

## Audit expectation gaps in Brazil

Diferenças de expectativas em auditoria no Brasil

Diferencias de expectativas en auditoría en Brasil


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### Abstract

This paper examined the situation of audit expectations gaps after the review of international standards, which culminated in the application of the updated format of the Auditors' Report in Brazil, in 2017. Questionnaires applied resulted in 185 valid responses for analysis. The level of requirement of accounting users in relation to the duties of auditors, captured by the Expectation Index (EI) proxy, was calculated based on the methodology developed by Porter (1993) and adapted by Litjens, Buuren and Vergoossen (2015), encompassing: i) reasonableness gap, (ii) auditor performance gap and (iii) standards gap. The Mann-Whitney test revealed the perpetuation of empirical evidence about the differences in expectations documented in recent decades. Thus, it was shown that, even analyzing the perception of auditors and users after changing the standard, which brought significant improvements to the report, expectation gaps can still be detected. Additional tests indicated that no significant differences were found in the expectations index between genders and different levels of use of the audit report.

**Keywords:** Audit expectation gaps; Auditors' report; New auditors report

### Resumo

O trabalho examinou a situação das diferenças de expectativas de auditoria após a revisão das normas internacionais, que culminaram na aplicação do formato atualizado do Relatório dos Auditores no Brasil, no ano de 2017. Questionários aplicados resultaram em 185 respostas válidas para análises. O nível de exigência dos usuários da contabilidade em relação aos deveres dos auditores, captado pela *proxy* Índice de Expectativa (IE), foi calculado com base na metodologia desenvolvida por Porter (1993) e adaptado por Litjens, Buuren e Vergoossen (2015), que abrange: i) *gap* de razoabilidade, (ii) *gap* de desempenho dos auditores e (iii) *gap* de padrões. O teste de Mann-Whitney revelou a perpetuação de evidências empíricas acerca das diferenças de expectativas documentadas nas últimas décadas. Assim, demonstrou-se que, mesmo analisando a percepção de auditores e usuários após a alteração da norma, trouxe melhorias significativas ao relatório, diferenças de expectativas ainda podem ser detectadas. Testes adicionais indicaram que não foram encontradas diferenças significativas do índice de expectativas entre gêneros e diferentes níveis de utilização do relatório de auditoria.

**Palavras-chave:** Diferenças de expectativas em auditoria; Relatório dos auditores; Novo relatório dos auditores

## Resumen

El trabajo examinó la situación de las diferencias en las expectativas de auditoría después de la revisión de las normas internacionales que culminó con la aplicación del formato actualizado del Informe de los Auditores en Brasil en 2017. Los cuestionarios, aplicados en dos congresos nacionales y disponibles electrónicamente, dieron como resultado 185 respuestas válidas para analizar. El nivel de demanda de los usuarios de la contabilidad en relación con los deberes de los auditores, capturado por el Índice de Expectativas (IE), se calculó con base en la metodología desarrollada por Porter (1993), que cubre: i) brecha de razonabilidad, (ii) brecha de desempeño de los auditores y (iii) brecha de estándares. Mann-Whitney reveló la perpetuación de la evidencia empírica sobre las diferencias en expectativas documentadas en las últimas décadas. Así, se demostró que aun analizando la percepción de auditores y usuarios tras el cambio de norma, que trajo mejoras significativas al informe, aún se pueden detectar diferencias en las expectativas. Pruebas adicionales indicaron que no hubo diferencias significativas en el índice de expectativas entre los géneros y los diferentes niveles de uso del informe de auditoría.

**Palabras clave:** Diferencias de expectativas en auditoría; Informe de los auditores; Nuevo informe de auditoría

## 1 Introduction

The independent audit has the function of attesting the reliability of the financial information of the entities (Mafra, Cavalcanti & Penha, 2017). In the advent of the profession, auditors were hired to examine all companies' transactions and give an accurate opinion on the existence or not of fraud (Boyd, Boyd & Boyd, 2001). With the growth of companies and the emergence of increasingly complex operations, as transactions involving leasing and derivatives, auditors' examinations started to be carried out by sampling and opinions issued in order to ensure the reasonableness of the financial statements, according to its relevant aspects (Fonseca, Nunes & Santana, 2016).

Despite the adaptation of the auditor's role to the globalized context, litigation between society and auditors still persists, amplified by financial scandals involving large Brazilian companies, such as Sadia, Aracruz, Banco Santos, Banco Panamericano and, more recently, Petrobras, Odebrecht and J&F (Castro, Amaral & Guerreiro, 2019). The scandals show that users of financial statements can expect different results from the work of auditors compared to what they do (Almeida, 2004). These mismatches highlighted discussions about the integrity of the independent auditor's activities and the effectiveness of the audit report (Mock, Bédard, Coram, Davis, Espahbodi & Warne, 2013).

Divergences in expectations regarding the duties of auditors, between auditors and other users of financial statements, characterize the so-called Audit Expectation Gap (AEG) (Sterzeck, 2017). Its composition can be broken down by the following portions:

- Reasonableness Gap - mismatch between the responsibilities that society expects from auditors and what is reasonable to expect for their work in accordance with standards and laws;
- Standards Gap - gap between reasonable responsibilities expected by society and responsibilities determined by standards;
- Performance Gap - gap between the performance that the auditor should meet, according to the standards, and the performance perceived by society (Porter, 1993).

In the set of differences in expectations in auditing, there are also information and communication gaps between auditors and non-auditors (other report users) (Turner *et al.*, 2010; IAASB; 2011; Mock *et al.*, 2013; Litjens, Buuren & Vergoossen, 2015). The information gap can be understood as the difference between what non-auditors want to receive from information and what is available to them through the report (IAASB, 2011), while the communication gap represents the difference between what non-auditors understand and what is communicated by auditors (Mock *et al.*, 2013).

Due to constant market dissatisfaction with the performance of auditors (Cordos & Fulop, 2015; Defond & Zhang, 2014; Kamau, 2013; Salehi, 2011), amplified by successive financial scandals (Enron, 2001; Worldcom, 2002; Xerox, 2002) together with the perception of deficient standards (Porter & Gowthorpe, 2004) reviews of International Standards on Auditing were conducted (ISAs) to achieve, in general, greater transparency and objectivity. According to the IAASB, the reviews followed the following purposes: to identify and clarify the auditor's general purposes in the ISAs; stipulate an objective for each ISA and the auditor's obligations with respect to each objective; clarify the obligations imposed on the auditor and the language used; reduce the possibility of ambiguity about the auditor's requirements to be met; improve reading and understanding of ISAs. The exposure draft of the new reporting standards was presented on July 25, 2013, in the document entitled "Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing" (IAASB, 2013). In 2017, the new standards of the Auditors' Report in Brazil were implemented.

The possible existence of AEG in relation to the duties of the external audit is the motivating fact for this research. The presence of these differences feeds the environment of criticism and litigation against the auditors' integrity, may cause a breach of trust between these and other users of financial statements (Almeida,

2004). If the AEGs are accentuated, confidence in the audit report is reduced, which, consequently, can hinder the decision-making process of investors and other stakeholders (Asare & Wright, 2012). Given the above, the present work aims to evaluate the following research question: What is the difference between the expectations of auditors and society, after the update of auditing standards that took place in 2017 in Brazil?

Starting from the research question established by the study, the general objective of the research can be defined as verifying the existence of audit expectations gap between auditors and non-auditors, in addition to detecting possible factors that affect the difference, such as the level of use of the report and the gender of the respondent.

It is noteworthy that auditing, in general, is an activity that absorbs a high number of accounting professionals and still has gaps in academic research (Sterzeck, 2017). In Brazil, the studies by Almeida (2004), Albuquerque (2009), Menezes and Costa (2012), Oliveira (2015) and Wanderley (2017) brought important contributions to the existence of AEG. Sterzeck (2017) identified the existence of the AEG in the reasonableness of litigation decisions in which auditing companies appear as the passive pole; while Santos and Caldas (2019) found expectations gaps in government auditing between the groups surveyed. The present study aims to contribute to this research area, after the implementation of the updated format of the auditor's report.

The possible existence of a discrepancy between the expectations of auditors and other users in relation to the duties of auditors is the motivating factor for this research. The presence of these differences feeds the environment of criticism and litigation against the auditors' integrity, may cause a breach of trust between these and other users of financial statements (Almeida, 2004). The investigation of the subject is relevant not only to auditors, government agencies and other accounting users, but also to society in general.

On the part of the auditors, the investigation of the AEG is relevant as it impacts the legal certainty of these professionals and highlights a discussion about their role in relation to the users of the auditor's report and their role in society (Sterzeck, 2017). For regulatory bodies, research in the area consists of a theoretical contribution, which can be used to support future studies and to formulate and implement standards and preventive measures. To other users and society, in general, the exploration of the topic contributes to a better understanding of the duties of auditors and the limits of the audit report, thus, bring more security in the economic and financial assessment of institutions, detecting related risks and even, helping to choose possible future investments.

## 2 Literature Review

### 2.1 New Auditor's Report

After the enactment of international auditing standards (ISAs) in the year of 2015, Brazil started the procedure of full translation and cataloging in the Brazilian context. That said, the Accounting Standards Committee, the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários - CVM*) e the Federal Accounting Council (CFC) offered to users, through a public hearing, the minutes translated for the purpose of debates, comments and studies. After this procedure, the standards were approved and published in June 2016, in the Federal Official Gazette (*Diário Oficial da União - DOU*), effective for audits of financial statements for periods ending on (or after) December 31, 2016. It is noteworthy that the classification and denomination followed international standards, as illustrated in Figure 1.

NBC	Standard Name	IFAC
NBC TA 260 (R2)	Communication with those Responsible for Governance	ISA 260
NBC TA 570	Operational Continuity	ISA 570
NBC TA700	Formation of Opinion and Issuance of the Independent Auditor's Report on the Financial Statements;	ISA 700
NBC TA 701	Communication of Key Audit Matters in the Independent Auditor's Report;	ISA 701
NBC TA 705	Modifications to the Independent Auditor's Opinion;	ISA 705
NBC TA 706	Paragraphs of Emphasis and Paragraphs of Other Matters in the Independent Auditor's Report.	ISA 706

**Figure 1 – Correlation between National and International Standards**

Source: Federal Accounting Council website - CFC, 2016

Given the approval and dissemination of the standards, it is necessary to assess their effects. According to Manoel and Quel (2017), among the fundamental changes, which occurred in order to meet the user's expectations, are: the reorganization of paragraphs; confirmation of the auditor's independence; Commentary by auditors and executives regarding the possible uncertainties of the entity's operational

continuity; inclusion of Key Audit Matters or Key Audit Matters; Addition of section on other information about the financial statements; and more detailed description of the auditor's responsibilities.

The first structural change, cited by Manoel and Quel (2017), corresponds to the reorganization of the paragraphs of the auditor's report. It is noteworthy that the auditor's opinion, previously presented in the final parts of the report, goes to the beginning and incorporates the introductory paragraph. Then, below the opinion, the basis of the opinion is presented. According to Veiga, Ribeiro and Inácio (2017), in this section the auditor should mention, among other information, the reason that led to the change of opinion and whether the audit was carried out in accordance with ethical standards and requirements.

Another highlight is related to the emphasis on the issue of operational continuity. According to the review carried out on ISA 570, the report now includes information on the responsibility of the auditor and management regarding uncertainties regarding the activity (continuity) of the company. Thus, there is the insertion of the topic of relevant uncertainties.

For companies listed on the stock exchange, it is mandatory to disclose the Key Audit Matters (KAM), and the disclosure of the name of the partner responsible for the works. According to NBC TA 701, item 8, the Key Audit Matters (KAM) are subjects that were the most relevant in the audit process of the financial statements for the period. It is noteworthy, therefore, that the main audit matters are selected from among the matters communicated to those responsible for governance.

Cordos and Fulop (2015, p.132) underline that "the communication of KAMs requires the auditor to apply their professional judgment, but also take into account the nature and extent of communication with those charged with governance". In this sense, the main audit subjects represent the main change in the auditors' report (Bédard & Gonthier-Besacier; Schatt, 2014; Cordos & Fulop, 2015).

It is worth noting that the changes in the auditors' report do not exhaust the possibility of future changes in format and writing, in addition to the inclusion of new information, with the objective of reducing differences in expectations in auditing. Surveys are developed to assess possible inclusions of information and changes to the report, which will be covered in the next topic.

## 2.2 Audit Expectations Gaps

The source of the problem of differences in expectations is presented under two views by Porter (1993). The first view attributes the maintenance of AEGs to society's ignorance about the nature of the audit work. This point of view has been used by audit professionals to counter criticism of their performance (Manson & Zamon, 2001). Consequently, the strategies adopted by audit professionals over the years to overcome DEA have been oriented towards educating users of financial statements and increasing society's awareness of the meaning of an audit (Maseko, 2016). These efforts include publishing auditing standards and distributing educational pamphlets (Geiger, 1994).

Porter (1993) segregated the AEG into two structural components, namely: difference in reasonability and difference in performance. According to the author, the difference in reasonability corresponds to the gap between the responsibilities that society expects from auditors and what is reasonable to expect for their work. The Performance Gap, which is subdivided into Standards Gaps and Performance Gap, is characterized as the gap between the responsibility that society expects from auditors and the respective perception of society. Standards Gaps represent the gap between the responsibilities expected by users and the responsibilities determined by rules and laws. Performance Gap is the difference between the performance that the auditor should meet according to norms and laws versus the performance perceived by society. Illustratively, the components can be represented as follows, as shown in Figure 2.

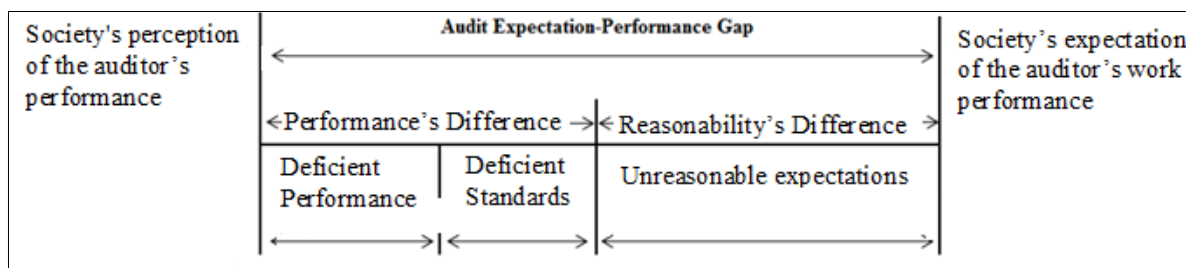


Figure 2 – AEG Structural Components

Source: Adapted from Almeida (2004).

As demonstrated by Almeida (2004), from this structure of differences in expectations, it is highlighted that the boundary between reasonableness gap and performance gap is constituted by the duties that we can reasonably expect from auditors. Components clarifying that the difference in reasonableness is due to users waiting longer than the audit can provide, for example, where the public expects the auditor to fully detect fraud, regardless of its materiality and relevance. For inadequate standards, Almeida (2004) explains that it is the case that the user expects the auditor to report misuse of funds to the regulatory authorities while the laws

or regulations do not require it. Inadequate performance, in turn, would be the fact that the auditor did not mention doubts that exist about the company's continuity, a procedure established by the standards.

Füredi-Fülöp (2015), in a study carried out in Hungary, found that AEGs result from a combination of poor performance of auditors, deficiencies in auditing standards, disproportionate expectations and misinterpretations of audit functions. Veiga *et al.* (2017) point out that inadequate standards refer to the way in which professional standards and regulations condition the audit function and its role, while inadequate performance is related to the lack of professional zeal and technical competence required of the auditor. For analysis purposes, Porter (1993) raised, in his research, the representativeness of each component in the construction of the AEG, detecting, at that time, that: 16% referred to inadequate performance; 34% was given by differences in reasonability and 50% given by inadequate standards.

Porter and Gowthorpe (2004) replicated the study by Porter (1993), with the aim of evaluating the composition of AEGs in the UK compared to New Zealand. The study found that, unlike New Zealand, the UK had a higher proportion of differences in reasonableness (50%). Studies carried out in the last decade have pointed to this change, in which the most representative component in the composition of AEG is given by the unreasonable expectations of users (Almeida & Colomina, 2008; Salehi, Mansoury & Azary, 2009; Gold, Gronewold & Pott, 2012; Kamau, 2013).

The composition of the AEGs into structural components facilitated the identification and differentiation of the main causes of differences in expectations. In this sense, delimiting and detailing the possible causes inherent to each type of gap collaborates with the search for effective strategies to reduce AEG. Dutra (2011) explains that the division into components makes it easier to obtain information about each item and helps to concentrate efforts in an attempt to reduce existing gaps.

Gray *et al.* (2011) expanded the work on the determining reasons for inadequate performance, inadequate standards and unreasonable expectations. In this context, the authors relate the lack of competence with the lack of knowledge and experience, either due to the auditors' ignorance regarding their attributions or due to the complexity of the business. As for the auditor's independence, the authors emphasize the importance of access to all information and the need not to make changes to the reports, due to pressure from directors of audited companies. The independence of the profession is related to the absence (or late presence) of standards with greater rigor for professionals and the concentration of auditing companies. The clarification of the auditor's role portrays that if the auditor's attributions are clarified, then the users' expectations tend to become reasonable.

Differences in expectations have been confirmed in different countries and at different time periods, as per Sule, Yusof and Bahador (2019). The authors applied questionnaires among academics, accountants, investors, stockbrokers and bankers. The results reinforced the differences in expectations in the area of fraud prevention and detection in Nigeria.

In Vietnam, Dung and Dang (2019) collected data from (i) auditors (ii) audited, (iii) users of audited financial statements (iv) the general public. The number of responses achieved was 454 or 32% of the total submission of questionnaires. The results showed the presence of AEG in the three spheres pointed out by Porter (1993): (i) reasonableness gap; (ii) auditor performance gap and (iii) standards gap.

Akther, Fengju and Haque (2019) evaluated the perceptions of capital market investors who trade securities on the Dhaka stock exchange. The group of auditors was randomly selected from among auditors belonging to the country's trade association. The final sample consisted of 130 respondents. The authors concluded that, in Bangladesh, most of the gap was identified as a reasonableness gap, which is among the responsibilities that society expects from auditors and what is reasonable to expect for their work according to norms and laws.

In Brazil, Wanderley (2017) identified that the evidence obtained suggests that gaps in expectations are also perceived in the country and are mainly due to unreasonable expectations of users of financial statements and a greater demand for information in relation to the audit work.

### 2.3 Impact of the New Auditor's Report on Expectations Gaps

In the context of the adoption of the new auditors' report, Gold *et al.* (2012) evaluated the state of audit expectations gaps in Germany and tested whether the presence of new information in the reports would lead to a reduction in audit expectations gaps. We sent questionnaires to auditors from Big Four firms, financial analysts and students. The findings suggested that differences in audit expectations persist in the Germanic setting, corroborating studies by Best, Buckby and Tan (2001). Additionally, the authors found that the changes presented in the new auditor's report did not affect audit expectations gaps.

Breesch, Hardies and Muylder (2012) carried out an experiment to identify which of the processes is most effective in reducing AEG: the expansion of the auditor's report or the education of users. The study was conducted with 159 economics students from Belgium. The results showed that audit education significantly reduces AEG since, according to the analyses, the participants in the auditing classes had a more appropriate understanding of the auditor's role and responsibilities in relation to the prevention and detection of fraud and regarding the assessment of the company's continuity. Additionally, the authors found, as well as Gold *et al.*

(2012), that the auditors' expanded report does not significantly affect users' understanding of auditing in general, but only on isolated points such as: fraud detection, security and sampling.

Mock *et al.* (2013) conducted a survey of research published in the period between 2006 and 2011, in order to identify which types of specific information stakeholders wanted to include in the audit report. The findings showed that information related to the audit process, auditor independence, materiality, level of assurance that the auditor is providing, information regarding the entity, accounting policies and continuity risks were the most recurrent topics. Furthermore, the authors also highlighted that changes in the report to better explain the responsibilities of auditors and management were noted by stakeholders; however, they did not appear to improve the communicative value of the audit report and contribute to reducing differences in expectations.

The information included in the auditor's new report, the comparison between quality or quantity of information and its effects on differences in expectations in auditing were the focus of the study by Litjens *et al.* (2015). The authors conducted a survey in the Netherlands evaluating the effect of including information about the audited company, on the audit process and on the modification of the auditors' report in the AEG. Given the proposed objective, we sent 1,520 questionnaires built on the Likert scale (with ranges from 0 to 6) to a population composed of: managers of private Dutch companies (owner-manager, CEO, chief financial officer) in need of mandatory audit; bankers operating in the private enterprise lending market; and auditors from medium-sized auditing firms. A final sample of 302 respondents (123 auditors, 118 managers and 61 bank employees) was obtained, totaling approximately, 20% of the population. The results, which reinforced the findings by Gold *et al.* (2012), pointed out that bankers did not place high value on changes in the format and writing of the auditor's report, and that these changes did not affect differences in expectations. On the other hand, the authors highlighted that information about the audit process related to the continuity and disclosure of errors are able to reduce differences in bank employees' expectations.

Boolakay and Quick (2016) investigated the impact of the disclosure of the level of security, materiality and key points of the audit in the new auditor's report, por meio da percepção dos diretores bancários alemães sobre a qualidade das demonstrações financeiras, processos de auditoria e do relatório de auditoria para decisão de aprovações de crédito. The sample consisted of 105 bank directors, and we used the Covariance analysis (ANCOVA) to determine the variables that explain the perceptions and decisions of directors. The results suggested that the disclosure of the security level had a positive impact on decisions to grant credit, while the disclosure of materiality and key audit points did not significantly change the perceptions of directors of financial institutions.

Lundgren and OldenBorg (2016) developed a survey in Switzerland to analyze how the adoption of the revised auditing standards (ISA 700 and ISA 701) impacted on communication, on the expectation gap and on the attribution of value to the auditor's report, by Swiss retail investors. The results showed that 64% of investors considered the new report more informative and that the changes, mainly due to the inclusion of key audit points, increased the potential of possible readers of the auditors' report.

Maseko (2016) researched whether the new auditor's report, given by the revision of the ISA 700 standard, carried out by the IAASB, would reduce audit expectations gaps in the context of South Africa. The study focused on expectations gaps regarding the responsibility of auditors, trustworthiness of audited financial statements and usefulness of audited statements for decision-making. We selected a sample of 300 participants (100 Big 4 auditors, 100 bank clerks and 100 students), obtained through the LinkedIn network. We used the Kruskal-Wallis and Mann-Whitney nonparametric tests to analyze the data. The results showed that, in general, despite the changes in the audit report, expectations gap remained in relation to auditors' responsibilities. We highlight, as in Lundgren and Oldenborg (2016), that the new report has increased users' confidence in financial statements and their usefulness as a decision-making tool.

In Portugal, Veiga *et al.* (2017), by applying questionnaires and interviews to financial analysts, auditors and managers, they found evidence that, in the perception of respondents, the changes in the report had a positive effect on reducing expectations in auditing in the country. In practical terms, specifically assessing how audit firms handle the requirements of ISA 701 in relation to reporting materiality levels, Iwanowicz and Iwanowicz (2019) analyzed companies listed on the Warsaw Stock Exchange (158 companies) and London (159 companies). From the empirical analysis, we concluded that the implementation of ISA 701 and the disclosure of materiality limited the audit expectations gap.

Iwanowicz and Iwanowicz (2019) and Coram and Wang (2020) analyzed one of the specific points of the changes in the Independent Auditor's Report: The Communication of Key Audit Matters, considered one of the most relevant points in the process of auditing the financial statements. The authors found that the disclosure of key issues alone in the audit report did not affect the audit expectations gap.

Thus, we found that, in general, the results do not show consensus on the effect of adopting revisions to international auditing standards on differences in user expectations. Nwaobia and Theophilus (2016) argue that the new auditors' reporting standards provide positive impacts in the long term, in the sense of limiting the differences in expectations. However, the results would only be achieved with full compliance with the standard. For such, auditors and professional accounting bodies would need to assume greater responsibility, through improved quality control systems and teams with an ethical commitment, committed to quality.

### 3 Methodological Approach

#### 3.1 Population and Sample

The target population of the analysis corresponds to all professionals who act as independent auditors and all professionals who use the audited financial statements for decision-making. The sample was constituted by convenience, according to the availability of respondents for the analysis. Faced with a non-randomly selected sample, there are limitations in the ability to generalize the results.

The sample comprised professionals who act as independent auditors in firms, or self-employed, and non-auditors. In the group of auditors, all professionals in the area were invited to participate, regardless of the position held. For the group of non-auditors, we selected respondents involved in accounting or professionals who use the audited financial statements for decision-making. The non-probabilistic sample had 185 complete responses and the instrument was applied in June and July 2017. The instruments used were identical in the two groups of respondents (auditors and non-auditors).

#### 3.2 Proposed scales and validation

This study used a questionnaire based on the instrument used in the research by Litjens *et al.* (2015). Four professors with experience in accounting and auditing validated the data collection instrument. The experts generated 25 technical, semantic and content contributions. For the construction of the scales, we chose to use seven scores, with the minimum scale corresponding to "Does not improve the understanding of the role of auditing" (score equal to 1) and the maximum scale corresponded to "Strongly improves understanding of the role of auditing" (score equal to 7). The distribution of sentences was as follows: 12 questions about the respondent's profile and 18 to assess expectations regarding the duties of the accounting auditor. The instruments used were identical in the two groups of respondents (auditors and non-auditors).

The application of the instrument used in the research by Litjens *et al.* (2015) was authorized by the authors, there was no substantial change in the reference instrument and all requirements for research with human beings were respected. Regarding reliability, we used the Cronbach's Alpha measure, being considered the minimum reliability level of 0.7. We present below the distribution of the scales by sections, being segregated in the profile of the respondents, measuring expectations in relation to the duties of auditors and measuring the importance attributed to the inclusion of information in the auditors' report.

##### a) Measurement of respondents' expectations regarding the duties of auditors

Based on the research constructs used by Litjens, Buuren and Vergoossen (2015), based on the work by Porter (1993), 18 sentences were defined to measure the expectation index of auditors and non-auditors. It is noteworthy that the Expectations Index, in this sense, is made up of three parts, being: Performance Gap - PG (sentences 1 to 6), Standard Gap - SG (sentences 7 to 11) and Reasonableness Gap - RG (sentences 12 to 18), as shown in Figure 3.

To what extent do you believe the related item is a material duty of an independent auditor?	
Sentences	Groups
1. The auditor must be independent.	PG
2. The auditor must state whether the financial statements adequately reflect a company's business.	
3. The accounting auditor should only audit the financial statements.	
4. The auditor must detect and disclose intentional misstatements of financial information that have a material impact on the financial statements.	
5. The auditor must detect theft of corporate assets by employees and management.	
6. The auditor must ensure compliance with accounting standards.	
7. The auditor must examine and report to users the reliability of the financial estimates presented by the company in the statements.	SG
8. The auditor must report suspected fraud to regulatory bodies.	
9. The auditor must report intentional misstatements of information to regulatory bodies.	
10. The auditor must assess and report the quality of internal controls.	
11. The auditor must assess and report how fraud risks are managed.	
12. The auditor must prepare the financial statements.	RG
13. The auditor must detect and report fraud that does not directly affect the company's accounts.	
14. The auditor must verify/analyze all accounting transactions that took place in the accounting year.	
15. The auditor must verify the assumption of continuity in relation to the company's activities.	
16. The auditor must ensure that the financial statements are accurate.	
17. The auditor shall review and report the effectiveness/efficiency of management.	
18. The auditor must reveal intentional distortions of corporate assets by employees.	

**Figure 3 – Expectations regarding the duties of auditors**

Note: PG = Performance Gap; SG = Standards Gap; RG = Reasonableness Gap.

Source: Based on the studies by Litjens, Buuren and Vergoossen (2015)

Statements that aim to measure the expectations index are segregated into: existing duties of auditors, duties reasonably expected of auditors and duties that cannot be expected of auditors. For the present research, following the method adopted by Hassink, Bollen, Meuwissen, and Vries (2009) and Litjens *et al.* (2015), the respondents pointed out, according to their own judgment, the degree of agreement or disagreement in relation to the proposed sentences based on the Likert scale. The component items of the index are shown in Figure 3.

Subsequently, we calculated the expectation index of each respondent taking into account the average of the AEG components:

$$IE = \frac{\sum(PG, SG, RG)}{n^{\circ} \text{ sentences}} \quad (1)$$

## b) Respondents Profile

To assess the profile of respondents, questions were drawn up that captured personal characteristics such as: gender, age, education level, education area, current profession, area in which the activities are carried out, length of experience in the current profession and current position. Additionally, we also list issues related to the respondent's involvement with the audit and with the auditors' report. For this purpose, we question the type of experience with auditing (just academic, academic and professional, just professional or none), if the respondent has read any auditor's report published in 2017, and, finally, it is considered that the audit report, as a means of communication, can be improved.

### 3.3 Mean Test

The present research used the Mann-Whitney tests to verify the existence of statistically significant differences in expectations between groups of users of the auditor's report. The Mann-Whitney test is a non-parametric alternative to the mean tests for independent samples. The Mann-Whitney test is a statistical test that checks for significant differences between the sum of the ranks of two samples. The Mann-Whitney test hypotheses are established in terms of the median values of the studied sample (Siegel & Castellan Jr., 2006).

## 4 Discussion of Results

### 4.1 Descriptive Statistics

The initially collected sample consisted of 194 completed questionnaires, among which 9 had missing data, being considered for analysis purposes, therefore, a total of 185 observations, consisting of 40 auditors and 145 non-auditors (other users of accounting information).

Before addressing aspects related to respondents' expectations about the duties of auditors, we present the main sample characteristics, such as gender, level of education, training area, profession, among others.

With regard to gender, there is a preponderance of male respondents compared to female respondents in the collected sample. In the joint analysis (auditors and non-auditors), among the 185 respondents, 44% said they were female, corresponding to 82 observations, and 56% said they were male, corresponding to 103 observations. When analyzing separately, by user group, we observed that the number of males is given to a greater extent in the group of respondents who work with auditing, and, of the total of 40 auditors, 68% said they were male, corresponding to 27 observations, and 33% female, corresponding to 13 observations.

One of the factors that explain the prevalence of the male gender in the sample may be related to the differences between genders historically registered in the labor market. Despite it increasing, the participation rate of women in the labor market is still marked by a strong difference in relation to men (Abram, 2006). However, it is worth noting that the female presence in the context of the labor market related to accounting and auditing tends to grow, given the large number of students of this kind in training (Cruz, Lima, Durso & Cunha, 2018).

Another point observed refers to the age group of the study sample. According to Table 1, the highest concentration was given in the 21 to 30 age group, representing 52% of respondents. The minimum age of the sample was 19 years and the maximum was 59. We also highlight that the most frequent age was 28 years old. With regard to the area of training, the fact that most respondents are graduated in Accounting Sciences is highlighted, in total 85%, representing 157 respondents. Second, we observed 8% of respondents trained in administration and 7% trained in other areas, such as Law, Economics, Statistics, among others.



**Table 1:**  
**Respondents Profile**

Identification		Freq. Abs	%	Identification		Freq. Abs	%
<b>Gender</b>	Female	82	44.3%	<b>Training Area</b>	Accounting Sciences	157	84.9%
	Male	103	55.7%		Management	15	8.1%
	<b>TOTAL</b>	<b>185</b>	<b>100.0%</b>		Economics	5	2.7%
<b>Age Group</b>	Up to 20 years old	3	1.6%		Law	4	2.2%
	Between 21 and 30 years old	97	52.4%		Others	4	2.2%
	Between 31 and 40 years old	54	29.2%	<b>TOTAL</b>	<b>185</b>	<b>100.0%</b>	
	Between 41 and 50 years old	21	11.4%	<b>Current occupation</b>	Accountant	123	66.5%
	Over 50 years old	10	5.4%		Controller	40	21.6%
<b>TOTAL</b>	<b>185</b>	<b>100.0%</b>	Student		14	7.6%	
<b>Level of Education</b>	PhD	4	2.2%	Others	8	4.3%	
	Master	27	14.6%	<b>TOTAL</b>	<b>185</b>	<b>100.0%</b>	
	Specialist	64	34.6%	<b>Experience in the Current Profession</b>	Up to 5 years	97	52.4%
	Complete higher education	65	35.1%		Between 6 and 15 years old	66	35.7%
	High school/technical	25	13.5%		Between 6 and 15 years old	22	11.9%
<b>TOTAL</b>	<b>185</b>	<b>100.0%</b>	<b>TOTAL</b>		<b>185</b>	<b>100.0%</b>	

By analyzing the occupation exercised by the respondents, we found that 92% of the sample had professions in the labor market, corresponding to 171 observations distributed among Accountant, Auditor, Professor, Lawyer, Banker, Miner, Information Technician, Seller and Engineer. Among the occupations reported by respondents, those that obtained the highest representation were Accountant, Auditor, Teacher and Student, with the representativeness of respectively 56%, 22%, 11% and 8% of the sample, corresponding to the total of respectively 103, 40, 20 and 14 observations.

After analyzing the main characteristics that make up the profile of respondents, we seek to assess the involvement and knowledge of respondents in relation to the audit work and the respective auditors' report, as shown in Table 2.

**Table 2:**  
**Respondent involvement with auditing and auditors' report**

Identification		Frequency	%
<b>Experience with Auditing</b>	Academic and Professional	78	42%
	Academic only	66	36%
	Professional only	19	10%
	None	22	12%
	<b>TOTAL</b>	<b>185</b>	<b>100%</b>
<b>How do you use the auditors' report?</b>	Do read	109	59%
	Do not read	76	41%
	<b>TOTAL</b>	<b>185</b>	<b>100%</b>
<b>Did you read the new auditors' report?</b>	Yes	70	38%
	No	115	62%
	<b>TOTAL</b>	<b>185</b>	<b>100%</b>
<b>Can the report be improved?</b>	Yes	136	74%
	No	3	2%
	Do not know	46	25%
	<b>TOTAL</b>	<b>185</b>	<b>100%</b>

We note that 88% of the sample has had or has experience with auditing, corresponding to 163 respondents. Of these, 42% reported having academic and professional experience, which corresponds to 78 respondents, 36% with only academic experience, representing 66 observations and 10% with only professional experience. Despite the representativeness of respondents with experience in auditing, whether in the academic and/or professional fields, only 38% of the sample indicated having read the new auditors' report. Finally, when asked whether the auditor's report could still be improved, we found that 74% pointed to the possible improvement, while 25% did not know and 2% said that there is no room for improvement.

## 4.2 Inferential Statistics

To check whether there are audit expectations gap between auditors and non-auditors, we then used the nonparametric Mann-Whitney test, whose results are shown in Table 3. The result of the test presented in Table 3 shows that the sum of the positions of the group of auditors reaches a total of 2,680, lower than the expected value of 3,720. On the other hand, we found that the sum of the posts of non-auditors, given a total of 14,525, was higher than the expected value of 13,485. In this regard, when analyzing the p-value of the Mann-Whitney test, it appears that there was a rejection of the assumption of equal behavior of the Expectation

Indices between the groups. The findings follow the studies by Best *et al.* (2001), Hassink *et al.* (2009), Albuquerque (2009) and Litjens *et al.* (2015).

**Table 3:**  
**Mann-Whitney test result for gaps in audit expectations**

Group	Ranks Sum	Expected Value	P-Value
Non-auditors	14.525	13.485	
Auditors	2.680	3.720	0.0005
<b>Total</b>	<b>17.205</b>	<b>17.205</b>	

Source: Research data

The main reasons for the gap between the expectations of auditors and non-auditors may be related to specific issues, such as the responsibility of auditors in preventing fraud, maintenance of accounting records and judgment in the selection of audit procedures (Best *et al.* 2001), topics on which non-auditors may create overestimated expectations in an attempt to safeguard their interests. Another highlight is that, despite the recent adoption of international auditing standards (ISAs 700, 701, 570, 705, 706, 260 and 720), that modified the auditors' report, the gap between the expectations of auditors and non-auditors remained, in the Brazilian context. This indicates that the changes made to the auditor's report format were not able to purge the differences in audit expectation, whether arising from deficiencies in auditors' reports or due to the level of knowledge/education of users.

From another perspective, the maintenance of the mismatch between the expectations of auditors and society may be linked to the lack of knowledge of auditors in relation to their duties, lack of technical capacity or lack of interest on the part of auditors for considering certain unprofitable obligations (Lee *et al.*, 2009). By reducing the activities performed, auditors incur less work time, which, consequently, reduces audit costs and can increase the firm's profits.

After empirically verified the existence of expectation gaps, we investigated the possible existence of an average difference between the Expectation Index of the group that reads the auditors' report compared to the one that does not read, given that the degree of expectation can be related to the level of use of the reports and the familiarity with them. The results are shown in Table 4.

**Table 4:**  
**Mean difference by report usage type**

Group	Auditors and Non-Auditors				Non-auditors			
	Obs	Sum of Ranks	Expected Value	P-Value	Obs	Sum of Ranks	Expected Value	P-Value
I do read	109	7,442	7.068	0.2964	69	5.173	5.037	0.5901
I do not read	76	9,763	10.137		76	5.412	5.548	
<b>Total</b>	<b>185</b>	<b>17.205</b>	<b>17.205</b>		<b>145</b>	<b>10.585</b>	<b>10.585</b>	

Source: Research data

Despite presenting gaps between the sum of the ranks of both groups, the results showed the inexistence of a significant gap between the Expectation Index of those who read the report compared to those who do not read. Exaggerated and unrealistic expectations about the duties of auditors could be expected by those who do not read the respective report. However, we found the opposite: those who do not read the report had lower expectations, which may be the result of the fact that those who do not use the report do not make great demands on the duties of auditors. It should be noted, however, that the difference resulting from the test was not statistically significant. Similar results were detected when performing the analysis of those who indicated that they had already read the new auditors' report, given by the adoption of the revision of the international auditing standards ISAs 700, 701, 705 and 706, compared to those who have not read.

Then, we analyzed the possible existence of a significant gap in the Expectation Index by the gender criterion, as shown in Table 5.

**Table 5:**  
**Mean difference by gender**

Group	Observations	Sum of Ranks	Expected Value	P-Value
Female	82	8,217.5	7.626	0.1020
Male	103	8,987.5	9.579	
<b>Total</b>	<b>185</b>	<b>17,205</b>	<b>17.205</b>	

Source: Research data

We observe, in Table 5, that there is no significant gap between the Expectation Index when analyzed between females and males. Despite this, we found that the sum of female posts is higher than expected, while in the male case, the opposite is observed. The higher expectations of females can be explained by the fact that women may have been subjected to more intense educational practices than men, by their parents,

which led them to have higher scores on some scales, especially those related to demanding (Costa, Teixeira & Gomes, 2000). Even so, the gap was not expressive enough.

Studies such as Lundgren and OldenBorg (2016) – in Switzerland – and by Maseko (2016) – in South Africa – detected an impact of the adoption of revised international auditing standards on audit expectations gaps. However, given the unavailability of historical data, the study was not able to assess whether the review of international auditing standards was able to significantly reduce audit expectations gaps. Studies in this sense were conducted through an experimental approach, a methodology that was not adopted in this research.

The persistence of differences in expectations, however, is in line with work following the standard, which suggested that audit expectations gaps persist, even with the transaction of norms (Best *et al.*, 2001; Gold *et al.*, 2012; Sule *et al.*, 2019; Dung & Dang, 2019; Akther *et al.*, 2019). Justification for this phenomenon can be found in studies carried out by Almeida and Colomina (2008), Salehi *et al.* (2009), Gold *et al.* (2012), Kamau (2013), who have pointed out that the most representative component in the composition of DEA is given by the unreasonable expectations of users. Wanderley (2017) also identified the same trend in Brazil, given the detection of unreasonable expectations of users of financial statements and a demand for a greater quantity of information in relation to the audit work.

Therefore, given the recent and significant changes in the standard, there is a need for the implementation of educational strategies by regulatory bodies, in order to explain to the audit user what the duties of auditors are and expand the understanding of the limits and potential of the report presented by the audit. The ability of audit education to contribute positively to the reduction of AEG was attested by Nuernberg (2020), who, in a study carried out with 162 students, obtained evidence of a reduction in expectations in matters relating mainly to the audit process, responsibilities, as well as audit firm prohibitions and regulations.

## 5 Final Considerations

The present study examined the current status of expectations gaps regarding the duties of the external audit after the adoption of the revision of international standards on auditing (ISAs 700, 701, 705), which culminated in updates to the Auditors' Report, in Brazil, in 2017. Studies related to expectations of auditors and society provide empirical evidence, inputs and possibilities for improvements to current auditing standards, whether in response to crises and failures regarding the reliability of accounting information, or as a strategy to prevent these facts.

The level of requirement of accounting users in relation to the duties of auditors, captured by the Expectation Index proxy (EI), was calculated based on the methodology developed by Porter (1993), used in different studies (Chong, Pflugrath & 2008; Albuquerque, 2009; Gold *et al.*, 2012), structured by the sum of three components, namely: responsibilities that society expects from auditors and what is reasonable to expect for their work; reasonable responsibilities that society expects from auditors and the responsibilities determined by rules and laws; performance that the auditor should meet, in accordance with norms and laws, and the performance perceived by society.

Questionnaires, based on the study by Litjens *et al.* (2015), available electronically and applied in person at two congresses in the accounting area in Brazil, captured 194 responses, of which 9 had missing data, leaving, therefore, a final non-probabilistic sample of 185 respondents, composed of 145 non-auditors (other users of the financial statements) and 40 auditors.

In this direction, the application of the Mann-Whitney test led to the rejection of the null hypothesis of equivalent behavior between the groups, where, in this case, it was found that the expectation index of non-auditors in relation to the duties of the external audit was higher than the expectation index of the independent auditors themselves. The tests applied, by themselves, brought results that contribute to the literature, by highlighting the perpetuation of empirical evidence documented in recent decades. We demonstrate that, after changing the standard, it brought significant improvements to the report, expectations gaps can still be detected, evidence that only changing the standard is not capable of changing the culture of the country and the auditors.

The results reinforce the continuous need for training and educational initiatives, so that, in fact, professionals understand the information disclosed in the report. The evolution of the report must be constant, and possible improvements must always be analyzed, seeking to meet changes in context and responding to the demands observed in accounting practice. Through training and the dissemination of information about the audit function, society will be able to reduce the level of unfeasible requirements, the result of unreasonable expectations, the result of ignorance regarding the nature of the audit work, to focus on what, in fact, has informational power for the user.

For the auditors, the persistence of the AEG found in this research highlights the need for constant discussion about their role and how to meet society's concerns. In academic terms, this work provides a basis for comparison for subsequent research, which assesses periods after the consolidation of the standard. In this way, it is expected that, in a feedback loop, scientific papers will offer insights to improve the practice of auditing.

We note the need for subsequent studies to include additional aspects when revisiting such relationships, such as the respondent's educational level, length of experience, demographic characteristics and any variables that may interfere with the level of information requirements of users of the audit report, including psychological characteristics. Such analysis requires the application of inferential statistics, which allow the inclusion of control variables, that is, a regression analysis. Thus, other variables could be considered intervening in the process, it would expand the richness, reach and methodological scope of the study, reinforcing the validity of the empirical results found through the mean test.

The external audit is one of the mechanisms capable of aligning interests, bringing transparency and trust among the involved participants. Therefore, the discussion of how information is transmitted and received is beneficial to society, allowing the debate to be extrapolated to possible future mechanisms of corporate governance and capital market development.

Understanding the informational potential of the updated audit report model, with regard to reducing the existence of the AEG, may be expanded in subsequent years, with the addition of the time series of data, and in a period of greater familiarity with society as to its form of reading and content. The identification of the persistence of expectations explains the need for constant measures to reduce it.

Among the limitations of this study, the sample size and its composition stand out, which was predominantly given by respondents trained in Accounting, which may bring possible bias to the results, since respondents with this training may have attended courses in accounting auditing, thus obtaining, greater familiarity with the duties of auditors established in standards and laws, which may reflect lower expectations than would be found in a different sample.

Furthermore, given the unavailability of historical data, it was not possible to assess the temporal behavior of audit expectations. We suggest, for future studies, the use of experiments, in order to assess the expectation index of users facing different reporting alternatives. Therefore, we emphasize the need for a controlled environment, allowing the possible influences caused by the new information to be captured.

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## NOTES

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