old report, and the drafting of the report under the expanded report had a distinct impact on beliefs regarding the nature of the audit and

the responsibilities of auditors and management. Gutierrez et al. (2018) finds that these studies in America and Australia on the Expanded Audit Report have provided evidence that the expanded auditor's report gives a «greater understanding of the extent, nature and importance of the audit» and that the expanded report affects the understanding and understanding of financial users with regard to auditing and the role of the auditor, which means that the expanded auditor's report has narrowed the forecast gap in the audit. In Britain, Abdelfattah et al. (2018) explained that auditors and users of financial reports differ in their perceptions of the meaning of audit reports, and when the wording of the auditor's report changes, it may at the same time lead to changes but slight in their perception of the meaning of audit reports. Jones (2017) referring to a study in Britain in 1991, showed that changes in the summary micro-report did not lead to significant changes in the understanding and perception of users of financial reporting.

### 3. Results and Discussion

One of the approaches to narrowing the expectation gap between the perception and understanding of financial reporting users and auditors regarding fraud detection is through the adjustment of audit language, reflecting a clear picture of the ability of the auditor to provide proof regarding fraud, and from terms that can mislead users of financial reports such as irregularities, which is incomprehensible to financial reporting users and has been replaced by the term fraud (Abdelfattah et al., 2018). In 1993, Sikka pointed out that the expectation gap in auditing is due to the inability of some reporting users to understand the audit measures, and that the response of professional accounting bodies to this issue was done in two ways, first they discussed the need to re-educate users of financial reports regarding what the auditors are likely to do, and it is necessary to encourage financial reporting users to think about auditing in the same way that they think, and the second response is to encourage the devices associated with the audit to understand the continuing gap in the audit process. Audit and not work to reduce that gap by reducing noise on communication between auditors and users of reports (Ghandour, 2019). In 1988, the American Institute of Chartered Accountants (AICPA) issued nine criteria for narrowing the forecast gap within the U.S. forecasting program (Furedi, 2017; Larsen, 2017), namely:

- criteria no. 53 on (the auditor's responsibility for the detection of errors and fraud), criterion no. 54 on (the auditor's liability for the illegal conduct of the establishment), the criterion no. 55 on (internal control), the criterion no. 56 on (analytical examination), and standard no. 57 on (auditing accounting estimates), criteria no. 58 (reports on the financial statements subject), criterion no. 59 on (evaluation of the viability of the enterprise), criterion no. 60 on (report on deficiencies in the internal control system) and standard no. 61 on (contact with the audit committee of the facility).

#### 3.1. Research hypotheses

The problem of research can be raised by the existence of an expected gap between the users of financial reports and the auditors resulting from the following:

1. Is the lack of confidence of users of financial reports and the financial community due to the gap of expectations in the auditing profession?
  2. The reason for the expectation gap lies not only in the performance of the auditor, but also in the external environment, a role in that gap and its increase. To answer these questions and to accurately address the research variables, the following hypotheses have been formulated.
- H1: The underperformance of the auditor is not a «major» reason for the expectation gap in the auditing profession from the point of view of financial reporting users.
- H2: The lack of auditing standards is not a «major» reason for the «expectation gap» in the audit profession from the point of view of auditors.

#### 3.2. Research's Sample

The research community consists of the number of external auditors working in audit offices operating in Iraq, and a number of users of financial reports in private sector joint stock companies, and the number of questionnaires distributed (150) questionnaires distributed on the sample of the research which is fair and distributed by hand and with the help of a number of assistant researcher, and returned (140) questionnaires and thus the response rate (93.33%) and this percentage is acceptable to circulate their results to the research community.

### 3.3. Methods of data collection

The researcher adopted the questionnaire form as a method of research, which is one of the main means of collecting the necessary data to achieve the research objectives and test its hypotheses using the statistical program SPSS, and the list of questionnaires was prepared by the researcher based on the theoretical aspect that was put forward in the research, and the questionnaire included (15) questions, and the strength of the answer was determined by using the pentagram (Likert) to show the opinions of each member of the sample, and each case was allocated weight consistent with its importance, The answer is strongly agreed (5) points, agreed (4) points, neutral (3) points, not agreed (2), and not strongly agreed (1) points, and then test and analyze the results according to the appropriate statistical methods to prove the two research assumptions.

### 3.4. Statistical methods used

A number of statistical methods will be used and used for the purpose of describing and analyzing data on study variables and testing its hypotheses, through the use of computers in extracting results, and relying on the ready-made application software package (20 SPSS V.), as well as using the computational medium and standard deviation to describe the variables.

### 3.5. Descriptive results

This group includes a description of the results of the answers of each respondent of the search questionnaire using the arithmetic medium and the standard deviation, the research included (15) factors that can have an impact on the expectation gap between financial reporting users and auditors, and these factors were selected through the theoretical aspect of the research. The respondents were asked to determine the importance of each factor using the Likert scale of 1-5, as (5) refers to (strongly agreed) and (1) to (Not strongly agreed).

Table 1 of the first hypothesis, where the results indicate that the most important factors affecting the performance gap between financial reporting users and auditors are «that the audit performance gap arises from the auditor's failure to disclose the ability of the audited entity to continue, and that the auditor's failure to disclose deliberate deviations in the financial statements of the audited entity leads to audit performance, the audit performance gap arises when the auditor does not perform the audit.» As for the less influential factor, «the reason for the audit performance gap is that the auditor does not disclose illegal conduct with direct impact on the accounts of the audited enterprise, and that the auditor's poor ability to pass the exact wisdom of the facts that encounter scrupulously creates the audit performance gap, and the failure of the auditor to disclose the management's theft of the assets of the audited enterprise leads to a gap in the performance of the audit.»

Table 1:  
**Descriptive statistical analysis of the importance of factors affecting the performance gap between financial reporting users and auditors**

Influencing factors	Analysis		
	Arithmetic medium	Standard deviation	Order
1. The audit performance gap arises from the auditor's failure to disclose the viability of the audited enterprise.	4.62	0.49	1
2. The auditor's failure to disclose intentional deviations in the financial statements of the audited facility leads to a performance gap.	4.49	0.50	2
3. Failure of the auditor to disclose the management's theft of the assets of the audited facility leads to an audit performance gap.	4.03	0.630	6
4. The reason for the audit performance gap is that the auditor does not disclose illegal conduct with direct impact on the accounts of the institution under audit.	3.18	1.07	8
5. The audit performance gap arises if the auditor is not well aware of the origins and arts of the audit profession.	.504	0.70	5
6. The poor ability of the auditor to pass the exact wisdom of the facts that it encounters creates a gap in the performance of the audit.	3.77	0.93	7
7. The failure of the auditor to obtain sufficient evidence to support his opinion creates a gap in the performance of the audit.	4.13	0.62	4
8. The audit performance gap arises when the auditor does not take the necessary professional care in the performance of his audit work.	4.33	0.68	3
Total:	4.08	0.703	

Source: Compiled by the author

Table 2 presents the special results related to the second hypothesis, where the results indicate that the most important factors affecting the criteria gap between the users of financial reports and auditors are «the absence of a criterion that determines the responsibility of the auditor to assess the viability of the enterprise, the absence of a standard that allows the auditor to report to the competent authorities for illegal conduct, the absence of a criterion that determines the responsibility of the auditor of the analytical examination procedures.» As for the least influential factor is «the lack of a criteria that determines the auditor’s responsibility to check accounting estimates, the poor compliance with local audit standards for developments in local accounting standards leads to a forecast gap, and there is no standard that determines the auditor’s responsibility for reporting on the audited entity’s financial statements.»

### 3.6. Test hypotheses

The research hypotheses have been tested through the data of the actual responses to the study group survey, which is represented by a number of external auditors working in audit offices operating in Iraq, and a number of users of financial reports in private companies, using the test  $t$  (and at a moral level (0.05), and the hypotheses will be verified according to the sequence contained in the first chapter of the research and as follows:

#### Test the first hypothesis which states:

The underperformance of the auditor is not a «major reason» for the «principal» of the expectation gap in the audit profession from the point of view of the users of financial reports, and to prove the validity of this hypothesis or its error in the framework of the results of the statistical analysis, the test ( $t$ ) was conducted on the computational average, the results of which are illustrated by Table 3.

Statistical analysis found that the calculated ( $t$ ) is valued at (18.112) and is greater than its scheduled value of (1.645), so rejects the hypothesis of non-absence and accepts the alternative hypothesis that «the underperformance of the auditor is a «major reason» for the gap of expectations in the audit profession from the point of view of the users of financial reports».

#### Test the second hypothesis which states:

The lack of audit criteria is not a «major reason» for the «principal» of the expectation gap in the audit profession from the point of view of the auditors, and to prove the validity of this hypothesis or its error in the framework of the results of the statistical analysis, a test ( $t$ ) was conducted on the arithmetic average, the results of which are illustrated by Table 4.

Table 2:  
**Descriptive statistical analysis of the importance of factors affecting the standards gap between financial reporting users and auditors**

Influencing factors	Analysis		
	Arithmetic medium	Standard deviation	Order
1. There is no standard that allows the auditor to report to the competent authorities about illegal conduct.	4.41	0.71	2
2. There is no standard that determines the responsibility of the administration or the auditor for the detection of errors and fraud.	4.23	0.93	4
3. The absence of a date that determines the accounting’s liability from the analytical examination procedures.	4.24	0.74	3
4. The lack of a limit that determines the responsibility of the auditor to check the accounting estimates.	3.13	1.17	7
5. There is no standard that determines the accounting auditor's responsibility for reporting on the financial statements of the audited entity.	4.21	0.61	5
6. There is no standard that determines the auditor's responsibility for assessing the viability of the enterprise.	4.46	0.60	1
7. Poor keeping up with local audit standards for developments in local accounting standards leads to a forecast gap.	4.15	0.67	6
Total:	4.12	0.78	

Source: Compiled by the author

Table 3:  
**Test results (t) for the first hypothesis**

Arithmetic medium	Sample size	T		Test results
		Calculated	Table schedule	The first hypothesis
4.08	140	18.112	1.645	Rejects the hypothesis

Source: Compiled by the author

Table 4:  
**Test results (t) for the second hypothesis**

Arithmetic medium	Sample size	T		Test results
		Calculated	Table schedule	The first hypothesis
4.12	140	8.689	1.645	Rejects the hypothesis

Source: Compiled by the author

Statistical analysis found that the calculated (*t*) is valued at (8.689) and is greater than its scheduled value of (1.645), so rejects the hypothesis of non-absence and accepts the alternative hypothesis that «the lack of audit criteria is a major reason» for the gap of expectations in the audit profession from the point of view of auditors.

#### 4. Conclusions

The audit gap is the result of a difference in the understanding of the financial community and users of financial reports of the auditor's responsibilities and duties in a different way from the auditors themselves understanding of their duties and responsibilities, as they expect the auditors to do more than the auditor can. The existence of an expectation gap between the financial community and the auditor is due to a lack of professionalism at the auditor and the lack of compliance with many factors of independence, the discovery of fraud, error and illegal conduct, and the number of financial reports in order to meet the changes that have emerged. The auditor's ignorance of many audit criteria was noted that enables him to perform the audit to the fullest. The main reason for the expectation gap in the audit profession from the point of view of financial reporting users is the underperformance of the auditor's responsibilities. The lack of auditing standards is a «major» reason for the expectation gap in the audit profession from the point of view of auditors. There is a weakness in the performance of the auditor as the financial community and financial reporting users are aware of.

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