AAR
Australian Accounting Review
CPA AUSTRALIA

The Changing Face of the Auditor's Report: Implications for Suppliers and Users of Financial Statements

Pranil Prasad, *Macquarie University*
Parmod Chand, *Macquarie University*

The International Auditing and Assurance Standards Board (IAASB) recently finalised several significant and controversial reforms of the audit reporting model. The reforms are in response to long-standing criticisms about the form and content of the existing audit report. This study critically examines the current audit report reforms and their implications. In particular, we investigate the perceptions of prominent stakeholders in respect of these reforms and then evaluate the implications of the reforms on the informational value of the audit report, audit quality and audit costs. The findings suggest that the changes to the audit report are of significant informational value to users, while the implications for audit quality are unclear. Indeed, the changes would increase audit costs and potentially the legal liability of auditors. This appraisal is timely given the efforts made by the IAASB in commissioning these reforms to enhance the relevance and informational value of the audit report.

The International Auditing and Assurance Standards Board (IAASB) recently finalised significant and far-reaching reforms of the audit reporting model. For the first time, audit reports will provide insights into matters of significance to the audit (IAASB 2015a). For many jurisdictions, audit reports will now provide the name of the audit engagement partner and an explicit statement affirming the independence of the auditor. The audit report will also provide enhanced information on going concern. Another revolutionary change is the reporting of the consideration by auditors of other information in the annual report (IAASB 2015b). Lastly, the structure of the audit report and the order in which the elements are presented will be prescribed to the extent that the auditor's opinion and basis of opinion section will be presented before all other elements. The Deputy Chairman of the IAASB, Daniel Montgomery (2014), describes the reforms as one of the most significant developments in the auditing profession in many years.

The current reforms are driven by long-standing debates on the form, content and value of the audit report (Commission on Auditor's Responsibilities 1978; Geiger 1993; Church et al. 2008; Smieliauskas et al. 2008; Mock et al. 2013). In particular, the standardised form and restrictive content of the existing audit report have been found to limit its informational and communicative value (Coram et al. 2011; Vanstraelen et al. 2012). There is also evidence of significant perceptual differences between auditors and users with respect to the messages conveyed by the extant audit report (Innes et al. 1997; Gay et al. 1998; McEnroe and Martens 1998; Manson and Zaman 2001; Schelluch and Gay 2006; Chong and Pflugrath 2008; Gray et al. 2011; Asare and Wright 2012; Gold et al. 2012). The financial crisis of 2008–2009 provided further evidence of the limitations of the existing audit reporting model and increased the urgency for reform (Carson et al. 2013; Doogar et al. 2015).

The primary objective of the current reform is to enhance the communicative value of the audit report (IAASB 2015a). Investors and other users have called for the audit report to be more informative, and particularly for auditors to provide more relevant information on the audit (CFA Institute 2010). For example, a report published by the CFA Institute reveals that only 37% of respondents to their survey believe that the current audit report contains the right amount of information (CFA Institute 2010). The IAASB argues that the reforms will enhance the informative value of the audit report and audit quality (IAASB 2013).

Whether actively or passively fostered, there is controversy about the recent audit report reforms. There are concerns that the reforms will add complexity and length, but not value, to auditor reporting (ICAA 2013; Ghandar 2014). There are also reservations about whether it is truly known what users want and whether additional information will meet their needs (AICD

Correspondence: Parmod Chand, Department of Accounting and Corporate Governance, Faculty of Business and Economics, Macquarie University, North Ryde NSW 2109, Australia. Tel: +61 2 9850 6137; fax: +61 2 9850 8497; email: parmod.chand@mq.edu.au

doi: 10.1111/auar.12137

2013; AUASB 2013). Furthermore, it is argued that additional information such as the name of the audit engagement partner will not influence audit quality or improve the ability of investors to make decisions (E&Y 2014; PwC 2014). There are also concerns that the reform will add to the cost of audits and auditors' legal liability (NZAuASB 2013; Turner 2013). The impact on cost is likely to be more onerous on small and medium entities and audit practices (IFAC SMP 2013; EFAA 2013). Given these controversies, it is important to examine whether the audit report reforms will improve the value and quality of audits.

This pioneering study critically examines the current audit report reforms and their implications. The objectives of this study are twofold. First, the study aims to investigate the perceptions of prominent stakeholders of these reforms. We achieve this by a content analysis of the comment letters of 138 respondents from 42 jurisdictions and 10 stakeholder groups who responded to the Exposure Draft (ED) issued by the IAASB on audit report reforms. Second, the study aims to evaluate the implications of the audit report reforms, particularly in respect of their informational value, audit quality and audit costs. This appraisal is timely given the efforts made by the IAASB in commissioning these reforms to enhance the relevance and informational value of the audit report.

This study contributes to existing literature that examines the audit expectation gap and value of the audit report. It also adds to a growing body of literature that examines the impact of current audit report changes on audit quality and audit costs. Evidence on the influence of some of the new inclusions in the audit report, such as the name of the audit engagement partner and key audit matter paragraphs, is mixed (King et al. 2012; Carcello and Li 2013; Yen et al. 2013; Blay et al. 2014; Christensen et al. 2014). Moreover, prior studies have only considered a small number of reforms and have examined their impact in isolation. There is a lack of evidence on the holistic implications of the current audit report reforms.

We find that the current audit report reforms have positive implications for the informational value of the audit report while the implications for audit quality are unclear. Audit costs and the auditor's legal liability are also expected to increase following the implementation of these reforms. Furthermore, the findings indicate a high level of overall support for audit report reforms; however, individual key reforms receive varied levels of support. The results also show that there are significant differences between stakeholder groups in their support for audit report reforms. We conclude that the differences across stakeholder groups can be explained by the economic self-interest of these groups. Our findings are expected to be of interest to national standard setters such as the Australian Auditing and Assurance Standards Board (AUASB) as they contemplate the adoption of these changes into their national auditing standards. The results of this study should also be of significance to the preparers and auditors of financial statements.

Audit Report Reforms

Background

The audit profession has experienced significant transformations over the past decade. These reforms comprise jurisdiction-specific regulatory reforms and reforms of the auditing standards in general.

The regulatory reforms followed large-scale corporate collapses around the globe at the turn of the new millennium. In the United States (US) corporations such as Enron and WorldCom and in Australia companies like HIH Insurance and One.Tel collapsed, causing significant losses for shareholders and a loss of confidence in the audit function for capital markets (Houghton et al. 2010). The major change that ensued was the separation from the profession of standard-setting responsibilities, which, in many jurisdictions, were placed in the hands of a profession-independent statutory body (Houghton et al. 2013). In addition, significant changes were endorsed in relation to audit oversight and auditor independence (Carey et al. 2014). A number of these changes, such as independent audit inspection programs and restrictions on the supply of non-audit services, had significant implications for audit practice.

A number of changes were restricted to certain jurisdictions; for example, in Australia the auditing standards became legislative instruments under the *Legislative Instruments Act 2003* and had the force of law from 1 July 2006 for audits performed under the *Corporations Act 2001*. In the US, the *Sarbanes-Oxley Act 2002* (SOX) mandated auditor reporting on internal control deficiencies in the audit report.

Auditing standards also experienced significant changes over the period. The most profound changes resulted from the Clarity Project undertaken by the IAASB in 2004 (IAASB 2004). The program involved the application of the new drafting conventions to all the International Standards on Auditing (ISA) and substantive revisions to several ISA. The new drafting rules require the setting of objectives for each ISA and the structuring of each standard to contain the introduction, objectives, mandatory requirements, application guidance and definition of main terms used in the standard. This fosters clarity and makes the standards easier to read and apply, removing much of the ambiguity that may previously have been present (IAASB 2009).

An audit report that clearly conveys the results of an audit can enhance audit quality, while additional disclosures in the audit report may influence the quality of audit in a positive manner as well. The current audit report reforms complement prior changes in the audit-reporting framework to enhance audit quality and value.

Current reforms

The current audit report reforms of the IAASB include enhancements to its content and structure. The details of the reforms and the relevant auditing standards are presented in Table 1. In particular, the reforms include: (a) the communication of key audit matters in a new section of the audit report; (b) the disclosure of the name of the audit engagement partner; (c) the presentation of the opinion and basis of opinion section before all other sections; (d) enhanced auditor reporting on going concern; (e) an affirmative statement that the auditor is independent of the entity and has fulfilled the relevant ethical responsibilities, with the disclosure of jurisdiction of origin of those ethical requirements or reference to the *International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants*; and (f) a new section addressing the responsibility of management and the auditor for other information in the annual report, and the auditor's conclusions on the consistency of other information with the audited financial statement.

The motivation behind the reforms undertaken by the IAASB is to enhance the informative value of the audit report by providing additional information relevant to the audit. The IAASB also expects that these reforms will positively influence the quality of audits.

Reforms in other prominent countries

A number of national auditing standard setters have also revised the audit report in their respective jurisdictions in the past five years (see Table 2 for examples). In the United Kingdom (UK), for example, the Financial Reporting Council (FRC) was the first to issue changes to the content of the audit report in June 2013. The revised audit report was designed to complement changes made to the UK corporate governance code in October 2012 (UK FRC 2013). The European Commission (EC) adopted major changes to audit market regulation through new legislation (Directive 2014/56/EU and Regulation No. 537/2014) (European Parliament and the Council of the European Union 2014). Both the UK FRC and the EC have espoused ISA as the base auditing standards in their respective jurisdictions.

Table 2 shows that both the Public Company Accounting Oversight Board (PCAOB) and the UK FRC have either proposed or adopted disclosures similar to the key audit matter paragraph. The PCAOB refers to key audit matters as critical audit matters. The proposed content of critical audit matter paragraphs is similar to that of key audit matter paragraphs. The UK FRC, on the other hand, requires auditors to report significant audit judgements to the audit committee. The audit committee reports their activities, including their communication with the auditor, to the board of directors. The board is then required to describe the work of the audit committee in the annual report. If the description of the audit committee's work is inadequate, the auditor is then required to address the relevant issues in the audit report (UK FRC 2013).

Another common reform across many jurisdictions is the disclosure of the name of the audit engagement partner. The EC and the UK FRC along with other jurisdictions such as Australia, China, Taiwan and Malaysia took the lead on this reform and have had this requirement for more than a decade (Carcello and Li 2013).

A number of prominent national standard setters also have unique requirements for the audit report. For example, the PCAOB audits for a decade or more have required the reporting of the auditor's opinion on internal controls in the audit report or in a separate report. Prior studies find that internal control opinions have an impact on users' decisions (Schneider and Church 2008) and that the market values these reports (Rezaee et al. 2012). On the other hand, there is also evidence that auditor reporting on internal controls is costly for companies (Raghunandan and Rama 2006). In its proposals, the PCAOB advocates the disclosure of auditor tenure information. Similar requirements on auditor tenure have been adopted by the UK FRC and the EC but not by the IAASB.

The UK FRC and the EC both require the disclosure of enhanced information on risk and materiality in the audit report. This information is useful to users of financial statements (Fisher 1990; Manson and Zaman 2001). The EC also requires the auditor to disclose the extent to which the audit was capable of detecting irregularities, including fraud. Furthermore, the EC mandates a declaration by the auditor in the audit report that no prohibited non-audit services have been provided to the client. Both the UK and the EC will eventually adopt the revised ISA, and as a result, the various IAASB reforms will be adopted in these jurisdictions along with the reforms already implemented by these standard setters. The PCAOB in the US has issued two exposure drafts on audit report reforms, but they are still under consideration at this stage (PCAOB 2013a, 2013b).

In Australia, the AUASB issued Exposure Draft 01/15 on 30 April 2015. This exposure draft presented the enhanced auditor reporting standards of the IAASB for consideration by constituents in Australia. The views of constituents were sought on a range of issues. A prominent issue was the costs and benefits of adopting enhanced auditor reporting standards in Australia.

Table 1 **Summary of significant audit report reforms**

Title of Auditing Standard	Number	Reforms/Changes
Forming an Opinion and Reporting on Financial Statements	ISA 700	• Revises the presentation order of the elements of the auditor's report. Paragraph 23 requires the first section of the auditor's report to include the auditor's opinion. The basis for the opinion section will follow the auditor's opinion. • Prescribes the inclusion of key audit matters in the auditor's report, and refers auditors to the new standard, ISA 701, for guidance on the disclosure of key audit matters (mandatory for listed entities only, voluntary for other entities). • Enhanced description of auditors' responsibilities for the audit of financial statements. • Requires the engagement partner for audits of financial statements of listed companies to be named and establishes a 'harm's way' exemption for the disclosure of the name of the audit engagement partner. • Requires for all auditor reports an explicit statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and that they have fulfilled all other ethical responsibilities. Also requires the identification of the jurisdiction of the origin of the ethical requirements or a reference to the IESBA Code of Ethics for Professional Accountants.
Communicating Key Audit Matters in the Independent Auditor's Report	ISA 701	• This is a new auditing standard. This standard introduces requirements for auditors to determine and communicate key audit matters in the auditor's report.
Going Concern	ISA 570	• In cases where material uncertainty exists with respect to the going concern of an entity, the auditor must address this in a separate section of the auditor's report, which is broadly similar to the exceptions-based reporting required in the extant ISA 570. • For all auditor reports, the respective responsibilities of management and the auditor for going concern must be described. • If events and circumstances have been identified that might cast significant doubt on an entity's ability to continue as a going concern but the auditor concludes that no material uncertainties exist, there is a new requirement for the auditor to evaluate the adequacy of disclosure about these events and circumstances in the financial statements in accordance with the applicable financial reporting framework. • An acknowledgement in ISA 701 and ISA 570 that matters related to going concern may be determined to be a key audit matter.
Modifications to the Opinion in the Independent Auditor's Report	ISA 705	• The revised ISA 705 makes it explicit that matters giving rise to the modification of the auditor's opinion are, by their nature, key audit matters but are to be reported separately in the Basis for Qualified (or Adverse) Opinion section of the auditor's report. • The revised ISA 705 prohibits the auditor from including additional information on key audit matters, going concern or other information about which the auditor disclaims an opinion.
Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	ISA 706	• This standard was revised as a result of the new ISA 701.
Communicating with Those Charged with Governance	ISA 260	• This standard was revised as a result of the new ISA 701.

(*Continued*)

Table 1 Continued

Title of Auditing Standard	Number	Reforms/Changes
The Auditor's Responsibilities Relating to Other Information	ISA 720	• There are other changes in this standard; we only present changes that affect the audit report. • Using the heading 'Other Information' or other appropriate heading, the auditor's report will include: - a statement that management is responsible for the other information; - identification of the other information obtained prior to the date of the auditor's report. In the case of a listed entity, the auditor is also required to identify any other information expected to be obtained after the date of the auditor's report; - a statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon; - a description of the auditor's responsibilities related to reading, considering and reporting on other information. • When other information has been obtained prior to the date of the auditor's report, either: - a statement that the auditor has nothing to report; or - if the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.

In particular, the AUASB requested stakeholders to provide feedback on the anticipated costs of compliance and whether the benefits were likely to outweigh the costs.

Prior Research

Limited research has been conducted on the effectiveness of the reforms as a means of enhancing audit quality and value, and only piecemeal evidence exists on some of the reforms. For example, Christensen et al. (2014) and Sirois et al. (2014) provide evidence that the key audit matter paragraph enhances the informational value of the audit report.[1] In particular, Christensen et al. (2014) report that the key audit matter paragraph centered on fair value estimates influences the decisions of nonprofessional investors, while Sirois et al. (2014) indicate that key audit matter paragraphs improve users' search for information in the financial statements by directing their attention to particular disclosures.

Capital markets-based studies show that key audit matter paragraphs do not have a significant effect on market participants. For example, Bedard et al. (2014) examined the market reaction to the release of audit reports containing the justification of assessments[2] in France. They examined cumulative abnormal returns around the date on which the audit reports containing the justification of assessments were released. The results show that the introduction of justification of assessments has no impact on the reaction of the financial market. The difference in findings between Christensen et al. (2014) and Bedard et al. (2014) could be due to the fact that the two studies examine similar yet not the same disclosures. Christensen et al. (2014) conducted an experiment with nonprofessional investors as decision makers, while Bedard et al. (2014) examined the market reaction, summarising the decisions of a wide range of investors that included professional and nonprofessional investors. Prior research also shows that nonprofessional and professional investors acquire and use information very differently (Frederickson and Miller 2004; Elliott 2006; Hodge and Pronk 2006). This may indicate that key audit matter paragraphs impact differently on professional and nonprofessional investors, which has important implications for the value of the additional disclosures in the audit report.

From an audit quality perspective, Sirois et al. (2014) indicate that key audit matter paragraphs have a negative impact on the perceptions of users on the disclosures in the financial statement. The presence of these paragraphs causes confusion amongst users on the level of assurance provided by the audit report, and they also tend to ascribe different degrees of assurance across various components of the financial statements based on the contents of the key audit matter paragraphs (Sirois et al. 2014). Users may therefore express lower confidence in financial statement disclosures that are discussed in key audit matter paragraphs. For example, Kachelmeier et al. (2014) report that users treat key audit matter paragraphs as disclaimers for parts of the financial statement.[3] They find that financial statement users express less confidence and ascribe lower

Table 2 IAASB's audit report reform initiatives vs reforms in other prominent countries

Reform Element	IAASB	United States[a] (PCAOB)	United Kingdom[b] (UK FRC)	European Commission[c]
Introduction of a new section in which key/critical audit matters specific to an audit will be communicated	X	X	X[d]	
Disclosure of the name of the engagement partner	X	X	X[e]	X[e]
Prominent placement of the audit opinion and the basis of the opinion	X			
Enhanced auditor reporting on going concern	X			X
Statement about the auditor's independence and fulfilment of relevant ethical responsibilities, with disclosure of the jurisdiction of origin of those requirements	X	X		X[f]
Enhanced description of the responsibilities of the auditor	X	X		
Disclosure of information on auditor tenure		X	X[g]	X
Statement regarding the auditor's consideration of other information in the annual report	X	X	X	
Auditor's opinion on internal control		X[h]		
Inclusion in the audit scope of how the audit addressed risk and materiality considerations			X	X
Inclusion of information on the risks of material misstatement			X	X
Explanation of how the auditor applied the concept of materiality in planning and performing the audit			X	
Information on the extent to which the audit was capable of detecting irregularities, including fraud				X
The place where the statutory auditor or audit firm is established				X

Notes: [a]The PCAOB issued the exposure draft on the proposed changes to the auditing standards related to the audit report in 2013. As of April 2015, the PCAOB has yet to issue the final standards.
[b]The UK FRC issued revised standards on auditor reporting, based on ISAs, in 2013.
[c]The EC in April 2014 approved changes to the audit market for EU member countries. The ISAs are to be used as auditing standards by the 28 EU member states, but additional requirements were prescribed for the audit report in the audit market directive and audit market regulation.
[d]The auditors are required to report if the board fails to adequately describe the work of the audit committee in the annual report.
[e]The EC adopted the requirement for the statutory auditor (audit engagement partner) to sign the audit report in the Eighth Company Law Directive (Directive 2006/43/EC. European Parliament and the Council of European Union 2006).
[f]In addition to a statement on the auditor's independence, the auditor will need to make a declaration that the non-audit services prohibited under the audit market legislation have not been provided by the auditor. The auditor will also have to provide information on any services rendered in addition to the statutory audit services that have not been disclosed in the management report or financial statements.
[g]The audit committee is required to disclose the length of auditor tenure in its report.
[h]This requirement is already in place in the US for listed companies, having been a change espoused in the Sarbanes-Oxley Act (2002).

auditor responsibility for a misstatement in a financial statement area disclosed as a key audit matter in the auditor's report. Generally, the evidence across these studies suggests that the disclosure of key audit matter paragraphs are detrimental to perceived audit quality.

Cade and Hodge (2014) show that in a setting where key audit matter paragraphs are publicly reported, the client and its officers minimise the sharing of private information with the auditor. This action is likely to increase information asymmetry between the auditor and the auditee. Clear and effective two-way communication is not only important but is prescribed as necessary for effective audits. A breakdown in communication between management and the auditor, or a situation in which management deliberately conceals information from the auditor to minimise auditor reporting of key audit matters, may have a detrimental impact on audit quality. However, a study of the justification of assessments disclosure in French audit reports shows that it has no significant impact on audit quality as measured by the level of earnings management (Bedard et al. 2014).The influence of key audit matter paragraphs on audit quality is obscure, and given the limited empirical evidence, it is difficult to conclude whether key audit matters would indeed enrich audit quality.

On the other hand, recent evidence from capital markets-based studies suggests that the name of the audit engagement partner has informational value. Knechel et al. (2015) show that the market recognises and reacts to differences in auditor reporting style. For example, the credit market imposes higher interest rates and worse credit ratings, while the equity market attributes a lower value to a firm's stocks when audit partners have a history of aggressive reporting. Furthermore, audit committee members, analysts and fund managers perceive that individual auditor attributes are more important than audit firm attributes (Kilgore et al. 2011). Since the market recognises differences between auditors and reacts accordingly, and users perceive auditor attributes as being more important than audit firm attributes, the information on the identity of the audit engagement partner may have significant value.

It has also been argued that disclosing the audit engagement partner's name will increase their accountability and transparency (King et al. 2012). Whilst audit engagement partners have always been accountable and subject to monitoring within the audit firm and externally through accounting oversight bodies, the identity of the partner was only observable to a few parties (Carcello and Li 2013). Identifying the audit engagement partner to a much larger audience will motivate the partner to improve audit quality to avoid the adverse consequences of audit failure. For example, Carcello and Li (2013) show that in the UK, disclosure of the audit engagement partner's name leads to a better quality audit. The findings indicate that compared to the pre-disclosure period, abnormal accruals decline and the incidence of qualified audit reports increases in the post-disclosure period. Both are indicators of better audit quality, and the results support the propositions in King et al. (2012).

Users of audit reports and other stakeholders support the public disclosure of the audit engagement partner's name and agree that it enhances auditor accountability (Yen et al. 2013). In the Netherlands, however, Blay et al. (2014) find no significant improvements in various measures of audit quality in the post-audit engagement partner signature period compared to the pre-signature period. The difference between the findings in Carcello and Li (2013) and Blay et al. (2014) could be due to the context in which they examined the impact of the audit partner signature on audit quality. The UK is characterised by higher legal liability for auditors because its legal environment is more litigious than that of the Netherlands (Brown et al. 2014). The Netherlands scores zero on a six-point scale measuring the level of litigation risk, while the UK scores six; therefore, auditors in the UK have a greater motivation to improve audit quality in an environment where their identity is publicly disclosed.

Research and anecdotal evidence indicates that the audit report reforms are expected to increase audit costs. Prior research provides evidence of significant costs associated with changes in accounting and auditing standards and regulations for both auditors and audited entities (Griffin et al. 2009; Kim et al. 2012; George et al. 2013). The additional costs are primarily attributable to the increase in audit effort and audit risk (Ghosh and Pawlewicz 2009). For example, Carcello and Li (2013) examined changes in the audit fees of UK companies from the pre-signature to the post-signature period following the implementation of the auditor signature requirement. Their findings reveal that audit fees increased by approximately 13% as a result of the requirement.

In France, on the other hand, Bedard et al. (2014) show that neither audit cost nor the time taken to issue the audit report is significantly influenced by the reporting of the justification of assessments. As discussed earlier, the context in which the study was undertaken may have affected the results obtained. The level of litigation risk in France is lower than it is in countries like the UK, the US and Australia (Brown et al. 2014). Furthermore, France ranks lower than these jurisdictions on another important dimension: the strictness with which standards are enforced (Brown et al. 2014). Therefore, French auditors may be less motivated to increase audit effort or reduce audit risk by undertaking the additional audit work required to report on additional information in the audit report than auditors in jurisdictions with higher litigation risk.

The impact of key audit matter paragraphs on the legal liability of auditors is mixed, with some studies showing that such disclosures have no impact, or that auditor liability is reduced, while others show that auditor liability in certain contexts is higher. Brasel et al. (2014) show that assessors of auditor liability experience fewer negative emotional reactions to auditors when auditors have previously disclosed key audit matters that relate to undetected misstatements. They also find that in certain circumstances, the disclosure of key audit matters decreases the assessment of auditor liability. Gimbar et al. (2014) find that the disclosure of key audit matter paragraphs, whether related or unrelated to an undetected misstatement, leads to an increase in the legal liability of auditors in a rules-based setting but not in a principles-based setting. Backof et al. (2014) confirm that the disclosure of key audit matter paragraphs increases the legal liability of auditors but only when the key audit matter paragraph contains a description of the specific audit procedures that the auditor must perform to address the identified matter. In all other circumstances, key audit matter paragraphs do not significantly affect the likelihood of an assumption of auditor negligence (Backof et al. 2014).

It is evident from prior studies that the disclosure of key audit matter paragraphs will impact auditor liability differently, depending on such factors as the type of standards in use and the information that will be disclosed in the key audit matter. This reaffirms our earlier conclusion that the context in which these reforms are implemented will be important in shaping their influence on the profession.

Research Method

We conducted a content analysis of the comment letters that were written in response to the IAASB ED *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing* issued in July 2013. We analysed 138 comment letters from a range of respondents. The content analysis was used to determine the perceptions of auditors, preparers and users on the implications of the audit report reforms.

The comment letters were coded according to their overall agreement with each of the six major reform initiatives. We divided the letters into those that supported, opposed or expressed no opinion on the reform.[4] Table 3 summarises the stakeholder group affiliation of the respondents and their overall position on each of the six audit report reforms. We rely on the grouping categories and designations supplied by the IAASB. The IAASB divides respondents into 10 groups: investors and analysts, those charged with governance, regulators and audit oversight bodies, national standard setters, accounting firms, public sector auditors, preparers, member bodies and other professional organisations, academics, and individuals and others.

Member bodies and other professional organisations comprise the largest block of respondents, generating 30% of the total number of letters. This is not surprising since the member bodies make up the International Federation of Accountants (IFAC) and the IAASB is an independent standard-setting board of IFAC. In addition, the member bodies and other professional organisations represent accountants and auditors, a group significantly affected by the changes to the audit report. A total of 16 (12%) accounting firms submitted comment letters, including all of the Big 4 accounting firms. A surprising 10% of comment letters were written by public sector auditors, even though the changes are not related to public sector auditing standards. Another 12% of letters were from regulators and audit oversight bodies. National standard setters and investors and analysts each submitted 9% of comment letters. Preparers contributed 6% of the total number of letters. Academics and individuals contributed 6% and 5% of comment letters respectively. Overall, these participation rates are consistent with prior studies using comment letter analysis (Tandy and Wilburn 1992).

Table 4 summarises the geographical location and overall position of the respondents. The 138 respondents to the ED are from 42 different countries. This is not surprising, considering that the IAASB standards are used in more than 120 countries (IAASB 2012). Twenty percent of comment letters (the largest cohort) were written by global organisations and entities including the Big 4 accounting firms, followed by the US (10%), Canada (8%) and Australia (7%).

Preparers', Auditors' and Users' Perceptions of the Audit Reforms

A significant number of respondents indicated that the IAASB's audit report reforms are important and timely. The perception of many respondents are summarised in the remarks made by the AUASB (2013: 1):

> Exploring options that may help reduce the 'expectation gap', and achieve reporting that better meets users' information needs and aims to enhance the relevance of the audit is clearly in the interests of users, preparers, auditors and others involved in financial reporting.

Similar sentiments are shared by PwC (2013: 1) in their comment letter:

> We fully support the IAASB's initiative to expand auditor's *(sic)* reports to make them more informative by sharing insight from the audit. Such expanded reports would help to reaffirm the relevance and value of the audit to users.

Although there is a high level of support for audit report reforms, there are significant differences in the level of support for each of the six major audit report changes. Differences also exist between stakeholder groups and respondents from different geographical locations.

Table 3 shows that 80% of respondents supported the communication of key audit matter through the audit report. A number of respondents within this 80% gave only partial support, that is, they supported the idea of auditors providing more audit-related information, but they had reservations about how this would be executed and the potential costs and benefits of this requirement. The ICAA (2013: 3) provides a typical example of such a claim:

> We believe that the inclusion of KAM [key audit matter], if done well, in the auditor's report has the potential to increase the value of the audit to the users by increasing their awareness of significant matters that the auditor addressed during the audit and by increasing their understanding of the work performed by the auditor. However, this benefit needs to be evaluated in terms of costs. There were a number of other common issues and concerns about the usefulness of KAM raised by members during our consultations.

Sixty-two percent of respondents unilaterally supported the changes for enhanced auditor reporting on going concern. The final standard and the ED differ in one aspect of auditor reporting on going concern. The ED required auditors to present a separate section on going concern in the audit report in all circumstances, while the final standard only requires a separate section if material uncertainties related to going concern exist and are adequately disclosed in the financial statements. Many respondents expressed an explicit preference for exceptions-based reporting on going concern, and eventually this was adopted in the final standards.

The affirmative statement on auditor independence and fulfilment of relevant ethical responsibilities with

Table 3 Responses to the 2013 IAASB exposure draft on the audit report reforms

	Communicating Key Audit Matter Information in the Audit Report				Enhanced Reporting on Going Concern and Material Uncertainty				Affirmative Statement on Auditor's Independence			
	Frequency (%) of Overall Position				Frequency (%) of Overall Position				Frequency (%) of Overall Position			
ED Respondent Groups	Support	Oppose	No Opinion	Total	Support	Oppose	No Opinion	Total	Support	Oppose	No Opinion	Total
Investors and analysts	11 (92)	1(8)	0(0)	12(9)	9(75)	1(8)	2(17)	12(9)	7(58)	2(17)	3(25)	12(9)
Those charged with governance	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	0(0)	0(0)	1(100)	1(1)
Regulators and audit oversight bodies	13(81)	2(13)	1(6)	16(12)	10(63)	5(31)	1(6)	16(12)	12(75)	0(0)	4(25)	16(12)
National standard setters	11(92)	0(0)	1(8)	12(9)	8(67)	4(33)	0(0)	12(9)	7(58)	4(33)	1(9)	12(9)
Accounting firms	13(81)	2(13)	1(6)	16(12)	11(69)	4(25)	1(6)	16(12)	13(81)	0(0)	3(19)	16(12)
Public sector auditors	9(64)	3(21)	2(15)	14(10)	5(36)	9(64)	0(0)	14(10)	7(50)	5(36)	2(14)	14(10)
Preparers	2(22)	7(78)	0(0)	9(6)	2(22)	5(56)	2(22)	9(6)	3(33)	2(22)	4(45)	9(6)
Member bodies and other professional organisations	37(88)	3(7)	2(5)	42(30)	29(69)	11(26)	2(5)	42(30)	31(74)	8(19)	3(7)	42(30)
Academics	7(78)	0(0)	2(22)	9(6)	5(56)	1(11)	3(33)	9(6)	3(33)	1(11)	5(56)	9(6)
Individuals and others	6(86)	1(14)	0(0)	7(5)	6(86)	0(0)	1(14)	7(5)	4(57)	1(14)	2(29)	7(5)
Total	**110(80)**	**19(14)**	**9(6)**	**138**	**85(62)**	**41(30)**	**12(8)**	**138**	**87(63)**	**23(17)**	**28(20)**	**138**

	Naming of Audit Engagement Partner in the Audit Report				Prominent Placement of Audit Opinion (Before all other elements)				Reporting on Other Information in the Annual Report[a]			
	Frequency (%) of Overall Position				Frequency (%) of Overall Position				Frequency (%) of Overall Position			
ED Respondent Groups	Support	Oppose	No Opinion	Total	Support	Oppose	No Opinion	Total	Support	Oppose	No Opinion	Total
Investors and analysts	7(58)	2(17)	3(25)	12(9)	4(33)	3(25)	5(42)	12(9)	0(0)	0(0)	0(0)	0(0)
Those charged with governance	0(0)	0(0)	1(100)	1(1)	0(0)	0(0)	1(100)	1(1)	0(0)	1(100)	0(0)	1(1)
Regulators and audit oversight bodies	11(69)	0(0)	5(31)	16(12)	4(25)	7(44)	5(31)	16(12)	0(0)	0(0)	9(100)	9(13)
National standard setters	9(75)	3(25)	0(0)	12(9)	4(33)	8(67)	0(0)	12(9)	4(40)	3(30)	3(30)	10(14)
Accounting firms	9(56)	6(38)	1(6)	16(12)	9(56)	4(25)	3(19)	16(12)	8(73)	2(18)	1(9)	11(16)
Public sector auditors	12(86)	0(0)	2(14)	14(10)	8(57)	5(36)	1(7)	14(10)	5(56)	1(11)	3(33)	9(13)
Preparers	3(34)	3(33)	3(33)	9(6)	4(45)	2(22)	3(33)	9(6)	0(0)	1(50)	1(50)	2(3)
Member bodies and other professional organisations	32(76)	6(14)	4(10)	42(30)	19(45)	19(45)	4(10)	42(30)	16(64)	1(4)	8(32)	25(37)
Academics	4(44)	1(12)	4(44)	9(6)	2(22)	1(11)	6(67)	9(6)	0(0)	0(0)	0(0)	0(0)
Individuals and others	5(72)	1(14)	1(14)	7(5)	3(43)	1(14)	3(43)	7(5)	0(0)	0(0)	2(100)	2(3)
Total	**92(67)**	**22(16)**	**24(17)**	**138**	**57(41)**	**50(36)**	**31(23)**	**138**	**33(48)**	**9(13)**	**27(39)**	**69**

Notes: [a]This reform was part of a separate IAASB project and was presented in a separate exposure draft – *The Auditor's Responsibilities Relating to Other Information.* A total of 69 comment letters were received in response to this ED. We analysed only a portion of these comment letters.

the disclosure of jurisdiction of origin of these requirements received 63% affirmative responses. The ED proposed that the auditor should disclose the sources of all ethical pronouncements that were applicable in an audit. However, it was clear that practical difficulties would arise as a result of identifying and disclosing a relatively long list of such applicable pronouncements, particularly for consolidated financial statements with multiple subsidiaries located across different political boundaries. Consequently, the IAASB decided to only require the disclosure of the jurisdiction of origin of the ethical requirements that were applicable for an audit or a reference to the IESBA's *Code of Ethics for Professional Accountants.*

Sixty-seven percent of respondents supported the disclosure of the name of the audit engagement partner. The other two reforms received less than majority support from the respondents. The first of the two requires the auditor to place the audit opinion in a prominent location in the audit report. Only 41% of respondents expressed unilateral support for this reform. The second reform requires the auditor to present any inconsistencies found in their consideration of other information in the annual report in a separate section of the audit report. This initiative received only 48% unilateral affirmative responses.

Table 3 also reveals that the majority of preparers were in disagreement with all six key changes. Prior research provides evidence that preparers are opportunistically motivated and are more likely to lobby for a reform if it maximises their economic self-interest (Watts and Zimmerman 1978; Francis 1987; Booth and Cocks 1990; Tandy and Wilburn 1996). It is also argued that preparers have a tendency to favour changes in accounting and auditing standards that reduce their political exposure and oppose those that increase their exposure (Georgiou 2005). The reforms to the audit report would increase auditor reporting on key audit matters and going concern, and would also require the prominent placement of the audit opinion. In addition, auditor reporting on

Table 4 Responses to the 2013 IAASB exposure draft on the audit report reforms by geographical location of respondents

Geographical location of respondent	Communicating Key Audit Matter Information in the Audit Report				Enhanced Reporting on Going Concern and Material Uncertainty				Affirmative Statement on Auditor's Independence			
	Frequency (%) of Overall Position				Frequency (%) of Overall Position				Frequency (%) of Overall Position			
	Support	Oppose	No Opinion	Total	Support	Oppose	No Opinion	Total	Support	Oppose	No Opinion	Total
Argentina	1(50)	1(50)	0(0)	2(1)	1(50)	0(0)	1(50)	2(1)	1(50)	0(0)	1(50)	2(1)
Australia	6(60)	3(30)	1(10)	10(7)	5(50)	5(50)	0(0)	10(7)	7(70)	2(20)	1(10)	10(7)
Brazil	2(100)	0(0)	0(0)	2(1)	2(100)	0(0)	0(0)	2(1)	2(100)	0(0)	0(0)	2(1)
Canada	8(73)	3(27)	0(0)	11(8)	0(0)	10(91)	1(9)	11(8)	3(27)	3(27)	5(46)	11(8)
China	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Czech Republic	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Denmark	1(50)	1(50)	0(0)	2(1)	1(50)	1(50)	0(0)	2(1)	1(50)	1(50)	0(0)	2(1)
Dubai	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
EU	6(86)	0(0)	1(14)	7(5)	5(71)	0(0)	2(29)	7(5)	5(71)	0(0)	2(29)	7(5)
Finland	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
France	2(100)	0(0)	0(0)	2(1)	2(100)	0(0)	0(0)	2(1)	1(50)	1(50)	0(0)	2(1)
Germany	3(75)	0(0)	1(25)	4(3)	3(75)	0(0)	1(25)	4(3)	2(50)	0(0)	2(50)	4(3)
Ghana	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Global	24(86)	2(7)	2(7)	28(20)	21(75)	5(18)	2(7)	28(20)	22(79)	2(7)	4(14)	28(20)
Hong Kong	2(50)	1(25)	1(25)	4(3)	1(25)	2(50)	1(25)	4(3)	1(25)	1(25)	2(50)	4(3)
India	1(100)	0(0)	0(0)	1(1)	0(0)	0(0)	1(100)	1(1)	0(0)	0(0)	1(100)	1(1)
Ireland	2(100)	0(0)	0(0)	2(1)	2(100)	0(0)	0(0)	2(1)	1(50)	1(50)	0(0)	2(1)
Italy	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Japan	2(100)	0(0)	0(0)	2(1)	1(50)	1(50)	0(0)	2(1)	1(50)	1(50)	0(0)	2(1)
Kenya	2(100)	0(0)	0(0)	2(1)	2(100)	0(0)	0(0)	2(1)	2(100)	0(0)	0(0)	2(1)
Korea	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Malaysia	2(100)	0(0)	0(0)	2(1)	2(100)	0(0)	0(0)	2(1)	1(50)	1(50)	0(0)	2(1)
Malta	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Mexico	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)
Netherlands	4(100)	0(0)	0(0)	4(3)	4(100)	0(0)	0(0)	4(3)	2(50)	2(50)	0(0)	4(3)
New Zealand	3(75)	0(0)	1(25)	4(3)	4(100)	0(0)	0(0)	4(3)	4(100)	0(0)	0(0)	4(3)
Nigeria	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Norway	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Pakistan	2(100)	0(0)	0(0)	2(1)	2(100)	0(0)	0(0)	2(1)	1(50)	0(0)	1(50)	2(1)
Regional South America	0(0)	1(100)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)
Russia	0(0)	0(0)	1(100)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Scotland	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)
Singapore	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
South Africa	3(60)	2(40)	0(0)	5(3)	0(0)	5(100)	0(0)	5(3)	3(60)	1(20)	1(20)	5(3)
Spain	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Sweden	2(100)	0(0)	0(0)	2(1)	1(50)	1(50)	0(0)	2(1)	2(100)	0(0)	0(0)	2(1)
Switzerland	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Thailand	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
UK	5(83)	1(17)	0(0)	6(4)	5(83)	1(17)	0(0)	6(4)	6(100)	0(0)	0(0)	6(4)
US	10(71)	4(29)	0(0)	14(10)	5(36)	6(43)	3(21)	14(10)	2(14)	4(29)	8(57)	14(10)
Zambia	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Zimbabwe	0(0)	0(0)	1(100)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Total	110(80)	19(14)	9(6)	138	85(62)	41(30)	12(8)	138	87(63)	23(17)	28(20)	138

(*Continued*)

Table 4 Continued

Geographical location of respondent	Naming of Audit Engagement Partner in the Audit Report – Frequency (%) of Overall Position				Prominent Placement of Audit Opinion (Before all other elements) – Frequency (%) of Overall Position				Reporting on Other Information in the Annual Report[a] – Frequency (%) of Overall Position			
	Support	Oppose	No Opinion	Total	Support	Oppose	No Opinion	Total	Support	Oppose	No Opinion	Total
Argentina	1(50)	0(0)	1(50)	2(1)	1(50)	0(0)	1(50)	2(1)	0(0)	0(0)	0(0)	0(0)
Australia	9(90)	0(0)	1(10)	10(7)	5(50)	3(30)	2(20)	10(7)	0(0)	2(50)	2(50)	4(6)
Brazil	2(100)	0(0)	0(0)	2(1)	1(50)	1(50)	0(0)	2(1)	1(100)	0(0)	0(0)	1(1.5)
Canada	5(45)	1(10)	5(45)	11(8)	3(27)	3(27)	5(46)	11(8)	1(25)	2(50)	1(25)	4(6)
China	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	0(0)	0(0)	0(0)	0(0)
Czech Republic	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	0(0)	0(0)	0(0)	0(0)
Denmark	1(50)	1(50)	0(0)	2(1)	0(0)	1(50)	1(50)	2(1)	0(0)	0(0)	0(0)	0(0)
Dubai	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	0(0)	0(0)	0(0)	0(0)
EU	5(71)	0(0)	2(29)	7(5)	2(29)	3(42)	2(29)	7(5)	8(62)	1(8)	4(30)	13(19)
Finland	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	0(0)	0(0)	0(0)	0(0)
France	1(50)	1(50)	0(0)	2(1)	1(50)	1(50)	0(0)	2(1)	0(0)	0(0)	0(0)	0(0)
Germany	3(75)	0(0)	1(25)	4(3)	0(0)	2(50)	2(50)	4(3)	1(100)	0(0)	0(0)	1(1.5)
Ghana	1(100)	0(0)	0(0)	1(1)	0(0)	0(0)	1(100)	1(1)	1(100)	0(0)	0(0)	1(1.5)
Global	15(54)	7(25)	6(21)	28(20)	14(50)	8(29)	6(21)	28(20)	10(59)	1(6)	6(35)	17(25)
Hong Kong	1(25)	1(25)	2(50)	4(3)	1(25)	0(0)	3(75)	4(3)	0(0)	1(100)	0(0)	1(1.5)
India	0(0)	0(0)	1(100)	1(1)	0(0)	0(0)	1(100)	1(1)	0(0)	0(0)	0(0)	0(0)
Ireland	2(100)	0(0)	0(0)	2(1)	1(50)	1(50)	0(0)	2(1)	0(0)	0(0)	0(0)	0(0)
Italy	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1.5)
Japan	2(100)	0(0)	0(0)	2(1)	2(100)	0(0)	0(0)	2(1)	0(0)	0(0)	1(100)	1(1.5)
Kenya	1(50)	1(50)	0(0)	2(1)	1(50)	1(50)	0(0)	2(1)	0(0)	0(0)	0(0)	0(0)
Korea	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1.5)
Malaysia	2(100)	0(0)	0(0)	2(1)	1(50)	1(50)	0(0)	2(1)	0(0)	0(0)	3(100)	3(4)
Malta	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	0(0)	0(0)	0(0)	0(0)
Mexico	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	0(0)	0(0)	0(0)	0(0)
Netherlands	3(75)	1(25)	0(0)	4(3)	1(25)	3(75)	0(0)	4(3)	0(0)	0(0)	1(100)	1(1.5)
New Zealand	3(75)	0(0)	1(25)	4(3)	2(50)	2(50)	0(0)	4(3)	0(0)	0(0)	2(100)	2(3)
Nigeria	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Norway	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	0(0)	0(0)	0(0)	0(0)
Pakistan	2(100)	0(0)	0(0)	2(1)	2(100)	0(0)	0(0)	2(1)	1(50)	0(0)	1(50)	2(3)
Regional South America	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	0(0)	0(0)	0(0)	0(0)
Russia	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	0(0)	0(0)	0(0)	0(0)
Scotland	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	0(0)	0(0)	0(0)	0(0)
Singapore	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
South Africa	3(60)	1(20)	1(20)	5(3)	1(20)	4(80)	0(0)	5(3)	1(33)	0(0)	2(67)	3(4)
Spain	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	0(0)	0(0)	0(0)	0(0)
Sweden	2(100)	0(0)	0(0)	2(1)	1(50)	1(50)	0(0)	2(1)	1(50)	1(50)	0(0)	2(3)
Switzerland	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	0(0)	0(0)	0(0)	0(0)
Thailand	1(100)	0(0)	0(0)	1(1)	0(0)	1(100)	0(0)	1(1)	0(0)	0(0)	0(0)	0(0)
UK	6(100)	0(0)	0(0)	6(4)	6(100)	0(0)	0(0)	6(4)	1(50)	1(50)	0(0)	2(3)
US	3(21)	8(58)	3(21)	14(10)	6(43)	1(7)	7(50)	14(10)	2(33)	0(0)	4(67)	6(9)
Zambia	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)
Zimbabwe	1(100)	0(0)	0(0)	1(1)	1(100)	0(0)	0(0)	1(1)	0(0)	0(0)	0(0)	0(0)
Total	**92(67)**	**22(16)**	**24(17)**	**138**	**57(41)**	**50(36)**	**31(23)**	**138**	**33(48)**	**9(13)**	**27(39)**	**69**

[a]This reform was part of a separate IAASB project and was presented in a separate exposure draft – *The Auditor's Responsibilities Relating to Other Information*. A total of 69 comment letters were received in response to this ED. We analysed only a portion of these comment letters.

inconsistencies between other information in the annual report and the audited financial statements is not an alluring proposition for preparers. Each of these changes would increase audit fees, and in some cases might increase the political exposure of the audited entities. This indicates that the preparers voted in self-interest when they opposed many of the key reform initiatives.

The position taken by the accounting member bodies and other professional organisations is largely consistent with the position taken by their constituents – accountants and accounting firms. Accounting firms overwhelmingly supported all six key reforms, while the accounting professional member bodies supported five. The only difference in their view was on the placement of the auditor's opinion, which the majority (56%) of accounting firms supported and the accounting professional membership bodies viewed ambivalently.

All the Big 4 accounting firms strongly supported the reforms with the exception of the naming of the audit engagement partner, which three of the four firms opposed. The results related to the views of accounting firms and accounting professional member bodies is largely consistent with prior research on lobbying behaviour, which concludes that trade organisations, such as accounting member bodies, will lobby on behalf of their members by taking the majority view of their members (Sutton 1984; Lindahl 1987; Tutticci et al. 1994; Stenka and Taylor 2010). Puro (1984) proposes that professional respondents such as accounting firms and accounting professional member bodies will promote accounting changes that increase disclosure requirements, one reason being that increased disclosure requirements can increase the fees that these professional firms charge their clients. Research evidence confirms that following significant changes in regulations and accounting standards, accounting firms have benefited economically through increased audit fees (Ghosh and Pawlewicz 2009; Kim et al. 2012).

The users (investors and analysts), although a small group, strongly supported four of the six reform initiatives, namely the key audit matters, enhanced auditor reporting on going concern, affirmative statement on auditor independence and disclosure of the name of the audit engagement partner. The users did not unilaterally oppose the prominent placement of the auditor's opinion; however, 42% refrained from providing an opinion on the issue. Moreover, no users responded to the ED on the sixth reform initiative, thus we cannot assess the perception of users on auditor reporting on other information. Users make up only 9% of the total number of respondents. The low participation of users in the process is not unusual because the economic impact of the reform falls mainly on preparers and auditors. The low participation of users is also consistent with prior research such as Davis and Hay (2012). Since users will not incur significant economic costs but will benefit significantly from these reforms, the users who responded strongly supported the reform initiatives.

Analysis of the voting pattern of respondents across political boundaries shows that there is general consensus on the audit report changes, although some differences are evident. The data in Table 4 show a high level of consensus supporting the disclosure of key audit matters, but there are differences across countries on the voting for auditor reporting on going concern, the affirmative statement on auditor independence and the disclosure of the name of the audit engagement partner. The respondents from the two North American countries, the US and Canada, provided less than majority support for the three reforms compared to the respondents from most other countries. There are a number of plausible explanations, including a strict legal liability regime and the economic self-interest of the respondents. For example, the US is considered to be more litigious than other countries (Gul et al. 2013). The disclosure of the name of the audit engagement partner, which is not a current requirement in the US, could lead to higher legal liability exposure for auditors, which might have encouraged respondents from the US to oppose the requirement. A closer look at the data reveals that a high proportion (43%) of respondents from the US are accounting firms and member bodies and other professional organisations, which affirms our proposition that respondents from the US opposed the proposals as a result of economic self-interest.

Implications of the Audit Reforms

Informational value of the audit report

One of the shortcomings of the existing audit report is that it does not provide information that users find useful. As a result, numerous recent studies have suggested a range of disclosures in the audit report to fill the information gap (see, for example, CFA Institute 2010; Coram et al. 2011; Gray et al. 2011). These studies indicate that investors and other users need more relevant information to facilitate their investment decisions. The current audit reforms aim to meet the needs of the users by providing more relevant information on the audit to be conducted (IAASB 2015a).

The new audit report will encompass far more information than the existing audit report. The analysis of comment letters suggests that users strongly support the changes that lead to additional information disclosures in the audit report. For instance, 92% of investors and analysts supported the key audit matter paragraphs and 58% supported the disclosure of the name of the audit engagement partner. This suggests that users find the additional information relevant and useful. Similarly, other stakeholders such as accounting firms and professional member bodies also expressed the opinion that the disclosure of additional information such as key audit matters will enhance the informational value of the audit report. Ernst & Young Global Limited (2014: 2) noted that 'the communication of KAMs [key audit matters] in the auditor's report should contribute to enhancing its informational value to all users'.

Furthermore, the ICAA (2013: 3) points out that:

> ... the inclusion of KAM [key audit matter], if done well, in the auditor's report has the potential to increase the value of the audit to users by increasing their awareness of significant matters that the auditor addressed during the audit and by increasing their understanding of the work performed by the auditor.

The additional disclosures such as key audit matters are valuable because of their uniqueness to each audit (CFA Institute 2013), but there is a risk that over time, key audit matter paragraphs will evolve into standard boilerplate statements and lose their informational value (AUASB 2013; The World Bank 2013). Another area of concern for many respondents to the ED was the impact of additional disclosures on the length of the audit report. The ICAA (2013: 4) points out that:

> ... four or more pages [of the audit report] may be off-putting for users to read. Also a report of that length would likely mean the importance of the opinion could be lost. Both of these would negate any value of the additional information.

This issue is even more contentious given that there is evidence that users do not read the entire audit report (Coram et al. 2011).

There is also evidence that users have problems understanding the consideration and use of materiality in audits (Houghton et al. 2011). There are also suggestions that users of the audit report would benefit from the disclosure of how materiality is applied in an audit and, more importantly, the level of materiality and how it relates to the level of assurance achieved (Messier et al. 2005). The UK FRC sought to include the requirement for auditors to provide such in-depth information on materiality in the audit report (see Table 2). However, the new audit report would not provide such in-depth information on materiality.

There are further suggestions from prior research that the internal control reporting mandated by SOX for US companies is useful and relevant (Doyle et al. 2007; Ashbaugh-Skaife et al. 2008; Schneider and Church 2008). Cheng et al. (2006) find that markets react to the reporting of internal control weaknesses. The results suggest that investors value internal control reporting and capital market reactions indicate that this report provides new information to the market.

The reaction of respondents to the ED suggests that users and other stakeholders find the additional disclosures relevant and useful, indicating that the expanded information disclosures are likely to influence the informational value of the audit report in a positive manner. Nevertheless, there are a number of issues that national standard setters should take into consideration when making a decision to adopt these changes in their national auditing standards. They include the risk of firm-specific disclosures, such as key audit matters, becoming boilerplate over time, and the potential impact of the additional disclosures on the length of the audit report. We also provide examples of additional disclosures that have been adopted into the audit reports of companies in jurisdictions such as the US and the UK. We anticipate that the informational value of the audit report would be further enhanced with the inclusion of this additional information.

Audit quality and public confidence

Audit quality is a complex and multi-faceted concept and different stakeholders have different perspectives on it (Kilgore et al. 2014). The audit report and related auditor communications can influence audit quality; thus, an audit report that clearly conveys the outcome of an audit is likely to positively influence audit quality (Knechel et al. 2013).

There are divergent views amongst respondents to the ED as to whether the new audit report will improve audit quality. Some observe that the improvements to the audit report will enhance both actual and perceived audit quality, while others believe that actual audit quality may decline while users perceive that audit quality has improved.

The AUASB (2013) opines that the introduction of key audit matters will positively affect the quality of the financial reporting process. The CFA Institute (2013: 5) also believes that 'the engagement partner's name improves transparency for users and perhaps more importantly, instils a greater sense of responsibility and accountability which ultimately translates to improved audit quality'. Similarly, the auditor's affirmative statement that they are independent of the entity being audited increases the level of transparency, which would positively influence audit quality.

The process by which enhanced audit report disclosures such as key audit matters would influence actual audit quality are reflected in the comments of Deloitte Touche Tohmatsu Limited (2013: 2) in their comment letter:

> ... auditor focus on KAMs [key audit matters] will also drive enhanced attention by management and TCWG [those charged with governance] on the importance of informative and complete financial statement disclosures and the effectiveness of internal control over financial reporting, thereby setting the stage for

> improvement in the overall quality of financial reporting . . . the proposed changes may also positively impact audit quality, including providing an opportunity for auditors to further demonstrate use of professional scepticism, one of the important indicators of audit quality.

In contrast, those who argue that the additional disclosures in the audit report will not improve audit quality offer a number of counter-arguments. A national accounting firm in Australia points out that the reporting of key audit matters can become a key consideration in audit tendering and replacement of auditors, and such pressures would not promote audit quality (Pitcher Partners 2013). The Big 4 and other international accounting firms are firmly opposed to the disclosure of the name of the audit engagement partner and overly sceptical about the effects of the information on audit quality. Ernst & Young Global Limited (2014) and BDO International Limited (2013: 9) argue that 'the disclosure of the name of the engagement partner in the auditor's report does not add to the quality of the audit and may result in unintended or negative consequences'. However, the unintended or negative consequences that may arise from the disclosure of the name of the audit engagement partner are not identified.

Another common argument is that the disclosure of information such as key audit matters will consume time and require the attention of senior auditors. This will divert auditors' attention from critical audit work to non-critical determination and wording of key audit matter paragraphs, which will negatively influence audit quality (Deloitte Touche Tohmatsu Limited 2013; Pitcher Partners 2013). Auditors can eliminate this problem by allocating more hours to an audit, which is likely to increase audit costs and consequently audit fees, which we discuss in the next section.

Recent research provides direct evidence of the impact of key audit matter paragraphs on audit quality. Contrary to the standard setters' expectations, the communication of additional information is associated with lower perceived audit quality and a perception that the degree of assurance provided by the auditor differs across components of the financial statements (Sirois et al. 2014). This study has important implications for audit quality and the audit expectation gap. It supports earlier suggestions by the AUASB that the disclosure of key audit matters may confuse users of the audit report (AUASB 2013: 3).

Evidence on the audit quality implications of the disclosure of the audit engagement partner's name in the audit report is also mixed. Some studies find that financial reporting quality improves after auditors have signed the audit report (Carcello and Li 2013; Yen et al. 2013), while others provide evidence to the contrary (Blay et al. 2014).

There are mixed views on the influence that the audit report reforms will have on audit quality. Recent research supports the view that the additional information in the form of key audit matters will have negative consequences for perceived audit quality, while the results on the effect of public disclosure of the audit engagement partner's name on audit quality are inconclusive. Therefore, we conclude that the influence of the current reforms on audit quality is unclear.

Implications for audit costs, auditor's legal liability and audit practice

Audit costs are directly related to the extent of the resources consumed in conducting an audit. Changes in auditing standards and related legislations can have a significant impact on audit costs. Audit service suppliers and other stakeholders concede that audit costs are most likely to increase following the implementation of the current audit report reforms. The comment of Pitcher Partners (2013: 9) in response to the ED sums up the views of numerous stakeholders with respect to the impact of reforms on the cost of audits:

> . . . the proposed auditor reporting requirements will introduce considerable additional costs for the audit firm while the benefits anticipated are not entirely clear. When there are any modifications to the auditor's report under the current reporting regime, significant time is needed for internal consultations with the engagement quality control review partner (EQCR), technical and other experts, and practice risk management, and then significant further time for consultation with the client. The time taken to finalise an auditor's report is rarely recoverable in the audit fees charged.

If audit costs increase, they will be passed on to clients in the form of higher audit fees. Audit costs are not publicly disclosed and therefore are not observable. On the other hand, audit fees are publicly disclosed in the annual reports and other annual filings, where they are easily accessible. As already indicated, prior research reports that following the disclosure of the name of the audit engagement partner in the audit report, audit fees for firms rose by almost 13% in the UK (Carcello and Li 2013).

Surprisingly, the Big 4 accounting firms did not comment on the cost implication of the changes. The point raised by the Institute of Chartered Accountants of England and Wales (ICAEW 2013: 3) may provide the reason for this:

> Basic economics suggests that costs will be proportionally higher in the audits of smaller listed entities whose stakeholders, in many cases will be less interested in investing the time and effort required to achieve the benefits of enhanced reporting because they already have the information they need.

The Big 4 firms usually concentrate on and audit larger listed companies, while the smaller listed companies are served by the non-Big 4 firms (Ferguson et al. 2014). The difficulty the non-Big 4 firms would face in passing on additional costs to their clients may be the factor prompting them to raise the issue of additional costs in the comment letters.

The Big 4 firms are able to utilise the benefits of economies of scale, given the size of their operations, while such advantages resulting from economies of scale are virtually non-existent for non-Big 4 firms. Thus, initial costs such as the cost of updating audit manuals and audit procedures are disproportionately higher for non-Big 4 accounting firms. This explains the issue raised by Pitcher Partners (2013: 9), namely that the impact and cost of implementing changes to their audit methodologies and the cost of training auditors to identify and communicate key audit matters may result in their exit from the listed company audit market. The exit of non-Big 4 accounting firms from the listed company audit market has significant implications for audit market competition (Carson et al. 2014).

Financial statement users and national standard setters believe that the audit report reforms will only have minimal implications for costs. For example, the CFA Institute (2013) argues that audit firms already identify and consider key audit matters, therefore, requiring disclosure of these matters in the audit report should only lead to minimal additional costs.

Another more contentious issue for audit practice is the exposure of the auditors and audit firms to legal liability. The AUASB (2013: 26) points out that 'Australian practitioners were, in the main, quite concerned that the proposals [auditor reporting reforms] have the potential to cause significant increased exposure to their legal liability'. This issue, they claim, is especially relevant for Australia given that the auditing standards are legal instruments and as a result, are legally enforceable. In particular, many members of the Australian accounting profession were concerned with the potential impact of public disclosure of key audit matters on auditor litigation (ICAA 2013: 5).

The Big 4 accounting firms similarly raise concerns about exposure to legal liability. These concerns are adeptly summarised by PwC (2013: 8): 'the judgments auditors are being asked to make in selecting the matters [key audit matters] to communicate are difficult and in many jurisdictions will result in increased legal risk for the profession'. The public disclosure of the audit engagement partner's name is also likely to increase their legal liability exposure, and this is reflected in the reluctance of respondents from highly litigious countries such as the US to support the reform (see Table 4: the majority of US respondents opposed the public disclosure of the audit engagement partner's name). Lastly, ICAA (2013) points out that the increased exposure of auditors to legal liability will potentially increase their professional indemnity insurance costs. This has implications for audit fees, as audit firms and auditors will pass on additional costs to their clients through higher audit fees.

It is evident from the claims of prominent stakeholders that the audit report reforms have significant implications for audit costs, the auditor's legal liability and audit practice. Moreover, the changes are most likely to disproportionately affect the costs of audit firms and audited entities based on their size. National auditing standard setters contemplating the adoption of the revised standards need to consider the issues of audit costs and auditors' legal liability.

Conclusions and Implications

This study investigates the perceptions of prominent stakeholders on the current audit report reforms and evaluates the implications of the reforms on the informational value of the audit report, audit quality and audit costs. The findings indicate a high level of overall support for audit report reforms. However, individual key reforms receive varied levels of support.

The analyses show that there are significant differences between stakeholder groups in their support for audit report reforms. The majority of preparers are opposed to all of the key reforms, while accounting firms and member bodies, along with users, offer majority support for the reform initiatives. We conclude that the differences across stakeholder groups can be explained by their economic self-interest. Preparers will incur significant costs as a result of the reforms, and this motivates their resistance to the changes. On the other hand, accounting firms stand to gain from the reforms through higher fee revenue as requirements increase. Users also tend to gain from additional disclosures in the audit report. Consistent with prior research, member bodies generally support the position of their constituents – in this case, the accountants and accounting firms.

There is also evidence of lobbying in accordance with self-interest across political boundaries; for instance, respondents from the US were highly opposed to the disclosure of the name of the audit engagement partner. Evidently, disclosure of the audit engagement partner's name would expose them to higher legal liability, and in a country such as the US, which is considered to be highly litigious, the impact of such a reform would have greater impact on the legal liability of auditors.

The additional disclosures in the audit report positively influence the informational value of the report. However, this value would be diminished if disclosures such as key audit matters were to evolve into boilerplate statements over time. The value of the audit report would also be diminished if it were to become excessively lengthy. We identify two time-tested disclosures that are found in the audit reports of companies in jurisdictions such as the US and the UK that would further enhance the informational value of the audit report, namely internal control reporting and enhanced information on materiality.

The implication of the reforms on audit quality – actual and perceived – is not clear. We find that these reforms would increase the audit costs and legal liability of auditors. The additional costs would eventually be transferred to audit clients in the form of higher fees; however, there are indications that would not be entirely possible, particularly for smaller listed clients. There are also indications that the additional costs of the reforms would fall disproportionately on non-Big 4 accounting firms. The Big 4 are able to take advantage of economies of scale, whereas the non-Big 4 have to operate with limited resources. This outcome will potentially impact on the competitiveness and supplier concentration in the listed company audit market, particularly if reforms such as these drive out the non-Big 4 firms.

As with all research of this type, a number of limitations exist. First, the judgement as to what to include and what to omit from the comment letters is subjective. A respondent's views may not be representative of others in their society, and perceptions might change over time as the reforms are adopted and applied across countries. It is also possible that the respondents were not fully informed, or that they provided intentionally misleading responses.

More empirical research is needed on the impact of the audit report reforms on informational value, audit quality and costs. Future research could explore how different key audit matters affect users' decision making and perceived audit quality. The implications of the changes to audit costs could be examined through changes in audit fees once the new audit reports become applicable. Experimental studies would be a good way to understand some of the issues and would assist to provide ways in which the audit report could be further improved.

Notes

1 Christensen et al. (2014) based their study on reforms under consideration in the US by the PCAOB. The PCAOB has proposed the disclosure of critical audit matter paragraphs, which are similar to key audit matter paragraphs. They acknowledged that owing to the similarities between the critical and key audit matter paragraphs, the inferences from their study apply equally well to key audit matter paragraphs.

2 In France, auditors were required from 2003 onwards to justify the findings made during the audit in the audit report. These justifications of auditors' assessments are very similar to key audit matter paragraphs. They are disclosed in a separate section of the audit report and must enable the user of the report to better understand the audit opinion presented. In addition, the justification of assessments generally relates to important matters, and selection and disclosure is based on the professional judgement of the auditor.

3 Similar to Sirois et al. (2014), Kachelmeier et al. (2014) based their study on reforms under consideration in the US by the PCAOB. The PCAOB has proposed the disclosure of critical audit matter paragraphs, which are similar to key audit matter paragraphs.

4 Krippendorff's Alpha for intercoder reliability ranged from KALPHA 0.71 to 1.00.

References

Asare, S.K. and Wright, A.M. 2012, 'Investors', Auditors' and Lenders' Understanding of the Message Conveyed by the Standard Audit Report on the Financial Statements', *Accounting Horizons*, 26 (2): 193–217.

Ashbaugh-Skaife, H., Collins, D.W., Kinney, W.R. Jr and LaFond, R. 2008, 'The Effect of SOX Internal Control Deficiencies and Their Remediation on Accrual Quality', *The Accounting Review*, 83 (1): 217–50.

Australian Auditing and Assurance Standards Board (AUASB) 2013, 'Submission on the IAASB's Exposure Draft: Reporting on Audited Financial Statements'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international, accessed 20 April 2014.

Australian Institute of Company Directors (AICD) 2013, 'Exposure Draft-reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international, accessed 20 April 2014.

Backof, A., Bowlin, K. and Goodson, B. 2014, 'The Impact of Proposed Changes to the Content of the Audit Report on Jurors' Assessments of Auditor Negligence', Working Paper, University of Virginia and University of Mississippi.

BDO International Limited 2013, 'IAASB Exposure Draft-reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international, accessed 20 April 2014.

Bedard, J., Gonthier-Besacier, N. and Schatt, A. 2014, 'Costs and Benefits of Reporting Key Audit Matters in the Audit Report: The French Experience', Working Paper, Laval University.

Blay, A.D., Notbohm, M., Schelleman, C. and Valencia, A. 2014, 'Audit Quality Effects of an Individual Audit Engagement Partner Signature Mandate', *International Journal of Auditing*, 18 (3): 172–92.

Booth, P. and Cocks, N. 1990, 'Critical Research Issues in Accounting Standard Setting', *Journal of Business Finance & Accounting*, 17 (4): 511–28.

Brasel, K., Doxey, M., Grenier, J. and Reffett, A. 2014, 'Risk Disclosure Preceding Negative Outcomes: The Effects of Reporting Critical Audit Matters on Judgment of Auditor Liability', Working Paper, Ball State University, The University of Alabama, and Miami University.

Brown, P., Preiato, J. and Tarca, A. 2014, 'Measuring Country Differences in Enforcement of Accounting Standards: An Audit and Enforcement Proxy', *Journal of Business Finance & Accounting*, 41 (1/2): 1–52.

Cade, N. and Hodge, F. 2014, 'The Effect of Expanding the Audit Report on Managers Communication Openness', Working Paper, University of Washington.

Carcello, J.V. and Li, C. 2013, 'Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom', *The Accounting Review*, 88 (5): 1511–46.

Carey, P.J., Monroe, G.S. and Shailer, G. 2014, 'Review of Post-CLERP 9 Australian Auditor Independence Research', *Australian Accounting Review*, 24 (4): 370–80.

Carson, E., Fargher, N.L., Geiger, M.A., Lennox, C.S., Raghunandan, K. and Willekens, M. 2013, 'Audit Reporting for Going-concern Uncertainty: A Research Synthesis', *Auditing: A Journal of Practice & Theory*, 32 (Supplement 1): 353–84.

Carson, E., Redmayne, N.B. and Liao, L. 2014, 'Audit Market Structure and Competition in Australia', *Australian Accounting Review*, 24 (4): 298–312.

Chartered Financial Analyst (CFA) Institute 2010, 'Independent Auditor's Report Survey Results'. Available at: http://www.cfainstitute.org/Survey/independent_auditors_report_survey_results.pdf, accessed 15 May 2014.

Chartered Financial Analyst (CFA) Institute 2013, 'Auditor's Reporting Model'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international, accessed 20 April 2014.

Cheng, C.S.A., Ho, J.L.Y. and Tian, F. 2006, 'An Empirical Analysis of Value-relevance of Disclosure of Material Weaknesses under Section 404', Working Paper, University of California.

Chong, K.M. and Pflugrath, G. 2008, 'Do Different Audit Report Formats Affect Shareholders' and Auditors' Perceptions?', *International Journal of Auditing*, 12 (3): 221–41.

Christensen, B.E., Glover, S.M. and Wolfe, C.J. 2014, 'Do Critical Audit Matter Paragraphs in the Audit Report Change Nonprofessional Investors' Decision to Invest?', *Auditing: A Journal of Practice & Theory*, 33 (4): 71–93.

Church, B.K., Davis, S.M. and McCracken, S.A. 2008, 'The Auditor's Reporting Model: A Literature Overview and Research Synthesis', *Accounting Horizons*, 22 (1): 69–90.

Commission on Auditor's Responsibilities 1978, *Report, Conclusions, and Recommendations*, CAR, New York.

Coram, P.J., Mock, T.J., Turner, J.L. and Gray, G.L. 2011, 'The Communicative Value of the Auditor's Report', *Australian Accounting Review*, 21 (3): 235–52.

Davis, M. and Hay, D. 2012, 'An Analysis of Submissions on Proposed Regulations for Audit and Assurance in New Zealand', *Australian Accounting Review*, 22 (3): 303–16.

Deloitte Touche Tohmatsu Limited 2013, 'Comment Letter to International Auditing and Assurance Standards Board'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statementst-proposed-new-and-revised-international, accessed 20 April 2014.

Doogar, R., Rowe, S.P. and Sivadasan, P. 2015, 'Asleep at the Wheel (Again)? Bank Audits During the Lead-up to the Financial Crisis', *Contemporary Accounting Research*, 32 (1): 358–91.

Doyle, J., Ge, W. and McVay, S. 2007, 'Accruals Quality and Internal Control Over Financial Reporting', *The Accounting Review*, 82 (5): 1141–70.

Elliott, W.B. 2006, 'Are Investors Influenced by Pro Forma Emphasis and Reconciliations in Earnings Announcement', *The Accounting Review*, 81 (1): 113–33.

Ernst and Young Global Limited (E&Y) 2014, 'Point of View: Auditor Reporting'. Available at: http://www.ey.com/Publication/vwLUAssets/EY-Point-of-view-auditor-reporting-February-2014/$FILE/EY-Point-of-view-auditor-reporting-February-2014.pdf, accessed 20 April 2015.

European Federation of Accountants and Auditors (EFAA) 2013, 'Comment on IAASB Exposure Draft-Reporting on Audited Financial Statements Proposed New and Revised International Standards on Auditing'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international, accessed 20 April 2014.

European Parliament and the Council of the European Union 2014, 'Directive 2014/56/EU of the European Parliament and of the Council'. Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0056, accessed 15 February 2015.

Ferguson, A., Pundrich, G. and Raftery, A. 2014, 'Auditor Industry Specialization, Service Bundling, and Partner Effects in a Mining-dominated City', *Auditing: A Journal of Practice & Theory*, 33 (3): 153–80.

Fisher, M.H. 1990, 'The Effects of Reporting Auditor Materiality Levels Publicly, Privately, or Not At All in an Experimental Markets Setting', *Auditing: A Journal of Practice & Theory*, 9 (Supplement): 184–223.

Francis, J.R. 1987, 'Lobbying Against Proposed Accounting Standards: The Case of Employers' Pension Accounting', *Journal of Accounting and Public Policy*, 6 (1): 35–57.

Frederickson, J.R. and Miller, J.S. 2004, 'The Effects of Pro Forma Earnings Disclosure on Analysts' and Non-professional Investors' Equity Valuation Judgments', *The Accounting Review*, 79 (3): 667–86.

Gay, G., Schelluch, P. and Baines, A. 1998, 'Perceptions of Messages Conveyed by Review and Audit Reports', *Accounting, Auditing & Accountability Journal*, 11 (4): 472–94.

Geiger, M.A. 1993, 'Evolution of the Standard Auditor's Report in the United States', in M.J. Epstein (ed.), *Studies in Managerial and Financial Accounting*, JAI Press, Amsterdam, Netherlands.

George, E.T., Ferguson, C.B. and Spear, N.A. 2013, 'How Much Does IFRS Cost? IFRS Adoption and Audit Fees', *The Accounting Review*, 88 (2): 429–62.

Georgiou, G. 2005, 'Investigating Corporate Management Lobbying in the U.K. Accounting Standard Setting Process: A Multi-issue/Multi-period Approach', *Abacus*, 41 (3): 323–47.

Ghandar, A. 2014, 'Auditor Reporting is Poised for Sweeping Changes Worldwide with the Introduction of New Standards from the IAASB', *In the Black*, 9 October. Available at: http://intheblack.com/articles/2014/10/09/in-auditing-long-is-the-new-short, accessed 15 March 2015.

Ghosh, A. and Pawlewicz, R. 2009, 'The Impact of Regulation on Auditor Fees: Evidence from the Sarbanes-Oxley Act', *Auditing: A Journal of Practice & Theory*, 28 (2): 171–97.

Gimbar, C., Hansen, B. and Ozlanski, M.E. 2014, 'The Effects of Critical Audit Matter Paragraphs and Accounting Standard Precision on Auditor Liability: Can Anything the Auditors Say be Used against Them?', Working Paper, Virginia Polytechnic Institute & State University and University of New Hampshire.

Gold, A., Gronewold, U. and Pott, C. 2012, 'The ISA 700 Auditor's Report and the Audit Expectation Gap: Do Explanations Matter?', *International Journal of Auditing*, 16 (3): 286–307.

Gray, G.L., Turner, J.L., Coram, P.J. and Mock, T.J. 2011, 'Perceptions and Misperceptions Regarding the Unqualified Auditor's Report by Financial Statement Preparers, Users and Auditors, *Accounting Horizons*, 25 (4): 659–84.

Griffin, P.A., Lont, D.H. and Sun, Y. 2009, 'Governance Regulatory Changes, International Financial Reporting Standards Adoption, and New Zealand Audit and Non-audit Fees: Empirical Evidence', *Accounting and Finance*, 49 (4): 697–724.

Gul, F.A., Wu, D. and Yang, Z. 2013, 'Do Individual Auditors Affect Audit Quality? Evidence from Archival Data', *The Accounting Review*, 88 (6): 1993–2023.

Hodge, F. and Pronk, M. 2006, 'The Impact of Expertise and Investment Familiarity on Investors' Use of Online Financial Report Information', *Journal of Accounting, Auditing & Finance*, 21 (3): 267–92.

Houghton, K.A., Jubb, C., Kend, M. and Ng, J. 2010, *The Future of Audit: Keeping Capital Markets Efficient*, ANU Press, Canberra.

Houghton, K.A., Jubb, C. and Kend, M. 2011, 'Materiality in the Context of Audit: The Real Expectations Gap', *Managerial Auditing Journal*, 26 (6): 482–500.

Houghton, K.A., Kend, M. and Jubb, C. 2013, 'The CLERP 9 Audit Reforms: Benefits and Costs through the Eyes of Regulators, Standard Setters and Audit Service Suppliers', *Abacus*, 49 (2): 139–60.

Innes, J., Brown, T. and Hatherly, D. 1997, 'The Expanded Audit Report: A Research Study Within the Development of SAS 600', *Accounting, Auditing & Accountability Journal*, 10 (5): 702–17.

Institute of Chartered Accountants in Australia (ICAA) 2013, 'ED Reporting on Auditing Financial Statements: Proposed New and Revised International Standards on Auditing'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international, accessed 20 April 2014.

Institute of Chartered Accountants of England and Wales (ICAEW) 2013, 'Reporting on Audited Financial Statements: Proposed New and Revised ISAs'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international, accessed 20 April 2014.

International Auditing and Assurance Standards Board (IAASB) 2004, 'Improving the Clarity of the IAASB Standards'. Available at: http://www.iaasb.org/meetings/copenhagen, accessed 18 November 2014.

International Auditing and Assurance Standards Board (IAASB) 2009, 'Implementation of the Clarified International Standards on Auditing'. Available at: http://www.ifac.org/system/files/downloads/IAASB-Implementation-Monitoring-Clarified-ISAs.pdf, accessed 16 November 2014.

International Auditing and Assurance Standards Board (IAASB) 2012, 'IFAC Member Body Compliance Program: Basis of ISA Adoption by Jurisdiction'. Available at: https://www.ifac.org/system/files/uploads/MBD/Basis-of-ISA-Adoption-by-Jurisdiction-August-2012.pdf, accessed 16 November 2014.

International Auditing and Assurance Standards Board (IAASB) 2013, 'Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international, accessed 16 November 2014.

International Auditing and Assurance Standards Board (IAASB) 2015a, 'Reporting on Audited Financial Statements – New and Revised Auditor Reporting Standards and Related Conforming Amendments'. Available at: http://www.iaasb.org/new-auditors-report, accessed 30 January 2015.

International Auditing and Assurance Standards Board (IAASB) 2015b, 'At a Glance: ISA 720 (Revised): The Auditors' Responsibilities Relating to Other Information'. Available at: http://www.ifac.org/publications-resources/glance-isa-720-revised-auditor-s-responsibilities-relating-other-information, accessed 15 May 2015.

International Federation of Accountants Small and Medium Practices Committee (IFAC SMP) 2013, 'Small and Medium Practices (SMP) Committee Response to the Exposure Draft Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international, accessed 20 April 2014.

Kachelmeier, S.J., Schmidt, J.J. and Valentine, K. 2014, 'The Disclaimer Effect of Disclosing Critical Audit Matters in the Auditors' Report', Working Paper, University of Texas.

Kilgore, A., Harrison, G. and Radich, R. 2014, 'Audit Quality: What's Important to Users of Audit Services', *Managerial Auditing Journal*, 29 (9): 776–99.

Kilgore, A., Radich, R. and Harrison, G. 2011, 'The Relative Importance of Audit Quality Attributes', *Australian Accounting Review*, 21 (3): 253–65.

Kim, J.B., Liu, X. and Zheng, L. 2012, 'The Impact of Mandatory IFRS Adoption on Audit Fees: Theory and Evidence', *The Accounting Review*, 87 (6): 2061–94.

King, R.R., Davis, S.M. and Mintchik, N. 2012, 'Mandatory Disclosure of the Engagement Partner's Identity: Potential Benefits and Unintended Consequences', *Accounting Horizons*, 26 (3): 533–61.

Knechel, R.W., Krishnan, G.V., Pevzner, M., Shefchik, L.B. and Velury, U.K. 2013, 'Audit Quality: Insights from the Academic Literature', *Auditing: A Journal of Practice & Theory*, 32 (Supplement): 385–421.

Knechel, R.W., Vanstraelen, A. and Zerni, M. 2015, 'Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions', *Contemporary Accounting Research*, doi: 10.1111/1911-3846.12113.

Lindahl, F.W. 1987, 'Accounting Standards and Olson's Theory of Collective Action', *Journal of Accounting and Public Policy*, 6 (1): 59–72.

Manson, S. and Zaman, M. 2001, 'Auditor Communication in an Evolving Environment: Going Beyond SAS 600 Auditors' Reports on Financial Statements', *The British Accounting Review*, 33 (2): 113–36.

McEnroe, J.E. and Martens, S.C. 1998, 'Individual Investors' Perceptions Regarding the Meaning of US and UK Audit Report Terminology: "Present Fairly in Conformity with GAAP" and "Give a True and Fair View"', *Journal of Business Finance & Accounting*, 25 (3/4): 289–307.

Messier, W.F., Martinov-Bennie, N. and Eilifsen, A. 2005, 'A Review and Integration of Empirical Research on Materiality: Two Decades Later', *Auditing: A Journal of Practice and Theory*, 24 (2): 153–87.

Mock, T.J., Bedard, J., Coram, P.J., Davis, S.M., Espahbodi, R. and Warne, R.C. 2013, 'The Audit Reporting Model: Current Research Synthesis and Implications', *Auditing: A Journal of Practice and Theory*, 32 (1): 323–51.

Montgomery, D. 2014, Remarks by Daniel Montgomery, International Auditing and Assurance Standards Board, The New Auditors Report: Revealing Key Audit Matters, National Association of State Boards of Accountancy, Washington, DC. Available at: http://nasba.org/media-resources/presentations-and-speeches/#annual2014, accessed 9 July 2015.

New Zealand Auditing and Assurance Standards Board (NZAuASB) 2013, 'IAASB Exposure Draft, Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international, accessed 20 April 2014.

Pitcher Partners 2013, 'Exposure Draft-reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international, accessed 20 April 2014.

PricewaterhouseCoopers International Limited (PwC) 2013, 'IAASB Exposure Draft: Reporting on Audited Financial Statements'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international, accessed 20 April 2014.

PricewaterhouseCoopers International Limited (PwC) 2014, 'PCAOB Rulemaking Docket Matter No. 029, Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit'. Available at: http://pcaobus.org/Rules/Rulemaking/Docket029/032c_PwC.pdf, accessed 20 March 2015.

Public Company Accounting Oversight Board (PCAOB) 2013a, 'Proposed Auditing Standard: The Auditors Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion'. Available at: http://pcaobus.org/Rules/Rulemaking/Docket034/Release_2013-005_ARM.pdf, accessed 28 June 2014.

Public Company Accounting Oversight Board (PCAOB) 2013b, 'Improving the Transparency of Audits'. Available at: http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB%20Release%20No%20%202013-009%20-%20Transparency.pdf, accessed 28 June 2014.

Puro, M. 1984, 'Audit Firm Lobbying Before the Financial Accounting Standards Board: An Empirical Study', *Journal of Accounting Research*, 22 (2): 624–46.

Raghunandan, K. and Rama, D.V. 2006, 'SOX Section 404 Material Weakness Disclosures and Audit Fees', *Auditing: A Journal of Practice & Theory*, 25 (1): 99–114.

Rezaee, Z., Espahbodi, R., Espahbodi, P. and Espahbodi, H. 2012, 'Firm Characteristics and Stock Price Reaction to SOX 404 Compliance', *Abacus*, 48 (4): 473–501.

Schelluch, P. and Gay, G. 2006, 'Assurance Provided by Auditors' Reports on Prospective Financial Information: Implications for the Expectation Gap', *Accounting & Finance*, 46 (4): 653–76.

Schneider, A. and Church, B.K. 2008, 'The Effect of Auditors' Internal Control Opinions on Loan Decisions', *Journal of Accounting and Public Policy*, 27 (1): 1–18.

Sirois, L., Bedard, J. and Bera, P. 2014, 'The Informational Value of Key Audit Matters in the Auditor's Report: Evidence from an Eye Tracking Study', Working Paper, HEC Montreal.

Smieliauskas, W., Craig, R. and Amernic, J. 2008, 'A Proposal to Replace "True and Fair View" with "Acceptable Risk of Material Misstatement"', *Abacus*, 44 (3): 225–50.

Stenka, R.I. and Taylor, P. 2010, 'Setting UK Standards on the Concept of Control: An Analysis of Lobbying Behaviour', *Accounting and Business Research*, 40 (2): 109–30.

Sutton, T.G. 1984, 'Lobbying of Accounting Standard-setting Bodies in the UK and the USA: A Downsian Analysis', *Accounting, Organizations and Society*, 9 (1): 81–95.

Tandy, P.R. and Wilburn, N.L. 1992, 'Constituent Participation in Standard-setting: The FASB's First 100 Statements', *Accounting Horizons*, 9 (2): 47–58.

Tandy, P.R. and Wilburn, N.L. 1996, 'The Academic Community's Participation in Standard Setting: Submission of Comment Letters on SFAS No's. 1–117', *Accounting Horizons*, 10 (3): 92–111.

The World Bank 2013, 'Comments on Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international, accessed 20 April 2014.

Turner, E. 2013, 'Dramatic Changes to the Auditor's Report will Affect Companies Large and Small', CPA Canada Audit Quality Blog 15 August. Available at: https://www.cpacanada.ca/en/connecting-and-news/blogs/audit-blog/2013/August/dramatic-changes-to-the-auditors-report-will-affect-companies-large-and-small-but-is-it-worth-it, accessed 18 March 2015.

Tutticci, I., Dunstan, K. and Holmes, S. 1994, 'Respondent Lobbying in the Australian Accounting Standard-Setting Process: ED 49 (A Case Study)', *Accounting, Auditing and Accountability Journal*, 7 (2): 86–104.

United Kingdom Financial Reporting Council (UK FRC) 2013, 'Reporting on Audited Financial Statements'. Available at: https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international, accessed 20 April 2014.

Vanstraelen, A., Schelleman, C., Meuwissen, R. and Hofmann, I. 2012, 'The Audit Reporting Debate: Seemingly Intractable Problems and Feasible Solutions', *European Accounting Review*, 21 (2): 193–215.

Watts, R.L. and Zimmerman, J.L. 1978, 'Towards a Positive Accounting Theory of the Determination of Accounting Standards', *The Accounting Review*, 53 (1): 112–34.

Yen, S.H., Chang, Y.S. and Chen, H.L. 2013, 'Does the Signature of a CPA matter? Evidence from Taiwan', *Research in Accounting Regulation*, 25 (2): 230–35.