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Masters Dissertation

Audit Expectation Gap in India and Views of Indian Audit Practitioners on narrowing the gap

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Abstract

Audit expectation gap is a global phenomenon and yet is the most ignored matter of discourse when it comes to developing countries like India. In recent years, the need to discuss expectation gap in audit has grown due to extensive criticism of profession and auditing standards. The recent financial scandals such as Punjab National Bank and Gitanjali Gems scam in India invite maximum ire for the auditors apart from promoters and directors of these corporates.

This research study aims at examining the perspectives of auditors and users of financial information in India on Audit expectation gap by capturing their views on each component of the gap- knowledge gap, performance gap and evolution gap. The research also examines the views of Indian audit practitioners on narrowing this gap. Varying expectations of users of financial statements from auditors can lead to criticism of the profession even though the auditors are working within the scope of their work. This can break the confidence of the capital market participants and society at large.

This research indicates that there is a strong existence of knowledge and performance gap in India. The participants feel that there is a need to educate people about audit and its scope in India, but the aim should not be to educate everyone. The study also uncovers how the gap emerging from deficient performance and poorly written standards can be addressed. Lastly, the study revealed that there is a need to bring auditors, stakeholders, clients, government, journalists, and regulators together, understand each of their expectations and address their reasonable expectations, and this should be an ongoing practice and not just a response to corporate failures and financial scandals.

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List of abbreviations

AAS – Auditing and Assurance Standards

ACCA – Association of Chartered Certified Accountants

AEG – Audit expectation gap

AICPA – American Institute of Certified Public Accountants

Big 4 – The 4 largest multinational audit firms- Ernst and Young, PwC, KPMG, and Deloitte

CA – Chartered Accountant

EDP – Electronic data processing

ESG – Environment, society, and governance related criteria

GAAP – Generally accepted accounting principles

IAASB – International Auditing and Assurance Standards Board

ICAI – Institute of chartered accountants of India

IFAC – International Federation of Accountants

IFIAR – International Forum of Independent Audit Regulation

ISA – International Standard on Auditing

KAM – Key audit matters

OTP – One time Password

PCAOB – Public Company Accounting Oversight Board

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1. Introduction

The audit profession is regarded as a social phenomenon worldwide because it is a provider of services to multiple interested parties and because it’s very foundation rests on the trust between auditors and users of financial reports. Mancino (1997) defined audit as “an official, unbiased, and independent inspection of the financial statements of a company performed by an auditor. An audit report provides reasonable assurance that the financial statements are prepared as per the accounting standards, in line with the companies act and are free from any material misstatement.” Despite this fact, the profession has been thrown under the spotlight as a result of the collapse of large, seemingly successful corporations leading to the auditing profession being subjected to heavy criticism and auditors to exorbitant liabilities in the shape of lawsuits (Porter, 1993). The disparity that emerges because of the gap between the desired audit performance as interpreted by the people benefitting from the audit services and the auditors is the primary reason for this criticism and the prevalence of this critical issue. Audit Expectation Gap (AEG) refers to this disparity between expectations (Sidani, 2007). AEG has become a serious issue to the very nature of the profession and its seriousness has been growing since it was recognized in the mid-1970s (Brown et. al., 2007).

In India, auditors and their failure to report significant irregularities came under attack by the government, regulatory bodies, and investors in 2018 after a large and well-publicized corporate scandal worth INR 140 billion (approximately 1.5 billion Euros) at Punjab National Bank was uncovered, affecting 100 million account holders with the bank and a huge number of investors (Hanumantu *et al.*, 2019). The impact of uncovering of this scandal in Punjab National Bank, on auditors and the auditing profession, was massive. It included public slamming the roles and responsibilities of auditors and India's poorly enforced auditing process and regulations. This has highlighted the need to study AEG in India from the auditors' and stakeholder's perspectives and has also amplified the need to study the methods to reduce this gap. These backlashes have also served as motivation for this study.

Investors and potential investors believe that auditors will defend their financial interests to their fullest potential, but these expectations are sometimes unmatched because they are either unreasonable and/or due to poor due diligence by auditor and/or because of poor and open to interpretation auditing standards. The AEG is really the outcome of such unmatched expectations, that erodes stakeholders' trust in auditors and the audit process. As Schinasi (2006) mentioned “the legal and accounting system failure may lead to business failure.” The AEG has been extensively researched in nations such as the United Kingdom and the United States, where many businesses have failed owing to auditing and accounting system flaws. In India, large-scale looting of government funds and rising non-performing assets are weakening the financial reports users' trust in all audited financial reports, resulting in broadening of the gap. The first research concerning audit expectation gap in India was conducted by Saha and Baruah (2008) in 2008 where they collected data from 200 firms to determine whether diverse professional groups, such as chartered accountants, chief financial officers, financial journalists, and bankers, had distinct perspectives about auditing. Although there has been no research to provide understanding around why the gap exists and what can be done to narrow the gap. The ACCA (2019) divided the AEG into three elements- knowledge gap, performance gap and evolution gap. The framework covers possibility of lack of knowledge in users of financial statements about audit, deficient performance owing to judgement bias in audit or poorly written auditing standards and the unmet reasonable expectations of the public. This research aims to determine in detail, the perspective of auditors and users of financial statements in India, on components that form audit expectation gap- knowledge gap, performance gap and evolution gap (ACCA, 2019), as well as to examine the methods proposed by audit practitioners in India for bridging the AEG in India which are both still unexplored areas.

The methodology considered for this research includes mono-method qualitative approach of using semi-structured interviews to obtain more detailed answers from the participants of this study. Qualitative methods are also suitable for this study because the research questions are concerned with ‘how’ and ‘what’. The research will use both primary and secondary methods for collection of data. Secondary sources include academic journals, scholarly articles and peer-reviewed research studies that extend existing data and frameworks related to audit expectation gap, its components, and methods of reducing it. For primary data collection, semi-structured interviews were conducted virtually via videotelephony application such as Zoom (due to COVID-

19 restrictions) with 4 auditors and 5 users of financial reports (bankers/ investment bankers).

The research will contain a detailed review of literature to cover important work done on AEG in past. This will be followed up by an explanation of research methodology and data analysis methods used for this research. The next chapter of the research will contain findings drawn out from the primary research and an analysis and discussion of these findings. The final part of this thesis includes limitations, conclusion and future scope for study around AEG.

1.1 Research question

The following research question will be answered by this research study –

How can audit expectation gap in India be bridged?

1.2 Research objectives

The following objectives will be achieved through this research study –

- To explore knowledge gap, performance gap and evolution gap in India as perceived by auditors and users of financial statements
- To examine factors that contribute to audit expectation gap in India.
- To provide views of audit practitioners on bridging the audit expectation gap in India.

2. Literature Review

This chapter explains the secondary research process and covers a brief review of history and evolution of auditing. It also covers various definitions of audit expectation gap given by academics around the world over a period. This chapter of the research also covers definition of different components of AEG i.e., knowledge gap, performance gap and evolution gap and methods proposed to reduce these gaps. The chapter will further consist factors contributing to the AEG, role and responsibilities of an auditor and existing research on AEG in India.

2.1 Research process

The research technique involved formulating key terms by understanding and breaking down the research question and research objectives, and then the researcher searched for academic literature using the identified key terms. Some of the key words/ themes of the research included audit expectation gap, auditor independence, knowledge gap, performance gap, evolution gap, fraud detection, responsibilities of auditor, audit report, key audit matters etc. Further, the keywords and search for relevant articles became more efficient as the research question and objectives became more streamlined over the entire duration of the research process. The researcher was mindful to keep a record of all the searched articles in a spreadsheet (Figure 1) for prompt review and accessibility. The researcher followed the Harvard referencing style and also used the citation tool Zotero to conveniently formulate all references correctly and adhere to the referencing criteria and rules.

S.no.	Paper name	Year	Journal/ Book/ Report	Theme/ Key Words
55	Porter, B. (1993) 'An Empirical Study of the Audit Expectation-Performance Gap', Accounting and Business Research, 24(93), pp. 49–68. doi: 10.1080/00014788.1993.9729463.	1993	Accounting and business research	Audit expectation gap, performance gap, components of audit expectation gap
56	Rehana, F. (2010) An Empirical Study on Audit Expectation Gap: Role of Auditing Education in Bangladesh. Available at: https://mpra.ub.uni-muenchen.de/22708/	2010	Munich Personal RePEc Archive	auditor, audit expectation gap, auditing education
57	Ruhnke, K. and Schmidt, M. (2014) 'The audit expectation gap: existence, causes, and the impact of changes', Accounting and Business Research, 44(5), pp. 572–601. doi: 10.1080/00014788.2014.929519.	2014	Accounting and business research	assurance, audit, audit expectation gap, financial statement audit, level of assurance
58	Saha, A. and Baruah, D. (2008) 'Audit Expectations Gap in India: An Empirical Survey', ICFAI Journal of Audit Practice, 5(2), pp. 68–83.	2008	ICFAI Journal of Audit Practice	Audit expectation gap in India, audit process, auditor's role and responsibilities
59	Sirois, L.-P., Bédard, J. and Bera, P. (2018) 'The Informational Value of Key Audit Matters in the Auditor's Report: Evidence from an Eye-Tracking Study', Accounting Horizons, 32(2), pp. 141–162. doi: 10.2308/acch-52047.	2018	Accounting horizons	auditor's report, key audit matter, expectation gap, eye-tracking
60	Smieliauskas, W., Craig, R. and Amernic, J. (2008) 'A Proposal to Replace "True and Fair View" With "Acceptable Risk of Material Misstatement"', Abacus, 44(3), pp. 225–250. doi: https://doi.org/10.1111/j.1467-6281.2008.00261.x.	2008	ABACUS - Journal of Accounting, Finance and Business Studies	accounting, risk, misstatement, auditing, audit, report, opinion, true and fair view.
61	Svanberg, J. and Öhman, P. (2016) 'Does Ethical Culture in Audit Firms Support Auditor Objectivity?', Accounting in Europe, 13(1), pp. 65–79. doi: 10.1080/17449480.2016.1164324.	2016	Accounting in Europe	auditor objectivity, audit firm, ethical culture
62	Teck-Heang, L. and Md Ali, A. (2008) 'The evolution of auditing: An analysis of the historical development', pp. 1548–6583.	2008	Journal of Modern Accounting and Auditing	history of auditing, historical development, audit objectives, audit expectation gap
	Turley, S. and Cooper, M. (1991) Auditing in the United		Book - Auditing in the United	

S.no.	Paper name	Year	Journal/ Book/ Report	Theme/ Key Words
2	ACCA (2017) Banishing Bias? Audit, Objectivity and the Value of Professional Scepticism. Retrieved from https://www.accaglobal.com/content/dam/ACCA_Global/Technical/audit/pi-banishing-bias-prof-scepticism.pdf, accessed on 18 March 2019.	2017	The Association of Chartered Certified Accountants Report - Banishing bias? Audit, objectivity and the value of professional scepticism	ACCA, audit expectation, bias, ethics, auditor independence, professional scepticism
3	ACCA. (2019). Closing the expectation gap in audit. Retrieved from https://www.accaglobal.com/content/dam/ACCA_Global/professionalinsights/Expectation-gap/pi-closing-expectation-gap-audit.pdf	2019	The Association of Chartered Certified Accountants Report - Closing the expectation gap in audit	auditing, expectation gap, audit expectation gap, knowledge gap, performance gap, evolutiong gap
4	Adeyemi, S. and Kolawole, O. (2011) 'Stakeholders' Perception of Audit Performance Gap in Nigeria', International Journal of Accounting and Financial Reporting, 1. doi: 10.5296/ijafr.v1i1.808.	2011	International Journal of Accounting and Financial Reporting	auditing, audit performance gap, users of financial statements, perceptions
5	AICPA (1978) 'Commission on Auditors' Responsibilities: Report, conclusions, and recommendations; Cohen Commission Report', Association Sections, Divisions, Boards, Teams. Available at: https://egrove.olemiss.edu/aicpa_assoc/433.	1978	Commission on Auditors' Responsibilities: Report of Tentative Conclusions Conclusions	auditing, auidt standards, United States
6	Anderson, S. B., Hobson, J. L. and Sommerfeldt, R. (2021) Auditing Non-GAAP Measures: Signaling More Than Intended. SSRN Scholarly Paper ID 3409386. Rochester, NY: Social Science Research Network. doi: 10.2139/ssrn.3409386.	2021	Social Science Research Network	non-GAAP measures of performance, audit, attribute substitution
7	Asare, S. K., Wright, A. and Zimbelman, M. F. (2015) Challenges Facing Auditors in Detecting Financial Statement Fraud: Insights from Fraud Investigations. Available at: /paper/Challenges-Facing-Auditors-in-Detecting-Financial-Asare-Wright/628a68f77883c41eacca2a7d8f6be42a98578bcf	2015	Journal of Forensic & Investigative Accounting	Absolute assurance, fraud detection,responsibilities of auditors
	Backof, A. G., Bowlin, K. and Goodson, B. M. (2019) The Importance of Clarification of Auditors'			auditor liability, audit report,

Figure 1. Literature review bibliography spreadsheet snippets

2.2 History and evolution of auditing

Littleton (1933) views auditing as a function intended to verify the honesty of people in charge for fiscal responsibilities as opposed to the managerial responsibilities. His work during the 20th century determines two types of audit: first one is the public hearings of the results of a government official and second being the inspection of charge and discharge accounts. In both cases the common intention of the audit function was to check upon the accountability.

Genesis of today's auditing practice lies in the United Kingdom during the industrial revolution. The expansion of businesses during that period and widespread ownership of company stocks by the British and Dutch trading companies to fulfill the heavy demand of capital generated by Industrial revolution led to the Joint Stock Companies Act 1844 (Maltby, 1998). The law stated that the companies were required to provide balance sheets to their shareholders and that these accounts be verified by an auditor (Leung *et al.*, 2015). After a few failures in audits during the end of the 19th century, there were new laws that required the auditors to be independent. This made the idea that the primary goal of audit is to detect frauds and errors, more concrete. This is regarded as the starting point for modern days' auditing function (Meuwissen, 2014).

In the 19th century, the role of an auditor was seen as a steward to the management function or in other words a supervisor or someone taking care of the management function (Flint, 1971) with integrity and honesty. Until the beginning of the 20th century, audits centered around checking for frauds and checking if the financial statements were correct. As the business activity increased with an increase in number of transactions and globalization leading to transactions with international clients, the function of verification was done based on sampling (Meuwissen, 2014). This functional adjustment made in auditing caused a paradigm shift in the audit process where it moved from getting a 'true and correct view' of information to getting a 'true and fair view' of information. This also led to a change in audit opinion from which was earlier 'complete assurance to 'reasonable assurance' (Cătălina, 2017). Similarly, Power (1994) defined auditing as a structured and independent examination of a client's books, accounts, documents and vouches to discover if they represent true and fair view of the company or not.

Davies *et al.* (1997) mentioned in their book that auditing had seen many important developments from 1960s to 1990s. They also highlight that this is the period where auditing moved from 'verifying transactions in the books' to 'relying on the system." This change resulted in more dependency on company's internal controls (Teck Heang Lee *et al.*, 2009).

As the costs of reviewing internal control systems began to rise in the 1980s, auditors began to place a greater focus on analytical processes and risk-based auditing (Turley and Cooper, 1991). As a result, auditors started putting additional efforts towards more risk prone areas of clients and lesser efforts towards lesser-risk areas. The adoption of data systems by the businesses for tracking and processing their financial information led auditors into checking and monitoring their client's data processing systems (Teck-Heang and Md Ali, 2008) and through a process which came to be known as Electronic Data Processing audit (EDP-audit). When computers can become more prevalent for business related uses, auditors began using computerized audit techniques to improve the process and effectiveness of audits (Meuwissen, 2014).

The auditing profession has undergone a huge transition from its beginning to the present day. This transition has been brought about because of large-scale organizational failures or due to increased demand for auditing services. Because of this, Meuwissen (2014) concludes that audit's approach, regulatory environment, and objectives are continuously evolving.

2.3 Defining audit expectation gap

Liggio (1974) coined the expression Audit Expectation Gap and defined it as "the variation between the levels of expected performance as envisioned by the independent accountant and by the financial report users". The gap was due to different understanding of financial reports users and auditors over-

- Scope of responsibilities of an auditor
- The audit quality
- The composition of the audit report

The expression-audit expectation gap though, was originally used by the American Institute of Certified Public Accountants (AICPA) in 1974 (AICPA, 1978). The Cohen

Commission or the commission created by AICPA to discover "whether there is a difference between what the public expects or needs and what auditors can and should reasonably be expected to accomplish" (AICPA, 1978) substantiated that the gap in fact existed and was a result of failure of the audit profession in America to keep up the speed of its advancement with the speed of development in American business environment (AICPA, 1978).

Monroe and Woodliff (1993) described AEG as "the differences in beliefs between auditors and the public about the duties and responsibilities assumed by auditors and the messages conveyed by the audit report." Close to this definition is the definition given by Jennings *et. al.* (1993) who defined the term AEG as "The difference between what the public has come to expect of an audit and what an audit actually provides is known as the expectations gap."

On the other hand, Porter (1993) proposed in an empirical analysis of the audit expectation-performance gap that the definitions of AEG as outlined by Liggio (1974) was not broad enough to consider the possibility of inferior performance by the auditor. Porter (1993) also concluded in her research that the gap must be called 'Audit expectation- performance gap' because it is an indicator of the distinction between what the general public is expecting from the auditors and the actual performance by the auditor.

Porter's (1993) audit expectation-performance gap structure introduced two elements contributing to the existence of this gap (Figure 2) –

- Reasonableness Gap: The variance between the public's reasonable expectations of what an auditor should achieve and what an auditor can be reasonably expected to achieve.
- Performance Gap: The variation between the public's reasonable expectations of what an auditor should accomplish and what an auditor is perceived to achieve. This is further divided into two elements. The first one is attributed to poor standards which refer to "the gap between duties reasonably expected from auditor's and auditor's existing duties as established by law and professional promulgations" (Porter, 1993). The second element refers to deficient performance which is "the gap between the expected quality of

performance of the auditor's existing duties and auditors perceived performance" (Porter, 1993).

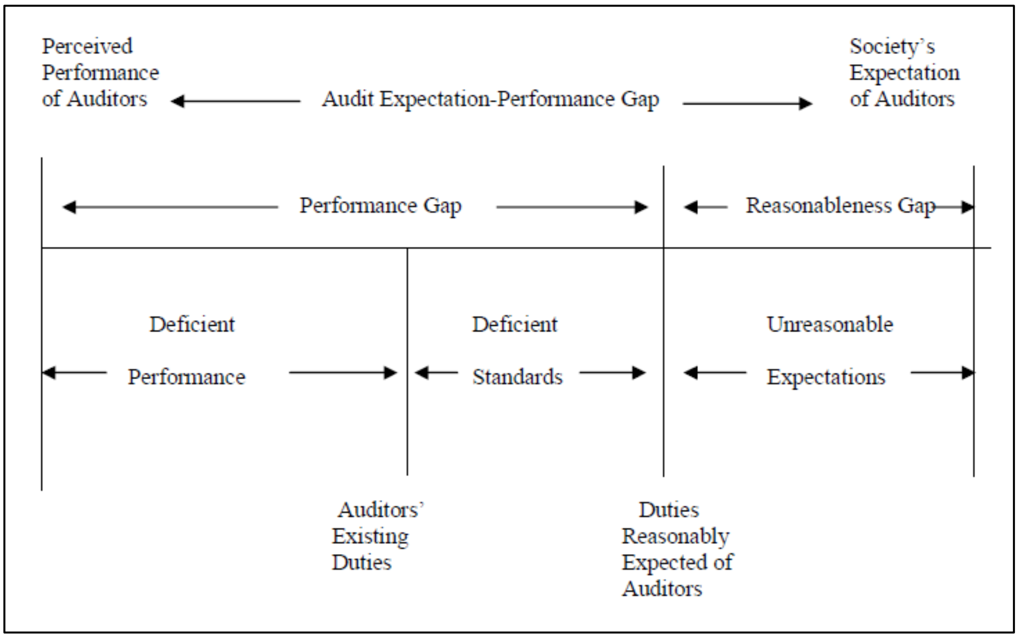

Figure 2. Structure of audit expectation gap by Brenda Porter. Source: (Porter, 1993)

Many clarifications have been offered for existence of audit expectation gap. Specifically, when it comes to audit profession, they have attributed it hugely to the misunderstanding of general public about what an auditor does (Lin and Chen, 2004). Another explanation states that the profession does not recognize and counter the increasing expectations of public. Humphrey *et al.* (1992) argued that the gap is result of negation of minimum government regulations and self-regulation in the profession.

According to a study published in 2019, the audit expectation gap is described by the Association of Chartered Certified Accountants (ACCA) as "the gap between what the general public think auditors do and what the general public would like auditors to do" (ACCA, 2019). While commonly referred as AEG, the ACCA recommended a new approach to divide the gap into having 3 elements: knowledge gap, performance gap and evolution gap (Figure 3). As suggested by the ACCA, each of these gaps should be addressed separately.

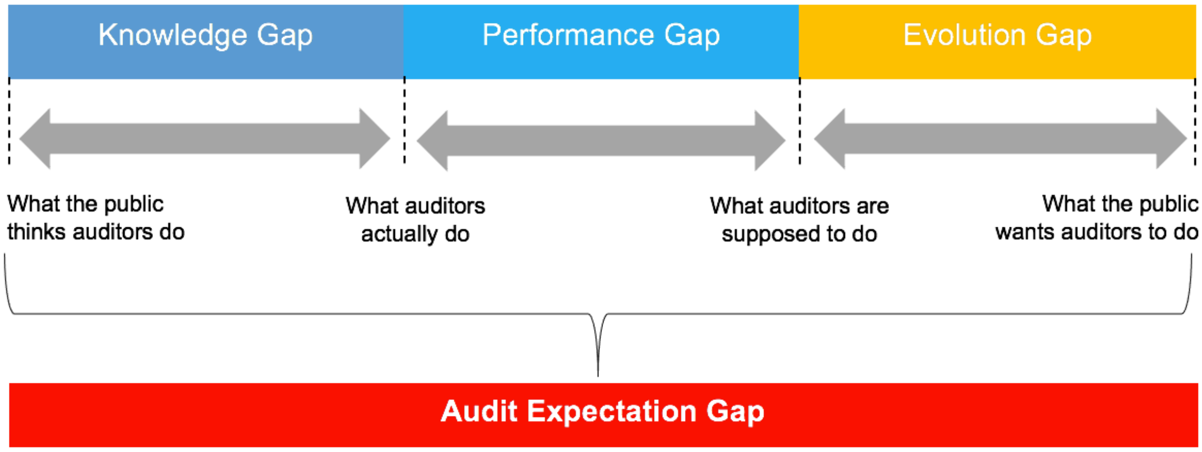

Figure 3. The audit expectation gap and its components by ACCA in 2019. Source: (ACCA, 2019)

2.3.1 Knowledge Gap

The knowledge gap, as shown in figure 3 is the gap between what the general public's perception of an auditor's role and responsibilities is and what the auditors actually do. This gap considers the possibility that audit may be misunderstood by the general public. An example of this can be the understanding of public with regards to the degree or extent to which auditors are responsible for prevention of corporate failures or the restrictions on auditors with regards to selling non-audit services to their audit clients. Some audit practitioners may have previously used this gap to delay or prevent reforms in this otherwise dynamic profession by portraying that the major issue is due to public's lack of understanding rather than being a genuine matter of concern, the ACCA however rejected this argument (ACCA, 2019). The presence of knowledge gap neither negates the demand for auditors to do more and better, nor does it justify the performance gap. Nevertheless, existence of broad knowledge gap can stymie the efforts to understand the actual evolution gap because a portion of knowledge gap might be rooted in ignorance of policies which are already in effect. Incorrect perceptions of public about audit firms' ability to sell consulting services to their audit clients, for example, can intensify calls for prohibiting selling such services, even though audit firms are currently restricted from selling consulting services to the organizations they audit in most countries (ACCA, 2019).

The impact of audit education on the expectation gap has been studied in several studies. Monroe and Woodliff (1993) conducted a research in Australia to look into the impact of education on students' perceptions of the meaning of audit reports and responsibilities and duties of auditors. A research survey using semantic differential scales was issued to and filled by two distinct group of students: marketing students and auditing students at the beginning and at the end of a semester. The study was focused on students’ perceptions about auditors’ role, financial statements’ validity and the future prospects of the company audited. The outcome of the study revealed that students' perceptions of auditor roles had shifted dramatically over the course of the semester. They concluded at the end of the semester that: the auditors had a much lower degree of accountability, financial records were more accurate, and the audit report contained less detail about the prospects of the company than they had initially expected. As a result, the study's findings indicate that audit education "can be an effective method for narrowing the expectation gap in audit."

Similarly, Geiger (1994) found that investors trained in accounting, finance, investment analysis, and using audit reports are less likely to demand an absolute assurance (an assurance that the financial reports are free of misstatements). As a result, Geiger, (1994) proposed that the expectation gap be narrowed by increasing awareness and education. The researcher proposed that greater public awareness can be achieved by making them clear about the scope and purpose of audit and its innate limitations, and the responsibilities of an auditor. He also recommends that the advantages and shortcomings of the audit must be communicated at any given opportunity, like at a shareholder meeting. Another means to inform the public is to have the audit report specifically and clearly state reasonable assurance (assurance that the financial statements are free of material misstatements). Lastly, Geiger (1994) notes that to further bridge the gap, the basic role of audit must be again and differently evaluated by the audit profession and financial community and that they must also ensure that the accountants preparing financial statements, users of financial reports and auditors should all be in agreement.

Monroe and Woodliff (1994) performed another research on AEG where they observed evidence proving that disparity in views of auditors and sophisticated users (e.g., users with education and experience) of financial reports was substantially smaller than the disparity in views of auditors and unsophisticated users (e.g., students and shareholders). At the end of the study, they suggested that regulatory bodies and professional associations must develop an efficient and effective education program to bring consumers to a better understanding of an auditor's responsibilities, and the contents of audit report.

Boyle and Canning (2005) examined how audit education affected people's opinion of poor auditor performance. The findings of this study revealed that those who had received the most audit education were indeed the ones most sceptical of auditors' work. Their study claimed that “exposure to audit education can significantly increase perceptions of deficient auditor performance and consequently widen the deficient performance gap” (Boyle and Canning, 2005).

2.3.2 Performance Gap

The performance gap represents the gap created when auditors do not do what they are required to do as per the set audit regulations and standards (ACCA, 2019). The reason for a wide performance gap can be inadequate focus on audit quality; complicated auditing standards; or disparities in practitioners' and regulators' interpretations of auditing standards or regulatory requirements (ACCA, 2019). A similar gap was highlighted by Porter (1993) which she mentioned in her study as expectation-performance gap. Porter (1993) divided into two parts attributing one to deficient performance and the other to poor auditing standards and regulations.

Power (1994) mentioned in his book ‘The audit explosion’ that collapse of corporate houses is always accompanied by scrutiny of auditor’s role and in some cases litigations on the construct of negligent performance. A corporate failure is mostly perceived by society as an audit failure and this perspective is further strengthened when such a failure comes shortly after an unqualified audit opinion of company’s financial statements (Dewing and Russell, 2002). Especially in cases where people have rational and reasonable expectations from auditors, where the auditor’s performance does not meet the standards, measures should be taken to improve the performance of auditors (Abonawara, 2013). Similarly, Coffee (2002) argues that Enron and other financial frauds are the result of gatekeepers' failures, especially auditors, for whom their independence and consideration for their profession's image had deprived them of the opportunity to protect investor interests.

2.3.3 Evolution Gap

The ‘evolution gap' is the gap that prevails in certain sections out of the entire scope of audit where development is needed, considering demands from general public, technical advancements, and how the ultimately the audit process may be improved to deliver more value (ACCA, 2019). For example, In the United States in 2002, Ernst and Young discovered that fund managers often used non-financial performance metrics in their decision-making. In that same context, the public is demanding that the assurance role be expanded to include not only financial metrics, but also an organization's overall scorecard (Adeyemi and Kolawole, 2011).

It has been proposed that current auditing practices did not meet what the public would reasonably expect, however there are signs that the accounting profession is giving in to pressure from the public and taking the appropriate actions to close the gap. In the United States, for example, the AICPA has adopted a more constructive outlook in defining the auditors' role as relevant to fraud now as compared to previous standards, overriding its previous position where they firmly held that an audit cannot be trusted in reporting irregularities. Despite public expectations, the standards state that auditors cannot consider it as their responsibility to detect material fraud during an audit or to expose it in a report. As a result, a part of the AEG, specifically related to fraud detection is presumed to be originating from deficient standards (Abonawara, 2013).

2.4 Methods for reducing audit expectation gap

To bridge the knowledge gap, the ACCA (2019) recommends that the audit profession and professional bodies must seek to clearly illustrate the audit process for the public. The report also mentions that the International Auditing and Assurance Standards Board (IAASB) and the Public Company accounting Oversight Board (PCAOB) introducing the communication of 'key/critical audit matters' (KAM) in the auditor's report of listed companies may play an important role in this. However, Sirois *et. al.* (2018) found out in their research that addressing certain matters within audit report decreases the amount of consideration given to the other financial statement disclosures, implying that the changes proposed by the IAASB and the PCAOB may lead to very little consideration given to other more important details that are not mentioned in the report. Overall, these findings indicate that although additional information may direct the attention of users of financial reports towards some important matters, it can also have the opposite effect of widening the expectation gap.

Realistically, not just the profession but, all stakeholders involved in the audit process, such as regulators, standard setters, professional accountancy organisations, audit firms, audit committees, customers, governments, and the media, will be involved in closing the knowledge gap. To close the knowledge gap, each of them must dedicatedly strive towards educating the public on audit regulations and auditing standards in a reasonable, transparent, and logical manner (ACCA, 2019).

To bridge performance gap and to ensure quality in their audit engagements, audit firms must develop robust systems and processes. Audit regulators must examine archives of already conducted audit engagements on a routine basis as part of such processes to ensure that a certain standard of audit is maintained. Positively responding to audit inspection results would close most of the performance gap (ACCA, 2019). Others apart from audit firms and regulators, however, have a role to play. The way audit standards are written can often amplify bias (ACCA, 2017). For example, groupthink may occur when the audit engagement team meets to address areas of potential risk of material misstatement. It is critical that standard-setters frame standards as clearly as possible and avoid creating requirements that can impose prejudices in judgment or are difficult to enforce objectively.

Lastly to bridge evolution gap, it is important to first look at resolving the knowledge and performance gap. This would help to prevent overregulating and implementing unseemly changes in auditing standards, where the actual concerns can be a lack of expertise or deficient performance. According to ACCA, a wide dialogue on the advancement of audit is necessary between stakeholders to ensure that the expectations of stakeholders are met, and the profession maintains relevance in the modern business environment. Regulators, professional accounting bodies, audit firms, audit clients, governments, and the general public are all potential stakeholders (ACCA, 2019).

When Arthur Andersen's Chief executive officer, Joseph Berardino, gave his testimony following the collapse of their client Enron, he claimed that there are changes required in accounting in order to prevent such failures from happening in future. He explained that there really is no difference among organizations that do the minimum required to abide by accounting regulations and organizations which are much more rigorous in their compliance. He also pointed out that unqualified opinion in an audit report is provided to perceived by the users of financial statements like a "binary pass or fail grading system" (Forbes, 2002).

2.5 Factors contributing to the Audit Expectation Gap

Humphrey *et. al.* (1992) suggested that the audit expectation gap could be a result of a number of factors like: unreasonable expectations of the users of financial statements; the backward-looking evaluation of audit performance; the demand-based changes happening in the audit profession which causes time lags in responding to changing expectations; the probabilistic nature of auditing and corporate crisis leading to new requirements and expectations. Significant professional and governmental research studies (Chye Koh and Woo, 1998; Kamau and G, 2013; Ruhnke and Schmidt, 2014; Teck Heang Lee *et al.*, 2009) have concluded that the expectation gap between auditors and users of financial reports is caused by several critical factors. The four main factors that contribute to this gap are as follows:

2.5.1 Independence of the auditor

Independence of external auditors have been given an important place in audit profession and in audit literature as one of the primary aspects of the expectation gap (Teck Heang Lee *et al.*, 2009). The auditors have to perform their obligation in the most independent and reliable manner to provide investing public with the level of assurance enabling them to make their decisions on the basis of these financial statements (Ray, 2012). Professional independence is a fundamental principle in the accounting profession. The American Institute of Certified Public Accountants (AICPA, 1978) code of professional conduct suggests two types of auditor independence-

- Independence of fact- A frame of mind that allows a person to have an opinion without being influenced by a compromised or in any way prejudiced professional judgment.
- Independence in appearance – the evasion of facts that are noteworthy for an educated and reasonable user of financial information. Independence in appearance refers to financial statement users' perceptions of auditor independence (Colbert *et al.* , 2008).

Independence-in-fact refers here to an auditor's ability to make unbiased and independent judgments and has also been referred to as the actual auditor independence. It is hard to see what is going on inside an auditor's mind so as to understand their mental state of mind (Louwers *et al.*, 2012). Additional and significant challenges have occurred as a result of an auditor's inability to maintain the aspect of independence when he is essentially appointed and paid by those that are influenced by the sort of work he does.

2.5.2 Fraud detection by auditors

Fraud is a major issue that receives a lot of coverage in the accounting and auditing fields. A financial statement must be free from material misstatement, whether created by fraud or mistake, in order to be considered reasonable (Munajat and Suryandari, 2017). The extreme nature of fraud, which is intricate and dynamic, has encouraged more diverse fraud as the time has passed. Fraud is extremely harmful to both the company and the economy (Asare *et al.*, 2015).

Previous research shows that, since fraud is such an uncommon occurrence, auditors often have little familiarity with it and, as a result, can struggle to recognize fraud risk indicators where they exist (Loebbecke *et al.* , 1989). As a result, auditors do not have a thorough understanding of fraud schemes (and its indicators) to detect high fraud risk. According to previous research, brainstorming will aid auditors in the risk assessment and management process (Brazel *et al.*, 2010).

The most complicated aspect of audit expectations can be easily demonstrated by observing the evolving nature of the auditor's duty to fraud detection (Humphrey, 1997). Prior to 1940, the primary goal of a business audit was normally fraud detection. Ever since, the need for the auditor to demonstrate the financial statements' overall integrity has surpassed this vision. According to Woolf (1987), the auditing profession attempted to distance itself from any actual responsibility for fraud detection. Porter & Gowthorpe (2004) found that the public still views fraud detection as the auditor's primary concern, and that they have partial understanding of the skills and method of investigation required if an auditor is to identify a fraud and any unlawful practice.

As a response to the widespread criticism, the accounting profession has taken substantial strides in the direction of closing the gap that prevails because of public’s perception of fraud detection as auditor’s duty, where they now acknowledge that auditors have duty to make themselves aware that fraud might well be found during an audit, and that if it is found to be material, it may affect their conduct towards the financial statements.

2.5.3 Auditors issuing early warning about a company's impending failure

Dewing and Russell (2002) perceived in their study done through postal questionnaires that there is a need to extend the scope of responsibility of auditors in respect to going concern. Olagunju and Leyira (2012) found out in their research that an unqualified opinion of an audit that actually represents the fairness and appropriate presentation of a company's financial statement is often misconstrued by the users of audited financial statements as an assurance for total financial soundness of the company and for going concern of the audited client. Similar was concurred by Manson and Zaman (2001) in their attempt to find out whether expanded auditor reports can help align the perceptions of auditors, users of audit reports and preparers of financial statements, they found out that the users of financial reports want the auditors to make comments about the client's ability to continue in business.

The literature concerned with going concern aspect in audit expectation gap maintains that the auditors are unable to reach anywhere near publics' expectations. The duties currently assumed by auditors under the auditing standards globally are not implausible as compared to what the public expects so while analysing the difficult situations encountered by auditors due to organization failure, the reasons can be traced back to defects in performance and publics' interpretation of the audit expectation gap.

2.5.4 Audit Report

An audit report solves the purpose of carrying the overall audit opinion to the users of financial reports and is the result of an audit engagement. Various audit reports may differ in their display and order but in each case, they must inform the user of the logical consistency between the information present in the audited entity's financial statements and the identified standards in the audit process.

Ruhnke and Schmidt (2014) conducted a study on a substantial sample group that included bankers, auditors, directors of the companies, financial journalists, academics, investors and supervisory board members to assess the source of AEG and the effects of alterations in the statutory audit procedure. Their study indicated that a huge chunk of stakeholders external to the business are of the opinion that lack of independence and scarce information in the audit report are the major sources of audit expectation gap. They also illustrate that adding information about the level of assurance achieved in the audit and the source of material approximation uncertainties can play an important role in bridging the gap.

Manson and Zaman (2001) examined the level to which the views of preparers of financial statements, auditors and users of audited reports can match by expanding the audit reports. They also measured the level to which these various subject groups considered that it would be beneficial if additional content is reported by the auditors. They discovered that the auditor's report must contain more information with regards to findings of the audit and that the users of audit reports are keen to get auditor's statement on the extent to which they have inspected and depended upon the internal controls and the level of materiality that the auditor has used.

Gold *et. al.* (2012) performed an experiment to examine the efficacy of additional information in an audit report as mandated under revised ISA 700 that was enforced on 2007. German auditors and financial statement users participated in this experiment where the researchers read summary of a company's financial statements and an auditor report (that could be a standard audit report or an expanded one with description of auditor's responsibilities as opposed to the responsibilities of management and the scope and procedure of the audit). They found strong evidence suggesting that an expanded audit report does not result in smaller expectation gap and that the audit opinion solely may indicate adequate relevant information to the users of audit report.

2.6 Roles and responsibilities of an auditor

Ray (2012) defines auditing as "obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the extent to which they correspond with the established criteria, and to communicating the result to the interested users." Thus, it encompasses investigation process, attestation process, and the reporting process, pertaining to economic actions and events. The basic statutory duty of the auditors is to report to the shareholders on whether the company's annual accounts are properly prepared and give a true and fair view; and on whether the directors' report is consistent with the accounts.

Cohen *et. al.* (2002) opined in their research that with an increase in acknowledgement of the significance of corporate governance in establishing healthy financial reporting practices and to ward off fraud, the audit acts as an important monitoring tool. The authors wrote that the auditors are trusted with an important task of further improving the processes and mechanisms that help in controlling and operating an organization. The value of auditors has been further thrown under spotlight because they act as the paramount line of defence up against any corporate misconduct. Chakraborty (2004) highlights that "the audit function and profession have garnered much more importance in multifaceted and competitive business environment, and the auditors play a vital role in protecting the system, when it comes to both financial management and other allied activities."

The responsibility of auditor to express their opinion on the financial statements of the audited entity being free from any material misstatement leads to a belief amongst the beneficiaries of the audit that the auditors have responsibility outside their statutory role, a responsibility to shield them from financial frauds and irregularities. These in fact as Porter *et. al.* (2014) states were some early opinions about auditing. The auditor only has obligation to design procedures, which will enable him to obtain evidence to have reasonable assurance that the financial statement is stated in all material aspect.

External audit is a corporate governance mechanism to minimize the variation in information and circulate consistent information to the shareholders (Chakraborty, 2004). Cohen *et. al.* (2008) illustrated that there is a positive correlation between the calibre of corporate governance and integrity in financial reporting. Various investors and agencies use and place a high amount of trust in the audited financial statements of a company when taking financial decisions, especially as an indicator of current financial position and future viability of the business. Superior-quality financial audit can reduce the risk faced by investors and creditors while they take these investment decisions.

In today's business world, an external auditor may help management develop effective risk management and internal control systems (Holm and Laursen, 2007). The risk management along with the internal control is now integral part of auditing standards around the world, in India (AAS 20) and some corporate governance codes like Sarbanes-Oxley Act of United States. In India, the issue of internal control of a company is taken care by provisions of the Manufacturing and Other Companies Order 1988 (Auditors' Report). Under this regulatory provision, the external auditor has to mention in their audit report whether the company has appropriate internal control system placed that is matching with its scale and nature of its business. Auditor can help corporate management to establish suitable control system and risk management in diverse operational areas so that the Board of the company can focus on appropriate areas and develop strategies for the same. Appropriate internal control system assumes significance for proper utilization of resources and guard against fraud & errors (Chakraborty, 2004).

The auditor shoulders another important responsibility which as explained by Agostini (2018) “to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity’s ability to continue as a going concern.” The feature has been integral part of the auditing standards around the world (ISA 570, IFAC; AAS 16 India). Auditor keeping in view the going concern principle, issues a qualified or unqualified report about the future viability of the business, which assumes significance for decision making of the current shareholders and potential investors. Under provisions of Section 227(3) (e) of the Companies Act, the auditor’s report shall stipulate thick in type or in italics the observations made by the auditors which may have an adverse effect on the functioning of the company.

To conclude Ray (2012) mentions that “the role of the auditors would be to audit the historic financial information in annual report, review for consistency of the surroundings to the annual accounts, reach a view whether statements have been 'properly prepared' and are forward looking statements (not necessarily forecasts). The auditors have a duty of ‘care’ to existing shareholders of the company and to any other person and purpose to whom and for which they have or are deemed to have explicitly or implicitly agreed to owe such duty.”

2.7 Audit Expectation Gap in India

Saha and Baruah (2008) conducted a quantitative study and gathered empirical evidence of the existence of AEG in India. The study served a comprehensive questionnaire to various groups of financial statement users- chief financial officers, Banker, chartered accountants, and financial journalists with an aim to identify the gap in levels of expectation. The research confirmed the existence of AEG in India and observed that the gap was a result of multiple aspects where the nature of the audit process, the integral boundaries around the audit and the performance of an auditor and the audit function altogether contributed to the existing gap.

The research found that the expectation gap was vast especially on the issue of auditor’s roles and responsibilities in relation to- detection and prevention of frauds, going concern assumption, reporting material misstatements, auditor’s independence, auditor’s abilities to identify risks and prescribing remedial actions, issue related to audit committees and auditor’s relations with the management.

Another research was conducted by Mahadevaswamy and Salehi (2009) where they performed a comparative investigation to document existence of AEG, and differences and similarities in responsibilities of AEG among auditors and investors in India and Iran. They found out that there was a huge expectation gap in both countries especially with regards to understanding auditor’s responsibilities. They also found out that the opinions of the auditors and investors in both the countries were same.

3. Research Methodology

3.1 Methodology

According to Bryman and Bell (2011), research design refers to “a framework for the generation of evidence that is suited both to a certain set of criteria and to the research question in which the researcher is interested”. The purpose of this research, due to the scale and scope of research, is both exploratory and explanatory. The research design aims to identify the existence of audit expectation gap in India and views of audit practitioners India on narrowing this gap. Saunders *et al.’s* (2015) ‘Research Onion’ framework (Figure 4) was used as it provides reliability, validity and credibility to the research design and will cover all aspects of the research methodology.

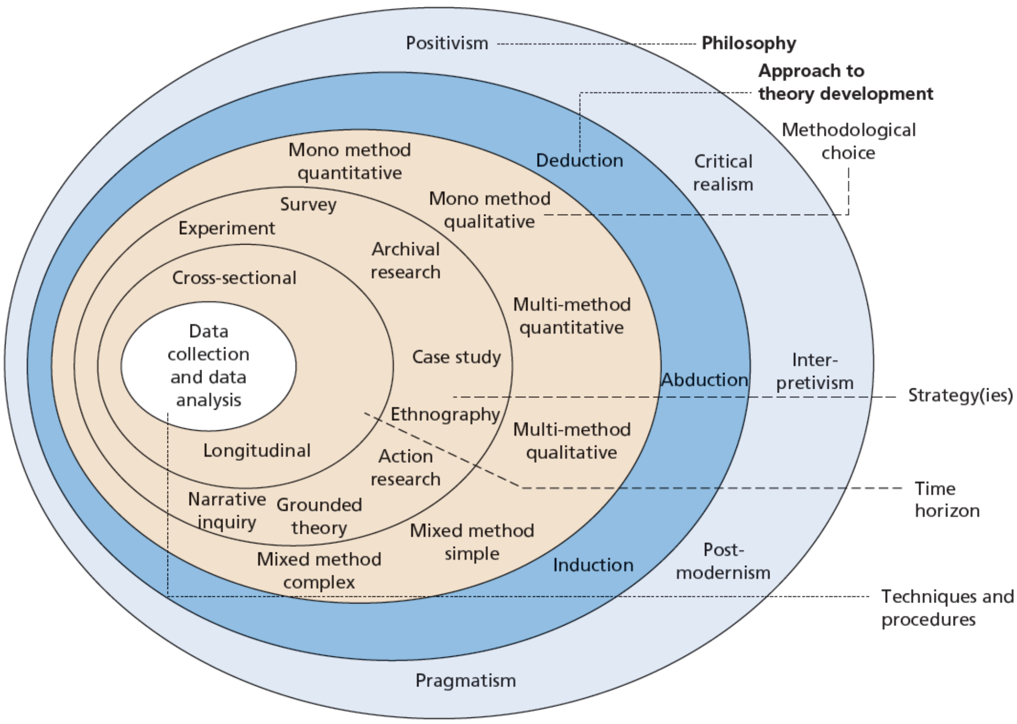

Figure 4. Research Onion framework. Source: (Saunders *et al.*, 2015)

3.2 Research Philosophy – Interpretivism

It is of utmost importance that we, as students of business and management, are mindful of the philosophical strategy that we need to pursue in our choice of research design, as noted by Johnson and Clark (2006). The outer layer of the research onion, the choice of philosophy, can have a significant effect on what we do and how we will be able to comprehend the areas of investigation. Hence, the research was steered by the interpretive philosophy as the researcher chose mono-method qualitative methodology which helped in understanding the challenges of engagement from the perspective of both the auditors and users of financial statements (bankers/ investment bankers) (Saunders *et al.*, 2015).

3.3 Research Approach – Abductive

Abductive approach is generally considered as a creative iterative approach in research design. Spens and Kovács (2006) mention that the researcher delves into an iterative process of applying real-life observations to formulate theories and answering the research questions (Figure 5). Since the research was not relying solely on theory development process (deduction) or theory testing process (induction), following an abductive approach was deemed appropriate (Saunders *et al.*, 2015). Further, it offered flexibility to move back and forth between theory to data or data to theory, which flowed in tandem with the exploratory research purpose and thus, combined both deduction and induction approaches (Suddaby, 2006).

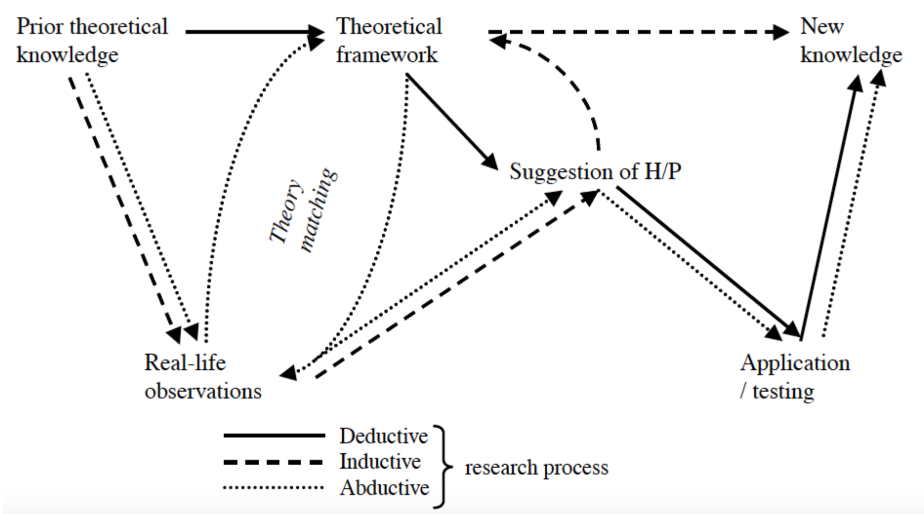

Figure 5. Different research approaches. Source: (Spens and Kovács, 2006)

3.4 Methodological Choice – Mono Method Qualitative

The nature of the research question, focusing on the audit expectation gap and methods to bridge it led the researcher to choose an interpretive research philosophy and an abductive research approach. Given this and the overall multifaceted objectives to be answered by the research, the researcher decided to adhere to a mono-method qualitative approach of using semi-structured interviews for the research. The qualitative method offers multiple perspectives as defined by Van Maanen (1979), "qualitative methodology is an umbrella term covering an array of interpretive techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world". In relation to the research question, the researcher conducted qualitative semi-structured interviews with the auditors and users of financial statements (bankers/ investment bankers) from India working in Big 4s and multinational banks and investment banks with experience varying from 5 to 25 years in their respective fields. Therefore, the qualitative research approach helped the researcher in holistically understanding the different human experiences for this particular study (Rahman, 2016).

3.5 Research Strategies – Grounded Theory

The research strategy chosen as part of the research design was the Grounded Theory to develop the concepts which were grounded within the data (Saunders *et al.*, 2015). This strategy gave the flexibility to the researcher to keep referring to the relevant literature as a complementary source throughout the processes of data collection and analysis for this project (Heydarian, 2016). This abductive approach further helped researcher to follow the process of thematic analysis for analysing qualitative data, described in the next chapter, which is guided by the grounded-theory strategy (Heydarian, 2016).

3.6 Time Horizon – Cross-Sectional

Given the time constraints, the research resembled a 'snapshot' taken at a particular time and therefore, was 'cross-sectional', as opposed to 'longitudinal' research which would be representative of events over a given period (Saunders *et al.*, 2015).

A 'cross-sectional' design involves the collection of data on more than one case, and at a single point in time to collect data either through quantitative or qualitative methodology, for instance, the semi-structured interviews conducted over a brief period of time, in relation to two or more variables which were then assessed to detect relationships between them (Bryman and Bell, 2011).

3.7 Data Collection

- **Primary data:** The primary data was collected via semi-structured interviews. A total of 9 interviews were conducted virtually via the videotelephony application called Zoom, due to the current Covid-19 situation prevailing both in India (where interviewees reside) and Ireland (where interviewer resides). The interviewees were from different states of India and included 3 auditors working in Big 4s and one auditor who owns an audit firm. Further the 5 users of financial statements comprised 3 investment bankers working for multinational investment banks and 2 bankers working for multinational banks. All the interviewees had experience varying from 5 to 25 years in their respective fields. As the researcher themselves conducted the interviews, and was inexperienced in this area, it was more appropriate that the interviews were semi-structured and thereby easier to control and ensured the delivery of answers to all of the relevant questions within the allotted time of 30 minutes (Saunders *et al.,* 2015). The researcher designed a template to be sent to the interviewees via an email that explained, in brief, the background to the research, its aim, the objectives of the current study, and mentioned the kind of information that was aimed to be obtained, along with a consent form which are all available in appendices 11.1 and 11.2.

  On the basis of the themes generated from the literature review, the researcher initially devised 12 sequential questions for the pilot interview with auditors and 6 questions for the users of financial statements. These questions attempted to develop an understanding of audit expectation gap in India by examining the views of auditors and users of financial information about auditor's roles and responsibilities, deficient performance by auditors, expectations of users of financial information from an audit and views of audit practitioners in India on narrowing the audit expectation gap (for complete list of interview questions refer to Appendices 11.5 and 11.6). Due to the flexibility offered by semi-structured interviews, the researcher was able to probe the interviewees further to elicit more elaborate replies. This helped in developing new themes and shaping the subsequent interviews as the process of interviewing the respondents progressed (Qu and Dumay, 2011). Further, with each subject's permission, the interviews were recorded in order to maintain accurate recall (Saunders *et al.,* 2015). During and post the interviews, notes were taken by the interviewer which included any new information or themes generated which the researcher had been unaware of, and also the overall impression of individual interviews which helped in both the data collection and analysis processes (Saunders *et al.,* 2015).

Additionally, as advised by Hannabuss (1996), to build rapport with the interviewees, the interviewer explained the reason for taking up this research and the background of the research. Further, a positive relationship was maintained throughout the process by adding words of appreciation in between and the interviewer kept adding phrases such as "*I agree with you*…" or "… *you have helped me in developing a better picture of the concept* …". Sometimes, silences were maintained on the interviewer's end to allow the interviewee enough time to frame their answers but making sure it was not long enough to make the interviewees feel that the internet connection/ call had dropped (Hannabuss, 1996). The interviewer generally maintained a neutral perspective during the interview to avoid researcher bias (Saunders *et al.,* 2015), chose to ask open-ended questions and occasionally, followed a combination of indirect and interpretive questions, by throwing an indirect question in the manner, "… *In your perspective, how do you think* …" followed by the interpretive question, "… *Is it correct that you feel about it in (a certain way)*…", to avoid misinterpretation and interviewer bias (Hannabuss, 1996).

When concluding the interviews, the researcher expressed their gratitude verbally and through an email towards all the interviewees for their time, enthusiasm and for sharing their insights and opinions with the team (Appendix 11.2).

- **Secondary data:** The primary data was supported with secondary research which refers to the gathering of data, collected initially by a party to fulfil their purpose, and then used by another party to fulfil their requirements, which may or may not have the same aims of research as were of the former party (McQuarrie, 2016). The researcher investigated and analysed other information available, in Indian and rest of the world context, in the area of audit expectation gap and factors that contribute to it. Secondary data utilised for this research comprised a review of previously published literature. This information came from academic case studies and journals, ‘grey literature’ such as reports, and other databases provided by NCI’s online library databases such as Emerald Insight, EBSCO eBook Business Collection and ProQuest Business Premium Collection. The researcher attempted to gain relevant insights for the research through this secondary data. Since secondary research is the cheapest and quickest form of conducting research, it was utilised by researcher to their advantage (McQuarrie, 2016). Yet, the researcher was mindful of the limitations of misinterpretation and the subjectivity that this form of research may possess (Fielding, 2000).

3.8 Sampling

3.8.1 Sampling Technique – Non-Probability

The non-probability sampling technique was utilised for the research based on the mono method qualitative technique that was adopted. For the semi-structured interviews, the sample comprised members ‘hand-picked’ for the research purpose. The researcher reached out to people on LinkedIn with their introduction and a brief of the research to obtain their email ids for further correspondence regarding the interviews. The ‘Purposive’ non-probability sampling technique was used, as the researcher was already aware of the specific sample cases being utilised because of the depth of knowledge they could bring to the research and their varying experience in the field of auditing and other financial services (Rowley, 2014).

3.8.2 Sample Size

For the semi-structured interviews, Creswell (2012) suggests that for an interpretive research philosophy for business and management students, 4-30 interviews generally suffice. For this research, the sample size consisted of 9 members. They were all residents of India and a brief demographic description of the interviewees has been provided in the next chapter.

3.9 Ethical Considerations

At every stage of research, a comprehensive and systematic approach was taken to ensure that no issues could stem from unethical behaviour. The researcher adhered to the following strategies to ensure avoidance of any such issues –

- Inclusion of ethical approval form in the emails that were sent to the interviewees.

- Privacy of the respondents for interviews was managed by resorting to anonymity (Saunders *et al.*, 2015).
- Interviews tend to probe into unanticipated areas which the participants may not be aware of at the outset, and thus, a brief was provided to them, and post their informed consent, the interviews were conducted after assurance of anonymity and confidentiality of the primary data that the researcher received from them (Allmark *et al.*, 2009).
- Participants were made aware of their voluntary participation and were informed that they had the right to withdraw partly or completely at any time during the process of research and would not be obligated to forcefully respond (Holm, 2011).
- Further, the researcher stayed objective during the process of data analysis to make sure that the primary data was not misinterpreted or reflected any bias.
- To maintain anonymity, the researcher resorted to generalisation to refer to participants in this study. Lastly, interviewees were also informed that they would be emailed a copy of the research and primary data would be destroyed post its completion.

4. Data Analysis

The following chapter describes our method of analysis of the data which was collected through both primary and secondary types of research, followed by the summary of the findings.

4.1 The Approach: Thematic analysis – Introduction and Pitfalls

Braun and Clarke (2006) regard the process of analysis of qualitative data as extremely diverse, complicated, and subtle. Thus, the researcher decided to opt for Miles and Huberman's (1994) thematic analysis framework (Figure 6) for analysing the semi-structured interviews. Braun and Clarke (2006) describe thematic analysis as “a method for identifying, analysing and reporting patterns (themes) within data. It minimally organizes and describes your data set in (rich) detail” and they deem it as the fundamental method for qualitative data analysis, especially for novice researchers, as it offers accessibility and flexibility (Braun and Clarke, 2012).

	PHASES	DESCRIPTION OF ANALYSIS PROCESS
1	Familiarising myself with data	i) Narrative preparation, i.e. transcribing data ii) (Re-)reading the data and noting down initial ideas
2	Generating initial codes	i) Coding interesting features of the data in a systematic fashion across entire data set ii) Collating data relevant to each code
3	Searching for themes	i) Collating codes into potential themes ii) Gathering all data relevant to each potential theme
4	Reviewing themes	i) Checking if themes work in relation to the coded extracts ii) Checking if themes work in relation to the entire data set iii) Reviewing data to search for additional themes iv) Generating a thematic “map” of the analysis
5	Defining and naming themes	i) On-going analysis to refine the specifics of each theme and the overall story the analysis tells ii) Generating clear definitions and names for each theme
6	Producing the report	i) Selection of vivid, compelling extract examples ii) Final analysis of selected extracts iii) Relating the analysis back to the research question, objectives and previous literature reviewed

Figure 6. Thematic analysis framework by Miles and Huberman (1994). Source: (Braun and Clarke, 2006)

Miles *et. al.* (2013) describe the following steps as a general approach for analysing qualitative data underpinning the method of thematic coding analysis –

- Labels or 'codes' are assigned to chunks of relevant data obtained from interviews or other qualitative methods of data collection.
- Identification of similar patterns or 'themes' from the coded data.
- Utilising these themes to penetrate further into the qualitative data and gradually developing a smaller set of generalisations that would describe the data effectively.
- Finally, connecting these generalisations to a formal body of information in the form of concepts or theories.

The thematic analysis offers flexibility, as previously mentioned, due to the mixed approaches of inductive and deductive coding, which flows in tandem with the intended abductive approach of this research. The coding approach is considered as inductive or 'bottom-up' if the codes and themes arise purely based on the researcher's interaction with the data, whereas deductive or 'top-down' approach works vice-versa with these predetermined codes also being called 'a priori' codes (Braun and Clarke, 2012; Robson and McCartan, 2015). For the purpose of this research, a mixed approach was undertaken, as advised by Braun and Clarke (2012) as it is unlikely to be purely inductive, and certain codes or phrases arose due to researchers' interactions with literature review previously done.

Even though Braun and Clarke (2006) recommend the thematic analysis highly, the method has its shortcomings too. Javadi and Zarea (2016) point out that it is of utmost importance that the researcher must remain unbiased during the process of analysis, as its simplistic nature tends to hamper the value and authenticity of the results sometimes. Further, Gibson (2006) highlights that the primary issue in the thematic analysis is the interpretivism, "which is, in fact, the interpretation of others' actions through our understanding". Thus, the necessary steps were taken while conducting the analysis to avoid biases in the interpretation of the results.

Phase 1: Becoming Familiar with the Data – Notes and Transcription

Braun and Clarke (2012) and Robson and McCartan (2015) suggest researcher begin phase 1 of the thematic analysis by getting familiar with the data, initially, by penning down notes and ideas while listening to the audio files of the recordings of interviews. Although getting familiar with the data can be time-consuming, it is advisable to carry out the process before the coding of the data. Although an arduous task for researcher, Bird (2005) argues that this is “a key phase of data analysis within interpretative qualitative methodology”. Although the researcher used Otter web application for transcription, but they went through the transcripts to manually correct misspelled words and to make notes (for sample transcriptions, refer to Appendices 11.7 and 11.8).

Phase 2: Generating Initial Codes

Coding plays a central role in the qualitative analysis as Gibbs (2007) mentions, “coding is how you define what the data you are analysing is about. It involves identifying and recording one or more passages of text or other data items such as the parts of pictures that, in some sense, exemplify the same theoretical or descriptive idea. Usually, several passages are identified, and they are then linked with a name for that idea – the code”. Even though the process is considered laborious due to the absence of any standardised coding procedures (Marks and Yardley, 2003), creating codes is fundamental to building an understanding of the data as it creates the base for the subsequent analysis and interpretation (Robson and McCartan, 2015).

For the purpose of coding, researcher used the qualitative data analysis software package, NVivo (Appendix 11.3), as it can be used conveniently in most cases where the data is in substantial amounts, and for various types of research. Further, it is considered as a preferred option for qualitative data analysis in many institutions (Robson and McCartan, 2015). The software provides a quick and easy way of coding the data through its ‘select-text and drag-and-drop’ feature. Although, considerable time and effort were spent by the researcher to become proficient in the use of the software, it helped in working effectively with complicated coding schemes and a considerable amount of data, and provided both profundity and sophistication of analysis (Nowell *et al.*, 2017). Data codes were a combination of ‘in vivo’ and ‘a priori’ codes that were obtained from the prevailing body of theoretical contributions, and were reviewed and noted after each interview was conducted in order to maintain consistency of analysis (Saunders *et al.*, 2015).

Phase 3: Reviewing the coded data to avoid bias

Miles and Huberman (1994) mention performing first and second levels of data coding, where the researcher used codes for labelling the crux of the conversation, and in the second level, the researcher revisited the transcriptions to avoid bias in the coding of transcriptions, for better understanding of data and development of codes, as suggested by Braun and Clarke (2012).

Phase 4: Identifying and Developing Themes

The process of coding the data is followed by grouping similar codes into a smaller number of sets or 'themes'. Robson and McCartan (2015) refer to the 'theme' as a term that "captures something of interest or importance in relation to the research question(s)". When the initial data coding task is accomplished, there exists a list of different codes which are sorted into the relevant themes. Some codes result in themes, while others develop into sub-themes, and finally, some codes lead to the development of inductive themes at a later stage of the theme development process (Javadi and Zarea, 2016). During the process of theme development, a few key questions were kept in consideration by the researchers as suggested by Castleberry and Nolen (2018) –

- Can the code be developed to form a theme or not?
- Does the theme highlight something meaningful concerning the research question?
- Can the theme be verified with academic and/ or grey literature?
- Does the theme lack consistency due to the wide diversity of the qualitative data?

Further, to ease the process of grouping codes under relevant themes, the aid of visual representation software was utilised by the researchers (Robson and McCartan, 2015). The data was divided in matrices using spreadsheet software Microsoft Excel to easily collate, visualise, and finally, develop an understanding of the relationships between codes and potential themes and sub-themes (Appendix 11.4).

Phase 5: Refining Identified Themes

Braun and Clarke (2006) recommend revisiting the data to review and refine the themes generated from coded data, especially where data sets are in large quantities or in the case of novice researchers. Further, Javadi and Zarea (2016) advocate theme revision in this phase to support internal and external homogeneity of themes, implying the existence of a relationship between the data under a theme, and the themes developed should be distinguished from each other. Hence, some themes were merged, some new themes were created, and some sub-themes were either separated or merged with a new theme, which demonstrated the flexibility of the thematic analysis method, as mentioned earlier (Braun and Clarke, 2012).

Phase 6: Evaluation and Interpretation

The final phase consisted of synthesising the selected themes which reflected the research objectives (Braun and Clarke, 2006), and the theoretical knowledge gathered through the previous sections of the research. The interpretation of the themes echoed accuracy and consistency and the researcher reached the same conclusions from the qualitative data, which supports the credibility of the thematic analysis performed (Castleberry and Nolen, 2018; Javadi and Zarea, 2016). The findings developed through the aggregation of the themes have been discussed in detail in the next chapter of the research.

4.2 Secondary Data Analysis

As previously explained, secondary research refers to the gathering of data which was collected initially by a party to fulfil their purpose, and then used by another party to fulfil their requirements, which may or may not have the same aims of research as were of the former party (McQuarrie, 2016). Secondary data utilised for this research project comprised a review of previously published literature. The literature review helped the researcher in understanding the research objectives and question in-depth and paved the way for primary research. The reviewing of literature was an iterative process, and the researcher subsequently ended up creating two drafts before the final draft was achieved. This consequently led to a better understanding of the research question and the objectives in context, and completion of a more converged review of existing literature (Hart, 2018). The utilisation of secondary analysis helped researcher to focus on analysing and interpreting data, while saving the effort of collecting it.

Even though the benefits outweigh the limitations of secondary analysis, yet they were kept in consideration by the researcher. The primary drawback of secondary data, as mentioned earlier, is the primary purpose for which it was originally collected, which may or may not coincide with the aims of the research (Bryman and Bell, 2011). As Robson and McCartan (2015) mention, secondary data is usually unlikely to answer the exact question concerning the research. Thus, the researcher took the necessary steps to ascertain the suitability of the secondary data to achieve the research objectives in context.

4.3 Demographics of the Interviewees

Interviewee No.	Profession	Type of Company	Designation
1	Auditor	Big 4	Audit and Advisory Partner
2	Auditor	Self-owned auditing firm	Proprietor
3	Auditor	Big 4	Audit Senior
4	Auditor	Big 4	Audit Assistant
5	Investment Banker	Multinational Investment Bank	Investment Banking Associate
6	Investment Banker	Multinational Investment Bank	Manager - Investment banking
7	Banker	Multinational Bank	Deputy Manager
8	Investment Banker	Multinational Investment Bank	Manager - Investment banking
9	Banker	Multinational Bank	Executive Banker

Table 1. Demographics of interviewees

5. Findings

This section presents the findings collected from the primary research –

5.1 Role of Auditors

The findings of this study suggest that what auditors do is very well defined within the auditing standards and the regulations that govern what an auditor is supposed to do. All the auditors interviewed for this research mentioned that the role of an auditor is to ensure that financial statements are true, representative, and fair to the best of their knowledge. One of the auditors (Interviewee 1) mentioned that "audit has a very specific rule driven scope and within that the role of an auditor is to do what is defined by these rules. The basic concept of an audit is that the auditor starts with a risk assessment, the auditor then reviews the internal control structure and then the auditor performs testing on a sample basis and within this process if anything does not stack up, the auditor is not supposed to investigate deeper into that." Another auditor (Interviewee 2) highlights that "the ultimate aim of having an auditor audit an entity is to provide limited or reasonable assurance that the financial statements are free from any material misstatements and not to look for everything and anything that is going wrong in the company."

All the auditors agreed to the fact that the role of auditors has changed over time due to changes in business environment. An auditor (Interviewee 3) described that "there was a time when the companies were more conscious of their decisions and feared auditors since each of their transactions were scrutinized by auditors with a very keen eye and there was no scope of getting away. Now, for an auditor to check each transaction would be a year-round project so sampling is used and as an auditor, I opine that the companies accounts are true and fair in all materiality."

The users of the financial statements on the other hand had a similar opinion of the fundamental role of auditors. One of the interviewees mentioned that "given that any business is an operation that requires to state its financial position regularly which is relied upon by all the participants in the capital markets, it is extremely important that the material which goes into these statements is vetted and it is ensured that the position stated in these statements commensurate with the company's actual performance and position at that point in time. This is where the auditors come in and their role is to make sure that the financial statements of the audited entity contain no misstatements or errors which could lead to material decision going wrong" (Interviewee 5).

All users of financial statements that were interviewed were on the same page in saying that the role of auditors is very crucial and can build or break the confidence of participants of the capital markets. One of the interviewees for instance pointed out that "auditors are important for adding credibility to any company's financial statement, so they have to be independent" (Interviewee 5). They further stated that "financial investments are embedded and interlinked with everyone's lives these days and even for people who do not understand investment markets or people who do not invest directly in equity of a company are doing it through some indirect means like institutional investors, so even these people are affected by the commercials of a company. In this scenario there lies a massive fiduciary duty that all auditors have towards society to ensure that the financial position of a company is what they say it is because the society at large is taking decisions based on these historical statements." Similarly, another user of financial information (Interviewee 9) implied that auditors are entrusted with a huge responsibility to work in greater interest of the society and therefore their independence from any kind of influence that could make them deviate from this responsibility must be kept in the forefront of the profession and measures should be taken to ensure that.

5.2 Audit expectation gap in India

The findings pertaining to audit expectation gap in India have been divided into three components of gaps as defined by ACCA- Knowledge gap, Performance gap and evolution gap.

5.2.1 Knowledge gap

All the auditors agreed that audit is a complex process and the understanding of public about auditing is lacking (Table 2). An auditor (Interviewee 1) pointed out that a layperson who does not understand audit scope and auditor's responsibilities, since there is an audit opinion and an assurance has been given, thinks of this opinion and assurance as being absolute without understanding the limitations of what an auditor actually does. Another auditor (Interviewee 1) interviewed also pointed out that this is where the gap arises, and this can be different for a sophisticated investor who may understand audit a bit better but even they may not have complete perception of what an auditor’s duties are. Ultimately, it all boils down to the level of assurance that people think an audit opinion gives, versus what is actually represented by an audit opinion.

Components of Audit expectation gap	Auditors’ perspective	
	Exists (%)	Doesn't exist (%)
Knowledge Gap	100	0

Table 2. Auditor’s perspective on existence of knowledge gap

Most of the auditors interviewed in this study also believed that general public in India has partial knowledge of role and responsibilities of an auditor as compared to developed countries. An auditor (Interviewee 1) who was interviewed for this study pointed out that “the duties and responsibilities of auditors are same in India as they are across the globe. Therefore, it is important to understand if the responsibilities and duties of auditors are understood by different stakeholders outside the audit firm in India as they are understood by audit stakeholders in developed countries. An institutional shareholder in a developed market may understand audit and auditors’ responsibilities differently. While maybe there is awareness and education and dialogue required with investor community and regulatory community in India to try and create same level of awareness and some common ground.”

The auditors also agreed that public being unaware of auditor’s responsibilities and role is a major reason for audit expectation gap in India, but this is not the only reason. An auditor (Interviewee 2) here pointed out that “Major reason for the gap is that the public is not aware of the general practices and laws around auditing and accounting, but this is not the only reason for the gap to exist …”

Auditors also agreed on the point that audit is a complex process and that the profession, and the regulator cannot expect everyone to understand absolutely the roles and responsibilities of an auditor but there is a need to create awareness among investor communities and students interested in studying finance about audit and role of auditors although there is no single way to do it. An auditor (Interviewee 2) opined that “putting audit and assurance as part of curriculum for at least the people who are working in finance or as a matter of fact studying finance just so that general users of financial statements may have knowledge about audit and its scope, can help reduce knowledge gap. In case they are investing in a company they should be aware of what audited financial statements mean and that they do not provide absolute assurance or act as a fraud controlling mechanism." Another auditor (Interviewee 3) highlighted that "there is a need for education when it comes to auditing but there is no one way to do it." One of the auditors (Interviewee 1) pointed out here that "people have become very busy and in general the attention span of humans is diminishing so the fact is that it should not be the objective of the profession to try and convince every common person on what an auditor does or does not do because media will always be there to influence people's thinking and people will read things in a different way so it is unfair to expect everyone to fully understand the technicalities of the profession."

The users of financial statements interviewed during this study seemed to partially understand responsibilities of auditor and the scope of an audit. They understood that an audit opinion is not absolute and is based on historical financial statements of the company whereas they need to do their due diligence and look at the futuristic view of a company before they invest (Table 3). One of the users of financial statements (Interviewee 7) mentioned that "audit is a backward-looking process, and it is about providing limited assurance or reasonable assurance- reasonable because they have not gone through each transaction of the company thoroughly. So as an investor, while assessing a company's financial performance, one can rely on them as basic data but while doing huge investment transactions, one needs to understand a company's future down the line which is not provided or looked upon by the auditor so the investors in such cases need to do their due diligence on company's financials and performance which is more exhaustive that typically what an auditor does." One of the users of the financial statements mentioned that "despite entrusting a huge responsibility to auditors where they have to check that the financial statements of a company are free of material misstatements or errors, one cannot completely trust an auditor's assessment of a company given the size and scale of companies these days and how they are sprawling across several countries these days. Also, auditors have to rely on samples and statistical assumptions so one can never be sure of a company's actual performance" (Interviewee 5).

Auditors are responsible for…	Perspective of users of financial statements	
	Yes (%)	**No (%)**
Providing reasonable assurance	100	0
Fraud detection	60	40
Being independent of any influence	100	0
Corporate failure after a recent audit	100	0

Table 3. Perspective of users of financial statements on responsibilities of an auditor

The gap seems to exist when it comes to knowledge about responsibility of auditors when it comes to detecting frauds (Table 3). The interviewees seemed divided on it. Some users (60%) believe that fraud detection is auditor's responsibility. One of the users of financial statements (Interviewee 5) said that "the overall confidence in auditors in India has been affected in the last few decades given that there have been a few large-scale frauds that have been uncovered. These frauds have called out for people to question the purpose of having auditors if they cannot detect such massive frauds. These large financial scandals have eroded the trust people placed in auditors earlier. Now, people take audited financial statements as they stand because there is no other alternative." Other user of financial statements (Interviewee 9) agreed with that and highlighted that "auditors should be independent in every way to perform the role they are supposed to do which is to add credibility to financial statements but at the end of the day, they are hired by these companies only and they rely on them for their income. So, they may sometimes abandon their integrity and independence when the same corporate that pays them acts sordid and is cooking up a fraud. This brings harm to large stakeholder groups." While some users of financial statements (40%) on the other hand believe that fraud detection is not auditor's responsibility, one of these users of financial statements mentioned that "there is a famous saying in audit that auditor is a watchdog and not a bloodhound which means that an auditor can only point out a large-scale misstatement caused by fraud or error to the management and/or regulators and/or government but there is nothing more they can do about it" (Interviewee 8). Similarly, another user of financial statements (Interviewee 6) mentioned that "an auditor's main line of duty does not entail detecting fraud, it is to verify if the financial statements of the company are true, fair and have been furnished according to the generally accepted accounting principles. It is to make sure that these statements are not divergent from what is there. As a part of this process, they need to conduct themselves in a manner where they are aware that there could be a possibility of a fraud and therefore take steps to ensure that there is no presence of fraud that is affecting the accuracy of the financial statements.”

The users of financial statements also seemed to clearly understand auditor’s responsibility when it comes to reporting on future viability of the company (Table 3). All the users of financial statements agreed that auditor of a company should not be held responsible in case of a corporate failure without appropriate amount of investigation. An investment banker (Interviewee 8) touched on the topic saying that “auditors should not comment on future viability of the business because the scope of their job is to check historical figures and their appositeness. They must although look for evidence that the management has furnished financial statements by effectively using going concern principle.” Another investment banker (Interviewee 6) had similar views when he pointed out that “we should avoid misunderstanding the scope of an audit with involving a view of future looking statements. Audit should preferably be restricted to historical information and the investors and public can build their own opinion of the future. The moment we try to join these two paths, there will be a possibility of a bias that would creep into audit to give a rosy future picture.” A banker (Interviewee 7) mentioned that “the primary responsibility of the assessment of the future viability of the company lies in the hands of the management and auditor can opine on the management’s assessment. The auditor’s responsibility here is to report their view on management’s assessment of the going concern of the business.”

5.2.2 Performance gap

The auditors interviewed during this study seemed divided and had different views when It came to existence of performance gap. A few of them believe that performance gap prevails because in a profession like audit where an auditor must make critical judgements, they are susceptible to judgement biases and traps which is a human tendency (Table 4). An auditor (Interviewee 1) touched on this subject saying that “like in every profession, there will be cases where there is defect in audit too. In a judgemental and complex area like audit, I don’t think one can get zero defect so there have been defect and there will be defects.” Another auditor (Interviewee 2) pointed out that “India is developing country and there are loopholes in regulations, policies and system which are forerunners of mismanagement and deficient performance and that is the reason some of the big audit firms in India have been banned from doing certain audits."

On the other hand, a few auditors (50%) believe that it is knowledge gap that makes people perceive that there has been deficient performance on the auditor's part (Table 4). An auditor (Interviewee 3) interviewed during the study said that "I don't think there are cases where auditors defect, our duty is to give reasonable insurance which may be misunderstood by some people and all auditors should not be judged on basis of a few incidents." Another interviewee (Interviewee 4) mentioned that "there are no cases where auditors' defect. We have ICAI, NFRA and internal reviews, independence compliance which are all safeguards to make sure auditor does not make a defect intentionally or unintentionally."

Components of Audit expectation gap	**Auditors' perspective**	
	Exists (%)	Doesn't exist (%)
Performance Gap	50	50

Table 4. Auditor's perspective on existence of performance gap

All the users of financial statements interviewed for this study believe that there have been cases where it has been proven that auditors have intentionally disregarded auditing standards and regulations that later turned out to be massive accounting scandals and corporate failures or unintentionally bypassed from what auditing standards and regulations dictate. They point out that there is a huge gap that exists due to impacts on an auditors' performance caused by auditors' independence in long term. One of the users of financial information (Interviewee 5) said on the topic that "it has been seen in the past that auditors have deviated from the set of procedures they ought to have done. Auditors get close to the management of these companies that they have audited for a long time and that symbiotic relationship develops where they sometimes ignore regulations and standards and sign off the statements without performing all the requisites of an audit as dictated in standards and regulations. In most cases though, auditors follow the books, are very clear on needs to be done and do it." A similar opinion to that one was given by another user of financial information

(Interviewee 7) who mentioned that “there have been various financial scandals where there is proof of auditors not acting diligently or reasonably at their part so deficient performance definitely exists.” They (Interviewee 7) also added that “with the increase in financial misconduct in India people are actually doubting if the scope of auditing is limited and if that scope and auditor’s liability should be increased.”

5.2.3 Evolution Gap

Auditors interviewed for this study had different opinion from each other when it came to existence of evolution gap. They all agreed that the evolution gap exists (Table 5), but they had different views of what the general public wants an auditor to do. One of the auditors interviewed (Interviewee 1) mentioned that “different investor groups want different things from audit, there are people who want high level of assurance but not an investigation and there are people who say they want auditors to do an investigation.” Another auditor (Interviewee 2) interviewed asserted that “the public wants absolute assurance. They want us to find frauds and irregularities. Even if you have an intention to do that, management is not going to let you sit in their office for eight hours, 365 days of the year, just auditing day in and day out. For that, there are internal audit reports and this a statutory audit which happens at the end of financial year.”

Components of Audit expectation gap	Auditors’ perspective	
	Exists (%)	Doesn't exist (%)
Evolution Gap	100	0

Table 5. Auditor’s perspective on existence of evolution gap

Some auditors also believe that auditing standards and regulations are being modified in order to move the scope of an audit closer to what public wants it to be but not everyone could be made happy because they all expect different things from auditors. An auditor (Interviewee 1) touched on this by saying that “audit is standardised product and a huge responsibility. If I engage an auditor for a particular project, I cannot tell them precisely that I want them to go down three levels or I want them to go down 25 levels when they are designing and performing audit because audit is standardised thing. The responsibility of deciding what the right level is and what should be expected from an auditor cannot be decided by the auditor and each individual stakeholder." Another auditor (Interviewee 3) agreed with this opinion and mentioned that "there are many different users of financial information and they all want different things, and it is not easy to make them all happy."

Auditors also believe that if they approach every audit as an investigation which is the way some users of financial information but not all want it to be, the scope of audit, the efforts and skills of an auditor, the cost of audit and the curriculum of audit as a subject would have to be changed completely. An auditor (Interviewee 1) mentioned that "going in with a mindset that there is a fraud until it is proven otherwise, versus assuming that there is no fraud unless there is a trigger, are two very different starting points. First aspect of this is that the cost and the efforts of such an endeavour would be higher. Second, the skills required would differ because the audit profession would need to get in more forensic skills, but that's a lesser evil. I think that is possible but are companies and the whole system ready for this? The final element is around liability, if something goes wrong, what is the auditor's liability? With fraud detection we will do a fresh start there, because now we'll have to determine that really increased set of responsibilities if something goes wrong, then how should auditors be held accountable for that, but we will never know until we go down that path." Another auditor (Interviewee 2) had a similar opinion where they said, "if audit is approached as an investigation, which would be great to do but due to constraints like lack of time and resources it is not possible."

The users of financial statements agreed that evolution gap exists majorly due to one factor which is reporting standards. A user of financial information (Interviewee 5) pointed out that "as an investment banker, we get access to a lot of insider information which can change the way people look at a company. An auditor report must not contain all those things, but it should report important things so that a layman who may not have resources or may not understand financial language and ratios can at least form a fair view of the company by reading what the auditors said about the liability, the debt coverage, and more of such critical things that help a person decide whether the company truly is sustainable or not. I don't think anyone does it today." The other user of financial information agreed.

5.3 Methods of reducing audit expectation gap

The findings pertaining to methods of reducing audit expectation gap in India have been divided into the three components of audit expectation gap as conceived by ACCA- Knowledge gap, Performance gap and Evolution gap and ways to reduce each of these gaps.

5.3.1 Knowledge Gap

The auditors interviewed during this study had different ideas when it came to reducing knowledge gap in India. An auditor (Interviewee 1) suggested that “it would be much easier for the gap to be filled with institutional investors and regulators because they by their nature of job are the people who understand the gap and therefore through a dialogue can be get on some common ground as to what the auditor actually does.” Another auditor (Interviewee 2) mentioned that “putting audit and its fundamentals in the curriculum for students studying finance so that they have rudimentary knowledge of audit and can make investment decisions with a clarity of what an audit opinion means.” One of the auditors (Interviewee 4) agreed with that view saying that “there is no one effective way to reduce audit expectation gap, however basics of audit can be included as a part of education curriculum which will reduce knowledge gap.”

An auditor (Interviewee 1) also pointed out that considering the smaller attention spans and busy schedules of people, it should not be the objective of audit profession to educate everyone about fundamentals of audit. This was agreed on by other auditors (Interviewee 2 and 3).

5.3.2 Performance Gap

The auditors had different views on reducing performance gap. Some of them (50% of auditors interviewed) agreed that performance defects occur, and they elucidated how they can be reduced whereas some of them did not agree to performance gap existing in profession. The auditors who agreed on existence of the gap agreed that the gap can be filled by pushing both audit quality and audit regulations and standards towards each other to come to a place where they match with each other. One of the auditors (Interviewee 2) interviewed pointed out that “there has to be pressure from external stakeholders for better controls and actually more robust controls are coming along when it comes to tackling deficient performance. A normal practice in India which was observed even until 2019 was that instead of a qualified chartered accountant signing off the balance sheet of companies, people who have still not cleared finals, who are still not qualified accountants were signing fake balance sheets, which is of course, not the right way to do things. Now ICAI (Institute of chartered accountants of India) has implemented a scheme of unique identification number, which is now to be generated through an OTP (one time password) of every CA (Chartered Accountant), while inputting the details of revenue and profit for each financial certificate that you sign."

Another auditor (Interviewee 1) pointed out that "steps need to be taken to improve audit quality. An example of this is when you think of a doctor, if a doctor is failing in one out of every 10 cases, that is a huge problem and steps need to be taken to improve that. But if the same doctor is failing in one out of a thousand cases or they are defecting, but it is not fatal for the patient, then I think that comes in as a part of human judgement and the complexity of profession."

Auditors also agreed that major work on improving audit quality must be done by audit firms and a little must be done by regulators. An auditor (Interviewee 1) presented his view in detail saying that "90% of audit quality improvement efforts have to come from within the audit organisation itself. The audit quality control and reduction in deficit performance cannot be from outside, it is the responsibility of the audit profession and the audit firm in the first instance." Another auditor (Interviewee 2) agreed with this.

Auditors (Interviewee 1 and 2) highlighted that there are many elements to improving audit quality. They deeply approached the subject and pointed out each of the following elements-

I. The first element is to make sure that the auditor understands their responsibilities properly, is independent of management in spirit and in form, and applies the right level of challenge. He mentioned that "it is called in audit firms as 'culture of challenge', and it refers to a culture where auditors do not simply rely on what management is putting out to them but are applying the right level of professional scepticism."
II. The second element is to make sure that the firm has the right resources because a firms' intent may be to provide high-quality audits, but for that they must make sure that there are accurate resources, both in terms of the number and quality of those resources. Along with that tags an aspect of learning and

development where the firms need to make sure that their resources are skilled enough, and there's a constant learning and development to make sure that their resources are prepared.

III. The third element to this is to make sure that there are appropriate and multiple lines of defence. He pointed out that “in an audit project, the audit work is done by the engagement team, the engagement partner, audit manager and teams who interact with the client into the audit. What most organisations have done very well now is strengthen the internal quality control measures. Every audit engagement has an engagement quality control reviewer, who is a person who's responsible for looking at what the engagement team has done and making sure that the quality control has been done right.

IV. The final element to this is to make sure that audit firms have tools to enable consistent quality. For example, the audit firms must put in more efforts to templatize things for their resources, use better technology like data analytics to improve audit quality and bring in standardisation in the way audits are done.

An auditor (Interviewee 1) also touched on the regulators role in reducing the expectation gap where they said that “the rest 10% of improvement in audit quality comes through effective regulations because if you do not have an effective regulator, then the incentive to work on audit quality from within the firm (which is as we said above 90%) may not be there despite everyone having the right intent. One of the best things that happened in the USA after Enron was establishing through the Sarbanes Oxley act, audit regulators, and the SEC looked at things in a particular manner. That plays a critical role in a way that it creates a set of very good incentives and disincentives for people to do high quality audits. However, it cannot only be achieved by this, the 90% has to be taken care of beforehand.” Another auditor (Interviewee 2) agreed with this point.

An auditor (Interviewee 1) interviewed for this research also highlighted an important finding with regards to performance gap in India where he mentioned that “I think that the thing we are struggling with in India right now is how do we get the balance between the audit firms and regulators playing their part in improving audit quality and bringing down the audit deficiencies. It should be done in a way such that audit firms must be taking the lead on quality while regulators are playing a supporting role as opposed to having everything being driven by the auditor.”

The users of financial statements proposed the gap to be filled by making auditors more independent. One of the users of financial information (Interviewee 8) mentioned that "I think that the root problem is that auditors are paid by the people whom they're supposed to look at with a questioning eye and identify if there's anything that has been materially misreported and that needs to be solved in some way. There have been suggestions to solve this one of which I personally think is a good one is to set up an independent board for audits which allocates and has funding from the government, or the funds could somehow be charged from the companies, but at the end you don't ask the companies themselves to hire audit firm but all they have to do is get that board to do it. The board can match those based on a company's' size and the audit firms' size to list which company could be audited by which firm. But I think that would be a solution that I think truly make auditors independent." The other users of financial information agreed as one of them (Interviewee 9) mentions that "auditors earn bread from the same company that they have to report in case any material wrongdoing is found in the company, they need to be made more independent in order to reduce the expectation gap."

5.3.3 Evolution Gap

All the auditors interviewed for this study pointed out that audit must evolve in certain aspects to match the expectations of the users. These aspects are fraud, solvency, Non-GAAP measures and ESG. The auditors interviewed during the study approached each of these aspects separately-

I. Fraud- The auditors interviewed during the study believe that fraud detection is one of the most important things that needs to be addressed where the profession and the regulators need to understand what the right level of assurance is.

II. Solvency- The auditors interviewed believe that the second element where audit will evolve is those emerging areas that are relevant for investors and stakeholders. One of these areas is solvency and we need to address how much should an auditor be responsible in terms of reporting on solvency. An auditor (Interviewee 1) mentioned during the interview that "currently, the auditor only reports on whether there is a going concern risk and any uncertainty around that. And I think the question is, if that has to change and therefore, the auditor explicitly has to talk on solvency, I think it can be done but it goes on to the same thing of defining what has to be done and it also goes on to what is the liability right point."

III. Non-GAAP measures- This is also one of the emerging areas that is relevant for investors and stakeholders. All auditors interviewed agreed that investors are increasing demanding assurance on Non-GAAP measures and that is one area where audit may have to evolve to comfort investors. An auditor (Interviewee 1) mentioned that "in the construction industry, there is something called as an order book and a lot of investors and analysts value construction company based on the order backlog. Now, this order backlog does not appear in the financial statements and therefore, is never audited by anybody. It is just discussed by management with the analysts and investor community in their presentation. And increasingly investors are looking at it and pointing out that if this is really what the company is saying, based on which we are valuing a company, could you as an auditor give us a higher level of assurance on that. So, there is a whole host of key performance indicators non-GAAP measures whatever you may call them." Another auditor (Interviewee 3) agreed with that as he said that "non-GAAP measure related assurance is highly demanded by major investors now and the regulators and profession must take right steps to address this demand."

IV. ESG- The final area where audit must evolve as indicated by auditors is ESG. An auditor (Interviewee 1) pointed out that "another area which we are increasingly seeing a discussion on is ESG. We will see a lot of expectations there because it is a big thing and currently what a lot of companies are doing is called as 'greenwashing.' They are saying a lot of things and nobody is clear on what a company is actually doing. No one is clear on when the companies put out an impact, do they really mean it? And how do they measure it? There's no framework or there's limited framework so I think increasingly, from an assurance perspective, auditors will be called upon to comment on that as well. We call it extended assurance in the profession where we go beyond statutory financial statement audit."

The auditors believe that to close the evolution gap, the regulators along with investor community and other stakeholders of audit need to diligently look at what the future of audit looks like, it could be picked up from historical view of the expectation gap when it comes to fraud, solvency and other things that may be important to stakeholders. An auditor (Interviewee 2) touched on this saying “we can reduce this gap by calling all the stakeholders connected to the audit profession like audit firms, journalists, regulators, professional bodies etc. to contribute towards reducing the expectation gap in audit.” The concerns that have been gathered due to historic incidents of failures in audit must be gathered and looked at in order to find out audit’s evolution aspects. The next thing required to be done then is for the audit profession to step up and make sure that they are ready to deliver on that. This step may require a lot of efforts from the auditors. The final part then is to make sure that there is ongoing improvement in audit and that the profession and regulators must not wait for things to go wrong to change them. One of the auditors (Interviewee 1) commented on this saying that “things are never going to be static. So, we need to find out how do we learn from the past? And how do we not wait for things to happen? How do we have an ongoing improvement on what the audit is and what can be done in terms of expectation because audit and its scope remain unchanged for decades. So even to bring in a change like internal control certification, which happens in the US under the Sarbanes Oxley Act, or what happened in India, under the Companies Act, happened after decades of no changes happening. So, we need to make sure that periodically, there's a review on the scope and effectiveness of audit. This is not easy, but I think if we have to maintain confidence in the capital markets, and if we have to maintain the fact that there is an assurance given by somebody in the credibility of that assurance, each of these three things would need to be done.”

6. Discussion

Following on from the previous chapter, a discussion was formed, comparing, and contrasting the primary research findings with the secondary research.

6.1 Role of auditors

In the qualitative analysis done during this study, it was highlighted that an auditor's role is to provide limited or reasonable assurance that a company's financial statements are free of material misstatements, as the interviewees mention that auditor's role entails "… auditors job includes risk assessment, reviewing the internal control structure and testing on sample basis… It is to present a true and fair view of financial statements of an entity to the shareholders ...", which was also highlighted in the literature review by Ray (2012). Further, Porter *et. al.* (2014) stated that as opposed to some early opinions about auditing, the auditor only is obliged to design process that will help him to obtain evidence to gain a reasonable assurance that financial statements are stated in all material aspects. The qualitative analysis also highlighted how the role of auditors has changed over time as the business environment became complex. The auditors touched on that by saying "there was a time companies feared auditors since each of their transactions were scrutinized … Now, for an auditor to check each transaction would be a year-round project so sampling is used …" This was also pointed out by Meuwissen (2014) in the literature review.

The users of financial statements interviewed during this study were all sophisticated users and the qualitative analysis shows that none of them had views different to those of auditors when it came to the fundamental role of auditor as they mentioned that "… it is extremely important that the material which goes into financial statements is vetted and it is ensured that the position stated in these statements commensurate with the company's actual performance and position at that point in time. This is where the auditors come in and their role is to make sure that the financial statements of the audited entity contains no misstatements or errors …" which is also concurred by research of Porter *et. al.* (2014). This was also congruent with the research done by Monroe and Woodliff (1994) that proved that the sophisticated users of financial statements understand audit better as compared to unsophisticated users. Although the comparison cannot be done due to the limitation that only sophisticated users of financial statements were interviewed for this study, but the sophisticated users understood auditors' role clearly and there seemed no gap here.

The primary research done for this study also shows that users of financial statements understand the importance of auditors when it comes to protecting interest of a large ecosystem with multiple stakeholders. The users of financial information highlight that "… a massive fiduciary duty that all auditors have towards society is to ensure that the financial position of a company is what they say it is because the society at large is taking decisions based on these historical statements …" which has been confirmed by Chakraborty (2004) in the literature review.

6.2 Audit Expectation Gap in India

6.2.1 Knowledge Gap

The findings of the primary research showed that as per the auditors the users of financial information may have a partial view of what an auditor does. Auditors touched on this by saying that "… a layman who would not understand the process of audit thinks of an audit opinion as absolute and not reasonable assurance and this is where the gap arises, and this can be different for a sophisticated investor who may understand audit a bit better but even they may not have complete perception of what an auditor's duties are …" The primary research also found that the users of the financial information were found to have a partial understanding of what an auditor does. The users of financial information interviewed were all sophisticated and they understood the concept of reasonable or limited assurance. They touched on it by saying that ""audit is a backward-looking process, and it is about providing limited assurance or reasonable assurance- reasonable because they have not gone through each transaction of the company thoroughly …" This was concurred by the findings of research done by Geiger (1994) who found that investors who have studied accounting and finance have a better understanding of audit and are less likely to ask for absolute assurance.

The primary research also found that the public being unaware of the role and responsibilities of an auditor is one of the reasons for audit expectation gap exists, but this is not the only reason for it, the auditors (50%) mentioned this by saying that ""Major reason for the gap is that the public is not aware of the general practices and laws around auditing and accounting, but this is not the only reason for the gap to exist.” This was confirmed in the findings of Ruhnke and Schmidt (2014) where they pointed out that “… causes of the gap relate to the public's difficulty in assessing the performance of auditors, but also to deficiencies in auditors' performance.” Although the rest 50% of auditors majorly attributed the existence of the gap to publics’ lack of knowledge (knowledge gap) and regulations and standards not being able to suffice with publics’ expectations of audit (evolution gap) since they did not approve to existence of deficient performance by auditors at all. This was concurred by the findings of ACCA (2019) that state that some audit practitioners may have previously used this gap to delay or prevent reforms in this otherwise dynamic profession by portraying that the major issue is due to public’s lack of understanding rather than being a genuine matter of concern. The presence of knowledge gap neither negates the demand for auditors to do more and better, nor does it justify the performance gap.

The primary research found out that major knowledge gap existed at the fraud detection front. The users of financial statements (60%) seem to think that auditors are responsible when a fraud is detected in a company that they have been auditing, they pointed this out saying that “… auditors are hired by the companies themselves and they rely on them for their income. So, they may sometimes abandon their integrity and independence when the same corporate that pays them acts sordid and is cooking up a fraud.” However a study by Abonawara (2013) mentioned in the literature review states that despite the expectations of people, the auditing standards dictate that that auditors cannot consider it as their obligation to detect material fraud during an audit or to uncover it in a report. As a result, a portion of the AEG (60% in this case), particularly related to fraud discovery is assumed to be arising from lack of knowledge of users of auditor’s responsibility when it comes to fraud detection.

The primary research also supported that the users of financial statements are clear about an auditor’s role when it comes to commenting on future viability of the business. The users of financial statements interviewed during the study agreed that the job of an auditor is only to obtain evidence whether the financial statements have been prepared by the management by appropriately on going concern basis and whether and uncertainty exists around the company’s ability to continue as a going concern. The same has been mentioned in the auditing standards around the world like ISA 570 (Nachescu and Mataragiu, 2010).

Overall, there is not a wide knowledge gap in India when it comes to sophisticated user's understanding of audit and scope of audit. Further studies in the field must be done to understand the prevailing knowledge gap between unsophisticated users and what auditors actually do. The primary research also found out that the understanding of investors in a developed country can be different from that of investors in India. There has been no study done to compare knowledge gap in developed and developing nations, same can be investigated in future research in the area.

6.2.3 Performance Gap

The qualitative analysis done during this study highlights that the auditors interviewed were divided when it came to existence of performance gap. 50% of auditors believed that audit is an area with where auditor must make judgement and as a human being, they are prone to judgement biases. The same has been mentioned in the primary research by the auditors where they said- "like in every profession, there will be cases where there is defect in audit too. In a judgemental and complex area like audit, I don't think one can get zero defect so there have been defect and there will be defects.", "… Lastly there is always this expectation gap between the auditors and the regulator themselves in terms of what an audit is supposed to do …" This has been concurred by the study done by ACCA (2019) where they find out that "the 'performance gap' focuses on areas where auditors do not do what auditing standards or regulations require. This could be because of insufficient focus on audit quality; the complexity of certain auditing standards; or differences in interpretation of auditing standard or regulatory requirements between practitioners and regulators."

The other 50% of the auditors however believe that the auditors always do what the standards and regulations dictate and there is no performance gap existing in India. The auditors highlighted this by saying that "… we have ICAI, NFRA and internal reviews, independence compliance which are all safeguards to make sure auditor does not make a defect intentionally or unintentionally." Although this has already been proven in a quantitative study done by Saha and Baruah (2008) that "… the gap is not an outcome of a single aspect , but rather a variety of aspects such as the nature of the audit process, the audit function, the constituent boundaries surrounding the audit and the performance of the auditors …"

The primary research also pointed out that users of financial information believe that auditors have intentionally or unintentionally defected in past and the reason for intentional defects has mostly been compromised independence of auditors. They mentioned this by saying that “it has been seen in the past that auditors have deviated from the set of procedures they ought to have done. Auditors get close to the management of these companies that they have audited for a long time and that symbiotic relationship develops where they sometimes ignore regulations and standards and sign off the statements without performing all the requisites of an audit as dictated in standards and regulations. In most cases though, auditors follow the books, are very clear on needs to be done and do it.” The finding is supported by study done by Coffee (2002) where they argued that Enron and other financial frauds are the result of gatekeepers' failures, especially auditors, for whom their independence and consideration for their profession's image had deprived them of the opportunity to protect investor interests. This has also been supported by Dewing and Russell (2002) who found in their research that A corporate failure is mostly perceived by society as an audit failure and this perspective is further strengthened when such a failure comes shortly after an unqualified audit opinion of company’s financial statements. Whereas, Ray (2012) highlighted in his study that the Auditors have to perform their obligation in the most independent and reliable manner to provide investing public with the level of assurance enabling them to make their decisions on the basis of these financial statements.

6.2.4 Evolution gap

The primary research suggests that different investor groups look for different level of assurance from auditors. The auditors mentioned that “different investor groups want different things from audit, there are people who want high level of assurance but not an investigation and there are people who say they want auditors to do an investigation.” The auditors also agreed that increase in scope of audit or an investigation would cost much more and require more efforts from the auditor. A study conducted by McEnroe and Martens (2001) suggested that “investors have higher expectations for various facets and/or assurances of the audit than do auditors in the following areas: disclosure, internal control, fraud, and illegal operations.” The participants of the same study gave various recommendations to reduce AEG like auditors must say something explicit about fraud and internal control testing, disclose materiality levels and sampling information, etc. They also recognized that their recommendations have associated costs and may impact the auditor's risk profile. Ruhnke and Schmidt (2014) addressed this in their study where they illustrated that adding information about the level of assurance achieved in the audit and the source of material approximation uncertainties can play an important role in bridging the gap.

The qualitative research suggests that evolution gap exists majorly due to one factor which is reporting standards, but the auditing standards and regulations are being modified to move the scope of an audit closer to what public wants. An auditor mentioned that "what increasingly is changing, which I think is a step in the right direction, is if you saw an audit report till a few years ago, all you would have is an opinion. And then you would have a lot of things which an auditor is or is not responsible for. Now, there is a middle part in the report what is called a key audit matter, or a critical audit matter in the United States, where auditors must talk about that while they were performing their responsibility, even while they're giving an opinion, a clean opinion or otherwise, here are the two or three areas where they spend a lot of time in the audit in terms of judgement area. So, it could be around impairment, it could be around valuation, it could be around revenues. So at least now auditors are bringing that out, it's a step in the right direction, I think it's still evolving …" Although the secondary research shows that auditors should be aware that the disclosures of KAMs has can move the attention of investors towards them and potentially influence their decision so auditors should be careful while disclosing KAMs. Previous research also shows adverse impacts of KAM disclosures such as efficiency losses in terms of increased audit report lags and audit fees, and experimental evidence suggests that auditors may be less professionally sceptical in the presence of KAMs. These impacts can be mitigated by further explanation of 'reasonable assurance' in audit report (Backof *et. al.*, 2019) and providing information specificity in KAMs (Klueber *et. al.*, 2018).

6.3 Methods of reducing audit expectation gap

6.3.1 Knowledge gap

The qualitative analysis in this study found out that there is a need of education and a need to increase awareness in investor community and the students studying finance and accounting to reduce the knowledge gap. The findings of a study done by Rehana

(2010) suggested the same where it was highlighted that "findings show that audit education has significant effect in narrowing the audit expectation gap. The audit expectation gap needs to be addressed from a number of different perspectives in order to eliminate deficient performance by auditors to widen the scope to encompass reasonable expectations and reduce expectations where they are deemed to be unreasonable." The study undertaken by ACCA (2019) also highlights that "Reducing the knowledge gap will involve all stakeholders connected to the audit process, such as regulators, standard setters, professional accountancy bodies, audit firms, audit committees, investors, governments and the media. To narrow the knowledge gap, each of these need to commit to informing the public in a fair, balanced and understandable way about audit regulations and auditing standards." This was also agreed upon by the auditors as they said, "we can reduce this gap by calling all the stakeholders connected to the audit profession like audit firms, journalists, regulators, professional bodies etc. to contribute towards reducing the expectation gap in audit." They also highlight the importance of reducing the knowledge where they state that reduction of knowledge gap can actually make discussion around evolution of audit more substantial because the actual expectations will in that case not be clouded by expectations that are already considered and fulfilled using various measures like KAMs.

6.3.2 Performance Gap

The qualitative analysis highlights that performance gap can be reduced with increase in audit quality and at the same time constant improvement in regulations. The auditors agreed that 90% of the audit quality improvement efforts must come from the audit firms only.

The primary research suggests that there are multiple elements involved in improving audit quality within audit firms-

Firstly, the auditor understands their responsibilities properly, is independent of management in spirit and in form, and applies the right level of challenge. An auditor mentioned that "it is called in audit firms as 'culture of challenge', and it refers to a culture where auditors do not simply rely on what management is putting out to them but are applying the right level of professional scepticism." A study by Svanberg and Öhman (2016) involving 281 practising auditors indicated that "auditors are more likely to make independent and objective judgments in ethical cultures characterized by the rewarding of ethical behaviour and punishment of unethical behaviour, prevalence of ethical norms, visible ethical leadership, and low emphasis on obedience to authority. In conclusion, evidence indicates that auditors in audit firms with a strong ethical culture are more likely to maintain auditor objectivity than are auditors in less supportive cultures." This suggests that audit firms should promote a strong ethical culture to reduce the risk of constrained auditor judgment.

Secondly, the firm should have appropriate resources in number and when it comes to quality of resources. This includes learning and development of resources too. Zahmatkesh and Rezazadeh (2017) highlighted in their study that professional competence, objectivity, and accountability of auditor has positive impact on audit quality. They found out during their study that hiring people with experience increases audit quality by improving the professional competence of the auditor while accountability improves auditor's performance and objectivity of auditors enables them to operate without external influences and biases.

Thirdly, there should be multiple lines of defence in for example presence of an engagement quality control reviewer. Epps and Messier (2007) mention in their study that "importance of engagement quality control review has soared in recent years and Securities and Exchange commission has cited multiple engagement quality control reviewers for failing to adequately review audit work ..."

Lastly, the audit firm should have tools to enable consistent quality. For example, the audit firms must put in more efforts to templatize things for their resources, use better technology like data analytics to improve audit quality and bring in standardisation in the way audits are done. The biggest audit firms have shown eagerness in this respect to implement and use new technology into audit engagements. An example of this is KPMG forming KPMG Capital to invest in Big data to create a high-end data analytics platform to serve their clients (Savvas, 2013).

The rest 10% of performance gap as suggested by primary research can be reduced through effective regulations. Similar was observed by Knechel (2016) in his study where he highlighted that audit quality has improved as a result of regulatory developments like creation of International Forum of Independent Audit Regulation (IFIAR) to facilitate audit regulation on a global basis. ACCA (2019) highlights here that sometimes auditing standards are written in a manner that gives rise to bias and may lead to 'groupthink' (Janis, 1972). It is important in this case that standard setters write regulations and standards clearly and avoid creating any judgement biases. Finally, the primary research suggested that the users of financial statements believe that the gap should be filled by making auditors more independent. A similar view was given by Knechel (2016) who defined audit quality as having two different elements 1) expertise of an auditor (competence) and 2) auditor objectivity (independence). He mentioned in his study that these two elements combined together influence the likelihood of an auditor to find accounting breaches in a client's financial statements and report them which ultimately is the definition of audit quality.

6.3.3 Evolution Gap

The qualitative analysis done during this study suggests that audit must evolve in the following specific areas to meet the needs of the users of financial information users-

I. Fraud- The auditors interviewed during the study believe that fraud detection is one of the most important things that needs to be addressed where the profession and the regulators need to understand what the right level of assurance is. Previous research shows that, since fraud is such an uncommon occurrence, auditors often have little familiarity with it and, as a result, can struggle to recognize fraud risk indicators where they exist (Loebbecke *et. al.*, 1989). Krahel and Titera (2015) mentioned in their study that presently prevalent auditing standards are not enough to address the requirement for steady and complete analysis for the available data. The increase in amount and complexity of data is evolving to pose a serious threat to current auditors. The traditional approach is becoming less relevant because it is making auditors incompetent to vet the contents of big data. Hence, large accounting firms have now started using big data analytics tools to go through the complex transactions of organizations and this can actually help auditors provide a higher level of assurance.

II. Solvency- The primary research suggests that the profession and regulators must find a right point of liability for auditors when it comes to solvency. The auditors also believe that while audit evolves with regards to solvency, decision needs to also be taken on whether auditors should speak about solvency explicitly in their report or not. In secondary research, Dewing and Russell

(2002) also highlighted that there is a need to extend the scope of responsibility of auditors when it comes to going concern. Olagunju and Leyira (2012) also found out in their research that an unqualified opinion of an audit that actually represents the fairness and appropriate presentation of a company's financial statement is often misconstrued by the users of audited financial statements as an assurance for total financial soundness of the company and for going concern of the audited client.

III. Non-GAAP measures- The primary research suggests that investors are increasingly demanding assurance on Non-GAAP measures and that is one of the areas where audit may have to evolve to comfort investors. The auditors mentioned "… non-GAAP measure related assurance is highly demanded by major investors now …" Anderson *et. al.* (2021) highlighted in their study that a lot of companies have started disclosing non-GAAP information these days to communicate to the investors some firm-specific information that does not fit in GAAP reports. However, this information can be misleading to investors so the question of getting an assurance on non-GAAP measures arises. In findings of the same research, they mentioned that "given the relative lack of uniform standards for calculating non-GAAP measures, our results suggest that auditing non-GAAP measures would negatively impact investors' judgments, leading them to improperly rely on less informative non-GAAP measures."

IV. ESG- Another aspect highlighted in primary research when it came to evolution of audit is ESG audit. Not a lot of research could be found in this area. Although, Del Giudice and Rigamonti (2020) studied the impact of audit on ESG scores of a company. They found out that there was no significant change in scores of firms whose ESG reports were audited by a third party after a corporate misconduct related to the company was out in public whereas, the firms with unaudited ESG reports saw a worsened ESG score in a similar situation. Auditing in this regard, seems to be emerging as an important part when it comes to ESG reporting and risk management.

The primary research also found out that to close evolution gap, the regulators along with investor community and other stakeholders of audit need to diligently look at what the future of audit looks like, it could be picked up from historical view of the expectation gap when it comes to fraud, solvency and other things that may be important to stakeholders and then the profession should step up and deliver on that. Lastly, the regulators and profession should not wait for financial mishaps to correct irrelevance in standards and regulations that comes with change in technology and environment, this must be done regularly by re-evaluating standards and regulation around an important and complex job like audit. The same was concurred by the study done by ACCA (2019) where they highlighted that there is a need for discussion amongst general public, stakeholders and beneficiaries of audit, the regulators and auditors on how the profession should evolve and remain relevant to meet public expectations.

7. Limitations

It is vital to acknowledge the limitations of any research study for better interpretation of the data and assessing the value that the research can deliver. The biggest limitation that the researcher had to face was the untimely occurrence of pandemic Covid-19 during the progress of the research. As a result, the researcher initially intended to adopt a mixed-method approach and additionally conduct a quantitative survey along with the semi-structured interviews in order to collect data from both sophisticated and unsophisticated users of financial information. Due to Covid-19, the researcher limited their scope of research to mono qualitative methodology, although an appropriate number of interviews were conducted to validate the findings of research from secondary sources.

The researcher was also unable to conduct interviews in person due to limitation created by COVID-19, this led to researcher's inability to pick up on emotional cues and body language of the interviewees that bring to light additional information regarding respondents' actual reactions to questions.

8. Scope for future research

The auditors as well as the users of financial information agreed to a palpable gap in expectations when it comes to Audit. Both also agreed that there is a need to reduce this gap in order to maintain confidence and trust between auditors and users of financial statements which is crucial for unobstructed operations of capital markets. The interviewees highlighted whenever necessary that to reduce the gap, there is a need for regulators and institutional investors to come on the same page when it comes to roles and responsibilities of auditors. The knowledge gap between auditor's actual roles and responsibilities and what institutional investors think auditors do is something that future research can investigate. Another important aspect that can be investigated is expectation gap with unsophisticated users (in particular shareholders and students) of financial statements.

9. Conclusion

This study was conducted in order to find out the existence of audit expectation gap in India using the framework of AEG given by ACCA (2019). The components of the AEG- knowledge gap, performance gap and evolution gap were all separately investigated, and the study also explored the views of audit practitioners in India to reduce each of these components that form the overall audit expectation gap. A research question was devised which was then addressed in this research. The outlined objectives were targeted throughout the research process including examining the roles and responsibilities of auditors as perceived by auditors and users of financial statements, the regulations and auditing standards that dictate what auditors must do, the expectations of users of financial statements from audit profession, the factors contributing to the audit expectation gap in India and the methods to reduce AEG.

The research revealed that a majority of audit expectation gap in India is due to partial knowledge of the users of financial statements about what an auditor does. One of the key factors that contributes to the knowledge gap in India the mismatch in the perceptions of auditors and users of financial statements when it comes to detection of fraud. The study also revealed that there is a huge performance gap that exists due to judgement biases that creep in due to differences in interpretation of auditing standard or regulatory requirements between practitioners and regulators. The findings of primary research also suggest that another factor that contributes to this huge performance gap is auditors' independence in long term. The study also reveals how audit must evolve in a few areas such as- assurance on Non-GAAP measures and ESG information of companies, and explicit audit opinion on solvency of the company, to meet the expectations of the users.

This study also provides practical insights into reducing the audit expectation gap which should be an agenda of profession and regulators of the profession in order to maintain the trust between auditors and beneficiaries of audit which is important for unobstructive functioning of capital markets. In conclusion, the study offers a comprehensive view of audit expectation gap in India and actionable steps that can be taken to reduce it.

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11. Appendices

11.1 Informed Consent Form

Audit Expectation Gap in India and Views of Indian Audit Practitioners on narrowing the gap

Consent to take part in research

- I, (name of research participant), voluntarily agree to participate in this research study.

- I understand that even if I agree to participate now, I can withdraw at any time or refuse to answer any question without any consequences of any kind.

- I understand that I can withdraw permission to use data from my interview within two weeks after the interview, in which case the material will be deleted.

- I have had the purpose and nature of the study explained to me in writing and I have had the opportunity to ask questions about the study.

- I understand that participation involves taking part in one on one online interview with the researchers that comprises talking about expectations of users of financial statements from auditors, gap between expectations of public from auditors and what auditors actually do, effective ways of closing the expectation gap, role of auditors in closing the expectation gap and how other stakeholders can help in closing the audit expectation gap.

- I understand that I will not benefit directly from participating in this research.

- I agree to my interview being audio-recorded.

- I understand that all information I provide for this study will be treated confidentially.

- I understand that in any report on the results of this research my identity will remain anonymous. This will be done by changing my name and disguising any details of my interview which may reveal my identity or the identity of people I speak about.

- I understand that disguised extracts from my interview may be quoted in the dissertation of the researcher- Prachi Kapoor that will be submitted to National College of Ireland.

- I understand that if I inform the researcher that myself or someone else is at risk of harm they may have to report this to the relevant authorities - they will discuss this with me first but may be required to report with or without my permission.

- I understand that signed consent forms and original audio recordings will be retained in the dissertation folder on the researcher- Prachi Kapoor's google drive which non one has access to except her until the exam board confirms the results of their dissertation.

- I understand that a transcript of my interview in which all identifying information has been removed will be retained for *two years from the date of the exam board*'s confirmation of the result of the dissertation.

- I understand that under freedom of information legalisation I am entitled to access the information I have provided at any time while it is in storage as specified above.

- I understand that I am free to contact any of the people involved in the research to seek further clarification and information.

Signature of research participant Date:

I believe the participant is giving informed consent to participate in this study

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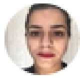
Signature of researcher Date:

11.2 Communication with Interviewees – Sample Emails

Regarding interview for research on Audit Expectation Gap in India by Prachi Kapoor

2



Prachi Kapoor
Wed 19/05/2021 20:35

To:

Dear ,

Hope you are keeping well in these unprecedented times.

My name is Prachi Kapoor and I am a Maters student at National college of Ireland currently performing a research looking into Audit expectation gap in India to identify its nature and ways to reduce this gap. The research is part of my final semester and will be submitted to the college in the form of thesis.

I would like to interview you personally and make you a participant in the study if you do allow. You views on this topic could be ground-breaking for my research. I would be grateful if you consent to share your views with me in an interview.

I understand that your time is at a premium but I would really appreciate if you would allow me to interview you as it would give me and the readers of the research great insights into the topic of research and it would also help me in giving sound recommendations as I conclude this study.

If you consent to this interview, I would like to share that this will take place next week between 26th and 30th May 2021 at a time of your convenience. I can do the interview using zoom or skype or through any other medium that would suit you.

I am also obliged to record this interview but your name or any other personal information will not appear in the research. The interview will last from and 30 minutes to an hour.

It would be extremely helpful if you would assent to this interview. I look froward to your response.

Regards,
Prachi Kapoor

Thu 20/05/2021 13:39

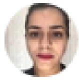
To: Prachi Kapoor

CAUTION: DO NOT CLICK links or attachments unless you recognize the sender and know the content is safe..

I would be happy to participate.

Regarding interview for research on Audit Expectation Gap in India by Prachi Kapoor

2



Prachi Kapoor

Fri 21/05/2021 12:35

To:

Consent form.pdf
126 KB

Participant information s...
91 KB

2 attachments (217 KB) Download all Save all to OneDrive - National College of Ireland

Dear ,

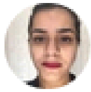
Thank you for agreeing to participate in my study.

I have attached a consent form and a participant information sheet in this email for you to go through. I request you to read it and agree to it so that we can go ahead. I would also like for you to help me with a time of your convenience between 26th and 30th May 2021 when I could interview you and take your valuable views the topic.

Once done, I will share the zoom meeting link with you and we can meet online on the decided time and date.

Thanks and regards,
Prachi Kapoor

RE: Research on the Auditing Expectation Gap in India



Prachi Kapoor
Sat 29/05/2021 12:39

To:

Dear ,

Hope you are having a great weekend.

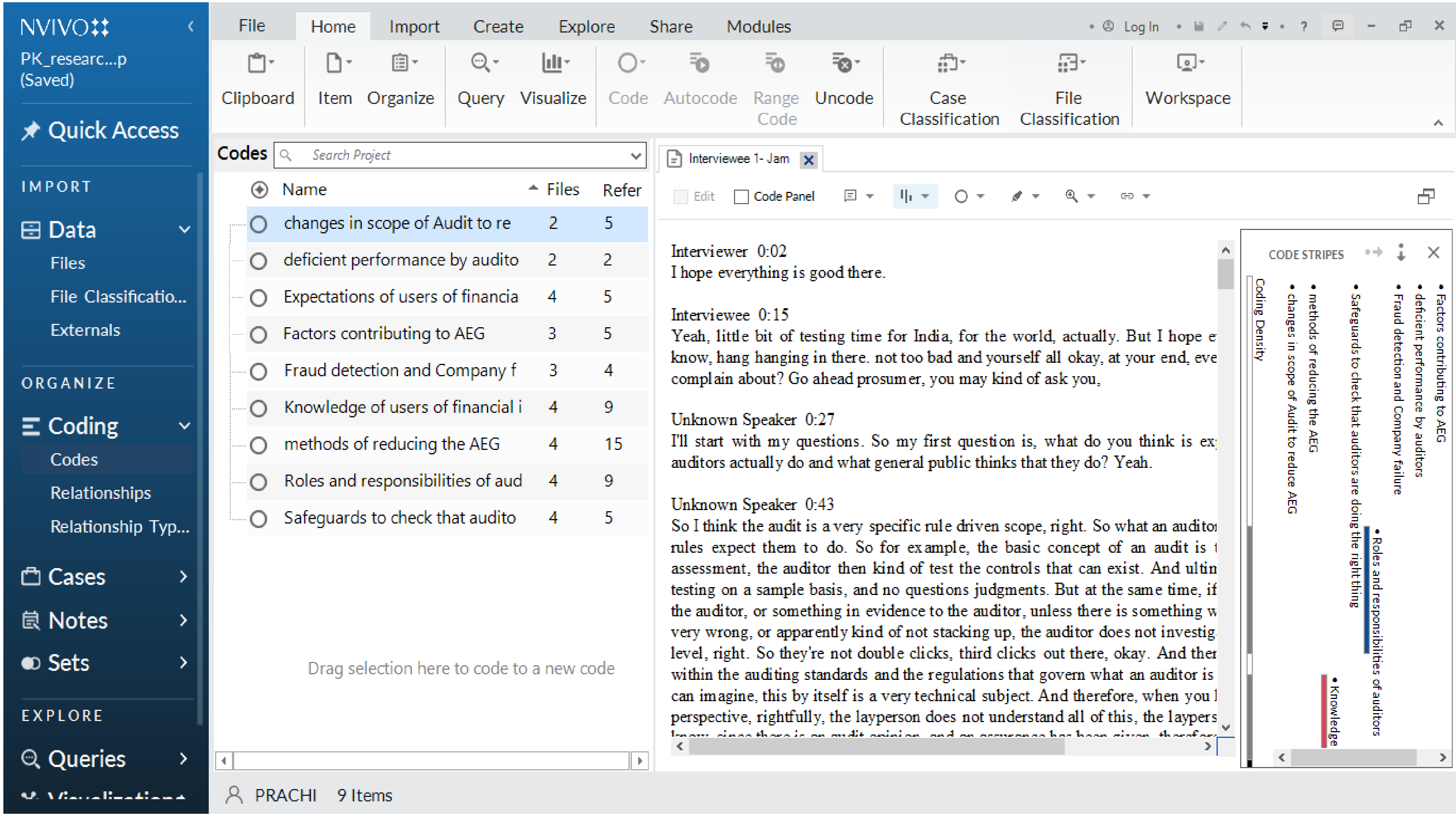
Thank you for meeting me yesterday and I cannot thank you enough for contributing your valuable thoughts to my study. My supervisor was very impressed to see the flow of conversation and she also highlighted how wonderful it was to see you communicate your view so concisely and clearly.

As discussed yesterday, I would request you to share details of other auditors, if any, with views on this topic so that I can go ahead and interview them for my study.

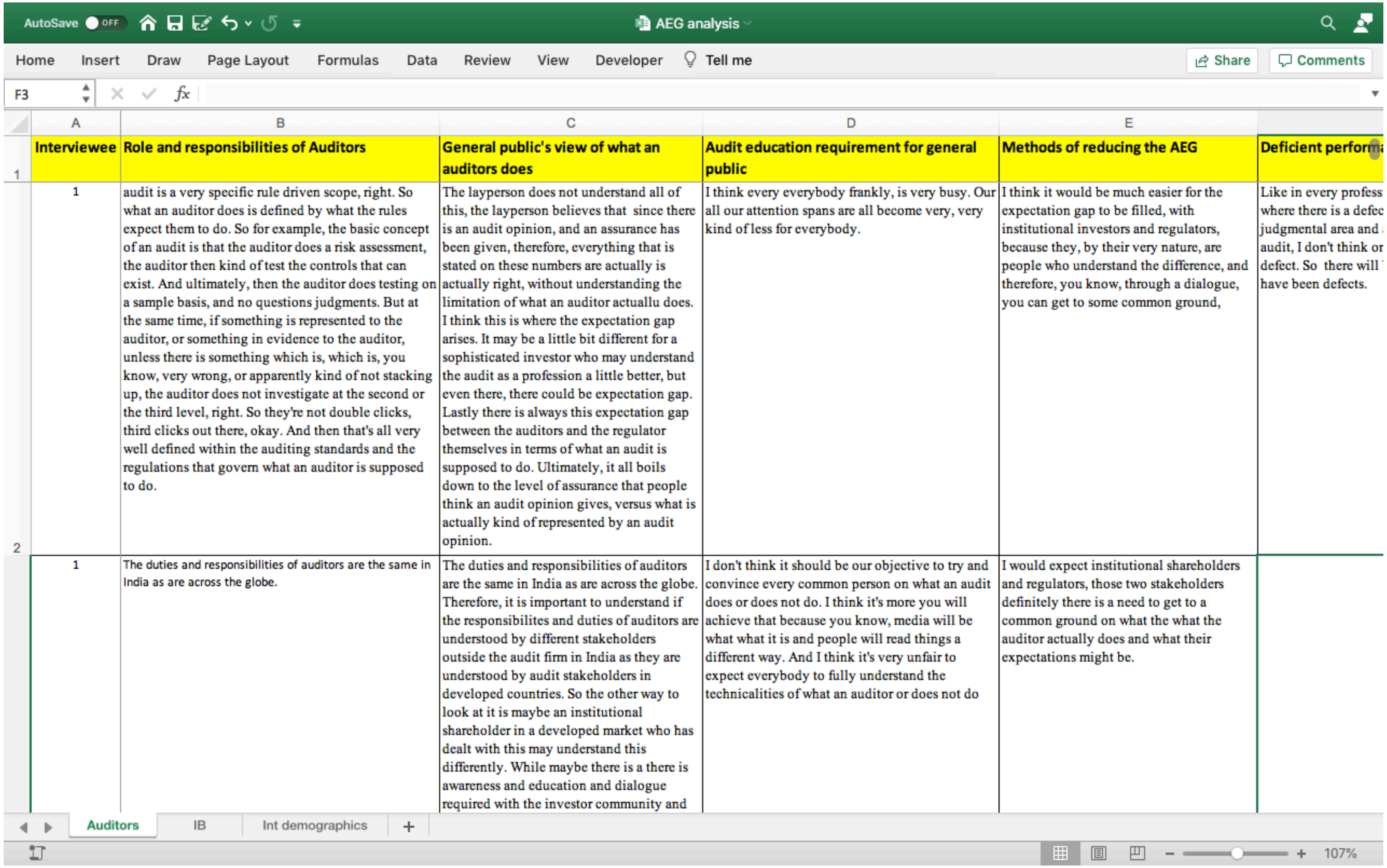
Thank you again and I look forward to your response.

Regards,
Prachi Kapoor

11.3 NVivo for Coding – Qualitative Data Analysis

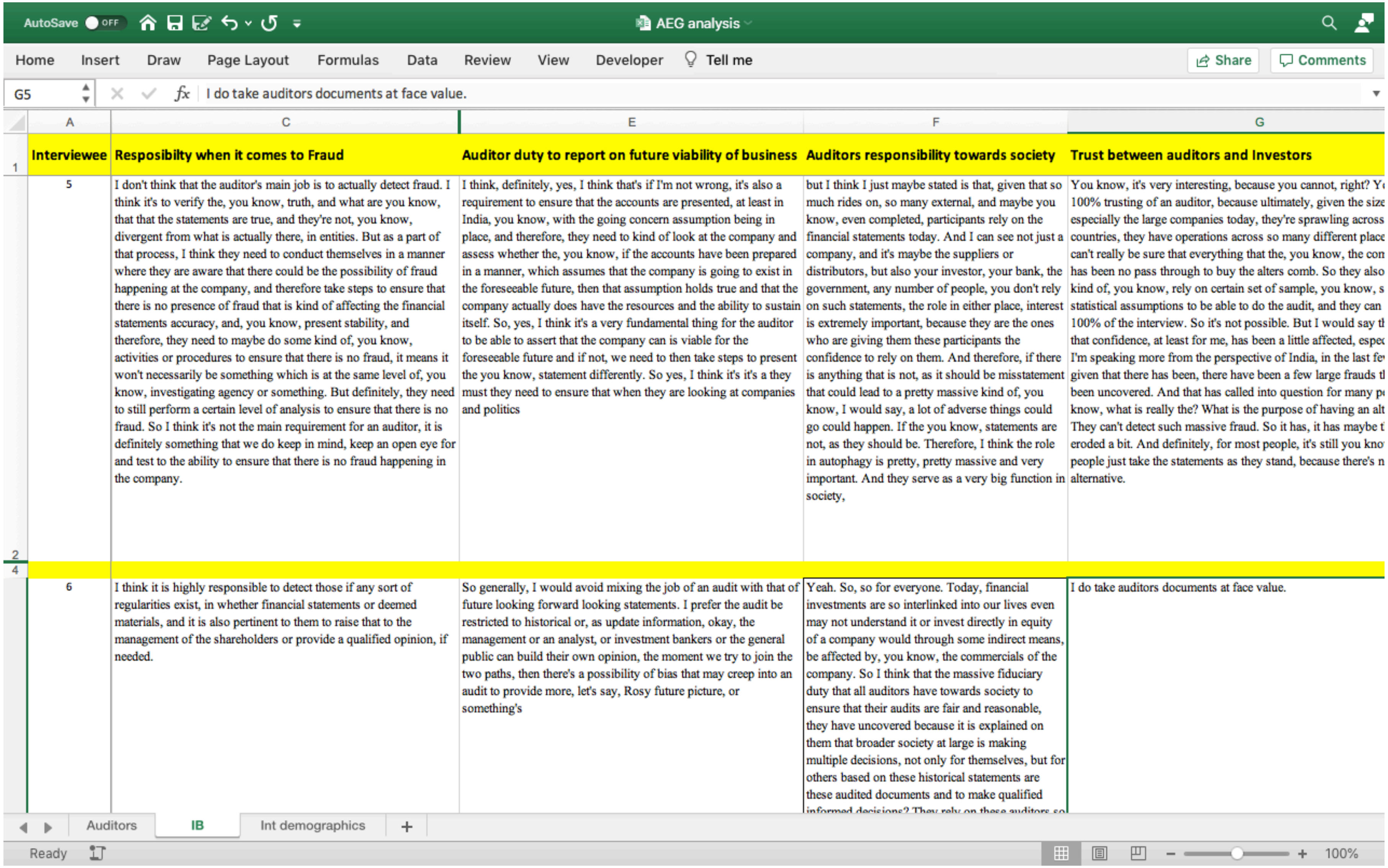


11.4 Microsoft Excel for collating Themes and sub-Themes



Interviewee	Role and responsibilities of Auditors	General public's view of what an auditors does	Audit education requirement for general public	Methods of reducing the AEG	Deficient perform
1	audit is a very specific rule driven scope, right. So what an auditor does is defined by what the rules expect them to do. So for example, the basic concept of an audit is that the auditor does a risk assessment, the auditor then kind of test the controls that can exist. And ultimately, then the auditor does testing on a sample basis, and no questions judgments. But at the same time, if something is represented to the auditor, or something in evidence to the auditor, unless there is something which is, which is, you know, very wrong, or apparently kind of not stacking up, the auditor does not investigate at the second or the third level, right. So they're not double clicks, third clicks out there, okay. And then that's all very well defined within the auditing standards and the regulations that govern what an auditor is supposed to do.	The layperson does not understand all of this, the layperson believes that since there is an audit opinion, and an assurance has been given, therefore, everything that is stated on these numbers are actually is actually right, without understanding the limitation of what an auditor actuallu does. I think this is where the expectation gap arises. It may be a little bit different for a sophisticated investor who may understand the audit as a profession a little better, but even there, there could be expectation gap. Lastly there is always this expectation gap between the auditors and the regulator themselves in terms of what an audit is supposed to do. Ultimately, it all boils down to the level of assurance that people think an audit opinion gives, versus what is actually kind of represented by an audit opinion.	I think every everybody frankly, is very busy. Our all our attention spans are all become very, very kind of less for everybody.	I think it would be much easier for the expectation gap to be filled, with institutional investors and regulators, because they, by their very nature, are people who understand the difference, and therefore, you know, through a dialogue, you can get to some common ground,	Like in every profess where there is a defec judgmental area and audit, I don't think or defect. So there will have been defects.
1	The duties and responsibilities of auditors are the same in India as are across the globe.	The duties and responsibilities of auditors are the same in India as are across the globe. Therefore, it is important to understand if the responsibilities and duties of auditors are understood by different stakeholders outside the audit firm in India as they are understood by audit stakeholders in developed countries. So the other way to look at it is maybe an institutional shareholder in a developed market who has dealt with this may understand this differently. While maybe there is a there is awareness and education and dialogue required with the investor community and	I don't think it should be our objective to try and convince every common person on what an audit does or does not do. I think it's more you will achieve that because you know, media will be what what it is and people will read things a different way. And I think it's very unfair to expect everybody to fully understand the technicalities of what an auditor or does not do	I would expect institutional shareholders and regulators, those two stakeholders definitely there is a need to get to a common ground on what the what the auditor actually does and what their expectations might be.	

Figure – Screenshot for Auditors



Interviewee	Resposibilty when it comes to Fraud	Auditor duty to report on future viability of business	Auditors responsibility towards society	Trust between auditors and Investors
5	I don't think that the auditor's main job is to actually detect fraud. I think it's to verify the, you know, truth, and what are you know, that that the statements are true, and they're not, you know, divergent from what is actually there, in entities. But as a part of that process, I think they need to conduct themselves in a manner where they are aware that there could be the possibility of fraud happening at the company, and therefore take steps to ensure that there is no presence of fraud that is kind of affecting the financial statements accuracy, and, you know, present stability, and therefore, they need to maybe do some kind of, you know, activities or procedures to ensure that there is no fraud, it means it won't necessarily be something which is at the same level of, you know, investigating agency or something. But definitely, they need to still perform a certain level of analysis to ensure that there is no fraud. So I think it's not the main requirement for an auditor, it is definitely something that we do keep in mind, keep an open eye for and test to the ability to ensure that there is no fraud happening in the company.	I think, definitely, yes, I think that's if I'm not wrong, it's also a requirement to ensure that the accounts are presented, at least in India, you know, with the going concern assumption being in place, and therefore, they need to kind of look at the company and assess whether the, you know, if the accounts have been prepared in a manner, which assumes that the company is going to exist in the foreseeable future, then that assumption holds true and that the company actually does have the resources and the ability to sustain itself. So, yes, I think it's a very fundamental thing for the auditor to be able to assert that the company can is viable for the foreseeable future and if not, we need to then take steps to present the you know, statement differently. So yes, I think it's it's a they must they need to ensure that when they are looking at companies and politics	but I think I just maybe stated is that, given that so much rides on, so many external, and maybe you know, even completed, participants rely on the financial statements today. And I can see not just a company, and it's maybe the suppliers or distributors, but also your investor, your bank, the government, any number of people, you don't rely on such statements, the role in either place, interest is extremely important, because they are the ones who are giving them these participants the confidence to rely on them. And therefore, if there is anything that is not, as it should be misstatement that could lead to a pretty massive kind of, you know, I would say, a lot of adverse things could go could happen. If the you know, statements are not, as they should be. Therefore, I think the role in autophagy is pretty, pretty massive and very important. And they serve as a very big function in society,	You know, it's very interesting, because you cannot, right? Y 100% trusting of an auditor, because ultimately, given the size especially the large companies today, they're sprawling across countries, they have operations across so many different place can't really be sure that everything that the, you know, the con has been no pass through to buy the alters comb. So they also kind of, you know, rely on certain set of sample, you know, s statistical assumptions to be able to do the audit, and they can 100% of the interview. So it's not possible. But I would say t that confidence, at least for me, has been a little affected, espec I'm speaking more from the perspective of India, in the last fe given that there has been, there have been a few large frauds t been uncovered. And that has called into question for many p know, what is really the? What is the purpose of having an alt They can't detect such massive fraud. So it has, it has maybe t eroded a bit. And definitely, for most people, it's still you kno people just take the statements as they stand, because there's n alternative.
6	I think it is highly responsible to detect those if any sort of regularities exist, in whether financial statements or deemed materials, and it is also pertinent to them to raise that to the management of the shareholders or provide a qualified opinion, if needed.	So generally, I would avoid mixing the job of an audit with that of future looking forward looking statements. I prefer the audit be restricted to historical or, as update information, okay, the management or an analyst, or investment bankers or the general public can build their own opinion, the moment we try to join the two paths, then there's a possibility of bias that may creep into an audit to provide more, let's say, Rosy future picture, or something's	Yeah. So, so for everyone. Today, financial investments are so interlinked into our lives even may not understand it or invest directly in equity of a company would through some indirect means, be affected by, you know, the commercials of the company. So I think that the massive fiduciary duty that all auditors have towards society to ensure that their audits are fair and reasonable, they have uncovered because it is explained on them that broader society at large is making multiple decisions, not only for themselves, but for others based on these historical statements are these audited documents and to make qualified informed decisions? They rely on these auditors so	I do take auditors documents at face value.

Figure – Screenshot for Investment Bankers

11.5 Interview Questions – Auditor

1. How long have you been working as a statutory auditor?
2. What does your job entail?
3. What do you think is the gap between what you actually do and what general public thinks that you do?
4. Do you think that the audit expectation gap in India can completely be attributed to public's incomplete knowledge of what auditors do?
5. Do you think that people in India need to be educated about the role and responsibilities of an auditors and how do you think this can be done?
6. Do you think education about audit can also lead to further increase in audit expectation gap as it can also increase the perception of deficient performance in the public?
7. Do you think that the existing duties of auditors are too demanding? If so, in what way?
8. Do you think there are cases of deficient performance on Auditor's part?
9. What safeguards are in place to ensure that auditors perform their existing duties properly? How effective are the existing safeguards?
10. What do you think the public wants you to do?
11. How do you think the scope of audit should evolve with regards to solvency, fraud detection, and generally to bridge the expectation gap?
12. What do you think is it that auditors can do in the current framework to reduce this gap?
13. Do you think approaching an audit as an investigation for fraud is a feasible method of reducing audit expectation gap and how do you think this would affect auditors and companies they audit?
14. Do you think changes in audit report can help reduce the gap and what kind of changes do you suggest?
15. How do you think the stakeholders like Audit committees and regulators can play a part in reducing the AEG?
16. What do you think will be the most effective way to reduce the AEG and how do you think it can be implemented in India?

11.6 Interview Questions – Users of Financial Statements

1. How long have you been working as a Banker/Investment Banker?
2. What does your job entail?
3. What do you perceive is the scope of an audit?
4. What do you think are the responsibilities of an auditor when it comes to detecting fraud?
5. Do you think that auditors' must comment on future viability of a business in their reports?
6. What responsibility do you think an auditor has towards the society?
7. Do you think there are cases where auditors do not work within what the auditing standards and regulations dictate?
8. Do you think you can completely trust the auditors' assessment of an entity's financial condition?
9. Do you think that auditors are responsible when a company they audited recently, fails or a fraud is uncovered in the company?

11.7 Interview Transcript Sample – Auditor

Interviewer: I hope everything is good there.

Interviewee 1: Yeah, little bit of testing time for India, for the world, actually. But I hope everything is good with, you know, hang hanging in there. not too bad and yourself all okay, at your end?

Interviewer: Yes, all okay on my end, thanks. I'll start with my questions. So my first question is, what do you think is expectation gap between what auditors actually do and what general public thinks that they do?

Interviewee 1: So I think the audit is a very specific rule driven scope, right. So what an auditor does is defined by what the rules expect them to do. So for example, the basic concept of an audit is that the auditor does a risk assessment, the auditor then kind of test the controls that can exist. And ultimately, then the auditor does testing on a sample basis, and no questions judgments. But at the same time, if something is represented to the auditor, or something in evidence to the auditor, unless there is something which is, which is, you know, very wrong, or apparently kind of not stacking up, the auditor does not investigate at the second or the third level, right. So they're not double clicks, third clicks out there, okay. And then that's all very well defined within the auditing standards and the regulations that govern what an auditor is supposed to do. Now, as we can imagine, this by itself is a very technical subject. And therefore, when you look at it from a lay person's perspective, rightfully, the layperson does not understand all of this, the layperson made it feel that that you know, since there is an audit opinion, and an assurance has been given, therefore, everything that is stated on these numbers are actually is actually right, without understanding the limitation of what an audit actually does, right. And I think that's, and that's where the expectation gap arises. And that expectation gap logic could be at a very simple level, with, like I said, a lay person, it may be a little bit different for a sophisticated investor who may understand the auditor a little bit better, but even there, there could be expectation gap. And then there is always this expectation gap between the auditors and the regulator themselves in terms of what an audit is supposed to do. Right. So so that would be in summary, really what the expectation gap is, ultimately, it all boils down to the level of assurance that people think an audit opinion gives, versus what is actually kind of represented by an audit opinion.

Interviewer: Okay. So I'm losing you again, on the audio, and think you're losing, just admit it better now. Yeah, I can hear you. But you kind of got disconnected, but I can hear you know, I can I can hear you clear now. You can hear me.

Interviewee 1: Yeah. All right.

Interviewer: So do you think that the expectation gap in India can totally be attributed to general public, knowing what auditors to?

Interviewee 1: Like I said, Not necessarily. I think there is there is a bit which is about education. But you know, Prachi, I think every everybody frankly, is very busy. Our all our attention spans are all become very, very kind of less for everybody. Therefore, therefore, I think it takes a lot, it takes time, I think it would be much easier for the expectation gap to be filled, with institutional investors and regulators, because they, by their very nature, are people who understand the difference, and therefore, you know, through a dialogue, you can get to some common ground, but I don't think it should be our objective to try and convince every common person on what an audit does or does not do. I think it's more you will achieve that because you know, media will be what what it is and people will read things a different way. And I think it's very unfair to expect everybody to fully understand the technicalities of what an auditor or does not do, but I would expect institutional shareholders and regulators, those two stakeholders definitely there is a need to get to a common ground on what the what the auditor actually does and what their expectations might be.

Interviewer: Do you think that the existing duties of auditors are too demanding in India?

Interviewee 1: I think it is, it is not no different from what is expected from auditors across the globe. So, I think the issue, the issue is not really on what the stated responsibilities are because the auditing standards for example, in India are fairly similar to the international auditing standards, the accounting standards are similar. So, I don't think there is anything in the regulations per se, which is very different as compared to how audits are done in the US or the UK or any other developed country. I think the question then once again goes down to that is that are those responsibility understood by different stakeholders outside the audit firm in the same way as as is understood across the world, right. So the other way to look at it is maybe an institutional shareholder in a developed market who has dealt with this may understand this differently. While maybe there is a there is awareness and education and dialogue required with the with the investor community and the regulatory community in India to try and create the same level of awareness and common ground. So I think it's more about the implementation and the and the constructive engagement as compared to really what the rules are the rules are fairly similar.

Interviewer: Okay. Do you think there are cases of deficient performance on auditor's report?

Interviewee 1: Oh, absolutely, absolutely. And there is, I think there is there is always in like every profession, in every profession, there will be cases where there is a defect. So you can you can i think i think particularly in a judgmental area and a complex area, like audit, I don't think one can get to zero defect. So they will be there will be there will be defects, and there have been defects. The question really, what what can the audit profession do now to make sure that those defects are minimised, and therefore they actually, like any other good organisation, are taking steps to improve the quality of what they deliver, right? Because and just think of it like a doctor. I mean, if a doctor has a case where where you know, one out of kind of every 10 cases, they are failing, that's a huge problem. But let's say if it is, if a doctor is kind of not getting something right, in one out of 1000 cases, or the doctor is kind of getting something not right, but it's not fatal, then I think that comes is a part of human judgement and the profession. So I think the question really is what can the audit profession and auditors do to increase the level of quality so that the deficiencies kind of can come down? And I can talk about that as we move forward? But to the The short answer really that like any profession, it is susceptible to deficiency? And the question really there, how do you kind of go around a path of improvement and deal with those deficiencies?

Interviewer: What safeguards you think are in place to ensure that auditors perform their existing duties properly? And how effective are these existing safeguards?

Interviewee 1: Okay, so, you know, my own view on this is, and this is the view of all kind of people who understand the audit profession well, is 90% plus of this has to come from within the audit organisation itself. So all of this and first of all, the quality control cannot be from outside the quality control is the responsibility of the audit profession and the audit firm in the first instance, there are many elements to this. So the first big element actually is to make sure that the auditor also understands their responsibilities properly, is independent of management in spirit and in inform, and then apply the right level of challenge. We call it in our organisation, we call it a culture of challenge, how do you inculcate a culture of challenge, then you as an auditor are not only relying on what management is putting out to you, but are applying the right level of what is called within the audit industry professional scepticism? Right. So that's, that's kind of one part. Second part is how do you make sure you have the right resources to do all of this? Because you may your intent may be to do all of this, but how do you make sure that there are proper resources, both in terms of the number of resources in terms of the quality of those resources, etc? And along with that comes a point of learning and development? How do you make sure that they are skilled enough, and there's a constant, you know, kind of thing that goes on to make sure they're prepared. So that's the kind of second way. Third bit is also to make sure that there are lines of Defense's so for example, in an audit project, typically, the audit work is done by the engagement team, the engagement partner, manager and teams who actually interact with the client into the audit. What most organisations have done very well is strengthen What the What internal quality control measures. So there is a concept of what is called an engagement quality control reviewer, who is a person who's responsible for looking at what the engagement team has done, and making sure that the quality control the sector have kind of been kind of putting right and the final thing is how do you make sure there are tools that are available that enable consistent quality? So for example, how do you template eyes thing? How do you use better technology? How do you bring in more standardisation in the way work is done right 90% of this, like I said, to bring it together or there has to be done by the audit firm by creating this culture of high quality audits. 10%, in my mind, comes through very, very good and effective regulation. Because if you do not have a good effective regulator, then the incentive to do all of this may not be there, right, despite everybody having the right intent, and which is why you know, and I always kind of call this out, one of the best things that happened in the US after Enron was establishing through the Sarbanes Oxley act, audit regulators, you know, the SEC looking at things in a particular manner. And that has a critical role in the sense that it creates a set of very good incentives and disincentives of people to do high quality orders. However, if you rely only on that, let's say if everybody said that only incentives and disincentives other way to get to audit quality, without focusing on the culture and the enablement part, the 90% of the recorded, then audit objective will not be reached. I think that the thing you're struggling with in India right now is how do we get the balance between the two such that audit organisations are kind of, you know, taking the lead on quality while regulators are playing a supporting role, but as opposed to having everything being driven by the by the auditor? that that would be the perfect.

11.8 Interview Transcript Sample – Users of Financial Statements

Interviewer: Okay, so now I'll start with the questions related to my study. What do you perceive is the scope of an audit and the role of an auditor for an entity that is being audited?

Interviewee 5: Right, so I think, coming to your own scope of an auditor, or, you know, the role of an auditor, I think, essentially, given that any business is an operation and, you know, requires to be to state its, you know, financial position and results under regular period of time, which is relied upon by a lot of, you know, participants with a capital markets or, you know, lenders, banks, other companies that transact with that entity, the government lacks authorities, etc, it's extremely important that, you know, the material which goes into the statement, the statements are vetted. And it's ensured that the, you know, the state position which is commensurate with the company's actual performance, and, you know, position at that point in time. So that's kind of what I think, is the scope of any audit to ensure that what is going into the financial statement actually is, as it stands on the ground, and that there are no, you know, misstatements or errors in the financials, which could lead to material decision going wrong, or, you know, any kind of missteps or the entities which rely on those financial so the, for the auditor, that's a very crucial role that they play of ensuring that they have the confidence to state that what the entity has reported is really to

Interviewer: what do you think are the responsibilities of an auditor when it comes to detecting fraud in a company that they're auditing?

Interviewee 5: So I don't think that the auditor's main job is to actually detect fraud. I think it's to verify the, you know, truth, and what are you know, that that the statements are true, and they're not, you know, divergent from what is actually there, in entities. But as a part of that process, I think they need to conduct themselves in a manner where they are aware that there could be the possibility of fraud happening at the company, and therefore take steps to ensure that there is no presence of fraud that is kind of affecting the financial statements accuracy, and, you know, present stability, and therefore, they need to maybe do some kind of, you know, activities or procedures to ensure that there is no fraud, it means it won't necessarily be something which is at the same level of, you know, investigating agency or something. But definitely, they need to still perform a certain level of analysis to ensure that there is no fraud. So I think it's not the main requirement for an auditor, it is definitely something that we do keep in mind, keep an open eye for and test to the ability to ensure that there is no fraud happening in the company.

Interviewer: Great. Do you think that audit was must commend on future viability of a business in their reports? I mean, I'm not quite sure what do you mean by future viability here, whether the company will stay on for me going concern? Yeah, yeah. going concern?

Interviewee 5: I think, definitely, yes, I think that's if I'm not wrong, it's also a requirement to ensure that the accounts are presented, at least in India, you know, with the going concern assumption being in place, and therefore, they need to kind of look at the company and assess whether the, you know, if the accounts have been prepared in a manner, which assumes that the company is going to exist in the foreseeable future, then that assumption holds true and that the company actually does have the resources and the ability to sustain itself. So, yes, I think it's a very fundamental thing for the auditor to be able to assert that the company can is viable for the foreseeable future and if not, we need to then take steps to present you know, statement differently. So yes, I think, they must they need to ensure that when they are looking at companies and politics

Interviewer: Okay, well What responsibility Do you think an auditor has towards the society?

Interviewee 5: I think I think I kind of covered that in the, you know, first first question, but I think I just maybe stated is that, given that so much rides on, so many external, and maybe you know, even completed, participants rely on the financial statements today. And I can see not just a company, and it's maybe the suppliers or distributors, but also your investor, your bank, the government, any number of people, you don't rely on such statements, the role in either place, interest is extremely important, because they are the ones who are giving them these participants the confidence to rely on them. And therefore, if there is anything that is not, as it should be misstatement that could lead to a pretty massive kind of, you know, I would say, a lot of adverse things could go could happen. If the you know, statements are not, as they should be. Therefore, I think the role in autophagy is pretty, pretty massive and very important. And they serve as a very big function in society,

Interviewer: Do you think you can completely trust in auditors assessment of an entity's financial condition?

Interviewee 5: You know, it's very interesting, because you cannot, right? You cannot be 100% trusting of an auditor, because ultimately, given the size and scale, especially the large companies today, they're sprawling across several countries, they have operations across so many different places, and you can't really be sure that everything that the, you know, the company does, has been no pass through to buy the alters comb. So they also have to kind of, you know, rely on certain set of sample, you know, sampling or statistical assumptions to be able to do the audit, and they can look at 100% of the interview. So it's not possible. But I would say that overall, that confidence, at least for me, has been a little affected, especially maybe I'm speaking more from the perspective of India, in the last few years, given that there has been, there have been a few large frauds that have been uncovered. And that has called into question for many people, you know, what is really the? What is the purpose of having an altar on board? They can't detect such massive fraud. So it has, it has maybe the Trust has eroded a bit. And definitely, for most people, it's still you know, I think people just take the statements as they stand, because there's no better alternative.