



## RESEARCH ARTICLE

## The Convergence of the Expectations between Auditors and the Users of Financial Statements: A Multidimensional Grounded Theory and Structural Equation Modeling

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### Abstract

This study aims to explain the convergence model between the expectations of auditors and users of financial statements with the multidimensional grounded theory and structural equation modeling. The study's statistical population consisted of university faculties, auditing firm partners, tax auditors, official justice experts, financial analysts, senior creditors, and social security insurance auditors. The sampling method of the present study is a mixed purposive approach, which led to 42 in-depth and semi-structured interviews to achieve theoretical saturation. The extant study was implemented in 2020 and 2021. The grounded factors for the expectation convergence provide Provision of a cultural and educational context; Reforming, unity of procedure between upstream laws and regulations; Enhancing audit performance and effectiveness; Continuous monitoring of professional organizations and regulatory bodies on the performance of auditors; Strengthening the computer auditing infrastructure and paying attention to social responsibility and Requiring auditors to be accountable. Furthermore, the convergence between the expectations of auditors and users of financial statements has consequences providing an optimal allocation of resources, data transparency, and crime reduction, Improving the quality of information and financial reporting features, efficient standards following environmental conditions, and ultimately, dynamism and increase of trust and growth and effectiveness of the audit profession.

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## 1. Introduction

Auditing is one of the substantial factors for financial stability, trust and confidence in financial markets. In this case, the independent and professional comments on financial information fairness lead to progress in capital markets and a reduction in agency costs (Souza et al., 2020). Auditors are responsible for detecting distortions, including errors or frauds, so detecting such distortions and distinctions cause many consequences for the auditing profession. However, there is a conflict between the users of financial statements and auditors' actual roles and liabilities. These conflicts are rooted in the diverse informational utilities regarding users and the adverse performance of auditors (PCAOB, 2002; Hamilton & Smith, 2021). Expectation gaps occur when users do not have a common perception of auditors' responsibilities and their actual performance following standards. Lack of common perception causes inefficient investments, non-optimal allocation of resources, and lower trust in the performance of the auditing profession. The wider the gap, the lower the reputation and quality of the audit profession (Humphrey, 1997; Hassas Yeganeh & Mansouri, 2016). Hence, the gap between the expectations of auditors and financial statements' users serves as a classic agency cost that makes stakeholders lag behind the management in keeping and expanding their values and implementing strategies due to low-quality audits (Estedimod et al., 2020; Brazel, 2018, Litjens et al., 2015). In addition to financial losses caused by fraud or error, fraudulent reporting and misinformation ruin society's confidence in the audit profession. On the other hand, the inattention of auditors to managers' motives for fraud deepens the expectation gap between users and auditors (Goddard & Martin, 2020; Rahmani et al., 2018). Financial reports' users cannot use financial reports in practice due to management misbehaviors, misleading information, lack of surveillance over financial reporting, and inability to detect and prevent misconduct. Thus, users of financial statements just pay attention to the comment paragraph. Accordingly, these users consider communication through reports more valuable than making rational trust in reports' content (Koram & Mock, 2011). Although auditors create value-added for financial statements, they cannot meet the needs of a wide range of users as required (Smith, 2021; Best et al., 2001). In this case, two theories have been designed for auditors' responses to the drawbacks and shortcomings mentioned above. The first theory points to a completely defensive approach, i.e., auditors remain conservative against such shortcomings and their social-inclusive responsibilities. Therefore, auditors choose isolation and negligence due to inefficient standards. Under such circumstances, auditors' responsibility scopes will not be effective enough. The second approach includes high-quality auditing by considering all substantial aspects of economic implications and other social responsibilities to alleviate the risk of litigation against auditors. The second viewpoint comprises three types of risks affecting auditors' motivations for a high-quality audit: 1) legal claims risk, 2) reputation risk and 3) regulations risk. It is predicted that auditors take different strategies to minimize litigation risk by increasing audit quality to deal with such claims (Simunic, 1980). Cranenberger and Lax (2019) believe that auditors' inattention to corporations' economic facts and conservative reports reduces litigation risk and filing a lawsuit against them, which widens the expectation gap. On the other hand, auditors state it is impossible to meet all beneficiary groups' expectations because their expectations are irrational. In other words, there is a difference between beneficiaries' expectations about the auditors' tasks, roles, and responsibilities and what can be achieved from standards. Moreover, the concepts and examples expressed in financial reports are understandable, and any possible problem arises from the educational quality and degree of information receivers (Hooton & Jub, 2020; Olagunju and Leyira, 2012).

Humphrey (1997) explains that the expectation gap mainly occurs due to audit concepts' subjective nature, such as fair comment, reasonable confidence, importance, adequacy, and creditability that have not been clearly explained in accounting and audit standards but have

remained for judging auditors. In Sika et al. (2003) opinion, the nature of the expectation gap's components prevents the removal of this gap. Various theories about the expectation gap have made it a universal and inevitable phenomenon that is not easily understandable (Leo, 2018; Denis, 2010). However, the expectation gap can be narrowed only by decreasing its destructive effects due to the nature of its components (Sika et al., 1992; Oju, 2006). In 2016, the International Organization of Supreme Audit Institutions (INTOSAI) and the International Federation of Accountants (IFAC) made auditors responsible for disclosing economic consequences, social liabilities, and stability of firms by designing the slogan of effectiveness instead of reassurance. Professional associations have concluded that there will be less demand for audits if they cannot build a bridge from the present to the future (American Institute of Certified Public Accountants (AICPA), 2020).

According to the points mentioned above, the expectation gap is a relative concept whose theoretical incoherence is rooted in hidden inner layers of individuals and their undefined expectations. Regulatory strategies and acts will be designed to narrow the expectation gap if we can reach a common perception based on the theoretical views. Although the causal factors of the expectation gap have been explored over the recent three decades, there are few in-depth studies on integrated solutions for reducing the expectation gap. Nevertheless, continuous research is needed to develop and improve audit quality. For this purpose, we tend to find a suitable model to create convergence and consistency between auditors and users and know to what extent the factors of emerging models can narrow the expectation gap between auditors and financial reports' users? Regarding this and the rest of the study, research questions, theoretical and experimental background, methodology, qualitative findings, results of the structural equation method (SEM), adaptation and validation of the research model with the existing literature, and discussion and conclusion are about to be presented.

## 2. Literature review

The term expectation distance was first coined by Liggio (1973). He defined the gap between expectations as the gap between the level of performance expected from the perspective of independent accountants and users of financial statements; This means that when auditors and society have various beliefs about audit duties and responsibilities and the messages conveyed in the reports, a gap in expectations is created (Boyle & Cuning 2005; Ariff & Rosmaini(2005); Dixon et al.,(2006). After Liggio, Cohen, N. F.(1978), commissioned by the American Society of Certified Public Accountants to examine the expectation gap, redefined it: "The gap in expectations describes the distance between the information requirements of the community and what auditors can and must do logically."

Unreasonable expectations, inefficient standards, low-quality audits, managerial, political, and economic factors, and low quality of financial reporting have been the main causes of the expectation gap. In addition to unreasonable expectations, the adverse performance of auditors has been introduced as the most critical factor creating a gap between the expectations of auditors and financial reports' users. Auditors' performance has been weakened due to the ineffectiveness of audit procedures in restricting fraud commitment and removal of drawbacks in internal surveillance systems by internal auditors, failure to comply with the code of professional conduct by auditors, lack of technical knowledge and jurisdiction over IT, lack of skill in risk-based audit, and long-delayed audit reports. Goddard & Schmidt 2020 and Eylul Wesklana, 2020; believe that political governance over the audit profession and the influence of large stakeholders on decisions have made society pessimistic about the audit profession; thus, auditors' independence has been a vague case. Furthermore, some inherent restrictions in the audit may create an expectation gap. For

example, it is impossible to explain important forecast items in financial statements based on auditors' judgmental explanations. The audit profession aims to explain the case, not prevent it, because the audit procedure is done at the end of the fiscal year; hence, the evidence has a persuasive, not definite nature. However, stakeholders need information based on the cash flows and future events. Moreover, managers do not ask for a high-quality audit because they need it to hide their responsibilities and legal requirements. Low audit fees and unfair distribution are other issues that auditors face when providing professional services (Hanifa & Hidayab, 2007; Ahmadzadeh et al., 2013; Runk and Schmidt, 2014).

Inefficient standards also widen the expectation gap and do not meet users' reasonable expectations. The complexity of standards and inability of auditors to apply these standards, non-compliance of standards with environmental conditions, business restrictions, and insufficient attention to users' needs have led to low quality of financial reporting and mistrust and loss of financial reports' users (Nikbakht et al., 2012; Tomeh & Yahiya, 2018; Li et al., 2007). All expectation gap causes are interconnected so that any rise or decline in one factor occurs in another component to converge expectations. For instance, attention to users' needs in standards reduces users' unreasonable expectations due to providing fair information. The audit expectation gap has a long and prominent history, with literature examining this challenge since almost 1969 (Ademey et al., 2011). The study outcomes in recent decades show the presence and continuation of this gap in many places globally. Table 1 shows the studies carried out from 1990 to 2021.

**Table1.** The summary of the studies on the expectation gap

Writers	Year	Country	Subject	Key results
Hamilton & Smith	2021	US	Mistake or fraud: The effect of financial misconduct on management fraud strategies and auditors' evaluation of the misconduct associated	1)The managers want to remove some key transactions in the financial statements to record a transaction incorrectly by fraud. In other words, instead of providing misleading information, they remove the key information. 2)The auditors have found recorded transactions incorrectly yet are less suspicious of the deleted transactions unless documents are available for deleted transactions or registered transactions related to deleted transactions.
Kahzadehtaneh	2021	Iran	Audit Significance Level: The gap in expectations between auditors and users	1) To reduce the gap in expectations, auditors emphasize the need to revise audit guidelines. 2) There is a gap between auditors and users regarding revenue and liability criteria.
Goddard & Schmidt	2020	US	The features effective in the selection of auditors: The expectation gap between the board and the independent auditors	1) Lower audit costs and having a good relationship with the partners of auditing firms are the criteria for evaluating the selection of independent auditors by board members. 2) Having mental independence, professional skepticism, expertise in the industry, and technical competence are the criteria for evaluating auditors accepting audit work.
Fozeh et al	2020	Cameroon	An experimental study of the factors affecting the expectation gap	The auditors' experience has no impact on the expectation gap. Instead, the expectation gap is somewhat reduced as auditors' legal responsibilities and revised standards increase.

Coram & Wang	2020	Australia	The impact of disclosing key audit topics and the accuracy of standards on the expectation gap	1) Reporting key elements of companies' performance and economic status does not affect the perception gap of users. 2) Focus on expectations of financial reports in the standards does not reduce the gap in expectations.
Houghton & Jubb	2020	Australia	Disclosure of the level of significance and the real gap in the audit expectations	The auditors assume that the meanings conveyed by the reports are well understood, and even if there is a problem, it is related to the quality of the training of the recipients, especially micro-investors.
Valian et al	2019	Iran	Investigating the gap between audit expectations based on human resource strategies based on the rough and grey theory	1) Stakeholder perception, auditors' performance, legal and organizational gap, and individual and knowledge are the factors that create the expectation gap. 2) Ruff's analysis showed that conflict of interest is the most important factor gap and can be reduced.
Rosario & Thomas	2019	US	Reengineering with blockchain and smart contracts	1) Integrating blockchain and smart contracts lead auditing to automate business processes. 2) Independent audit blockchain can improve audit quality and reduce the gap in expectations between auditors and users of financial statements and regulatory bodies.
Behzadin and Izadi Nia	2018	Iran	The gap between the expectations of independent auditors and the users of audit services regarding the quality of audit services	1) Contrary to popular belief, the individual abilities of auditors do not increase the quality of the audit and reduce the gap between expectations. 2) Auditing firms' size and quality rating effectively reduce the gap between individuals' expectations in auditing regulations.
Hasas yeghaneh and mansouri	2017	Iran	Assess the expectation gap between auditors and users regarding the implications conveyed by the audit report	1) There is a gap in expectations between auditors and user groups at the micro-level. 2) The expectation gap is reduced through user education, and there is no need to change standards.
Salehi	2016	Iran	Exploring a new approach to narrowing the expectation gap	Many users do not fully understand the nature of the certification performance of fraud detection, and this creates a gap between the expectations of users and independent auditors.
NikoMaram et al	2014	Iran	Evaluate the application of the requirements of Standard 700 in reducing the gap between expectations	1) There is a sharp expectation gap between auditors and users in Iran. 2) The requirements of auditing standard 700 have little effect on reducing this gap.
Olagunju and Leyira	2012	Nigeria	Expectation gap: The perspective of auditors and users of financial statements	The expectations of auditors' duties, roles, and responsibilities are too high and far from achievable. Therefore, symposia should be created to educate users on audit reports.
Gould & Granold	2012	Holland	Examining the significance of the revised 700 standards in reducing the expectation gap	1) Auditors and users of financial statements come to a reasonable consensus on the responsibilities of managing and the reliability of financial statements. 2) The revised audit report 700 does not reduce the expectation gap.



Aghaei et al	2011	Iran	The role of training in reducing the expectation gap between auditors and users	Educating users of financial statements about the role and responsibilities of auditors reduces the gap between expectations.
Coram & Mock	2011	Australia	Examining the communication values of auditors' reports for users	Financial analysts do not use the new audit report. This shows that the value of communication through reports is prior to achieving reasonable assurance of the content of the reports. 1) Some users read part of the auditor's report and do not read the entire audit report. 2) Shareholders demand auditors disclose investment risk in their reports, whereas auditors argue that this will increase audit costs.
Orienters et al	2011	US	Comparing the level of perception of users of information	Tax audits speed up tax collection, reduce tax arrears, and increase the quality of financial statements. 1) The performance gap is because of four environmental factors: licensing policy, recruitment process, political and legal structure, and social values and beliefs 2) Institutional and cultural regulations affect the gap between audit expectations. 3) Including basic principles and ethics in auditing standards has helped reduce the expectation gap in Saudi Arabia.
Haidarpour et al	2010	Iran	Assessing the efficiency of tax audit in reducing the gap between expectations	Divergence of expectations between auditors and users is because of auditors' responsibility and unreasonable expectations of users.
Haniffa & Hudaib	2007	Saudi Arabia	A case study of the cultural gap in expectations	Training might have a limited effect on expectations, but it is not sufficient.
McEnroe & Martens	2001	US	Various views of auditors and investors on the expectation gap	In many cases, there is a significant difference between the auditors' perceptions and those of users, indicating a failure in the reporting process.
Pierce & Kilcommnis	2000	China	Expectation gap and the role of education in reducing it	The areas of responsibility of auditors (auditing services) are not as effective as they should be.
Bozorgasl	2000	Iran	Auditors 'and Users' Perceptions of the Content of Messages Sent by Audit Reports Investigating the Responsibility of Independent Auditors from the Perspective of Auditing Services Users and Independent Auditors	The more confident the auditors are, the greater the expectation gap between them and users. High self-confidence in auditing can be dangerous and can lead to inefficient auditing.
Nikkhah azad and Mojtahedzadeh	1999	Iran	Users and Independent Auditors	Out of the total expectation gap, 16% is because of poor performance of auditors, 50% poor professional standards, and 34% unreasonable expectations of society from auditors.
Chang	1995	Australia	Auditors' confidence and expectations from the audit	
Porter	1993	Australia	Completing the introduction of the audit expectations gap	

Source: Research library studies

**Table 2.** The elements affecting the expectations gap

Expert, researcher	Reference components in the existing literature
Saladriguez (2014); Ruhnke & Schmidt (2014); Okafor & Otalor (2013); Asar & Wright (2012); Pourheidari & Abu Seedy (2011); Gray et al. (2011); Hassing et al. (2009)	Managerial and political factors (Political cooperation in the profession, gap in capitalism, lack of inflation accounting, lack of a platform for fair valuation, the formality of some audits due to political influence, and the key effect of major shareholders in decisions)
Hamilton & Smith (2021); Eylul (2020); Olohideh et al (2020); Houghton & Jubb (2020); Tomeh (2018); Najib (2017); Salehi (2016); Di Bia (2015), Saladriguez (2014); Raunk & Schmidt (2014), Okafor & Otalor (2013); Asar & Wright (2012); Pourheidari and Abu Seedy (2011); Gray et al (2011); Hassing et al (2009); Salehi and Azari (2008); Haniffa & Hudaib (2007); McEnroe and Martinez (2001).	Individual, perceptual and cognitive gap (Expectation of fraud detection, insufficient user education, perceptual bias, cognitive conflict over credential role, wide range of users, and cognitive conflict)
Goddard & Schmidt (2020); Eylul (2020), ACCA (2020), Olohideh et al (2020); Tomeh (2018); Najib (2017); Mohammad Al-Bakhsh (2016); Di Bia (2015); Saladriguez (2014); Raunk & Schmidt (2014); Aghi et al (2013); Olagunju and Leyira (2012); Salehi & Azari (2008), Hanifa & Hidayeb (2007); Lee et al(2007); Chador & Innce (2003); Porter (1993); Albas (1999).	Unfavorable performance of auditors (The inefficiency of processes, insufficient independence, non-observance of professional conduct, non-competence and technical knowledge in the field of information technology, insufficient knowledge of standard skills, insufficient knowledge of auditing on risk and performance, untimely reports, technology growth Information and digital transformation, disregard for corporate social responsibility and sustainability reporting)
Gray et al. (2011), ACCA (2020)	Divergence in the interpretation of laws and defects in-laws and regulations Inefficient standards
Tomeh (2018); Lee et al. (2007); Porter (1993), ACCA (2020)	(Complexity of standards, non-compliance with environmental conditions, inability to implement in the current business environment, insufficient attention to user needs)
Toume (2018); De Bia (2015); Raunk & Schmidt (2014), ACCA (2020)	Inefficiency in the supervision of professional associations and supervisory bodies (Auditors' lack of accountability, lack of technical quality monitoring of audits)
Aghi et al. (2013)	Financial reporting quality (Lack of software platform for measuring and monitoring the quality of financial reporting and paying more attention to the general aspect of financial reporting, which reduces its predictability)
Saladriguez(2014); Hanifa & Hidayeb(2007); Ahmadzadeh et al. (2013); Najib (2017); Raunk Schmidt (2014).	Intrinsic limitations and nature of the auditing profession (Lack of liability insurance coverage, intangible and non-disciplinary nature of auditing, nature of post-event investigation, auditing on a mandatory basis rather than necessity, low fees compared to other professional services, the complexity of the business environment and company activities)
McEnroe & Martinez (2001), Chang (1995)	Conservatism of auditors

Source: Research findings

By examining the empirical background of the study, one can conclude that various internal and external researches have focused on the expectation gap; but a comprehensive and strategic model for reducing the expectation gap between auditors and reporting users has not been provided. Hence, the present study has several aspects of innovation. First, it seeks to provide a comprehensive model for reducing the expectation to fill the existing research gap using the

underlying multidimensional method. Second, to quantify the impact of each convergence factor of expectations between auditors and financial reporting *users*. Moreover, 167 foreign papers were examined from 1987 to 2021 in reputable scientific databases (Science Direct, Springer, Emerald, Elsevier, Google Scholar, ProQuest), and the expectation factors of the table below were extracted from them to reach effective elements for creating a gap.

### 3. Research Methodology

In terms of results, the study is part of exploratory research. Regarding purpose, it is part of applied study, and in terms of implementation, it is of library and field type. Moreover, based on the multidimensional contextual approach, data collection logic is deductive induction. This is because concepts constitute the building blocks of theories and are abstracted and developed based on empirical data (Glaser, 1992; Strauss & Glaser, 1967; Strauss, 1987; Goldkuel, 2004). Conceptualization is the main process of any science development, and data and concepts dialectically produce propositions that allow using a theoretical framework prior to experience (Morse et al., 2009). The study of unknown contexts and contexts needing a new perspective on the phenomenon examined (convergence of expectations) is the reason for using contextual theorizing in this study.

**Table 3.** Methodology

research method	Approach	Analysis tools	Sample	Execution description
Qualitative	Multifaceted foundation context	interview questionnaire	Forty-four females and 124 males; There were 17 members of the interviewed panel, 43 auditors, 36 financial managers, 15 accountants, 25 financial analysts, 8 asset employees, 4 bank credit employees and 10 others, of which 78 had a doctorate, 52 doctoral students, 32 masters and 6 bachelors.	In implementing the second phase of the research, to determine the effect of each factor causing the convergence of expectations between auditors and users of financial reports, 249 questionnaires were distributed among interviewees, faculty members and PhD students in accounting. One hundred eighty usable items were evaluated. Then, data were analyzed using a structural equation modeling approach and PLS software.
Quantitative	Structural equation	questionnaire	Fourteen professors and associate professors in the field of accounting and financial management, 3 members of the Supreme Council of the Society of Certified Public Accountants, 5 members of the audit organization, 6 partners of audit institutions, 6 financial analysts, 3 formal experts, 3 tax auditors, 2 insurance auditors.	Upon conducting the interview and reaching saturation in recognizing the concepts, the coding was done and the concepts were categorized and arranged based on the common aspects. After refining the concepts, pattern coding was performed and the operation conditions, work, results, and consequences were determined. In the next step, the theoretical enrichment and validation process of the data were discussed and the emerging components were adapted to the existing theories. In the final step, a comprehensive pattern of convergence between the expectations of auditors and users of financial statements was explained.

A systematic review of information interactions between auditors and users and clarification of latent processes and expectations of users of financial reports to reduce the expectation gap are other reasons for using this method in the present study. The multi-grounded theory goes beyond



mere analogy and adds theoretical grounding to experimental grounding (Lind & Goldkuel, 2007; Jones & Alonye, 2011; Mansour & Skinner, 2008; Brayant, 2002). The population was the expert professors in auditing with the academic rank of minimum assistant professor, partners of auditing firms, senior managers of the auditing organization, tax auditors, analysts and senior managers of creditors, and auditors of social security insurance. Furthermore, purposeful combined sampling or conscious selection of specific participants has been used because of the study's exploratory nature (Toddle & Yu, 2007; Patton, 2002). In this approach, a combination of two methods of theoretical sampling and chain reference or snowball was used. This method uses expert samples in various groups for theoretical saturation in presenting a conceptual model (Toddle et al., 2007). Table 3 shows the methodology.

**Table 4. Inductive coding of the concepts**

Expectation convergence strategies	
Provision of a cultural and educational context	<p>Promotional training to further enlighten the users on the role and responsibilities of auditors</p> <p>Changing the national attitude and views toward the audit profession as a helpful social mechanism and creating a suitable platform for audit maturity</p> <p>Encouragement and strengthening the demand for high-quality auditing through tax incentives.</p> <p>Strengthening insurers' knowledge of risk auditors' liability insurance.</p> <p>Liberalizing the state economy (real privatization), making industries competitive, and attracting foreign investment</p> <p>Increasing the efficiency of financial markets, observing conflicts of interest, and reducing information asymmetry</p>
Provision of the economic bases and prohibiting political governance (creating a competitive environment and real privatization)	<p>Provision of a free reference for public reporting and creating coercion in case of auditor negligence</p> <p>Control of the power of some political governments in the development of standards, laws, and regulations</p> <p>Obligation to report on sustainable development and granting privileges to voluntary disclosures such as tax incentives.</p> <p>Removing the audit monopoly of national and mother industries by the auditing organization and Mofid Rahbar Institute</p> <p>Revision of the statute of the auditing organization regarding the separation of supervisory and executive duties in the auditing organization</p> <p>Rapid revision of the Commercial Code consistent with the changes in the business environment (for example, separation of dual duties of the statutory auditor and auditor and reports submitted)</p>
Reforming and unity of procedure between upstream laws and regulations	<p>More coherence and clarity of laws and regulations and determination in their implementation to prevent different interpretability and bias in judgments</p> <p>Theoretical consensus on upstream laws by the Ministry of Economy and Finance in the presence of representatives of the Organization of Economic Affairs and Finance and professional auditing bodies and monitoring of resolutions and interactions</p> <p>Standards must be developed according to environmental conditions and need assessment of user expectations.</p>
Coherence and joint efforts in legislation and development of standards	<p>Compilation of inflation accounting as a complete set to provide a more relevant report</p> <p>More attention to the misuse of assets in the context of accounting standards</p> <p>Changing the tone of auditing standards to increase social utility, such as assisting with decision making and providing information for predicting future events</p>
Enhancing audit performance and effectiveness	<p>Strengthening audit firms in terms of tools and experienced human force.</p> <p>Full adherence to the code of professional conduct regarding referral to audit work, esoteric independence, and professional competence</p> <p>Equipping the auditors with professional ethics and equipping auditors with more investment in education.</p>

<p>Continuous monitoring of professional organizations and regulatory bodies on the performance of auditors</p>	<p>Avoiding outsourcing auditors to accounting firms  Eliminating monopolies and making the auditing market more competitive regarding the quality of work.  Mastery of standard skills through complete mastery of accounting and auditing standards.  The composition of auditing partners should not be limited to accountants and auditors; for example, men and lawyers, and so on should be present in the composition of partners too.  Internal auditors' practical and intellectual growth and maturity by ongoing training and systematization of internal audit processes.  Investment deviations, threats, or pervasive ambiguities about corporate activities should be investigated and disclosed in reports.  Integration of auditing firms, forming larger firms, and quality monitoring of performance.  Launching a letter of employment before accepting the audit work (letter of responsibilities, how to handle, and auditors' understanding of referring work to employers).  Establishing independent and effective audit committees in a realistic and not formalistic way and holding regular meetings of the audit committee with the presence of independent and internal auditors in order to further coordinate.  Establishing quality monitoring systems of audit firms by a comprehensive software platform to evaluate peers through audit quality indicators  More supervision over auditor's referral to and the creation of specific norms for auditing fees and the prevention of fee-breaking  Developing requirements to provide a sufficiently courteous reason (rather than a clause) for employers to change auditors and oversee the tenure of less independent auditors in the early years.  A structured review of auditing fees and payment of part of the cost of quality reporting by stakeholders  Changing the style of education and creating a new attitude in accounting and auditing in universities, training centers, professional associations, and market watchers.  The formal announcement of auditors' fees  Adequate supervision and establishment of the necessary mechanism to submit timely audit reports  Establishing a committee consisting of tax auditors, insurance auditors, the Society of Certified Public Accountants, and capital market watchdogs to identify the main causes of the dispersal of expectations and disruption in the industry (both in terms of standards and rules in terms of auditors' performance). Presenting this contradiction and agreeing on the alignment of laws and regulatory mechanisms.  Information needs evaluation for forecasting future events from venture capital firms such as investment firms, real stockholders' associations, investment consulting firms, credit rating firms as well as financing companies  Strengthening and revising all standards regarding the use of information technology</p>
<p>Strengthening the computer auditing infrastructure and paying attention to social responsibility</p>	<p>Continuous training of auditors in IT application skills for sampling and other IT-based handling methods and understanding of the complexity of companies' activities in different industries  Creating the necessary structures to use new technologies such as big data, cloud computing, blockchain, Clara, and so on increases speed and accuracy and provides high reliability in auditing.</p>
<p>Requiring auditors to be accountable and creating coercive forces</p>	<p>Accountability of auditors for their duties and responsibilities and imposing penalties for auditors' negligence  Establishing coercion to hold auditors accountable to users in the event of default  Creating coercion to move in the direction of corporate social goals and creating a system of direct accountability of the shareholder (auditor) to the manager (shareholders)</p>

Source: Research Findings

**Table 5.** The conceptual refinement of the main categories of the study

Main category	What	Where	When	Why	How	Consequence
Provision of cultural and educational context	How do you evaluate the provision of educational and cultural contexts for training users and auditors in reducing the expectation gap?	Iran	Any time	informing and reduce cognitive conflict	Professional organizations	Proper knowledge of auditors' responsibilities and building social trust
Provision of a free competitive economy and prevent political rule	How do you evaluate the liberalization of the state economy, the competitiveness of the market, and the prohibition of political interference in legislation?	Iran	Any time	Competitive economy	National determination for reform	Liberalizing the economy and attracting foreign investment
Reforming and unification of procedures between standards and rules Coherence and joint efforts in legislation and development of standards	How do you evaluate the revision, unity of procedure, coherence, and joint efforts in legislation and standards development?	Iran	Any time	Convergence of rules	Collaboration	Uniform interpretation of rules and regulations; Efficient standards and the environmental conditions of the country
Improving audit performance and effectiveness	How do you evaluate the auditors' refinement of ethics and professional conduct and equip them with new information technology tools?	Iran	While providing the service	Promoting professional growth	Observing the ritual of behavior	Increasing credibility and reducing social pressure
Continuous monitoring of professional organizations and regulatory bodies on the performance of auditors	How do you evaluate peer review, the interaction of oversight bodies with professional bodies in monitoring the performance of auditors, as well as the integration of small audit firms for the fair distribution of remuneration?	Iran	While providing the service	Improving audit quality	Professional communities	Optimal allocation of resources and increase of capital market efficiency
Strengthening the computer auditing infrastructure and paying attention to social responsibility	How do you evaluate the strengthening and general review of standards regarding the use of information technology and the continuous training of auditors in using information technology to reduce the expectation gap?	Iran	Before providing services	Computer audit and use of information technology	Strengthen infrastructure	Audit effectiveness, error reduction, timely reporting
Requiring auditors to be accountable and creating coercive forces	How do you evaluate the accountability of auditors for their duties and responsibilities and the creation of coercion in case of auditors' negligence?	Iran	After providing the service	Focus on the needs of stakeholders	Professional communities	Contributing to information transparency and reducing economic costs

Source: Research findings

In order to achieve theoretical saturation, a total of 42 semi-structured interviews were conducted with an average weight of 31 minutes. The text of all 42 interviews was entered into MAXQDA software to classify and sort the codes. Then 176 concepts were extracted for waiting distance reduction strategies. In Table 4, the inductive coding of concepts has been fully explained.

In the next step, to organize the codes, integration, and initial groupings of the interview, the concepts were modified through the conditional communication guide table of Scott and Howell (2008). The results of which are presented in Table 5.

Here, each of the extracted factors from the existing literature and experts' opinions is expressed after integration and grouping in the context of contextual conditions, convergence strategies, and convergence consequences between the expectations of auditors and users of financial statements. Table 6 is the pattern coding of concepts.

**Table 6.** Pattern coding - equivalent to axial coding

Type	Sub-categories
Underlying contextual conditions	Attracting foreign investment and increasing the efficiency of the capital market – liberalization of the state economy and making industries competitive - accountability and coercion - reforming the supervisory and executive duties of the audit organization - prohibition of political governance in auditing - full observance of professional conduct - auditor social responsibility and attention to the sustainability of companies
Convergence strategies	Training managers and users about raising awareness of the role and responsibilities of auditors, forming large audit firms (integration) and fair distribution of remuneration, the formal announcement of remuneration, continuous and continuous evaluation of peers, efforts to submit timely audit reports, review and coherence of basic rules, revision of standards according to changes in technology, environmental conditions, and needs of users, cooperation in legislation, mastery of standard skills through the training of auditors, change in the composition of auditing partners including lawyers and me and prevention of outsourcing to accounting firms
Consequences of convergence	Dynamics and increasing trust in the auditing social profession, optimal resource allocation, transparency of information and reduction of crimes, the proper decision of investors, improving the quality of information and financial reporting, effectiveness and growth of the auditing profession, and efficient standards and Compliant with environmental conditions

Source: Research findings

### 3.1. Summary and theoretical development

The final stage of the theoretical array is the conceptual model of convergence between the expectations of auditors and users of financial statements, as shown in Figure 1.

After theoretical summarization, the compliance and clarification with the existing theoretical foundations are done in the multifaceted contextual approach. This part is the most significant distinguishing feature of the conventional and multifaceted context and includes adapting the existing literature on expectations gap reduction strategies to emerging categories. Table 7 displays which components are consistent with the existing literature and discovered by the present study.

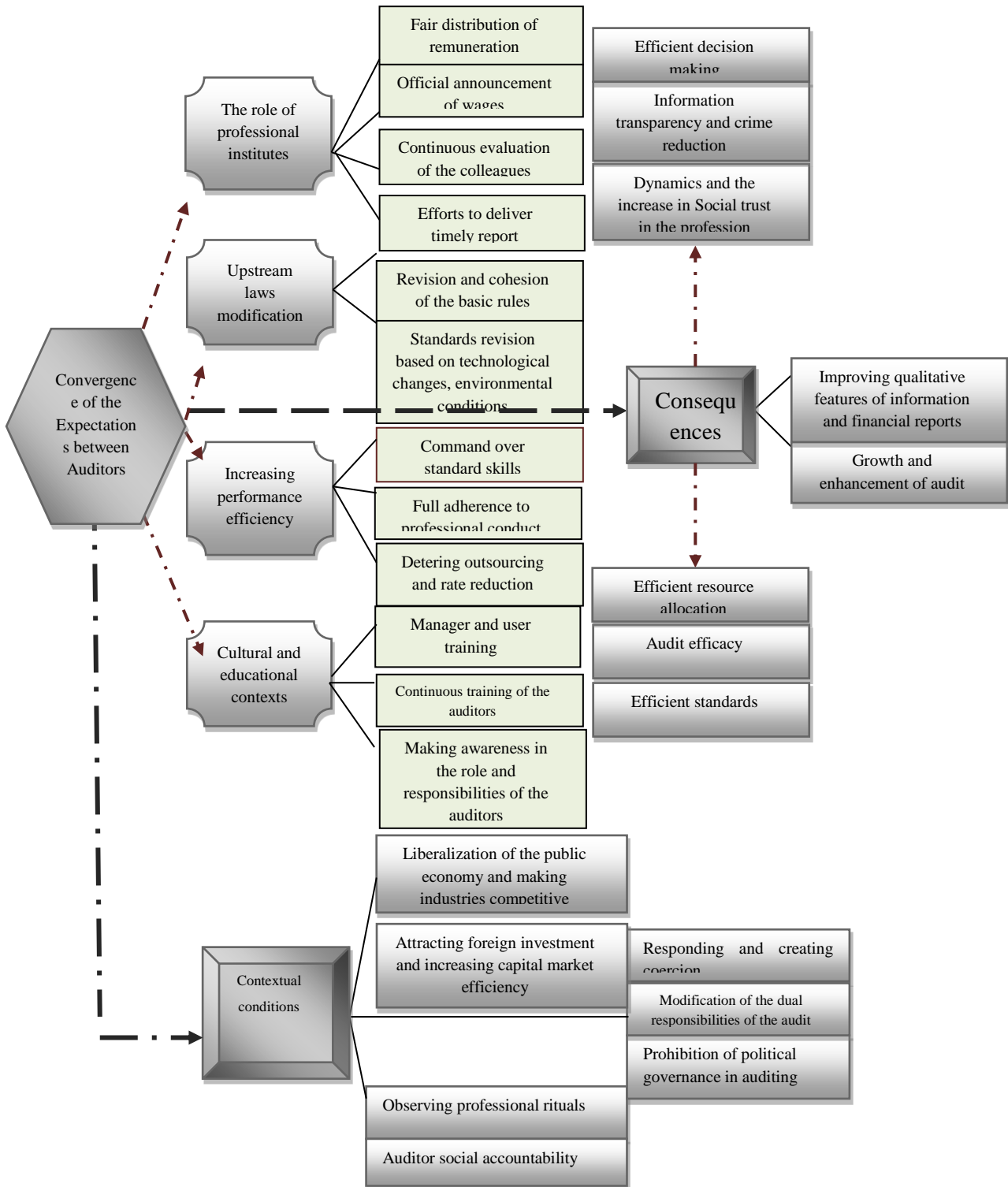


Figure 1. Convergence pattern between auditors' expectations and users of financial statements



Table 7. Enrichment - data validation

Adaptation of existing theories to the findings (validation)	Expert, researcher	The main components
New component	-	Provision of the economic bases and prohibiting political governance  <u>Examples:</u> (Provision of a free reference for public reports on auditor negligence, controlling the effect of political governments in setting standards, removing the monopoly of auditing national and parent industries by the auditing organization and Mofid Rahbar Institute, reviewing the auditing organization's statutes regarding the separation of supervisory duties and implementation, liberalization of the state economy (real privatization),
New component	-	Continuous monitoring of professional organizations and regulatory bodies on the performance of auditors  <u>Examples:</u> (Development of experienced manpower, quality monitoring of auditors' performance, structured review of audit fees, and so on)
New component	-	Reforming and unity of procedure between upstream laws and regulations  <u>Examples:</u> (Revision of laws, more coherence, and clarity of laws and regulations and determination in their implementation, joint efforts and theoretical consensus on upstream laws and monitoring of resolutions and interactions between them)
New component	-	Requiring auditors to be accountable and creating coercive forces  <u>Examples:</u> (Auditors' accountability for their duties and responsibilities and imposing penalties for auditors' negligence, creating coercion to assess negligence, moving in the direction of corporate social goals and establishing a social accountability system)
Conforms	Sika et al. (1992); McDonald Committee (1988); Hatherly et al. (1991); Kuh & Wu (1998); Innes et al. (1997); Humphrey et al. (1992); Limped et al. (2019); quick (2020); Fozeh et al. (2020), Nordin (1991), Okafor and Autotal (2013).	Coherence and joint efforts in legislation and development of standards  <u>Examples:</u> (Expanding the role and responsibilities of auditors, adapting standards to environmental conditions, requiring extensive reporting, changing the tone of auditing standards to increase social utility)

Complies (except for examples of insurers knowing how auditors are insured)	Olagunju and Leyira (2012), Pierce & Kilcommnis (2000), ACCA (2020), Medink (1986); Muir (1989); Mohammad and Al-Bakhsh (2016), Okafor & Autotal (2013); Hatherly et al. (1991); Kuh & Wu (1998); Innes et al. (1997); Humphrey et al. (1992); Limped et al. (2019); Souza et al. (2020).	Strengthening the computer auditing infrastructure and paying attention to social responsibility <u>Examples:</u> (Use of blockchain and smart contracts, strengthening and general review of standards on the use of information technology, continuous training of auditors in the skills of using information technology for sampling and other methods of handling, the use of new technologies)
Compatible (except for anthropological examples in the composition of audit partners and the growth of audit intellectual and practical maturity)	Goddard & Schmidt (2020); Haniffa & Hudaib (2007); ACCA (2020); Muhammad and Al-Bakhsh (2016); Raunk & Washmit (2014); Chador & Innes (2003); Moyser (1991); Sika et al. (1992).	Enhancing audit performance and effectiveness <u>Examples:</u> (Technical competence, maintaining independence, full observance of professional conduct, development of experienced manpower, prevention of outsourcing of audit work, mastery of standard skills through continuing education, attention to ethnicity, providing Provision of a cultural and educational context
Conforms	Rosario & Thomas (2019); ACCA (2020); Liu et al. (2019).	<u>Examples:</u> Extension training for more user awareness of the role of auditor responsibilities - creating a cultural context for changing national attitudes and views towards the auditing profession as a helpful social mechanism - Incentives to demand high-quality auditing (such as tax and insurance incentives, and so on) to be considered - Insurers 'knowledge of auditors' liability insurance should be strengthened through implicit training.
Does not match (In the present study, strategies were not explained)	Joint Statement of Four Large Auditing Institutions: PWC, Deloitte, KPMG, Ernest & Young (2015); Nordin (1999); Chador and Innes (2003); United States Chamber of Commerce (2006)	Assimilation of standards

Source: Research findings

### 3.2. Structural equations

The second phase of the study was carried out with a questionnaire, for which purpose 249 questionnaires were sent, and out of 194 collected items, 180 were evaluated as usable. The questionnaire had two parts: general and specialized questions. The general question included gender, professional occupation, work experience, and education to analyze the results. Moreover, the sample comprised university professors, auditors working in auditing firms, financial managers, thermal analysis, Department of Finance and Social Security, and banks, of whom 27% were women and 73% were men. Additionally, in this section, 47% of the respondents had a doctoral degree, 31% were doctoral students, 19% had a master's degree, and 3% had a bachelor's degree.

Three reliability, convergent validity, and divergent validity fit the final model. As Table 8 shows, the values of the factor loadings of the measurements of the model components are more than 0.4, which is statistically significant. Furthermore, the average variance extracted (AVE) of each component is more than 0.4 showing that the fitted model has good convergent validity and confirms the confirmatory factor analysis.

**Table 8.** The results of factor analysis of the questionnaire questions

Components	Item	Factor loadings	SD	AVE
providing Provision of a cultural and educational context	Promotional training	0.618	0.072	0.501
	Changing national attitudes and insights into auditing			
	Encouraging demand for high-quality auditing			
	Training of insurers on auditors' civil liability insurance			
Managerial and political reforms	Creating coercion for auditors' negligence	0.526	0.072	0.606
	Prohibition of political governance in the development of standards and laws			
	Requiring and encouraging sustainable development reporting			
	Lifting the monopoly of national and mother industry auditing			
Necessary economic contexts	Amending the organization's articles of association and separating its executive and supervisory duties	0.666	0.071	0.468
	Liberalization of the state economy			
	Increase capital market efficiency and reduce conflict of interest			
	Reviewing rules and coherence of basic rules			
Reforming and unity of procedure between upstream laws and regulations	Explicating in the text the rules and firmness in implementation to reduce interpretability	0.756	0.07	0.668
	Joint legislative efforts between professional bodies and legislative bodies			
	Focus on the text of the standards to help decide and predict future events			
	Focus on the misuse of property in the text of the standards			
Coherence and joint efforts in legislation and development of standards	Compliance of standards with environmental conditions and information needs assessment	0.514	0.072	0.534
	Developing inflation accounting in the current situation			
	Clean up auditors with professional ethics and equip them with continuous training			
	Maintaining independence and competence, and professional knowledge			
Enhancing audit performance and effectiveness	Strengthening experienced workforce	0.464	0.074	0.552
	Reducing outsourcing of most of the proceedings to non-professional experts (accounting firms)			
	Competitive auditing market in terms of quality of work			
	Mastery of standard skills and information technology			
Continuous monitoring of professional organizations	Diversity in the composition of auditing partners, both lawyers and IT specialists	0.488	0.072	0.447
	The intellectual and practical growth and maturity of auditors with systematic training			
	Disclosure of facility consumption diversion and resource consumption diversion by managers			
	Continuous quality monitoring of auditors' performance			
	Agreement and description of responsibilities and duties of the parties between the client and the auditors before accepting the job			

and regulatory bodies on the performance of auditors	Effective audit committee in a realistic way and not decorative Merger small enterprises and form larger ones and better-quality control Establishment of quality monitoring and evaluation systems of its predecessors through a comprehensive software platform Prevention of rate violations and the official announcement of auditing fees Obligation to provide a court-friendly reason by the owners to change the auditor Changes in the teaching style of accounting and auditing in universities and professional authorities Solve the problem of untimely audit reports			
Strengthening the computer auditing infrastructure and paying attention to social responsibility	Continuous training of human resources in the skills of applying information technology in complex environments Structural reform and providing an effective audit mechanism for computer auditing using digital technologies	0.651	0.071	0.494

Source: Research findings

#### 4. Research Findings

The reliability of the model, Cronbach's alpha, and composite reliability were 0.714 and 0.800, respectively, indicating that the fitted model has good reliability. After analyzing the structural model's fit, the study's conceptual model is given in Figure 2.

According to the Fornell & Larcker method (1981), the divergent validity results are in Table 9. The relationship of each component with its reagents and other components in this test is examined, and the correlation coefficient values between the components and the mean values of variance extracted for each component are given. As is seen, model components interact more with their indicators than other components that confirm the divergence of the model.

#### Structural model examinations

The path coefficients between the latent components are shown in Table 10. The results show that the provision of cultural and educational context with a coefficient of 0.453 and managerial and political reforms with a coefficient of 0.445 affect the convergence between the expectations of auditors and users of financial reports. Also, providing a suitable economic context with a coefficient of 0.540 and amending the basic laws by 0.597 converges expectations. Improving the quality of auditing services, professional organizations and regulatory bodies, and IT governance in auditing processes with coefficients of 0.538, 0.546, and 0.514, respectively, effectively converges expectations between auditors and users of financial reports.

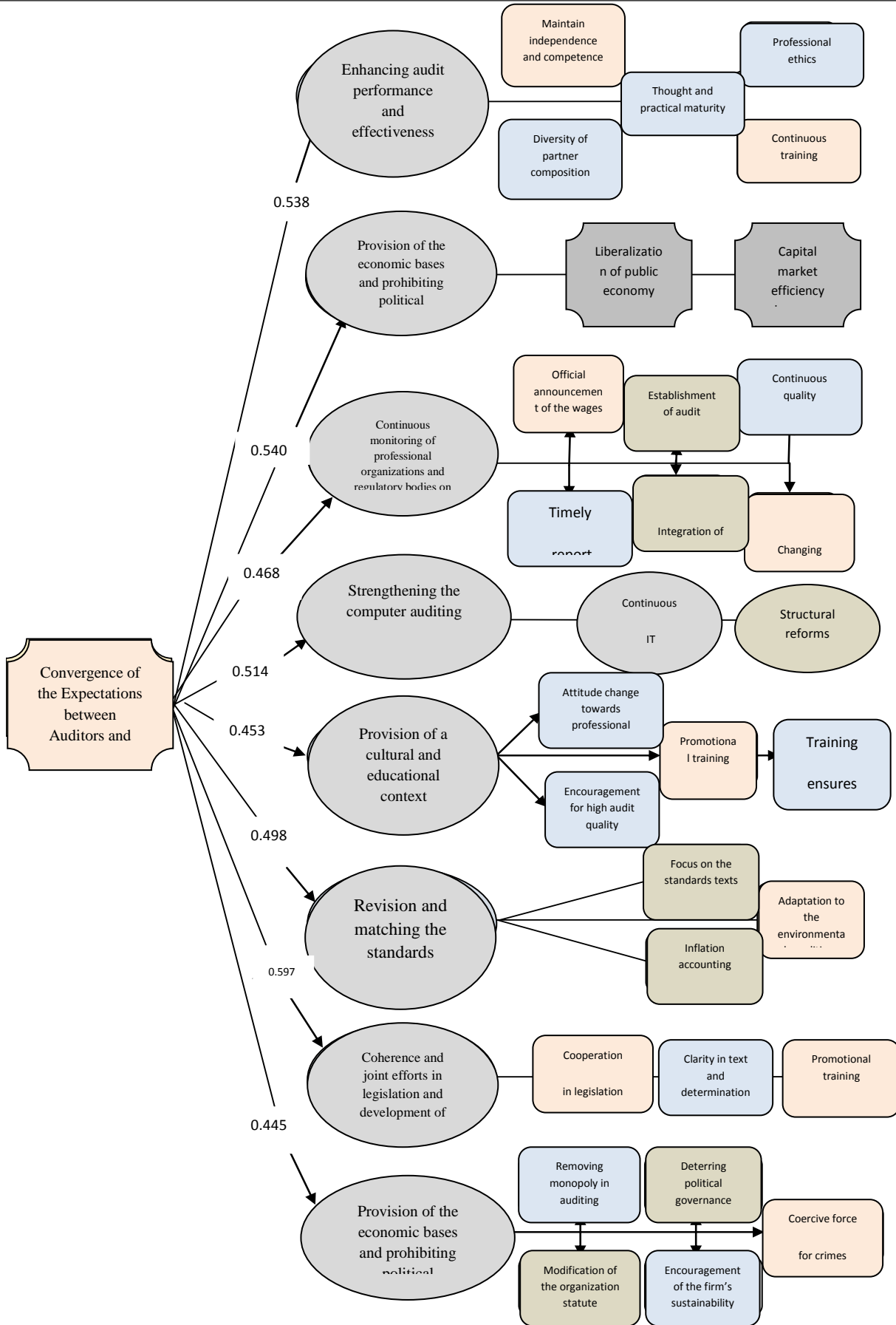


Figure 2. Structural model of convergence of expectations between auditors and users of financial statements



**Table 9.** Fornell & Larcker matrix results

Components	providing Provision of a cultural and educational context	Managerial and political reforms	Necessary economic contexts	Reforming and unity of procedure between upstream laws and regulations	Coherence and joint efforts in legislation	Enhancing audit performance and effectiveness	Continuous monitoring of professional organizations	Strengthening the computer auditing infrastructure
providing Provision of a cultural and educational context	0.707							
Managerial and political reforms	0.190	0.778						
Necessary economic contexts	0.314	0.445	0.687					
Reforming and unity of procedure between upstream laws and regulations	0.352	0.278	0.506	0.817				
Coherence and joint efforts in legislation and development of standards	0.015	0.374	0.279	0.308	0.723			
Enhancing audit performance	0.104	-0.141	-0.066	0.269	0.259	0.742		
Continuous monitoring of professional organizations	0.731	0.170	0.254	0.421	0.215	0.245	0.668	
Strengthening the computer auditing infrastructure	0.425	0.075	0.121	0.165	0.065	0.384	0.251	0.702

Source: Research findings

**Table 10.** The results of the path coefficient test

Path	Path coefficients	P- values
Provide a cultural and educational context → convergence of expectations	0.453	0.018
Managerial and political reforms → convergence of expectations	0.445	0.024
Provide a favorable economic environment → convergence of expectations	0.540	0.001
Modify the upstream rules → convergence of expectations	0.597	0.001
Reviewing and Implementing Standards → convergence of expectations	0.498	0.003
<i>improving the quality of auditor performance</i> → convergence of expectations	0.538	0.011
The role of professional organizations → convergence of expectations	0.468	0.010
The ruling of IT in auditing → convergence of expectations	0.514	0.002

Source: Research findings

## 5. Discussion and conclusion

The audit is the knowledge of skepticism, the pursuit, and evidence collection, and its handling is based on historical facts. The financial statements mainly reflect the financial implications of past events and do not include non-financial performance metrics or future visions and plans. Depending on the environmental conditions of the countries, various factors are influential in creating a gap in expectations between auditors and users of financial statements. First, the factors affecting the expectation gap were extracted from the available literature to conduct the present research. After adapting to the emerging theories in this research, the factors and strategies to reduce the gap

between expectations were tested. Providing a cultural and educational platform to inform users about auditors' roles and professional responsibilities is one of the factors that resulted in a convergence of 0.453 with the convergence between the expectations of auditors and users of financial reports. Users' expectations regarding auditors' detection of fraud and distortion are unreasonable, and for this reason, it is necessary to create a training platform to identify the beneficiaries of financial reports regarding the responsibilities of auditors. In addition to users, Training managers by upgrading specialized knowledge and changing the way of thinking to conduct audits and training auditors in using new tools in complex IT environments and full adherence to professional etiquette will converge expectations. These results are consistent with the research of [Olagunju and Leyira \(2012\)](#), [Peirce and Vakilcomins \(2000\)](#), [Medink \(1986\)](#); [Muir \(1989\)](#); [Mohammad and Al-Bakhsh \(2016\)](#), [Okafor and Otolorun \(2013\)](#); [Huttrley et al. \(1991\)](#); [Kuh and Wu \(1998\)](#); [Ins et al. \(1997\)](#); [Humphrey et al. \(1992\)](#), [Limped et al. \(2019\)](#); [Souza et al. \(2020\)](#).

The results also showed that managerial and political reforms effectively reduced the expectation gap by 0.445. This component, which is not mentioned in the existing literature, includes control of political governance in the profession, unity of procedure to remove obstacles to the implementation of IFRS, and revision of the statute of the auditing organization concerning the separation of supervisory and executive responsibilities. Providing a suitable economic context was also one of the factors that had the greatest impact on the convergence of expectations with a coefficient of 0.540, along with the amendment of the basic rules. Due to its emergence, this component does not correspond to any previous research results. Liberalizing the state economy and increasing the efficiency of the capital market, making industries competitive (such as the carpet and dairy industry), and attracting foreign investment are examples of this emerging component. Review of basic laws, more coherence and explicitness in laws and regulations and determination in their implementation, joint efforts and theoretical consensus on upstream laws and monitoring of resolutions and interactions between them are examples of the component of reform and coherence of basic laws that with a coefficient of 0.597 had the greatest impact on the convergence between the expectations of auditors and users of financial statements. This result is inconsistent with previous research because it is new. This research showed that auditing standards need to be changed to increase confidence in the auditing profession to enhance social benefits, aid decision-making, provide information for predicting future events, and adapt to environmental, economic, and user expectations. This component is also effective in converging expectations with a coefficient of 0.498. This result is consistent with the research of [Sika et al. \(1992\)](#); [McDonald Committee \(1988\)](#); [Huterley et al. \(1991\)](#); [Kuh and Wu \(1998\)](#); [Ins et al. \(1997\)](#); [Humphrey et al. \(1992\)](#); [Limped et al. \(2019\)](#); [Quick \(2020\)](#); [Fozeh et al. \(2020\)](#), [Okafor and Otolorun \(2013\)](#) and is not consistent with the researches of [Nordin \(1999\)](#); [Chadori & Ins \(2003\)](#).

The low quality of audit services has long been effective in creating a gap between expectations. Lack of technical competence, violation of independence, non-observance of professional behavior, amateur manpower, outsourcing of the main processes of proceedings, lack of sufficient mastery of standards, disregard for specialization in information technology, and social responsibilities have paved the way for the creation of expectations. The present study results showed that with a coefficient of 0.538, the convergence of expectations between auditors and users of financial statements could be achieved by strengthening and improving each indicator. This result is to the research of [Godard and Schmit \(2020\)](#), [Hanifa and Hidaib \(2007\)](#), [Muhammad and Al-Baksh \(2016\)](#), [Rank and Washmit \(2014\)](#), [Chadori and Ins \(2003\)](#), [Moyser \(1991\)](#) and [Sika et al. \(1992\)](#). The results also showed a significant and effective role in achieving convergence of expectations between auditors and users of financial reports, professional associations, and regulatory bodies. Professional assemblies and supervisory bodies with continuous monitoring of

auditors' performance, requirements for an effective audit committee in the composition of the board, the merger of small institutions and formation of larger audit firms, peer review, the formal announcement of audit fees, and the need for auditors to comply with social responsibilities are all influential in the convergence of expectations. Because this component has also been introduced as a factor influencing the convergence of expectations, it is not consistent with previous research. Finally, IT governance is effective in auditing processes, including providing the necessary structures to use blockchain and smart contracts, strengthening and reviewing the overall standards for IT application with a coefficient of 0.514, and the convergence of expectations between auditors and users of financial statements. In general, it can be concluded that the audit should be fast, agile, and adaptable (dynamic) concerning the environment in order to maintain and enhance its credibility and intellectual and practical growth and maturity.

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