



SCHOOL OF
ECONOMICS AND
MANAGEMENT

Analysis of the Perspectives on the Construction of the Audit Expectation Gap concerning Fraud

*Master's Programme in Accounting and Finance
BUSN79 - Degree Project in Accounting and Finance
Spring 2021*

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Abstract

Seminar date:	2 June 2021
Course:	BUSN79
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Five key words:	Audit, Expectation Gap, Fraud, Regulatory Space, IAASB
Purpose:	The purpose of this thesis is to analyse the audit regulatory space with regard to fraud and discuss the elements of the expectation gap as constructed by the IAASB and its stakeholders.
Methodology:	The research question is addressed by a qualitative approach, using Political Discourse Analysis, the concept of regulatory space and an analytical framework designed by the authors.
Theoretical perspectives:	The literature review consists of two parts: background and presentation of theoretical frameworks. While the former presents the audit regulatory space, in which the IAASB acts and the foundation of the role of the auditor is laid, as well as the fraud concept, the latter deals with the concepts on which the analysis is based, namely construction, regulatory space, and the expectation gap. This section is concluded by developing an analytical framework based on the concepts presented.
Empirical foundation:	The analysis of the construction of the fraud-related expectation gap was based on the IAASB discussion paper with main focus on fraud and going concern and the comment letters to it. Firstly, the IAASB discussion paper was analysed to illustrate the construction of the issue of the expectation gap by the IAASB. Secondly, the respondents and their interrelations in the audit regulatory space were analysed building a basis for the examination of the components of the expectation gap as presented by the IAASB's stakeholders. All three parts provided inputs for the analytical framework, building the basis for the discussion, that deals with the components the actors within the regulatory space construct as part of the expectation gap.
Conclusions:	The study of the construction of the expectation gap revealed that the IAASB tries to keep its scope narrow and within the boundaries of its standard-setting responsibility, while its stakeholders are trying to broaden the construction of the expectation gap to have their interests discussed in its scope. This reflects the self-interest of the actors in the regulatory space, as they attempt to influence the construction of the expectation gap with their perspectives based on their own needs.

Table of Contents

1. Introduction	1
1.1 Background	1
1.2 Problematization & Contribution to Research	2
1.3 Purpose & Research Question	4
1.4 Outline	5
2. Literature Review	6
2.1 Background	6
2.1.1 Global Audit Regulation	6
2.1.2 Fraud timeline	8
2.1.3 Fraud Concept	10
2.1.4 The Role of Auditors with regard to Fraud	12
2.2 Theoretical frameworks.....	16
2.2.1 Expectation Gap	16
2.2.2 Concept of construction	20
2.2.3 Regulatory space	21
2.2.4 Development of analytical framework	22
3. Method	25
3.1 Research Strategy	25
3.2 Research Design	25
3.3 Data collection & analysis.....	28
3.3.1 Data Collection.....	28
3.3.2 Data Analysis	28
3.4 Research Limitations.....	32
3.5 Ethical Considerations.....	33
4. Analysis	34
4.1 Construction of the Issue of the Expectation Gap by the IAASB	34

4.1.1 Construction of the argumentation in the IAASB discussion paper	34
4.1.2 Construction of the components of the expectation gap	39
4.2 Categorization and interrelations of the actors in the audit regulatory space	40
4.2.1 Categorisation of actors according to role in the regulatory space	40
4.2.2 Categorisation of actors according to regions	44
4.2.3 Interrelations between the actors in the regulatory space	45
4.3 Stakeholders' Perspectives	48
4.3.1 Expectation Gap construction from stakeholders' perspective.....	48
4.3.2 Overview of objecting responses	53
5. Discussion	56
5.1 Construction of Expectation Gap from IAASB perspective	56
5.2 Construction of expectation gap from stakeholders' perspective	60
5.2.1 The expectation gap model	60
5.2.2 The expectation gap components	62
5.3 Comparison & Summary	66
6. Contribution to Research, Limitations and Future Research Opportunities	68
7. Conclusion.....	71
List of References.....	72
Appendices	86
Appendix 1: The Fraud Tree	86
Appendix 2: Questions in IAASB Discussion Paper	87
Appendix 3: The Financial Reporting Ecosystem.....	89

Table of Figures

Figure 1: Audit Expectation-Performance Gap by Porter (1993)	17
Figure 2: IFRS influence on audit expectation gap introduced by Astolfi (2021).....	18
Figure 3: Construction of an issue in a regulatory space	23
Figure 4: Research design flowchart.....	26
Figure 5: Data analysis flowchart.....	29
Figure 6: Political Discourse Analysis scheme	30
Figure 7: Argumentation analysis of the IAASB discussion paper	34
Figure 8: Audit expectation gap according to ACCA (2019)	36
Figure 9: Actors in the IAASB’s Audit Regulatory Space	42
Figure 10: Interdependencies in the Audit Regulatory Space.....	46
Figure 11: Components of the Knowledge Gap.....	49
Figure 12: Components of the Performance Gap.....	50
Figure 13: Components of the Evolution Gap	52
Figure 14: Construction of the expectation gap by the IAASB	57
Figure 15: The updated expectation gap by ACCA (2019)	60
Figure 16: Construction of the expectation gap by stakeholders	62

List of Abbreviations

ACCA	Association of Chartered Certified Accountants
ACFE	Association of Certified Fraud Examiners
AICPA	American Institute of Certified Public Accountants
AUASB	Australian Government Auditing and Assurance Standards Board
CFA	Chartered Financial Analyst
FISG	Finanzmarktintegritätsstärkungsgesetz
IAASB	International Auditing and Assurance Standards Board
ICAS	Institute of Chartered Accountants of Scotland
IESBA	International Ethics Standards Board for Accountants
IFA	International Financial Architecture
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
NGO	Non-governmental Organisation
OECD	Organisation for Economic Co-operation and Development
RQ	Research Question
SAS	Statements on Auditing Standards
SOX	Sarbanes-Oxley-Act
SPE	Special Purpose Entity
TCWG	Those Charged with Governance
WPK	Wirtschaftsprüferkammer

1. Introduction

1.1 Background

Time and again, the current financial landscape is unsettled by corporate scandals that set the stage for discussions among regulators, auditors and other stakeholders. Fraud scandals, especially those of a certain size, are a common trigger to change policies, procedures and regulations since they show potential gaps or unclarity (e.g., Hancher & Moran, 1989; Malsch & Gendron, 2011; Young, 1994). Wirecard's recent collapse, which brought society's attention to the grey area of regulations for companies that provide financial technology services, is no exception (Jones, 2020).

When such widely known and impactful corporate fraud scandals are detected, typically, questions, such as “how could this have happened?” or “why did auditors not detect this earlier?” arise (Knezevic, Mitrovic & Cvetkovic, 2019). The fraud concept, including fraud prevention and detection, was and still is one of the most controversial topics in the public discourse. As fraud cannot be committed by machines but is always executed by people, it leads to the discussion, what conditions, if met, are favourable for fraud perpetrators and what factors influence people to perform fraudulent actions (Kassem & Higson, 2012b). For instance, fraud models introduce the circumstances, which need to be prevalent for a fraud perpetrator to commit fraud and explain his/her reasoning behind the fraudulent behaviour (Cressey, 1953; Wolfe & Hermanson, 2004). The primary framework, which is the base for supplemented or improved models, is the fraud triangle model, which defines three angles – pressure, opportunity and rationalisation (Cressey, 1953). While the opportunity to commit fraud is usually related to weak internal controls or inadequate tone from the top (ACFE, 2020), additional factors relating to the business and its environment can also influence it.

One of those factors is the current COVID-19 pandemic that causes uncertainty and pressure on companies and their management, who want to maintain good financial results even in these circumstances (IESBA & IAASB, 2020). Therefore, the ongoing crisis and its consequences influenced two out of three main components of the fraud triangle: pressure and opportunity. As a result, the pandemic also intensified the need for research on this topic. As the International Ethics Standards Board for Accountants (IESBA) and the International Auditing and Assurance Standards Board (IAASB) (2020) elaborate, entities had and still have to reorient their business

models, redesign their internal control systems, and cope with newly arising challenges, which leads to additional opportunities to pursue fraud occurring. Furthermore, the implementation of new technologies and programs leads to more advanced governance of the company and increased efficiency but opens up opportunities for fraud perpetrators to leverage these tools to commit and conceal fraud in a more sophisticated way (Vassiljev & Alver, 2016).

Moreover, the audit profession's capabilities and ways of working are questioned when large corporate fraud scandals are detected. Originally designed to detect and prevent fraud, the role of audit changed significantly in the first half of the 20th century (Power, 1999). The main objective of an audit was and still is to provide reasonable assurance that the financial statements are free from material misstatements, while the responsibility of detection and prevention of fraud lies with those charged with governance (TCWG) and management (IAASB, 2009b, ISA 240). However, users of financial statements, management, TCWG and society are still expecting auditors to play a major role in fraud detection and put them under scrutiny if they fail to do so (Power, 1999). For instance, more than 60% of respondents to the Deloitte Global Audit Value Pulse Survey (2020) expect that auditors detect fraud, and only 34% of respondents to the Association of Chartered Certified Accountants (ACCA) (2019) survey were able to recognise the role of an auditor correctly. This difference in how the role and responsibilities of auditors are perceived versus what auditors are legally required to do based on the standards is called the expectation gap (IAASB, 2020). This concept is vital to study, not only in terms of identifying its causes but also to align the professional requirements with society's expectations.

1.2 Problematization & Contribution to Research

As fraud is constantly prevalent and is even further increasing due to the COVID-19 pandemic, the topic of fraud gets more attention than ever before. Society has the expectations that auditors could be the ones helping to prevent it and detect it. However, the perceptions of the public differ significantly from the actual tasks of auditors, which might implicate that the role of the auditor, as well as the scope of the audit procedures should be broadened. Nevertheless, before acting and implementing measures, the issue, in this case the expectation gap with regard to fraud, needs to be constructed. Young (2006) emphasizes that it is necessary to question the taken-for-granted logic and the argumentation behind the importance of an issue, as otherwise, stiff constructions might limit the discussion to topics that have been debated over and over.

Therefore, it is important to study how an issue arises and is constructed by different actors in a discussion (Young, 1994).

To begin with, the academic community agrees that the role and purpose of an audit is not to detect or prevent fraud but to provide reasonable assurance (e.g., Kassem & Higson, 2012a; Knezevic, Mitrovic & Cvetkovic, 2019; Power, 2013). This role is also emphasised in the International Standards on Auditing (ISA) 240 (IAASB, 2009b) and other practitioners' reports (e.g., ACCA, 2019; Brydon, 2019). Furthermore, an audit is characterised by specific features, such as professional judgement, that keep the conduct of an audit in a feasible and reasonable scope. However, those concepts are difficult to grasp by those, who are not familiar with audit procedures and regulations, which leads to confusion of stakeholders about what the role of audit actually is (Christopher, Leong & Leung, 2017; Law, 2008; Roberts & Dwyer, 1998). This misunderstanding is one of the causes of the expectation gap, which is the difference between the actual auditors' responsibilities regarding preventing and detecting fraud and the society's perception or beliefs what auditors should do (ACCA, 2019; Hassink, Bollen, Meuwissen & de Vries, 2009; Humphrey, Loft & Woods, 2009; IAASB, 2020; Kassem & Higson, 2012a; Romney, Steinbart, Summers & Wood, 2019).

The concept of the expectation gap should not only be considered in a general way, but it is also essential to study the components that lead to its forming. The first audit expectation-performance gap model was introduced by Porter (1993 cited in Porter, Simon & Hatherly, 2014), who proposed three major components – a reasonableness gap, a deficient standards gap and a deficient performance gap. However, it is not the only framework prevalent in the accounting and audit literature. For instance, the ACCA (2019) presents three elements, knowledge, performance and evolution gap, constituting the audit expectation gap. Thus, various approaches, definitions and models of the expectation gap exist that reflect different perspectives and support identifying the causes for it based on the respective circumstances. Consequently, the IAASB (2020) opened up the discussion, how the regulations might be enhanced or changed to narrow down the expectation gap, and invited all of its stakeholders to contribute their insights related to the expectation gap regarding fraud and going concern in September 2020 in its discussion paper titled: “Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences between Public Perceptions about the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit”. In order to study how the IAASB and its stakeholders construct the issue, the regulatory space concept will be

used, as the topic of the expectation gap within the regulatory space concerning fraud is not extensively covered in the academic literature.

Hence, this subject matter is interesting to study both from a theoretical as well as a practical perspective, as the framework provided in the IAASB discussion paper answers can be used to add aspects to the composition and dynamics of the regulatory space of audit and can initiate changes on how the expectation gap is framed by the international standard setter and its community. Furthermore, this thesis investigates the construction of the expectation gap from another perspective by setting it in the context of the regulatory space. Therefore, it contributes to the existing literature by analysing the audit regulatory space regarding fraud and the expectation gap by offering an overview of the insights provided to the aforementioned comment letters.

1.3 Purpose & Research Question

The focus of this thesis lies on the nature and construction of the fraud-related expectation gap. Therefore, the purpose is to analyse the audit regulatory space with regard to fraud and discuss the elements of the expectation gap as constructed by the different actors within it. During the review of the regulatory space, the relationships and interdependencies among them will be analysed to provide several perspectives on the expectation gap and set the scene for the discussion. Thus, this thesis will address the following research question:

RQ: How is the expectation gap in the audit regulatory space with regard to fraud constructed?

In order to deal with this question, the IAASB discussion paper (2020) and 85 comment letters will be analysed. The study will provide insights into how the expectation gap and audit regulatory space are formed by one of the most influential standard-setters in the audit regulatory space - the IAASB. Respectively, the responses to its discussion paper are expected to provide valuable perceptions of the various points of view in the regulatory space and the inherent expectation gap. As it is essential to understand the elements of the expectation gap and how it is perceived by all participants in the audit regulatory space, the research question will be subdivided into two parts, one covering the perspective of the IAASB and the other one the points of view of its stakeholders:

RQ₁: How is the expectation gap with regard to fraud constructed by the IAASB?

RQ₃: How is the expectation gap with regard to fraud constructed by other members of the regulatory space?

The split of the research question into two enables the comparison between the IAASB (2020) framework and patterns identified during the review of the responses, which will be performed to get a summarised overview of the construction of the expectation gap.

1.4 Outline

This master thesis will be structured as follows. Firstly, the literature review will be distributed in two main areas: the background, providing insights into topics, like fraud timeline and the role of audit, and the theoretical frameworks, which includes the concepts of construction, regulatory space and expectation gap. The topics are further divided into sub-topics, presenting the main ideas prevalent in the respective field of research and scientific literature. The literature review will be concluded by the development of an analytical model. This section will be followed by the methodology part, in which the arguments for the chosen research approach will be presented and the method described in detail. The analysis part is three-fold, starting with the study of how the IAASB constructs the expectation gap in its discussion paper (2020), continuing with the regulatory space in which the IAASB posed the discussion, and lastly, a presentation of which elements the respondents perceive as part of the expectation gap. Afterwards, the discussion part will deal with answering the research questions by evaluating how the IAASB and its stakeholders construct the expectation gap regarding fraud. Before concluding this thesis, the contribution to research, limitations, and further opportunities for research will be presented.

2. Literature Review

2.1 Background

2.1.1 Global Audit Regulation

The audit profession and its standard-setting can be seen in several regulatory contexts, which are constituted of diverse actors, who are dynamically taking and changing their role in the regulatory arena (Humphrey & Loft, 2009). One of the regulatory concepts in this field is the international financial architecture (IFA), which according to Elson (2010) “comprises the collective governance arrangements at the international level for safeguarding the effective functioning of the global monetary and financial systems” (p.17).

Initially established due to the increase in international trade and global transactions, the IFA’s safeguards global financial stability by providing oversight, international standards guidelines on oversight and other public goods related to financial regulation (Juma, 2011). One of the seven areas of public goods includes “a coordinating mechanism for the harmonisation of rules for accounting, auditing and the regulating of financial institutions” (Elson, 2011, p.22). Particularities of this network are its informality and partial exclusivity, expressed through the entry requirement to it, as it is depending on the respective institution only accessible upon invitation by the institutional body. This impedes the entrance of new players (Juma, 2011).

Among others, the IAASB is enrolled in the IFA (Juma, 2011). It is an independent standard-setting body that acts under the auspices of the International Federation of Accountants (IFAC), which was founded in 1977 to represent and build a global organisation for the accountancy profession (IFAC, 2019). IFAC's organisation consists of several boards which support the accountancy profession, for example, through setting ethical or educational standards (International Standard-Setting Board, 2021).

One of the most significant activities of IFAC is the design and promotion of the ISA, which is done by the IAASB (Humphrey, Loft & Woods, 2009). Consequently, the IAASB’s purpose is to set “high-quality international standards for auditing, assurance, and quality control that strengthen public confidence in the global profession” (IAASB, 2021a). Furthermore, the IAASB (2021a) sees its mission in serving the public interest and increasing public confidence in the audit profession by enhancing the quality and consistency of audit practices and

standards. Hence, IFAC defines public interest for it and its boards as: “the net benefits derived for, and procedural rigour employed on behalf of, all society in relation to any action, decision or policy” (IFAC, 2012). Since the IAASB has no legal legitimation, it needs to earn legitimacy from the users of its standards by involving them in the standard-setting process (Matos, Santos, Rodrigues & Leite, 2018). Therefore, IFAC and the IAASB aim to provide full transparency in their standard-setting process (Humphrey & Loft, 2009).

In order to achieve this, all standards are issued through the so-called “due process”, which means that the “exposure draft” of new standards is posted on the official website, and all stakeholders are invited to provide comments on it (IAASB, 2021b). Participants can provide their suggestions and concerns within 120 days, and after this period, all comments and proposals must be discussed during a public meeting of the IAASB (Köhler, 2015). Thereby, the IAASB ensures that all stakeholders’ voices are heard and raised issues are discussed, whereas this also bears the challenge of weighing competing views of different actors in the audit regulatory space (Humphrey & Loft, 2009). Furthermore, all documents related to a particular topic, i.e., discussion papers, board meeting minutes, can be found on its website (see, e.g., IAASB, 2021c), as well as further supporting material, for example, summaries or videos of roundtables (see, e.g., IAASB, 2021d). To further foster transparency of standard-setting and other public interest activities of the IAASB, the Public Interest Oversight Board acts as an independent body monitoring the work of the IAASB (Loft, Humphrey & Turley, 2006).

Additionally, the IAASB gains legitimacy through its enrolment in the IFA. Especially the ISAs obtain international recognition through being listed by the Financial Stability Forum as one of the twelve key standards for financial stability (Humphrey & Loft, 2009). Furthermore, it belongs to the most influential groups in audit regulation along with national regulators and large audit firms, i.e., the Big Four, with which it strongly collaborates (Humphrey, Loft & Woods, 2009). These relationships and interdependencies within the international audit regulatory arena, influence the IAASB, its ways of working, decisions and agenda setting (Humphrey & Loft, 2009). Therefore, Humphrey, Loft and Woods (2009) point out the importance of viewing audit and its regulation in this broader context.

The IAASB and other actors within the IFA follow the topics on their agenda to enhance standards and clarify certain matters. Topics on the agenda can arise through discussion paper responses or other means of communication with stakeholders. However, often the agenda needs to be adjusted when a fraud scandal occurs, which shows gaps in laws and regulations and puts the audit profession and its regulators under scrutiny.

2.1.2 Fraud timeline

The idea that almost all regulations and their changes were led by some sense of crisis was introduced by Hancher and Moran (1989). It cannot be denied that fraud cases concerning big companies, which usually are depicted as role models, raise concerns in society on what can be done to avoid these events in the future. Although the impact of such a crisis could hardly be predicted, several significant collapses starting from 2000, as well as their influence on the financial reporting ecosystem and its regulations, will be discussed in order to gain a better understanding, what kind of changes can be expected from the IAASB in the current circumstances.

One of the most well-known and seventh-largest (ranked by assets before bankruptcy) bankruptcies in US history is the Enron case (Hallman, n.d), which undoubtedly impacted US regulations. Due to the deregulation of the energy sector, Enron started to use mark-to-market instead of historical cost accounting, which led to valuation mistakes and overstated profits (Giroux, 2008). However, it was not the only sign of fraudulent accounting, as, in order to move significant amounts of debt to off-balance accounts, Enron used special purpose entities (SPEs) (Baker, 2003). When the audit company Arthur Andersen discovered accounting errors in one of Enron's SPEs – Raptors -, restatements of earnings amounting to 1.3 billion US dollars in 2001 were necessary for the period 1997-2000. As a result, Enron declared bankruptcy and investigations started by several national authorities (Giroux, 2008). This case revealed fraudulent actions performed by Enron executives and employees and indicted Enron's auditor Arthur Andersen for obstruction of justice as the former auditors had destroyed duplicate copies of documents related to the Enron accounting records (Morrison, 2004). Consequently, US fraud regulations were changed. According to Kassem and Higson (2012a), the AICPA changed standards Statements on Auditing Standards (SAS) No. 82 to SAS No. 99 as a response to this scandal. Audit procedures were expanded in order to better detect fraud and the fraud triangle model was presented. Additionally, it is worth mentioning that due to this scandal, Arthur Andersen was refused its licence of auditing and sold its audit business to Deloitte & Touche, Ernst & Young and Grant Thornton LLP (Bunney, 2018).

The previously mentioned case was followed by the collapse of WorldCom in 2002, which led to an even stricter legislation system. After discovering 11 billion US dollars of accounting errors, such as capitalised operating expenses, double counting of revenues and undisclosed

debt, which were found by the newly appointed auditors of KPMG in 2002, Worldcom filed for bankruptcy later that year (Giroux, 2008). In light of these two scandals the Sarbanes-Oxley Act (SOX) was introduced in 2002, which contains mandatory regulations for all companies in the US. The main goal of this act was to strengthen corporate governance, provide more transparency in financial reporting and improve internal controls to recover the investors and society's trust and avoid corporate fraud scandals in the future (Wagner & Dittman, 2006). However, looking back after almost 20 years of implementation of SOX, massive accounting scandals still happen on occasion which means that there are more opportunities for improvement.

Even though the corporate scandals in the US occurred in the early 2000s and the regulations, as well as technologies which might help to prevent and detect fraud, are more advanced than ever, bankruptcies and fraudulent accounting are still persistent in the world. For instance, the IAASB Discussion Paper (2020) mentions fraud cases, such as: Toshiba Corporate overstatement of profits by 1.2 billion US dollars which was performed over seven years from 2008 to 2015 in Japan; Steinhoff International Holding investigation, which led to uncovering of billions of dollars of irregular and falsified transactions in South Africa in 2017; Carillion's collapse resulted in remaining 2 billion pounds debt to its suppliers and 2.6 billion pounds pension liabilities in the UK in 2018, and Luckin Coffee – a Chinese company - overstated its revenue by over 300 million US dollars in 2019.

In addition to this, the most recent corporate bankruptcy, which will probably impact European and especially German regulations, is Wirecard, which filed for insolvency in 2020 while erasing 13 billion euros in stock market value (Chazan & Storbeck, 2020). Wirecard was one of the biggest and fastest growing fintech companies that peaked in August 2018 when the share price hit 191 euros, valuing the company at more than 24 billion euros (McCrum, Storbeck, Palma & Reed, 2020). However, it was revealed in 2020 that revenues were falsified by using round-tripping schemes, and 1.9 billion euros were missing from the balance sheet (Browne, 2020). As this scandal revealed not only the weaknesses in the German audit regulations but the media also started questioning the role and responsibilities of the auditors, the German Ministry of Justice drafted a bill, with the goal of ensuring the independence of auditors (FISG, 2021). The draft proposes different measures, for instance, a mandatory auditors' rotation after ten years for listed companies, the stricter separation between auditing and consultation services for Public Interest Entities (PIEs) and the aggravation of auditors' civil liability towards its client in case of breaches of duty (FISG, 2021). However, as the investigation is still ongoing

and no final legal conclusions were reached, it is early to tell what consequences this major scandal will have for the overall regulatory space in Germany, Europe and the world.

All these recent fraud cases showcase the need for discussion regarding the responsibilities of auditors regarding the prevention and detection of fraud, the expectation gap related to it and the need for more guidance and clarity in specific accounting and auditing standards in order to avoid misinterpretation, as well as “creative” accounting consequences.

2.1.3 Fraud Concept

Even though the before mentioned fraud scandals shook the share markets and provoked hot debates in the society, more unrevealed, unpublished and less significant amounts of fraudulent actions are detected every year. For instance, the Report to the Nations (ACFE, 2020), which includes 2,504 fraud cases, revealed that the investigated occupational fraud schemes caused losses of more than 3.6 billion USD and make up 5% of companies' revenue based on the certified fraud examiners estimation in 2019. If this rate were applied to the gross world product, which was 90.52 trillion USD in 2019, the total global losses due to fraud each year would exceed 4.5 trillion USD (ACFE, 2020). In addition to this, the PricewaterhouseCoopers Global Economic Crime and Fraud Survey (2020), which obtained responses from more than 5,000 participants (62% of respondents were C-suite), provided valuable insights into what kinds of fraud are the most popular among the fraud perpetrators, how much losses they caused, as well as emphasised not only financial consequences, but also indirect costs such as “brand damage, loss of market position, employee morale, and lost future opportunities” (p.7). Those costs can hardly be measured; however, their effect might be tremendous due to loss of customers' or suppliers' trust.

However, according to Brydon (2019), the auditors' responsibility concerning fraud remains one of the most misinterpreted topics, as the definition of fraud is a broad legal concept and various stakeholder groups perceive fraud differently. In the ISA 240 standard, fraud is explained as “an intentional act by one or more individuals among management, TCWG, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage” (IAASB, 2009b, ISA 240.11). At the same time, Romney et al. (2019) define fraud as a gain unfairly perceived from another person. Even though both descriptions emphasise the unequal benefits acquired by using non-ethical actions, the first concept specifies the definition of a fraud perpetrator in more detail.

To continue with a more detailed view, ISA 240 presented a split of fraud into fraudulent financial reporting and misappropriation of assets, where the first one includes not accurate or deceptive balance disclosures in order to mislead stakeholders, while misappropriation of assets reflects the theft of company assets in usually relatively immaterial amounts (IAASB, 2009b). However, Jeppesen (2019) argues that currently presented fraud categories in ISA 240 are missing a third one, corruption, which is currently assigned as “non-compliance with laws and regulations” concept. He further explains that current standards abandon corruption even though it might cause material errors and the risk of material misstatement in financial statements due to corruption should be examined via risk assessment procedures performed by auditors.

In addition to the concepts presented above, the Report to the Nations (ACFE, 2020) reviewed the most common techniques within those areas and provided detailed fraudulent action sub-schemes, which are presented in Appendix 1, which are widely called the Fraud Tree. Having a closer look at the most significant methods (based on frequency and impact) in the asset misappropriation category, those are billing schemes, check and payment tampering, as well as the stealing of non-cash assets (ACFE, 2020). On the other hand, Silverstone and Sheetz (2007, cited in Vassiljev & Alver, 2016) split fraud into five categories based on the entity's activities: sales and collection; purchases and payments; payroll and personnel; inventory and warehousing; capital acquisition and repayment, while, Galleta (2015 cited in Vassiljev & Alver, 2016) presents a more general composition of financial fraud: employee embezzlement; Ponzi scheme; pump and dump schemes; vendor fraud; consumer fraud; miscellaneous fraud. This shows that various researchers recognise fraud constitutions from different perspectives.

To sum up, fraud definitions vary across the analysed articles; however, in the scope of this thesis, fraud will be defined as an illegal act in order to gain benefit by either asset misappropriation or fraudulent financial reporting as stated in ISA 240 (IAASB, 2009b). However, other presented descriptions will be useful in order to analyse the expectation gap concerning fraud, as a society might understand or define fraud based on other common views, as well as include corruption as one of the categories of fraudulent actions and expect auditors to detect corruption while performing audit procedures, even though it is not specified in ISA 240 (IAASB, 2009b).

2.1.4 The Role of Auditors with regard to Fraud

2.1.4.1 The Evolution of the Role of Auditors with regard to fraud

When fraud is detected, the role of the auditors and their failure to prevent or uncover it earlier is put in the spotlight, even though or perhaps because of this, the responsibility of the auditor to prevent and detect fraud is one of the most controversially discussed topics in the field of auditing (Gay, Schelluch & Reid, 1997). The audit is a result of one of the most prevalent conflicts in business and economics research – the principal-agent conflict. Therefore, in the time of the industrial revolution, when companies grew more complex, and ownership and management became dispersed, the audit function flourished, too (Power, 1999). Back then, the main purpose of the audit was to prevent and detect fraud on behalf of the business owners (Kassem & Higson, 2012a). With the excellent growth of the economy and accountants processing further increasing amounts of transactions, auditors were not able anymore to ensure that there were no fraudulent transactions in the financial statements, so in the 1930s, the role of the auditor shifted to providing reasonable assurance that the financial statements are free from material misstatements (Power, 2013). Therewith, the primary responsibility of detecting and preventing fraud moved towards management and TCWG (Power, 1999).

Generally, auditors are hired by the organisation they are auditing to ensure that the financial statements are prepared in line with all applicable laws and regulation and presented truly and fairly (Knezevic, Mitrovic & Cvetkovic, 2019). Therewith, they provide an opinion on the quality of financial statements prepared by the organisation and support (potential) investors in gaining a picture of its financial health to make investment decisions (Dimitrijevic, Jovkovic & Milutinovic, 2020). However, the so-called “detection risk” is always prevalent in an audit, implying that even though the auditor performed the audit in accordance with all laws and regulations and mitigated the risks to an acceptable low level, there is still the possibility of material misstatements remaining undetected (IAASB, 2009a, ISA 200). Particularly, the role of management in conducting fraud and its opportunity to override internal controls and conceal its fraud easier puts pressure on the audit function (Knezevic, Mitrovic & Cvetkovic, 2019). Therefore, an essential part of the audit process is the risk assessment and especially the fraud risk assessment, which provides the auditor with an overview of the risks inherent in the company and builds a basis to design the audit procedures to adequately react to and mitigate the identified risks (IAASB, 2019, ISA 315). While auditors shifted their focus from fraud to fraud risk (Power, 2013), the expectations of many stakeholders remained in the early 1900s.

2.1.4.2 Fraud in the International Standards on Auditing

During the audit engagement, auditors must follow not only accounting but also auditing standards. These widely accepted requirements by the international audit community are the International Standards of Auditing. One of the central topics in those is fraud and fraud risk.

To begin with, ISA 200 states the overall objective of auditors: “the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements” (IAASB, 2009a, ISA 200.3). In order to achieve this, the auditor issues an opinion on whether the financial statements are prepared in line with applicable laws and regulations (IAASB, 2009a, ISA 200). Therefore, the auditor must use professional judgement and scepticism to obtain reasonable assurance that the audited statements are free from material misstatements (IAASB, 2009a, ISA 200). The reason for those misstatements, whether they arose due to fraud or error, is not primarily relevant for the auditor, but their materiality is, since “the auditor is not responsible for the detection of misstatements that are not material to the financial statements as a whole” (IAASB, 2009a, ISA 200.6). Additionally, even though the auditor has the responsibility of identifying material non-compliance with laws and regulations, he/she is not responsible and cannot be expected to detect or prevent non-compliance with all laws and regulations (IAASB, 2016a, ISA 250).

ISA 240 - the auditor’s responsibilities relating to fraud in an audit of financial statements - supports this argument and adds several factors that inhibit an auditor's ability to detect fraud, like the nature of fraud and the personality of the fraud perpetrator, since a more senior person in a management position might have more opportunities and skills to conduct and conceal fraud (IAASB, 2009b). Even though the auditor might suspect or detect fraud, it is not his/her objective to make legal determinations, since management and TCWG have the main responsibility of detecting and preventing fraud in their organisation (IAASB, 2009b, ISA 240). The auditor's responsibility, in this case, is to perform an assessment of the risk of material misstatements within the audited organisation and then to plan and adapt the audit accordingly to address the identified risks (IAASB, 2019, ISA 315 & IAASB, 2009d, ISA 330). Should the auditor identify or suspect a misstatement, it can be difficult to determine whether it is due to fraud or error (IAASB, 2009b, ISA 240). However, the occurrence of irregularities should raise the auditor's awareness since it might indicate the existence of further misstatements (IAASB, 2009b, ISA 240). Therefore, the auditor needs to collect all identified instances of irregularities, even if not material, and assess if they might be material when combined, and needs to communicate those to management and, if perceived as adequate, also to TCWG (IAASB,

2009e, ISA 450). There should be regular communication and a constructive working relationship between the auditor and TCWG, so the auditor receives all relevant information and can communicate observations timely (IAASB, 2016b, ISA 260). Furthermore, the auditor needs to convey their responsibilities to TCWG, i.e., forming and expressing an opinion about the by management under the oversight of TCWG prepared financial statements, and make clear that the auditor does not relieve them from their responsibilities of preventing and detecting fraud, error, and non-compliance with laws and regulations (IAASB, 2016b, ISA 260).

While audit standards define procedures and provide guidance for the audit community, the concepts and definitions used in them are not easily comprehensible, especially for those outside the audit profession, and some terms require interpretation. Consequently, the unclarity and need for interpretation might lead to the differing implementation of audit concepts in practice.

2.1.4.3 Audit Characteristics

As previously mentioned, the audit is characterised by certain limitations that inhibit the ability of the auditor to provide absolute assurance. The following audit characteristics are concepts prevalent in the day-to-day business of audit that define a reasonable scope. Since there is no clear definition and the concepts are intangible, they are often not fully understood by non-auditors – and even auditors – and lead to differing expectations of what auditors do.

When discussing the responsibility of an auditor, reasonable assurance is one of the keywords. Taking apart the concept of reasonable assurance, the second term “assurance” refers to the level of certainty that an auditor obtained during an audit, that the financial statements are prepared in line with applicable laws and regulations (Law, 2008). Since assurance is based on several factors and limitations, such as time, circumstances, or costs, its level will vary from audit to audit (Brydon, 2019). The first term, “reasonable”, is used in contrast to absolute assurance, as the audit process involves several limitations that complicate the auditors' ability to obtain absolute assurance (IAASB, 2009a, ISA 200). Christopher, Leong and Leung (2017) name the accounting and the audit processes as the primary sources for those limitations. Accounting involves estimates and judgements by the preparers of the financial statements, which auditors can evaluate based on their reasonableness but cannot with certainty tell whether they are correct (Christopher, Leong & Leung, 2017). Therefore, evidence and supporting documentation for accounting judgements need to be persuasive, not conclusive (Wedemeyer, 2010).

In addition to this, the limitations of the audit process itself include materiality and sampling, which leave room for non-detection of material misstatement due to fraud or error (Law, 2008). Furthermore, other factors impede auditors' ability to detect fraud, like collusion, override of controls, or management involvement (Brydon, 2019). Therefore, “there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs” (IAASB, 2009a, ISA 200.A52). Wedemeyer (2010) argues that more extensive audits and audit procedures could possibly overcome this risk; however, this would lead to disproportionate cost. Hence, auditors need to make adequate risk assessments, apply professional judgement and scepticism, and obtain adequate evidence “to reduce audit risk to an acceptably low level” (IAASB, 2009c, ISA 320.A1) to provide reasonable assurance.

Reasonable assurance and a quality audit require professional judgement, which Ionescu (2012) defines as:

[...]the application of relevant knowledge and experience, within the context provided by auditing and accounting standards and the rules of professional conduct, in reaching decisions where a choice must be made between alternative possible courses of action. (p.1493)

Since every audit is unique and needs to be adapted to the underlying circumstances, professional judgement is required during the whole audit process from the risk assessment until forming an opinion (Wedemeyer, 2010). ISA 200 (IAASB, 2009a) states that it is particularly important when it comes to materiality and audit risk, application of audit procedures, evaluation of the sufficiency of the evidence, reasonableness of estimates and judgement performed by the auditee. Professional judgement can only be trained in practice by learning how to react and which measures to take in a specific situation. Therefore, audit firms often apply apprentice models, where newcomers get supervised and trained by senior employees, and with more experience, more complex tasks, that gradually require more professional judgement, are assigned to them (Wedemeyer, 2010). Furthermore, professional judgement should be supplemented by the adequate amount of professional scepticism, also referred to as “questioning mindset” (see, e.g., Brydon, 2019; Gong, Kim & Harding, 2014), as Aminudin and Suryandari (2016) show in their study that professional scepticism is positively related to the detection of fraud.

The evolution of the role of the auditor regarding fraud, the standards defined by the IAASB relating to this subject, and the characteristics of an audit together build the roles and responsibilities of auditors from an audit and regulatory perspective. It contributes to how auditors are perceived by the actors of the financial reporting ecosystem and those not participating in this regulatory space.

2.2 Theoretical frameworks

2.2.1 Expectation Gap

According to Humphrey, Loft and Woods (2009), the history of the audit profession is full of people's desire to know what auditors do, and the frustrated auditors, who complain that society does not understand what their main purpose is. The term expectation gap was firstly used in the context of auditing by Liggio (1974, cited in Porter, Simon, & Hatherly, 2014), who defined it “as the difference in the level of expected performance” (p.786). Nowadays, the more prevalent definition of the audit expectation gap is “the difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is” (IAASB, 2020, p.11). While it only addresses part of the concept, the audit expectation gap can be seen as the broader construct, which includes several layers that contribute to the overall perception of the audit profession.

Porter (1993, cited in Porter, Simon & Hatherly, 2014) criticises previous scholars' definitions and terms as too narrow. She presents the model, which is better known as the audit expectation-performance gap (see figure 1), that shows different levels, common in society's perception of the audit expectation gap.



Figure 1: Audit Expectation-Performance Gap by Porter (1993)

As it could be noticed from figure 1, the model categorises the audit expectation gap into performance and reasonableness gaps, which are further broken down into deficient performance and standards, and unreasonable expectations accordingly. Those levels can be defined as:

- *Deficient performance gap* refers to the situation when auditors do not perform as required based on the standards;
- *Deficient standards gap* reflects the difference between the existing standards and reasonable stakeholders needs, which result in the opportunity to change current regulations;
- *Unreasonable expectations gap* relates to unrealistically high beliefs about the role of auditors concerning preventing and detecting corporate fraud (Porter, Simon, & Hatherly, 2014).

As this framework represents the dual responsibility of the auditors and reflects three levels of the expectation gap, it will be beneficial in order to discuss and compare the suitability of the IAASB (2020) applied model, which was used to construct the expectation gap regarding fraud in the regulatory space by IAASB.

The most recent study, which was based on the model of Porter (1993, cited in Porter, Simon & Hatherly, 2014), was conducted by Astolfi (2021), who tried to identify auditing and accounting standards' impact on the audit expectation gap. In order to reach this objective, he used a survey, which was distributed to 158 auditors and preparers of financial statements in France and Luxembourg, who work in the International Financial Reporting Standards (IFRS) environment. His main finding revealed that the impact of accounting standards on the audit expectation gap is underestimated, and its importance is the same as auditing standards. This finding was based on questions designed to identify which standards - accounting, auditing or

both - contribute to the audit expectation gap. Even though the responses varied and were highly distributed, 51.3% of respondents do not agree that only auditing standards influence the audit expectation gap; 62% believe that the audit expectation gap is mainly driven by accounting standards (Astolfi, 2021). In comparison, 76% of inquirers assume that both standards can explain reasonableness and deficient performance gaps (Astolfi, 2021). As the complexity of IFRS is increasing, the understanding of financial statements prepared under IFRS is decreasing; therefore, users have higher demands towards auditors, who are supposed to ensure that the financial statements are prepared according to the standards (Astolfi, 2021). Nevertheless, Astolfi (2021) further elaborated on the contribution the accounting standards have on the audit expectation gap and presented the key characteristic of the IFRS: they affect the initial Porter (1993, cited in Porter, Simon & Hatherly, 2014) model on both sides, as presented in figure 2.

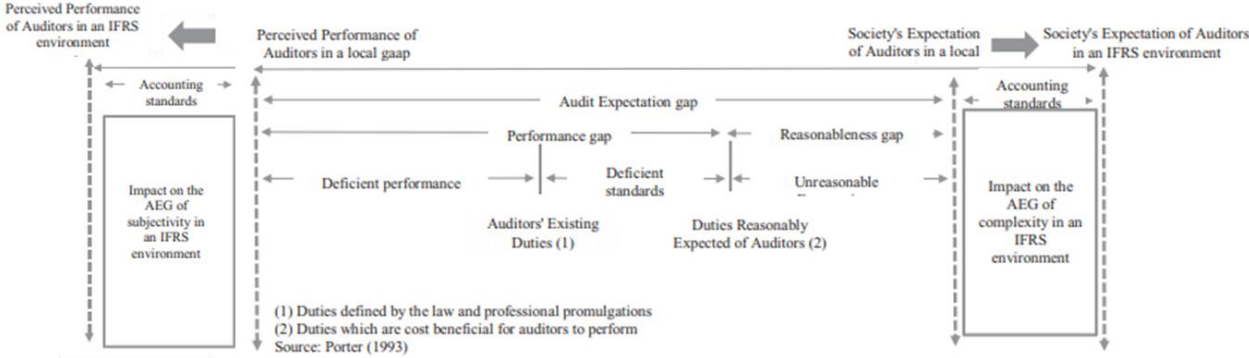


Figure 2: IFRS influence on audit expectation gap introduced by Astolfi (2021)

Therefore, he expanded Porter's (1993, cited in Porter, Simon & Hatherly, 2014) model by IFRS subjectivity, which influences the deficient performance gap, and IFRS complexity, which impacts the reasonableness gap.

As most research studies conducted in the fraud expectation gap field were trying to identify if the expectation gap exists and what factors contribute to it in the specific analysed country, it is widely agreed that the audit expectation gap is not limited to geographical borders (Porter, Simon, & Hatherly, 2014). However, the study of Hassink et al. (2009) endeavours to grasp a different perspective of the audit expectation gap, as it was performed in order to identify what kind of gaps are persistent in the audit profession. The model of Porter (1993, cited in Porter, Simon & Hatherly, 2014) was selected for their research purposes and the questionnaire related to the levels of the expectation gap presented in figure 1 was distributed to three groups

(business managers, bankers and auditors). The main insights obtained from this study are that notable performance gaps were discovered for several auditors' duties:

- Auditors believe that it is their responsibility to detect fraud when there is no collusion;
- Business Managers have higher expectations for auditors to perform further investigation if fraud is suspected; and
- The standards gap might represent the situation when auditors do tasks that are not required by standards (Hassink et al., 2009).

The findings were related to the reasonableness gap, revealing that business managers have unreasonable expectations with the auditors' responsibility to detect fraud. Business representatives expect auditors to detect fraud even in case of collusion and strongly agree with the statement that auditors should disclose even non-material fraud, while auditors disagree with this assertion (Hassink et al., 2009). To sum up, almost all insights showed that society needs to be provided with more knowledge of what auditors do and what they can rationally expect from them by increasing transparency in auditors reporting.

As the previously introduced models consider the expectation gap as a multi-level concept, other definitions can be found in the audit and accounting literature, which consider the expectation gap as unified and indivisible. For instance, based on the respondents' opinion presented in the Brydon report (2019), there could be expectation gaps, such as hindsight, quality, misperception, methodology or delivery. In addition to this, the IAASB (2020) refers to the interpretative gap, which deals with the interpretation of the current standards from auditors' and stakeholders' perspective and how both of those groups can interpret complicated standards differently. It also defines a hindsight gap, which exists when people overestimate the outcome which could be reached before its occurrence. In addition to this, the Chartered Financial Analyst (CFA) Institute (2019) mentions a misperception gap, which defines the situation when misperceptions of the purpose and assurance provided by auditors exist. It reflects the same situation as the general definition of the expectation gap, where people misunderstand what they can expect from the auditors and what degree of assurance (absolute versus reasonable) they can expect, while the auditor's inability to meet current standards is referred to as the quality gap (CFA Institute, 2019). Furthermore, the Business, Energy and Industrial Strategy Committee in the UK (2019) expressed a strict position concerning the audit delivery gap and criticised auditors for attempts to reduce the scope of the audit, underestimation of auditors' role, and blaming society that it does not understand the main goal of audit. Instead, they suggest concentrating on the poor quality of current audits. Thus, based

on different approaches, the expectation gap can be described as one or consists of several elements.

Concluding, the expectation gap is a two-folded issue, where one side represents requirements and auditors, while the other constitutes the general understanding of financial statements users (Kassem & Higson, 2012a). Therefore, the overall expectation gap comprises two parts, where the first reflects the auditors who fail to meet the current standards and cause performance, delivery, or quality gaps, and the second part is related to unreasonable expectations of society and misinterpretation of auditors' duties.

2.2.2 Concept of construction

The notion of construction surrounds people in their everyday lives since the ideas, values, and practices prevalent in society are based on how reality is constructed (Young, 2006). Liebrucks (2001) states that perception of reality is based on social interaction and Diaz-Leon (2013) complements that the concepts and theories that are constructed by society are the results not only of social but also of historical events. This implies that the ideas and practices people use are not given by nature but were constructed by themselves (Young, 2006). Therefore, Young (2006) points out that it is necessary to question the taken-for-granted logic as otherwise, it might limit the possibilities that can be imagined by different actors, as they perceive certain constraints as given and insurmountable. On the contrary, if people stop taking social constructions for granted or reject them, they commence changing (Schneider & Sydney, 2009).

Respectively, Humphrey and Moizer (1990) propose to contemplate audit as a social construct and contextually dependent phenomenon that serves numerous roles and functions. Furthermore, the audit profession itself constructs issues discussed as part of its agenda and ought to change standards and practices (Young, 2003). For instance, one commonly used narrative is one of the scandals, like Enron and Worldcom, as those historical events are commonly used to explain shifts in regulations and provide means of interpretation for them (Khalifa, Sharma, Humphrey, & Robson, 2007). Following the logic of Young (1994), who describes the construction of accounting standard setter agendas, an audit problem must first be constructed as a standard-setting action before a solution can be found. Thereby, certain matters are included, while others are actively excluded from forming the standard-setting process (Young, 2003).

Furthermore, the construction of audit practices and methodologies are the result of discourse, which includes the argumentation of several actors (Khalifa et al., 2007). In order to study the discursive activities of the actors involved in audit regulation, they should be considered in the context of the regulatory space. The concept itself is constructed by people, organisations and events and aims at enhancing audit practices (Young, 1994). As mentioned earlier, a problem first needs to be constructed as relevant for the members of the audit community so that they act upon it to implement new standards and guidance for the audit profession (Young, 1994). However, each actor tends to interpret and construct the individual issues around his/her interests to propose or agree to solutions that are in their own best interest (Young, 1994). Therefore, it is crucial to comprehend the concept of the expectation gap and how it is constructed by the IAASB and its stakeholders in the context of the regulatory space.

2.2.3 Regulatory space

The IAASB constructs a regulatory space around itself in which it sets standards and leads discussions. To better understand the setting in which it operates, the concept of regulatory space needs to be discussed. It was introduced by Hancher and Moran (1989), who defined it as a figurative space in which several parties interact to form new regulations. The model points out that changes in regulation cannot occur in a vacuum, in which a standard-setter defines a new law and enforces it but that several actors participate in this regulatory process, in which all want to contribute (Hancher & Moran, 1989). The concept is holistic in the sense that it not only considers the interest of the different parties involved but also delivers a basis for analysing the interrelations and the distribution of regulatory power within the space (Scott, 2001). Thus, it is essential to study the interdependencies among different actors within the area, like the relationship between regulator and regulatee, who benefits from changes in regulations, and who must carry the costs. However, it is not only interesting to observe those who are inside the regulatory space but also to consider those who were excluded (Hancher & Moran, 1989).

Nevertheless, the notion of “space” implies that it can be not only occupied but also dominated by certain actors who gain regulatory power through having significantly more resources than others (Hazgui, 2005). For instance, with billions of revenues a year, the automotive lobby has far more resources to contribute to the space of environmental regulations than donation-funded environmental activist groups. Therefore, it receives more regulatory power in that space. However, the roles within a regulatory space are not set when established but are constantly

shifting through certain developments within the regulatory environment or because new actors are introduced in the field (Malsch & Gedron, 2011).

As crucial as players in the regulatory space are the issues that are discussed and how the agenda within the space is set. New agenda items often come up in the accounting and auditing context due to large accounting scandals, which show the gaps in current regulation (Zahir-ul-Hassan & Smits, 2017). The momentum of scandals gives the urgency to strengthen and aggravate regulations to meet the expectation of those in and outside the regulatory space (Hancher & Moran, 1989). Well-known examples of this are the SOX act, which was created in response to the Enron and Worldcom scandals, or Basel III, which was designed due to the financial crisis of 2008. After identifying an issue within the regulatory space, it must be further constructed as problems affecting all actors in the regulatory space to get their “buy-in” (Young, 1994).

Moreover, issues can be differentiated based on their level of politics in regulation which can be high or low. If the topic is a rather technical one, the level of politics is comparatively low, while political issues are at the other end of the spectrum (Hancher & Moran, 1989). What makes certain concerns more political than others is inter alia the expectations that the actors inside and outside the regulatory space have. Often the role of societal expectations is neglected even though the extent to which they are met defines the acceptance and assertiveness of the regulatory change (Young, 1994). A particular problem arising from those expectations is that they might not only differ from actor to actor but also from practice, leading to an expectation gap.

2.2.4 Development of analytical framework

The audit expectation gap related to fraud needs to be addressed as a construct built by the members of the audit regulatory space. It results from diverging expectations of stakeholders of the audit process and the role of the audit function, which are shaped by corporate scandals, the changing role and the picture of the auditor, that is painted by standards and audit characteristics (Khalifa et al., 2007). Considering it in the context of regulatory space brings the advantage of providing a holistic picture of how different actors construct the issues inside and outside of it.

There is not one single regulatory space, but for each issue arising a new regulatory space could potentially be set up (Hancher & Moran, 1989). Therefore, the construction of an issue is the starting point for the activities within a regulatory space (Young, 1994). Hancher and Moran

(1989) explain that there are no natural boundaries to regulation, so they need to be constructed by members of the regulatory space. The participants, who identify a problem, have to construct it in an appealing way, so that others would be willing to join the regulatory space (Young, 1994). The IAASB is often the initiator of regulatory discussions in the field of global audit regulations (Humphrey, Loft & Woods, 2009). Therefore, it has the opportunity or burden to construct the issue from its perspective, meaning that it needs to define what is in and what is out of the scope of the discourse (Young, 1994). Whether an issue is constructed in or out of scope, depends on the interests of the respective actor in the regulatory space, its power and timing (Hancher & Moran, 1989). Accordingly, the initiator of the discussion is the first one to define, which issues are included and which not. Afterwards, the joining participants are adding their viewpoints and topics to the created regulatory space for the specific issue and alter the originally developed model, so that all members of the regulatory space construct the issue together (Young, 1994). To sum up, the construction of an issue in a regulatory space can be depicted as follows:

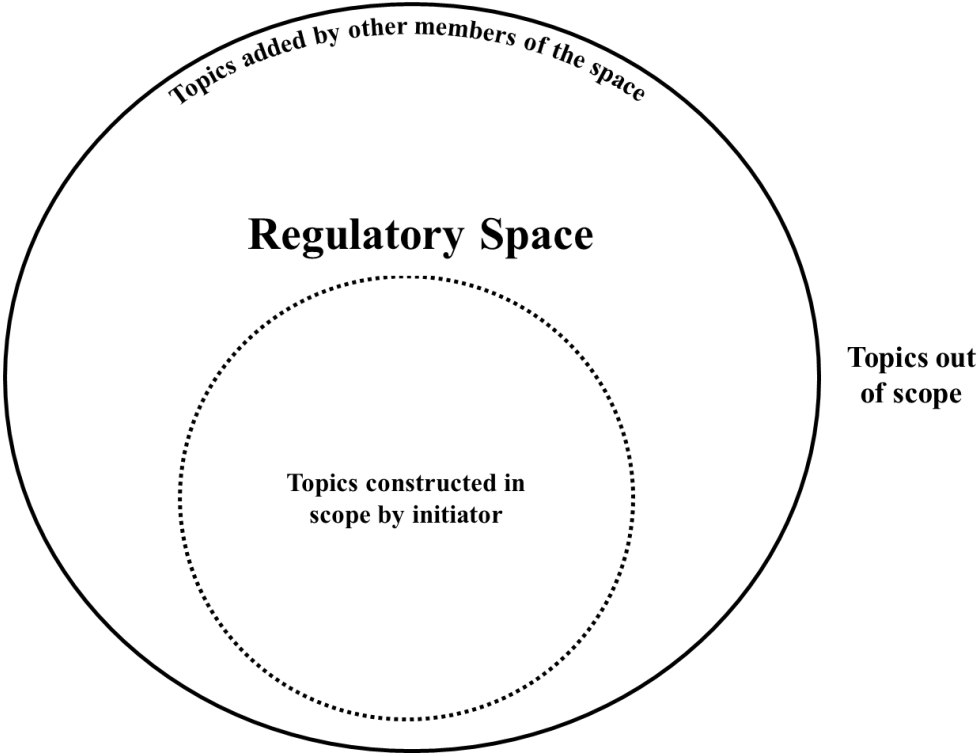


Figure 3: Construction of an issue in a regulatory space
(Composed by authors)

In conclusion, when analysing a regulatory space and the construction of an issue within it the following topics need to be considered (Hancher & Moran, 1989; Young, 1994):

- Which issues exist in the regulatory space, how they arise, which are excluded, and how they are constructed;
- The actors in the space, their relationships and interdependencies, and how power is distributed; and
- The way in which the different participants construct the issue in the regulatory space.

These discussion points and the model presented in figure 3 will be used as a framework for discussing the results of the analysis of this thesis.

3. Method

3.1 Research Strategy

The focal point of this thesis is the construction of the expectation gap regarding fraud in the regulatory space of audit. The defined purpose emphasises the importance of the points of view of the various stakeholders in the audit regulatory space. This goal can be reached using a qualitative research method that concentrates on the text and its meaning in the analysed data, unlike quantitative research, which focuses on measures and quantification (Bell, Bryman & Harley, 2019). As the purpose of this thesis is to identify similarities and deviations in the argumentation of stakeholders and the patterns in how they construct the issue of the expectation gap within and outside of the regulatory space, a qualitative research approach was determined to be more appropriate than a quantitative one. However, to gain a better overview of the results and present the data more concisely, the features of the quasi-quantitative approach were chosen to supplement the qualitative research strategy.

According to Bell, Bryman and Harley (2019), qualitative research has multiple objectives, among others it allows to provide the perspectives of respondents and get an overview of what is significant based on their answers, which fits our main idea of identifying the construction of the expectation gap introduced by different categories of stakeholders. In addition to this, the quasi-quantification study approach enables *inter alia* to generalise obtained results and strengthen the statements, which allows us to compare the answers of different groups within the analysis framework. Therefore, the combination of both permits gaining insights into the comments of the different stakeholders and, through their frequency, observe what significance they have in the conceptualisation of the expectation gap. In order to reflect this combination, the role of theory is imperative, as the concepts presented in the literature review led to the development of our analytical framework on which our discussion is based.

3.2 Research Design

According to Bell, Bryman and Harley (2019), the research design should be aligned to the raised research questions and not only address them adequately but also provide the model for generating data and evidence for the analysis. Therefore, the empirical analysis of this thesis will be based on a qualitative content analysis of data generated by the IAASB, namely the

discussion paper and the related comment letters, which aim at identifying the underlying arguments and patterns in the argumentation of the different actors.

In order to introduce our research design, summarise the main steps and reflections, and define the sequence, the flowchart presented in figure 4 was created.

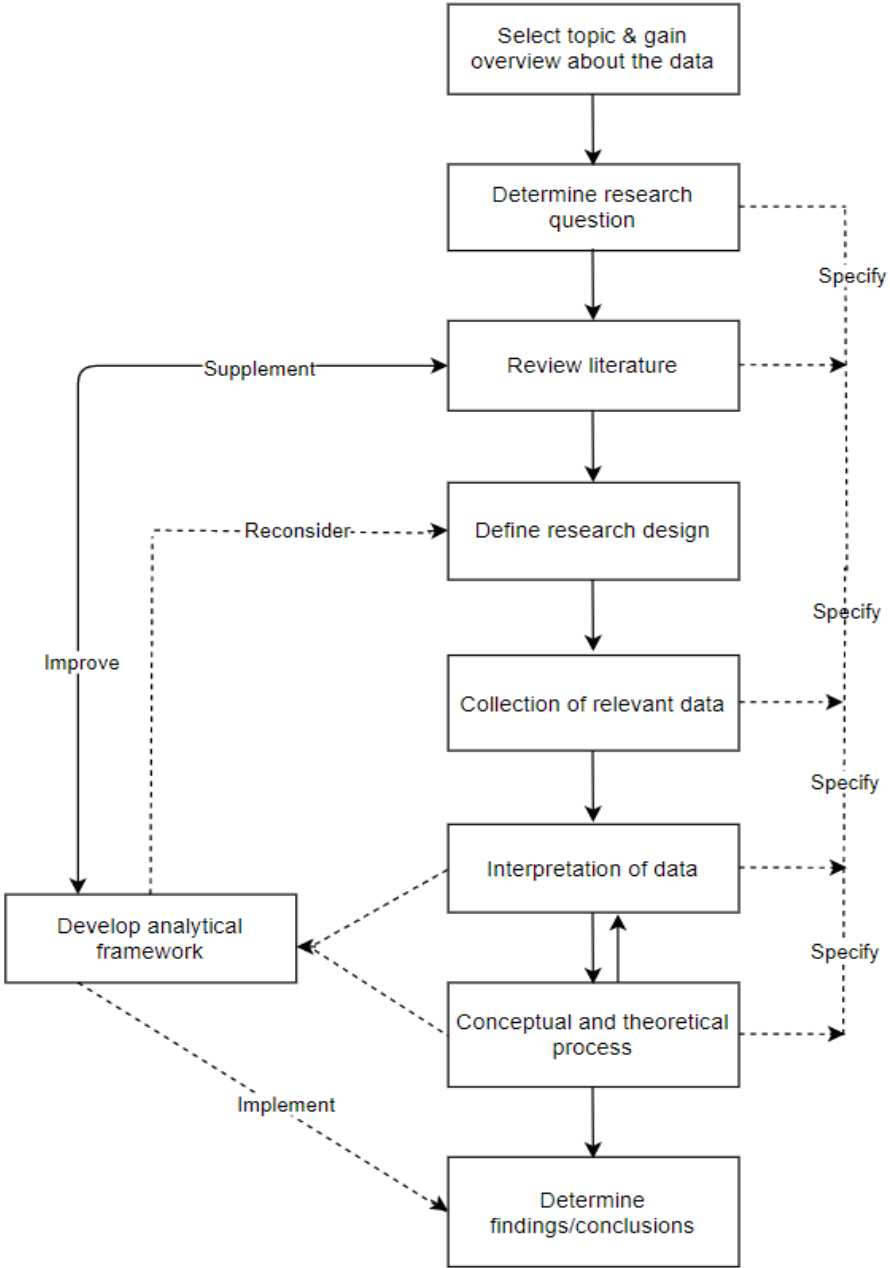


Figure 4: Research design flowchart

(Composed by authors according to Bell, Bryman and Harley, 2019)

The first step was selecting a key interest area, which was audit and the related expectation gap. Then, a thorough review of the literature and data available was carried out to narrow down the topic based on its relevance. Consequently, the primary idea of the thesis was to specify and

identify key aspects (audit, expectation gap and fraud) that led to the topic of this thesis - the audit expectation gap concerning fraud.

Secondly, the research question was determined, which represents the critical research areas of this master thesis. As presented in the research design flowchart, it was revisited several times after reviewing the literature, collecting and interpreting the relevant data, and identifying conceptual and theoretical processes. It allowed us to specify the main research question and differentiate it further into two sub-questions.

After specifying the research question, the theory review was performed to establish the literature context for the empirical part. In order to conduct “a comprehensive, unbiased search” (Tranfield et al., 2003, p. 215 cited in Bell, Bryman & Harley, 2019) in which all articles in the research field have the same probability to be selected, we searched platforms such as Google Scholar, ScienceDirect and LUBsearch, using keywords, like “fraud”, “social construction”, “regulatory space”, “role of the auditor”, “expectation gap” and related concepts. Thereafter, the initial evaluation of the relevance of the studies was performed by both of us by splitting the key interest areas and analysing the abstracts and skimming through the texts of academic literature and other material while identifying the main concepts and findings discovered by researchers in the accounting and auditing field. If considered appropriate for the theoretical background, the articles were reviewed in more detail and a list of references provided to extend the search of the existing literature and get supplementary perspectives on research topics. In addition to the academic research papers, additional material from sources outside of the academic field, including statistical data, insights on the specific cases or particular statements, were included to build a more substantial base for the following empirical analysis.

Then, the research design, which introduces the guidelines to review relevant literature and theoretical frameworks and the analysis of the data, was defined. Afterwards, the collected data was interpreted and coded as described in the next section. This step was closely interrelated with the conceptual and theoretical process, which was built up during the interpretation of data and led to a development of the analytical framework, as elaborated in section 2.2.4. This framework led to the reconsideration of our research design and the concept of construction was introduced, which further improved our analytical framework with additional details based on the literature review. Finally, after the operationalisation of our designed analytical framework, which will be described in section 3.3.2 in more detail, the research was concluded with the determination of key findings and forming conclusions.

3.3 Data collection & analysis

3.3.1 Data Collection

Our data corpus includes the discussion paper published by the IAASB (2020) and the 85 submitted comment letters to it, which we could access on the IAASB's website. The IAASB has, with its unique position in the audit regulatory space, a deep level of access and reach towards its stakeholders and could therefore obtain more data than would have been possible for us given the time constraints of this thesis. By choosing data and the discussion paper accessible online, we overcome the common challenge of qualitative research approaches lacking transparency (Bell, Bryman & Harley, 2019).

As our selected method, an analysis of public documents from an official IAASB inquiry, is not based on self-obtained data (Bell, Bryman & Harley, 2019), we believe that it is essential to stress the method used by the IAASB to generate the relevant data. In order to obtain informed responses to the questions provided in the discussion paper (see appendix 2), the IAASB used comment letters. The questions were provided in the report, and the stakeholders needed to submit their official answers through the IAASB website. Furthermore, respondents could select which questions to answer (to all or only to some). The IAASB discussion paper (2020) was distributed in September 2020, and the comments were requested until January 12, 2021. However, as apparent from the IAASB website, most answers were uploaded after the due date – until April 12, 2021. Nevertheless, all responses provided on the IAASB website will be considered in our research, as they are equally important to get a diverse view on the issues presented in the IAASB discussion paper, except for answer number 86 of the Belgian National Chapter of Transparency International, which is a duplicate of answer number 85. Therefore, for the purpose of this thesis 85 original comment letters were reviewed.

3.3.2 Data Analysis

After the data collection, the interpretation of obtained data was performed. In figure 5 below, the main steps of this process are presented.

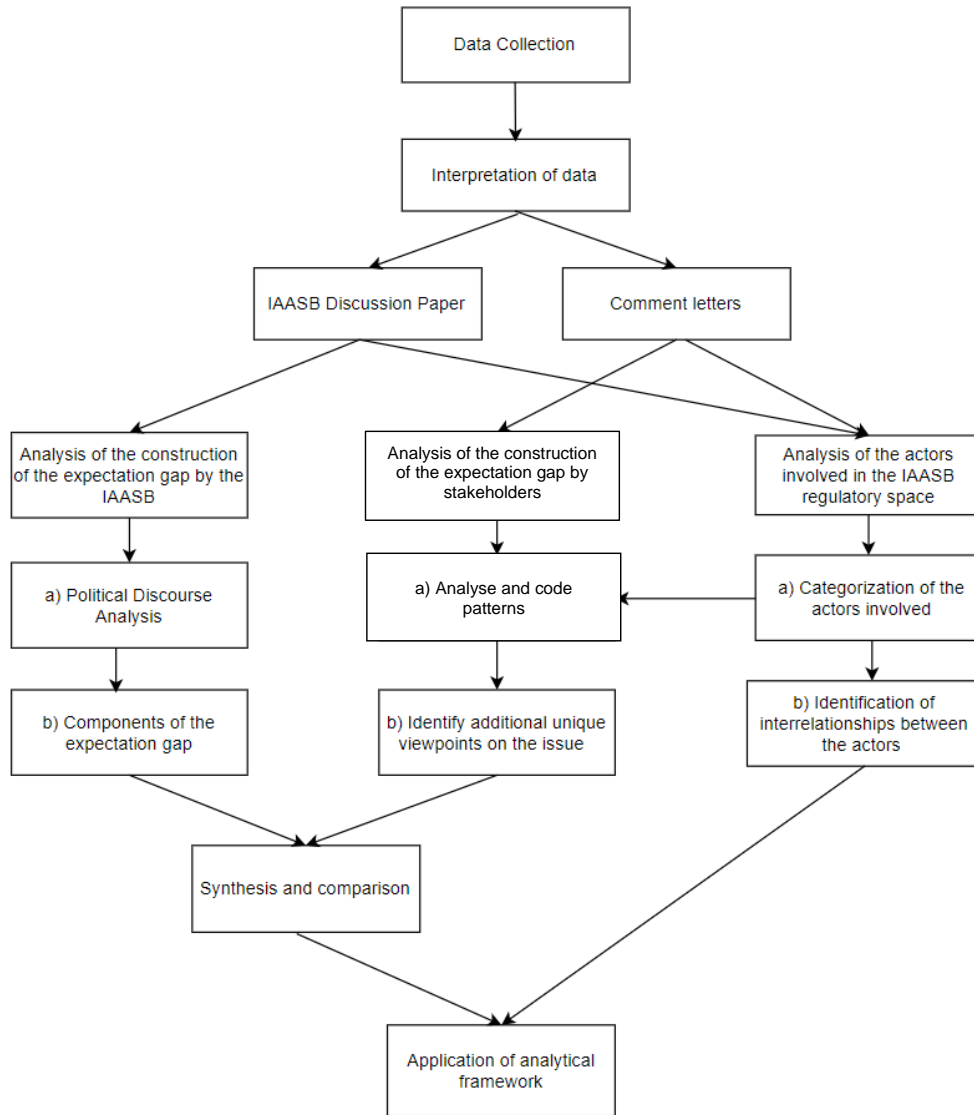


Figure 5: Data analysis flowchart

(Composed by authors)

As it can be noted from figure 5 above, the data analysis will be conducted in three main areas to provide the inputs for our developed analytical framework, which is defined in section 2.2.4.

The data used for the research can be divided into two groups: the IAASB discussion paper (2020) and its comment letters. Firstly, the IAASB discussion paper was carefully read by both of us separately to identify the purpose of it, as well as the inquiry area. Then, both of us discussed it and identified the main areas for research and decided to focus only on the fraud-related expectation gap, excluding going concern from the scope of this master thesis. The second step of making the data accessible for further research was gaining an overview of all

responses submitted by reading 86 comment letters and summarising their main ideas. For this first impression of the individual answers, each of us reviewed half of the submitted responses.

Subsequently, three main areas of the research were distinguished: analysis of the construction of the issue (the expectation gap with regard to fraud) by the IAASB, the identification of the actors in the regulatory space, and their construction of the expectation gap.

Firstly, we studied the IAASB discussion paper in terms of how the IAASB constructs the issue of the expectation gap and invites its stakeholders to act. We adopted the model of Fairclough and Fairclough (2012) of Political Discourse Analysis to analyse the argumentation of the IAASB. The approach of Fairclough and Fairclough (2012) deals with how public institutions and persons construct their argumentation to convince the public that a specific action is required. Also, the IAASB aims with the discussion paper at convincing its stakeholders to join the discussion and regulatory space of this issue. Therefore, the chosen approach is perceived as appropriate to picture the way the IAASB is framing the issue of the expectation gap in its discussion paper.

The Political Discourse Analysis model of Fairclough and Fairclough (2012) is based on the assumption that people found their argumentation or practical reasoning on certain factors, like values, goals, and circumstances that influence their construction of a claim (Fairclough & Fairclough, 2012), as presented in figure 6 below.

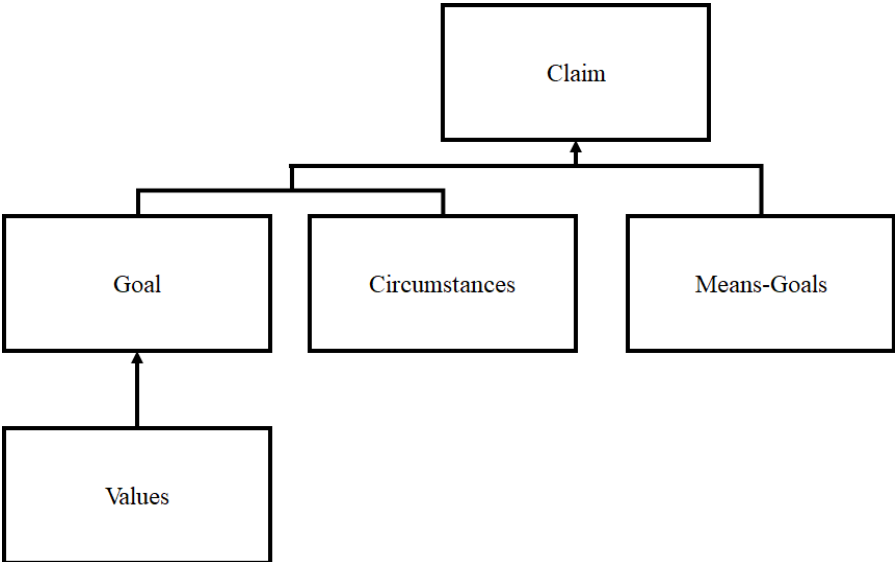


Figure 6: Political Discourse Analysis scheme

(Composed by the authors based on Fairclough and Fairclough, 2012)

The central element of the argumentation scheme is the claim. All other boxes leading to it support the actor's reasoning to arrive at this specific conclusion of what needs to be done. To

begin with, everyone has inherent values that shape their way of thinking and acting, which intentionally or unintentionally influence the goals they would like to achieve. Nevertheless, values can be interpreted as social norms, but also as concerns the actor might have. Therefore, goals are not only shaped by what an agent wishes for but rather a depiction of a future state of affairs that is consistent with their values and able to solve their concerns. The model contains the assumption - termed as means-goals-relationship - that if the action described in the claim is implemented, the goals will be achieved. However, the goals need to be seen in the light of the respective circumstances that have their position in this model. If the circumstances can impede the implementation of the claimed action, the latter needs to be adapted to overcome these constraints. Therefore, it can be noted that all elements in the Political Discourse Analysis model are interrelated and interdependent. Values influence goals, circumstances alter actions, and actions lead to achieving goals (Fairclough & Fairclough, 2012). In the analysis, this model will be used to examine and constitute the argumentation scheme of the IAASB discussion paper of why the expectation gap is a topic on its agenda. Afterwards, the IAASB discussion paper (2020) was examined in order to identify the model of the expectation gap and its main components as presented by the IAASB. Additionally, specific measures and topics in and out of scope were recognised and displayed in our designed analytical framework (figure 3).

At the beginning of the analysis of the comment letters submitted to the IAASB, we analysed the involved actors in the regulatory space and categorised them according to their function in it based on Matos et al. (2018) and according to their regional location. Then interdependencies between different stakeholder groups were identified. Simultaneously, the responses to the discussion paper were analysed in terms of the patterns in their argumentation of what elements construct the expectation gap. In order to achieve this, we had a more detailed look into question 1a), which dealt with the main causes for the expectation gap in all comment letters and coded the answers according to patterns identified. Moreover, it is worth mentioning that during this second review process, special attention was devoted to recognising not only the patterns but also the unique or non-standard viewpoints of the IAASB stakeholders, which were used to discuss the expectation gap construction by the IAASB (2020). This step was performed by both of us together in order to build a standard categorisation scheme and apply it consistently. Finally, those patterns were compared to the aspects mentioned by the IAASB to identify similarities and deviations.

To sum up, it is worth mentioning that the sequence of the steps does not reflect the importance of them, as all three areas are equally crucial in order to determine key insights and answer the

research questions. As it can be seen from figure 4, the interpretation of data led to the application of our developed analytical framework which was used in order to present the main discussion aspects.

3.4 Research Limitations

The first research limitation is related to the selected research strategy of using data generated by someone else, as we did not influence the questions provided in the IAASB discussion paper. However, as the data was chosen in line with our research purpose, this is not perceived as an obstacle. Continuing, even though the approach chosen by the IAASB of using the discussion paper has the advantage of less time and effort to generate the data especially compared to conducting interviews, it lacks the opportunity of directly asking questions to the respondents to clarify certain aspects and leading the interview into a particular direction. The variety of answers received, many dealing directly with the questions, but some discussing topics that are rather on a general level hampers the analysis but also provides the opportunity of getting diverse perspectives. Furthermore, as participation is voluntary and some actors might not feel obligated to answer, some aspects might be missing. However, we concluded that the data generated by the IAASB is sufficient and adequate for the purpose of our thesis, as the 85 comment letters provide a variety of perspectives and opinions.

Another constraint, which might partly affect the empirical results, is the uncertainty on the way of distribution of the IAASB report as certain regulatory space actors might not have been included in the discussion. This possibly led to a restriction, which might have occurred during the submission of the insights, which is related to not maintaining the confidentiality of the respondents. Some organisations, companies or people might feel uncomfortable or restrained to present their opinion (especially if the suggestions are unpopular compared to the overall approach) publicly, as this might be misunderstood or misinterpreted and cited in other papers without the protection of privacy. Therefore, some potential respondents might have decided not to submit their answers. However, one of the key principles of the IAASB is transparency, which includes publishing the discussion papers and standards online for review and comments so that they are publicly available for everyone interested (Humphrey & Loft, 2009).

Additionally, we have considered a possibility of biased thinking towards later submitted responses as those might be influenced by the first published papers, which were uploaded based on the due date. Finally, the last limitation occurs due to our research question, which

only includes considerations regarding the fraud expectation gap even though the IAASB discussion paper examines the issues of the expectation gap concerning both fraud and going concern. This might confuse the IAASB stakeholders and us in terms of differentiating elements of the expectation gap and which topics mentioned in the responses are related to fraud and which to going concern. However, we believe that the above-mentioned limitations will not significantly impact the overall empirical analysis and results.

3.5 Ethical Considerations

We have considered possible ethical issues which might occur during the research. As defined by Bell, Bryman and Harley (2019), four ethical principles should be followed while conducting research: avoidance of harm, informed consent, protection of privacy through confidentiality and preventing deception. As the data used in our empirical study was published online on the IAASB website, the challenges maintaining and following the requirements lie within the primary inquirer of the input – the IAASB. However, to avoid ethical issues, the IAASB discussion paper (2020) was analysed in order to identify how respondents were informed about their rights and the public distribution of their answers. It was specified that “all comments will be considered a matter of public records and will ultimately be posted on the IAASB's website” (IAASB, 2020, p.2). Furthermore, those who decided to provide their insights “could choose to answer all, or only some, of the questions” (IAASB, 2020, p.6). Moreover, the IAASB stakeholders, who submitted their comments to the inquiry, were informed that the transcripts would be uploaded to the IAASB’s website and would be publicly available, for those who are interested in this topic, to get acquainted, analyse and distribute this information. This presumes that the identity of respondents will be revealed publicly and confidentiality will not be maintained. However, we perceive no ethical implications which might affect the research conducted, as the respondents were informed how received information would be processed.

4. Analysis

Based on the presented data interpretation process (figure 3), the following chapter comprises three parts that develop the inputs for the analytical framework. The first part presents the construction of the issue of the expectation gap by the IAASB, followed by an analysis of the actors in the regulatory space and their perspectives on the expectation gap.

4.1 Construction of the Issue of the Expectation Gap by the IAASB

4.1.1 Construction of the argumentation in the IAASB discussion paper

To study the expectation gap from the perspective of the IAASB, the argumentation in its discussion paper, about why the expectation gap is on its agenda, should be considered. As pointed out by Young (1994), to comprehend regulations, it needs an understanding of how an issue arises on the agenda within the regulatory arena. The way the IAASB constructs the issue of the expectation gap in its discussion paper will be analysed as described in the methodology according to Fairclough and Fairclough (2012), summarised in figure 7 below.

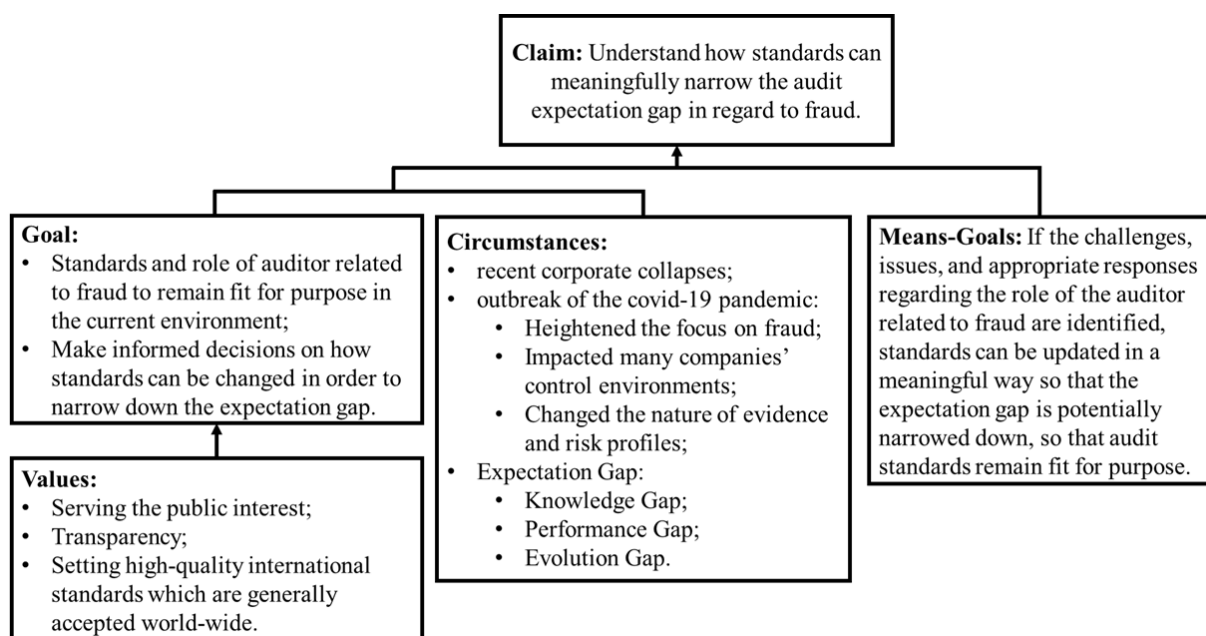


Figure 7: Argumentation analysis of the IAASB discussion paper

(Composed by authors according to Fairclough and Fairclough (2012) and IAASB (2020))

Circumstances

The IAASB (2020) defines the circumstances of the discussion paper, which set the stage for the claim, indicate direction, and determine the scope for the respondents and their insights.

Firstly, the IAASB (2020) presents that the requested input should be contemplated in the light of recent corporate collapses as detailed in section 2.1.2, which occurred worldwide and encouraged “initiatives [...] around the globe” (p. 9), such as those of national standard setters in Japan or the UK. As those corporate fraud scandals arose unexpectedly, they “have sparked debate between regulators, public policy makers, investors, auditors, and others” (IAASB, 2020, p.9). However, these discussions not only “involve questioning the responsibilities of different participants in the financial reporting ecosystem” (p.9), but they “have also highlighted issues in relation to expectations of auditors” (p. 9). Respectively, the IAASB (2020), as an authority responsible for the setting of audit standards, seeks information on how it could impact the auditor's role that it will stay fit for purpose and assist in identifying the red flags before corporate collapses occur.

Secondly, the IAASB (2020) emphasises that this is the right time to raise these concerns, as the COVID-19 pandemic spotlights fraud-related topics. It can be explained by the changing business environment, which likely had an impact on the design of the majority of companies' internal controls systems, which might influence the ways fraud is committed (IESBA & IAASB, 2020). In addition to this, the audit concept has adapted accordingly, as COVID-19 brought new challenges to the profession. For instance, remote work for both the entity and auditor means changing existing audit procedures and the change in nature of evidence, leading to an increased fraud risk (IAASB, 2020). Thus, the IAASB (2020) is particularly interested in how this situation should or should not be addressed in the standards to meet the stakeholders' expectations and reduce the performance gap that might occur due to deficient standards, which are not adjusted to the current environment.

Moreover, one of the circumstances presented in the IAASB discussion paper (2020), which should be considered to analyse the role of an auditor, is the expectation gap. As previously mentioned, the expectation gap is generally defined as the difference between what society expects from the auditor and what the auditor actually does (IAASB, 2020). However, as it might be related to several different issues or divided into particular sections, the IAASB selected to present the ACCA (2019) model, which classifies the expectation gap in knowledge, performance and evolution gaps (see figure 8):

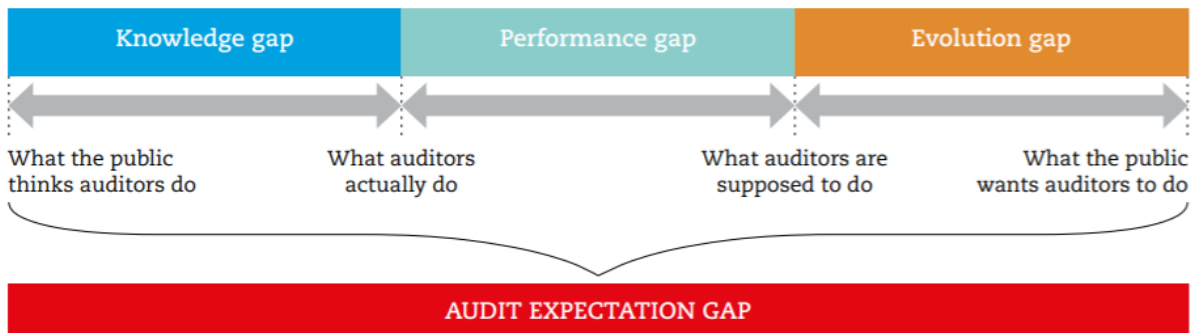


Figure 8: Audit expectation gap according to ACCA (2019)

The ACCA refers to the knowledge gap as the difference between what the public thinks auditors do and what auditors actually do. This issue occurs when “the nature, extent and limitations of the auditor's responsibilities” (IAASB, 2020, p. 12) are unclear for the financial statement users or when there is a misinterpretation of auditing standards. For instance, ISA 240 (IAASB, 2009b) states that auditors should provide reasonable assurance concerning financial statements, which means that materiality is an essential part of the audit procedures and the auditor's responsibility lies only with the identification of *material* misstatements either due to fraud or error. However, society expects that the auditor reports on any misstatement no matter the relevance for the overall financial statements. The presence of this belief was also supported by Deloitte's Global Audit Value Pulse Survey, which surveyed 351 people and revealed that 73% of respondents believe that audit is designed to detect any fraud (Deloitte, 2020). Therefore, the knowledge gap occurs when society is unfamiliar with ISAs or interprets them for its benefit.

The performance gap refers to the difference between what auditors do and what they are supposed to do (ACCA, 2019). This gap is solely related to auditors' work and inability to meet the audit standards or regulations either due to poor audit quality or misinterpretation of complicated standards (ACCA, 2019). From the perspective of the audit standard setter IAASB (2020), two categories need to be addressed: some standards might not be clear enough, inconsistent application exists and causes confusion, or there are deficiencies in guidelines and supporting material that can be applied for more effective standards' application procedures.

Lastly, the evolution gap describes the difference between what auditors are supposed to do and what the public wants auditors to do (ACCA, 2019). This gap is prevalent in fast-developing areas, and auditors fail to catch up on improvements, like technological advances, the overall audit process, or increased public demands. It is further elaborated by the IAASB (2020) that the transparency of audit reports could be improved to present the procedures performed by the

auditors concerning fraud, as well as some audit procedure changes might be required due to rapid changes in the business environment. Thus, the evolution gap is more forward-looking as it reflects the possible enhancement of the current approach to meet society's demands.

In addition to this, the IAASB (2020) specifies that the performance gap can be divided into two parts: one part depends solely on the auditors' work and its quality, and the other part might be affected by the standards. It means that the standards are not clear enough and could be misinterpreted, leading to poor performance. Nevertheless, the IAASB (2020) declares that the primary focus will be only on matters related to the second part of the performance gap “where auditors do not do what is required because the requirements are not clear or leave room for misinterpretation” (p.11). Therefore, the IAASB determines the scope of the Discussion Paper and mainly concentrates on the parts of the expectation gap, which could be affected by improving standards, as it is the primary objective of the IAASB.

Values

The goals and actions of the IAASB are rooted in its values. As discussed in section 2.1.1, its central values are transparency, establishing internationally accepted, high-quality standards, and serving the public interest. The first two are represented by issuing the discussion paper, putting the issue up for public comments reflecting the due process, and publishing the discussion board minutes and round table videos online. The third value of serving the public interest is emphasized in the first sentence of the IAASB chair's introduction to the discussion paper: “Serving the public interest is core to the IAASB's mission.” (IAASB, 2020, p.4). It can further be noticed throughout the IAASB discussion paper (2020) by considering the roles and requirements of auditors concerning fraud while structuring the questions on how standards can be enhanced to meet public expectations better. Thus, gathering the insights from the IAASB's community regarding the expectation gap related to fraud meets the primary values of the IAASB, since the process of the discussion paper is transparent and gains acceptance from the stakeholders, to finally serve the public interest by narrowing down the gap.

Goals

The goals set by the IAASB (2020) are a crucial element of their argumentation. They entail keeping the standards and audit practice “fit for purpose in the current environment” (p.5) and making informed decisions on how to narrow down the expectation gap. The first goal is strongly related to the evolution gap and needs to be considered in its context, as constant environmental changes and new developments require expanding or reconstructing the role of

the auditor (IAASB, 2020). Not only do auditors need to adapt to those changes and be adequately trained to master newly arising challenges, but those also need to be reflected in audit standards to keep the profession credible and competitive.

Furthermore, the IAASB, as a body grounded in the IFA serving the public interest, is expected to meet the requirements of all its stakeholders. Those are determined by gathering the responses to the discussion paper. However, this information collection exercise is not enough to make a decision, as the IAASB also needs to consider other factors, like costs vs benefits and whether the proposed measure, while narrowing it in one sense, might widen it in another. Therefore, the IAASB must consider several factors to “understand the many perspectives on these matters so that [it] can make informed decisions about possible changes to the standards” (IAASB, 2020, p.5).

Claim

All factors mentioned above lead to the IAASB arriving at the claim that it wants to get insights into how standards can be changed and enhanced to provide purposeful measures that support narrowing down the expectation gap. They address this intention as: “the first structured step in better understanding how standards can meaningfully narrow that gap” (IAASB, 2020, p.4). Even though in the centre of standard setting, the IAASB cannot carry the entire responsibility and implement all measures necessary to narrow down the expectation gap due to its complexity. Therefore, it needs the support of the other members of the regulatory space to address this issue. With this claim, the IAASB sets out its purpose for the discussion paper, invites its stakeholders to contribute and tries to get their buy-in to reach its goals.

Means-Goal Relationship

The means-goals relationship analyses the interconnectedness of the goals and the claim and whether the intended goal can be achieved through the claim. In this case, it can be phrased as follows: If the challenges, issues, and appropriate responses regarding the role of the auditor related to fraud are identified, standards can be updated in a meaningful way so that the expectation gap is potentially narrowed down, so that audit standards remain fit for purpose.

Summarising, the circumstances constructed by current events, such as the COVID-19 pandemic or recent fraud scandals, and by ever persisting issues such as the audit expectation gap, form the basis for the concern brought to the IAASB's attention. The problem is further shaped by the goals and values of the organisation, which finally leads to the claim that the IAASB can incorporate the issue into its agenda. Therefore, the construction of the issue and

setting it on the agenda of the regulatory space leaves the IAASB responsible for acting upon it, which it does through its discussion paper.

4.1.2 Construction of the components of the expectation gap

As presented earlier, the IAASB (2020) selected the ACCA (2019) model to analyse the causes for the expectation gap regarding fraud, which defines three main components of the expectation gap: knowledge, performance, and evolution. Additionally, the IAASB (2020) determined the scope of this discussion paper by excluding the performance gap related to the deficient performance by auditors. Furthermore, it distinguishes each expectation gap component that could be addressed by standards and concerns for further considerations. As the primary attention is devoted to the first group of aspects that the IAASB could directly influence, they will be shortly presented to understand better how the expectation gap is constructed from the IAASB perspective.

Firstly, it starts from the knowledge gap, which could be reduced by increasing the transparency in the audit reports. It includes that the IAASB could further elaborate the standards related to the audit report and require auditors to provide more information to the users of the financial statements. That might include the description of risks assessed, the determination of procedures performed during the audit regarding fraud, and the scope and limitations issues faced by auditors during the engagement. Therefore, introducing a more transparent and detailed audit report, which provides more information about the auditors' works regarding fraud, might help educate the public and reduce the knowledge gap.

Secondly, the performance gap was presented in further detail by establishing two areas for standard-setting purposes. The IAASB (2020) begins with aspects of specific standards which might be unclear and unevenly applied throughout the different audit firms or countries. Therefore, the IAASB, as the standard-setter, wants to identify those “grey spots” and clarify them to unify the application. However, it is also interested in improving the guidelines and additional material, which could assist the auditors to understand the standards better and avoid inefficient implementation (IAASB, 2020). Thus, after recognising the scope of those concerns, the IAASB could modify the standards or issue additional guidelines to reduce the performance gap related to misinterpretation of the standards.

Lastly, the evolution gap is constructed in the analysis, as the IAASB (2020) is willing to know how standards could be advanced to meet increased expectations of the public. The worries

occur as the current pace of the changing environment is so accelerated that the audit standards are lagging and support neither the auditors nor the stakeholders. For instance, the guidance is not robust enough for auditors regarding what steps should be taken when possible fraud is identified, and the stakeholders might demand enhanced procedures concerning fraud, even though it is not currently specified in the standards (IAASB, 2020). Therefore, the evolving environment has implications for designing procedures specifically targeted to the occurring changes and meeting society's expectations, especially concerning fraud prevention and detection.

4.2 Categorization and interrelations of the actors in the audit regulatory space

4.2.1 Categorisation of actors according to role in the regulatory space

Continuing with the analysis of the regulatory space constructed for the expectation gap, the organisational forms of those participating in it will be examined. As the IAASB (2020) invited all interested parties to provide their input to the issue presented in the discussion paper, it is crucial to analyse the relationships between the actors in the audit regulatory space to comprehend the answers better, as the responses might differ, or patterns could be identified based on the different groups.

Firstly, the IAASB (2020) specified that it includes the following participants in the discussion:

investors and other users of financial statements, those charged with governance of entities, preparers of financial statements, national standard setters, professional accountancy organisations, academics, regulators and audit oversight bodies, auditors and audit firms, and others where interested. (p.5)

This quote implies that the IAASB expects to receive insights from everyone who has intentions to contribute.

Furthermore, the IAASB presents its stakeholders in the context of the Financial Reporting Ecosystem (IAASB, 2020). It is important to include not only the regulatory and oversight bodies but also those who are directly affected by the regulations to be implemented, in this case, audit firms, preparers, e.g., management and TCWG, and users of financial statements, as well as other potential stakeholders.

Even though the term financial reporting ecosystem is not represented in audit academic literature, it is a frequently used term in practice. For instance, Deloitte (2021) states that “the purpose of the financial reporting ecosystem is to serve the public interest by enabling complete, accurate, transparent corporate financial disclosures.” (p.1). The IAASB (2020) further points out that it includes all those who contribute to financial reporting from the preparation of the financial statements, over its approval and audit processes, until the use and analysis of the final product. The process of financial reporting and its contributors are depicted in Appendix 3. Based on that scheme, the IAASB discussion paper (2020) defines five groups of actors: (1) The entity and its management; (2) Boards and audit committees; (3) External Auditors; (4) Governments, regulators, professional bodies, and standard setters; and (5) Users of financial statements and other stakeholders (incl. investors, analysts, lenders).

Therefore, to better understand the different viewpoints in the discussion paper responses and construct the regulatory space for the expectation gap concerning fraud, the respondents were categorised, as presented in figure 9. The differentiation was performed according to Matos et al. (2018), who analysed if the viewpoints of the auditors and regulators differ significantly and if the lobbying strategies are effective in the IAASB regulatory space, while examining the comments letters provided in the last phase of the public consultation for “Improving the Auditor’s Report”. However, their categorisation slightly differs from the financial reporting ecosystem as it is more detailed and splits the “other stakeholders” into investors and analysts, academics and individuals. Since Matos et al. (2018) use a similar data set as this thesis, i.e., comment letters to an IAASB document, and use a more precise approach avoiding “others”, their approach was considered as appropriate.

Category/Region	International	Asia - Pacific	Europe (incl. Russia)	Latin America	Middle East - Africa	North America	Total
Professional Association & Bodies	3	6	9	1	4	3	26
Auditing Firms	10	1	1	0	1	4	17
Regulators & Supervisors	2	1	3	0	3	3	12
Investors & Analysts	1	0	1	0	1	0	3
Standard Setters	2	4	4	2	0	3	15
Individuals	0	1	0	1	1	0	3
Preparers of Financial Statements	1	1	0	0	1	0	3
Academics	0	1	2	1	0	0	4
Those Charged with Governance	1	0	0	0	1	0	2
Total	20	15	20	5	12	13	85

Figure 9: Actors in the IAASB's Audit Regulatory Space

(Composed by authors, based on the categorisation of Matos et al. (2018) and the comment letters to the IAASB discussion paper (2020))

Even though the IAASB invited all stakeholders interested to the discussion table, not everyone decided to participate. As apparent from figure 9, professional associations and bodies are the most represented group, likely due to the relevance the topic has for them, their members and their frequent communication with IFAC and the IAASB.

The next biggest group comprises audit firms, to be more specific, nine out of the ten biggest audit companies (as per 2019: Accountancy Age, 2021), five other audit firms, as well as three auditor general, which are responsible for auditing governmental institutions in their respective countries. Since auditors will be most affected by changes in auditing standards, their interest is naturally heightened. Therefore, it could have been expected that even more audit firms would respond to the discussion paper, whereas it is assumed that especially smaller companies are represented by professional associations, as mentioned above.

Also, national and international standard setters and regulators play a significant role in the space because they can greatly contribute to the discussion by providing viewpoints specific to the legislation in which they are operating. Furthermore, they also have an interest in influencing the decisions of the IAASB since most countries implement ISAs or use them as a benchmark for their laws (IFAC, 2021) and have to adapt their national legislation accordingly if changes are made to international standards (Samsonova-Taddei & Humphrey, 2015). Even though the IAASB is not part of the figure above, it is the initiator of the discussion and would

be considered as part of the group of standard setters just like its parent organisation IFAC and should be viewed in this context.

Continuing with the underrepresented groups, the representatives of audited companies, i.e., preparers of financial statements and TCWG, should be mentioned first. It is worth noting that no individual firm replied, but associations, like the Confederation of Indian Industry or the Institute of Directors in South Africa's Audit Committee Forum, act for particular areas of industry or networks for company leaders and TCWG. Loft, Humphrey and Turley (2006) explain that this is the result of IFAC originally only allowing national bodies as representatives of their members to participate in its activities, from which only the big audit firms are exempt. Nevertheless, the views of those associations are used as a proxy for the opinion of their members. TCWG and preparers of financial statements only appear two and three times accordingly, which can be explained by the fact that they are only indirectly affected by audit regulation. Their interest lies in keeping audit fees and procedures reasonable so that they do not bear a burden on the auditee, for instance, apparent in the answer of the Chief Financial Officers Forum of South Africa (2021), which proposes that the cost of a forensic specialist should not only be borne by the auditee but split between it and the audit company.

In contrast, investors and analysts are interested in more rigorous audit requirements, as they are on the other side of the expectation gap, wanting the auditor to provide as much information and assurance as possible. For instance, the Corporate Reporting Users' Forum (2021) demands in their response to the IAASB that new technologies should be leveraged to analyse *all* transactions instead of sampling, which many other respondents were perceiving as exaggerated. With only three responses, the underrepresentation of investors and analysts can only be explained by the fact that investors and analysts might not be as well organised in terms of regulatory representation in the audit space. As Hancher and Moran (1989) point out organisational status is imperative for accessing a regulatory space. As investors are not formally organised when it comes to audit matters, their ability to obtain a position in the regulatory space is impeded.

The last fringe groups presented here are those of academics and individuals. Academics could provide the IAASB with different arguments since they contemplate the issue from the academic and theoretical perspective, which for instance, can be observed in the discussion papers of Bradbury (2021), whose ideas will be presented later, or Timofeev (2021), who describes the expectation gap in the context of the principal-agent-conflict. It is assumed that the discussion paper did not target academics as its outcome has no impact on their structures

and that the IAASB addresses researchers directly to gain judgement concerning specific topics. Furthermore, this corresponds to Young (1994), who claims that academics and users of financial statements are commonly not represented in a regulatory space, as consistent participation is highly institutionalised.

Continuing, when considering the role of individuals, it is worth mentioning that all respondents hold an audit-related certification, so they are not representing the general public as such but are considering the topic from an auditor's perspective. It could be argued that it is difficult for the IAASB to engage with the general public since no associations or representatives can be directly targeted. However, the IAASB could include the general public via proxy associations, for instance, non-governmental organisations (NGO), which deal with consumer and labour rights issues and would be interested in preventing fraud from happening as it would impact the people they represent, e.g., through tax evasion, rip-offs, or bankruptcy-caused unemployment. Another group that was not included in the regulatory space are media representatives, even though they influence the general public's thinking about what audit is and what auditors do. Consequently, it can be claimed that the general public, NGO and media representatives are excluded from the regulatory space of audit.

4.2.2 Categorisation of actors according to regions

In addition to the categorisation based on the membership to the financial reporting ecosystem, the respondents were also sorted by the region they are operating in to understand geographical differences. As several actors operate internationally, the category “international” was added to the commonly used regions. From this perspective, it can be observed that, at first glance, the respondents form a diverse picture. As depicted in figure 9, the majority has an international or European background, whereas there are no insights from Eastern European countries, except one academic from Russia. In the Middle East/Africa and Asia-Pacific category, it can be noticed that most responses come from countries in which English is an official language, i.e., South Africa (50%), Australia and New Zealand (53%). The IAASB releasing its publication only in English and French might be why the least represented region is Latin America, where Spanish is the primary working language. However, there is not a relatively higher number of respondents from French-speaking countries either. Thus, it cannot be concluded whether the reason for the few answers from Latin American stakeholders is the language barrier or whether other factors were holding them back.

Additionally, it can be observed that most of the responding organisations have been members of IFAC since its establishment in 1977 (IFAC, 2019). Even though the national diversity has grown from then on, and countries all across the globe started using the ISAs (IFAC, 2021), they still do not seem to engage with the IAASB to discuss the issue of the expectation gap. This is emphasised by Juma (2011), who explains that participation in a regulatory space is often informal through membership to an organisational body that needs an invitation or legitimisation. He further points out that even if new members enter the space, their influence on legislation remains minimal, leading to standards being imposed on them that might not meet their capabilities and currently available resources. This shortcoming might apply to countries in the Middle East and Africa, Asia and Latin America, which have fewer resources and means of enforcement of audit standards but are also not sufficiently represented in this discussion.

Nevertheless, it can be noticed that the IAASB, with its endeavours, has reached several stakeholders from different disciplines and regions, who provided their opinion on the leading causes of the expectation gap and the measures for narrowing it down. Anyhow, participation in the regulatory space needs to be seen in the context of the interrelations between the different actors.

4.2.3 Interrelations between the actors in the regulatory space

The power within regulatory spaces depends on legal legitimacy and factors, such as social, economic and cultural (Hancher & Moran, 1989). To understand the audit regulatory space, it is essential to know who is there and who is working for and collaborating with whom. Therefore, the next step of analysing the regulatory space will discuss the interrelations of the identified actors. An overview of those relationships can be found in figure 10 below, the percentages indicate the number of actors related to this group as a fraction of the total number of respondents (85).

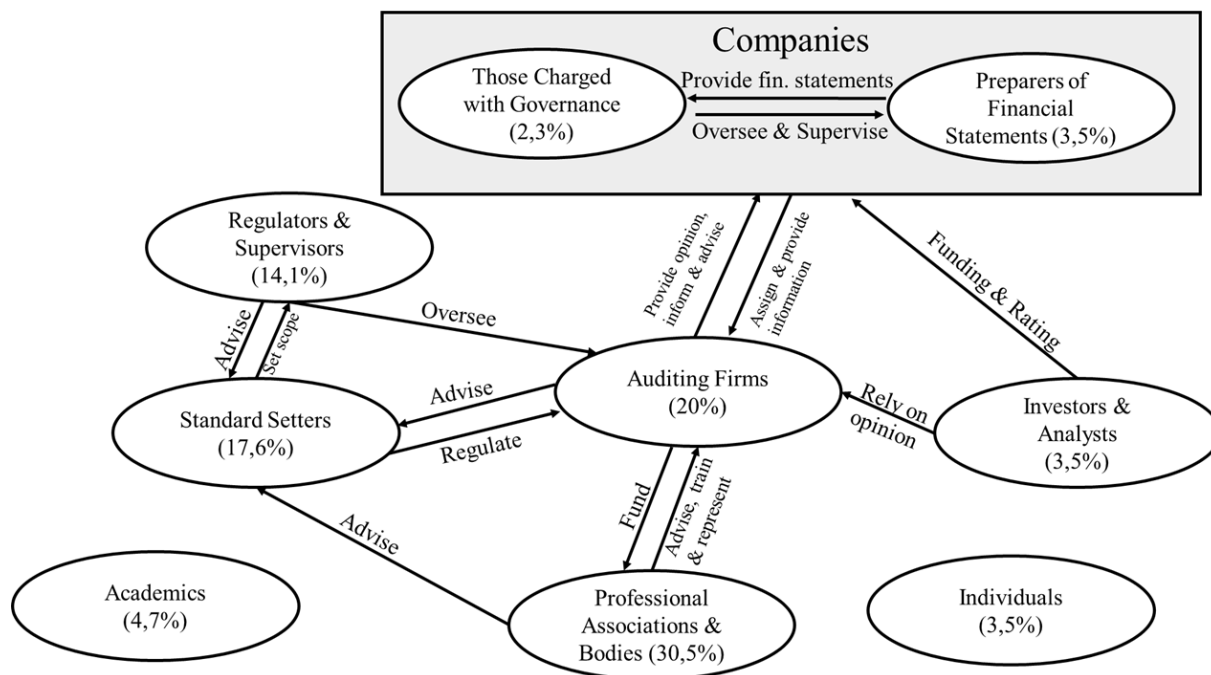


Figure 10: Interdependencies in the Audit Regulatory Space

(Composed by authors based on the comment letters to the IAASB discussion paper, 2020)

Companies & their stakeholders

The highest level of interconnection can be observed between the preparers of financial statements, including management and TCWG. Not only are they both supposed to act in the best interest of the company and its stakeholders, but they also need to interact frequently with each other to ensure that the financial statements are prepared adequately, as the primary responsibility of preventing and detecting fraud lies with them (IAASB, 2020). Therefore, they must implement an ample firm culture and internal control system to fulfil their obligation (IAASB, 2009b, ISA 240). Even though the auditor is mostly discussing with and inquiring preparers of financial statements and obtaining evidence from them during the audit process, there also needs to be frequent communication with TCWG to keep them updated on any relevant matter, including when fraud is suspected or detected (IAASB, 2016b, ISA 260). Another point worth noting is that the organisation is paying for audit services, making the auditor dependent on its client and vice versa. After all, the auditor provides an opinion on the financial statements, which is essential for the organisation, as it is mandatory to report to investors.

Investors only provide funding if the financial results are promising and they are confident that those are reliable. The same applies to analysts providing their clients, who are usually potential or actual investors, or employer, e.g., banks, with information and create ratings upon which decisions can be based. In addition to that, both depend and rely on the opinion of the auditor,

which is why it is the auditor's responsibility to protect their interests (Knezevic, Mitrovic & Cvetkovic, 2019) "and fulfil their societal role" (Porter, Simon, & Hatherly, 2014, p.784). Therefore, there is a co-dependency between the audit firm and the auditee, as the audit firm requires the fees of its client to pay employees and finance activities, and the auditee needs an audit opinion of its financial statements to maintain or gain trust from its investors and obtain funding for its operations. Therefore, an essential aspect of a quality audit is mutual trust and open communication between the two parties (see, e.g., Tapestry Networks, 2021).

Regulators & Oversight Bodies

When considering the role of regulators and oversight bodies, it is essential to mention that the national institutions have power over the audit function through the legally binding character of their laws and regulations (Juma, 2011). Therefore, they take a central position in national or regional regulatory spaces, which is, in this case, occupied by the IAASB. As mentioned previously, the IAASB and (national) standard setters' mission is to serve the public interest (IAASB, 2021b). Thus, there are several standards and laws in place that regulate the audit function and are enforced by oversight bodies. As a result, those bodies exercise power over the audit function since non-compliance with international standards implies monetary penalties and loss of reputation and clients. However, standard setters often collaborate with auditors to form standards that are reasonable and implementable. Therefore, auditors gain the means to influence the standards imposed on them, which leads to the European Commission (in Humphrey & Loft, 2013) referring to audit standards being made by and for auditors.

Professional Bodies & Associations

Nevertheless, the audit firms are often not getting involved directly with standard setters themselves but have professional associations that speak on their behalf. Those also act in place of self-employed auditors or smaller firms and are the highest represented group among the respondents to the discussion paper. Besides advocating for the audit profession, the associations often offer training, certification, advice and networking opportunities for their members (see, e.g., SRA, 2021; WPK, 2021a), actively shaping the audit function. The organisation of auditors in associations also supports the entry and participation in the regulatory space (Young, 1994).

Individuals & Academics

As depicted in figure 10, two groups of actors within the chart are not directly related to anyone else: academics and individuals. Even though individuals and academics can be members of

professional bodies or consultants for standard setters and regulators, they are not regarded from this perspective for this analysis and are therefore taking an idle position in this chart. Individuals can be seen as part of the general public and representing its opinion. In that case, they would have expectations towards the auditors, which might be influenced by media coverage of fraud scandals but are generally not impacted by audit regulations (WPK, 2021b). While academics are usually only involved in audit-related matters, if they perform research about it, their studies can provide helpful information for the IAASB's decision making and might highlight some areas that need further attention.

In summary, the regulatory space of audit is dominated by big organisations and associations from the global north, tightly interconnected. Recognising the interrelation of the actors within the space is a first step to understanding how opinions and arguments are formed within it.

4.3 Stakeholders' Perspectives

4.3.1 Expectation Gap construction from stakeholders' perspective

During the analysis of responses to the discussion paper, it was noticed that the majority of participants followed the expectation gap definition by the IAASB and divided their answer to question 1a) into components relevant for the knowledge, performance and evolution gaps. Nevertheless, some respondents included other gaps, such as unreasonableness (e.g. Bradbury, 2021, Institut der Wirtschaftsprüfer in Deutschland, 2021), delivery (e.g. PIRC Ltd., 2021; Institute of Directors in South Africa's Audit Committee Forum, 2021; RSM International Limited, 2021), information (e.g. ICAS, 2021), and hindsight. For instance, the Korean Institute of Certified Public Accountants (2021) identified the hindsight gap as the most significant component of the expectation gap by stating that: "[...] the gap is mostly associated with the hindsight gap, a gap between expects of stakeholders on auditors prior to a negative event and those after that event occurs [...]" (p.2). Moreover, the Australian Government Auditing and Assurance Standards Board (AUASB) (2021) elaborated that "[h]indsight bias is always present in evaluating auditor performance after the fact." (p.7). Nevertheless, it is worth noting that those additional aspects of the expectation gap were presented by the IAASB (2020), too. However, it was specified that the discussion paper would focus only on the three components of the expectation gap presented by ACCA (2019). Therefore, the submitted responses were analysed from the perspective presented by the IAASB and other frequently mentioned patterns were identified. They were summarised and are presented in figures 11, 12 and 13, which reflect

the main ideas, their occurrence number, and distribution among the previously discussed groups in percent. The percentages are calculated by dividing the number of times the particular topic was in the respective group by the total number of members of this group shown in the second line of the tables.

Knowledge gap

As shown in figure 11, only three patterns concerning the knowledge gap could be identified while analysing the comment letters. This could imply that the knowledge gap is a widely discussed topic in the financial reporting ecosystem, and a consensus was reached among the IAASB and its stakeholders.

	Number of times mentioned	Percentage	Professional Association & Bodies	Auditing Firms	Regulators & Supervisors	Investors & Analysts	Standard Setters	Individuals	Preparers of Financial Statements	Academics	Those Charged with Governance
	85	100%	26	17	12	3	15	3	3	4	2
Knowledge Gap	60	71%									
lack of understanding of complexity of fraud	9	11%	15%	18%	0%	0%	7%	0%	0%	0%	0%
users of financial statement misunderstand the audit concept and role of auditors	55	65%	69%	71%	42%	33%	93%	67%	33%	25%	50%
Media coverage + picture of the auditor	6	7%	12%	12%	0%	0%	7%	0%	0%	0%	0%

Figure 11: Components of the Knowledge Gap

The lack of financial statement users’ understanding of the audit concept and the role of auditors was the most frequently mentioned issue regarding the knowledge gap with appearances in 65 % of response letters. Especially audit firms and associations see this as one of the central problems causing the expectation gap, as more than 50% of respondents from those groups mentioned this issue. This concern is even more prevalent among the standard setters, reflected by 14 out of 15 perceiving it as one of the main reasons. In contrast, the users of financial statements, i.e. investors and analysts, only one out of three raised this topic. The same applies to preparers of financial statements, which can be explained through the different perspectives the opposing groups have on the fraud-related expectation gap.

Furthermore, the matter of lack of common understanding of the complexity of fraud was raised by 11% of the IAASB's stakeholders. The fraud definition might be not well understood by many since it is not extensively defined and lacks some components that users of financial

statements expect, like money laundering or corruption. While associations, standard setters and audit firms saw the complexity of fraud as a component of the knowledge gap, the IAASB does not mention it in its discussion paper, even though it could be partially narrowed down by enhancing the definition of fraud in the standards. Therefore, the responses mainly reflect two issues composing the knowledge gap. Both of them are related to misunderstandings of the definitions - concept of audit, the role of the auditor and fraud. Even though the fraud definition could be refined in the standards, which could only partly narrow the expectation gap, the interpretation of the auditor's role regarding fraud remains a grey area for standard setters.

Performance gap

However, the most controversial topic remains the performance gap. It can be divided into two parts: insufficient and misleading standards on one hand, and auditors' poor performance on the other hand. As specified by the IAASB (2020), the discussion paper will focus only on the area, which could be changed by improving standards and guidelines while excluding the performance gap due to auditors' failure to meet the current requirements. Therefore, the matter of unclear standards that require interpretation and professional judgement to implement them leading to inconsistencies in their application is mentioned by the 16% of respondents. As shown in figure 12, this issue mainly concerns regulators and supervisors (25%), standard-setters (20%) and the auditing firms (18%), based not only on the percentage but also on the number of answers.

	Number of times mentioned	Percentage	Professional Association & Bodies	Auditing Firms	Regulators & Supervisors	Investors & Analysts	Standard Setters	Individuals	Preparers of Financial Statements	Academics	Those Charged with Governance
	85	100%	26	17	12	3	15	3	3	4	2
Performance Gap	39	46%									
responsibility of management and Those Charged with Governance	9	11%	15%	24%	0%	0%	7%	0%	0%	0%	0%
neglect of standards and requirements (auditors)	13	15%	8%	18%	17%	33%	13%	0%	33%	25%	50%
unclear standards requiring interpretation	14	16%	12%	18%	25%	33%	20%	0%	33%	0%	0%
auditors not challenging enough management and TCWG	3	4%	4%	6%	0%	0%	0%	0%	0%	25%	0%
lack of professional scepticism and suspicious mindset	6	7%	4%	6%	0%	67%	0%	33%	33%	0%	0%
not sufficiently qualified (auditors)	4	5%	4%	0%	8%	0%	0%	33%	0%	25%	0%
lack of quality	10	12%	15%	6%	8%	67%	7%	0%	0%	0%	50%
Time Pressure	2	2%	4%	0%	0%	33%	0%	0%	0%	0%	0%

Figure 12: Components of the Performance Gap

Additionally, another pattern can be observed concerning the responsibility of TCWG and management. While audit firms, associations and standard setters refer to this being a cause of the expectation gap, it is mentioned in no other group that management and TCWG are not exercising enough diligence when it comes to fraud prevention and detection, while auditors are blamed for failing to do so. The IAASB also refers to those two issues in the section of topics for further consideration by stating that users of financial statements misunderstand the concept of audit and thinks that the responsibility for preventing and detecting fraud lies with the auditor, while at the same time, audit committees and TCWG should take more responsibility for those issues.

Further continuing with the performance gap, a wider distribution of answers can be noticed across the different groups. The auditor's lack of quality and neglect of standards and requirements are mentioned in the more prominent groups with similar frequency. Even though the poor performance of auditors during their engagement contributes to the performance gap and is one of the main concerns of investors and analysts, the IAASB (2020) decided to exclude it from the discussion and focus its efforts on the part of the performance gap that is related to misleading standards.

Therefore, it can be concluded that there were more causes mentioned for the performance gap compared to the knowledge gap. For instance, in addition to the abovementioned factors, respondents mentioned lack of professional judgement, auditors not challenging enough management and TCWG, not sufficiently qualified auditors, lack of quality work performed by the auditors and time pressure.

Evolution gap

When it comes to the evolution gap, there is a vast majority of contributing factors to the gap mentioned in the responses as depicted in figure 13.

	Number of times mentioned	Percentage	Professional Association & Bodies	Auditing Firms	Regulators & Supervisors	Investors & Analysts	Standard Setters	Individuals	Preparers of Financial Statements	Academics	Those Charged with Governance
	85	100%	26	17	12	3	15	3	3	4	2
Evolution Gap	44	52%									
lack of efficient use of technologies	6	7%	0%	12%	17%	0%	7%	0%	33%	0%	0%
absolute assurance and materiality	7	8%	4%	6%	25%	0%	7%	0%	33%	0%	0%
expanding fraud definition	3	4%	8%	6%	0%	0%	0%	0%	0%	0%	0%
retrospective audit approach	4	5%	0%	6%	17%	0%	0%	0%	33%	0%	0%
diversity in regulations across industries and countries	7	8%	8%	12%	8%	0%	7%	33%	0%	0%	0%
information needs of not all stakeholders are considered	3	4%	4%	6%	0%	33%	0%	0%	0%	0%	0%
advancements in technologies increase stakeholders expectations	8	9%	12%	0%	25%	0%	7%	33%	0%	0%	0%
Current standards not fit for purpose	12	14%	8%	12%	33%	33%	20%	0%	0%	0%	0%
insufficient communication through audit report	7	8%	4%	6%	8%	33%	13%	0%	0%	25%	0%

Figure 13: Components of the Evolution Gap

As depicted in figure 13, one of the most prevalent factors mentioned by 14% of respondents and the IAASB (2020) was that the current standards are not fit for purpose. Due to rapid developments and new technologies, which are not considered in the ISAs, there seems to be a need for revising them to reflect changes and keep pace with their environment. New technologies are also increasing the expectations (described by one out of ten respondents) towards the auditors as they are assumed to use them to enhance their audit procedures and detect irregularities no matter the materiality through artificial intelligence and big data. However, some respondents, among them audit firms and regulators, highlighted the lack of efficient use of technology as a problem in current business practices. Even though the technologies would be available, auditors either do not want to or do not have the capabilities to use them, and standards also do not provide guidance or enforce it. Furthermore, it is worth noting that the IAASB seems to put a strong emphasis on the evolution gap, as the measures proposed by the IAASB (2020) target only it (see p.17-20 in the IAASB discussion paper). Therefore, most of the respondents stated that the current standards are not fit for purpose, as they lack flexibility and do not adjust to the rapid changes in the environment, and the increased information and assurance level needs of the stakeholders are the root causes for the evolution gap.

Based on figure 11, 12, and 13, it can be observed that the most prevalent element of the expectation gap is the knowledge gap and its components, as it was mentioned by 71% of respondents. It is followed by the evolution gap with 52% and the performance gap with 46%, which goes along with the claim of several respondents that the knowledge gap is the main component for the audit expectation gap concerning fraud. In contrast, the evolution gap is the most diverse issue for standard setters, as it can be seen from the fact that most patterns were identified for it, which can be explained by its ever-changing character that is challenging the profession and standard setters.

4.3.2 Overview of objecting responses

Even though most of the answers can be categorised, few respondents could not be classified according to a specific pattern since they did not answer the questions directly or had unique opinions towards the discussion points. Some criticise the model of the expectation gap presented in the discussion paper, while others completely denied the existence of the audit expectation gap with regard to fraud. This could be understood as the individual actors attempt to broaden the IAASB agenda, reconstruct the space or bring in different perspectives. Therefore, to present other viewpoints and reflect the uniqueness in the responses, some of the answers will be briefly introduced.

The first issue, which raised discussions among the respondents, is the fraud concept. While describing fraud, the IAASB (2020) followed the auditing standards approach and presented it based on ISA 240 (IAASB, 2009b). Several respondents suggest including corruption and bribery in the fraud definition of ISA 240 (IAASB, 2009b). As further elaborated by the Belgian National Chapter of Transparency International (2021), the inclusion of bribery and corruption in ISA 240 would lead to alignment of the IAASB's fraud definition with those applied by the Association of Certified Fraud Examiners or The Committee of Sponsoring Organizations of the Treadway Commission. Even though corruption might not significantly impact the financial statements, the imposed fines or penalties by national jurisdictions to the companies might be more material than the actual act performed (Belgian National Chapter of Transparency International, 2021). This idea was supported by the Office of the Auditor General – New Zealand (2021), which stated that bribery and corruption are already included in the fraud definition in the audits performed in New Zealand, as it is an intentional act to gain an illegal advantage. As New Zealand is part of the OECD, it suggested the IAASB to engage with the OECD in order to define the united role of the auditor concerning fraud detection, as the OECD

emphasises that the auditor plays a crucial role in detecting and reporting bribery and corruption (Office of the Auditor General – New Zealand, 2021).

Moreover, the model of the expectation gap presented in the IAASB (2020) discussion paper was questioned by Bradbury (2021), who states that by introducing this framework, IAASB mixed levels and flows and missed some essential components of the expectation gap. As he further elaborates: “The [expectation gap] is a gap, which is a level. Whereas evolution is a flow or change in the level (gap)” (Bradbury, 2021, p.1). Furthermore, even though the display of dynamics might be beneficial in leading the discussion, it should be correctly conceptualised and not confused with the general expectation gap (Bradbury, 2021). Consequently, it is possible that the model introduced by the IAASB to its stakeholders could be misleading and not provide anticipated insights. Also, he argues that the word “ecosystem” is not suitable in the context of financial reporting, and it is inconsistent with the term previously used by the IAASB – the financial reporting supply chain. Thus, his leading suggestions for the IAASB are to develop a new model that will fully suit the IAASB's purpose and consistently use the same terms, as that might lead to more efficient communication.

Furthermore, the International Organization of Securities Commissions (2021) reflects that there is an overlap between the knowledge and evolution gap, which should be carefully considered by the IAASB in this information gathering stage, as the knowledge gap is closely related not only to the public's understanding of what auditors do but also of their expectations. Furthermore, the Institut der Wirtschaftsprüfer in Deutschland (2021) refers to the knowledge gap as a reasonableness gap and identifies the numeracy and precision bias, which causes it. It further elaborates that this concept leads to a belief that audited numbers must be correct, assuming that the users of financial statements expect absolute assurance. Therefore, both organisations consider the knowledge gap and its root causes beyond the proposed model of the IAASB.

In addition to this, one of the respondents – Cotsilinis (2021) – suggests dividing the IAASB's research question into two parts – fraud and going concern. As he details further, it only confuses the stakeholders, merging two interrelated but different concepts. Based on his opinion, fraud is only one reason why the company might need to address going concern topics. Therefore, it will be more appropriate to separate those issues and produce different discussion papers for the various matters related to going concern issues. Also, he expresses worries that if those two topics remain in one discussion paper, the expectation gap might increase, as the

users of financial statements could think that “fraud is the primary cause of going concern problems”, which is misleading.

Nevertheless, the most resolute answer was from PIRC Ltd. (2021), which states that the IAASB discussion paper and raised questions in it are incorrect as “there is no expectation gap under the law of many countries including the UK” (p.1). It expresses disappointment about misleading information presented in the IAASB discussion paper (2020) and requested its withdrawal by 21 February 2021. It is further elaborated that the problem is not the public's expectations but the delivery gap by the auditors, who do not fulfil their role. Furthermore, PIRC Ltd. (2021) considers having a voting among the shareholders against any accounting firm, which does not publicly repudiate the statements in the IAASB Discussion Paper (2020), as the audit performed according to those assumptions might breach duties stated in the contract. Therefore, PIRC Ltd. denies the expectation gap and concept while admitting that the main issue might be the delivery gap.

The IAASB should contemplate the suggestions of its stakeholders by considering the expansion of the fraud concept with the terms of bribery and corruption, as suggested by the respondents, and identifying what users of financial statements expect from the auditors concerning fraud. Also, the IAASB should remain consistent while using the terms and clearly identify and separate the topics of its discussion papers, not to cause confusion between the stakeholders and clarify the purpose of the discussion. It might help to get more structured and concise insights and recognise essential areas, like, e.g., money laundering, which are currently not included in the standards but might be crucial for stakeholders.

5. Discussion

As set out in the introduction, the purpose of this thesis is to study how the audit expectation gap regarding fraud is constructed, or rather to be more specific, how the IAASB and its stakeholders construct it. Therefore, the first part of this chapter will deal with the first research question (RQ₁) about how the IAASB constructs the expectation gap, while the second part will answer the second (RQ₂) about the perspective of the IAASB's stakeholders on this topic.

5.1 Construction of Expectation Gap from IAASB perspective

The IAASB discussion paper (2020) deals with several elements of the expectation gap and constructs them as issues in and outside of its scope. For this purpose, the analytical framework, as presented in chapter 2.2.4, will be adapted in order to better depict the differentiation of issues. The issues constructed in scope by the initiator, which in this case is the IAASB, remain in the centre of the circle. The topics added by other members of the space are evolving around them as “topics for further consideration”. In addition to this, a third layer is added, which is introduced as “topics covered in other outreach activities” that are acknowledged by the IAASB to be part of the scope of the expectation gap but not for this discussion. However, the topics which are excluded from the IAASB's scope are pictured outside the circles. A summary of the elements of the expectation gap as constructed in its discussion paper can be found in figure 14 below:

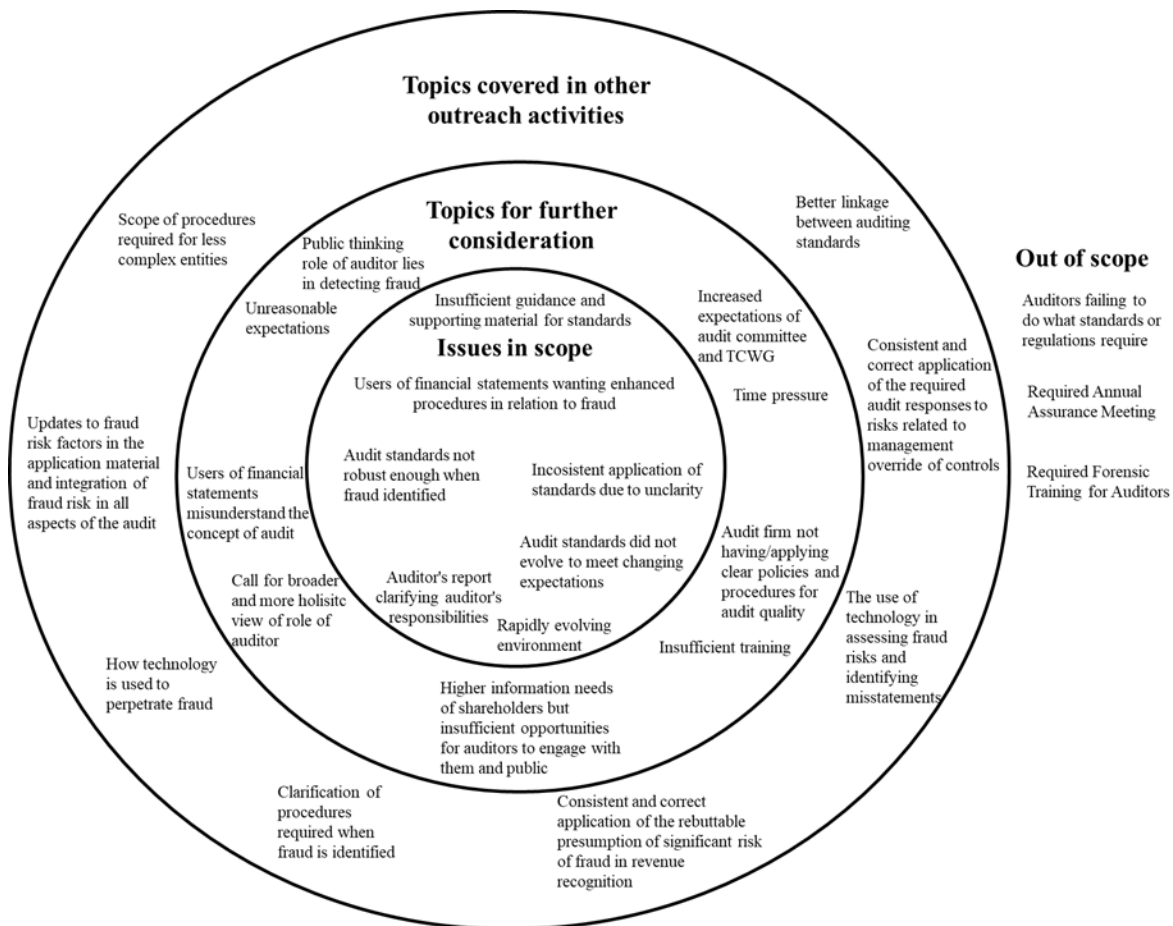


Figure 14: Construction of the expectation gap by the IAASB

(Composed by authors based on IAASB discussion paper, 2020)

Issues in scope

Firstly, the IAASB (2020) aims at focussing the discourse on topics related to standard setting, which can be associated with the IAASB's role in the IFA, where it acts as the main standard setter for the audit function (Humphrey, Loft & Woods, 2009). Therefore, the first inner circle represents matters that are perceived as coverable by enhancing standards. Most of the matters mentioned here are either related to unclarity in standards or to the arguments discussed in 3.1.4.3 regarding professional judgement, i.e., that the need for interpretation leads to inconsistencies in the application of audit standards varying across audit engagements (Wedemeyer, 2010). Thus, the IAASB can work towards further unification in audit practice by providing more robust definitions and guidance, which it perceives as its primary responsibility (Köhler, 2015) and therefore explicitly in the scope of this discussion paper (2020).

Topics for further consideration

In contrast, the second circle shows issues where the IAASB believes that it cannot address them itself but that another party within the financial reporting ecosystem needs to deal with them (IAASB, 2020). As introduced by several respondents, some matters cannot be solved without the involvement and collaboration of all members of the financial reporting ecosystem (see, e.g., ICAS, 2021). For instance, the IAASB cannot alone change the expectations of users of financial statements and management and their perception of audit. Even though, the prevention and detection of fraud was one of the main tasks of the audit only until the middle of 20th century (Power, 1999), this perception is prevalent in today's society, as based on the Deloitte Global Audit Value Survey (2020) majority of respondents believe that the audit should provide an absolute assurance that any fraud will be identified. Therefore, the IAASB organises this misperception as one of the components of the expectation gap that needs to be considered in the context of the broader discussion.

Furthermore, the IAASB (2020) raises the topics concerning insufficient training and audit firms not applying clear policies for audit quality. Through the ISAs the IAASB provides only a basis to act on, thus audit firms and associations need to ensure that they grant the required resources, such as training, policies, procedures, etc., for their employees and members to adequately implement them. However, the IAASB, as an international standard setter, does not have the means to enforce its standards in the individual jurisdictions, as this is the task of national regulators and oversight bodies (Humphrey & Loft, 2013). Therefore, the aforementioned actors within the regulatory space have to address this topic together, to find a common solution, which is why the IAASB includes it in the topics for further discussion.

Topics covered in other outreach activities

The third circle depicts the relevant matters for the IAASB, however not applicable for this particular discussion paper since other initiatives are planned to cover them or already ongoing. This category includes among others the use of technology to prevent and detect fraud or the setting of the scope for procedures for less complex entities. As pointed out earlier, these topics are an essential part of the fraud related expectation gap and need to be discussed too. However, the IAASB does not introduce it in this discussion, as it might want to avoid confusion and the mix of different topics, to deal with those through a more focussed approach due to the complexity of the topics or to address other stakeholders by creating another more suitable regulatory setting. Another example is the topic of fraud related to management override of

controls, which is a diversely discussed topic in the field of audit. As identified by Hassink et al. (2009) the expectations of business representatives diverge significantly from the actual auditors' responsibilities defined by the ISAs, so it is reasonable to address this issue separately. For all topics mentioned in this section the IAASB opens a new discussion and therewith a new regulatory space by constructing the issues (Young, 1994).

Out of scope

The last category outside of the circle comprises what the IAASB completely excludes from its scope. One of those issues includes the matter of auditors not performing according to the ISAs, i.e., the component of the performance gap related to deficient performance of auditors. Even if there is enough guidance, training, regulations and oversight, there is still a risk remaining that auditors do not act in accordance with standards. As the IAASB and its stakeholders cannot eliminate this risk, but only mitigate it by addressing the components of the expectation gap, the topic is excluded from the expectation gap construction.

Furthermore, forensic training and annual assurance meetings are excluded as the requirements needed to enforce them are based on the national jurisdictions, as annual assurance meetings would need to be included in the national corporate governance codices and forensic training needs to be provided by the audit firms or associations for their members, as mentioned above (IAASB, 2020). Therefore, the IAASB excludes those topics from its agenda.

Additionally to the topics described here, the IAASB might exclude topics from the discussion indirectly. However, it is difficult to identify other components excluded from the expectation gap construction other than those mentioned explicitly.

Through categorising the issues related to the expectation gap, the IAASB narrows down the scope of the discussion. On one hand, this could be advantageous for the debate as it focuses it on the most relevant matters and helps the IAASB gain insights into the topics they are specifically interested in. On the other hand, limiting the scope might restrict its ability to gain a broader overview and understanding of the viewpoints and concerns of its stakeholders.

5.2 Construction of expectation gap from stakeholders' perspective

To consider the view of the stakeholders on the construction of the audit expectation gap regarding fraud, two aspects need to be discussed. The first one concerns comment letters that questioned the IAASB's approach of presenting the expectation gap in the discussion paper and argued to redefine, sharpen or create a new one. The second part of this chapter will deal with the elements the stakeholders set up as part of the audit expectation gap and compare it with the components of the IAASB's construction that were presented in figure 14 above.

5.2.1 The expectation gap model

While the IAASB (2020) uses the ACCA (2019) model to depict the expectation gap, several respondents questioned IAASB's way to introduce the expectation gap, as it might not include all relevant components, miss the identification of the importance of each element, and presents the dynamics in the model inappropriately. It is crucial to choose the appropriate concept, as it influences the responses received and their manner. Therefore, the identified issues in the framework will be presented, and the possible solutions to shape the IAASB model to fit its purpose better.

While analysing the ACCA (2019) model and especially the part marked by the black circle in figure 15, the areas affected by standards could be noticed.

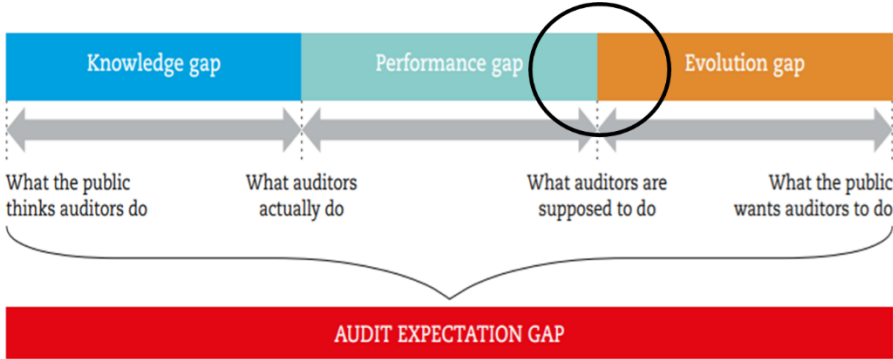


Figure 15: The updated expectation gap by ACCA (2019)

The black circle refers to the fact that the standard setters, in this case, the IAASB, could only affect what auditors are supposed to do, which mainly allows the IAASB to have an impact on narrowing down the performance and evolution gap. Firstly, they can reduce the evolution gap by introducing new or improving existing standards to meet the public expectations. Secondly, they can reduce the performance gap related to misinterpretation of the standards by improving

existing ones to not cause any more confusion for auditors and be clear and unambiguous. However, the knowledge gap could only be addressed by the IAASB by enhancing requirements to the audit report, which can provide more transparency in the audit work performed regarding fraud. Nevertheless, it is unclear what impact this step could have, as currently, users of financial statements can access all relevant information related to both auditing and accounting standards and can get acquainted with the responsibilities auditors have, while the knowledge gap is still persistent in society. Therefore, it could be stated that the IAASB discussion paper (2020) considers only half of the model, as the IAASB directly excluded a part of the performance expectation gap from the discussions and unofficially (by selecting the ACCA model) eliminated the knowledge gap, as the effect of enhancing standards cannot be measured.

This implies two further concerns raised by some respondents. On one hand, the expectation gap regarding fraud and going concern should be separated as they are two issues related to different causes. It leads to confusion among the stakeholders, as the causes and measures are mixed up for both questions in the comment letters. Also, it was appositely specified in the response of Cotsilinis (2021) that there is no “logical reason to join fraud and going concern” (p.1), as it not only causes confusion but also implies that fraud is the primary cause for going concern issues, which is not always the case. Therefore, the IAASB should first clarify the primary purpose and separate the questions into two parts.

According to the above-mentioned point, Bradbury (2021) proposed another model, which could potentially be more suitable to depict the expectation gap concept for the IAASB's community. This model is an adapted version of the Porter (1993, cited in Porter, Simon & Hatherly, 2014) expectation gap framework presented in section 2.2.1. As it is specified by Porter (1993, cited in Porter, Simon & Hatherly, 2014), the expectation gap consists of deficient performance, deficient standards and unreasonableness gaps. Keeping in mind the ACCA model, the unreasonable expectation gap could be called the evolution gap, and the part of the deficient standards addresses the performance gap, while the deficient performance by auditors is not in the scope. In that case, two-thirds of the model is addressed, and stakeholders could concentrate on the most important ideas the IAASB could implement.

5.2.2 The expectation gap components

In addition to the already presented elements of the expectation gap, the overview of the topics presented by either IAASB (2020), respondents or both, will be depicted in figure 16 below. The concept is to divide the aspects mentioned into the previously presented four groups - issues-particularly in scope, topics for further consideration, topics covered in other outreach activities and explicitly out of scope items. Then, the components are coloured for better representation, where blue elements of the expectation gap are brought up by both parties, yellow ones are only part of the IAASB’s argumentation. In contrast, green ones were mentioned by the IAASB and its stakeholders but not in the answers to 1a, and purple raised only by IAASB’s stakeholders.

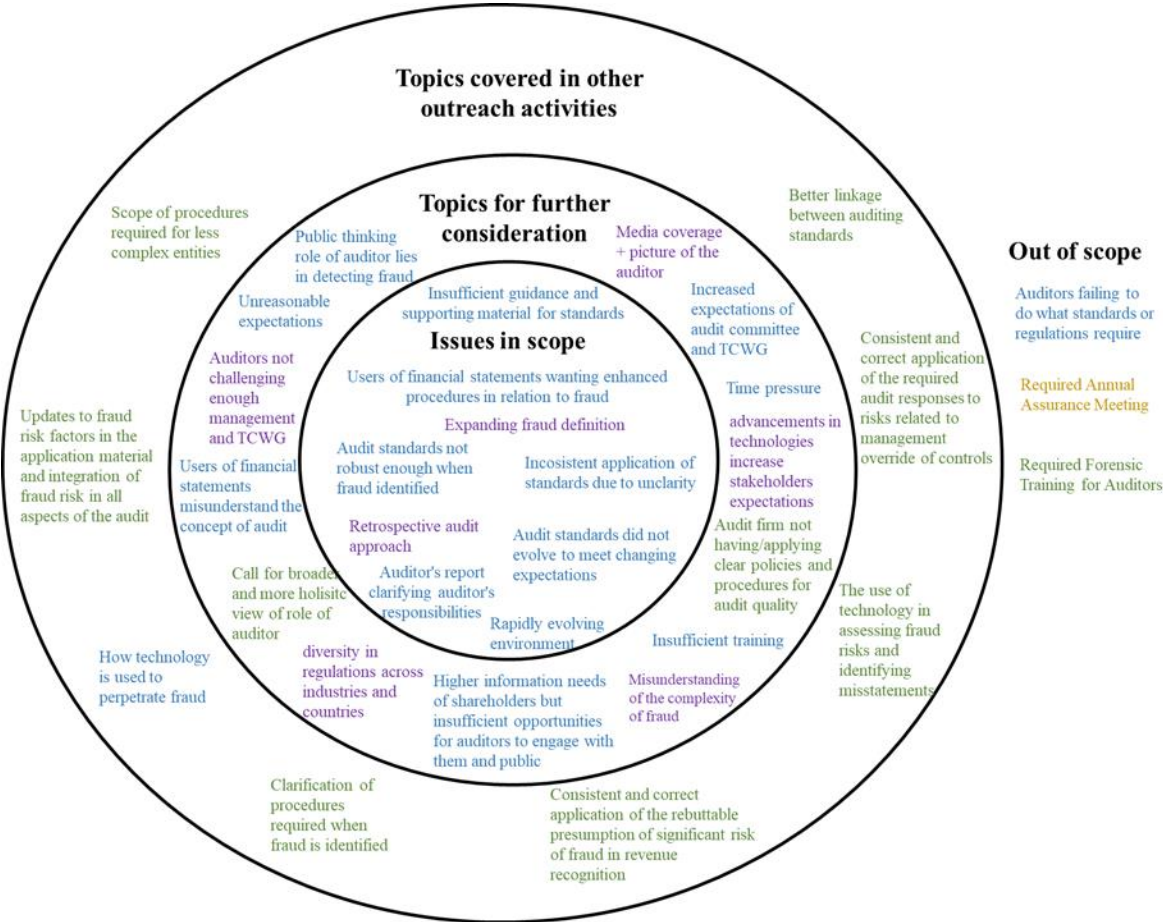


Figure 16: Construction of the expectation gap by stakeholders

(Composed by authors, based on IAASB discussion paper (2020) and comment letters)

As illustrated in figure 16, there is a high level of consensus between the stakeholders and the IAASB. The respondents also mention almost all topics the IAASB covered in its discussion paper.

In scope

When it comes to the topics the IAASB defines in its scope; the stakeholders address all issues the IAASB raised in this area but further bring up two additional points related to the definition of fraud and the retrospectivity of the current audit approach. These two issues were categorised as “in scope” or rather “should be in scope” as it is assumed that they can be mitigated through enhancing standards. Accordingly, the definition of fraud is part of ISA 240 (IAASB, 2009b) and could be extended by the IAASB to include matters like bribery, corruption, and money laundering. It was emphasized by Jeppesen (2019), who argues that the concept of fraud should be widened by including corruption, as the ACFE (2020) already defines corruption as one of three primary categories of occupational fraud (see appendix 1). However, the inclusion of additional schemes in the fraud concept of ISA 240 would imply broadening the scope of an audit engagement, as auditors would need to consider additional fraud risks in their risk assessment and perform mitigating procedures to them (IAASB, 2019, ISA 315).

Furthermore, some stakeholders, especially regulators and supervisors, highlight that the IAASB should consider adding forward-looking audit procedures to the scope of standards, by, e.g., considering financial performance forecasts as shareholders rely on those as well. Nevertheless, most future oriented information about a company and its financials are based on assumptions of management, which require the auditor to exercise a high level of professional judgement and scepticism (Christopher, Leong & Leung, 2017). However, those assumptions remain uncertain, but gain legitimacy through the auditor’s opinion on them. This puts the auditor in the spotlight if the auditee cannot reach its targets, thereby opening another element of the expectation gap.

The additional proposed topics by the stakeholders need to be a part of the further discussions, especially when it comes to making decisions on whether to include those requirements in revised standards, as some stakeholders might endorse them, while others assume that they widen the expectation gap or increase costs and efforts disproportionate to the value add.

Topics for further consideration

All matters that are not associated with standard-setting were classified as “topics for further consideration”, meaning that the IAASB needs support from all members of the financial

reporting ecosystem to find a common solution to narrow the gap related to them. Among those is the misunderstanding of the complexity of fraud. While the IAASB includes the fact that users of financial statements might not understand the role of the auditor concerning fraud, it does not consider that they might not understand the complexity of fraud itself. This topic was emphasized by some respondents, for instance the AUASB (2021) highlights that users of the financial statements “[...] do not have enough understanding of the complexities (i.e. intentional behaviours, collusion), that usually exist when a sophisticated fraud is perpetrated [...]” (p.4), and lead to the misunderstanding of the role of the auditors in regard to fraud. Furthermore, KPMG International (2021) mentions that there is “a lack of clarity as to what ‘fraud’ in an audit of financial statements actually means” (p.9) by implying that the standards are not unambiguous and cause confusion in the society. Therefore, the stakeholders propose this topic as one of the elements of the expectation gap that needs collaboration from everyone in the financial reporting ecosystem to clarify the concept and educate the general public. As the understanding of fraud is closely related to the definition of it, above mentioned arguments regarding the fraud concept should be considered here as well.

Another topic mentioned only by stakeholders is the media coverage of fraud cases and how auditors are placed in it. The media is a key player when it comes to forming the opinion of the public. A few respondents mentioned that the picture the public has of the auditor is coined by media coverage of fraud and the inability of auditors to prevent or detect it timely. Generally speaking, audit and auditors are not a frequent topic in the news, so if they are, it is usually a one-sided report in the light of corporate collapses and their failure to identify red flags timely (Grant Thornton International Ltd., 2021). As specified by the respondents, the picture of the auditor in the media should be depicted from several angles, not only in situations of crisis, informing the general public about the role and concept of the audit. Therefore, it could be beneficial to broaden the regulatory space to include media representatives as they could play an important role in narrowing down the knowledge gap.

Furthermore, stakeholders address the topic of auditors not challenging management and TCWG appropriately as one component of the performance gap, since it is a fine line between challenging and accusing management and TCWG as pointed out in several comment letters related to suspicious mindset (e.g., AICPA, 2021; New Zealand Auditing and Assurance Standards Board, 2021). Additionally, even though the IAASB raises the topic of how to use technologies in new ways to perpetrate fraud and prevent and detect it in other outreach

activities, the topic of how new technologies can increase stakeholders' expectations appears to be a prevalent topic for the respondents.

Moreover, the stakeholders raised concerns about the variations of standards among different countries and industries, partly related to some sectors (e.g., banks) being more regulated than others, and some countries have implemented stricter requirements for both companies and auditors. It leads to the increased expectations of users of financial statements, as they can assume that the same standards apply worldwide across different sectors. Therefore, one of the topics for further consideration mentioned explicitly by the stakeholders is to consider the even application of the standards across all countries, as the coordination of harmonisation of regulations is one of the objectives of the IFA (Elson, 2011) and, thus, also one of the goals of the IAASB.

Through raising additional topics for consideration, the respondents to the discussion paper expand the expectation gap construction of the IAASB.

Topics covered in other outreach activities

Even though the IAASB explicitly mentions that particular topics are excluded from this discussion, as they are separately covered, several respondents included them in other parts of their comment letters. For instance, many describe in question 2b), which asks if further requirements should only be enforced for certain entities, that only listed or PIEs should be affected by stricter regulations, limiting therewith the scope for less complex companies. Also, the topic of the use of technology in assessing fraud is frequently mentioned and perceived as one of the key components of the evolution gap. It shows a high interest in these topics and the IAASB will most probably receive many comments when constructing those issues individually.

Out of scope

When it comes to the activities, which were entirely excluded from the scope, it can be observed that the stakeholders do not seem to exclude them from their scope, except for the required annual assurance meeting. One reason for this could be that the IAASB (2020) questions imply possible aspects of these issues. Respectively, auditors failing to do what is required in standards is one of the components of the performance gap as described in the discussion paper. Also, the separate discussion topic of whether the use of forensic specialists in an audit should be mandatory leads the respondents towards forensic training. The latter might imply that even though forensic training is a national matter, the stakeholders of the IAASB might require

general guidance on how to build up a forensic training syllabus to implement it in their respective national context.

To summarise, the view of stakeholders on the expectation gap is more extensive than the one of the IAASB. They construct additional matters into the scope, as they point out several issues that will need to be addressed in collaboration with all members of the financial reporting ecosystem.

5.3 Comparison & Summary

As revealed in previous sections concerning the construction of the expectation gap, there is a high level of agreement between the stakeholders and the IAASB. Considering that there were 85 responses, it could have been expected that there would be more diversity and deviation from what the IAASB proposed. For instance, even though the IAASB presented the forensic training for auditors as the topic particularly out of scope, most respondents grasped that idea and used it as one of the measures proposed to the question of using forensic specialists in the audit engagement. However, the majority of respondents based their answers on the provided material of the IAASB and focused their discussion on the aspects mentioned in the discussion paper.

This could be explained by the concurrence of the two opposite intentions, representing the main finding of this thesis. While the financial reporting ecosystem members try to construct the issue of the fraud expectation gap with as many aspects as possible, the IAASB aims to limit the scope of the discussion by describing the topics in and out of its scope very thoroughly in its discussion paper. In a similar way, Humphrey, Moizer and Turley (1992) describe the responses to the expectation gap by the audit profession by differentiating between two “contrasting, but ultimately compatible forms” (p.145): defensive and constructive responses. While the former constructs the expectation gap narrow, stressing the misconception of audit by its stakeholders, the latter opens the opportunity for widening the scope.

In addition to this, another possible reason for the IAASB constituting its questions in a way that guides the reader towards a particular conclusion is that the IAASB wants legitimisation of its stakeholders rather than opinions, which Matos et al. (2018) confirm as a tactic to survive. As further pointed out by Loft, Humphrey and Turley (2006), standard setters are rather aiming for an efficient and rational way to discuss the topics on their agenda, rather than “engaging in complex political debates with various groups” (p.433). However, Young (1994) emphasises

that there might be difficulties for international standard setters to get a mandate for action that is widely accepted by the targeted audience. Therefore, it is justifiable that the IAASB constitutes the issues on the agenda of its regulatory space so that it is feasible for it to implement and no disproportional demands that cannot be fulfilled come up. However, to meet its objective of serving the public interest, the IAASB has to consider other viewpoints to move away from standards being made by and for auditors (Humphrey & Loft, 2013) but in collaboration with and for all actors in the regulatory space.

Also, the other members of the financial reporting ecosystems have their own interests that they want to be part of the discussion about the fraud expectation gap (Young, 1994). Even though the IAASB might want to exclude some aspects of the expectation gap from its construction, they remain a part of the expectation gap constructed by other members of the financial reporting ecosystem. However, the IAASB creates a discussion forum for its stakeholders, which constitutes a good opportunity to bring in other matters related to the topic that are not explicitly on the agenda. Because of this, the members of the financial reporting ecosystem are trying to widen the construction of the expectation gap (Samsonova-Taddei & Humphrey, 2015). Especially for those participants involved to a lesser extent in the audit process, like TCWG, investors, or academics, the due process constitutes a chance to raise their proposals and concerns about the audit function and the related expectation gap, which they can otherwise not properly address.

Ultimately, the primary focus is the role of the IAASB in the audit regulatory space. It can act in its actual role as a standard-setter or be a moderator since it has the regulatory power and organisational set-up. As it cannot cover all issues in the expectation gap due to cost-benefit considerations, it can either exclude them from the discussion right away to ease reaching consensus in the evaluation process or include them and distribute responsibilities among the actors within the regulatory space. The latter could be beneficial for the IAASB as it keeps the topic therewith in the regulatory space but out of its scope. It is assumed that this is one reason why the IAASB presents the category of “for further consideration”, as this raises the awareness of actors in the regulatory space that there are opportunities for improvement and that they are the ones who need to act. Therewith, an even higher level of consensus between the IAASB and its stakeholders could be reached, as their construction of the expectation gap gains as much validity and resonance as the one of the IAASB itself.

6. Contribution to Research, Limitations and Future Research Opportunities

Contribution to Research

Our contribution to research entails providing an insight into how the international audit community constructs the fraud expectation gap.

First of all, it grants a deep understanding of how the expectation gap in regard to fraud could be constructed in the regulatory space. It was achieved by combining the main theories concerning expectation gap, construction and the regulatory space, and by developing our analytical framework. It shows how an issue (in this case the expectation gap with regard to fraud) can be constructed in a regulatory space and assists in identifying the main components of the expectation gap as presented by the IAASB and its stakeholders. In order to better reflect the different levels of those elements, we have improved our analytical framework by introducing several layers allowing for enhanced comparison between various viewpoints. In addition to this, to illustrate the construction of the issue of the expectation gap by the IAASB, we applied the model of Political Discourse Analysis by Fairclough and Fairclough (2012) and provided a practical application example of how it can be used in the context of audit standard-setting.

Moreover, we have contributed to the research not only by comparing the elements used in the construction of the audit expectation gap presented by the IAASB and its stakeholders but also by identifying objecting responses and discussing their implications on the whole set-up of the construction. For instance, Bradbury (2021) questions the model used by the IAASB, therefore in the Discussion part, this idea was developed by comparing Porter's (1993) and the ACCA's (2019) frameworks in order to discuss each of the model's suitability for the construction of the expectation gap in regard to fraud.

Furthermore, our analysis presented the actors in the IAASB's regulatory space and modelled their interdependencies. The contribution of our framework is an overview which depicts all interdependencies of the actors, while other reviewed studies often only look at one party (e.g. Humphrey & Loft, 2009 and Loft, Humphrey & Turley, 2006 for IFAC; or e.g. Hazgui, 2015 and Zahir-ul-Hassan & Smits, 2017, for national independent oversight bodies) or the relation between two parties (e.g., Hassink et al., 2009 for auditors and business representatives).

While several authors have dealt with the construction and the components of the expectation gap, our thesis considers it from the perspective of the regulatory space of audit. We contribute to research by designing an analytical framework for the construction of an issue in a regulatory space, which could be used by future scholars, who aim at studying regulatory space. In addition to this, our analysis of interdependencies can be further used to examine this particular discussion paper and its comment letters or other outreach activities of the IAASB. Finally, the identified elements constructed in the expectation gap, can be used for a more thorough analysis of the reasons for the expectation gap and which measures can be implemented to narrow it down.

Limitations

After the limitations of the selected research method were presented in the methodology section, additional reflections should be made after conducting research and forming findings. Firstly, a limitation in scope can be noticed as only one discussion paper was selected for the detailed evaluation of the discussion paper by political discourse analysis, and no comparison could be made. Therefore, this restricts our understanding of whether the results can be transferred to other contexts.

Furthermore, the interpretation factor can be identified, as, for instance, the circumstances, values, goals, claim and means-goals relationships were identified based on the information provided in the IAASB discussion paper (2020). As some essential components might not be mentioned or directly specified and identified as not crucial by this master thesis, some significant elements might be missed. Therefore, interviews with the representatives of the IAASB or its member organisations could have been beneficial in this case to gather more constructive and more accurate information related to the main objectives of the discussion paper and comment letters.

Another point worth considering is the complexity and diversity of the comment letters, which impede their analysis. Even though we reviewed the discussion paper and all comment letters thoroughly and tried to categorise all elements mentioned, there might be aspects missing, especially if respondents did not follow the structure proposed by the discussion paper, as it was more difficult to assign their statements to a particular category. Moreover, as specified in the analysis and the discussion, the going concern and fraud-related issues were mixed in some of the responses, which obstructs the ability to decide if the cause presented should be assigned to the going concern or fraud discourse. Additionally, aspects are not considered if they were

mentioned in only one comment letter, as the aim of the analysis was to identify patterns in the argumentation of actors in the regulatory space.

Despite the aforementioned limitations, the presented findings are perceived as representative of the purpose of this thesis and can be considered insightful.

Future research opportunities

The first research opportunity identified arises from the limitation that no comparison could be made as only one of the IAASB's discussion papers was contemplated. Therefore, researchers could consider analysing several IAASB discussion papers to compare the structure, wording and coherence.

This topic could also be further narrowed to analyse the construction of the expectation gap regarding fraud and its changes over time. For instance, it might be that the IAASB already raised this topic in earlier discussions and might come back to this issue in the future when new circumstances arise which require additional actions to be taken in order to address them. Therefore, it might be interesting to study how the construction of the audit expectation gap changes over time, especially considering the evolution gap as the most dynamic element within.

Also, our research considered only the matters relevant to the audit expectation gap regarding fraud and excluded argumentation regarding going concern from this thesis's purpose and research question. Thus, other studies could observe the construction of the expectation gap related to going concern. Furthermore, the other topics raised in the discussion paper, like the measures to narrow down the expectation gap or enhanced requirements for auditors, are interesting topics for further research.

7. Conclusion

While previous research analysed the components of the expectation gap and its structure, this thesis focused on the construction of the audit expectation gap based on the IAASB and its stakeholders' perspectives. For this purpose, the IAASB discussion paper (2020), which was issued in the circumstances of the COVID-19 pandemic and major fraud scandals, was analysed, as it represents the IAASB's efforts to meet its goals of narrowing down the expectation gap and keeping standards on auditing fit for purpose. Its discussion paper related to fraud and going concern aimed at obtaining insights from its stakeholders on the main causes of the expectation gap.

In order to achieve the aforementioned purpose, the research question was set to discuss the different perspectives of how the fraud-related expectation gap is constructed in the regulatory space formed by the IAASB. Respectively, the main findings of our thesis have shown that the first objective should be the model used to introduce the audit expectation gap regarding fraud, as it is the base for the following construction and might influence the actors, who are endeavouring to identify the main components of the expectation gap. This statement can be substantiated by the responses of several stakeholders, who proposed the IAASB to carefully review the framework it is using in order to avoid issues, such as overlapping of the gaps' sub-structures, mixing the levels and flows or missing essential components. It was even suggested that the IAASB should form its own audit expectation gap model, which addresses all relevant elements and initially defines the scope for the discussion.

As the expectation gap is a complex issue that needs to be viewed in the light of a changing environment and several actors influencing its composition, both research questions addressed the construction of it by the IAASB and its stakeholders. The performed analysis resulted in the comprehension that two opposing forces characterise the issue: While the IAASB tries to keep its scope narrow and within the boundaries of its standard-setting responsibility, its stakeholders are trying to broaden the construction of the expectation gap to have their interests discussed in its scope. It can be explained by the self-interest of the actors in the regulatory space, as they are trying to construct the expectation gap based on their own needs. Therefore, our thesis highlights the importance of studying the matter from different perspectives to gain an insight into the ongoing discourse and aids in reaching consensus among the actors within a regulatory space.

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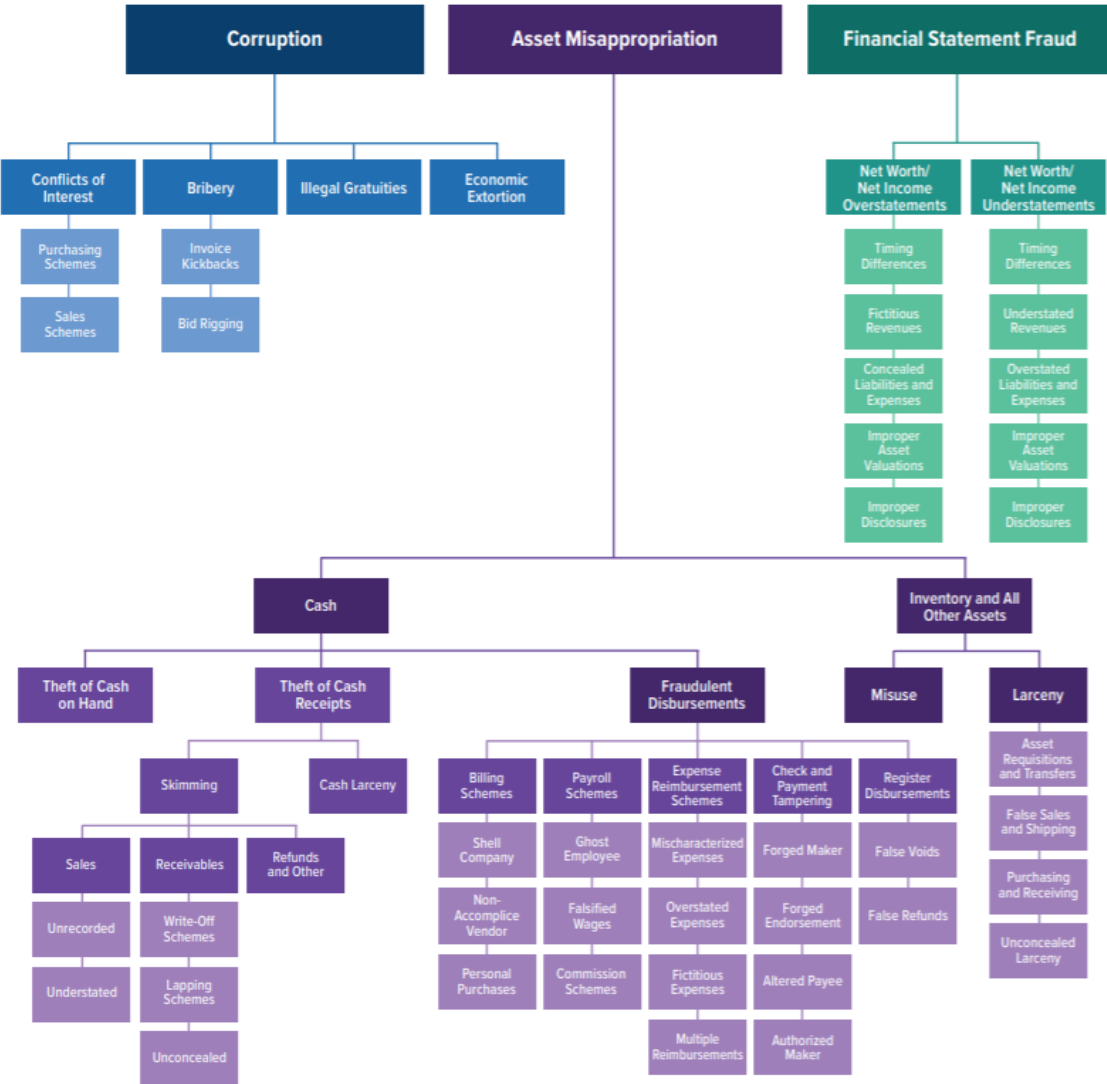
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Appendices

Appendix 1: The Fraud Tree



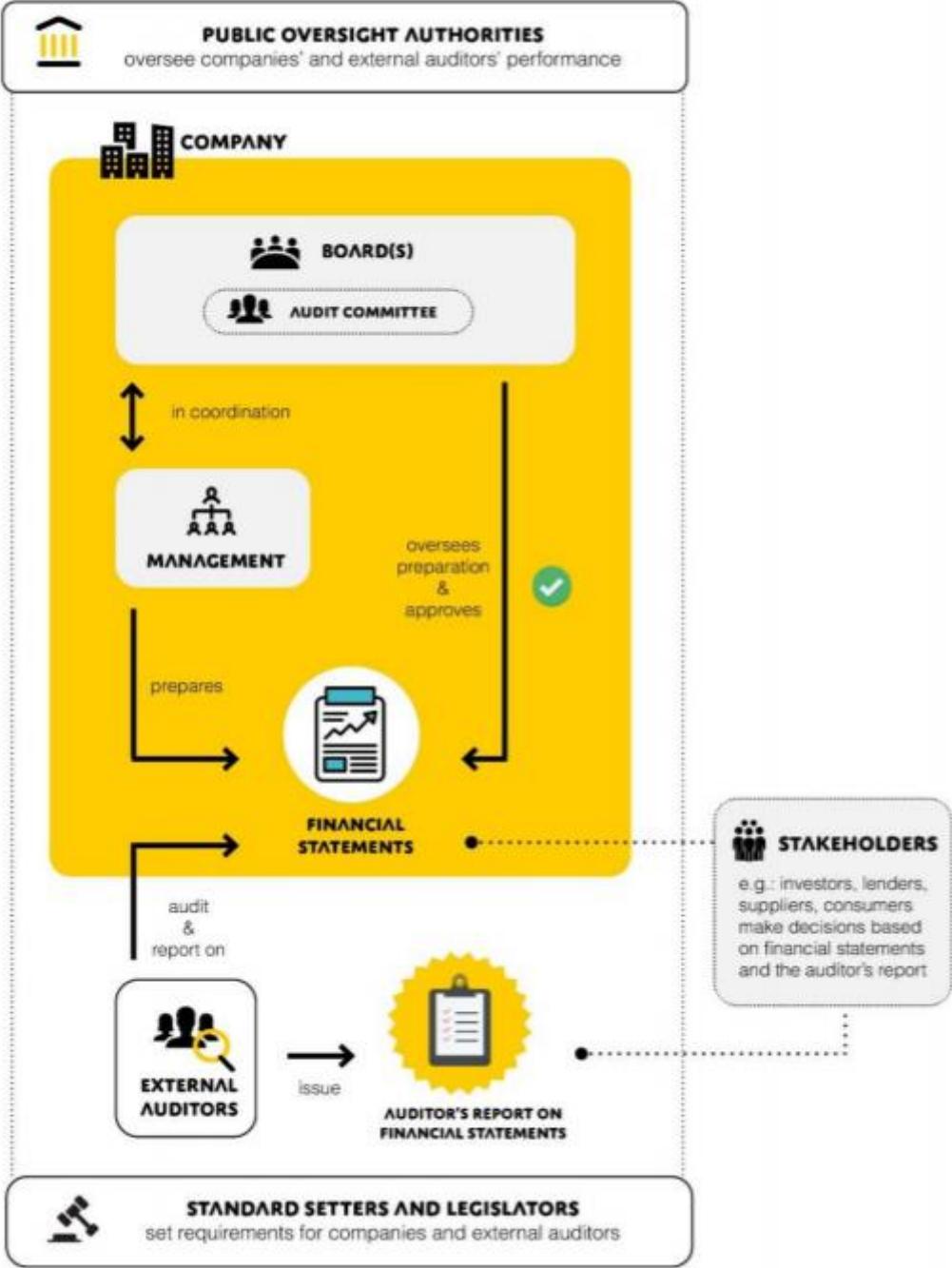
Source: Report to the Nations, 2020

Appendix 2: Questions in IAASB Discussion Paper

1. In regard to the expectation gap:
 - a. What do you think is the main cause of the expectation gap relating to fraud and going concern in an audit of financial statements?
 - b. In your view, what could be done, by the IAASB and / or others (please specify), to narrow the expectation gap related to fraud and going concern in an audit of financial statements?
2. This paper sets out the auditor's current requirements in relation to fraud in an audit of financial statements, and some of the issues and challenges that have been raised with respect to this. In your view:
 - a. Should the auditor have enhanced or more requirements with regard to fraud in an audit of financial statements? If yes, in what areas?
 - b. Is there a need for enhanced procedures only for certain entities or in specific circumstances? If yes:
 - i. For what types of entities or in what circumstances?
 - ii. What enhancements are needed?
 - iii. Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.
 - c. Would requiring a "suspicious mindset" contribute to enhanced fraud identification when planning and performing the audit? Why or why not?
 - i. Should the IAASB enhance the auditor's considerations around fraud to include a "suspicious mindset"? If yes, for all audits or only in some circumstances?
 - d. Do you believe more transparency is needed about the auditor's work in relation to fraud in an audit of financial statements? If yes, what additional information is needed and how should this information be communicated (e.g. in communications with those charged with governance, in the auditor's report, etc.)?
3. This paper sets out the auditor's current requirements in relation to going concern in an audit of financial statements, and some of the issues and challenges that have been raised with respect to this. In your view:
 - a. Should the auditor have enhanced or more requirements with regard to going concern in an audit of financial statements? If yes, in what areas?
 - b. Is there a need for enhanced procedures only for certain entities or in specific circumstances? If yes:
 - i. For what types of entities or in what circumstances?
 - ii. What enhancements are needed?

- iii. Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.
 - c. Do you believe more transparency is needed:
 - i. About the auditor's work in relation to going concern in an audit of financial statements? If yes, what additional information is needed and how should this information be communicated (e.g., in communications with those charged with governance, in the auditor's report, etc.)?
 - ii. About going concern, outside of the auditor's work relating to going concern? If yes, what further information should be provided, where should this information be provided, and what action is required to put this into effect?
- 4. Are there any other matters the IAASB should consider as it progresses its work on fraud and going concern in an audit of financial statements?

Appendix 3: The Financial Reporting Ecosystem



Source: Accountancy Europe, 2021