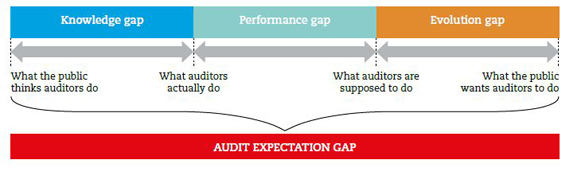
**Expectation gap in audit**

Historically, some in the profession might have portrayed the gap as being due to the public’s lack of understanding rather than being a legitimate concern. We do not agree. Even though there might be a gap in knowledge, that doesn’t cancel the calls for auditors to do more or better. The gap doesn’t seem to have narrowed since the term was first used. The persistence of the expectations gap reflects, in part, the fact that public expectations of audit can grow in line with what auditors can accomplish.

**The three gaps**

While it’s common to refer to ‘the expectation gap’, in truth there are several gaps. the knowledge gap, the performance gap and the evolution gap. We then propose addressing each of these separately. A wide knowledge gap can make it harder to understand the true evolution gap. For example if they are unaware of policies that are already in place. **The performance gap focuses on areas where auditors do not do what auditing standards or regulations require**. **This could be because of differences in interpretation of auditing standard between practitioners and regulators**

This could be because of insufficient focus on audit quality or differences in interpretation of auditing standard between practitioners and regulators.



**Addressing the expectation gap in audit**

There is an urgent need for audit to evolve and to listen to the public’s legitimate concerns about audit. It’s vital to ensure that the knowledge and performance gap components are addressed as part of properly addressing the evolution of the audit profession.

Closing the expectation gap in audit 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.

**Knowledge gap**

**The ‘knowledge gap’ is defined as 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, a belief that auditors are responsible for preventing corporate failure.**

**Performance gap**

**The ‘performance gap’ is defined as the difference between what auditors actually do and what auditors are supposed to do, given the requirements of auditing standards or regulations**.

Audit firms have systems and processes that seek to ensure quality in their engagements; in other words, that they comply with the standards and regulations. Audit regulators inspect files of completed engagements to evaluate whether quality is being achieved.

**Evolution gap**

**The ‘evolution gap’ is defined as the difference between what auditors are supposed to do if they actually follow the requirements of auditing standards and regulation and what the public wants auditors to do. In other words, the evolution gap indicates the areas of the audit where there may be a need for evolution, taking into consideration the general public demand, technological advances and how the overall audit process could be enhanced to add more value in the public interest.**

Addressing the knowledge and performance gaps is, however, an important first 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 (ACCA 2019a).

**Knowledge gap**

The research found a vast knowledge gap when it comes to audit (see box). Just 34% of all respondents correctly identified the auditor role as being to provide an opinion that the financial statements of a company give a true and fair view and do not include material mistakes due to fraud or error. Worryingly, given that the UK is at the centre of much of the public debate around audit right now, the UK ranked bottom of the 11 countries surveyed in terms of public knowledge of audit, with just 25% of respondents properly understanding what an auditor does.

More than half of all respondents (55%) believed companies would not fail if auditors did their job properly; among Malaysian respondents, the figure was 75%. The public does not appear to understand that avoiding corporate failure is primarily the responsibility of a company’s management team. While an audit may identify factors that could result in corporate failure, such as material uncertainty around going concern and internal control deficiencies, it is not designed to address market-related factors such as sustainability of the business model.

**Performance gap**

To identify where auditors are not living up to performance expectations, ACCA studied the most recent internal inspection findings from the International Forum of Independent Audit Regulators. The areas of audit with the most findings for the years 2014–17 were accounting estimates, including fair value measurement, and internal control testing, although consistent improvement in auditor performance was also identified, with only findings on group audit worsening.

It seems that in practice the performance gap is already narrowing, although the public may not realise this. ‘Many people think that the expectation gap can be defined as the performance gap, but that is not the case,’ explains AntonisDiolas, ACCA’s audit and business law manager. To address the performance gap, the report recommends that audit firms should act on the inspection findings they receive, that regulators should steer firms towards a culture of quality rather than a compliance mentality, and that standard-setters should revise accounting standards to be clearer and offer enhanced guidance.

**Evolution gap**

The research makes it clear that the public wants auditors to play a bigger role in detecting and reporting fraud. Over a third (35%) of all respondents expected auditors to achieve the impossible and ‘always identify and report any fraud’, while 70% thought audit should evolve in a way that enables it to prevent company failures.

The challenge with the evolution gap is that it cannot realistically be addressed unless the knowledge and performance gaps have already been narrowed. ‘Otherwise, there is a high chance that we will end up with overregulation because the public and the profession are not at the same starting point,’ Diolas explains.

**The way forward**

To close the expectation gap, the audit profession needs to collaborate with its key stakeholders – regulators, standard-setters, professional accountancy bodies, audit firms, audit committees, investors, governments, media and the public. Communication with the public is critical to closing the knowledge gap while a focus on audit quality is key to closing the performance gap.

While the research identifies potential areas for evolution in audit, it advises policymakers to be mindful of the link between the knowledge and evolution gaps when implementing new policies and regulations to satisfy public demand.

‘It is hoped standard-setters and policymakers consider the link between the three different components of the expectation gap and recognise that lack of performance is not the only issue,’ says Diolas. ‘There is also a knowledge component. We want to have a discussion around evolution while being realistic about what can be achieved.