

## **A Comprehensive Model of Factors Affecting the Expectation Gap between Auditors and Users of Financial Statements: A Multidimensional Grounded Theory and Structural Equation Modeling<sup>1</sup>**

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Research Paper

### **INTRODUCTION**

Auditing is a communication process based on social interactions and plays a pivotal role in reducing conflicts of interest and agency costs. The primary objective of auditing is to protect the interests of stakeholders, but the perception of this role alone is not sufficient to meet their expectations. Various viewpoints on the expectation gap have created a universal and unenviable phenomenon and have made the perception of this concept ambiguous (Leo 2018; Denise 2010). This ambiguity can somewhat be removed through assessed and conceptual questions and answers and applied research to reduce the expectation gap. Although there are many studies on this subject, there is no comprehensive and well-established framework to identify factors causing the gap between auditors and users of financial reports. The present research provides a universal pattern of effective factors on the gap between auditors and users of financial reports using obtained sights from experts and adaptation and validation of that pattern compared to current viewpoints. The present study seeks to explain a comprehensive

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model of factors affecting the expectation gap between auditors and users of financial statements by using the qualitative method of multidimensional grounded theory.

## **MATERIALS AND METHODS**

The statistical population of the study consists of university faculties, partners of auditing firms, tax auditors, official experts of justice, financial analysts, senior directors of creditors, and social security auditors, of which 42 in-depth and semi-structured interviews were conducted in this regard using mixed purposive sampling. The structural equation modeling was used to measure the model validity, and PLS software was used to fit the model. In conclusion, the goal and method of this field research are, respectively, developmental and applied. The logic of data gathering is deductive reasoning. This research is of two qualitative and quantitative parts. In the first part, a comprehensive conceptual model of factors affecting the expectation gap between auditors and users of financial reports is presented and in the later, the extent of the effect of each of these factors is explained.

## **RESULTS AND DISCUSSION**

The results of fitting the structural model and the general model of the research showed that the causal factors affecting the expectation gap were individual and knowledge gap, irrational expectations, and complexity of the business environment, while the grounded factors affecting the expectation gap include auditors' adverse performance, inefficient standards, lack of adequate monitoring on auditors' performance, and the legal gap resulting from divergence in the interpretation of laws and regulations. Furthermore, intervening factors, namely inefficient management and political governance, governmental and non-competitive economy, auditors' conservatism, and inherent auditory limitations were explained. In addition, in the fitted model, the consequences of the expectation gap are poor quality of financial statements, economic and legal effects on society, low quality, and loss of public confidence in the auditing profession.

Concerning this point, the multidimensional background method is used in the qualitative part, after the theory summary comes theoretical adaptation and clarification

with existing theoretical principles. Table 1 shows which components of the expectation gap correspond to the present literature and which ones are added to it.

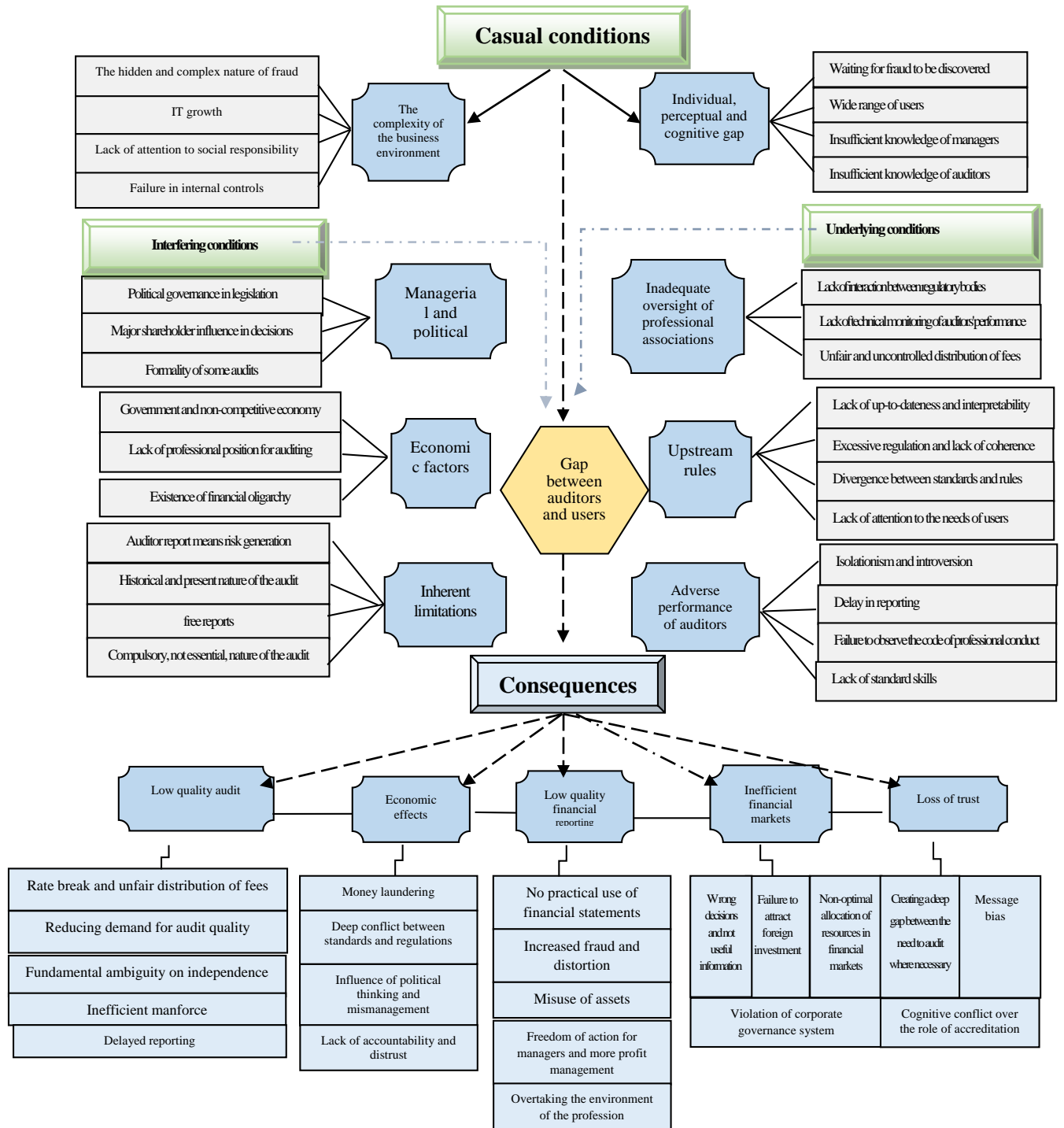
*Table 1: enrichment- data validation*

Existing components in the literature	Expert, researcher	Correspondence of theory to findings(validation)
Information technology growth and digital transformation (Lack of timely response, lack of sufficient knowledge and expertise to use information technology in complex environments, high operating costs and lack of necessary structure to perform computer auditing)	-	New component
The complexity of the business environment and company activities (Failure system of internal control, complex and undetectable nature of fraud)	-	New component
Managerial and political factors (Political governance in the auditing profession, gap in capitalism, lack of inflation accounting, lack of a platform for fair valuation, formality of some audits due to political influence, high influence of major stakeholders in decisions)	-	New component
Economic factors (Lack of economic policy and incorrect implementation of Article 44 of the Constitution, a non-competitive market that makes it impossible to compare information in different industries, and the existence of financial oligarchy in the country's economy that is not compatible with the auditing profession)	-	New component
Lack of attention to social responsibilities and corporate sustainability reporting (Isolationism, not paying attention to the needs of society and not disclosing the economic consequences of the company)	-	New component
Lack of up-to-date trade law and basic laws, excessive emphasis on the Rule of Law, and inconsistency in laws and regulations (Lack of extensive legislative cooperation between professional organizations and transitional oversight and standardization bodies)	-	New component
Inefficiency in the oversight of professional associations and oversight bodies (Auditors' lack of accountability, lack of technical monitoring of audit quality, lack		New component

of proper definition of responsible auditor, improper interaction between independent and internal auditors, multiple auditing firms, and unfair distribution of remuneration)		
Individual, perceptual and cognitive gap (Expecting fraud detection, insufficient user education, perceptual bias, cognitive conflict over the role of accreditation)	Valian et al(2018), Foroughi & Asgari Arjangi(2005), Alizadeh et al(2014), Ahmadzadeh et al(2012), Bozorgasl(2000), Hamilton & Smith(2021), Houghton & Jubb(2020),	Except for the following subcategories, it corresponds to the other components in the present literature: Weak knowledge in decision-making elements and incompetence in management elements" and "Cognitive conflict with the profession as a helping mechanism
Adverse performance of auditors (Inefficiency of processes, insufficient independence, non-observance of professional conduct, lack of competence and technical knowledge in the field of information technology, lack of sufficient knowledge in standard skills, lack of proper performance of risk-based auditing)	Nikkhah Azad & Mojtahedzadeh(1999), Goddard, & Schmidt(2020),ACCA(2020), Houghton & Jubb(2020), Toumeh & Yahya(2018), Najeb(2017).	Except for the following subcategories, it corresponds to the other components in the present literature: Inadequate performance of risk-based auditing and Incompetence and technical knowledge in the field of information technology
Interpretability of rules and regulations	Nikbakht et al(2021), Gray et al(2011), ACCA(2020)	It has correspondence
Wide range of users and cognitive conflict	Valian et al(2018)	It has correspondence
Inefficient standards (Complexity of standards, non-compliance with environmental conditions, inability to implement in the business environment, insufficient attention to the needs, of users, and social responsibility in the text of the standards(	Nikbakht et al(2021), ACCA(2020), Toumeh & Yahya(2018)	Except for the following subcategories, it corresponds to the other components in the present literature: Pure translation of standards and non-compliance with the country's environmental conditions and Lack of attention to areas of social responsibility in the text of standards
Low quality financial reporting (lack of software platform for measuring and monitoring the quality of financial reporting and double attention to the general aspect of financial reporting)	Bozorgasl(2000), Aghaei et al(2011)	It has correspondence
Intrinsic limitations and nature of the auditing profession (Lack of civil liability insurance coverage, intangible and non-disciplinary nature of auditing, explanatory nature of historical events, auditing out of necessity rather than necessity, low fee compared to other professional services)	Ahmadzadeh et al(2012), Bozorgasl(2000), Hamilton & Smith(2021), Houghton & Jubb(2020), Toumeh & Yahya(2018), Najeb(2017).	Except for the following subcategories, it corresponds to the other component in the present literature: Lack of civil liability insurance coverage for auditors due to lack of knowledge of insurers and Explanatory nature of historical events
auditor conservatism (Conservatism in reflecting economic realities, losing independence by maintaining continuity of activity)	McEnroe & Martens(2001), Chung(1995)	It has correspondence

### Quantitative part: Structural equation modeling

Chart 1 has shown the extent of each of the effective factors on the expectation gap between auditors and users of financial statements.



The extent to which each of the factors influences the expectation gap between auditors and users of financial statements is fully illustrated in Figure 2.

**Figure 2. Path coefficient test results**

<i>P-values</i>	<i>Path coefficients</i>	<i>Path</i>
012 <math>\cdot</math> <math></math>	.276	Irrational expectations
003 <math>\cdot</math> <math></math>	.270	Wide range of expectations gap users Expectation gap
001 <math>\cdot</math> <math></math>	.394	Individual, perceptual and cognitive gap
001 <math>\cdot</math> <math></math>	.597	The complexity of business environment and company activities
001 <math>\cdot</math> <math></math>	.658	Economic factors
001 <math>\cdot</math> <math></math>	.601	Managerial and political factors
010 <math></math> <math>\cdot</math>	.468	Adverse performance of auditors
002 <math></math> <math>\cdot</math>	.514	Lack of up-to-date trade law and basic laws, excessive emphasis on the Rule of Law
008 <math></math> <math>\cdot</math>	.521	Inefficient standards
020 <math></math> <math>\cdot</math>	.492	Inefficiency in the oversight of professional associations and oversight bodies
001 <math></math> <math>\cdot</math>	.530	Information technology growth and digital transformation
003 <math></math> <math>\cdot</math>	.522	Low-quality financial reporting
060 <math></math> <math>\cdot</math>	.490	Intrinsic limitations and nature of the auditing profession
010 <math></math> <math>\cdot</math>	.430	auditor conservatism

## CONCLUSION

Auditing means the knowledge of professional skepticism, pursuit, and collection of historical evidence but investment and analytics can be described as the knowledge of predicting events. That is why audit objectives are inconsistent with investment and analytical objectives. In this study, it was attempted to identify the effective factors in the expectation gap between auditors and users of financial statements and to test the extent of the impact of each of these factors. The results of structural equation modeling also showed that government and non-competitive economics and managerial and political factors had the highest impact on the expectation gap between auditors and users of financial statements with a coefficient of 0.658 and 0.601, respectively, and a wide range of users and knowledge gap between different stakeholder groups had the least impact on the expectation gap between auditors and users of financial statements with a coefficient of 0.270 and 0.394, respectively

Extension training to educate users of financial reporting can be helpful to identify auditors' responsibilities and develop a national perspective on the auditing profession as a contributing social mechanism. As the culture of audit necessity grows, the demand for high-quality auditing will increase. In addition, modification of training methods in accounting and auditing in universities and other educational centers can add to the richness of the auditing profession. efforts to make industries competitive (such as the carpet and dairy industry), the interaction between professional organizations in continuous monitoring of audit quality, commitment to full adherence to the code of professional conduct, and coherence of rules and regulations are

among measures to reduce the expectations gap and are considered as a fundamental step in this regard.

**Keywords:** Expectations gap, Individual and knowledge gap, Managerial and political factors, IT growth, Inherent auditor limitations.

**JEL classification:** M42.

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