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THE AUDIT EXPECTATION-PERFORMANCE GAP
AND THE ROLE OF EXTERNAL AUDITORS
IN SOCIETY

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ABSTRACT

External auditors throughout the English-speaking world are facing widespread criticism and extensive litigation. It is postulated that this is a manifestation of the audit expectation-performance gap, the gap between society's expectations of auditors and auditors' performance. This gap is conceived to comprise two major constituent parts, the reasonableness gap and the performance gap, with the latter subdivided into deficient standards and deficient performance components.

The linchpin in narrowing the gap is perceived to be the duties which are reasonably expected of auditors. It is these duties about which society needs to be educated to eliminate the reasonableness gap, and it is these duties which need to be embodied in auditing standards and performed by practitioners in order to close the performance gap. For duties to be reasonably expected of auditors, they must be compatible with auditors' role in society and cost-beneficial for auditors to perform. Before these duties can be identified, auditors' role in society needs to be defined.

A theory to explain the role of auditors has been developed based on a conceptual framework comprising three elements, namely, the concept of role, the attributes of auditors as professionals, and the concept, development and discharge of corporate accountability. It has been proposed that auditors' role in society is constituted by the attitudes, values and behaviour expected of those who occupy the social position of auditors, by those who have an identifiable relationship with the role position, that is, by role senders. It is further postulated that the social position of auditors is that of members of a recognised profession acting as instruments of social control within the corporate accountability process.

The normative propositions relating to auditors' role in society and the audit expectation-performance gap were tested empirically. More specifically, a mail survey was conducted to investigate the expectations of auditors' role senders in New Zealand regarding auditors' duties, and their professional standing and specialist function in society. In general, the survey findings support the normatively derived propositions. They also enabled the duties which are reasonably expected of auditors, and those which constitute the reasonableness gap, the deficient standards, and the deficient performance components of the audit expectation-performance gap to be identified. Additionally, the survey data provided the means to estimate the relative contribution of these duties to their respective components, and of the components to the overall gap between society's expectations of auditors and auditors' performance.

The research has provided insights into the audit expectation-performance gap which permit attempts to narrow it to proceed on a rational, comprehensive basis. It is recommended that education and improved communication be adopted to counter unreasonable expectations and thus to narrow the reasonableness gap; that auditing standards be extended to encompass duties reasonably expected, but not currently required of auditors, to eliminate the deficient standards gap; and that more stringent enforcement of professional standards be used to rectify deficient performance. It is submitted that, if this three-fold approach is adopted, rapid progress will be made towards narrowing the gap and, as a consequence, criticism of auditors will be reduced and the credibility of the profession will be restored.

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