



Article

Audit Expectation Gap in the External Audit of Banks in Mozambique

Osvaldo Massicame ¹, Helena Coelho Inácio ^{2,3,*} and Maria Anunciação Bastos ²

¹ Faculty of Economics, Eduardo Mondlane University, Maputo 257, Mozambique; omassicame@gmail.com

² Higher Institute for Accountancy and Administration, University of Aveiro, 3810-193 Aveiro, Portugal; anunciacao.bastos@ua.pt

³ GOVCOPP-Research Unit on Governance Competitiveness and Public Policies, University of Aveiro, 3810-193 Aveiro, Portugal

* Correspondence: helena.inacio@ua.pt

Abstract: The function of the external audit, largely as a result of the scandals and financial crises that have occurred, has been the subject of debate and criticism. This aspect has fostered discussions around the Audit Expectation Gap, which, in short, is understood as the differences in expectations between the audit's results and what is expected from it. In this context, the present study aimed to evaluate the existence of the Audit Expectation Gap in the external audit of banks in Mozambique. For this purpose, auditors, regulators/supervisors, managers and financial staff from banks and companies were surveyed. The results showed statistically significant differences in the opinions of respondents regarding matters related to the scope and objective of the audit, materiality and risk, and different aspects of responsibility. Thus, evidence was obtained that, in addition to reviewing audit regulations for Mozambican credit institutions and financial companies, there is a need for clarification of matters such as the level of security in external audits (which cannot be absolute); the responsibilities of management and auditors in areas such as assessing and reporting compliance with the ratios and prudential limits imposed by the Bank of Mozambique; assessing the suitability of risk management at the bank; and the prevention, detection and reporting of fraud.

Keywords: audit; stakeholders; expectation; banks; Mozambique



Citation: Massicame, Osvaldo, Helena Coelho Inácio, and Maria Anunciação Bastos. 2023. Audit Expectation Gap in the External Audit of Banks in Mozambique. *International Journal of Financial Studies* 11: 138. <https://doi.org/10.3390/ijfs11040138>

Academic Editor:
Sorinel Capusneanu

Received: 9 October 2023
Revised: 1 November 2023
Accepted: 2 November 2023
Published: 15 November 2023



Copyright: © 2023 by the authors. Licensee MDPI, Basel, Switzerland. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (<https://creativecommons.org/licenses/by/4.0/>).

1. Introduction

The role of external auditors has been the subject of great debate over time. Financial scandals in major international organizations and the financial crises recorded in recent years have been the main factors contributing to this debate. Salehi (2011) states that national and international scandals have undermined the credibility of the auditing practice. The Association of Chartered Certified Accountants (ACCA 2011) states that in the wake of the global financial crisis, auditing reached a political profile never before achieved and in the United Kingdom, Belgium and the United States of America, triggered an in-depth investigation into the role and effectiveness of auditing.

In this context, the role of the external auditor has been debated, highlighting what is known as the Audit Expectation Gap which, in short, can be understood as the differences in expectations between the result of the audit and what is expected from it (Porter 1993; Gray et al. 2011; Devi and Devi 2014). The existence of this gap affects the image of auditing, thereby impacting its role in providing credibility to financial information. Thus, this has become a topic of considerable interest around the world (Salehi 2011). Over the years, various authors have studied its causes (Porter 1993; Gray et al. 2011; Devi and Devi 2014; Füredi-Fülöp 2015; ACCA 2019) and have attempted to identify ways to reduce the Audit Expectation Gap (Monroe and Woodliff 1994; Koh and Woo 1998; Best et al. 2001; Lee et al. 2009; Lee and Ali 2009; Mansur and Tangl 2018; ACCA 2019). These efforts have led to changes in auditing standards, regulations and requirements.

The audit report is the final document of the external auditor's work and is used by various users of financial statements, from an entity's equity holders to potential investors. In the case of banks, it is especially of interest to banking sector regulators and supervisors, and to companies in general.

Mozambique is a developing country whose economy heavily relies on external financial aid, and where banks play a crucial role in overseeing proper fund management. Therefore, it is important for its financial information to be credible, whereby the audit of the banking sector is subject to strong scrutiny, both nationally and internationally. Thus, if there are relevant differences in expectations regarding the work of the external auditor in the Credit Institutions and Financial Companies (CIFIC) in Mozambique, with emphasis on banks, the role of the external audit can be questioned.

In this context, this research intends to verify the possible existence of an Audit Expectation Gap between the auditors and stakeholders of the audit reports of banks in Mozambique (supervisors, managers and financial staff from companies and banks). The study focuses on the expectation gaps regarding the scope of the audit, the materiality underlying the audit process, the audit risk and the auditors' responsibility regarding different aspects, namely, fraud and going concerns. In this sense, the perceptions of different parties were collected through a questionnaire, and the results were triangulated via interviews with one or two representatives from each involved party.

The main results showed statistically significant differences in the opinions of respondents regarding matters related to the scope and objective of the audit, materiality and risk, and different aspects of responsibility. Thus, this study contains evidence that, in addition to reviewing audit regulations for Mozambican credit institutions and financial companies, there is a need for the clarification of matters such as the level of security in external audits (which cannot be absolute); the responsibilities of management and auditors in areas such as assessing and reporting compliance with the ratios and prudential limits imposed by the Bank of Mozambique; the assessment of the suitability of risk management at the bank; and the prevention, detection and reporting of fraud.

This study contributes to the literature and practice in several ways. Firstly, it contributes to the understanding of a little-studied reality—that of Mozambique—but one with international interest, as it is a country dependent on external financial aid. Secondly, it presents evidence of expectation gaps in bank audits in Mozambique in various aspects. This fact allows for the study and implementation of measures to reduce these gaps. Thirdly and consequently, it contributes to improvements in terms of the profession and audit regulation of CIFIC in Mozambique.

In terms of structure, after the introduction, the present investigation presents four more points. The literature review, which addresses the context of bank auditing in Mozambique, presents the main aspects of external auditing and the definition and determinants of the Audit Expectation Gap. Section 3 presents the research methodology, incorporating the research sub-questions, data collection method and instruments, and sample selection and data analysis techniques. In Section 4, the results are presented and discussed, while Section 5 summarizes the main conclusions and limitations of the study, as well as offering directions for future studies.

2. Literature Review

2.1. External Audit in Banks of Mozambique

According to the [Bank of Mozambique \(2021\)](#), in 2021, the Mozambican banking system had 16 banks and 12 microbanks, as well as 1586 microcredit operators. All banks were universal, although some decided to focus on specific business segments (retail banking, corporate and investment banking, microfinance, etc.). The microbank is a type of credit institution whose main purpose is to carry out restricted banking activity, operating in particular in microfinance; that is, it can only grant credit or capture deposits as long as they are authorized by the Bank of Mozambique, and only perform other operations and services if they are strictly necessary for the adequate execution of these operations¹. The

microcredit operators are entities registered only to carry out, in a habitual and professional manner, credit functions².

The trend in recent years has been a reduction in banks (in 2017, there were 19) and an increase in microbanks (in 2017, there were 9) and microcredit operators (in 2017, there were 506). This trend is linked to a policy of bringing banking activity closer to the population through smaller interlocutors who can provide a greater geographic coverage of banking services.

Considering the distribution of their share capital, 14 banks were largely owned by foreign shareholders, being mostly subsidiaries of foreign banks or financial groups. The remaining two banks are majority owned by Mozambican shareholders, and one of them is considered a “public bank”, as it is owned by the Mozambican state. According to [KPMG \(2020\)](#), South Africa leads the list of countries of origin of banking capital, followed by Portugal.

According to the [Bank of Mozambique \(2022\)](#), the Mozambican banking system has high levels of concentration, being dominated by the four largest banks, which together hold more than 50% of the system’s assets. However, there is a downward trend in concentration levels.

In the 1980s, Mozambique underwent a series of economic reforms, which resulted in an opening of the economy and a flow of multinational companies to the country. Thus, in 1990, Decree no. 32/90 of 7 December (regulation of auditing, review and certification of accounts. Council of Ministers, Mozambique,) was approved, with the objective of regulating auditing activity.

Through Law no. 1/92 of 3 January (defines the nature, objectives and functions of the Bank of Mozambique as the central bank of the Republic of Mozambique. Assembly of the Republic. Mozambique), the Bank of Mozambique ceased to both carry out commercial activities and be the country’s central bank, and became solely the central bank of the Republic of Mozambique.

As a result of this process and the need to monitor the financial system, characterized by the constant emergence of new institutions, products and services, a review of the legislation was carried out at the time, applicable to credit institutions, credit auxiliaries and non-monetary financial intermediation, giving rise, in 1999, to Law no. 15/99 of 1 November (regulates the establishment and exercise of the activity of credit institutions and financial companies. Assembly of the Republic. Mozambique), revoking Law no. 28/91, of 31 December, Decree no. 34/92, of 26 October, and Decree no. 43/89, of 28 December.

In 2020, as a result of developments in the national and international banking sector, Law no. 15/99 was revoked through the approval of Law no. 20/2020 of 31 December—CIFC Law (law on credit institutions and financial companies. Assembly of the Republic. Mozambique). This law strengthens licensing, governance and supervision requirements, and stipulates mechanisms and resolution instruments for institutions considered to be at risk of viability. But it did not change the provisions relating to external auditing, stipulating, in its article 93, that the activity of the CIFC must be subject to the external audit of a recognized company in Mozambique.

Under the terms of no. 1 of article 9 of Decree no. 65/2011 of 21 December (regulation of the activity of external auditors and accounting technicians in credit institutions and financial companies and revokes Decree no. 48/2001, of 21 December, Council of Ministers, Mozambique,), the activity of the external auditor of the CIFC is subject to the approval of the Bank of Mozambique, and must be carried out by a recognized company in Mozambique, which must notify the Bank of Mozambique of serious breaches of legal and regulatory standards relevant to supervision which the auditor detects in their activity.

This regulation establishes, among others, rules regarding the following matters: technical competence requirements (article 4), principles of rotation (article 5), conflicts of interest (article 6), verification of duties, recommendations and information (articles 7 and 8) and requirements for approval of the external auditor by the regulatory authority (articles 9 and 10).

The audit definitions presented by the AAA (1973), the Sarbanes–Oxley Act (United States Public Law 107-204) and Costa (2023), in essence, converge to the fact that the external audit is an independent function, which is based on rules that aim to ensure the credibility of information about the business and activity of an entity, prepared based on certain references, by obtaining evidence, and for this purpose, it issues an opinion, through a report, which is disclosed to the different stakeholders.

The International Federation of Accountants (IFAC), through the International Standard of Auditing ISA 200 (2021), paragraph 3, states that the objective of an audit of financial statements is to enable the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. It also mentions that the ISAs do not cover the auditor's responsibilities that may arise from legislation and regulations. Thus, there may be divergences on certain points, and it is the auditor's responsibility to ensure compatibility between the ISAs and compliance with all relevant legal, regulatory and professional obligations.

In this context, it is important to analyze the responsibilities and level of security underlying the auditor's work.

By combining ISA 200 (2021) and ISA 700 (2021), the auditor's responsibility lies in their opinion on the financial statements, obtained through compliance with the ISAs' requirements, and not on the content of the financial statements, which is the responsibility of the management body.

In the case of Mozambique, in accordance with Article 4 of Notice no. 4/GBM/2007 of 2 May (which harmonizes the accounting regime of credit institutions and financial companies with the International Financial Reporting Standards, Bank of Mozambique), the CIFCs, which include banks, must prepare consolidated or individual financial statements in accordance with International Financial Reporting Standards and the conceptual framework of the International Accounting Standard Board.

It should be noted that this standard does not present specific models of financial statements, so the Bank of Mozambique established, for supervisory purposes, through Circular no. 3/SHC/2007 of 12 June (Reporting of financial statements and other elements of accountability of institutions that adopt the International Financial Reporting Standards (NIRF), Bank of Mozambique), models of Balance Sheets and Income Statements for individual and consolidated accounts.

The issue of liability for fraud has been the subject of great debate, especially due to the financial scandals that have come to light. Chong (2013) notes that stakeholders have pressured auditors to include fraud detection in audit programs and reports.

ISA 240 (2021) states that the prevention and detection of fraud and errors is a responsibility of both those charged with governance and the entity's management, who must ensure that the entity establishes and maintains an internal control that provides a reasonable guarantee of reliability regarding the credibility of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Auditors, under the ISAs, are required to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. This view is also supported by the Auditing Standards Board of the American Institute of Certified Public Accountants in SAS AU-C Section 240 (AICPA 2019). Thus, frauds that are audit concerns are those that are materially misstated that could result in fraudulent financial reporting and the misappropriation of assets. Therefore, it is important for auditors to assess the reliability of internal control.

The design and implementation of an adequate internal control, as well as the guarantee of its effectiveness, is a matter of the responsibility of the entity management. This fact is corroborated by paragraph 34 of ISA 700 (2021), which also assigns to the management of an entity the responsibility for designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, either due to fraud or error. This liability should be described in the audit report. The role of auditors, in accordance with ISA 315 (2021), is to assess relevant

internal controls with a view to identifying risks of material misstatement in the financial statements, as well as determining the nature and extent of audit procedures.

In addition to understanding the scope and responsibility of an external auditor, it is important to understand what kind of assurance is obtained as a result of an external audit.

According to [ISA 200 \(2021\)](#), in its paragraph 17, the auditor obtains reasonable (and not absolute) assurance that the financial statements are free from material misstatement. The impossibility of obtaining absolute security results from the limitations inherent to the audit, which have an impact on the ability to detect material misstatements. Such limitations include, among others, the following factors: the use of tests; limitations inherent to internal control; the fact that most audit evidence is more persuasive than conclusive; and the strong influence of professional judgment.

The other element to be considered in the auditor's work, and which, in a way, affects the issue of safety, relates to the concept of materiality.

When conducting an examination of the financial statements, auditors consider the concept of materiality both in planning and in assessing identified misstatements. [ISA 200 \(2021\)](#), in its paragraph 6, recognizes that the auditor is not responsible for detecting misstatements that are not material to the financial statements taken as a whole.

Therefore, a clean opinion on the financial statements does not necessarily mean that there are no misstatements either due to fraud or error, but that the identified misstatements, whether individually or aggregated, are not material, independently of the audit risk (there may be distortions that were not detected).

2.2. Audit Expectation Gap

Several authors ([Porter 1993](#); [Pierce and Kilcommins 1996](#); [Lee et al. 2009](#); [Devi and Devi 2014](#)) agree that the term Audit Expectation Gap was initially introduced in the literature by Liggio, in 1974, having been defined as the difference between the levels of expected performance from an auditor's perspective and from the perspective of the users of financial statements.

[Devi and Devi \(2014\)](#) state that, in 1978, the Cohen Commission extended Liggio's definition by considering that there could be a gap between what the public expects or needs and what the auditor can or should do.

[Porter \(1993\)](#) proposed that the gap be defined as the gap between society's expectations about auditors and auditors' performance, as perceived by society. According to this author, differences in auditing expectations have two major structural components, the reasonableness gap (difference in expectations between what the public expects the auditor to achieve and what the auditor can reasonably achieve) and the performance gap (mismatch between what the public can reasonably expect auditors to perform, and the public's perception of the auditors' performance). The author also distinguishes two components in performance differences, deficient standards (the difference between what can reasonably be expected of auditors and the auditors' duties according to the standards) and deficient performance (the difference between the performance that auditors should have and the public's perception of the auditors' performance).

[Gray et al. \(2011\)](#) added reasons for inadequate performance (lack of competence and independence of the auditor), inadequate standards (lack of independence from the profession) and unreasonable expectations (lack of clarification of the auditor's role and lack of technology).

The perspective of [Ruhnke and Schmidt \(2014\)](#), which reflects the view of [Porter \(1993\)](#), is that it has been proven in the past that the public's expectations regarding the scope of action and responsibilities of auditors are broader than the public perceptions of auditors' performance.

In turn, [Füredi-Fülöp \(2015\)](#) introduced a new structural component to [Porter's \(1993\)](#) scheme, the so-called interpretation differences component (the existing difference in the interpretation of audit results between auditors and different users).

The [ACCA \(2019\)](#) defines the Audit Expectation Gap as the difference between what the general public thinks auditors do and what the general public would like auditors to do. It also proposes that the gap be divided into three components, namely, the knowledge gap (the difference between what the public thinks the auditor does and what the auditor actually does), the performance gap (differences resulting from the auditor not doing what audit standards or regulations require) and the evolution gap (differences resulting from the auditor's lack of action due to a lack of monitoring of technological evolution, the complexity of standards or other aspects; this gap exists in audit areas where there is a need for evolution, taking into account the demands of the general public, technological advances and how the entire audit process can be improved to add more value).

[Akther and Xu \(2020\)](#) present the term Audit Expectation Gap in two different paradigms, namely, an unreasonable gap (difference between what society believes the auditor can achieve and what in practice it can achieve) and a sensible gap. In turn, this last gap can be divided into a sensible performance gap (difference between what society expects from auditors regarding their current level of performance compared to the standard performance described in current regulations) and a sensible standard gap (what society expects from auditors if there is a change in current legislation required by participants and if it is cost-effective to make such an amendment).

In essence, the definitions of the Audit Expectation Gap converge to the fact that there are differences between the expectations of financial statements users in relation to an audit and what auditors actually do.

In studying the theme of the Audit Expectation Gap, it is also important to understand its causes, as the establishment of adequate strategies for its reduction depends on a clear understanding of its causes.

[Lee and Ali \(2009\)](#) systematized a set of studies associated with the theme of the Audit Expectation Gap, concluding that the causes of this phenomenon can be summarized as follows:

- The complex nature of the audit function, a fact associated with the subjective nature of audit terms and concepts and also, as [Alawi et al. \(2018\)](#) note, with society's lack of knowledge of the auditor's profession;
- The conflicting roles of auditors, which is essentially related to the fact that auditors provide non-audit services to their clients;
- The evaluation of the auditor's work quality is carried out after the opinion is issued, when other facts may already have occurred that jeopardize the opinion;
- The time lag in responding to changes in expectations, which is linked to the time lag between identification by auditors and the response to continuous changes and expansion of public expectations, especially in times of crisis;
- The self-regulation process of the audit profession, which can lead to a kind of monopoly of the profession, which, in turn, can lead to a lack of incentive for quality;
- The lack of knowledge and unreasonable expectations of the public, which may be associated with the mismatch of expectations due to unrealistic perceptions of auditors' performance ([Salehi 2011](#)), or the fact that the public does not perceive audit limitations ([Kamau 2013](#)).

In addition to assessing the level of the Audit Expectation Gap and its causes, several authors have also tried to present some solutions to reduce it. In this context, the following strategies have been identified to reduce the Audit Expectation Gap:

- Expansion of the audit report ([Monroe and Woodliff 1994](#); [Koh and Woo 1998](#); [Best et al. 2001](#); [Lee et al. 2009](#))

[Best et al. \(2001\)](#) concluded that expanding audit reporting has the potential to increase the value of financial reporting. [Lee et al. \(2009\)](#) note that empirical studies were conducted in the United States of America, the United Kingdom and Australia that provide evidence that an expanded audit report can be used as a way to reduce the Audit Expectation Gap. This is because it provides a better understanding of the nature, scope and extent of an audit, as well as the role and responsibilities of auditors and management. This was one of the reasons why the IFAC changed the content of the audit report in 2015.

- Education of users regarding the role of auditors ([Pierce and Kilcommins 1996](#); [Koh and Woo 1998](#); [Lee et al. 2009](#); [Mansur and Tangl 2018](#); [ACCA 2019](#))

[Pierce and Kilcommins \(1996\)](#) concluded that there was a reduction in the lack of understanding of auditing standards among students who attended a full course or an auditing module, compared to those who did not take auditing-related subjects. However, they state that education alone may not be an adequate response, as this issue must be accompanied by communication in the audit reports of the support bases used by the auditors.

In the same sense, the [ACCA \(2019\)](#) states that, in order to reduce the knowledge gap, the various audit stakeholders need to commit to informing the public in a fair, balanced and comprehensible manner about auditing regulations and standards.

- Structured audit methodologies ([Koh and Woo 1998](#); [Lee and Ali 2009](#))

[Lee and Ali \(2009\)](#) note that it is believed that the Audit Expectation Gap is likely to reduce if the public is satisfied with the performance of auditors. However, the studies analyzed by them reveal that there is no consensus on the effectiveness of this methodology in reducing the Audit Expectation Gap. The audit approach for a client depends on the assessed risks, and these depend on several factors, such as the nature and environment of the business, as well as the volume of transactions. As such, it may not be beneficial to use a standard audit program for all firms.

- Expanding auditors' responsibilities and improving auditors' performance ([Koh and Woo 1998](#); [Lee and Ali 2009](#); [Ruhnke and Schmidt 2014](#))

[Lee and Ali \(2009\)](#) note that some studies suggest that auditors should expand their scope of action as a way to reduce the Audit Expectation Gap. Expanding auditors' responsibilities is likely to be an appropriate way to respond to public expectations. However, the costs of such services must be considered. These costs would be charged to the companies, as the public would understand them to be the responsibility of the auditors. Therefore, a company may be reluctant to request these services from auditors unless they are required by law.

- Clarification and reinforcement of auditor and profession independence ([Koh and Woo 1998](#); [Gray et al. 2011](#))

[Koh and Woo \(1998\)](#), citing [Humphrey et al. \(1993\)](#), note that the reinforcement of auditors' independence can be achieved through the establishment of an independent entity, which supervises the appointment of auditors and regulates audit fees. However, they point out that the magnitude of the Audit Expectation Gap and the costs and benefits of this solution must be carefully evaluated before being implemented.

- Improvements in auditing standards ([ACCA 2019](#))

For the ACCA, the creation of clearer auditing standards that avoid creating requirements that may introduce bias in the judgment, or that are difficult to implement objectively, is a means of reducing the gap.

As we can see, there are several causes associated with the Audit Expectation Gap, and there are also several ways to reduce it. However, it continues to exist, and it is important to keep it at acceptable levels so that the audit function continues to improve the credibility of financial information and, thus, contribute to confidence in the information.

3. Research Methodology

3.1. Research Questions

In general terms, this study seeks to assess the existence of the Audit Expectation Gap in the external audit of banks in Mozambique, aiming to answer the main research question: Is there an Audit Expectation Gap in the external auditing of Mozambique banks?

In order to answer the main question and achieve the objective, different research sub-questions (SQ) were formulated.

The auditor's opinion, pursuant to paragraph 8 of [ISA 700 \(2021\)](#), covers the complete set of financial statements as defined by the applicable financial reporting framework. However, if reporting information is optional, there may be an expectation that the audit opinion will cover other information or matters. Thus, the following SQ was formulated: SQ1—Is there consensus on the scope perceived, by stakeholders and auditors, regarding the external audit of Mozambique banks?

[Gray et al. \(2011\)](#) analyzed the perception of the main concepts incorporated or that could be incorporated in the current audit report. Based on the results of the study, they noted that users know that auditors do not provide absolute assurance, but the concepts of level of assurance, reasonable assurance and high level of assurance are confusing for all stakeholders, as well as for auditors. This is understandable, as auditing standards do not specify or quantify reasonable assurance. Thus, an audit risk level is assumed, but its quantification is not defined in the standards. Regarding materiality, the researchers noted that users have a basic understanding of materiality and sampling, but their assumptions regarding materiality levels and sample size differ considerably. In this context, the following SQs were formulated:

SQ2(a)—Is there consensus on the understanding of materiality, by stakeholders and auditors, regarding the external audit of Mozambique banks?

SQ2(b)—Is there consensus on the level of audit risk, by stakeholders and auditors, regarding the external audit of Mozambique banks?

[Best et al. \(2001\)](#) concluded that the level and nature of the Audit Expectation Gap was quite broad in relation to the auditor's responsibilities, particularly in the areas of fraud prevention and detection, keeping accounting records and applying judgment in the selection of audit procedures. To a lesser extent, the Audit Expectation Gap was also observed with respect to the auditor's responsibility for establishing robust internal control, the degree to which the financial statements give a true and fair view, the auditor's agreement with the policies used in the financial statements and the usefulness of financial statements in assessing the performance of an entity.

[Fadzly and Ahmad \(2004\)](#), using the approach of [Best et al. \(2001\)](#), also found the existence of a substantial Audit Expectation Gap in Malaysia, particularly with regard to auditors' responsibilities. The gap was also wide in aspects relating to the prevention and detection of fraud, keeping accounting records and applying judgment in the selection of audit procedures.

[Gray et al. \(2011\)](#) found that if the auditor's report does not mention fraud and issues regarding the going concern assumption, users assume that the auditors have tested these two aspects thoroughly and there were no problems. However, there were differences in perception between auditors and user groups regarding the degree of analysis carried out by auditors. Therefore, the following SQ was formulated:

SQ3—Is there consensus on the understanding of the auditor's responsibilities, by stakeholders and auditors, regarding the external audit of Mozambique banks?

3.2. Data Collection

Data collection was carried out through a questionnaire, which is one of the most used techniques in studies on this topic (Porter 1993; Monroe and Woodliff 1994; Best et al. 2001; Ruhnke and Schmidt 2014; Masoud 2017; Akther and Xu 2020). The questionnaire was structured in two parts, namely, part I, referring to the characterization of the profile of the respondents, and part II, concerning the collection of opinions from the various groups. This opinion addresses three aspects related to the work of external auditors in Mozambique banks, namely, the objective and scope of an external audit; concepts of materiality and risk; and responsibilities of the external auditor in Mozambique banks.

The questions were asked based on the Likert scale, which is also widely used when it comes to collecting opinions, with 5 levels having been defined: 1—Strongly disagree; 2—Disagree; 3—Neither agree nor disagree; 4—Agree; 5—Strongly agree.

The questionnaire was sent during the second semester of 2021 through the Google Form application, which allows the aggregation of data, thus facilitating its analysis.

The questionnaire was structured considering the research questions, and Table 1 illustrates the connection between these two components.

Interviews were also carried out, with the aim of validating the results of the questionnaires, allowing a triangulation of the collected information. The questions asked in the interview were the same ones presented in the questionnaires; however, an attempt was made to find out the reasons for the answers given, making them semi-structured interviews, thus allowing the validation of the questionnaire.

Table 1. Correspondence between the questionnaire and the research questions.

Research Sub-Questions	Statements in the Questionnaire
SQ1—Is there consensus on the scope perceived, by stakeholders and auditors, regarding the external audit of Mozambique banks?	1.1 The external audit of banks covers information beyond the financial statements (Balance Sheet, Income Statement, Statement of Changes in Equity and Notes to the Financial Statements), such as the management report.
	1.2 The objective of an external audit of banks is to enable the auditor to present his opinion on the viability/profitability of a bank.
	1.3 The scope of the external audit covers the assessment of the efficiency and effectiveness of the use of resources.
	1.4 The scope of the external audit includes the assessment of management performance.
SQ2(a)—Is there consensus on the understanding of materiality, by stakeholders and auditors, regarding the external audit of Mozambique banks? SQ2(b)—Is there consensus on the level of audit risk, by stakeholders and auditors, regarding the external audit of Mozambique banks?	2.1 Carrying out an audit is the guarantee that all fraud occurring in a bank will be detected.
	2.2 The auditor provides absolute assurance that a bank's financial statements are free from material misstatement, whether due to error or fraud.
	2.3 A clean opinion is a guarantee that the bank will not go bankrupt.
	2.4 A clean opinion ensures that the financial statements are free from misstatements.
	2.5 Any misstatements found by the auditor should be noted in the report.
	2.6 Materiality determines the collection of evidence and the identification of misstatements.
	2.7 The audit process is carried out according to the assessed risks.
	2.8 The auditor's professional judgment is always present throughout the process, being a subjectivity factor.

Table 1. Cont.

Research Sub-Questions	Statements in the Questionnaire
SQ3—Is there consensus on the understanding of the auditor’s responsibilities, by stakeholders and auditors, regarding the external audit of Mozambique banks?	3.1 The auditor is responsible for maintaining an adequate internal control system in a bank.
	3.2 The auditor is responsible for the accounting records of a bank.
	3.3 Bank management is responsible for the preparation and presentation of financial statements in accordance with the applicable financial reporting framework.
	3.4 The auditor is responsible for preventing fraud in a bank.
	3.5 The auditor is responsible for detecting and reporting fraud in a bank.
	3.6 The auditor is responsible for assessing the ability of a bank to continue as a going concern.
	3.7 The auditor is responsible for assessing the bank’s business model and competitiveness.
	3.8 The auditor is responsible for verifying and paying special attention to whether banks are able to comply with the ratios and prudential limits imposed by the Bank of Mozambique (regulatory capital requirements, liquidity requirements, solvency ratios, mandatory reserves, etc.).
	3.9 The auditor is responsible for assessing the adequacy of the prudential reporting procedures required by the Bank of Mozambique.
	3.10 The auditor is responsible for assessing the adequacy of risk management in a bank.
	3.11 The auditor must present in his audit report the non-compliance with the ratios and prudential limits imposed by the Bank of Mozambique.

Source: Authors’ elaboration.

3.3. Sample Selection

Currently, the focus of the Audit Expectation Gap analysis is centered on comparing the perceptions of (i) society and auditors; (ii) accountants and auditors; and (iii) investors and auditors (Salehi 2011). Thus, bearing in mind the banks’ stakeholders, the questionnaire was sent to four groups, namely, those responsible for preparing the financial statements of the banks/employees in the financial area of the banks (which, from now on, for simplicity, we will call “banks”); managers and financial staff of the 100 largest companies in Mozambique (based on KPMG’s annual publication of the 100 largest companies in Mozambique in 2020), excluding banks (which, from now on, for simplicity, we will call “companies”); banking regulators and supervisors (which, from now on, for simplicity, we will call “supervisors”); and external auditors, at their various levels. In addition to being stakeholders in financial information and the respective audit report, these groups have often been included in the target groups of research on this topic (Gray et al. 2011; Masoud 2017; Veiga et al. 2017).

Regarding banks, as well as supervisors, and given that their numbers are below 30 (or close to this number), the entire population was considered. With regard to companies, it was also decided to survey the entire population.

For the auditors, intentional non-probabilistic sampling was used, given the advantages that this presents according to Alvarenga (2012) and Gil (2008). This research focused on the big four (the four largest auditing firms at an international level: KPMG, Deloitte, Ernst & Young and PricewaterhouseCoopers), and the questionnaire was sent to the auditing departments of these firms. Therefore, the population consists of all employees of the auditing departments of these firms (242).

Table 2 summarizes the population and sample of the four categories of respondents in the study.

From the analysis of Table 2, it appears that almost 30% of the intended sample was reached, with 100% being obtained from two of the stakeholder groups (banks and supervisors).

Table 2. Population and sample.

Stakeholders	Population	Sample			Interviews
		Respondents	Answers	Response Rate	
External Auditors (Partners, Seniors and Juniors)	242	242	33	14%	3
Banks	15	15	15	100%	1
Companies	89 *	89	41	46%	4
Supervisors	17	17	17	100%	2
Total	363	363	106	29.2%	10

Source: Authors' elaboration. * Based on the publication of the 100 largest companies in Mozambique in 2020 carried out by KPMG, excluding the 11 banks that appear on the list as they are part of the other category of the study.

3.4. Data Analysis Techniques

Aiming to test whether there is a significant difference between the opinion of auditors and other users of financial statements or interest groups, studies on the subject have used statistical hypothesis testing approaches. In essence, these studies compare the average of the auditors' responses with the average of the responses of each of the remaining groups.

In the present research, similarly to the studies by [Monroe and Woodliff \(1994\)](#), [Best et al. \(2001\)](#), [Fadzly and Ahmad \(2004\)](#), [Schelluch and Gay \(2006\)](#), [Boterenbrood \(2017\)](#) and [Akther and Xu \(2020\)](#), the analysis of the results was performed using the Mann–Whitney test, as it allows differences between means of two populations to be tested without having to test the normality of their distribution ([Best et al. 2001](#)). For this purpose, this analysis and descriptive statistics were performed using the statistical software Statistical Package for Social Sciences Statistics (SPSS) 21.0.

4. Results and Analysis

4.1. Sample Characterization

As described in the methodology, a total of 368 questionnaires were sent and 10 interviews were conducted. From the questionnaires sent, 106 responses were obtained; adding the 10 interviews, this represents a response rate of 32%.

The data obtained from the profile of the respondents show that the majority (70%) are male, who dominate all categories of stakeholders surveyed, and a significant portion of the respondents are in the range of 26 to 35 years old, followed by the range of 36 to 45 years. Almost all respondents (96%) have a higher academic level, with 80% having a bachelor's degree and 89% having training in accounting, as well as experience (87%) in this field of knowledge, which reveals that they have a lot of knowledge and experience to assess the aspects surveyed.

As mentioned by [Best et al. \(2001\)](#), the respondents' high levels of training and experience in accounting add credibility to studies on the Audit Expectation Gap.

With regard to time in the current position, 66% of respondents have up to 5 years of experience, with 20% and 14% in the range of 6 to 10 years and more than 10 years, respectively.

4.2. Presentation and Discussion of Results

4.2.1. Scope and Objective of the External Audit

In this topic, four statements were presented in order to assess whether the auditors' perception of the objective and scope of the external audit of banks in Mozambique differs significantly from the perception of the other groups under study. Table 3 shows the mean responses for each group, and what results from the standards (ISAs and/or Decree no.

65/2011). For the standard results, “<3” represents that it is not expected by the standards and “>3” represents that it is expected.

Table 3. Response averages for statements relating to the scope and objective of the external auditing of banks in Mozambique.

	Average Responses				Standards
	Auditors	Banks	Companies	Supervisors	
1. The external audit of banks covers information beyond the financial statements (Balance Sheet, Income Statement, Statement of Changes in Equity and Notes to the Financial Statements), such as the management report.	3.4	4.1 *#	3.4	3.9	<3
2. The objective of an external bank audit is to enable the auditor to present his opinion on the viability/profitability of a bank.	2.4	3.2 *#	2.8	2.9	<3
3. The external audit of banks covers the evaluation of the efficiency and effectiveness of the use of resources.	2.5	2.7	3.1 *#	3.0	<3
4. The external audit of banks includes the assessment of management performance.	2.3	2.6	3.0 *#	2.6	<3

*# According to the result of the Mann–Whitney test, it differs significantly from the auditors’ response with a significance level of 5%.

From the analysis of Table 3, it results that all statements obtained statistically significant differences for one of the stakeholders.

Regarding statement 1, which states that the external audits of banks cover the financial statements and other information contained, for example, in the management report, the average response of all groups surveyed was above 3 (neither agree nor disagree). Applying the Mann–Whitney test, only the average responses of banks (4.1) shows a statistically significant difference from the average responses of auditors (3.4). That is, banks believed that, in addition to financial statements, an external audit covers information such as the management report. The position of banks contrasts with the provisions of paragraph 8 of ISA 700 (2021), according to which the auditor’s opinion covers the complete set of financial statements as defined by the applicable financial reporting conceptual framework. It should be noted that the provisions of this paragraph are emphasized in the external audit reports of banks in Mozambique, which state that directors are responsible for other information (declaration of responsibility of directors and management report) and that these do not include the financial statements or the audit report on them.

One of the supervisors interviewed stated that he clearly understood that the management report is not covered by the auditors, despite the fact that they read it. However, another supervisor stated that it was reasonable for the auditor’s report to include a component of the management report. This divergence of perception is not consistent with the average calculated in the questionnaire, which shows that supervisors tend to agree with this statement.

In turn, the auditors interviewed also disagreed with the statement, being not totally consistent with the results obtained by the survey. They noted that auditing banks has the same scope as auditing other sectors as guided by the ISAs, and the management report is the responsibility of the management bodies. Obtaining a value above 3 may be related

to the fact that the auditor frequently, and, in some countries, obligatorily, checks the consistency of data between the management report and the financial statements. On the banks' side, the interviewee stated that he agreed with the statement, as the management report complements the information contained in the financial statements. In turn, on the companies' side, some of the interviewees understood the management report as part of the report and accounts, considering that it is the responsibility of the external auditor to ensure its coherence. However, the other party stated that the scope of an external audit is limited to the financial statements. This divergent situation is consistent with the doubt represented by the average calculated in the survey.

Regarding statement 2, according to which the objective of an external audit of banks is to enable the auditor to present their opinion on the viability/profitability of a bank, the average of responses presented by banks, companies and supervisors was close to option 3 (neither agree nor disagree). That is, on average, the members of these groups had some doubts about the purpose of an audit. As for auditors, the average response was close to option 2 (disagree), showing a tendency to disagree with the statement. However, only the average response of banks shows a statistically significant difference from the average response of auditors, according to the Mann–Whitney test.

Although the average response from supervisors is close to 3 (neither agree nor disagree), when interviewed, they said that auditors may even perceive feasibility or profitability problems, but this is not their responsibility. In some cases, auditors may consider these matters in the context of their review of the going concern assumption presented by a bank's management. The remaining interviewees disagreed with the statement, considering, in general terms, that it is not part of the scope of the audit.

In statement 3, regarding the fact that the external audit of banks covers the assessment of the efficiency and effectiveness of the use of resources, on average, the respondents' answers were close to option 3 (neither agree nor disagree), essentially revealing some of their doubts in relation to the subject. Based on the results of the Mann–Whitney test, only the response of companies differs significantly from the auditors' response. However, since the average of that group is close to the "neither agree nor disagree" option, this situation reflects a lack of opinion from this group, and it is not possible to clearly assess that there is an Auditing Expectation Gap. It should be noted that paragraph A1 of [ISA 200 \(2021\)](#) states that an audit opinion does not ensure the future viability of the entity nor the efficiency or effectiveness with which management has conducted the entity's affairs.

In the interview, one of the supervisors stated that he expects the auditor to verify that the processes are well designed to produce the results that the institution expects, agreeing with the statement. The other interviewee disagreed with the statement, explaining that although in some cases the auditors assess the use of resources as part of their analyses, their objective is not to issue an opinion on these matters. Therefore, these data are consistent with the results obtained in the questionnaire, whose average reflects the doubts of supervisors in this matter. Part of the auditors interviewed agreed with the statement, mentioning that the assessment of efficiency and effectiveness in the use of resources is conducted through sensitivity analysis. However, the other party understood that the assessment of the efficiency and effectiveness of the use of resources is not part of the scope of an external audit. On the banks' side, the interviewee said that he agreed with the statement since, based on the information obtained by the auditors, it is possible to verify how the institution's resources were used. Some of the companies interviewed believed that, in their work, auditors have to verify how the resources allocated to the management of a bank were used. However, the other party claimed that this matter was not the responsibility of the auditors.

Statement 4 states that the external audit of banks includes the assessment of management performance. Regarding this point, the auditors, on average, disagreed with the statement. Similar to the previous position, banks, companies and supervisors neither disagreed nor agreed with the statement, given that the averages of their answers are around option 3. However, the average of companies is the only one that presents a statistically

significant difference from the average of the auditors, although, once again, the average of that group reflects doubts about the statement.

The supervisors, when interviewed, mentioned that this is not the auditor's responsibility, although, indirectly, in the performance of their tasks and based on their findings, such facts may contribute to a management assessment. This is why we may have obtained an average of 2.6, close to the option "neither agree nor disagree". The auditors interviewed understood that it is not their function to assess management performance, because it is outside the scope of an external audit. The companies interviewed agreed with the statement, explaining that the audit results can contribute to the assessment of management performance.

In short, and regarding any of the statements, there was no consensus of understanding between the opinions of the different groups and even within each group. The interviews themselves came to confirm different positions within the same group, with clear differences of opinion, in particular among the auditors themselves. These results allow us to respond negatively to SQ1, identifying the scope of the audit as contributing to the Audit Expectation Gap in auditing banks in Mozambique.

4.2.2. Materiality and Risk

Table 4 presents the data related to the averages of responses to the statements about materiality and risk and what results from the standards.

Regarding the first four statements, they are related to risk (SQ2(a)), and a statistically significant difference was obtained in statements 1 and 4.

The analysis of Table 4 relating to the first statement, according to which carrying out an audit is the guarantee that all fraud occurring in a bank will be detected, allows us to conclude that, except for banks who showed some doubts, companies, supervisors and auditors disagreed with this statement. In comparative terms, there is a statistically significant difference between the average of auditors and the average of banks. However, the interviewee from this group did not agree with the statement, arguing that the auditor is responsible for expressing an opinion indicating that reasonable assurance has been obtained that the financial statements as a whole are free from material misstatement. The remaining interviewees were consistent with the respondents not agreeing with the statement, assuming that it would not be possible to detect all fraud, and the interviewed auditors mentioned that the detection of fraud is the responsibility of management.

In statement 4, where it is stated that a clean opinion is a guarantee that the financial statements do not contain distortions, a statistically significant difference was found between the average response of auditors, who had doubts about the statement, and that of banks, who tended to agree with the statement. Given that there is always risk in auditing, a clean opinion is not a guarantee that there are no material misstatements. This gap corroborates the results of Gray et al. (2011) on the lack of clarification of the assurance level in auditing.

As for statement 2, according to which the auditor provides absolute assurance that a bank's financial statements are free from material distortions, whether due to error or fraud, with the exception of supervisors who disagreed, the remaining groups tended to neither agree nor disagree with this statement. However, differences between means are not statistically significant. In any case, these results show that there is no clear disagreement among the respondents, so the results corroborate those presented by Gray et al. (2011), who stress the imprecision of the level of security, as auditing standards do not clarify or quantify what is a reasonable level of assurance.

For statement 3, evaluating the means and without statistically significant differences, all groups were aligned, disagreeing with the fact that a clean opinion is a guarantee that a bank will not fail.

Table 4. Response averages for materiality and risk statements.

	Average Responses				Standards
	Auditors	Banks	Companies	Supervisors	
1. Carrying out an audit is the guarantee that all fraud occurring in a bank will be detected.	2.0	2.7 *#	2.3	1.6	<3
2. The auditor provides absolute assurance that a bank's financial statements are free from material misstatement, whether due to error or fraud.	2.6	3.4	2.6	2.3	<3
3. A clean opinion is a guarantee that a bank will not fail.	2.0	2.0	2.0	1.6	<3
4. A clean opinion is a guarantee that the financial statements are free from misstatements.	2.5	3.5 *#	2.7	2.5	<3
5. Any misstatement found by the auditor should be referred to in the report.	2.9	3.9 *#	3.0	3.2	<3
6. Materiality determines the collection of evidence and the identification of misstatements.	3.5	3.7	3.2	3.6	>3
7. The audit process is conducted according to the assessed risks.	4.1	3.8	3.8	3.6	>3
8. The auditor's professional judgment is always present throughout the process, which is a subjectivity factor.	4.0	3.7	3.0 *#	3.6 *#	>3

*# According to the result of the Mann–Whitney test, it differs significantly from the auditors' response with a significance level of 5%.

The results of these four statements make it possible to respond to SQ2(a). Given that only statement 3 is consensual, we answer negatively to the question SQ2(a). In this way, risk is another one of the factors that contribute to the Audit Expectation Gap.

Regarding the last four statements, they are related to materiality (SQ2(b)), and a statistically significant difference was obtained in statements 5 and 8.

Regarding statement 5, which expresses the idea that any distortion found by the auditor should be mentioned in the report, auditors, companies and supervisors showed doubts, as their response averages are around option 3 (neither agree nor disagree). Banks agree with this statement. Effectively, it was found that the difference between the auditors' response and that of banks is statistically significant. It should be noted that the interviewed bank manager agreed with the statement, having stressed, however, that they should be relevant matters. In an interview, one of the supervisors mentioned, once again, that the materiality aspect must be considered, so that not all distortions must be included in the auditor's report. However, the other interviewee agreed with the statement and understands that the auditor's report should present the situations identified in a bank. This different view on this matter is consistent with the aspect of doubt expressed by the average calculated based on the questionnaire. The auditors disagreed, as they understood that the financial statements may contain misstatements that are not material. They also understood that the financial statements may also contain misstatements that are material,

but that the auditor may not detect them, which is a risk of detection. The companies interviewed presented divergent opinions, with some agreeing, arguing that this is the only way to have credible information, and others disagreeing, stating that it should only be relevant information.

For statement 8, according to which the auditor's professional judgment is a subjective factor always present throughout the process, except for companies (average of 3) who showed doubts in this aspect, the average of the remaining groups was close to option 4 (agree). However, there is a statistically significant difference between the auditors' response, that of companies and that of supervisors. In the interview, the supervisors stated that they understood that the auditor's work is based on professional judgment, as is the case in the field of supervision, and their position is consistent with the data collected based on the survey. The companies interviewed, in general, showed difficulties in interpreting the professional judgment element, therefore showing difficulties in evaluating this matter. However, there were some who disagreed, stating that the judgment should not be subjective. Thus, the positioning of companies is consistent with the average calculated in the survey, which was placed in option 3, "neither agree nor disagree". The auditors interviewed agreed with the statement, arguing that, in the course of audits, there are matters whose weighting and evaluation require them to exercise judgment. They also stated that judgment is a subjective factor since it varies from auditor to auditor, above all depending on the experience of each auditor. The interviewee from the banks mentioned that it was convenient for auditors to apply their professional judgment during the audit process, as there are matters that even at management level require judgments.

In statement 6, except for the companies who showed doubts, the remaining groups agreed with the fact that materiality is crucial in gathering evidence and identifying distortions. In this question, no statistically significant differences were identified, so it does not contribute to the Audit Expectation Gap.

All groups agreed with statement 7, according to which the audit is conducted according to the assessed risks, as the average response is around option 4 (agree), with no statistically significant differences.

The analysis of these four statements allows us to respond to SQ2(b), and as only statement 7 was consensual and without doubts, we also respond negatively to this question. Thus, materiality is another one of the factors that contributes to the Audit Expectation Gap.

4.2.3. Responsibilities of the External Auditor

Table 5 presents the data related to the average of responses on the statements around the external auditor's responsibilities in auditing banks in Mozambique, and what results from the standards.

Eleven statements were made regarding the responsibilities of external auditors in auditing banks in Mozambique. Of these statements, statistically significant differences were only found in four (4) statements in the following domains:

- i. Responsibility for detecting and reporting fraud in a bank (statement 5);
- ii. Responsibility for verifying and paying special attention to whether banks are able to comply with the ratios and prudential limits imposed by the Bank of Mozambique (statement 8);
- iii. Responsibility for assessing the adequacy of the prudential reporting procedures required by the Bank of Mozambique (statement 9);
- iv. Responsibility regarding the presentation in its audit report of non-compliance with the ratios and prudential limits imposed by the Bank of Mozambique (statement 11).

Table 5. Response averages for statements regarding the external auditor's responsibilities in auditing banks in Mozambique.

	Average Responses				Standards
	Auditors	Banks	Companies	Supervisors	
1. The auditor is responsible for maintaining an adequate internal control system in a bank.	1.9	2.6	2.4	2.1	<3
2. The auditor is responsible for maintaining the accounting records of a bank.	2.1	2.3	2.0	1.7	<3
3. A bank's management is responsible for preparing and presenting financial statements in accordance with the applicable financial reporting framework.	4.1	4.1	4.0	4.5	>3
4. The auditor is responsible for preventing fraud in a bank.	2.2	2.7	2.6	2.0	<3
5. The auditor is responsible for detecting and reporting fraud in a bank.	2.7	3.1	3.4 *#	2.6	<3
6. The auditor is responsible for assessing the ability of a bank to continue as a going concern.	3.4	3.6	3.1	3.5	<3
7. The auditor is responsible for assessing the business model and competitiveness of a bank.	2.2	2.3	2.5	2.6	<3
8. The auditor is responsible for verifying and paying special attention to whether banks are able to comply with the prudential ratios and limits imposed by the Bank of Mozambique (regulatory capital requirements, liquidity requirements, solvency ratios, mandatory reserves, etc.).	3.4	3.1	3.5	2.6 *#	>3
9. The auditor is responsible for assessing the adequacy of the procedures for preparing prudential reports required by the Bank of Mozambique.	3.2	2.4 *#	3.5	2.4 *#	<3
10. The auditor is responsible for assessing the adequacy of risk management in a bank.	3.3	3.1	3.3	2.8	<3
11. The auditor must present in his audit report the non-compliance with the ratios and prudential limits imposed by the Bank of Mozambique.	2.9	3.1	3.6 *#	2.8	<3

*# According to the result of the Mann–Whitney test, it differs significantly from the auditors' response with a significance level of 5%.

With regard to statement 5, although the average responses of auditors and companies were around 3, the existence of a statistically significant difference in the opinions of those two groups is consistent with the results obtained by [Best et al. \(2001\)](#) and [Fadzly and Ahmad \(2004\)](#), as they found the existence of an Audit Expectation Gap in the field of responsibility for detecting fraud. In other words, the results presented by these authors suggest that some stakeholders understand that it is the auditor's responsibility to detect fraud in an entity. For this statement, in the interview, one of the supervisors stated that he neither agreed nor disagreed, as the auditor can detect fraud through their work, but this function is not their responsibility. The other interviewee mentioned that the auditor may notice things that are not "very correct" despite not having the function of detecting fraud, but if they are detected, the auditor must report them. These doubts are consistent with the average (2.6) obtained in the responses to the questionnaire. The auditors mentioned that, except in cases of forensic audits, this is the responsibility of management/administration, which must ensure the implementation of adequate internal controls to prevent fraud. In turn, the interviewee from the bank disagreed, arguing that the auditor is not responsible and cannot be held responsible for preventing fraud or errors. However, the auditors must plan their work by assessing the risk of the occurrence of fraud or error in order to ensure a high probability of detecting those that imply material effects on the financial statements. Some of the companies interviewed also understood that the auditor cannot be held responsible for the detection of fraud, given that the auditor is not in an entity on a daily basis, but if there is fraud, the auditor must report it. One of the interviewees neither agreed nor disagreed, stating that it depends on the purpose of the audit.

For statement 8, there was a statistically significant difference between the perception of auditors and that of supervisors. Although the average response from auditors represents their doubts regarding this matter, Decree no. 65/2011, which regulates the activity of external auditors and accountants with the CIFCs, establishes those duties in no. 1 of article 7. However, in the interview, supervisors stated that the "capacity to comply", which is a constant in the Decree, is confusing. They also pointed out that compliance with prudential ratios and limits is, at all times, the responsibility of a bank's top management, and must guarantee their continuous observance. Thus, they argued that this responsibility should not be the auditor's responsibility, but only of the supervision of the central bank, despite being established in the aforementioned Decree. In the same sense, some of the auditors interviewed stated that auditors should indirectly verify this situation; however, it is not their primary responsibility. The interviewee from the banks, in line with the comment of one of the supervisors, disagreed with the statement, stating that it is not the auditor's responsibility to verify and pay special attention to whether the bank is able to comply with the ratios and prudential limits imposed by the Bank of Mozambique, but the responsibility of management. The companies interviewed understood that the ratios and prudential limits are inherent to the activities of a bank; therefore, in the scope of an external audit, as in the case of the tax component, it is necessary for the auditors to verify their compliance by banks.

For statement 9, although on average it is close to option 3 (neither agree nor disagree), statistically significant differences were found between the perception of auditors and that of banks and between the perception of auditors and that of supervisors. The companies were those who agreed most with the statement. However, this situation is not foreseen in Decree no. 65/2011 as being one of the responsibilities of the auditors. Supervisors, in the interview, stated that this is not the responsibility of the auditor, but of the supervision of the central bank. However, this situation contrasts with the average calculated in the questionnaire, which is close to the option "neither agree nor disagree". The auditors interviewed also disagreed, stating that it is not their primary responsibility, but the management of the bank's. In the same sense, the banks also disagreed with the statement. Some of the companies interviewed highlighted that, as banks are obliged to comply with prudential ratios and limits, auditors should check the processes for preparing this information at the level of those institutions in order to give their opinion on compliance.

However, the other party mentioned that this is a responsibility of the bank's management, and in some cases, it could be extended to the internal auditor. These divergences are not consistent with the average calculated in the questionnaire.

For statement 11, there was a statistically significant difference between the average response of auditors and that of companies. That is, while the auditors showed doubts as to their responsibility for presenting non-compliance with the ratios and prudential limits imposed by the Bank of Mozambique in their audit report, companies believed that this is a duty of the auditors. Once again, Decree no. 65/2011 does not specify this component as being the responsibility of the auditors. In the interview, supervisors stated that the audit report is standardized, and it is not possible to include aspects other than the financial ones. However, if it has an impact on the financial statements, this information can be included in the audit report. In turn, the auditors interviewed understood that this information is not part of the scope of an external audit of banks. They also mentioned that the auditor only evaluates the information on risk management that is incorporated in the financial statements. The interviewee from the banks, agreeing with the statement, argued that there is a need to include, in the report, information regarding compliance with the ratios and prudential limits imposed by the Bank of Mozambique. For the companies, except for one interviewee who disagreed with the statement stating that it was not the responsibility of the auditors, but of the managers and internal auditors of the banks, the rest agreed with the statement, arguing that it is important that any non-compliance with the ratios and prudential limits imposed by the authority be included in the report.

The results of the study also showed that, with regard to maintaining a bank's accounting records (statement 2), on average, all groups considered that this is not the responsibility of the auditors, with no statistically significant differences. However, these data contradict the results obtained by [Best et al. \(2001\)](#) and [Fadzly and Ahmad \(2004\)](#), who found a large and substantial gap, respectively, in the field of keeping accounting records.

For statement 4, regarding the responsibility for fraud prevention, and statement 6, regarding the auditors' responsibility for assessing the bank's going concern, no statistically significant differences were identified between the average response of the auditors and of the other groups, so they are not in themselves causes of the Audit Expectation Gap.

Regarding statement 1 about the responsibility for maintaining an adequate internal control system in a bank, no statistically significant differences were found between the perception of the auditors and that of the other groups. In essence, the positioning of banks reflected their doubts as to the responsibility for maintaining an adequate internal control system in a bank. Auditors, companies and supervisors disagreed with this statement. The previously described findings contrast with the conclusions of [Best et al. \(2001\)](#), who observed an Audit Expectation Gap regarding the auditor's responsibility for establishing a robust internal control.

Thus, based on the analysis of the results of the eleven statements, SQ3 is also negatively answered because, although statistically significant differences were only identified in four statements, we continue to have perceptions centered on level 3 in the rest, translating into a position of undefinition, interviewees with divergent opinions or averages close to level 2 for some categories and close to 3 for other categories. That is, there is no consensus in the understanding of stakeholders regarding the auditor's responsibilities in the external audit of banks in Mozambique.

5. Conclusions

The Audit Expectation Gap continues to be a reality in many countries, despite efforts to reduce it. In recent years, international standardization organizations in the field of auditing have made efforts with a view to reducing the difference between the expectations of external auditors and other users of the external audit report.

The present investigation had as a general objective to evaluate the existence of an Audit Expectation Gap in the external auditing of banks in Mozambique. For this purpose, a questionnaire was drawn up aimed at specific groups, namely, auditors, bank regulators

and supervisors, and managers and financial staff from banks and companies, with a view to assessing whether there are significant differences in perception between auditors and other groups regarding the scope and purpose of an external audit, materiality and risk, and the responsibilities of external auditors in Mozambique banks. Subsequently, the results were triangulated by interviewing some of the participants.

The study showed that there is an Audit Expectation Gap in several aspects related to each of the areas under analysis. Therefore, despite the experience and training in accounting by most of the respondents, the results of the study show the existence of an Auditing Expectation Gap in the audit of Mozambican banks. The results suggest that there is a need for clarification of matters such as the scope itself, the level of assurance and risk, the application of materiality and professional judgment, the responsibilities of management and auditors in areas such as evaluating and reporting compliance with the ratios and prudential limits imposed by the Bank of Mozambique, and the prevention, detection and reporting of fraud.

Some of the gaps found can be resolved through changes in legislation. This is the case of whether or not the scope of the audit includes the management report and other elements, as well as the responsibility to evaluate the ratios and prudential limits imposed by the Bank of Mozambique. Consequently, a revision of Decree no. 65/2011 is recommended to clarify these matters. Other divergences, such as the levels of assurance, risk, materiality and other responsibilities, are more complex and depend on more information from the report, but also on a greater understanding by different stakeholders. Thus, they can be only partly reduced with a clearer clarification of the concepts in the audit report. Thus, the revision of Decree no. 65/2011 can help.

Additionally, the previous recommendation would be extended to the stock exchange in the sense of introducing, without prejudice to the ISAs, sufficient information elements in the audit reports and in the financial statements, so that they are also comprehensive, considering the vast set of interests of the investors on the stock exchange.

It is important to highlight some limitations that may affect this research, namely, the following: (i) the study covered only three groups of stakeholders of the work of auditors of banks (banks, companies and supervisors), but there are more stakeholders in this process (shareholders, individual bank customers, etc.) whose perception may be of interest for capturing the dimensions of the phenomenon; (ii) the study was focused on the four largest auditing firms, despite the fact that there are other small and medium-sized firms in the market; (iii) the number of respondents can be considered reduced, affecting the capture of information about the “why” of certain positions; and (iv) the effect of averages, since the analysis of the questionnaire results did not take into account the magnitude of deviations in relation to such averages.

Thus, as lines of future research, it is important to replicate this study with more stakeholders of the auditors’ work, as well as expanding it to areas where the existence of an Audit Expectation Gap was identified in order to assess the gap in its components, including strategies for its reduction. On the other hand, this study can be replicated for the business sector, considering the evolution of accounting and auditing standards in Mozambique.

Author Contributions: Conceptualization, O.M. and H.C.I.; methodology, O.M. and H.C.I.; formal analysis, O.M. and H.C.I.; investigation, O.M. and H.C.I.; resources, O.M. and H.C.I.; data curation, O.M. and H.C.I.; writing—original draft preparation, O.M. and H.C.I.; writing—review and editing, H.C.I. and M.A.B.; visualization, H.C.I. and M.A.B.; funding acquisition, H.C.I. All authors have read and agreed to the published version of the manuscript.

Funding: This research was supported by the Research Unit on Governance, Competitiveness and Public Policies (UIDB/04058/2020) + (UIDP/04058/2020), financed by national funds through the Foundation for Science and Technology, I. P.

Informed Consent Statement: Not applicable.

Data Availability Statement: The data presented in this study are available on request from the corresponding author.

Conflicts of Interest: The authors declare no conflict of interest. The funders had no role in the design of the study; in the collection, analyses, or interpretation of data; in the writing of the manuscript; or in the decision to publish the results.

Notes

- ¹ <https://www.bancomoc.mz/media/3kdfezoh/licenciamento-de-microbancos.pdf> (accessed on 8 October 2023)
- ² <https://www.bancomoc.mz/media/svzamhyz/registo-de-operadores-de-microcr%C3%A9dito-e-organiza%C3%A7%C3%B5es-de-poupan%C3%A7a-e-empr%C3%A9stimo.pdf> (accessed on 8 October 2023)

References

- Akther, Taslima, and Fengju Xu. 2020. Existence of the audit expectation gap and its impact on stakeholders' confidence: The moderating role of the Financial Reporting Council International. *Journal of Financial Studies* 8: 4. [CrossRef]
- Alawi, Sayed Ali Ahmed, Abu Wadi, Rami Mohammad, and Gagan Kukreja. 2018. The determinants of audit expectation gap: An empirical study from Kingdom of Bahrain. *Accounting and Finance Research* 7: 54–66. [CrossRef]
- Alvarenga, Estelbina Miranda. 2012. *Metodologia de Investigação Quantitativa e Qualitativa: Normas Técnicas de Apresentação de Trabalhos Científicos*, 2nd ed. Assunção: Cesar Amarilhas.
- American Accounting Association—AAA. 1973. *A Statement on Basic Auditing Concepts*. Sarasota: American Accounting Association.
- American Institute of Certified Public Accountants—AICPA. 2019. AU-C Section 240—Consideration of Fraud in a Financial Statement Audit. Eficaz a partir de 15 de dezembro de 2012. Available online: <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf> (accessed on 20 April 2023).
- Association of Chartered Certified Accountants—ACCA. 2011. Audit under Fire: A Review of the Post-Financial Crisis Inquiries. Available online: <https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2011/may/audit-under-fire.html> (accessed on 20 April 2023).
- Association of Chartered Certified Accountants—ACCA. 2019. Closing the Expectation Gap in Audit. Available online: https://www.accaglobal.com/content/dam/ACCA_Global/professional-insights/Expectation-gap/pi-closing-expectation-gap-audit.pdf (accessed on 20 April 2023).
- Bank of Mozambique. 2021. *Relatório de Inclusão Financeira 2020*, 5th ed. Maputo: Bank of Mozambique. Available online: https://www.bancomoc.mz/media/jrcInccy/relat%C3%B3rio-de-inclus%C3%A3o-financeira_-2020.pdf (accessed on 20 April 2023).
- Bank of Mozambique. 2022. Boletim de Estabilidade Financeira Referente a Dezembro de 2021. No. 2. Ano 3. Available online: https://www.bancomoc.mz/fm_pgTab1.aspx?id=379 (accessed on 20 April 2023).
- Best, Peter J., Sherrena Buckby, and Clarice Tan. 2001. Evidence of the audit expectation gap in Singapore. *Managerial Auditing Journal* 16: 134–44. [CrossRef]
- Boterenbrood, Rob. 2017. The Audit expectation gap between companies and their auditors: An exploratory study. *Global Business Review* 18: 1124–33. [CrossRef]
- Chong, Gin. 2013. Detecting fraud: What are auditors' responsibilities? *The Journal of Corporate Accounting & Finance* 24: 47–53.
- Costa, Carlos Baptista. 2023. *Auditoria Financeira—Teoria e Prática*, 13th ed. Lisboa: Editora Rei dos Livros.
- Devi, Anila, and Shila Devi. 2014. Audit expectation gap between auditors and users of financial statements. *European Journal of Business and Management* 6: 75–82.
- Fadzly, Mohamed Nazri, and Zauwiyah Ahmad. 2004. Audit expectation gap: The case of Malaysia. *Managerial Auditing Journal* 19: 897–915. [CrossRef]
- Füredi-Fülöp, Judit. 2015. An Empirical Study of Audit Expectation Gap in Hungary. *Clube of Economics in Miskolc: Theory, Methodology, Practice* 11: 37–46. [CrossRef]
- Gil, Antonio Carlos. 2008. *Métodos e Técnicas de Pesquisa Social*, 6th ed. São Paulo: Editora Atlas S.A.
- Gray, Glen L., Jerry L. Turner, Paul J. Coram, and Theodore J. Mock. 2011. Perceptions and misperceptions regarding the Unqualified auditor's report by financial statement preparers, users, and auditors. *Accounting Horizons* 25: 659–84. [CrossRef]
- ISA 200. 2021. ISA 200—Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing. In *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*. New York: International Auditing and Assurance Standards Board, vol. 1, pp. 50–67.
- ISA 315. 2021. ISA 315—Identifying and assessing the risks of material misstatement through understanding the entity and its environment. In *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*. New York: International Auditing and Assurance Standards Board, vol. 1, pp. 173–246.
- ISA 700. 2021. ISA 700—Forming an opinion and reporting on financial statements. In *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*. New York: International Auditing and Assurance Standards Board, vol. 1, pp. 489–522.
- Kamau, Charles G. 2013. Determinants of Audit Expectation Gap: Evidence from Limited Companies in Kenya. *International Journal of Science and Research* 2: 480–91.

- Koh, Hian Chye, and E-Sah Woo. 1998. The expectation gap in auditing. *Managerial Auditing Journal* 13: 147–54.
- KPMG. 2020. *As 100 Maiores Empresas de Moçambique*, 21st ed. Amstelveen: KPMG.
- Lee, Teck Heang, and Azham Md Ali. 2009. Audit Expectation Gap: Causes and possible solutions. *Indonesian Management & Accounting Research* 8: 1–19.
- Lee, Teck Heang, Azham Md Ali, and Doria Bien. 2009. Towards an understanding of the audit expectation gap. *The Icfai University Journal of Audit Practice* VI: 7–35.
- Mansur, Hassan, and Anita Tangl. 2018. How to bridge the audit expectation gap? *Journal of Social Sciences* 7: 61–73. [[CrossRef](#)]
- Masoud, Najeb. 2017. An empirical study of audit expectation-performance gap: The case of Libya. *Research in International Business and Finance* 41: 1–15. [[CrossRef](#)]
- Monroe, Gary S., and David R. Woodliff. 1994. An empirical investigation of audit expectation gap: Australian evidence. *Accounting and Finance* 34: 47–74. [[CrossRef](#)]
- Pierce, Bernard, and Mary Kilcommins. 1996. *The Audit Expectations Gap: The Role of Auditing Education*. Research Paper Series; Dublin: DCU Business School, vol. 13, pp. 1–32.
- Porter, Brenda. 1993. An empirical study of the audit expectation-performance gap. *Accounting and Business Research* 24: 49–68.
- Ruhnke, Klaus, and Martin Schmidt. 2014. The audit expectation gap: Existence, causes, and the impact of changes. *Accounting and Business Research* 44: 572–601. [[CrossRef](#)]
- Salehi, Mahdi. 2011. Audit expectation gap: Concept, nature and trace. *African Journal of Business Management* 5: 8376–92.
- Schelluch, Peter, and Grant Gay. 2006. Assurance provided by auditors' reports on prospective financial information: Implications for the expectation gap. *Accounting and Finance* 46: 653–76. [[CrossRef](#)]
- Veiga, Juliana Gorete Tavares, Davide Alexandre Henriques Ribeiro, and Helena Coelho Inácio. 2017. O relatório de auditoria e as diferenças de expectativas em auditoria: Recentes alterações. *Revista Contabilidade & Gestão* 21: 95–121.

Disclaimer/Publisher's Note: The statements, opinions and data contained in all publications are solely those of the individual author(s) and contributor(s) and not of MDPI and/or the editor(s). MDPI and/or the editor(s) disclaim responsibility for any injury to people or property resulting from any ideas, methods, instructions or products referred to in the content.