Closing the expectation gap in audit
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Closing the expectation gap in audit

About this report
This report uses a survey of 11,000 members of the public to better understand the audit expectation gap. It explores a new approach for understanding the expectation gap, in terms of a knowledge gap, a performance gap and an evolution gap. It proposes a multi-stakeholder approach to closing the expectation gap, by reference to these three gaps.

Acknowledgments
ACCA thanks the members of ACCA Global Forum for Audit and Assurance, and the Chartered Accountants Australia and New Zealand (CA ANZ) Reporting and Assurance team, for their valuable input on this report.
The profession has long spoken about the expectation gap in audit, and this report highlights the failure of that gap to close. Globally, it is clear that the profession must continue to focus on improving audit quality and work proactively with other stakeholders to support better understanding of the auditor’s role.

ACCA has conducted this research believing it to be in the public interest for an open dialogue involving the profession, stakeholders and the public to explore what kind of audit future the public expects.

The public sees audit as part of the solution to unacceptable corporate behaviour, making sure financial statements give a holistic ‘true and fair view’, and ensuring fraud is addressed and appropriate levels of professional scepticism are applied.

There is an urgent need for audit to evolve, and for everyone with an interest in financial reporting and corporate governance to work together to address the public’s legitimate concerns about audit.

Maggie McGhee
Executive Director Governance, ACCA
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The audit ‘expectation gap’ broadly measures public concern about audit. Since the term was first used, there is little evidence that the gap has narrowed. The persistence of the expectation gap reflects, in part, the fact that public expectations of audit can grow in line with what auditors can accomplish.

Given the level of public interest in audit, ACCA has sought to understand more about the causes of the gap and what might be done to narrow it.

We suggest a new approach to addressing the expectation gap. We propose thinking about the gap as having three components: the knowledge gap, the performance gap and the evolution gap. We then propose addressing each of these separately.

Our proposals are supported by a survey of 11,000 members of the public from Australia, Canada, Czech Republic, Greece, Malaysia, the Netherlands, New Zealand, Singapore, South Africa, UAE and the UK, obtaining 1,000 responses from each. The survey findings confirmed the existence of a significant knowledge gap. They also indicated where the public might want auditors to do more: a potential ‘evolution gap’. To provide some context to the performance gap, the research refers to the latest audit inspection findings of the International Forum of Independent Audit Regulators (IFIAR).

ACCA’s research indicates that separate strategies are required to reduce each of these gaps. It is important to reduce the knowledge gap, because otherwise public pressure for change may be directed towards aspects of the audit process that are currently working correctly. It is critically important to reduce the performance gap, as non-compliance with standards is an important factor in public concern about audit. We do not argue that closing the knowledge gap is a precondition for discussing the evolution gap. Nonetheless, we do believe that a reduced knowledge gap and a reduced performance gap will support a more constructive discussion about how audit can evolve to meet society’s expectations of it.

We call upon all stakeholders connected to the audit profession, including professional accountancy bodies, audit firms, regulators, journalists and politicians to contribute towards reducing the expectation gap in audit.
The expectation gap in audit is a topic that attracts attention: in any public debate about audit, the discussion soon turns to the expectation gap. This may give the impression that the expectation gap is a relatively new phenomenon. In fact, it has been an issue for nearly 50 years.

The corporate landscape has changed dramatically since the expectation gap in audit was first referenced, with a series of corporate scandals having transformed financial reporting, corporate governance, auditing standards and audit regulation. In the 1970s, the ‘Great Inflation’ undermined the public’s trust in stock markets for almost a decade. Then the late 1980s saw a financial crash, which started from Asia and then spread systemically through the US and Europe. This crash led to an increase in standardisation of auditing standards, culminating in global standards for the audit profession outside the US. Less than a decade later, the US was rocked by several corporate scandals, including WorldCom and Enron. As a result, the US passed the Sarbanes–Oxley Act to provide better protection for the general public and shareholders, by an intensified focus on the internal controls of corporations. These measures also included an increased scope for the audit in the US, as well as further restrictions on non-audit services.

The global financial crisis followed in 2007–8. This has led to far-reaching changes to international financial reporting and auditing standards. In Europe, the European Union introduced the audit reform legislation in 2016, including restrictions on audits of public interest entities (PIEs), limitations on non-audit services that audit firms can provide, mandatory audit firm rotation and new requirements for audit committees to review audit quality. Changes to International Financial Reporting Standards (IFRS) included new, tougher requirements for financial instruments, revenue recognition, leases and insurance. Auditing standard setters also responded with new proposals in such areas as auditor reporting, accounting estimates, quality management, risk assessment and more.

The earliest reference to an ‘expectation gap’ in audit dates back to a 1974 academic paper by Carl Liggio, then general counsel for Arthur Young & Company. Liggio defined the expectation gap as ‘the difference between the levels of expected performance as envisioned by the independent accountant and by the user of financial statements’ (Liggio 1974). Since then, other definitions have followed, for example ‘the difference between what the public expects from the auditing profession and what the profession actually provides’ (Jennings et al. 1993).

In this report, ACCA defines the expectation gap in audit in the broadest terms possible as ‘the difference between what the general public thinks auditors do and what the general public would like auditors to do’. Our definition recognises that it is the difference between what the public thinks and what the public wants that drives public policy on audit. As a result, the public interest response – if it is to succeed – needs to adopt a holistic approach that encompasses public knowledge about audit, the audit standard-setting process and auditors’ performance, as well as areas where auditors might do more.

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1. A brief history of the expectation gap in audit
Historically, the knowledge gap may have been used by some in the profession to resist change, by depicting the ‘problem’ as being due to the public’s lack of understanding rather than being a legitimate concern. We reject this line of reasoning. The existence of a knowledge gap does not invalidate calls for auditors to do more, nor does it explain or excuse the performance gap. Similarly, it might be tempting to conclude that the persistence of the concept of an expectation gap in audit is because nothing has changed in audit for 45 years. As can be seen from the analysis above, financial reporting, corporate governance and audit are all very different from what they were in 1974. Increased requirements placed upon auditors may, however, have been accompanied by increases in public expectations of what auditors should do.

As a result, despite attempts to mitigate the expectation gap, it returns whenever a new corporate failure occurs.

The collapse of Carillion in the UK triggered a number of reviews of the audit profession and regulation, with the expectation gap being a key focus. In Australia, a 2019 report of the Parliamentary Joint Committee on Corporations and Financial Services observed that ‘there are a series of expectation gaps between what investors and the public expect of gatekeepers such as auditors, and what those gatekeepers are legally obliged to do, and what their roles involve in practice’ (Parliament of Australia 2019). ACCA’s research, supported by a survey of 11,000 members of the public, proposes a new approach to closing the expectation gap. We suggest that it is necessary to consider three separate components of the expectation gap: the knowledge gap, the performance gap and the evolution gap, and to address each component separately. Each requires its own response, as explained in the next chapter.
As noted in the previous chapter, the audit expectation gap has persisted, even though audit itself has changed substantially. This suggests, in part, that expectations evolve as audit evolves. Nonetheless, ACCA believes that more can be done to address the expectation gap.

**Knowledge gap**
The ‘knowledge gap’ is the difference between what the public thinks auditors do and what auditors actually do. This recognises that the public can sometimes misunderstand audit: for example, the extent to which auditors are responsible for preventing company failure or the restrictions on the auditor of an entity from selling non-audit services to that entity.

Historically, the knowledge gap may have been used by some in the profession to resist change, by depicting the ‘problem’ as being due to the public’s lack of understanding rather than being a legitimate concern. We reject this line of reasoning. The existence of a knowledge gap does not invalidate calls for auditors to do more, and it does not explain or excuse the performance gap. Nonetheless, a wide knowledge gap can frustrate attempts to understand the true

**APPRAOCH**
While it is common to refer to ‘the expectation gap’, in truth there are several gaps.¹ We propose dividing the expectation gap into three components as shown in Figure 2.1, and propose a different solution to reduce each of them.

ACCA defines the overall audit expectation gap as: the difference between what the public thinks auditors do and what the public wants auditors to do.

**FIGURE 2.1:** The audit expectation gap

<table>
<thead>
<tr>
<th>Knowledge gap</th>
<th>Performance gap</th>
<th>Evolution gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>What the public thinks auditors do</td>
<td>What auditors actually do</td>
<td>What auditors are supposed to do</td>
</tr>
<tr>
<td>What the public wants auditors to do</td>
<td>What the public wants auditors to do</td>
<td>What the public wants auditors to do</td>
</tr>
</tbody>
</table>

¹ This claim has been made by many scholars and thought leaders, including King and de Beer (2018).
The ‘performance gap’ focuses on areas where auditors do not do what auditing standards or regulations require. This could be because of insufficient focus on audit quality; the complexity of certain auditing standards; or differences in interpretation of auditing standard or regulatory requirements between practitioners and regulators.

Audit firms are required to establish systems and processes to ensure quality in their engagements. As part of these processes, audit regulators regularly review files of completed audit engagements to monitor that quality is being achieved.

The ‘evolution gap’ exists in the areas of the audit where there is a need for evolution, taking into consideration the general public’s demand, technological advances and how the overall audit process could be enhanced to add more value. Addressing the knowledge and performance gaps is, however, an important step in determining what needs to evolve in audit. This will help to avoid overregulation and inappropriate developments in auditing standards, when the real problems could be lack of knowledge or poor performance.

STRATEGIES FOR REDUCING THE GAPS

Knowledge gap
Reducing the knowledge gap is important so that public debates about how audit should evolve can address what can change rather than what may already have been implemented. And a smaller knowledge gap makes it more likely that proposals will address problems that exist rather than problems that do not. There is a role for the profession in more clearly explaining the audit process. The introduction of key audit matters for listed companies by the International Auditing and Assurance Standards Board (IAASB) is an important step.

In practice, this cannot be achieved by the profession alone. As the UK Competition and Markets Authority has observed, ‘most people will never read an auditor’s opinion on a company’s accounts’ (Competition and Markets Authority 2018). Reducing the knowledge gap will involve all stakeholders connected to the audit process, such as regulators, standard setters, professional accountancy bodies, audit firms, audit committees, investors, governments and the media. To narrow the knowledge gap, each of these need to commit to informing the public in a fair, balanced and understandable way about audit regulations and auditing standards.

It is in the public interest that they do, because our survey results, outlined in Chapter 3, show that the public sees audit as an important process in improving corporate reporting.

Performance gap
Responding to the findings of audit inspections will address much of the performance gap.

Even so, there is also a role for others. As highlighted in Banishing Bias in Audit Objectivity and the Value of Professional Scepticism (ACCA 2017), sometimes the way standards are written may exacerbate bias. For example, the engagement team meeting to discuss areas of risk of material misstatement can be susceptible to groupthink. It is important that standard-setters draft standards as clearly as possible and avoid creating requirements that may introduce judgement biases or which are hard to implement in an objective way.

Evolution gap
Reducing the knowledge and performance gaps will help the public focus more clearly on how they want audit to evolve. There is a need for a broad discussion between all closely connected stakeholders, such as auditing standard setters, regulators, professional accountancy bodies, audit firms, audit committee members, investors, governments and the general public on how the audit profession should evolve to remain relevant and meet public expectations.
To gather evidence for our approach, ACCA designed a survey targeting members of the public. The survey combined two types of question: those that test knowledge about the audit and those that ask about expectations of the audit.

The survey was launched in 11 countries, obtaining 1,000 responses from each country. The survey helped to identify some of the areas that contribute to the knowledge gap and areas that may constitute the expectation gap.

More information about the methodology used can be found in the Appendix of this report.

**KNOWLEDGE GAP FINDINGS**

Overall, the survey indicates that the knowledge gap is vast. This suggests that there is a lot of work to be done to reduce this gap so that the evolution gap can be better understood.

Key findings from the survey that relate to the knowledge gap are outlined below.

**Recognising what an audit is**

Overall, knowledge of what an audit is was poor. Across the 11 countries, 34% of the respondents correctly identified the role of an auditor. There was considerable variation between countries, with 48% in Greece identifying correctly that the auditor gives an opinion whether the financial statements give a true and fair view, but only 25% in the UK doing so. Indeed, in only four countries was the correct answer the most popular.

**FIGURE 3.1: Which of the options below best reflects your views?**

- An auditor gives an opinion whether the financial statements of a company give a true and fair view and do not include material mistakes due to fraud or error
- An auditor verifies the accuracy of a company’s financial statements
- An auditor verifies that a company’s financial statements have no mistakes due to error or fraud
- An auditor verifies that a company’s financial statements have no material mistakes due to fraud or error
According to the aggregated results of the survey, 55% of the respondents believed that existing auditing standards, if followed, would prevent company failure.

**Identifying the contents of an audit report**

Our survey asked the public to identify the contents of an audit report of a PIE in their country from a list of options provided. In most countries, the audit opinion, key audit matters and management’s and auditor’s responsibilities are all required, and in some countries the disclosure of materiality is required as well. As shown in Figure 3.2, the most popular choice was key audit matters, followed closely by the audit opinion. The results appear to be broadly consistent between the countries in the scope of the research. Even so, no item was selected by more than 50% of respondents, and a relatively high number of respondents selected ‘don’t know’. This apparent lack of familiarity with the components that make up an audit report may support the view that audit reports are only rarely read by the public.

**Considering auditors responsible for preventing company failure**

According to the aggregated results of the survey, 55% of the respondents believed that existing auditing standards, if followed, would prevent company failure.

Where survey respondents chose the option ‘neither agree nor disagree’, they were invited to explain their answer further. The fact that 93% of respondents chose either a ‘yes’ or ‘no’ answer indicates that the majority of the respondents had a strong view when answering this question.

Looking at the results per country, it was interesting to note that 75% of the respondents in Malaysia chose to answer ‘yes’ in this question. Although one of the reasons behind such a high percentage could be recent corporate failures in the...
Avoiding company failure is primarily a responsibility of a company’s management.

The reality is that while an audit may identify some conditions that could lead to company failure in the future, if overlooked, such as a material uncertainty in relation to ‘going concern’ or ‘significant control’ deficiencies, there will always be risks to a company that the audit does not currently address, such as the sustainability of the company’s business model.

Avoiding company failure is primarily a responsibility of a company’s management.

While the results of this question indicate a knowledge gap in this area, it is important to recognise that the respondents see audit as having a role in preventing company failure.

PERFORMANCE GAP

This report examines the performance gap by reference to the latest available international inspection findings published by the IFIAR. IFIAR audit regulators tend to adopt a risk-based approach and focus on PIEs, so their findings may not be entirely representative of audit as a whole. Nonetheless, they can help to show trends in audit performance.

The most common findings for the years 2014 – 2017 were in the following areas:

- accounting estimates including fair value measurement
- internal control testing
- audit sampling
- group audits
- revenue recognition

The findings about accounting estimates, including fair value measurement, relate to failure in assessing the reasonableness of assumptions and the consideration of contrary or inconsistent evidence (IFIAR 2017). Although the findings identified above are persistent from 2014 to 2017, there was an improvement in all the areas with only the findings on group audits worsening over the period; see Figure 3.4. Group audits have been identified by the IAASB as needing standard-setting attention.

For internal control testing, the findings relate mainly to the failure in obtaining sufficient persuasive evidence to support reliance on manual controls, with the next most common finding being failures in the efficiency of testing controls over data or reports produced by management or of tests of their accuracy and completeness (IFIAR 2017).

Revenue recognition has been an area with a high number of findings in the past, although in 2017 the findings were significantly lower than previously (see Figure 3.4). In future, with the new International IFRS15: Revenue from Contract with Customers, the audit of revenue recognition will still be an area of focus for IFIAR (IFIAR 2017).

FIGURE 3.4: The areas of the audit with the highest percentage of findings for the years 2014–17

<table>
<thead>
<tr>
<th>Area</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting estimates, inc. Fair Value Measurement*</td>
<td>35%</td>
<td>30%</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>Internal control testing</td>
<td>25%</td>
<td>20%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Audit sampling*</td>
<td>20%</td>
<td>15%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Group audits</td>
<td>15%</td>
<td>10%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Revenue recognition</td>
<td>10%</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: IFIAR
Firms should ensure they understand the areas that are most commonly raised in audit inspection findings and address these through their system of quality management. Appropriate responses might include training staff, updating their audit methodology, and investing in new technologies.

Regulators can do more, by steering firms towards having a culture of quality rather than driving them towards a compliance mentality. For example, the audit regulator may seek to collect and communicate areas of best practice, particularly in areas where compliance with standards is unsatisfactory.

Standard setters can also help, by revising standards to be clearer, by providing enhanced application material and other guidance, and by undertaking post-implementation reviews to understand areas practitioners are finding difficult.

In conclusion, narrowing the performance gap should be a continuous exercise for firms of all sizes to ensure that audit quality is achieved and maintained. The underlying reasons for areas of persistent low performance should be carefully understood by audit firms, and action taken by firms, standard setters and regulators to minimize this gap.

‘The auditor’s responsibilities for identifying and reporting fraud is probably the area with most misaligned expectations between the general public and the audit profession.’

**EVOLUTION GAP FINDINGS**

**The auditors’ responsibility with respect to fraud**

This question was intended to find out what the general public expect from auditors in detecting and reporting fraud. The aggregated results of the survey show that a large percentage of the respondents expect more from auditors in relation to fraud. Some 35% want auditors to ‘always identify and report any fraud’. Surprisingly, only 6% chose the option ‘I don’t know’, indicating that the general public has a strong view when it comes to the responsibilities of the auditor in relation to fraud.

ISA 240 requires an auditor to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error (ISA 240.5). It is clear from the survey that the public expects more from auditors on fraud.

**FIGURE 3.5: Which of the following options best reflects your expectations of the auditor’s responsibility for fraud?**

<table>
<thead>
<tr>
<th>Country</th>
<th>Expectation</th>
<th>UK</th>
<th>Czech Republic</th>
<th>Netherlands</th>
<th>Australia</th>
<th>Canada</th>
<th>Greece</th>
<th>UAE</th>
<th>Malaysia</th>
<th>South Africa</th>
<th>New Zealand</th>
<th>Singapore</th>
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</thead>
<tbody>
<tr>
<td>I expect auditors to detect and report fraud that materially affects the financial statements of a company; however, I recognise that this is not always possible due to inherent limitations</td>
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</tr>
<tr>
<td>I expect auditors to always detect and report any fraud that impacts the financial statements of a company</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>I expect auditors to always detect and report any fraud</td>
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<tr>
<td>I don’t know</td>
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</tr>
<tr>
<td>Auditors should not have any responsibilities for identifying and reporting fraud</td>
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</table>
‘Our results show that there’s a global demand from the public for a wider audit scope.’

Preventing company failure
This question aimed to find out whether the general public would like to see audit evolve in a way that will prevent company failures. The results show that 70% of the respondents answered ‘yes’ in this question, indicating that in addition to those respondents who already believe that audit prevents company failure, some of those who do not believe that would also like this to change and evolve in a way that would prevent company failure.

As per Figure 3.6, the answer ‘yes’ to that question was the most popular option in all 11 countries in the project’s scope, indicating that the demand for a wider audit scope is global. Interestingly, some countries, such as Czech Republic and Greece, show a much higher demand for such a change. More research is necessary to identify the reasons behind the different levels of demand in each country.

**FIGURE 3.6: Should audit evolve to prevent company failures?**

Czech Republic | Greece | South Africa | UAE | Malaysia | UK | Singapore | Australia | Netherlands | Canada | New Zealand
---|---|---|---|---|---|---|---|---|---|---
Yes | No | I don’t know
---|---|---
0 | 200 | 400 | 600 | 800 | 1000
There was little consensus on whether auditors should be given higher fees or more time to undertake these responsibilities.

THE CHALLENGE OF THE EVOLUTION GAP
While there was a clear appetite for auditors to do more, particularly in relation to fraud and preventing company failure, there was little consensus on whether auditors should be given higher fees or more time to undertake these responsibilities.

Fees and time
These questions sought to explore the extent to which the public is willing to accept higher fees and slower audits (ie an increase in the time allowed for completing the audit) if their proposal were adopted. The answers to these two questions proved to be very interesting, with 34% of the respondents willing to accept a small increase in both audit fees and time as shown in Figure 3.7 and Figure 3.8. Looking at the results per country a ‘Small increase in fees’ was the first choice for all countries with the exception of Greece, where 33% of the respondents selected ‘No increase in fees’. This indicates that the general public in Greece is more sceptical about an increase in fees. As regards to the question about time, 31% of the respondents selected ‘Small increase in time’. Looking at the results per country four out of the eleven countries favoured ‘Less time’. It is therefore important to recognise that although the public’s demand levels for an increase in the scope of audit are high in most countries, not everyone is willing to accept the consequences that would follow such a change.

**FIGURE 3.7:** If your recommendations were to be implemented, which of the following statements best represents your views about fees?

**FIGURE 3.8:** If your recommendations were to be implemented, which of the following statements best represents your views about time to complete the audit?
Our results show that the general public is open to a wider audit scope. Such scope includes assigning to the auditor more responsibilities for identifying and reporting fraud and doing more work on solvency, liquidity and viability.

How could audit evolve?
Respondents were provided a list of options about the areas in which they would like to see auditors do more, and they could choose more than one option or specify another area using a narrative comment, although most respondents did not suggest new options.

The first choice of respondents was the option for the auditor to do more in regard to the solvency, liquidity and viability of a company, as shown in Figure 3.9. The result does not come as a surprise, as it follows the expectations noted in previous questions, such as expecting auditors to prevent company failure, and expecting more from auditors in identifying and reporting fraud, all of which are connected. Choosing the option that auditors should do more in relation to companies’ solvency, liquidity and viability is consistent with public expectations that audit should do more to prevent company failure. The results were similar in all countries in the project’s scope, showing once again that the demand for evolution in this area appears to be global.

In conclusion, our results show that the general public is open to a wider audit scope. Such scope includes assigning to the auditor more responsibilities for identifying and reporting fraud and doing more work on solvency, liquidity and viability. The public also wants audit to evolve in a way that will prevent company failure. Nonetheless, as we argue in this report, it is of great importance, to address the knowledge and performance gap categories, before taking action on evolution. This will ensure that both the public and the profession have the same starting point and consider what actually needs to evolve.

FIGURE 3.9: In which of the following areas would you like to see auditors do more?

- On the company’s solvency, liquidity and viability
- Environmental, Social and Governance issues
- Integrated reporting
- Involvement in the company’s strategy
- Other
To demonstrate the link between the knowledge gap and the evolution gap, we compared the results of a knowledge question with the results of an evolution question to find out whether a correlation exists.

What we found is that the respondents with more knowledge had less demanding expectations when it comes to evolution. For example, 46% of those that correctly identified ‘An auditor gives an opinion whether the financial statements of a company give a true and fair view and do not include material mistakes due to fraud or error’, a knowledge question, are satisfied with the status quo regarding the evolution of the auditor’s responsibilities in respect of fraud.

The percentage of those respondents choosing the status quo option for evolution increases according to their knowledge of the auditor’s role. For example, only 18% of the respondents that selected the option ‘An auditor verifies the accuracy of a company’s financial statements’, chose the status quo option for evolution; see Figure 4.1.

**WHY DOES THIS MATTER?**

ACCA recognises that many factors could influence and drive the general public’s perceptions, particularly in times where information everywhere comes from various sources, particularly through the use of social media. Our research, therefore, sought to find some possible drivers of the general public’s perceptions by referring to psychology literature.

We often see negative and inaccurate information about any profession trending in social media as something triggers the interest of the public. The audit profession is no exception. Inaccurate information can damage the general public’s perceptions of the audit profession, and exaggerate the extent of the performance gap. ‘Our judgements and preferences are typically the result of so-called fast-thinking, unless or until they are modified or overridden by slow, deliberate reasoning; (Daniel Kahneman, cited in Duffy 2018). It is therefore important that key stakeholders of the profession, such as regulators, standard setters, professional accountancy bodies, audit firms, audit committees, investors, are alert when this happens, and inform the general public that such information is misleading and/or inaccurate, when that is the case. There’s also an immediate responsibility for politicians and the media to accurately report for the public interest.

ACCA recognises that this is an area where academic research could inform this debate.
Given the history and longevity of the audit expectation gap, there may be some scepticism about the approach in this report. Responses to some of these concerns are below.

**ISN’T THIS APPROACH JUST DEFENDING AUDITORS?**

As this report points out, the expectation gap has historically been used by some as a reason for doing nothing. Because the public does not understand audit, it is argued, the profession need not heed public expectations.

ACCA takes a different view. While it is true that public understanding of audit could be improved, this is only the ‘knowledge gap’ component of the expectation gap. The performance and evolution gaps also need to be addressed and both involve action by the profession. Our approach defines the expectation gap entirely in terms of the views of the general public. Psychology research reveals that it is important to distinguish between perceived issues and actual issues before deciding on a course of action (Duffy 2018). So we are certain our approach is not one of defending auditors but instead represents a new way of attempting to close the expectation gap.

**IF IT IS SO EASY TO CLOSE THE EXPECTATION GAP, WHY HASN’T IT BEEN DONE ALREADY?**

It is not easy to close the expectation gap. Our approach does not claim that it is, but proposes addressing the various components of the expectation gap in the most effective way in each case. Although it is unlikely that the expectation gap can be completely closed, we believe that our approach will help to narrow it.

**HOW DO YOU KNOW YOUR DATA IS ROBUST?**

The methodology for the data collection is included in the Appendix of this report. The survey company was asked to supply 1,000 respondents per country. In Greece and Czech Republic, the survey was translated into the local language to try to avoid bias towards English speakers in those countries. So we are confident that the data is robust.

Even so, we recognise that a more detailed academic analysis would bring even more insights to this important area, and we would welcome further studies.
The underlying research for this report explored a new approach to closing the expectation gap in audit. As discussed earlier in this report, we believe it is necessary for the expectation gap to be divided into three components, the knowledge gap, the performance gap and the evolution gap.

**Knowledge gap**
- Audit firms and professional accountancy bodies should develop strategies for improving communication of any updates to the existing audit requirements by regulation or standards, which should be easily accessible by the general public, for example using wider-reaching platforms, such as social media.
- Regulators and standard setters should inform the public about any changes to existing audit regulations or standards and explain the rationale for those changes. This will allow the public to be better informed about the existing requirements and about any evolution that takes place.
- Media have a key role in informing the public and should therefore try to describe audit requirements as accurately as possible when reporting on the profession.

**Performance gap**
- Audit firms should ensure that audit quality is achieved and maintained, through understanding and reacting to areas of persistent low performance.
- Audit regulators should support innovation by audit firms to enhance audit quality and avoid instilling a ‘box-ticking’ approach.
- Standard-setters should be responsive to audit quality issues, by updating standards and providing implementation support.

**Evolution gap**
- Our survey of the public identified some possible areas for evolution, including requiring auditors to have more responsibilities in identifying and reporting fraud or preventing company failure.
- However, our research also identified a connection between the knowledge gap and the expectations around the evolution gap. Therefore, it is important that more detailed research is conducted to understand this link in more detail.
- Policy-makers should be mindful of the link between the knowledge and evolution gap components when implementing new policies and regulations to satisfy public demand.

**THE WAY FORWARD**
As noted earlier in this report, it is vital to ensure that the knowledge and performance gap components are addressed as part of properly addressing the evolution of the audit profession. The key stakeholders closely connected to the audit profession, such as regulators, standard setters, professional accountancy bodies, audit firms, audit committees, investors, governments, media and the general public will therefore need to collaborate in order to achieve this. ACCA therefore suggests the following for key stakeholder groups to adopt as a way forward.
This research focuses on the public’s knowledge gap and audit evolution gap. The findings of this report are based on a specially designed survey that included a number of knowledge-based questions on the audit process, and questions designed to find out what more the general public demands from auditors. The questions were simplified to avoid using specialised audit terminology where possible, to avoid confusion. The report also makes reference to the latest global audit inspection findings, highlighting some of the areas where a performance gap exists.

The survey was held across Australia, Canada, Czech Republic, Greece, Malaysia, the Netherlands, New Zealand, Singapore, South Africa, the UAE and the UK, obtaining 1,000 responses from each country, resulting in a total of 11,000 responses. The survey targeted members of the general public, weighted evenly by gender and spread across age, education level and household income. ACCA engaged with an external supplier specialised in survey services for this research. The survey respondents in Greece and Czech Republic had the option of completing the survey in either their local language or in English. The translation of the survey from English to Czech was done by a professional translator, and from English to Greek was done by a bilingual English/Greek-speaking ACCA member with expertise in audit.

ACCA contracted an external survey provider with global presence and expertise in the field. This ensured that the survey obtained the targeted sample from each country, so enabling us to form our conclusions. This also helped us eliminate any bias, which would have reduced the reliability of data.
References


