

# Audit Expectation Gap: Views of Audit Professionals and Financial Statement Users on Narrowing the Gap in the UAE

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## ABSTRACT

This study investigates the audit expectation gap (AEG) in the United Arab Emirates (UAE) by exploring the perspectives of auditors and financial statement users. Drawing on the ACCA (2021) three-component framework, it examines the knowledge gap, performance gap, and evolution gap, and assesses how stakeholders perceive existing and proposed strategies to narrow these gaps. The study employs a qualitative, interpretive approach using semi-structured interviews analysed through thematic coding. Findings indicate that while auditors broadly agree on the scope of their professional responsibilities, users of financial statements frequently hold misaligned expectations, particularly regarding fraud detection. The study identifies the need for enhanced auditing education in the UAE, stronger auditor independence mechanisms, and the adoption of advanced audit technologies. It also underscores the importance of ongoing dialogue among auditors, regulators, investors, and other stakeholders as a routine professional practice, rather than a reactive response to financial crises or corporate scandals.

**Keywords:** Audit expectation gap; UAE auditors; knowledge gap; performance gap; evolution gap; qualitative research

## INTRODUCTION

The word “audit” derives from the Latin “audire,” meaning “to hear.” Historically, audits were conducted as oral hearings in which agents justified their stewardship of entrusted resources. Evidence of early auditing practices can be found in ancient civilisations including China, Egypt, and Greece; however, it is the ancient Greek tradition that most closely resembles modern auditing. The practice was formalised in England as early as 1845, when audits were mandated to protect shareholders from improper conduct by promoters and directors. Notably, British law at that time required auditors to be stockholders in the entities they audited, thereby aligning their interests with those of the shareholders they were appointed to protect, while remaining independent in other material respects (Zeff, 1970).

Prior to the 1930s, the scope and direction of auditing were largely at the auditor’s discretion. The enactment of federal securities laws marked a turning point, refocusing auditing on fraud detection—a responsibility that continues to attract significant attention in the contemporary literature (The CPA Journal, 2016). Auditing remains a cornerstone of financial reporting quality (Khlif and Souissi, 2010; Shahzad et al., 2019; Ben Youssef and Drira, 2020). Its primary purpose is to reduce information risk and provide independent assurance to stakeholders who cannot directly verify management’s representations in financial statements (Gerged and Elheddad, 2020). In the absence of auditing, decision-makers may rely on misleading information, with potentially serious consequences for investors and capital markets (Hassan et al., 2020).

The audit expectation gap (AEG) refers to the discrepancy between what the public expects auditors to do and what auditors actually perform within the limits of their professional mandate. This gap has been studied extensively in developed countries, yet its dynamics in emerging economies such as the UAE remain

comparatively underexplored. The UAE presents a distinctive context: a rapidly developing financial market, a diverse investor base, and an evolving regulatory environment.

This study aims to: (1) identify the primary causes contributing to the AEG in the UAE, including public misconceptions, legislative constraints, and the UAE's unique business environment; and (2) assess the perceived effectiveness of existing and proposed strategies to narrow the gap, including public awareness campaigns, professional standards reforms, and regulatory frameworks.

## LITERATURE REVIEW

### Defining Auditing and the Audit Expectation Gap

Auditing has been variously defined in the literature. The American Accounting Association (1973) defines it as “a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria, and communicating the results to interested users.” Arens et al. (1997) elaborate this definition by emphasising the role of competence and independence in accumulating evidence about quantifiable information for a specific economic entity.

The concept of the AEG was introduced by Liggio (1974), who framed it in terms of the discrepancy between the levels of expected performance envisioned by the independent accountant and by the user of financial statements. The Cohen Commission subsequently widened this concept, though Shoucair (2020) argues that both definitions were too narrow because they did not account for auditors' failure to accomplish what they “can and reasonably should” do. Porter (1993) offered a more comprehensive model, defining the AEG as consisting of two components: (1) the reasonableness gap, representing the difference between what society expects from auditors and what auditors can reasonably be expected to deliver; and (2) the performance gap, representing the difference between what auditors can reasonably be expected to deliver and what they are perceived to achieve. The performance gap is itself subdivided into deficient standards and deficient performance.

The Association of Chartered Certified Accountants (ACCA, 2021) further refined this taxonomy by proposing three distinct components: the knowledge gap (what auditors do versus what the public believes they do), the performance gap (whether auditors deliver what they are required to deliver), and the evolution gap (whether current auditing standards adequately meet changing societal needs). The evolution gap is a relatively novel contribution to the literature, reflecting growing concern about whether the audit profession's regulatory framework keeps pace with technological change, evolving financial instruments, and emerging risks such as ESG reporting.

Salehi (2011) notes that most studies in this area have focused on comparing the perceptions of auditors with those of investors, accountants, or the general public. Deepal and Jayamaha (2022) observe that while definitions of the AEG have proliferated, most remain centred on Porter's (1993) foundational framework. More recently, Astolfi (2021) has criticised Porter for failing to account for the role of accounting standards in shaping auditor responsibilities, arguing that the growing complexity and subjectivity of International Financial Reporting Standards (IFRS) may itself be a driver of expectation gaps.

### Audit Independence and Report Reliability

Central to the AEG debate is the question of auditor independence. The audit report is the primary medium through which auditors communicate with company stakeholders (Quick, 2020). For these reports to be of value, auditors must be perceived as independent by users of financial statements—a concept known as “independence in appearance”—as well as being genuinely unbiased in their conduct—“independence in fact” (Arens et al., 2013). Pierce and Jussila (2011) define independence in appearance as the perception by a reasonable observer that the auditor has no relationship with the audit client that could suggest a conflict of interest.

Reliable audit reports provide institutional investors and other stakeholders with sufficient information to assess the quality and comprehensiveness of accounting records, enabling informed investment decisions.

Chrisdinawidanty and Tugiman (2016) found that audit fees influence audit quality, noting that the terms of engagement, complexity of services, and the fee structures of public accounting firms can all affect auditor behaviour. Haruna and Hoesada (2020) similarly concluded that auditor competence, independence, task complexity, and audit fees collectively shape audit quality outcomes.

### **Agency Theory and the Demand for Auditing**

The demand for external audit services is best understood through the lens of agency theory. Jensen and Meckling (1976) argue that the separation of ownership from control in modern corporations creates a principal–agent relationship characterised by information asymmetry, self-interest, and potential conflicts of interest. Shareholders (principals) delegate authority to managers (agents), who may act in their own interests at the expense of the principals. External auditors add value by attesting to the credibility of management’s financial reports, thereby reducing information asymmetry and agency costs (Nwaobia et al., 2016).

Financial statements—comprising the income statement, balance sheet, and statement of cash flows—represent the primary vehicle through which managers report to principals. The International Accounting Standards Committee (IASB) identified understandability, reliability, comparability, and relevance as the four principal qualitative characteristics of useful financial information (IASB, 2010). As financial instruments and reporting requirements have grown more complex, questions have arisen about whether all investors possess the expertise necessary to interpret these statements without expert assistance (DeFond and Zhang, 2014; El-Deeb, 2015).

## **RESEARCH METHODOLOGY**

### **Research Philosophy and Approach**

This study adopts an interpretive research philosophy, grounded in the view that social reality is subjectively constructed through the lived experiences and interpretations of individuals (Flick, 2014). Interpretivism holds that understanding human behaviour requires engagement with the meanings that actors attach to their actions (Costello, 2016), and is particularly appropriate for examining the AEG, where perceptions and expectations are inherently subjective and contextually situated.

The study employs an abductive research approach, which allows the researcher to move iteratively between empirical observation and theoretical frameworks (Spens and Kovács, 2006). This approach was chosen because the research seeks not merely to test existing theory but to generate nuanced insights from participants’ accounts while remaining anchored in the established AEG literature. A mono-method qualitative strategy was adopted, utilising semi-structured interviews as the primary data collection instrument. The Saunders et al. (2015) “Research Onion” framework was used as a guide for the overall research design.

### **Data Collection**

Primary data were collected through semi-structured interviews conducted with a purposively selected sample of auditors and financial statement users in the UAE. Participants were selected to represent a range of professional backgrounds, including external auditors from large and mid-tier firms, institutional investors, and financial analysts. Interview guides were structured around the three AEG components identified by the ACCA (2021) framework: the knowledge gap, performance gap, and evolution gap. Secondary data were drawn from academic journals, professional publications, regulatory documents, and ACCA and IAASB reports, enhancing the credibility and richness of the findings through triangulation.

### **Data Analysis**

Interview data were analysed using thematic analysis, following the six-phase framework proposed by Braun and Clarke (2006): familiarisation with data, generating initial codes, searching for themes, reviewing themes, defining and naming themes, and producing the report. NVivo software was used to manage and organise the coded data. A mixed inductive–deductive coding approach was employed, consistent with the abductive research

design; certain codes were generated inductively from the data, while others were developed deductively from the ACCA’s three-component AEG model (Braun and Clarke, 2012).

## FINDINGS

### Auditors’ Roles and Responsibilities

Participants across all categories acknowledged the foundational role of auditors in ensuring the accuracy and integrity of financial reporting. Auditors described their primary responsibilities as encompassing risk assessment, evaluation of internal control systems, and sample-based testing of transactions. They emphasised that their mandate is to provide reasonable—not absolute—assurance regarding the fair presentation of financial statements. From the perspective of financial statement users, auditors were seen as critical to validating the financial information on which investment and governance decisions are based, with particular emphasis on auditor independence as a prerequisite for capital market confidence.

### Knowledge Gap

All auditors interviewed reached a unanimous consensus that the complexity of the audit process is a primary driver of the knowledge gap. They noted that it is unrealistic to expect the general public—or even many sophisticated investors—to possess a thorough understanding of audit procedures and the boundaries of auditors’ responsibilities. This gap is particularly pronounced in the UAE, where the investor community includes diverse market participants with varying levels of financial literacy. Table 1 presents user perspectives on auditors’ key responsibilities.

**Table 1: User Perspectives on Auditors’ Responsibilities (Knowledge Gap)**

Statement of Auditor Responsibility	Yes (%)	No (%)
Providing reasonable assurance on financial statements	100	0
Detecting fraud	60	40
Maintaining independence from undue influence	100	0
Responsibility for corporate failure following a clean audit	100	0

As shown in Table 1, all users agreed that auditors are responsible for providing reasonable assurance and maintaining independence. However, 60% believed auditors are responsible for detecting fraud—a view inconsistent with professional standards’ more limited conception of the auditor’s fraud-related mandate. Similarly, all users held auditors accountable for corporate failures occurring shortly after a clean audit opinion.

### Performance Gap

Opinions on the existence of a performance gap were divided. Approximately 40% of auditors acknowledged performance deficiencies exist in practice, attributing them to the inherently judgement-based nature of auditing and the resulting potential for human error and bias. The remaining 60% disputed the existence of a meaningful performance gap, arguing that perceived deficiencies more accurately reflect the knowledge gap. Several auditors pointed to existing safeguards—including professional oversight bodies, internal quality reviews, and regulatory frameworks—as evidence that systemic performance failures are relatively rare. Table 2 summarises auditor views.

**Table 2: Auditor Perspectives on the Performance Gap**

AEG Component	Gap Exists (%)	Gap Does Not Exist (%)
Performance Gap	40	60

## Evolution Gap

Participants expressed nuanced views on the evolution gap. Some auditors acknowledged that auditing standards are being incrementally adapted to reflect changing public expectations; however, they cautioned that there are limits to this adaptation without fundamentally altering the scope and cost of audit engagements. Several respondents observed that redesigning audits as full forensic investigations—as some users appear to expect—would require a comprehensive overhaul of audit scope, auditor skill sets, fee structures, and audit education programmes. Users of financial statements broadly confirmed the existence of an evolution gap, attributing it primarily to the limitations of current reporting standards in capturing emerging risks such as ESG factors and non-GAAP performance metrics.

## Strategies for Narrowing the Audit Expectation Gap

Respondents proposed a range of strategies for addressing each component of the AEG. With respect to the knowledge gap, participants called for enhanced investor education initiatives, greater transparency in auditors' reports, and more accessible communication of audit scope and limitations. On the performance gap, auditors and users concurred that the primary responsibility for improving audit quality rests with audit firms, supported by active regulatory oversight—including investment in standardised methodologies, data analytics integration, and more rigorous internal quality reviews. Regarding the evolution gap, one respondent proposed the creation of an independent audit oversight board funded through taxation or government grants, wherein an independent body—rather than the audited company—would select and engage audit firms, reducing the structural conflict of interest in the current model.

## DISCUSSION

The findings of this study confirm the existence of an AEG in the UAE across all three dimensions identified by the ACCA (2021) framework, and are broadly consistent with prior research conducted in other jurisdictions (Porter, 1993; Quick, 2020; Deepal and Jayamaha, 2022). The results highlight that, while auditors and users of financial statements agree on the core function of auditing—providing reasonable assurance on the fair presentation of financial statements—significant divergences persist in their understanding of what this mandate entails in practice.

The knowledge gap finding is particularly salient. The fact that 60% of financial statement users attributed fraud detection responsibility to auditors reflects a persistent and widely documented misconception (Ruhnke and Schmidt, 2014; Ellul and Scicluna, 2022). This misconception is compounded by high-profile corporate scandals in which auditors have been perceived—rightly or wrongly—as having failed to detect fraudulent behaviour. As Ray (2012) notes, public perception of auditors' role is shaped as much by media reporting and corporate failures as by formal standards and professional education.

The divided views on the performance gap are noteworthy. The majority of auditors rejected the premise that a systemic performance gap exists, attributing perceived failures to misunderstood responsibilities rather than genuine underperformance. This is consistent with Porter et al.'s (2012) finding that deficient standards—rather than deficient performance—account for the larger share of the overall AEG. However, the acknowledgement by 40% of auditors that performance deficiencies do exist suggests that the profession should not be complacent about individual audit quality.

The evolution gap findings reflect a broader tension between the demands of a changing stakeholder environment and the constraints of existing standards, cost structures, and legal frameworks. The growing interest in ESG reporting, non-GAAP metrics, and real-time financial information is creating new expectations that current audit models are not designed to meet (Astolfi, 2021). Addressing this gap will require coordinated action by standard-setters, regulators, and the profession itself.

The proposal for an independent audit oversight board funded through public resources is a creative and potentially significant intervention. By removing the structural conflict of interest in the current auditor appointment model, such a body could substantially strengthen auditor independence in appearance. Finally, the

study reinforces the importance of ongoing, structured dialogue between auditors, regulators, investors, journalists, and other stakeholders as a means of managing and updating expectations—a position similarly advocated by the ACCA (2019).

## CONCLUSION

This study contributes to the growing body of literature on the audit expectation gap by providing qualitative evidence from the UAE. Using the ACCA (2021) three-component framework, the study finds that the AEG in the UAE is primarily driven by: (1) insufficient public understanding of auditors' roles and the boundaries of their mandate; (2) divergent perceptions of auditors' responsibility for fraud detection; and (3) the failure of current auditing standards and models to keep pace with evolving stakeholder expectations.

The study identifies several actionable implications. For the audit profession, there is a need to invest in clearer communication of audit scope and limitations, and to adopt emerging technologies to enhance audit quality. For regulators and standard-setters, the findings underscore the importance of regularly reviewing and updating auditing standards in light of technological change and evolving user needs. For policymakers, the proposal for an independent audit oversight body merits serious consideration as a structural reform to strengthen auditor independence.

There are limitations to this study. The qualitative design and purposive sampling approach limit the generalisability of the findings. Future research should validate these findings through large-scale quantitative surveys and extend the comparative analysis to other Gulf Cooperation Council (GCC) countries and developing economies. The specific dynamics of the knowledge gap among retail investors also represent an important avenue for further inquiry.

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### Declarations

**Conflict of Interest:** The authors declare that they have no known competing financial interests or personal relationships that could have influenced the work reported in this paper.

**Ethical Approval:** This research did not involve human participants, animals, or sensitive personal data in a manner requiring formal ethical approval.

**Data Availability:** The data supporting the findings of this study are available from the corresponding author upon reasonable request.

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