

Evaluation of Audit Expectation Gap in Sudan: Existence, Causes, and Subsequent Effects

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Abstract

Purpose: This study mainly focus on evaluating the existence, causes and subsequent effects of audit expectation gap in Sudan.

Proposed Design/Methodology/Approach: A cross sectional research design in which data to be collected through structured questionnaires, and semi-structured interviews. Partial Least Square Path Modeling, using Smart PLS Software to analyze the data.

Findings: A detailed literature review reveals that, there is a shortage of research concerning the impact of multi-responsibility auditor, standard external audit process, accounting and auditing regulations in a developing country, auditor independence in fact and in appearance, external audit rotation, and rendering of non-audit services on audit expectation gap.

Moreover, there is dearth of studies investigating the moderating role of professional code of ethics, and the mediating effect of audit report .Therefore, the study proposes a framework to incorporate these factors into future research.

Practical Implications: The results of this study will assist policy makers in finding ways that can be instituted to tackle expectation gap in Sudan, to improve the quality of the auditing profession in the country.

Originality/value: This study contributes to the existing literature by adding evidence to the important debate about audit expectation gap, from a region that had little coverage on the studied matter. Specifically, it proposes a framework to extend the research on the factors that cause such a gap in Sudan. Moreover, a significant feature of this study is in introducing accounting and auditing regulations in a developing country as a new variable to investigate its effects on audit expectation gap.

Keywords: audit expectation gap, existence, causes, subsequent effects, Sudan, external auditors, users of financial reports, accounting educators

1. Introduction

The last two decades have witnessed corporate accounting scandals that have cast serious doubts on the integrity, and credibility of audited financial statements. Key users of financial statements have become more informed and they now demand more from audit assurance services (Ubaka, 2016). However, the failure of external audit to detect fraud in cases of Enron, WorldCom, Palmalat and Famie Mac have resulted in lower public confidence in financial reporting and auditing, and a mismatch between financial reporting key users' expectations of what they should be or what references should have been made for (Ubaka, 2016; Nadhim, 2018).

Specifically, key users of financial statements expect the external auditors to provide assurance in their audit reports of the companies subject to audit about their technical competence, integrity, objectivity, independence and neutrality, in addition to discovering the fundamental errors, and preventing the issuance of misleading financial statements about these companies (Fedaa Abed Almajid, 2017).

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The discrepancy between what the key users of the financial statements believe regarding the duties and responsibilities of the external auditor, and what the external auditors believe about that responsibility is what led to the emergence of the so-called “Audit Expectation Gap” (AEG) in the professional practice environment (Fedaa, 2017). Consequently, the audit expectation gap has been an issue for research and discussions among accounting researchers for the last two decades (Ubaka, 2016), and the increasing incidence of corporate collapses and financial scandals have revived research interest in this area (Mohammad et al, 2017).

The accounting and auditing literature has consistently reported the existence of the audit expectation gap, in both developed and developing countries (e.g. E. f. Enes et al 2016; Judit,2015; J.S. Kumari,2017; Najeb,2017; Ubaka,2016; Saeid,2016; Yasemin K öse,2015).

Despite efforts made to narrow the gap, such as through enhancing the auditing standards and implementing an effective corporate governance framework (Fedaa, 2017), still the gap exists and is widening and requires further research studies (Hasen, 2017). More studies are needed to identify the factors that cause an audit expectation gap, and its subsequent effects on developing economies. Moreover, very few studies have assessed the consequences of audit expectation gap on key user’s decision making. Empirical evidence of how the existence of the audit expectation gap may adversely affect audit quality and the decisions of key users, is necessary to justify an urgent strategy or action plan to narrow the gap (Hasen, 2017).

Thus, the general objective of this study is to evaluate the audit expectation gap in Sudan, with regard to its existences, causes and subsequent effects. Specifically to:

- Provide evidence to confirm the existence and magnitude of audit expectation gap in Sudan.
- Explore the effect of users’ needs for a multi-responsibility auditor on audit expectation gap.
- Examine the effect of standard external audit process on audit expectation gap.
- Find out the influence of audit regulations in auditing profession on audit expectation gap.
- Investigate the effect of accounting and auditing regulations in a developing country, specifically Sudan, on audit expectation gap.
- Determine the impact of auditor independence in fact and in appearance on audit expectation gap.
- Identify the influence of external audit rotation on audit expectation gap.

Moreover, the study also seeks to:

Find out the effect of rendering non-audit services on audit expectation gap.

Examine the moderating role of Professional code of ethics.

Investigate the effects of accounting knowledge and experience on audit expectation gap.

Identify the effects of audit report on audit expectation gap.

Determine the influence of accounting knowledge and experience on audit reports.

Explore the consequent effect of accounting knowledge and experience on decision usefulness.

Evaluate the mediating role of audit report.

Accordingly, the objective of this research study is to answer the following questions;

- To what extent does Audit Expectation Gap (AEG) exist in Sudan and its magnitude?
- What are the factors that cause Audit Expectation Gap (AEG) in Sudan?
- What are the consequences of Audit Expectation Gap (AEG) in Sudan?

1.1 Introduction of the Problem

It can be argued that the expectations of both external auditors and users of financial reports differ (Babonyire, 2016). Such differences brought the credibility and the work of the external auditors into increased questioning in many countries around the world, including Sudan (Abiola, 2015).

While key users on one hand expect a perfect assurance from the auditors, that is, having conducted an audit exercise and expressed an unqualified opinion in his report (Austine et a, 2013). However, such report should not result in adverse consequences to them at all. Also, they believe that auditors should disclose in their audit reports all financial irregularities and frauds amongst other issues in the accounting records (Sayed, et al, 2018). Opinions expressed in the auditors’ reports have been found to influence substantially the decision-making of key users of financial reports

(Hasen, 2017).

On the other hand, auditors feel differently. They have always viewed audit as an objective and independent evaluation of financial statements based on prescribed auditing standards, which purely depend on sufficient and appropriate audit evidences (Sayed Ali, et al, 2018). So he feels satisfied when expressing an objective and independent opinion, which are the cornerstones of auditing. Hence, an expectation gap becomes inevitable.

However, within this context the existing literature on the audit expectation gap in Sudan is extremely scarce (e.g. Kamal et al, 2016; Omer et al, 2015). These studies provided evidence about the existence of the gap, narrowing the gap by focusing on a certain group i.e. considering either the perception of the key users of financial reports or auditors about audit expectation gap, without studying the actual causes and the consequences of such a gap. Furthermore, the majority of the studies focused only on investigating the existence of the gap, without exploring how it consequently affects key users' decision-making (Kamal et al, 2016; Omer et al, 2015).

Even though the existing literature on audit expectation gap has been studied for the last two decades (Ubaka,2016), there is a scarcity of research concerning the influence of multi-responsibility auditor, standard external audit process, accounting and auditing regulations in Sudan. No emphasis were given to the contribution of the auditor's independence in fact and in appearance, external audit rotation, and rendering of non-audit services on audit expectation gap.

Moreover, there a dearth of studies investigating the moderating role of professional code of ethics between audit expectation gap and the factors that causes such a gap. In addition, there is lack of studies that examine the mediating effect of audit report between accounting knowledge and experience and decision usefulness.

This study mainly focused on evaluating the existence, causes and subsequent effect of audit expectation gap in Sudan. Within this context, it will attempt to study the perceptions of external audit firms, and key users of financial reports about audit expectation gap, and how its existence could adversely affect users' decision-making. This could help in justifying the cost associated with the attempts to narrow the gap.

This study will contribute to the existing literature by adding evidence to the important debate about audit expectation gap, from a region that had received little attention on factors that causes such a gap and evaluating its consequent effect in Sudan. Moreover, a significant feature of this study is the analysis of the mediating effect of the audit report, on key users' decision-making. Beside, analyzing the moderating role of the auditor's professional code of ethics.

Therefore, the results generated from this study would be of help to:

- External auditors in capturing their attention to the expectations of the key users of financial reports, which may bear on their ability to perform their jobs effectively with due professional care. In turn, this would affect positively the integrity of the financial reporting system and narrow the expectation gap.
- Key users of audited financial statements by raising their awareness and knowledge about the role of the external auditor, the nature of his work, his duties and their limits in order to adjust their expectations accordingly. Therefore, this is considered most crucial academic contributions of such a study.
- Draw policy makers' attention to the audit expectation gap problem. This would assist in finding ways that can be instituted to narrow the gap, and improve the quality of the auditing profession in Sudan.

Overall, this study is expected to contribute significantly to accounting profession in Sudan. As it will explore the status of the accounting profession in Sudan and the audit expectation gap. In turn, this will be a substantial contribution to accounting education and auditing practice in that country.

2. Literature Review

2.1 Theoretical Background of "Audit Expectation Gap" (AEG)

The existing literature on the audit expectation gap in Sudan is extremely scarce (Kamal et al, 2016; Omer et al, 2015). These studies focused mainly on providing evidence for the existence of the gap, and finding ways to narrow it. However, none of these studies explored the actual causes and consequences of "Audit Expectation Gap" in Sudan.

On the other hand, it is evident from the international literature that research into similar issues has been conducted in several countries (Judith, 2015). The growing literature on the 'AEG' can be seen as an indicator that it is a significant problem, which needs additional research (Najeb, 2017).

Specifically, review of the literature on 'AEG' indicates that emphasis of the studies have changed. Starting from

those earlier studies that focused on defining 'AEG' and providing evidence of its existence of the gap, to the later studies that emphasized the possible causes of the gap, and provided suggested solutions for minimizing it (Ubaka, 2016). Implicit in all these studies is that the existence of 'AEG' will bias key users' decision-making and lower their decision quality (Hasen, 2017). However, there are very few studies that examined the subsequent effect of 'AEG' on key users' decision usefulness (e.g., Maheswaran and Pinder 2010, Saeid, et.al. 2017, Wu, 2011).

When it comes to the definition of audit expectation gap, the definitions given to the gap by scientists have undergone considerable evolution over time (Judith, 2015). A careful look at these definitions, however, points to one prime fact; the differences in the understanding of the responsibilities or duties required by auditors. That is, the views of users of financial statements, differ from the views of the accounting profession about the fundamental objective of financial statements audit (Babonyire, et al., 2016). In this context, Liggio (1974) first introduced the term "Audit Expectation Gap (AEG)" to audit literature. He defined AEG as; "The difference between the levels of expected performance as envisioned by users of a financial statement, and the independent accountant".

This definition was further extended by the 'Cohen Commission' on the auditor's responsibilities in (1978), where the expectation gap was proposed to be represented by the gap between the performance of auditors, and the expectations of the users of financial statements. Later, the 'American Institute of Certified Public Accountants' (AICPA, 1993) defines the AEG more specifically as, "The difference between what the public and financial statement users believe that auditors are responsible for, and what the auditors themselves believe their responsibilities are".

On the other hand, 'Monroe and Woodliff' in (1993) defined the expectation gap as; "The difference between the beliefs of auditors and the public concerning the auditors' responsibilities and duties assumed by auditors, and messages conveyed by the audit report". However, 'Porter' in 1993 challenged the definitions used by 'Liggio' (1974), and the 'Cohen Commission Report' (1978), and argued that both definitions were too narrow as they failed to consider the possibility of substandard performance by auditors. Thus, she proposed that gap more appropriately entitled the "Audit Expectation-Performance Gap", to be defined as: "The gap between society's expectations of auditors and auditors' performance as perceived by society". This gap gives rise to criticisms in the form of a gap between what society expects from auditors and what it perceives it receives from them".

Furthermore, 'Humphrey' (1997) defines the AEG as "A representation of the feeling that auditors are performing in a manner at variance, with the beliefs and desires of those for whose benefit the audit is carried out". Despite the above distinction, researchers argued that the existence of an audit expectation gap is due to the key users misunderstanding of the changing role and responsibility of auditors.

2.1.1 Changing Role of Auditors

During the early development of the profession, auditors were engaged to provide almost absolute assurance against fraud and planned mismanagement, since the size of the firms during that time were reasonably small (Epstein et al., 1994). However, this role was reduced to the provision of reasonable assurance as time went by, and organizations became much more complex (Porter, B., 1997).

According to 'Porter' (1997), the primary objective of an audit in the pre-1920's phase was to uncover fraud. This objective, however changed by the 1930's, whereby the primary objective of an audit changed to verification of accounts (Lawal, 2015), and to express an opinion on the truth and fairness of the financial statements. This was perhaps due to the increase in size and volume of companies transactions, which in turn made it difficult for auditors to examine all transactions (Lawal, 2015).

As a result, the auditing profession started to assert that the responsibilities of fraud detection rested with the management. Further, management should also implement appropriate internal control systems to avert fraud in their companies (Lawal, 2015). Consequently, most of the users of accounting information may not have adjusted to the changing role of auditors; hence, this led to the existence of an audit expectation gap.

2.1.2 Components of "Audit Expectation Gap" (AEG)

'Porter' (1993), views the 'AEG' as consisting of two components: the "reasonableness gap" and the "performance gap".

The "Reasonableness Gap" (Unreasonable user's expectations) refers to "The gap between what the public expects auditors to achieve, and what the auditors can reasonably be expected to accomplish".

The "Performance Gap" refers to "The gap between what the public can reasonably expect auditors to accomplish, and what they are perceived to have achieved". It was further subdivided into "deficient standards", and "deficient

performance”.

“*Deficient Standards*” (*regulations*) arise from the difference between what the public can reasonably expect auditors to achieve, and what the law and professional standards have defined.

“*Deficient Performance*” arises from the difference between what the auditors are expected to achieve under the existing law and professional standards, and what their perceived achievement is. The figure below provides a summary of the structure of the audit expectation gap as identified by ‘Porter’ (1993):

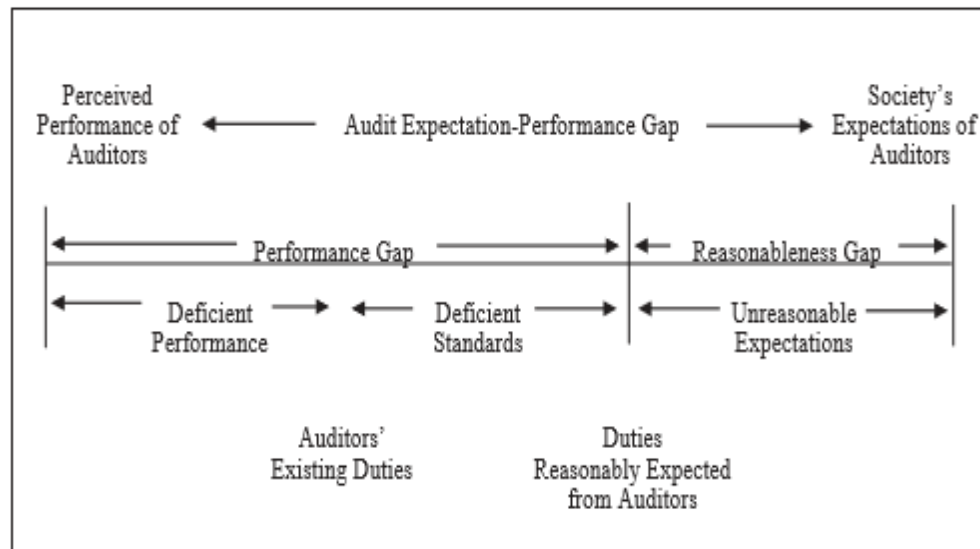


Figure 1. Components of audit expectation gap

Source: Adapted from Porter (1993).

Later, ‘Turner et al.’ (2010), based on the service quality model by ‘Parasuraman et al.’ (1985), divide the ‘AEG’ into four gaps: The ‘research gap’, ‘standards gap’, ‘delivery gap’ and ‘communication gap’. However, the “Australian Education Research’s ABREMA” model (2004), as cited in ‘Turner et al.’ (2010), aptly sums up the ‘AEG’ as the gap arising from: ‘Unreasonable user’s expectations’, ‘deficient audit standards’ and ‘auditor’s deficient performance’. Within this context, there are different views about the causes of audit expectation gap (Ogbonna et al., 2014).

Reviewing the contributory factors that caused such a gap in other countries, it was found to be due:

- The retrospective and subjective evaluation of auditor’s performance,
- Time-lag in the accounting profession responding to change and expectations of users, self-regulation process of the auditing profession (Abiola, 2015) ,
- Lack of knowledge and experience of users of financial statement (Saeid,et.al.2017),
- Extent of audit report,
- Structured audit methodology, extended auditors role and responsibility (Yasemin,2015),
- Decision usefulness (Rien, 2014).

However, the findings of international studies on the audit expectation gap cannot directly be applied to a particular country without further investigation. Nor can they be applied in Sudan. This is because the economic, social and legal factors of a specific country have a considerable impact on research results and might even distort them (Judith, 2017). Therefore, it is very necessary to explore the causes and consequences of such a gap in each country, including Sudan, based on its society, and its unique institutional factors.

Within this context, among the theories that underpin audit expectation gap, and related to this study are:

2.1.3 Theory of Inspired Confidence

‘Limperg’ (1932) published a series of essays that became known as the ‘Theory of Inspired Confidence’. Such a theory focuses on both the demand and supply of audit services. As he argued that the auditor derives his general function in society from the need for an expert, and an independent opinion based on that examination.

The function is rooted in the confidence that society places on the effectiveness of the audit, and in the opinion of the accountant. Therefore, this confidence is a condition for the existence of that function. If the confidence is betrayed, the function is destroyed and becomes useless. He went on to argue that there were two circumstances in which the confidence could be betrayed:

- If the expectation of society is exaggerated, that is, it exceeds what the auditor is capable of performing;
- If the auditor under-performs.

He recognized that society’s needs are not static. They are dynamic and influenced by changing perceptions and changes in the environment.

The central area of Limperg’s work relates to the social responsibility of the independent auditor, and possible mechanisms for ensuring that audits meet society’s needs. Limperg’s work highlights the importance of the social significance of auditing, and the implications for how an audit should be performed. Further, Limperg (1992) emphasizes the role of the auditor in relationship with the key users of financial statements, in the sense that the independent auditor acts as a confidential agent for society.

Limperg’s framework is based on the greatest possible level of satisfaction of key users of financial statements with regard to the auditor’s work. In achieving this objective, the auditors are to perform enough work to meet the expectations they have aroused in society.

2.1.4 Contingency Theory

Contingency theory is a behavioral theory developed by ‘Woodward’ (1958). It postulates that optimal structure of an organization is contingent upon different factors such as the nature of organizational work, organizational technology and market conditions (Nasrallah & Qawasmeh, 2009). However, for the past few years, attention has been given to the usage of contingency theory in different fields, including auditing (Badara & Saidin, 2013). It has been used to reflect the effect of one variable over the other. Under this theory, the word “contingency” means something is only true under specified conditions. Contingency also refers to the contingent effect of one variable over other (Muaz, 2017).

Within this context, it has been widely used in auditing literature in different ways, for example; some researchers used contingency theory in the area of audit success, to identify the factors that audit success is contingent upon. Others, used it to reveal the contingent effect of audit committee on the relationship between internal auditors and external auditors (Muaz, 2017)...etc. Therefore, whenever this theory is used in audit literature, it reflects the contingent effect of one variable over the other.

2.1.5 Role Conflict Theory

Role Conflict Theory provides a theoretical explanation for the existence of an expectation gap. The theory is developed by ‘Rizzo, House and Lirtzman’ in 1970. Role Conflict Theory is based on the following assumptions: the auditor is required to monitor the client’s financial statements, and the public expects the auditor to faithfully carry out that role (Koo and Sim, 1999).

The auditor is in conflict, because he or she must firstly serve the professional regulations and rules governing auditor independence. Then, this must be balanced against his or her role as the ‘watch dog’, who should be serving the interests of the key users and the client as well as looking after his or her own self – interest (Philmore Alvin Alleyne, et al, 2006).

The role of the auditor is subject to the interactions of the normative expectations of the various interest groups in the society, having some direct or indirect relationship to the role position (Davidson, 1975). He noted that these different groups may hold varying expectations of the auditor, and these expectations may change from time to time depending on the specification of their own role requirements, and the interaction of other forces in the society.

Hence, the auditors are placed in multi-role and multi expectation situations. Furthermore, ‘Koo and Sim’ (1999) argue that role conflict may arise because of the expectation gap that exists between the auditors and users. Users expect auditors to serve the public, and to uncover management fraud. There is a role conflict when the auditor is unable to satisfy all the responsibilities expected by users.

2.1.6 Attribution Theory

'Kelley' (1973), who explained why the auditor was blamed when a fraud occurred related to his /her work, conceptualizes the attribution theory. According to this theory, users of audit report (as an evaluator), become a naïve scientist as they attempt to assign causation by observing traits of consistency, distinctiveness, and consensus (Kelley, 1973).

'Fiske & Taylor' (1991) indicated that this theory deals with how information is used to arrive at causal explanations for events. As it examines what information is gathered, and how it is combined to form a causal judgment and subsequently make a decision"

Based on attribution theory (Kelley, 1973), audit expectation gap could damage the image of the accounting profession, and lower the confidence level of users of audited financial statement. As they assume that the audit report may reflect the credibility of financial statements, and had to be used as an important tool for decision-making (FASB, 2010).

For example; Creditors, especially corporate lenders often use the audited financial statements for credit granting. Lenders must understand the contents of the audit report, in order to improve the ability of assessing credit risk (Rien, 2014). The differences of perception in understanding the content of audit reports between lenders and auditors, will increase the risk of going concern doubt of the creditors themselves, as a result of an improper decision making (Rien, 2014).

Furthermore, 'Porter' (2009) highlighted that the existence of this gap, can lead to decision-making errors. As users may expect a lot from auditors, and completely depend on the audit report, which may be misinterpreted and, in turn, may adversely affects their decision-making.

2.1.7 Principle-Agent Theory

'Jensen and Meckling' conceptualized Principal-Agent theory (1976), it analyses the relationship between two parties: investors and managers. The agent (that is, managers) undertakes to perform certain duties for the principal (that is, investors) and the principal undertakes to reward the agent.

However, it is argued under this theory, managers may not behave in a way that matches investors' interests. The degree of uncertainty about whether the agent will pursue self-interest rather than comply with the requirements of the contract, represents a conflict of interest between the two parties (Jensen and Meckling, 1976). This theory has been extensively used in the audit expectation gap literature, with regard to the self-regulation process of auditing profession and auditor's independence.

2.1.8 Readers Response Theory

The reader's response theory is based on the assumption that there is no one correct reading of a text, and readers are active interpreters of messages and can infer variable meanings in a text based on their own psychology, content, or motives (Wright, 2012).

Another assumption used in this theory, that a reader's background knowledge and experiences impact his/her interpretation of a text (Wright, 2012). Because users of financial reports who used and read audit report have different backgrounds, knowledge and experience, may misinterpret and misunderstand the content of audit report, which in turn may cause the existence of expectation gap (Wright, 2012).

2.2 Hypothesis Development

These hypotheses have been developed based on the adaption of 'Theory of Inspired Confidence' (1932), 'Contingency Theory' (1958), 'Role Conflict Theory' (1970), 'Attribution Theory' (1973), 'Principle-Agent Theory' (1976), and 'Readers Response Theory' (2012).

They test the relationship between audit expectation gap and multi-responsibility external auditor, standard external audit process, audit regulations in auditing profession, accounting and auditing regulations in Sudan, auditor independence in fact and in appearance, external audit rotation, non-audit services, accounting knowledge, accounting related work experience and audit report. Moreover, it will examine the moderating role of professional code of ethics, the mediating effect of audit report and the consequent effects on decision usefulness.

2.2.1 Multi-Responsibility External Auditor (MREA)

Previous studies have examined the effect of auditor responsibility on audit expectation gap in a general way, without identifying the various expectations of users towards external auditors, which may place them in a multi-responsibility situation (e.g. Charles, 2013, Ogbonna et al 2014, Hassan, 2017). Where 'Charles' (2013) stated

that high user's needs contribute to high audit expectation gap, while low users' needs may lead to reduced audit expectation gap.

According to 'Dobroțeanu et al.' (2009), as cited in 'Ogbonna' et al 2014, the public way of thinking has not followed the evolution of the audit function, and is thus anchored in the traditional role of an auditor as a policeman, which will detect all mistakes and frauds. Most likely, 'Hasen' (2017) revealed that the auditing profession believes the widespread criticism and litigation against auditors, may be due to auditors not meeting the public's expectations on the state of affairs of the companies audited.

Within this context, there is a lack of studies on evaluating the effect of a multi responsibility external auditor on audit expectation gap, with regard to various expectations of users. This issue was revealed by role conflict theory that stated "A role conflict may arise when the auditor is unable to satisfy all the responsibilities expected by users" (Lirtzman, 1970).

As users expectations about external auditors responsibility consist of, detection of fraud, mistakes and irregularities, going concern warning (Fedaa, 2017), implementation of an effective internal control in the audited entity, preparation, interpretation and guarantee of complete accuracy of audited financial statements, full examination in audit procedures, express an opinion in the financial statements, and provide an absolute assurance that the financial statements are not materially misstated (Fedaa, 2017).

Based on the above arguments, this study hypothesizes the following:

H1: User's needs for a multi-responsibility external auditor will lead to audit expectation gap.

H1a: Users expect auditors to detect fraud, irregularities, mistakes and errors in the audited entity.

H1b: Users expect auditors to issue an early warning signal about the possibility of going concern doubt, in the event of an entity approaching failure.

H1c: Users expect auditors to design an effective internal control system in audited entity.

H1d: Users expect auditors to prepare audited company's financial statements.

H1e: Users expect auditors to guarantee the complete accuracy of audited financial statements.

H1f: Users expect auditors to interpret audited financial statements.

H1g: Users expect auditors to conduct full examination in audit procedures.

H1h: Users expect auditors to issue an opinion on the 'truth and fairness' of the financial statements. Most preferably, if they issued an unqualified opinion.

H1i: Users expect auditors should provide an absolute assurance that the financial statements are not materially misstated.

2.2.2 Standard External Audit Process (SEAP)

The existing literature on audit expectation gap consist of few studies which have assessed the link between structured audit methodologies and audit expectation gap (Boritz et al, 1987, Purvis, 1989 Charles 2013). These studies suggest the existence of a strong link between, lack of structured audit methodologies and low audit expectation gap.

Accordingly, 'Boritz et al.' (1987) in his study concluded that structured audit methodologies do not necessarily lead to better intra firm consensus. Likewise, 'Purvis' (1989) stated that the use of structured and semi-structured audit procedures in the process of carrying out an audit engagement, may not essentially be beneficial to the audit firms, and consequently may lead to high audit expectation gap. While, 'Charles' (2013), observed that lack of structured audit methodologies does not significantly contribute to high audit expectation gap.

However, these studies are too narrow, as they did not clarify the phases of structured audit methodology that should be followed by audit firms. Even though, there is a dearth of studies on evaluating the effect of using a standard external audit process, between audit firms and audit expectation gap. Which could lead to a successful and effective external audit and improve audit quality.

Consequently, this relationship will be revealed in this study, based on the adoption of standard external audit process identified by international standards of auditing (e.g. ISA 300, ISA700). Based on this, to insure an effective and successful audit engagement, external audit firms should follow a four-phase audit process broadly ranging from; pre-engagement procedures, planning and design of an audit approach, test for evidence, completion of the audit and issuance of an audit report (e.g. ISA 300, ISA700).

All of which will contribute to an effective and successful audit between external audit firms, and improve audit quality. Which in turn, could reduce audit expectation gap. Based on the above arguments, this study hypothesizes that:

H2: Following a standard external audit process between audit firms, could lead to a successful and effective external audit engagement, and improve audit quality. Hence, bridging the expectation gap in auditing.

H2a: External Audit firms should follow a four- phase audit process ranging from; Pre-engagement procedures, planning and design an audit approach, testing for evidence, completion of the audit, and issuance of an audit report. By doing so, the work of external auditors will be perceived by key users as effective and successful. All of which, will bridge the expectancy gap in auditing.

2.2.3 Audit Regulations in Auditing Profession (ARAP)

Literature in audit regulations focused on the self-regulation process of the auditing profession and audit expectation gap. Some researchers have argued that the self-regulation process of the auditing profession has a significant influence on the audit expectation gap (Paul, 2014, Abiola, 2015, Paul, 2015, Jeffrey Cohen et al, 2015, Mahdi, 2016, Hasen, 2017). These studies elaborated that a self-regulatory framework creates professional monopoly, which is likely to compromise the audit quality at client's expense and tolerates the deficient performance of auditors.

Within this context, the 'expectation gap' is defined as "An outcome of the contradiction of minimum government regulations and the profession's self-regulation". Especially the profession's over-protection of self-interest, which has widened the 'expectation gap' (Sikka et al. 1992). 'Giacomino' (1994) also supports this definition: and 'Chandler and Edwards' (1996).

Similarly, 'Mansoury and Azary' (2009) confirmed this by stating that the audit profession self-regulatory policy permits it to set standards for itself, determines what auditor's role and responsibilities should be, and carry out management advisory services for audit client and still remain independent. Thus, the audit profession is proclaimed as a self-regulated profession. Therefore, the self-regulation nature of the audit profession may result in widening of the 'AEG'.

According to the agency theory, "It analyses the relationship between two parties: investors and managers. The agent (that is, managers) undertakes to perform certain duties for the principal (that is, investors) and the principal undertakes to reward the agent" (Jensen and Meckling, 1976). However, it is argued under this theory, managers may not behave in way that matches investors' interests. The degree of uncertainty about whether the agent will pursue self-interest rather than comply with the requirements of the contract represents a conflict of interest between the two parties (Jensen and Meckling, 1976).

In this study, the Audit regulatory bodies is the agent, and the public and users of auditing standards is the principal. A conflict of interest may arise, when regulators play the role of self-regulatory bodies. Where the audit profession may set audit standards, rules and regulations that over protect their own interest, without identifying users' needs and expectations. Consequently, self-regulatory framework of auditing profession may be at the expense of public and users, hence an expectation gap may exist. Based on the above discussion, this study hypothesizes that:

H3: Self-regulation process of auditing profession will lead to audit expectation gap.

2.2.4 Accounting and Auditing Regulations in a Developing Country (AARDC)

There is lack of studies on evaluating the effect of accounting and auditing regulations in a developing country like Sudan, and audit expectation gap. According to Samuel (2016), developing countries, including Sudan, generally do not have a well-established accounting and auditing tradition. They often lack a strong professional accounting body. Furthermore, in those nations, there are no legal requirements to follow International Standards of Auditing (ISA) in conducting an audit.

Within this context, the main shortcomings of auditing profession in a developing country, Specifically Sudan, lie in the absence of national accounting and auditing standards, non-uniformity in audit practices, and weak accounting education system (Samuel, 2016). All this could create a gap between auditing profession and society needs leading to the existence of audit expectation gap.

According to contingency theory in auditing, "The word contingency means, one thing depends on other things" (Woodward, 1958). In this regard, this study suggested that nation's accounting profession is affected and shaped by various institutional factors i.e. regulatory bodies, accounting education, local or international accounting standards. Based on the above arguments, this study hypothesizes that:

H4: Lack of a highly organized accounting profession in a developing country, complemented by no legal requirements to follow international auditing standards by audit firms, will create a gap between audit practices and society expectations. Hence, leading to the existence of Expectation Gap.

H4a: Lack of a highly organized accounting profession in Sudan, is evidenced by the absence of national accounting and auditing standards, weak accounting education system, non-uniformity in audit practices. Therefore, this could significantly create a gap in audit practices between audit firms and society expectations. Hence, this will lead to expectation gap in auditing.

2.2.5 Auditor Independence in Fact and in Appearance (AIFA)

The continuous doubt about the independence of external auditors has captured public interest on understanding how it affects audit expectation gap (Fedaa, 2017). Thus, ISA 210 requires the external auditor to confirm the degree of audit independence, before accepting an engagement. Therefore, he/she is professionally required to work independently from his/her client to make a proper judgment on the books of accounts (Charles, 2013).

Within this context, previous studies have revealed the effect of auditor independence on audit expectation gap (Klaus et al. 2014, Ramon, 2014, Judit, 2017). Such studies are too broad in examining such an effect. As they did not evaluate the specific influence of external auditor independence in fact and in appearance on audit expectation gap.

However, this factor is very essential to be examined individually, as the external auditor's independence in fact and in appearance is considered an integral part of a high quality audit (warren et al. 2014). This, in turn, may reduce public expectations towards bad audit services. Hence, the gap may diminish. Furthermore, this factor is influenced by different perspectives, and thus, call for specific separate examination (Bryan K. Church ET al.2015).

According to the theory of inspired confidence, "the auditor derives his general function in society from the need for an expert, and an independent opinion based on that examination" (Limperg, 1932). This study argues that, the external auditor should be independent in fact and in appearance, to act as a confidential agent for the society.

Within this context, Auditor independence in fact and in appearance has been defined by the Institute of Chartered Accountants in Australia (ICAA, 2004) as follows:

Independence in Fact – "The state of mind that permits the provision of an opinion without being affected by compromised professional judgment, allowing an individual to act with integrity and exercise objectivity and professional skepticism i.e. the auditor should possess an independent mindset when planning and executing an audit and that the resulting audit report is unbiased".

Independence in Appearance – "The avoidance of facts and circumstances that are so significant for a reasonable and informed third party, having knowledge of all the relevant information, including any safeguards applied, that would reasonably conclude a firm's or members of the firm's integrity, objectivity has been compromised. Just the auditor appearing to be independent obtains professional sceptics i.e. this type of independence. Based on the above discussion, this study hypothesizes that:

H5: External auditor independence in fact and in appearance, will contribute in improving audit quality, which, in turn, may reduce public expectation gap toward bad audit services, hence, bridging the audit expectation gap.

2.2.6 External Audit Rotation (EAR)

The current literature on audit expectation gap lacks studies that assess the effect of external auditor rotation on such a gap.

Auditor rotation can take several forms. First, firms can rotate their lead auditors voluntarily. The voluntary change is often associated with audit failures like financial distress and fraud, other reasons for rotation may be due to firms want to delay disclosures about their financial conditions, but the current auditor does not agree (Patrick et al, 2014,Bob,2016).

Second, is mandatory rotation, which can mean either mandatory audit firm rotation or mandatory lead audit partner rotation. The latter is less severe as it would only require a rotation of audit partners within the same firm (Patrick et al, 2014, Bob, 2016,).

Mandatory audit firm rotation would require the company to end the tenure with the current auditor after a certain number of years and find a new auditor. Within this context, it has been argued that the provision of audit services consistently for a long period, for the same client could lead to familiarity threat (Judith, 2017). As auditors will be concerned with pleasing management. In turn, this will affect the perception of the society about auditing profession,

and the expectation gap may exist. Based on the principal agent theory, auditor independence reduces the probability of his collaboration with management against the company's target group, by having his impartiality compromised, thus filing unfounded reports. Hence, reducing the conflict of interest that may arise between auditors and users of financial reports (Patrick et al, 2014).

This issue will be examined in this study. Based on the above arguments, this study hypothesizes that:

H6: Lack of external audit rotation may lead to close familiarity with audit clients. This may impair auditor independence and undermine audit quality, which, in turn, may lead to audit expectation gap.

2.2.7 Rendering of Non-Audit Services (RNAS)

The current literature of the effect of non-audit services on audit expectation gap is sparse. Therefore, this study will evaluate the influence of rendering non-audit services on audit expectation gap.

Non-audit services are any other services that can be rendered by external audit firms to their clients (Kanaka, 2015). It may include tax services, management advisory services, and consultancy services etc. However, there are many arguments in favor and against the provision of such a service. It has been argued that the provision of these services may result in special relationships, which may affect auditor's independence and undermine audit quality (Fedaa, 2017, Warren et al, 2014).

According to the role conflict theory, "The auditors are placed in a multi-role and multi expectation situations which must be balanced against professional regulations that govern auditor independence". Hence, a role conflict may arise. Therefore, this study hypothesizes the following:

H7: Rendering of non-audit services may impair auditor's independence and undermine audit quality. Hence, audit expectation gap will exist.

2.2.8 Professional Code of Ethics (PCE)

Trust of key users of audited financial statements represents the foundation of the auditors' presence in the market, and measures the degree of confidence that different parties have in the services provided by the profession (Alexandra, 2013).

It has been alleged in different countries, including Sudan, that key users trust has witnessed a decline in recent years due to incidents of unethical behavior within the profession (Alexandra, 2013). Since the beneficiaries of the audit services comprise a wider range of the public including; share brokers, Bank loan officers etc..., it is only natural that the public expects a certain level of performance from the audit profession. These include a wider range of expectations, all of which directly affect public perception towards the auditing profession, and as a result, influence their confidence (Alexandra, 2013).

Therefore, by acknowledging their responsibility towards the community, the auditors recognize their accountability towards the society. Hence, they should behave ethically and follow the professional code of ethics in carrying out an audit engagement (Alexandra, 2013). In turn, this will positively influence public trust towards auditor's behavior and accountability. Hence, audit expectation gap will decrease (Alexandra, 2013).

Within this context, there is lack of studies on examining the moderating role of compliance with professional code of ethics between audit expectation gap and the factors that causes such a gap. According to the theory of inspired confidence "If public confidence towards auditors function is betrayed, the function will be destroyed since it becomes useless" (Limperg, 1932).

In this study professional code of ethics as a moderator can be described when the confidence of users of audited financial statements is compromised if the auditors behave unethically and underperform. They expect auditors to be independent in fact and in appearance, fulfill all their expectations, follow a well-known audit process in carrying out an audit engagement by following prescribed auditing standards that meet all their expectations (Limperg, 1932). In addition to being rotated, to avoid the close familiarity threat and render non-audit services. If these expectations are not carried out faithfully by the auditor, and the public perceived auditors as not complying with professional code of ethics, their trust towards the auditing profession will be eroded (Limperg, 1932). In turn, this will lead to an increase in the audit expectation gap between the external auditors and users of financial reports. Therefore, based on the above discussion this study, hypothesizes that:

H8: Professional Code of ethics moderates the relationship between audit expectation gap and multi-responsibility external auditor, standard external audit process, audit regulations in auditing profession, accounting and auditing regulations in developing countries, auditor's independence in fact and in appearance ,external audit rotation and

rendering of non-audit services.

2.2.9 Accounting Knowledge and Experience (AK/AE)

Among the various causes of audit expectation gap that is mostly studied is accounting knowledge and experience. However, many studies have provided empirical evidence that accounting knowledge and experience of key users of financial statements are the main determinants of the audit expectation gap.

For example; Amirhossein (2013), stated that accounting qualification and accounting-related work experience of key users of audited financial statements, could significantly mitigate the audit expectation gap. While, Ramlugun (2014) found that lack of knowledge on the responsibilities of auditors on the part of the key users of the audited financial statements, continue to give credence to the existence of the audit expectation gap.. Judit (2015) also stated that audit users should further improve their knowledge of the audit function and its limitations to avoid building unreasonable expectations.

Similarly, Babonyire et al. (2016) examined the need to educate key users of audited financial statements on the essence of an audit, in order to forestall, to some extent, the widening of the audit expectation gap. Later, Najeb (2017) observed that reducing the expectation gap is to improve knowledge responsibilities between the auditors and key user groups, and understanding of the auditor's role and responsibilities through the provision of auditing services.

According to the attribution theory, "Users rely on their knowledge and experience to explain an event and form a causal judgment". This study will reveal that key users accounting qualifications and accounting related work experience will influence their perception about the auditing profession. i.e. the more knowledgeable and educated key users are about the duties and responsibilities of the auditor, the more they will make proper judgments in any event related to accounting and auditing. In this way, unreasonable expectations from the public will be reduced.

Based on the attribution theory on the influence of knowledge and experience on human judgments and prior empirical findings, it is postulated that accounting education, accounting-related work experience can mitigate to some extent the AEG of users of audited financial statements. Hence, the following two related hypotheses are formulated:

H9: Accounting qualification of key users of audited financial statements could mitigate their unreasonable expectations about the auditing profession. Hence, reducing the audit expectation gap.

H10: Accounting related work experience of key users of audited financial statements could mitigate their unreasonable expectations about the auditing profession. Hence, reducing the audit expectation gap.

2.2.10 Audit Report (AR)

Several studies have investigated the influence of audit report on the audit expectation gap (Okafor & Otolor, 2013, Anderson et al., 2014, George et al., 2016, Hasan et al., 2018). These studies stated that an expectation gap could be reduced through the introduction of the "long form" audit report, with the aim of educating key users about the main function of an audit, and providing details about the auditor's role and responsibility.

However, this study will evaluate the length of the audit report, with regard to the message communicated on it. To ascertain the effectiveness of an auditor's report as a communication medium between auditors and key users of audited financial statements, Accordingly, the theory of inspired confidence states that "The audit function is rooted in the confidence that society places on the effectiveness of the audit and the level of satisfaction they have towards auditors" (Limperg, 1932).

The level of satisfaction is comprised of auditors work, the audit report, and other issues related to the auditing profession in general. Based on the above arguments, this study hypothesizes that:

H11: The standard audit report should be expanded through the inclusion of more information about the audit function, with the aim of educating key users. In turn, this will improve the message conveyed in the report and audit expectation gap will be reduced.

On the other hand, Ogbonna et al. (2014), indicated that the nature of the audit function is further complicated by subjective and technical concepts used in audit reports, such as "true and fair view", "reasonable" and "materiality".

As a result, the public may have a lack of understanding of how to interpret the various concepts. This was explained by reader response theory, which was stated "reader's background, knowledge and experiences impact his/her interpretation of a text. Because key users of audit reports have different backgrounds, knowledge, and experience, this may lead to misinterpretation of the audit report" (Wright, 2012). Consequently, the effect of key users

accounting qualification, and accounting related work experience on the interpretation and understanding of the content of audit report will be examined in this study. Therefore, this study hypothesizes the following:

H12: Key users of audited financial statements with sufficient accounting qualification will be able to interpret properly the technical concepts used in the audit report.

H13: Key users of audited financial statements with sufficient accounting-related work experience will be able to interpret properly the technical concepts used in the audit report.

2.2.11 Decision Usefulness (DU)

The impact of knowledge and experience on decision usefulness is well documented in the literature (Maheswaran and Pinder 2010, Saeid, et.al. 2017, Wu, 2011,). It is also well documented that individual factors, such as knowledge and experience shape human judgment and attitude, and influence human decision making. It is widely reported that individuals rely on their knowledge and experiences to interpret the environmental stimuli they encounter in their decision making process.

Based on the decision-making theories on the influence of knowledge and experience on human decision-making, it is postulated that “Experience and education are the two important elements that substantially affect the quality of decisions of finance managers (Amirhossien et al, 2013). Hence, more experienced auditors are found to make more-accurate and reliable judgments, as they are more capable to withstand cognitive stress and to identify relevant information” (Wu, 2011). Therefore, this study will evaluate the effect of user accounting education and accounting-related work experience on decision-making. However, this study hypothesizes the following:

H14: Accounting qualification of key users of audited financial statements is considered as a key factor for making useful decision.

H15: Accounting-related work experience of key users of audited financial statements is considered as a key factor for making useful decision.

In view of the expected effects of individual knowledge and experiences on decision-making, financial statements key users with little accounting knowledge and accounting-related work experience, may not fully understand the messages in the auditor’s report. Within this context, Amirhossein (2013) stated that key user’s decision based on the audit report would be unduly biased due to the misinterpretations. This finding is supported by the attribution theory (1973) which revealed that lack of understanding of the content of audit report, may adversely affect key user’s decision making.

As key users of audited financial statements may incur losses as a consequence of their misinterpretation of opinions expressed in the auditors’ reports, and their over-reliance on the audit report for their decision making. Therefore, the hypotheses related to the mediation model for empirical testing is as follows:

H16_a: The audit report mediates the relationship between key users accounting qualification and decision usefulness.

H16_b: The audit report mediates the relationship between key users accounting related work experience and decision usefulness.

2.3 Theoretical Framework

The theoretical framework of this study was based on a synthesis of the relevant literature that lead to the hypothesized relationship between the variables related to AEG. Specifically, it represents the relationship between audit expectation gap, and the factors that might contribute to such a gap. Besides addressing the consequent effects on decision usefulness, the proposed theoretical framework of this study is given in Figure 2 below:

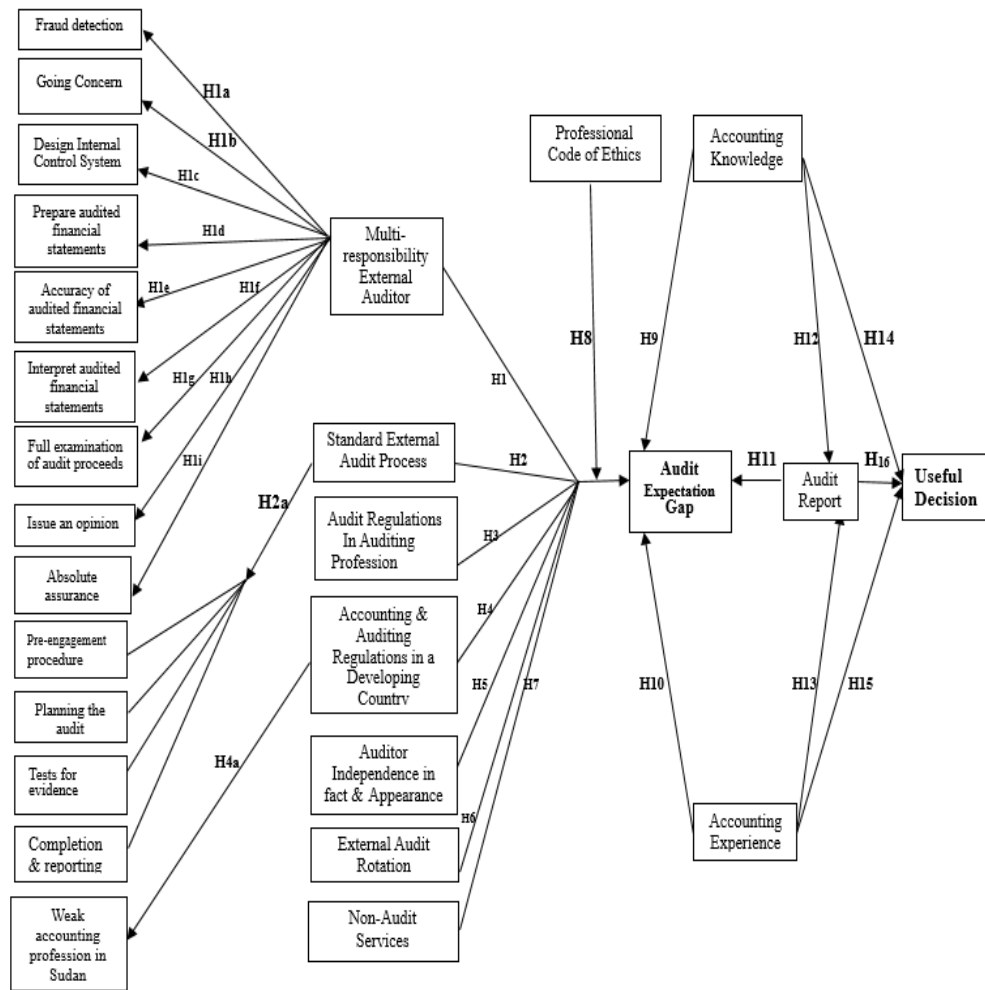


Figure 2. Theoretical framework

Source: Developed by Researcher

3. Research Methodology

3.1 Participants Characteristics

Practicing external auditors who are engaged in providing auditing services in external audit offices/firms, in addition to key users of financial reports i.e. bank loan officer, stock brokers in Khartoum (Capital of Sudan). Further, the study will also include accounting educators in Sudanese universities.

3.2 Sampling Procedures and Sample Size Determination

The population of this study is diverse, so different sampling techniques will be used to develop the sample of interest.

First: Purposive Sampling Technique will be utilized to select practicing external auditors, working at large external audit offices/firms in the country. Due to the fact that, external auditors who have licenses to provide full auditing services in the country, are spread around few audit offices/firms that are known by the name of their owners. Therefore, this technique is utilized to ensure that experts are reached, as well as accurate information is obtained. In this regard, a sample of 30 audit offices/firms will be selected in view of the ‘Central Limit Theorem’.

Second: The research will utilize stratified random sampling to select key users of audited financial statements. In this regard, key users of financial reports will be stratified according to the necessity of auditing services to their work to generate a homogenous group. Specifically, the population will be grouped into two strata: Bank loan officers, and Stockbrokers. Each stratum will be sampled as an independent sub-population, out of which a sample

will be randomly selected.

The database for each stratum has been retrieved respectively from; Central Bank of Sudan (number of banks in Sudan=34) and Khartoum Stock Exchange (number of brokerage firms=37). A sample of 66 users (based on Cochran's sample size calculator) will be chosen. The proportion of users from each stratum will be 32 (0.48%) from banks and 34 (0.52%) from stockbrokers.

Third: Convenience sampling technique will be utilized to select university's accounting educators. Due to lack of a sampling frame, non-availability of accurate information about this population, besides there is a large number of accounting educators who have traveled abroad. In this regard, a sample of 30 accounting educators will be selected based on 'Central Limit Theorem'.

3.3. Measures and Covariates

In order to collect a combination of qualitative and quantitative data to test the proposed hypotheses, data will be collected through:

1. An existing structured self-administrated questionnaire prepared according to the related AEG literature. The items of the questionnaire which are used to measure the variables of the study, will be adapted from existing and well tested scales offered by the extant literature (e.g. Devi & Devi 2014, Yasemin, 2015, Ihendinihu & Robert 2014, Pourheydari and Abousaiedi, 2011, J.S. Kumari et al. 2017).

Furthermore, items will be measured based on a 5-point Likert scale, (i.e. from 1=strongly disagree to 5=strongly agree). The questionnaire will be pre-tested by academic experts to ensure its clarity to participants. Furthermore, the "Cronbach's Alpha" test will be undertaken in order to analyze the reliability and internal consistency of the questionnaire.

2. A semi-structured personal interviews will be conducted with selected members of each study group. This will be of help in gaining an in-depth understanding about the current state of the "Audit Expectation gap" in the country as well as provide more validity to questionnaire results.

Partial Least Squares Path Modeling (PLS-PM) analysis (Gefen et al., 2000), which is an implementation of Structural Equation Modeling (SEM), will be used to analyze the collected questionnaires data (Nadhim, 2018). It will be applied to test the measurement model by determining the internal consistency, reliability and construct validity of the multiple-item scales used to operationalize the study variables.

Moreover, PLS is a component-based SEM technique that helps in testing the psychometric properties of the scales, will be used to estimate the parameters of the structural model (Fornell, 1985). This technique is preferred over covariance-based SEM techniques because (1) It can converge with smaller sample size and it has less strict requirements on residual distributions (Chin et al., 2003), (2) It is especially capable in testing large and complex models (Bollen and Lenox, 1991), such as this study's proposed model.

3.4 Research Design

This study will follow a mixed research approach i.e. quantitative and qualitative, through conducting a 'cross-sectional survey' by using both structured questionnaires, and structured personal interviews. A survey is the most common research design employed in the "Audit Expectations Gap" literature (Najeb, 2017). Therefore, a similar design is justified for this study.

4. Conclusion and Future Research

In conclusion, various studies about the "Audit Expectation Gap" in different regions around the world were reviewed in-depth. In this regard, it was interesting to find that the majority of the studies were conducted in developed countries. However, there are very few studies about AEG in developing countries, specifically Sudan. In this regard, the findings and recommendations of such studies cannot fit in any developing country without conducting further investigation in such regions. Developing countries have diverse institutional factors i.e. cultural, economic, social, and legal, which may have an impact on accounting and auditing practices, as well as people's perception towards these practices.

Consequently, undertaking this study is of relevance to the current literature on audit expectation gap, for filling the gap associated with developing countries, specifically Sudan. In this regard, a theoretical framework has been developed that identified the potential causal factors of such a gap, along with its consequent effects. Hence, in the subsequent research, the author will test the hypotheses that resulted from the developed theoretical framework in Sudan's context. This will be accomplished by following the proposed methodology to analyze collected data from

external auditors, key users of audited financial statements, and accounting educators. All of which, to identify the magnitude and causal factors of AEG in Sudan, with the objective of developing the accounting profession to play its vital role in the economic development of the country.

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