Abstract. The main purpose of financial reporting is to provide information to user groups, such as providers of finance, investors, shareholders, and others, that will be useful for them in making economic decisions. Expectation gap has been known as one of the major topics for debate in accountancy, so this paper aims to find out whether such gap exists in terms of perception of the importance of the financial information qualitative characteristics (defined in Conceptual Framework) from the perspectives of two groups (auditors and public) involved in working with and using such information. To achieve the purpose of the given paper, a survey was conducted, the results of which were used in the statistical analysis which is shown in the next sections of the paper. The survey was responded by 32 auditors and 38 representatives of public with sufficient knowledge in finance and accounting. Results of the statistical analysis show that there is some difference between auditors and public in terms of the importance perception of several elements from the financial information qualitative characteristics.

Keywords: financial reporting, qualitative characteristics, conceptual framework, expectation gap, users, public, auditors, financial information

Introduction

Financial reporting is important practice within the business and mainly known as a way of recording, analyzing and summarizing transactions that are carried out by a business either at certain point of time or over some period. Reporting is also essential in understanding the financial performance and position of the business because it provides depiction of company’s expenses, profits, capital, and other elements, understanding of which is helpful for various interested parties that use
this information for economic decision making. Reporting takes place through the application of the International Financial Reporting Standards (IFRSs) which are produced by the International Accounting Standards Board (IASB).

IASB has developed Conceptual Framework which serves as the basis for IFRSs and, accordingly, for the preparation of financial statements: “...a conceptual framework will form a theoretical basis for determining how transactions should be measured (historical value or current value) and reported – i.e. how they are presented or communicated to users” [1]. It can also be stated that Conceptual Framework tries to meet the continuous demand of stakeholders for quality in financial reporting. The concept of “quality” has been the topic for debate in the accounting practice and its importance can be justified by the fact that financial reporting quality is a broad concept. It includes both financial and non-financial information that is significant for making decisions [5]. So, a clear link between quality and decision-usefulness can be seen. The information provided in the financial statements is useful if it has certain qualitative characteristics that are defined by the Conceptual Framework (see Fig. 1). At this point, one should understand that “usefulness” and previously mentioned “quality” are quite subjective concepts because perception of these concepts can vary significantly for people who work directly with financial information and for people who use this information for making economic decisions. This may lead to next assumption: if usefulness of financial information is a matter of perception, it will be correct to assume that the importance level of each qualitative characteristic mentioned in the Conceptual Framework varies for those who work directly with such information and those who use it for decision making.

Here, it is important to note that one of the major issues in the accountancy practice is existence of the expectation gap. Audit expectation gap is the difference between what the users of financial statements perceive an audit to be and what the audit profession claim is expected of them in conducting an audit [7]. In fact, this concept is often used in broader term and can also be related to the perception of the usefulness of financial information.
This paper aims to briefly describe each qualitative characteristic and address the issue of the gap in terms of the qualitative characteristics of financial information from the perspectives of two groups: auditors and public.

**Fig. 1. Elements of fundamental and enhancing characteristics of financial information**

**Fundamental Characteristics**

- **Relevance**
- **Faithful Representation**
  - Completeness
  - Neutrality
  - Freedom from error

**Enhancing Characteristics**

- Understandability
- Comparability
- Timeliness

**Relevance**

Information is considered relevant if it has an ability to make a difference in a decision. For this, financial information should have predictive value, confirmatory value, or both [6]. It is also important to mention that relevance is closely associated with materiality. If omission or misinterpretation of information can affect economic decision of users, then information is claimed to be material.

**Faithful representation**

For the financial information to be useful, it should also faithfully represent economic phenomena. Faithful representation means that information is complete, neutral, and free from error (see Fig. 2).
Faithful Representation

| Completeness | Neutrality | Freedom from Error |
|--------------|------------|--------------------|
| Economic phenomena is included with necessary descriptions and explanations for users to understand depicted phenomena | Economic phenomena is presented without any bias (not manipulated, emphasized or de-emphasized) so that it is not received in favorable or unfavorable way by users | There are no errors or omissions in the presentation of economic phenomena (not necessarily perfect accuracy) |

Fig. 2. Elements of faithful representation

Enhancing qualitative characteristics

As was mentioned previously, there are such qualitative characteristics that enhance usefulness of financial information. One of them is understandability. It is vital that information presented is understandable by users who have reasonable knowledge of business and ability to review and analyze this information [6]. In addition to this, when financial information is comparable, it allows users to compare financial reports of the same entity from one period to another or with other similar entities. To achieve this goal, it is important that consistency in accounting methods and policies is maintained [4]. Delay in reporting the information can lead to decrease in its usefulness which means that information should be available to economic decision-making users when it can influence their decisions. This feature is called timeliness.

Methodology

As was mentioned previously, the goal of the given paper is to address the issue of existing gap in terms of the qualitative characteristics of financial information. In order to be able to do statistical analysis, the next null hypothesis was developed: “Qualitative characteristics of financial information are perceived equally important by auditors and public.”

Instead of relying on data provided in the relevant literature, it was decided to conduct a survey to collect and use primary data for statistical analysis. The survey was answered by 32 auditors and 38 representatives of public where each group evaluated qualitative characteristics. It is essential to emphasize here that to make results of the survey more reliable, public was represented by people who had sufficient knowledge and experience in finance and accounting. After data were collected, Independent Sample T-test for equal variances was used for statistical analysis.
Results

Since the number of samples for each population is large enough, it can be stated that two populations follow normal distribution. Also, taking into account the fact that data for different groups not dependent on each other are analyzed and variances can be assumed to be equal, Independent Sample T-test for equal variances is appropriate for conducting statistical analysis and comparing results of two groups (see Fig. 3). Importance ranks of qualitative characteristics for “auditors” group and “public” group are summarized and presented in the table as well (see Fig. 4).

The results of the analysis show that, although there is no serious gap if overall usefulness of financial information is taken into account, significant difference still exists between auditors and public in their perspectives regarding importance of relevance, understandability, and timeliness (T values that are significant at 0.05 level are shown in yellow). Importance of understandability and timeliness was appreciated by group of auditors much more than by the public. On the other hand, relevance is appreciated more by the public rather than by auditors. Comparability seems to be almost equally important for both groups due to the smallest difference in percentages provided. In general, it can be seen that, although the difference exists for all qualitative characteristics, T-test has revealed that this difference is significant for relevance, understandability, and timeliness.

The table of importance ranks shows that understandability is the most important element among qualitative characteristics for auditors while public thinks that relevance holds the greatest importance among all elements. Although relevance
is not the most important element for auditors, it still matters a lot for this group due to the fact that it comes after “Understandability” element in the table of ranks. Neutrality seems to be the least important for auditors. The same can be stated about timeliness if perception of the public is considered. The level of importance for “Freedom from Error” element is the same for both groups.

| Element               | Auditors Rank | Public Rank |
|-----------------------|---------------|-------------|
| Relevance             | 2             | 1           |
| Neutrality            | 6             | 4           |
| Freedom from Error    | 5             | 5           |
| Comparability         | 3             | 2           |
| Understandability     | 1             | 3           |
| Timeliness            | 4             | 6           |

Fig. 4. Importance Ranks of qualitative characteristics for each group

Discussion and conclusion

It is a commonly known fact that all qualitative characteristics of financial information are vital because they make it more useful, reliable, and simply easier for various groups of people to work with or utilize information in financial statements for making economic decisions. However, one cannot be sure in usefulness and quality of the information provided. Here, it is important to note that those charged with corporate governance are responsible for the preparation of the financial statements [3]. Corporate governance is represented by the board of directors. Because people who manage the company and owners of the company are usually not the same people, conflicts of interest can occur which can also affect the preparation of financial statements.

So, shareholders and, accordingly, other users of financial information can rely on assurance services that will help them to understand two aspects: whether the management carried out properly its responsibility for preparation of financial statements and whether information in the financial statements is reliable and relevant enough. Such service is performed by external auditors whose responsibility is to assure and express their opinions about quality of financial statements.
Statistical analysis results given in the paper show that the gap exists between auditors and public (user groups) in terms of some elements from the qualitative characteristics of financial information. Although the average does not reveal the seriousness of the issue, separate analysis of each element of qualitative characteristics shows that disagreement between auditors and user groups still exist. In addition to this, it is important to emphasize that auditors pay more attention to qualitative characteristics of financial information compared to public (average for auditors is higher than that for public). Such result can be justified by the fact that people who carry out assurance services must be certified and licensed. Moreover, in Azerbaijan (like in many other countries), audit service is regulated by the law where rights and duties of auditors, and implementation of such service are defined [2].

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