

Does the Amended Audit Report Minimize the Audit Expectation Gap? Evidence from Bangladesh

Taslima Akther*
Mohammad Moniruzzaman**
Ana Liceran-Gutierrez ***

Abstract: *The purpose of this study is to investigate the impact of using the ISA 700 (Revised) amended audit report on minimizing the Audit Expectation Gap (AEG). A total of 189 respondents completed a questionnaire distributed to auditors and two audit report user groups, including credit analysts and non-professional capital market investors with beneficiary owner (B/O) accounts. The Mann-Whitney-U test, a non-parametric test, was used to compare the means of two independent samples and to determine the audit expectation gap. According to the findings of this study, the amended audit report reduces the unreasonable audit expectation gap in terms of auditors' general responsibilities, auditors' responsibilities for fraud detection, audit report meaning and usefulness, and, to a lesser extent, auditors' responsibility for going concern assessment. The explicit information in the ISA 700 (Revised) amended audit report creates another expectation gap regarding auditors' responsibility for other information, known as a reasonable standard gap. This study's theoretical contribution is that it confirms that the expansion of audit report and revision of audit standards affect the audit-related expectation gap among users. Users are aware of the revision; however, the impact varies depending on the users' desire, knowledge, and frequency of reading and using the audited financial statements. As the AEG is regarded as a driving force behind relentless reform in audit regulation; despite that an unjustified reform may result in no benefits to users. Thus, this research provides guidance to audit practitioners and audit regulators on the rationalization of reform in audit reports, such as the ISA 700 (Revised) audit report. This study is the maiden to explore the impact of using a revised audit report following the adoption by the Institute of Chartered Accountants of Bangladesh (ICAB) and also by the Financial Reporting Council (FRC) on minimizing the AEG in Bangladesh. The study's geographical focus is on audit regulators and practitioners in developing countries, who can benefit from new insights into the role of adopting continuous improvement in auditing standards and reporting practices.*

* Professor, Department of Accounting & Information Systems, Jagannath University

** Associate Professor, Department of Accounting, University of Dhaka

*** Profesora Titular de Universidad, Universidad de Jaén

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1. Introduction

Audit of financial statements improves the credibility and trustworthiness of financial information. Financial statements audit is a monitoring tool that reduces the information asymmetry, evaluates the reliability of financial information given to stakeholders and also protects the public interest (Watts and Zimmerman, 1983; Baker et al., 2014). Despite this, an audit expectation gap arises following the audit. In general, the Audit Expectation Gap (AEG) denotes the disparity between what societies expects from the audit and what auditors perceive their role to be (Porter 1993; Chowdhury et al., 2005; Siddiqui et al., 2009; Bedard et al., 2012; Xu and Akther, 2019). AEG occurs when auditors and the other stakeholders have differing beliefs about their responsibilities and the messages conveyed by the audit report.

The AEG is considered a driver of relentless reform in audit regulation and a substance of thoughtful concern since unjustified reform may cause no benefits to the users in contrast with the cost incurred for it (Ruhnke and Schmidt, 2014). An audit report is the most important keystone in providing response to the stakeholders' expectations. In most cases, amendment in audit report provides useful information and users have a positive attitude towards the changes (Lundgren and Oldenborg, 2016). However, the standardized contents of audit report may not be fully understandable by users of financial statements due to the several linguistic complexities (Fakhfakh, 2016; Gutierrez et al., 2018). Researchers recommends that the expanded audit report improves the pass-fail expression of the audit report, however the disclosure can be communicated to the users in a more eloquent way, and that information should be definitely accessible (Smith, 2019; Akther and Xu, 2020).

In 2016, the International Auditing and Assurance Standards Board (IAASB) released a revision of the International Standard on Auditing (ISA) 700, the standard on the auditor's report to include changes in its design and also making the audit reporting contents more effective. Many users' specific issues such as, stating the opinion section at the beginning of the audit report, explaining the basis for opinion, including a separate section stating auditors and management responsibilities, a separate section for highlighting the key audit matters, providing explicit statement about going concern responsibilities and also including a separate paragraph dedicated for other assurance responsibilities are emphasized in the revision (IAASB, 2015). Thus the amended audit report contains more information and additional explanation that may address the users audit related expectations. The

Institute of Chartered Accountants of Bangladesh (ICAB) announced the adoption of IAASB's new and revised audit report effective from the audit of financial statements for annual periods beginning on or after the first of January 2018. Now, the question is whether the financial statement users pay attention to additional explanations or the wording changes in the audit report and whether these changes result in a lesser audit expectation gap?

This study identifies the research gap about the impact of revised audit report on the audit expectation gap from Bangladesh context. Therefore, the objective of this study is to empirically assess the current state of the audit expectation gap after the implantation of the ISA 700 (Revised) and to understand whether the amended report reduces any expectation gap. A questionnaire was sent to auditors and two user groups, namely credit analysts and non-professional investors in Dhaka city of Bangladesh. To this end, credit analysts, considered as a sophisticated user, and non-professional investors investing in the capital market, considered as less sophisticated user, were asked to read an unmodified ISA 700 auditor's report in its recently revised form and respond to the questions of the survey.

Perception-based research on changes in reporting standards can assist audit regulators in assessing users' perceptions of audit, soliciting annotations from users, and acting on their desires in developing audit reporting models to improve the value of audit (Allini et al., 2018; IAASB, 2015). This research aims to find whether the ISA 700 revised audit report reduces information asymmetry between providers and users of audited financial statements, as well as whether users of financial statements pay attention to explicit explanations in the amended auditor's report and, as a result, lessen any audit expectation gap. This study focuses on audit regulators and practitioners in a developing country; as a matter of fact, both regulators and practitioners can learn more about the role of continuous improvement in auditing standards and reporting practices.

Worldwide, Bangladesh is now regarded as a development surprise for continuously securing its GDP growth of over 6 per cent for the last decade. The country has graduated from a lower income to a higher middle-income economy and set its vision to be a developed economy by 2041. With the expansion and growth of the economy, investment and trade, the role of the professional accounting body has also been grown. Consequently, the landscape of the audit profession in Bangladesh has also changed over the past few years. The self-regulation has been shifted to an independent oversight body. As per the Financial Reporting Act 2015, the Financial Reporting Council (FRC) has emerged as an independent oversight body to regulate the auditors and the accountants of the country. Taking into these issues, Bangladesh presents a unique research backdrop for the present study.

The rest of the study is organized as follows: in part 2, reviews of pertinent literature are discussed; in section 3, the Bangladesh context is explained; and in section 4, data and methodology are described. A conclusion is provided in Section 6 after the results have been analyzed and discussed in Section 5.

2. Review of related Literature

Audit Expectation Gap (AEG) subsists when auditors and the public embrace dissimilar beliefs regarding the auditor's obligations and responsibilities and the messages channeled by the audit report (Akther et al., 2019; McEnroe and Martens, 2001; Monroe and Woodliff, 1994a). Porter (1993) presented the audit expectation gap into two components: the reasonableness gap and the performance gap. The reasonableness gap is the dissimilarities between "what the public expects auditors to achieve and what they can reasonably be expected to accomplish," and the performance gap is the metamorphosis between "what the public can reasonably expect auditors to accomplish and what auditors are perceived to achieve" (Porter, 1993, p.50). Xu and Akther (2019) delineate AEG in contemporary times mainly from two paradigms: the unreasonable gap and the sensible gap.

The unreasonable gap refers to the difference between what societies believe auditors can achieve in their minds and what they can achieve practically. It can also be defined as a misinterpretation of the audit's purpose and scope by users of financial information, which leads to unreasonable expectations. The sensible performance gap refers to the difference between what society can sensibly expect from auditors about the actual level of performance of auditors and the standard of performance described by the current regulation. The difference between "what society can reasonably expect from auditors if current legislation is amended on the basis of equitable demand from participants and if doing so is cost-effective" is referred to as a sensible standard gap, as stated by Xu and Akther (2019, p.5). It can also be referred to as a failure of the standard setters if the current standards fail to effectively express auditors' obligations or reflect the users' logs. Auditing literature and the advances in audit regulation seem to assent the presence of an audit expectation gap and are entitled to litigate in order to moderate the gap or to edge its influence on auditors (AICPA, 1978; Akther and Xu, 2020; Mock et al., 2012; Gold et al., 2012). AEG was documented in the USA by the Commission on Auditors' Responsibilities (AICPA, 1978), in Canada by the Canadian Institute of Chartered Accountants (CICA, 1988), in the UK by Steen (1989), and in New Zealand by Porter (1990). The expectation gap initiative was started in 1988 when the American Institute of Certified Public Accountants (AICPA) released Statement on Auditing Standards (SAS) No. 58, a new standard audit report. Geiger (1989) pointed out audit report is the most important keystone in providing a response to the users' expectation. Conducting a questionnaire survey with

investors and bankers, Kelly and Mohrweis (1989) recommended that the users perceive the expanded audit report as more understandable than the short audit report. Consequently, an expanded audit report, SAS 600, was issued in the UK (APB, 1991; 1993). The expanded audit report is apparent as collaborating the purpose of the audit much more clearly than the short report in the UK as the wording of the SAS 600 conveys the purpose of the audit further evidently paralleled to the short form audit report available in the UK (Innes et al., 1997). Both SAS 58 and SAS 600 were designed to improve the audit report to meet the users' expectations.

The International Accounting and Assurance Standards Board (IAASB) released a revision of the International Standard on Auditing (ISA) 700, the standard on the auditor's report, which was effective for reports dated on or after December 31, 2006. With that revision, the IAASB mandated a new wording for the auditor's report that includes explicit explanations of the responsibilities of management and the auditor and the audit's nature, scope, and procedures (IAASB, 2004). The revision was commenced in mandate to increase users' understanding of an audit and array users' expectations with the genuine errands of the auditor and management as well as the trustworthiness of the audited financial statements (IFAC, 2008). Recently, the IAASB mandated another revision to the audit report with a vision to include changes in the report design and also the reporting contents effective for audits of financial statements for periods ending on or after December 15, 2016. In addition to the auditor's opinion, the expanded audit report contains an additional explanation, although there exists a long-standing debate about whether different versions of the audit report have a significant impact on the message perceived by the users.

Some research suggests that particular wording in the auditor's report may lead to an enhanced understanding of audit procedures' scope, nature, and importance (Manson and Zaman, 2001; Chong and Pflugrath, 2008; Lundgren and Oldenburg, 2016). On the contrary, some studies indicate only moderate, unsought, or even no effect at all (Humphrey et al., 1992; Monroe and Woodliff, 1994a; Humphrey et al., 2009). Based on a survey study among 50 bankers and 50 investors, Kelly and Mohrweis (1989) found that the new report better conveys the overall level of responsibility of auditors, but this perception differs among the auditors and investors. In an experiment with 140 part-time MBA students from the University of Edinburgh, Hatherly et al. (1991) documented no differences in the users' perception about auditors' responsibility; however, users perceived that auditors are more independent, and the purpose of the audit is clearer. Analyzing the views of auditor and financial report users, Monroe and Woodliff (1994b) found that the expanded audit report significantly affected users' impressions about the audit report. However, Innes et al. (1997) concluded that the expanded audit report changed users' perception over the short audit

report, although there were significant differences in many dimensions of the extended audit report between the users and the auditor.

On the contrary, other research found that users keep pre-determined outlooks regarding the audit and do not address the explanation in the audit report, and financial analysts' perceptions were not improved even with a long-form auditor's report as recommended by ISA 700 (Coram et al., 2011). Strong evidence of a persistent expectation gap regarding the auditor's responsibilities was found in a survey study conducted by Gold et al. (2012) with German auditors and financial statement users (financial analysts and students). However, the auditors and users developed a reasonable trust regarding the responsibilities of management and the reliability of the financial statements, and they came to the conclusion that clarifications of the ISA 700 auditor's report did not result in a smaller expectation gap. In the same research avenues, Baskerville et al. (2010), based on a survey among 252 participants (125 in New Zealand and 127 in the UK), found that the expanded audit report did not significantly impact on the message the users professed. Chong and Pflugrath (2008) investigated the impact of three different format of audit reports on shareholders and auditors. Based on a questionnaire survey, they concluded that the changes in the audit report format do not reduce the expectation gap between shareholders and auditors. Gray et al. (2011), also concluded that that financial statement users only consider the actual audit opinion, whether unqualified or qualified and disregard the additional explanation. However, a more recent study by Yasseen and Padia (2018), based on a questionnaire survey among auditors, bankers and academics, found that the ISA 700 revised audit report reduces the audit expectation gap regarding the decision usefulness factors and also the reliability factors to some extent. Consequently, the research evidence is inconclusive regarding reducing the expectation gap following the use of extended audit reports in different contexts. This study intends to understand the audit expectation gap from different perspective of the auditor's role and responsibilities and dictates the impact pf expanded audit report on those perspective.

2.1 Auditor's general responsibilities

Auditors assess financial statements' accuracy for stakeholders, providing an unqualified opinion if accurate and if they identify material misstatements, they issue a qualified opinion, impacting share prices and manager compensation. However, there has been a noteworthy expectations gap between what financial statement customers presume an audit is conveying and what the audit profession considers it is delivering. This gap is awkward for auditors during the corporate catastrophe, and special attention has been focused on the role of the auditor (Mock et al., 2012). The AEG has been bestowed with a number of issues, such as the role and responsibilities of auditors, the characteristics and connotation of the

message in the audit report, audit quality and the framework and ordinance of the profession (Humphrey et al., 1992). However, the primary objective of an audit is to provide an opinion on the financial statements (IAASB, 2009). Many users are chaotic about it.

2.2 Auditor's responsibility for fraud detection

The users of audit reports expect auditors to detect and report fraud and irregularities, whereas the auditors argue that the society misunderstands the role of the auditor and fraud detection, and reporting of fraud is not a major audit objective. Investor confidence in the reliability of financial statements and statutory audit has considerably changed due to recent scandals and questionable accounting practices (Bertin and Jaussaud, 2003; Akther and Xu, 2021). Users have tremendous expectation regarding the auditor's role for the fraud detection and countless researchers have revealed AEG in the areas of auditors' responsibility for fraud detection (Pourheydari and Abousaiedi, 2011; Ruhnke and Schmidt, 2014).

2.3 Meaning and usefulness of the audit report

According to Gay *et al.*, 1998, an audit report on the general purpose financial statements expresses an objective and positive opinion that offers a high but not absolute level of assurance, while the report on the review engagement offers a moderate level of assurance, which is a lower level of assurance. The envisioned meaning of the unqualified audit report is not vibrant mainly users have difficulty in accepting the basic notions in the audit report (Gray *et al.*, 2011). In the UK and New Zealand 47% of the financial statement users never or seldom read an entity's audit opinion (Porter *et al.*, 2009). There are significant metamorphoses amid auditors and users in their understanding of the extensive memorandums transported by the standard audit report (Asare and Wright, 2012). Audit expectation gap was also found in the trust and usefulness of the audit report (Fadzly and Ahmad, 2004).

2.4 Auditor's responsibility for going concern assessment

The worldwide financial crises have renewed the issue from regulators, standard setters, and investors about the auditor's going concern opinion on a company. Especially after the 2007 banking crack, the question raised, why numerous banks were in distress and that the world's financial organism was at risk, though there was only tiny or no warning regarding the matter (Carson *et al.*, 2012). An audit report is apparent to be expedient to the decision makers by furnishing substantiation that the entity will endure as a going concern and the financial reports do not enclose substantial misstatements (Asare and Wright, 2012). Going concern audit opinion is value relevant and financial statement users expect auditors to disclose the company's going concern scenario.

2.5 Auditors' responsibility for other information

The management discussion and analysis segment of an annual report is essential for providing increased information to the markets as well as to improve the forecasting of economic consequences (Bryan and Smith, 1997). However, current auditing standards do not entail the auditor to audit the information in the other parts of the annual report as a fragment of the financial statement audit (Mock *et al.*, 2012). Many companies are in the underway of divulging information allied to the sustainability of their business. Investors have an inclination to receive environmental and social responsibility information from a third-party source, therefore, demonstrating apprehensions regarding credibility of this sort of disclosures.

3. Bangladesh Context

3.1. AEG Research and Bangladesh Context

Bangladesh is a South Asian nation that provides a unique research environment for this subject. Following a brutal nine-month liberation struggle, the nation was established and granted independence on December 16, 1971. Bangladesh's strong familial ties set it apart from the western economic structure. The majority of corporations are privately held businesses, and bias and partiality are present in the accounting profession's operations (Spence *et al.*, 2016). In Bangladesh's corporate sector, family dominance is so strong that even many public company owners view their companies as extensions of their own families and refuse to adopt and adhere to corporate governance practices (Siddiqi, 2020). The Institute of Chartered Accountants of Bangladesh (ICAB) and the Institute of Cost and Management Accountants of Bangladesh (ICMAB), two professional organizations, used to self-regulate the accounting industry in Bangladesh.

Nevertheless, the Financial Reporting Act (FRA) of 2015 was enacted by the Bangladeshi parliament to improve the statutory audit regulation, and the FRC is a crucial component of the FRA (IFAC, 2017). A new audit authority for Bangladesh was previously suggested in the 2003 World Bank Report on Observance of Standards and Codes (ROSC) on accounting and auditing. Nonetheless, the need to keep an eye on auditing and accounting operations intensifies during the 2010–2011 stock market crisis. On September 6, 2015, the Bangladeshi parliament finally passed the FRA 2015, and on September 9, the official gazette was released. The PCAOB in the United States and the FRC in the United Kingdom, which are later renamed the Auditing, Reporting, and Governance Authority (ARGA), are the models for the FRC in Bangladesh. Even though the FRA was passed in 2015, the FRC was not established until two years later, when a chairman was appointed in 2017.

The audit market of Bangladesh ambiences with both the local firms and a good flavor of the world's big four audit firms. According to Belal et al. (2017), international audit firms operate in Bangladesh through partnerships with local firms, using the names of their local affiliates in place of the global brand. KPMG, the top global big four accounting company, collaborates with Rahman Rahman Haque (RRH) to conduct business in Bangladesh. S.F. Ahmed and Company (SFACO) is a member firm of HLB International, whereas another accounting behemoth, Deloitte, entered the audit industry in Bangladesh in 2018 alongside the Bangladeshi member firm Nurul Faruk Hasan & Co (NUFHAS).

In Bangladesh, AEG research is pioneered by Chowdhury and Innes (1998); Chowdhury et al., (2005), Siddiqui et al., (2009). Chowdhury and Innes 1998; with a maiden attempt explores the public sector AEG in Bangladesh ; whether AEG exists between comptroller and Auditor General's (CAG) and audit report users in the public sectors of Bangladesh . Consequently, Chowdhury et al. (2005) reconnoiter whether AEG exists between comptroller and Auditor General's (CAG) auditors in Bangladesh and the users of the CAG reports namely the Public Accounts Committee (PAC) of the Parliament that examines the CAG audit reports and the international funding agencies (IFAs) that provide external funding in the public sector in Bangladesh. Siddiqui et al. (2009) acclaim knowledge gap is present regarding the actual and perceived functions of the auditors, as a result, an audit expectation gap persists in an emerging economy, namely Bangladesh.

3.2 Adoption of IAASB's New Audit Report in Bangladesh

The Institute of Chartered Accountants of Bangladesh (ICAB) announced the adoption of IAASB's new and revised audit report effective from audit of financial statements for annual periods beginning on or after 1st January 2018, with a valid circular reference I/I/ICAB-2017 dated 14th December 2017 (ICAB, 2017). The following table states the enhancement in the audit standards adopted by ICAB according to the in the IAASB's new audit report to be effective in Bangladesh:

Table 1: Enhancement in the ISA 700 (Revised) audit report

Section	Enhancements	Relevant ISA	Applicable to Listed companies	Applicable to other than listed companies
Opinion	Audit opinion section to be presented at the beginning.	ISA 700(Revised)	Mandatory	Mandatory
Basis for opinion	Affirmative statement about the auditor's independence and fulfilment of relevant	ISA 700(Revised)	Mandatory	Mandatory

	ethical requirements to be stated.			
Going concern	<p>This section to be included:</p> <ol style="list-style-type: none"> 1. Description of the respective responsibilities of management and auditor of company. 2. A new section under the heading ‘Material Uncertainty related to Going Concern’, if a material uncertainty exists and is adequately disclosed (instead of reporting under ‘Emphasis of Matter’). 3. Increased focus on “close calls”, requiring auditor to evaluate the adequacy of disclosures in close calls situations. 	ISA 570(Revised)	Mandatory	Mandatory
Key audit matters	Explanation of those matters which were of most significance in the audit of the current-period, including explanation of “Why” considered significant and “How” those were addressed during the audit.	ISA 701(New)	Mandatory	Optional, in accordance with ISA 700 (Revised)
Other information	A section is added to the report when the entity has/is preparing, in addition to the historical financial information subject to audit, document(s) that meet the definition of an “annual report”.	ISA 720(Revised)	Mandatory	Mandatory

Management and auditor's responsibilities	New sections explaining the responsibilities of the auditor and management, including the auditor's work effort and identification of other information.	ISA 700(Revised)	Mandatory	Mandatory
Engagement partner name	ISA 700 (Revised) requires that the name of the engagement partner shall be included in the auditor's report on financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat	ISA 700(Revised)	Mandatory	Mandatory

A comparison of the new and the previous revision of the ISA 700 audit report and the content in the current revision is presented in table 2:

Table 2: Comparison of the ISA 700 (Revised, new) and old audit report

ISA 700 (Revised, new)	Old audit report
1. Introductory Paragraph Introduction is included as part of the succeeding “Audit Opinion” section	1. Introductory paragraph Introduction is separate from the “Audit Opinion” section.
2. Auditor's Opinion Audit opinion is included at the top, immediately after the addressee, before the “Basis for Opinion”	2. Auditor's Opinion Audit opinion is included within the body of the audit report, below “Auditor's Responsibility” section in case of an unmodified opinion and after the “Basis for Opinion” in case of a modified opinion.
3. Basis for Opinion The “Basis for Opinion” is included for all types of auditor's opinions both the unmodified and modified opinion and expressed after the “Opinion” section of the audit report.	3. Basis for Opinion The “Basis for Opinion” section is included for modified opinions only, and is included before the “Opinion” section of the audit report.
4. Going Concern	4. Going Concern

A separate section and a paragraph is included heading as Going Concern. If the material uncertainty exists regarding entity's ability to continue as going concern auditor should include a separate section heading as Material uncertainty related to going concern.	No separate section is included as Going concern in the audit report. If the material uncertainty exists regarding entity's ability to continue as going concern, auditor shall include an Emphasis of matter" paragraph in the audit report
5. Key Audit Matters	5. Key Audit Matters
The audit report shall include a separate section the heading "Key Audit Matters", ISA 701(new) and is placed close to the auditors' opinion to communicate the engagement specific information to the users.	Key audit matters were not specifically required to be reported on in a separate section of the audit report.
6. Other information	6. Other information
A separate section is included as Other Information as per ISA 720 (revised) and placed immediately after the Key Audit Matters paragraph.	This section was not required to be reported here.
7. Responsibilities for Financial Statements	7. Responsibilities for Financial Statements
This section explicitly communicates about the management responsibilities regarding the appropriateness of the use of going concern assumption and placed far below of the auditors' opinion.	This section was positioned at the top of the audit report and just below the audit opinion, but reporting about going concern was not necessary under this heading.
8. Auditor's Responsibilities	8. Auditor's Responsibilities
The auditors' responsibilities section is included in the body of audit report below the opinion section in order to add value to the users of financial statements.	This section was placed below "Management's Responsibility" section and just before the "Opinion" section.
9. Other Reporting Responsibilities	9. Other Reporting Responsibilities
No differences in this section and remains before the auditors' signature.	This section remains before the auditor's signature.
11. Name of the Engagement Partner	11. Name of the Engagement Partner
Signature and name of the audit firm alone is not sufficient enough. The name of the engagement partner shall be explicitly included in the audit report for listed companies, unless there is a significant personal security threat to the engagement partner.	The name of the engagement partner was not specifically required to be included in the audit report.

4. Data and Methodology

To analyze the effect of the revised ISA 700 in mitigating the divergent opinions that cause an audit expectation gap, we need to obtain data on such opinions from both auditors and the users of audit reports. For that purpose, we have run a questionnaire similar to other studies on AEG (Monroe and Woodliff, 1994b; Schelluch and Gay, 2006; Siddiqui et al., 2009; Ruhnke and Schmidt, 2014; Gold et al., 2012). The questionnaire, whose items were agreed by academic professionals and chartered accountants, was pre-tested by ten respondents, following the recommendations in prior literature (Burns and Bush, 2008). From the feedback in the pre-testing, some questions were modified, and some were erased. The questionnaire has been designed on the basis of a 5-point Likert scale anchored as 5=strongly agree and 1=strongly disagree. The respondents in this have been auditors, investors, and credit analysts. Auditors include professional accountants who passed the final qualifying exams of the Institute of Chartered Accountants of Bangladesh (ICAB). The credit analyst group includes officers working in the credit department of the banks and involved with credit appraisal decisions, selected from the private commercial banks operating in Dhaka city of Bangladesh. Investors were the non-professional capital market investors who own a beneficiary owner (B/O) account and buy and sell shares in the Dhaka Stock Exchange (DSE). Ultimately Twenty-one questions in all were developed. Questions 1-3 dealt with the general responsibilities of the auditor; questions 4–8 with the responsibility of the auditor for detecting fraud; questions 9–11 with the meaning of the audit report; questions 12–14 with the usefulness of the audit report; questions 15–18 with the auditors responsibility for going concern assessment; and questions 19–21 with the responsibility of the auditor for other information. The paper and pencil questionnaire was sent to the respondents, attaching the IAASB's new audit report of a publicly listed company. Part A of the questionnaire includes the statements to measure the audit expectation gap and part B includes the demographic information.

Respondents were instructed to read the audit report first and then answer the questions. A convenience sampling approach was used, which entails the researcher randomly selecting cases that are the easiest to collect for the sample (Saunders et al., 2009) and is cost-effective and widely recognized by research in several disciplines (Ruhl, 2004). A convenience sample is the one that is drawn from a source that is conveniently accessible to the researcher and may not be representative of the population at large. Andrade, C. (2021). All respondents were explained the purpose of the study, and they were given flexible time to fill in the questionnaire. Respondents were ensured of their anonymity and confidentiality of the information provided. They were also assured that they might withdraw their assent to participate in the survey at any time without reverberation. As a sample, three hundred respondents were approached, and 204 responses were received with a 68% response rate.

After removing the incomplete response, the final sample remained 189 usable questionnaire for the analysis. A reliability test of the data yielded a value of Cronbach's alpha of 0.748 for auditor's general responsibilities, 0.907 for auditors' responsibility for fraud detection, 0.723 for the meaning of audit report, 0.664 for usefulness of audit report, 0.743 for auditors' responsibility for going concern assessment, and 0.723 for other information. The acceptable values of alpha usually range from 0.70 to 0.95 (Tavakol and Dennick 2011). However, Plummer and Tanis Ozcelik, (2015) added that there is always no notion to imply that the lower value of alpha will lead to an unsatisfactory instrument. Both the Kolmogorov-Smirnov test (Massey Jr, 1951) and Shapiro-Wilk test (Shapiro et al., 1968) are significant at $p<0.05$, thereby indicating that the dataset follows a non-normal distribution. Hence, the non-parametric statistical tool is appropriate here. In particular, we used the Mann-Whitney U test to assess the differences in the two independent sample means. We did not use the Wilcoxon sign test in this study, as this test tests two dependent samples. In the Wilcoxon sign test, the variable must be dependent. However, in this study, no such relationship has been depicted; instead, different perspectives from different user groups and the auditor's perception have been considered as AEG, and no group response is dependent on another group's response. Every group is independent, and different samples have been considered to determine the AEG.

5. Analysis and Discussion of Findings

A demographic profile of the respondents has been displayed in Table 3. The results of the questionnaire are presented in Tables 4 and 5. The tables display the extent of the expectation gap in Bangladesh given the ISA 700 (Revised) audit report, providing the details of the mean value of the individual responses, mean value of the responses among the respondent groups, and the result of Mann-Whitney-U test for the significant differences among the groups. These values will allow as concluding about the presence of audit expectation gap in the Bangladesh context. If the mean response of individual questions among the three groups (auditors, credit analysts and investors) are almost similar, and the p value of the Mann-Whitney-U test is not significant, then we conclude that no expectation gap exists in such particular aspect.

Table 3: Sample Characteristics

Variable/Dimension	Frequency	Percentage
Respondent Groups		
Auditors	60	32
Investors	70	37
Credit Analysts	59	31

Gender		136	72
Male			72
Female		53	28
Level of Education			
Graduate		73	38.62
Post Graduate		49	25.93
Professional Degree e.g. ACA/ACMA/FCA/FCMA		62	32.80
PhD/others		5	2.65
Accounting & Audit related Experience			
01 to 03 years		45	23.81
04 to 06 years		87	46.03
07 to 09 years		36	19.05
10 years+		21	11.11

Table 4: Mean Responses (5=strongly agree, 1=strongly disagree)

Statement of differences	Auditors (N=60)		Credit Analysts (N=59)		Investors (N=70)	
	Mean	SD	Mean	SD	Mean	SD
<u>Auditor's general responsibilities</u>						
1. The purpose of audit is not to provide guarantee about the accuracy of audited financial statements.	1.38	0.524	1.73	0.827	2.44	0.694
2. The auditor is responsible for safeguarding the assets of the company.	1.47	0.503	2.02	1.167	3.47	0.829
3. Auditor's role is to provide guarantee that the entity is financially sound.	1.45	0.502	1.97	1.082	3.43	1.547
Average response	mean	1.43	1.91		3.11	

Auditor's responsibility for fraud detection

4. The auditor is primarily responsible for the prevention and detection of fraud and error of the entity.	1	0	2.68	0.471	3.84	0.367
5. Auditor can detect all misstatements due to fraud and error.	1.4	0.494	1.71	0.767	2.97	1.597
6. Auditor should report to the tax authority about the noncompliance of tax laws by the company.	1.42	0.497	2.31	1.465	4.3	0.953
7. Auditor should be held responsible if the entity goes bankrupt due to fraud.	1.52	0.504	4.53	1.369	4.29	0.919
8. Auditor should conclude that there are no illegal operations conducted by the audited company.	1.5	0.504	4.95	1.279	4.94	1.261
Average mean response	1.37		3.24		4.07	

Meaning of audit report

9. Auditor provides absolute assurance about the true and fair view of financial statements	1.38	0.49	2.02	1.28	3.34	1.569
10. Reasonable assurance means guarantee for the accuracy of the financial statements audited.	1.48	0.504	1.76	1.25	3.75	0.859
11. When auditor cannot conclude, that the financial statements	1.02	0.129	2.83	1.51	3.40	1.61

are prepared, in all material respects, in accordance with the applicable financial reporting framework, then unmodified opinion is issued.

<u>Average response</u>	mean	1.29	2.20	3.50
<u>Usefulness of audit report</u>				
12. Investors and lenders do not take investment decision and lending decision by observing audit report.	1.57	0.5	1.6	1.378
13. The audit report is not useful for assessing whether the company is well managed or not.	1.33	1.481	1.83	1.424
14. Audited financial statements are not useful for monitoring the performance of the entity.	1.32	1.033	2.33	1.63
<u>Average response</u>	mean	1.41	1.92	2.27
<u>Auditor's responsibility for going concern assessment</u>				
15. Auditor makes an assessment of an entity's ability to continue as a going concern.	1.57	0.5	2.44	1.405
16. The auditors can conclude that the company will continue as a going concern in the near future.	2.33	1.398	2.75	1.593
17. Auditor can forecast whether the entity has	1.9	0.986	2.78	1.587
				3.21
				1.483
				3.71
				1.416
				4.23
				1.534

sufficient liquidity to operate through the next year.						
18. Auditor can provide early warning of corporate failure.	1.87	1.065	3.80	1.495	4.73	1.493
Average response	mean	1.92	2.94		3.97	
Auditors' responsibility for other information						
19. Information contained in the management commentary, directors' report, management discussion & analysis (MD&A), management performance analysis graphs and charts, are useful for decision making and that information are audited.	1.58	0.497	4.41	1.662	4.56	1.51
20. Entity disclosing information on corporate social responsibilities is audited by an independent auditor.	1.82	1.081	4.46	1.568	4.51	0.531
21. Entity disclosing information on environmental and sustainability reporting is audited by an independent auditor.	1.72	0.846	3.39	1.377	3.63	1.395
Average response	mean	1.71	4.08		4.23	

Table 5: Assessment of the Audit Expectation Gap

Respondents Group	Auditors-Credit Analysts		Auditors-Investors		Investors-Credit Analysts	
	Statements of Differences	Z values	P values	Z values	P values	Z values
<u>Panel A: Auditor's general responsibilities</u>						
1. The purpose of audit is not to provide guarantee about the accuracy of audited financial statements.	-0.38	0.70	-0.96	0.12	-0.94	0.14
2. The auditor is responsible for safeguarding the assets of the company.	-0.70	0.48	-7.33	0.01****	-7.57	0.01***
3. Auditor's role is to provide guarantee that the entity is financially sound.	-0.56	0.58	-6.11	0.03**	-5.29	0.02**
<u>Panel B: Auditor's responsibility for fraud detection</u>						
4. The auditor is primarily responsible for the prevention and detection of fraud and error of the entity.	-0.33	0.14	-10.91	0.00***	-4.20	0.01***
5. Auditor can detect all misstatements due to fraud and error.	-0.71	0.52	-0.86	0.60	-0.94	0.54
6. Auditor should report to the tax authority about the noncompliance of tax laws by the company.	-2.56	0.21	-4.62	0.00***	-4.05	0.00***
7. Auditor should be held responsible if the entity goes bankrupt due to fraud.	-5.20	0.00***	-6.83	0.00***	-2.30	0.42
8. Auditor should conclude that there are no illegal operations conducted by the audited company.	-7.08	0.00***	-7.00	0.00***	-1.56	0.12
<u>Panel C: Meaning of audit report</u>						
9. Auditor provides reasonable assurance about the true and fair view of financial statements.	-1.52	0.12	-7.69	0.00***	-3.62	0.00***
10. Reasonable assurance means guarantee for the accuracy of the financial statements audited.	-1.59	0.11	-4.32	0.00***	-3.36	0.00***

11. When auditor cannot conclude, that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, then unmodified opinion is issued	-1.67	0.10	-5.47	0.00***	-2.41	0.02**
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Panel D: Usefulness of audit report

12. Investors take investment decision; lenders take lending decision by observing audit report.	-0.56	0.57	-0.27	0.79	-0.84	0.40
13. The audit report is useful for assessing whether the company is well managed or not.	-0.11	0.91	-0.59	0.56	-0.50	0.61
14. Audited financial statements are useful for monitoring the performance of the entity.	-0.06	0.95	-0.42	0.68	-0.48	0.63

Panel E: Auditor's responsibility for going concern assessment

15. Management makes an assessment of an entity's ability to continue as a going concern.	-0.59	0.56	-10.14	0.00***	-2.67	0.01***
16. The auditors can conclude that the company will continue as a going concern in the near future.	-0.38	0.70	-5.53	0.00***	-3.15	0.00***
17. Auditor can forecast whether the entity has sufficient liquidity to operate through the next year.	-3.64	0.00***	-7.76	0.00***	-1.01	0.20
18. Auditor can provide early warning of corporate failure.	-5.64	0.00***	-7.77	0.00***	-3.71	0.31

Panel F: Auditors' responsibility for other information

19. Information contained in the management commentary, directors' report, management discussion & analysis (MD&A), management performance analysis graphs and charts, are useful and that information are audited	-8.48	0.00***	-7.93	0.00***	-0.97	0.23
20. Entity disclosing information on corporate social responsibilities are audited by an independent auditor	-5.67	0.00***	-5.04	0.00***	-0.77	0.44

21.Entity disclosing information on environmental and sustainability reporting are audited by an independent auditor	-	0.00***	-4.48	0.00***	-0.75	0.42
	5.42					

Notes: * Indicates significant AEG ($p < 0.10$) between the auditors and the corresponding respondent group;
 ** Indicates significant AEG ($p < 0.05$) between the auditors and the corresponding respondent group;
 *** Indicates significant AEG ($p < 0.01$) between the auditors and the corresponding respondent group

Panel A of the Table 5 represents the result of the audit expectation gap from the Auditors general responsibility perspective. According to the result, no gap exists regarding the auditor's general responsibilities among auditors and credit analysts. The mean value of the first question; question no.1.the purpose of audit is not to provide guarantee about the accuracy of audited financial statements; is almost same among all the groups. The p-value is not significant, and the auditors and users' perception does not differ significantly. However for other questions such as question no. 2, the auditor is responsible for safeguarding the assets of the company and question no. 3, auditor's role is to provide guarantee that the entity is financially sound, significantly differs between auditors and investors but not between auditors and credit analysts (see Table 5). It seems that the non-professional investors consider the purpose of audit is not to provide guarantee about the accuracy of audited financial statements but they still expects auditor is responsible for safeguarding the assets of the company and Auditor's role is to provide guarantee that the entity is financially sound. We consider the gap regarding auditors' general responsibilities as an unreasonable gap. The ISA 700 revised audit report states that auditors can provide reasonable assurance about the material fairness of financial statements, and their opinion is not a guarantee of the accuracy of the financial statements.

The outcome of the audit expectation gap from the Auditor's responsibility for fraud detection perspective is shown in Panel B of Table 5. The results reveal that significant AEG exists between auditors and investor but to some extent with the credit analysts also. Investors believe that the auditor is primarily responsible for the prevention and detection of fraud and error of the entity and the credit analyst doesn't. However, in most cases, investors have a high expectation regarding auditors' responsibility for fraud detection. The p-value is significant, and the auditors and investors' perception differ significantly for some questions such as question no.7, Auditor should be held responsible if the entity goes bankrupt due to fraud and question no. 8, Auditor should conclude that there are no illegal operations conducted by the audited company (See Table 5). ISA 700 revised audit report includes a separate section regarding management responsibilities for the financial statements, stating that management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards

and that these statements are free from material misstatement, whether due to fraud or error (IAASB, 2015).

Panel C of Table 5 shows the outcome of the audit expectation gap from the perspective of the Meaning of the audit report. The p values in Table 5 show that there is significant differences between the perception of auditors and investors regarding the meaning and usefulness of the audit report. The p-value is significant, and the auditors and investors' perception differ significantly for some questions such as question no.9, Auditor provides reasonable assurance about the true and fair view of financial statements, question no.10, Reasonable assurance means guarantee for the accuracy of the financial statements audited, and question no.11. When auditor cannot conclude, that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, then unmodified opinion is issued (see Table 5). It seems non-professional investors consider that the audit report provides absolute assurance about the true and fair view of the financial statements. They also need help understanding the meaning of the term in the audit report like reasonable assurance and unmodified opinion. Panel D of the Table 5 represents the result of the audit expectation gap from the Usefulness of the audit report perspective. According to the results, both the investors' and credit analysts' perception regarding the usefulness of the audit report is almost similar, and no gap is found here.

Panel E of Table 5 shows the outcome of the audit expectation gap from the perspective of the auditor's responsibility for the going concern assessment. From the result, it can be stated that there is significant differences between the perception of auditors and investors regarding the auditors' responsibility for going concern assessment and also with the credit analysts at a lesser extent (See Tables 4 and 5). The p-value is significant, and the auditors and investors' perception differ significantly for all the questions. Whereas the p-value is significant, and the auditors and credit analysts' perception differ significantly between auditors and credit analysts for some questions such as question no.17. Auditor can forecast whether the entity has sufficient liquidity to operate through the next year and question no.18. Auditor can provide early warning of corporate failure. Sophisticated users like credit analysts developed a reasonable understanding regarding the auditors' responsibility for the going concern assessment compared to unsophisticated users like non-professional investors. However, they want more straightforward comments regarding the entity's ability to continue as a going concern and also demands early warning if the company faces any crisis regarding its viability. This gap can be referred as a sensible performance gap. The auditors obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption in the preparation of the financial statements; and conclude, based on the audit evidence obtained, whether a material

uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. The ISA 700 revised audit report states that if material uncertainty exists regarding an entity's ability to continue as a going concern, the auditor should include a separate section heading as material uncertainty related to going concern.

Panel F of Table 5 presents the results of the audit expectation gap as seen from the auditor's going concern assessment. The mean values contained in Table 4, for the responses of this particular question for the three groups are 1.58, 4.41, and 4.56, respectively. The p-value is significant, and the users' perception significantly differs from the auditors' perception regarding auditors' responsibility for other information (see Table 5). The more interesting finding is that the answer to the question no.19. "Information contained in the Management's discussion and analysis of the financial condition and results of operations (MD&A) are useful for decision making and that information is audited". The ISA 700 revised audit report clearly mentioned that the auditor's opinion on the financial statements does not cover the other information and that the auditor does not express any assurance inference thereon (IAASB, 2015). The users' perception about other information is that the other information contained in the annual report is also audited information; however, this is not the case. So, the information content in the IAASB's new audit report creates another piece of audit expectation gap, such as the expectation gap for assurance on other information, which can be documented as a sensible standard gap. However, these expectation gaps vary across the different user groups as the perception differs between sophisticated users such as credit analysts and comparatively less sophisticated users like non-professional investors

The findings of our study are consistent with those of earlier studies who suggested that adopting enlarged audit reports will influence users' expectations linked to audits and close the expectation gap. Kelly and Mohrweis (1989) suggested that users believe the extended audit report is easier to understand than the condensed audit report after conducting a questionnaire study with bankers and investors. The auditor's report's specific wording has the potential to improve comprehension of the scope, nature, and significance of audit procedures (Chong and Pflugrath, 2008; Manson and Zaman, 2001; Lundgren and Oldenburg, 2016). Kelly and Mohrweis (1989) discovered that the new report more accurately portrays the general degree of responsibility of auditors based on a survey research among 50 bankers and 50 investors, but investors' and auditors' perceptions vary. Our research also confront with Monroe and Woodliff (1994b), examining the opinions of auditors and consumers of financial reports, discovered that the extended audit report had a major impact on users' perceptions of the audit report. We found more expectation gap

among the Nonprofessional investors rather than the credit analysts. This specific findings confront with (Kim et al, 2018) who referred sophisticated accounting information users can better understand the accounting choices and the qualities of accounting information and, hence, can make more valuable decisions. From Bangladesh context Siddiqui et al.; (2009) confront that the audit expectation gap about auditors general responsibility is not significant whereas, there exist knowledge gap and in some cases, the gap is due to unreasonable expectations of the user groups.

6. Conclusion

The revision or expansion of the audit report has been taken as a momentous step worldwide to increase the audit report's communicative worth and reduce users' audit-related expectation gap. The study's goal is to determine whether the ISA 700 (Revised) audit report reduces the audit expectation gap. There is no simple answer to this question. The evidence is diverse, and the findings are astounding. According to the findings of this study, there is a value for explicit explanation in audit reports because it helps to correct users' unreasonable expectations. The amendment has a significant impact on users' perceptions of financial statement auditing. Despite this, the level of understanding varies depending on the user groups and level of sophistication. This paper argues that an extended audit report reduces the "unreasonable audit expectation gap" while creating another expectation gap called the "reasonable standard gap" in the context of an emerging economy, Bangladesh.

The theoretical contribution of this study is that it confirms that the expansion of audit reports and revision of audit standards affects the users' audit-related expectation gap. Users are aware of the revision; however, the impact is mixed and varies according to the users' desires, knowledge, and frequency of reading and using the audited financial statements. As the audit expectation gap (AEG) is regarded as a driving force behind relentless reform in audit regulation, and unjustified reform may result in no benefits to users, this research provides guidance to audit practitioners and audit regulators on the justification of reform in audit reporting standards, such as the ISA 700 revised audit report. This research provides evidence on the rationalization of reform in audit reports, as well as new insights into the role of adopting continuous improvement in auditing standards and reporting practices. Future research might measure the audit expectation gap about the amended audit report among various stakeholder groups, figure out how to mitigate those expectations, and recommend any relevant and required succeeding amendments. Research may also examine how well certain issues—such as key audit matters, going concern opinions, reports on legal and regulatory requirements, etc.—are reported.

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Data accessibility statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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