
Stakeholders' perception about strengthening the audit report

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Abstract: The need for change in the accounting and audit profession is a topic discussed and accepted by both regulators and accounting professionals. As a result of the global financial crisis, users need more information regarding the auditor's work. This study aims to investigate whether users of audit reports agree with the IAASB's proposal to modify the audit report structure and to include a new section, key audit matters, with the purpose of comprising more information concerning the audit mission, with the aim of improving audit communication. The authors achieve this objective by a qualitative research: exposing a theoretical background and a literature review. In order to fulfil the research objective of analysing responses provided to the IAASB 2013 exposure draft, this study uses the method of content analysis. The results show that the respondents agree with the new audit report structure and the inclusion of the key audit matters section in the audit report.

Keywords: audit report; IAASB; audit reporting changes; exposure draft; key audit matters; KAM; comment letter; audit theories; audit; credibility; financial crisis.

Reference to this paper should be made as follows: Tiron-Tudor, A., Cordoş, G.S. and Fülöp, M.T. (2018) 'Stakeholders' perception about strengthening the audit report', *African J. Accounting, Auditing and Finance*, Vol. 6, No. 1, pp.43–69.

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This paper is a revised and expanded version of a paper entitled 'Understanding audit reporting changes: introduction of key audit matters', presented at International Conference Accounting and Management Information Systems, Bucharest, 11–12 June 2014.

1 Introduction

Many academics have expressed their mostly favourable opinion on the revision process of auditing standards and need of audit reporting changes. A significant number of researchers (Church et al., 2008; Turner et al., 2010; Coram et al., 2011; Vanstraelen et al., 2012; Glover and Reidenbach, 2012; Mock et al., 2013; Sy and Tinker 2013; Degos and Mairesse, 2014; Müller-Burmeister and Velte, 2016;) have analysed the previous audit reporting model (2009 IAASB auditing standards 2009), in light of proposed new and revised standards (published in 2015 with effect from 31 December 2016) by standard setters and regulating bodies such as the IAASB, the AICPA, the PCAOB and the European Commission. Other researchers have focused on complementary themes, like reputation, ethical problems and professionalism (Briloff, 1964; Njoku, 2013; Scarpino, 2014; Committe, 2015; Tan, 2015; Kraft and Lopatta, 2016; Missaoui and Ghodbane, 2016; Gros, 2016; Tinker et al., 2016) all of these issues having an influence on audit reporting changes.

Given that the ISA 701 and the revised ISA 700 have already been published, this paper examines the consultation process of developing the final standards, with a focus on the exposure draft published in 2013, to get insights about the stakeholders' perception on change proposals and their feedback. The new and revised standards offer a more holistic approach on audit reporting, with an emphasis on better communication from the auditor, through the auditor's report, using the new section of the report, key audit matter (KAM).

More than a decade ago, Briloff (1993) analysed the changes in the accounting process more recently. Avelé and Degos (2014) have analysed the harmonisation of the accounting standards and Wyman (2004) has stated that more transparency is necessary from auditors and accounting professionals, in order to improve the stakeholders' perception of audit quality; the authors must stress the fact that audit quality is a difficult concept to measure, but are in agreement with Maijoor and Vanstraelen (2012) in believing that without the confidence of the public in the accounting professionals and auditors, the audit mission has no real value. As such, this paper starts from the idea that the revision process, in order "to improve the communicative value of the audit report, is completely necessary, as a means to close the deficient standards gap, part of the audit expectation gap."

In the past, the auditor's report structure had been much simpler than it is today, with reports usually comprising of brief paragraphs, for instance: "we have examined the above accounts, with the books and vouchers of the company and find the same to be

correct. We approve and certify that the above balance sheet correctly sets forth the position of the company” (Carmichael and Winters, 1982). Time has passed since 1982 and the world economy has changed since then. However, one thing has not changed: the fact that the audit process is still a complex one and that for stakeholders (especially not professional investors) it can be difficult to comprehend what it achieves, particularly for the reason that the audit report was unvarying in structuring in 2003 (Wooten, 2003).

By employing a quantitative and qualitative examination, based on content analysis and statistical methods, to the comment letters the IAASB has received for the 2013 exposure draft, the aim is to determine whether the stakeholders of the audit report consider that the new section of ‘KAM’ is useful. Given the fact that the concept has not changed significantly between the publication of exposure draft and issuance of the revised auditing standards, the analysis presented in this paper will provide added-value, for the reason of being a linear analysis of feedback from stakeholders.

In this sense, the IAASB has drafted several papers and revision proposals in this regard: the *KAM* section comes as a response to more details regarding the audit mission and procedures and the *going concern* section comes as a response to the need of addressing the sustainability of the business. Albeit the KAM concept is not new, the findings prove that the collaboration between the members of the audit reporting regulatory space is tremendous: Bédard et al. (2014) notices the degree of similarity between the proposed KAM and the audit discussion ‘*justification of assessments (JOA)*’, which auditors in France are required to report on.

Numerous researchers have examined the outcome that an expanded audit report would carry to the stakeholders’ desire to receive extra information from the audit mission, though the audit report, in the period before the commencement of IAASB’s Auditor Reporting Project and before the new and revised standards were published in 2015 (Church et al., 2008; Turner et al., 2010; Coram et al., 2011; Vanstraelen et al., 2012; Mock et al., 2013).

Consequently, the question whether an extended audit report really useful arises. The authors consider that it is, in order to diminish deficiencies in communication and scholars like Dobija and Cieslak (2013) and Vanstraelen et al. (2012) outline the utility of an extended audit report. Vanstraelen et al. (2012) also stress the fact that for the success of the audit reporting revision process, a “consensus among interested parties is needed.” Gramling et al. (2011), Nagy (2014) and Christensen et al. (2015) highlight the fact that throughout time, new regulations on audit reporting and oversight from regulators, have had a positive effect on the nature and extent of audit missions.

While Wedemeyer had concluded that investors consider the contents of the audit report as being insufficient in 2010, before the revision process was completed, in 2016, Elliott et al. find that an extended audit report has an impact on the overall reporting quality. Investors will decide on their investments, in the case of companies with similar financial reporting quality, based on the content of the audit report. Therefore, the lending credibility theory is confirmed, as the auditor report adds credibility to the financial statements of a company. A more recent study by Köhler et al. (2016) regarding the introduction of ‘KAM’ suggests that the KAM section bring added communication to professional investors while having no value to non-professional investors.

The purpose of this study is to provide an answer as to whether the introduction of the ‘KAM’ section is regarded as helpful, by stakeholders. To achieve the objective of this investigation the authors rely on the examination of comment letters “that the IAASB has

received for its 2013 exposure draft”: “*Proposed new and revised international standards on auditing. An invitation to comment.*” This research method is a quantitative study for the reason that it analyses responses through a grading system, but also a qualitative study since the responses need to be adequately analysed, in terms of the ideas they convey, before being coded by their levels of agreement/disagreement with proposals. The last stage of the research is result interpretation and drawing conclusions.

2 Stakeholders’ feedback on audit reporting change proposals

As stated before, the novelty of the new and revised standards (and the 2013 exposure draft) is the title of ‘KAM’, given that the new naming was introduced with the ISA 701 from the 2013 exposure draft. This paper develops some theoretical arguments in favour/against of KAM. In previous proposals (2011 consultation paper and in the 2012 invitation to comment), the concept was referred to as ‘*auditor commentary*’. The ISA 701 standard sets a clear definition of the notion: “KAM are those matters that, in the auditor’s professional judgement, were of most significance in the audit of the financial statements; KAM are, in all cases, a selection of matters communicated with those charged with governance. Communicating KAM requires the auditor to apply his professional judgement” [IAASB, (2013), p.8]. Thus, the IAASB proposes a principles-based approach in the determining of KAM but also provides the auditor with flexibility in this regard. Nonetheless, the auditor also has to take into account “the nature and extent of communication with those charged with governance (TCWG) in determining KAM” (IAASB, 2013a). This is done to determine:

- “whether any matters present a risk in accordance with ISA 315”
- “whether, for the matter in discussion, it is hard to obtain sufficient and appropriate audit evidence”
- “whether the matter has required difficult judgement”
- “whether the internal control system has drawbacks relating to the analysed matter” [IAASB, (2013a), p.11].

The process of determining what information can be qualified as a KAM is summarised in Figure 1.

Figure 1 Understanding of the method of determining KAM (see online version for colours)



Source: Cordoş and Fülöp (2015)

Differing from case to case, the number of 'KAM' that can be included in the auditor's report is diverse, because reporting on KAM takes into account the activity of the audited company, "the facts and circumstances of the audit engagement", the differences in reporting practices from sector to sector, or jurisdiction to jurisdiction [IAASB, (2013a), p.A10]. With regards to the proposed number of KAM to be disclosed, the regulating board considers that at least 2–7 matters should be included in the new section. The exposure draft states that the most significant aspect is for the auditor also to include the reasoning behind selecting and exposing matters as being *KAM* and to clearly explain that these matters have no impact on the expressed opinion – if the auditor issued an unqualified opinion, then disclosing additional *KAM* does not change the issued opinion.

Given the fact that the idea of disclosing more information within the audit report has been presented in papers published by the IAASB since 2011, but in different concepts and names (*auditor commentary* or *KAM*), Table 1 highlights the difference between the concepts. The authors consider that the final section of '*KAM*' is at its core what was proposed within the '*auditor commentary*' section, but in a more refined format.

Table 1 The evolution of the key audit matters concept

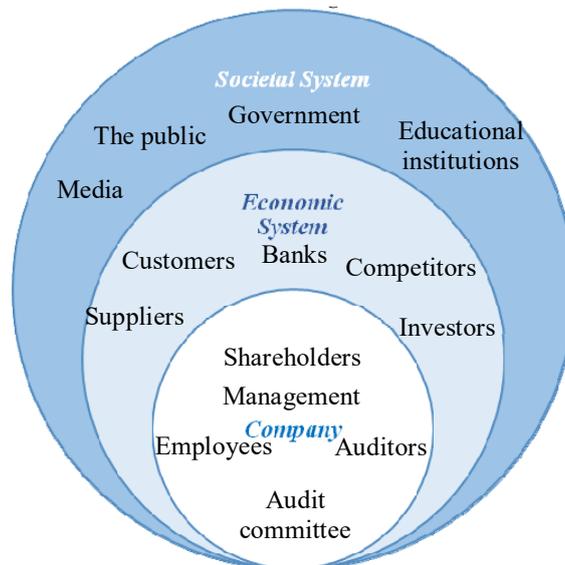
	2011 consultation paper	2012 invitation to comment	2013 exposure draft	2015 new and revised auditing standards
Concept	Audit commentary		Key audit matters	
Definition	“Matters significant to users’ understanding of the audited financial statements.”	“Matters that are, in the auditor’s judgement, likely to be most important to the users’ understanding of the audited financial statements.”	“Matters that, in the auditor’s professional judgement, were of most significance in the audit of the financial statements; KAMs are, in all cases, a selection of matters communicated with those charged with governance.” “Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below.”	“Matters that, in the auditor’s professional judgement, were of most significance in the audit of the financial statements.” “The auditor shall not communicate a matter in the key audit matters section of the auditor’s report when the auditor would be required to modify the opinion in accordance with ISA 705 (revised) as a result of the matter.”

Source: Authors’ projection based on IAASB (2011, 2012, 2013b, 2015)

By reporting on ‘KAM’, taking into account ‘theory of inspired confidence’ (Limperg Institute, 1985; Hayes et al., 1999) this paper reflects that the audit report is strengthened, as this section provides stakeholders with data relevant for their assessment of the disclosures the management has provided. This assertion brings the social perspective into discussion as Carmichael (2004) highlights: the ‘social usefulness’ of the audit mission is shattered when the stakeholders have lost the trust in the auditors. Researchers have emphasised that it is more and more difficult for stakeholders to fully examine the financial statements and the information they contain (Lee et al., 2015). Consequently, the ‘theory of inspired confidence’ explains the bridge between the stakeholders and their needs from the audit mission (an assurance on the financial information) and the audit procedures the auditor uses in an audit mission. ‘The Limperg Institute’ (1985) considers that if the stakeholder requirements change, so should the audit function. Therefore, the new KAM section is the result of audit reporting revisions that are intended to benefit stakeholders, by stressing aspects from within the financial information provided by the entity.

The stakeholder theory explains who the stakeholders of a company are and the fact that all a company must strive to meet the expectations of all interested parties. The authors start from the presumption that a corporation cannot exist without its stakeholders, as it must ‘relate to society’, thus connect with its stakeholders, provide appropriate information and address the needs of a wider stakeholder audience. Consequently, the audited financial statements and the auditor’s report are a part of the company, providing assurance to the issued financial statements. Therefore, they also ‘connect’ with the company’s stakeholders, directly and indirectly, the audit service connects to the society. Auditors, while being a stakeholder in the company, are also providers to the business; at the same time, auditors are also providers to other stakeholders, so one can conclude that they play multiple parts in the auditing stakeholder theory.

Figure 2 Stakeholders of a company (see online version for colours)



Source: Author’s projection of Sachs et al. (2009)

Consequently, the stakeholders of a company are also the stakeholders of the audited financial statements. Sachs et al. (2009) provide a list of company stakeholders based on their association to different systems: the company, the economic system and the societal system. The researchers consider that by mapping stakeholders based on their association with these systems can help the company identify their strategically relevant stakeholders.

After three years of development through interactions between auditors, policymakers and users worldwide, IAASB in January 2015 released the new audit report, which includes a set of standards that are likely to be game-changing for stakeholders and the auditing profession (PwC, 2015). In this process of regulation changes, several 'actors' are involved. Most of the parties who are stakeholders in the process of audit reporting are part of the revision developments as well. On the one hand, there are the regulating bodies such as the IAASB, AICPA, the European Commission, Parliament and Council, the PCAOB and others. Another category is the auditing firms, especially those with an international presence, such as PricewaterhouseCoopers, KPMG, Deloitte and Ernst & Young. A third category involved in this process is the professional accounting associations and member bodies, and they represent the accounting practitioners and auditors, but also the preparers of financial statements as well. A fourth category is national regulators and legislation makers, which set the rules for auditing at a national level, by either transposing international regulations into national rules, or by applying it directly. A fifth category is the members of academia, scholars and professionals, who provide their inputs, based on their research, on how regulations and revised regulation achieve their objectives (or not). Last but not least, a final actor is the general public and the authors include here investors as well, either professional or non-professional investors. The interaction between these 'actors' and the process of regulation revision is part of the regulatory space, a concept developed by Hancher and Moran in their 1989 book *Capitalism, Culture, and Regulation*. This paper considers that the IAASB is at the centre of this regulation revision process and as Young (1994) mentions, "to understand the issues on the agenda, one must look beyond the organisation and examine the broader space in which the organisation operates". Hancher and Moran (1989) posit that the rapport of power within the regulatory space is never equal between its members, with some of the occupants being more significant than others. In order to achieve regulatory change, the actors from within the regulatory space need to realign their initial expectations and accept that some of the changes might not be congruent to their desires (MacKenzie and Lucio, 2005). Some members or even the central player might claim to be independent, and act independently when drafting regulation. However, it is not unusual for one player to form a consensus or 'alliance' with other members. Intrinsically, many situations may occur in which auditing firms and oversight bodies (who monitor auditing firms) combat for the same guidelines (Malsch and Gendron, 2011). It is a political process, in which leading regulatory performers arise. As such, within the audit reporting regulatory space, the authors consider that other regulatory boards such as the AICPA, the PCAOB or the European Commission play a more important part than smaller stakeholders such as academics. In the same logic, input from the big audit firms can be considered as more valuable than input from smaller audit firms, because big audit firms have an international presence. Consequently, some players might struggle to impose their objectives if they come in direct opposition to the desires of a stronger player within the regulatory space.

3 Research method: content analysis of comment letters

In this research, a qualitative analysis is used, which in addition to examining a limited number of comment letters means that suppositions are drawn from the responses that have been examined. This content analysis research approach is a technique that offers the investigator the components needed to accomplish an examination, starting from ‘raw/unedited’ text, leading to results (Krippendorff, 2004). Content investigation can be described as a “research method that uses a set of procedures to make valid inferences from the text. These inferences are about the sender(s) of the message, the message itself, or the audience of the message” (Maglio, 2011).

Researchers studying comment letters to standard drafts use different types of content analysis (Yen et al., 2007, Tiron-Tudor and Müller, 2009; Holder et al., 2013). According to Smith and Taffler (2000), there are two methods relating to the content analysis of texts. One method relies on a quantitative analysis and can also be called ‘form-oriented’. By using this analysis, the researchers resort to either counting words or references or measuring the number of times authors use certain concepts or theories. Another form of text analysis is a ‘meaning-oriented’ because it implies a qualitative analysis of the text, analysing and understanding the meaning of the text, the presented ideas and the central concepts.

In order to fulfil the research objective of analysing responses provided to the IAASB 2013 exposure draft, the authors apply a methodology similar to the one used by Simnett and Higgins (2014) to the 2012 IAASB invitation to comment. One hundred thirty-nine comment letter responses issued to the 2013 exposure draft have been collected, being made available by the IAASB on their website. The process of *data making* (sampling, recoding and reducing data) is accomplished by using data that is collected from the answers within the comment letters (written text) to the ten selected questions concerning the ‘KAM’ concept and other audit reporting issues, that are “addressed by the IAASB within the exposure draft.”

Based on the categorisations used by the IAASB (2012) in their analysis of the comments received the 2012 ITC, the authors have coded the 2013 exposure draft comment letters by stakeholder groups and by stakeholder regions of origin. A synthesis of this coding scheme for stakeholder groups, with the corresponding distribution of responses: *investors and analysts* (13), *regulators and oversight authorities* (16), *national auditing standard setters* (13), *accounting and audit firms* (15), *public sector organisations* (14), *preparers of financial statements* (8), *member bodies and other professional organisations* (43) and *academics and other individuals* (17). As for a synthesis of the coding scheme regarding stakeholder geographical regions and the relating distribution of responses: *Europe* (40), *North America* (29), *South America* (5), *Asia Pacific* (28), *Middle East and Africa* (15) and *Organisations with global presence* (22). These demographics are also shown in Table 2. For comparison purposes, the response demographics for the 2012 ITC is detailed, using a similar coding scheme for stakeholder groups and stakeholder regions, featured in Table 3 (IAASB Agenda Item 6, 2012 December 10–13 Meeting Transcripts). As mentioned in the previous section, these respondents are part of the regulatory space in which changes and revisions of standards occur.

Subsequently, the stakeholder responses analysis has been the next step. As stated before, the analysis is focused on ten questions from the exposure draft regarding the *KAM* concept and other audit reporting issues, which are Questions 1, 2, 3, 5, 6, 7, 8, 12,

13 and 14. One reason for only choosing these questions is the fact that this paper focuses on audit reporting changes regarding the communicative value of the report. A second reason is the fact that the other questions of the exposure draft are related to materiality issues (which are not the focus of this study) and going concern auditor reporting, which has been eliminated from the 2015 revised standards. Each comment letter was individually examined by each author, based on a qualitative analysis of text (meaning-oriented), to understand the respondent's position regarding the question. Answers to each question (if available) varied by length and while most of the respondents offer answers which are backed-up by arguments in favour or against IAASB's proposal, other respondents only provide brief answers with no justifications. After that step, the authors relied on a quantitative approach based on content analysis (Krippendorff, 2004) of comment letters, Likert-scale encoding of comment letter responses level of agreement and statistical method: One-way ANOVAs for each selected question to decide whether there are noteworthy variances in mean responses, based on the stakeholder group and the stakeholder geographical region of origin, post hoc comparisons (using Scheffe's test) of determined means of respondents grouped by stakeholder type and stakeholder region of origin, to determine correlations between categories.

Table 2 Demographics of respondents for the 2013 exposure draft

<i>Classification type</i>	<i>Number of responses</i>
<i>Respondent stakeholder type</i>	<i>Total = 139</i>
Investors and analysts	13 (9.4%)
Regulators and oversight authorities	16 (11.5%)
National auditing standard setters	13 (9.4%)
Accounting and audit firms	15 (10.8%)
Public sector organisations	14 (10.1%)
Preparers of financial statements and TCWG	8 (5.8%)
Member bodies and other professional organisations	43 (30.9%)
Academics and other individuals	17 (12.2%)
<i>Respondent region of origin</i>	<i>Total = 139</i>
Europe (EU)	40 (28.8%)
North America (NA)	29 (20.9%)
South America (SA)	5 (3.6%)
Asia Pacific (APAC)	28 (20.1%)
Middle East and Africa (MEA)	15 (10.8%)
Organisations with global presence (INTL)	22 (15.8%)

Source: Author's projection

For each exposure draft question, the responses provided by the stakeholders were recoded using a five-point *Likert-scale* with the following measure:

- 1 disagreement
- 2 disagreement with concerns
- 3 neutral
- 4 agreement with concerns
- 5 agreement.

For the 2012 *invitation to comment*, the response rate has been higher, with a number of 164 comment letters received by the IAASB until November 19th, 2012. Many of the stakeholders that sent a comment letter for the 2012 ITC have also sent a comment letter for the 2013 ED. It should also be noted that several respondents, before issuing a comment letter on the IAASB website, have sought responses at a national level from their members, investors or other users. This is the case for, for instance, the ACCA, the ASB, the ICAEW, the ICAS, audit and accounting firms and other respondents. These are the main actors of the regulatory space and the authors focus on these responses when providing examples of answers from the comment letters.

Table 3 Demographics of respondents for the 2012 invitation to comment

<i>Classification type</i>	<i>Number of responses</i>
<i>Respondent stakeholder type</i>	<i>Total = 164</i>
Investors and analysts	13 (8.0%)
Those charged with governance (TCWG)	8 (5.0%)
Regulators and oversight authorities	17 (10.0%)
National auditing standard setters	13 (8.0%)
Accounting and audit firms	24 (15.0%)
Public sector organisations	12 (7.0%)
Preparers of financial statements	11 (7.0%)
Member bodies and other professional organisations	43 (26.0%)
Academics and other individuals	23 (14.0%)
<i>Respondent region of origin</i>	<i>Total = 164</i>
Europe (EU)	47 (29.0%)
North America (NA)	37 (23.0%)
South America (SA)	4 (2.0%)
Asia Pacific (APAC)	38 (23.0%)
Middle East and Africa (MEA)	25 (7.0%)
Organisations with global presence (INTL)	26 (16.0%)

Source: IAASB Agenda Item 6, 2012 December 10–13 Meeting Transcripts

4 Discussions and analysis of results

4.1 Support for introduction of the new audit report section, KAM (Question 1 of ED)

The first question in the 2013 IAASB exposure draft seeks respondents' opinion whether the introduction of a new section, 'KAM', highlighting matters determined to be of 'most significance in the audit', will increase the helpfulness of the audit report. Generally, 69.7% of the provided valid answers agree with this proposal, either with or without concerns being addressed. This is also highlighted by a mean response of 3.85. Using *post hoc* comparisons of means (μ), using Scheffe's test, it can be noticed that there are some differences of opinion based on stakeholder groups or stakeholder regions, as indicated in Table 5.

Table 4 Descriptive statistics for 2013 ED response analysis

Question	Disagreement	Disagreement with concerns	Neutral	Agreement with concerns	Agreement	Mean response	Non-respondents	Total responses (N= 139)
Q1 "Do users of the audited financial statements believe that the introduction of a new section in the auditor's report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor's report? If not, why?"	12 (8.6%)	6 (4.3%)	22 (15.8%)	42 (30.2%)	50 (36.0%)	3.85	7 (5.0%)	139
Q2 "Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor's judgment in determining the key audit matters? Do respondents believe the application of proposed ISA 701 will result in reasonably consistent auditor judgments about what matters are determined to be the key audit matters?"	9 (6.5%)	18 (12.9%)	17 (12.2%)	56 (40.3%)	23 (16.5%)	3.54	16 (11.5%)	139
Q3 "Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters to be communicated in the auditor's report?"	9 (6.5%)	26 (18.7%)	11 (7.9%)	49 (35.3%)	25 (18.0%)	3.46	19 (13.7%)	139

Source: Author's projection

Table 4 Descriptive statistics for 2013 ED response analysis (continued)

Question	Disagreement with concerns	Disagreement with concerns	Neutral	Agreement with concerns	Agreement	Mean response	Non-respondents	Total responses (N= 139)
Q5 “Do respondents agree with the approach the IAASB has taken in relation to key audit matters for entities for which the auditor is not required to provide such communication – that is, key audit matters may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed and the auditor must signal this intent in the audit engagement letter?”	7 (5.0%)	8 (5.8%)	2 (1.4%)	32 (23.0%)	56 (40.3%)	4.16	34 (24.5%)	139
Q6 “Do respondents believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate? If so, do respondents agree with the proposed requirements addressing such circumstances? If not, do respondents believe that auditors would be required to always communicate at least one key audit matter, or other actions could be taken to ensure users that there are no key audit matters to communicate?”	3 (2.2%)	3 (2.2%)	5 (3.6%)	14 (10.1)	79 (56.8)	4.57	35 (25.2%)	139
Q7 “Do respondents agree that, when comparative financial information is presented, the auditor’s communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges (e.g., there would be an expectation that prior period matters would be updated even if not key in the current period, whether the inclusion of a matter might call into question why it was not included in the prior period)?”	3 (2.2%)	4 (2.9%)	3 (2.2%)	18 (12.9%)	75 (54.0%)	4.53	36 (25.9%)	139

Source: Author’s projection

Table 4 Descriptive statistics for 2013 ED response analysis (continued)

Question	Disagreement with concerns	Disagreement with concerns	Neutral	Agreement with concerns	Agreement	Mean response	Non-respondents	Total responses (N= 139)
Q8 “Do respondents agree with the IAASB’s decision to retain the concepts of emphasis of matter paragraphs and other matter paragraphs, even when the auditor is required to communicate key audit matters and how such concepts have been differentiated in the proposed ISAs?”	7 (5.0%)	8 (5.8%)	8 (5.8%)	31 (22.3%)	55 (39.6%)	4.09	30 (21.6%)	139
Q12 “What are respondents’ views as to the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities and include a ‘harm’ s way exemption?” What difficulties, if any, may arise at the national level as a result of this requirement?”	11 (7.9%)	8 (5.8%)	4 (2.9%)	14 (10.1%)	71 (51.1%)	4.17	31 (22.3%)	139
Q13 “What are respondents’ views as to the appropriateness of the changes to ISA 700 described in paragraph 102 and how the proposed requirements have been articulated?”	5 (3.6%)	5 (3.6%)	11 (7.9%)	30 (21.6%)	53 (38.1%)	4.16	35 (25.2%)	139
Q14 “What are respondents’ views on the proposal not to mandate the ordering of sections of the auditor’s report in any way, even when the law, regulation or national auditing standards do not require a specific order?”	29 (20.9%)	9 (6.5%)	9 (6.5%)	19 (13.7%)	45 (32.4%)	3.38	28 (20.1%)	139

Source: Author’s projection

Table 5 Analysis of variance for Q1

<i>Q1: KAM proposal support (n = 132)</i>					
<i>Stakeholder group</i>	<i>Mean</i>	<i>SD</i>	<i>Region</i>	<i>Mean</i>	<i>SD</i>
Investors and analysts	4.15 ^a	1.068	Europe	4.33 ^f	0.927
Regulators and oversight	4.20 ^b	1.014	North America	3.30 ^{fg}	1.295
National auditing standard setters	3.92	0.996	South America	2.75	1.500
Accounting and audit firms	4.43 ^c	0.756	Asia Pacific	3.38 ^h	1.359
Public sector organisations	4.00 ^d	1.279	Middle East and Africa	3.67	1.291
Preparers of financial statements	2.00 ^{a,b,c,d,e}	1.309	Global organisations	4.57 ^{gh}	0.676
Member bodies % other professional	3.90 ^e	1.114			
Academics and other	3.41	1.502			
Between groups (F-ratio)	4.239**		Between groups (F-ratio)	6.125**	

Notes: **Show significance at the 0.05 or 0.01 level.

^aMean difference between investors and preparers for Q1 is significant at the 0.05 level ($p = 0.019$).

^bMean difference between regulators and preparers for Q1 is significant at the 0.05 level ($p = 0.011$).

^cMean difference between accounting/audit firms and preparers for Q1 is significant at the 0.01 level ($p = 0.003$).

^dMean difference between public sector org. and preparers for Q1 is significant at the 0.05 level ($p = 0.049$).

^eMean difference between member bodies and preparers for Q1 is significant at the 0.05 level ($p = 0.014$).

^fMean difference between North American and European respondents for Q1 is significant at 0.05 level ($p = 0.025$).

^gMean difference between North American and international respondents for Q1 is significant at the 0.05 level ($p = 0.014$).

^hMean difference between Asia Pacific and international respondents for Q1 is significant at the 0.05 level ($p = 0.031$).

Source: Author's projection

The support from *investors and analysts* ($\mu = 4.15$, $p = 0.019$), *regulators and oversight* ($\mu = 4.20$, $p = 0.011$), *accounting and audit firms* ($\mu = 4.43$, $p = 0.003$), *public sector organisations* ($\mu = 4.00$, $p = 0.049$) and *member bodies* ($\mu = 3.90$, $p = 0.014$) was significantly higher than support from the *preparers of financial statements* ($\mu = 2.00$) group. Also, the support from European respondents ($\mu = 4.33$, $p = 0.025$) and from *organisations with a global presence* ($\mu = 4.57$, $p = 0.014$) is stronger than support from North American respondents ($\mu = 3.30$). There is also lower support in the *Asia-Pacific* region ($\mu = 3.38$) than from *organisations with a global presence* ($\mu = 4.57$, $p = 0.031$). Most *member bodies* from EU are in agreement with the proposals (or have some concerns) while most *audit and accounting firms* with a *global presence* are in agreement (or have some concerns). It should be noted as well that respondents from *South America* have the weakest support for this development ($\mu = 2.75$). Some *accounting and audit firms* have comments on how the section will be drafted, suggesting the board to provide

more information on how these 'significant matters' are to be selected. Large audit firms like PricewaterhouseCoopers and KPMG have expressed some uncertainties concerning what auditors should consider 'most significant matters' and their selection process. Germany's Chamber of Auditors also contemplates on the idea that KAM would delay the audit process and would have an impact on the perception of the auditors' responsibility. "Those who disagree with the proposal consider that the new section will only confuse users if the KAM principles are not thoroughly explained and the costs outweigh the benefits." The final standard addresses these concerns by clearer definition, clearer procedures, new requirements, and related application materials.

4.2 Opinion on provided KAM framework for auditor judgement guidance (Question 2 of ED)

Regarding the second question of the ED, which enquires respondents whether they consider the provided KAM framework to offer sufficient guidance on auditor judgement to determine KAM. 64.2% of the valid responses either agree with the provided framework or have some concerns and have offered feedback on improvements. The mean response is 3.54 and 11.5% of the total respondents have not answered this question.

Post hoc comparisons show that the support from *investors and analysts* ($\mu = 4.10$) and *accounting and audit firms* ($\mu = 3.87$) is higher than, as was the case with Question 1, *preparers of financial statements* ($\mu = 2.17$), who seem to mostly disagree with the IAASBs direction towards including the KAM section and the provided framework (Table 6). As for an analysis of responses by regions (Table 6), *North American* respondents ($\mu = 2.83$) agree less than their *European* ($\mu = 3.94$, $p = 0.025$) or respondents with a *global presence* ($\mu = 3.95$, $p = 0.044$).

Table 6 Analysis of variance for Q2

<i>Q2: KAM framework (n = 123)</i>					
<i>Stakeholder group</i>	<i>Mean</i>	<i>SD</i>	<i>Region</i>	<i>Mean</i>	<i>SD</i>
Investors and analysts	4.10	0.568	Europe	3.94 ^a	0.826
Regulators and oversight	3.14	1.167	North America	2.83 ^{a,b}	1.193
National auditing standard setters	3.42	1.311	South America	3.20	1.643
Accounting and audit firms	3.87	0.640	Asia Pacific	3.21	1.215
Public sector organisations	3.64	1.277	Middle East and Africa	3.69	1.437
Preparers of financial statements	2.17	1.169	Global organisations	3.95 ^b	0.899
Member bodies % other professional	3.65	1.075			
Academics and other	3.42	1.621			
Between groups (F-ratio)	2.147*			4.114*	

Notes: *Show significance at the 0.05 or 0.01 level.

^aMean difference between North American and European respondents for Q2 is significant at the 0.05 level ($p = 0.017$).

^bMean difference between North American and International respondents for Q2 is significant at the 0.05 level ($p = 0.044$).

Source: Author's projection

Some of the respondents mentioned concerns include the lack of illustrations provided by the ED as to what matters are to be interpreted as KAM – all these fears are related to the limitation of providing ‘boilerplate’ data. Other respondents have said that because auditors need to rely on their professional judgement, the same situation can be interpreted differently by different auditors – either because of regional, regulatory or because of a company’s activity sector. Similarly, the board needs to better explain the interaction between the KAM section and the EoM paragraph. Those who disagree with the proposals believe that field testing is necessary to define ‘best practices’; some respondents consider that these proposals will make it difficult to construct an audit report, at least in the initiation phase of the application of new standards. Others fear that the new section might become boilerplate after a while and that the ISA 701 needs to be extensively redrafted to deliver reasonable auditor judgements. Other respondents have recommended that the regulating board publish a collection of aspects that are not to be considered as KAM and that the IAASB must deliver learning materials for stakeholders, to assist them in understanding the new provisions. The final standard takes into consideration results obtained by audit firms in their field-testing and concludes that the determination of KAM will be an intuitive process, based on auditor experience.

4.3 Respondents view on whether the materials provide sufficient direction on the content of KAM (Question 3 of ED)

The next question of the exposure draft, Question 3, seeks respondents’ opinion on whether they believe the materials IAASB has provided offer sufficient direction for the auditor to determine what should be considered a KAM and be included in this section of the audit report. 61.6% of the valid responses either entirely agree or have several concerns with the provided materials, with the mean response being 3.46, as indicated in Table 7.

Table 7 Analysis of variance for Q3

<i>Q3: KAM framework (n = 123)</i>					
<i>Stakeholder group</i>	<i>Mean</i>	<i>SD</i>	<i>Region</i>	<i>Mean</i>	<i>SD</i>
Investors and analysts	3.89	0.782	Europe	3.54	1.172
Regulators and oversight	3.00	1.359	North America	3.27	1.352
National auditing standard setters	2.92	1.240	South America	3.40	1.817
Accounting and audit firms	3.60	1.121	Asia Pacific	3.13	1.140
Public sector organisations	3.43	1.453	Middle East and Africa	3.46	1.613
Preparers of financial statements	2.75	1.500	Global organisations	3.86	0.990
Member bodies % other professional	3.67	1.141			
Academics and other	3.58	1.505			
Between groups (F-ratio)	1.156			0.908	

Source: Author’s projection

Post hoc comparisons using Scheffe’s test highlight that preparers of financial situations ($\mu = 2.75$) and national auditing standard setters ($\mu = 2.92$) are less supportive of the IAASBs proposals than investors and analysts ($\mu = 3.89$) or member bodies and other

professional organisations ($\mu = 3.58$). Mostly responses from the *Asia-Pacific* region are 'less' supportive ($\mu = 3.13$) than those from *Europe* ($\mu = 3.54$) or those from *organisations with global presence* ($\mu = 3.86$).

The main observations of disagreement are coming from *standard setters* (other regions than *Europe*) who had concerns are the fact that the auditor has to provide some 'conclusions' or 'opinions' on each KAM, which could be misinterpreted by users. Several respondents consider that the new section could infringe confidentiality between auditor and client and that the KAM section risks becoming a source of 'original information' to users – which is not desirable. The 'Federation of European Accountants' (FEE) and PwC consider that some provisions of the new ISA 701 standards are ambiguous and could be misinterpreted; for instance, are KAM to be included in the proposed going concern section of the report, if they are related to this matter? Other respondents consider that by restricting and keeping strict categories of KAM, the innovation of KAM is diminished – an aspect that the Germany's chamber of auditor does not agree with, stating that the board must specify what issues quality as what types of KAM. Another aspect that was signalled in the comment letters is the 'of most significance' phrase – to whom and to what degree? The final standard addresses this issues and new provisions are intended to make KAM as entity-specific as possible while maintaining the principle-based approach to determining KAM. Also, instead of providing original information, the auditor may encourage the management of the company and 'those charged with governance' to include mentioned information in the financial statements.

4.4 Support for the application of KAM, mandatory for listed companies, voluntary for others (Question 5 of ED)

Question 5 of the exposure draft asks users whether they agree with the IAASBs decision to mandate the new proposals to listed companies, with the possibility of their application on a voluntary basis as well (respecting ISA 701, if so). 83.8% of the valid responses either agree or agree with concerns, so the majority of respondents support the IAASB proposals.

Responses from *member bodies and audit and accounting firms* consider as fair the proposal of mandatory application for listed companies and if wanted, voluntary application for other businesses, if agreed upon with the organisation. Other respondents require the board to clearly state what it refers to by 'listed companies', as it has different meanings in different jurisdictions.

It should be added that 24.6% of the total respondents have not provided feedback on this question. Post hoc comparisons show that the highest level of support comes from *Europe* ($\mu = 4.53$) and from *organisations with global presence* ($\mu = 4.28$), with the weakest support coming from *North America* and *South America* ($\mu = 3.40$), as seen in Table 8. The majority of *accounting and audit firms* support these proposals ($\mu = 4.50$), while *investors and analysts* offer lesser support ($\mu = 3.75$) as seen in Table 8. Some *accounting and audit firms* fear the practice of 'opinion shopping' with regards to the voluntary application of ISA 701, a practice the board should be careful not to happen – using KAM only when suitable. The "ACCA and KPMG have agreed with communicating KAM on a voluntary basis for other companies as well, but, similar to the IAASB proposal, such intentions should be agreed with the management of the company.

Ernst & Young (in their comment letter), for instance, argue that the ISA 701 is unclear as to whether the decision to report KAM has to be made in each reporting period or if the standard is to be applied on an ongoing basis. FEE reports the need for a mechanism to prevent the voluntary applicability of ISA 701 only when it is convenient, while the ACCA brings confidentiality and fee issues in discussion.”

Table 8 Analysis of variance for Q5

<i>Q5: KAM applicability (n = 105)</i>					
<i>Stakeholder group</i>	<i>Mean</i>	<i>SD</i>	<i>Region</i>	<i>Mean</i>	<i>SD</i>
Investors and analysts	3.75	1.893	Europe	4.53	0.706
Regulators and oversight	4.09	1.136	North America	3.40	1.682
National auditing standard setters	4.08	1.320	South America	3.40	1.817
Accounting and audit firms	4.50	0.519	Asia Pacific	4.25	1.118
Public sector organisations	3.92	1.676	Middle East and Africa	4.08	1.256
Preparers of financial statements	4.25	1.500	Global organisations	4.28	1.127
Member bodies % other professional	4.24	1.149			
Academics and other	4.00	1.225			
Between groups (F-ratio)	0.343			2.475*	

Note: *Show significance at the 0.05 or 0.01 level.

Source: Author's projection

4.5 Respondents' opinion on whether there should be the possibility of no KAM being reported (Question 6 of ED)

With Question 6 of the ED, IAASB seeks respondents' opinion on whether the standards should feature the possibility of no KAM being found/reported by the auditor or whether the auditor should always communicate at least one KAM. The statistical analysis is provided in Table 9.

Table 9 Analysis of variance for Q6

<i>Q6: KAM reporting (n = 104)</i>					
<i>Stakeholder group</i>	<i>Mean</i>	<i>SD</i>	<i>Region</i>	<i>Mean</i>	<i>SD</i>
Investors and analysts	4.57	0.787	Europe	4.72	0.772
Regulators and oversight	4.00	1.054	North America	4.33	1.175
National auditing standard setters	4.58	1.165	South America	4.00	1.732
Accounting and audit firms	4.71	0.611	Asia Pacific	4.55	0.999
Public sector organisations	4.58	1.165	Middle East and Africa	4.50	0.941
Preparers of financial statements	5.00	0.000	Global organisations	4.72	0.575
Member bodies % other professional	4.61	0.964			
Academics and other	4.56	0.726			
Between groups (F-ratio)	0.700			0.837	

Source: Author's projection

A substantial 89.5% of the valid responses agree with these proposals (either full agreement or with concerns) and while they consider that a situation where no KAM have been discovered is 'very rare', the standard should address this possibility. Germany's auditor chamber, for instance, "find it hard to imagine situations in which no KAM can be identified in listed companies." Of course, few respondents reflect that at least one KAM should always be communicated. The mean response is also particularly high at 4.57. Unfortunately, as with the previous question, 25.2% of the total respondents have not answered this question of the ED. Using Scheffe's test, it has been found that all preparers of financial statements wholeheartedly support this proposal ($\mu = 5.00$), while *accounting and audit firms* ($\mu = 4.71$) and *member bodies and professional organisations* ($\mu = 4.61$) offer their agreement as well. As for a comparison of regions, slightly fewer users from *South America* ($\mu = 4.00$) are in agreement with proposals than users from *Europe* ($\mu = 4.72$). The final ISA 701 provides the possibility of no KAM being found/reported by the auditor, but that the auditor needs to address this aspect in the KAM section of the report. Other respondents reflect that it would be impossible to not find at least one matter to be regarded as a KAM, however, the need for flexibility is emphasised, given the fact that the ISA 701 is only mandatory for listed companies and non-listed companies who apply it optionally should be given more freedom with regards to KAM.

4.6 Respondents' view on whether KAM "should be limited to the most recent financial period" (Question 7 of ED)

With Question 7, the IAASBs seeks respondents' opinion whether the process of reporting KAM should be limited to the most recent financial period or extended to previous fiscal periods. 90.3% of valid responses are in agreement with this proposal (with 17.5% having some concerns), a support highlighted by the mean response of 4.53.

Table 10 Analysis of variance for Q7

<i>Q7: KAM on financial statement period (n = 103)</i>					
<i>Stakeholder group</i>	<i>Mean</i>	<i>SD</i>	<i>Region</i>	<i>Mean</i>	<i>SD</i>
Investors and analysts	4.00	1.225	Europe	4.71 ^a	0.529
Regulators and oversight	4.44	0.726	North America	3.71 ^a	1.684
National auditing standard setters	4.75	0.622	South America	4.80	0.447
Accounting and audit firms	4.57	0.852	Asia Pacific	4.76	0.700
Public sector organisations	3.92	1.782	Middle East and Africa	4.46	1.198
Preparers of financial statements	5.00	0.000	Global organisations	4.58	0.607
Member bodies % other professional	4.73	0.652			
Academics and other	4.33	1.000			
Between groups (F-ratio)	1.573			2.900*	

Notes: *Show significance at the 0.05 or 0.01 level.

^aMean difference between North American and European respondents for Q7 is significant at the 0.05 level ($p = 0.049$).

Source: Author's projection

Using the post hoc comparison the authors have found that responses from *public sector organisations* ($\mu = 4.71$) offer lower support for the proposals than from *National Auditing Standard Setters* ($\mu = 4.75$) or *preparers of financial statements* ($\mu = 5.00$), who provide their full support, as seen in Table 10. As for regions, a mean difference between *North American* ($\mu = 3.71$) and *European* ($\mu = 4.71$, $p = 0.049$) – *North American* respondents are less supportive than their *European* counterparts as seen in Table 10. Of the comments issued by respondents in agreement, some note that if adjustments from the previous period lead to significant differences, it might lead to a KAM in the current fiscal year as well. The final standard also stresses that KAM relate only to the audit of the financial statements of the current period, but may include references to previous periods.

4.7 Support for retaining the ‘emphasis of matters’ and ‘other matters’ paragraphs in the auditor report (Question 8 of ED)

Question 8 of the ED asks for respondents’ opinion on whether the ‘emphasis of matters (EoM)’ and the ‘other matters (OM)’ paragraphs should be retained within the audit report, even if auditors are required to communicate KAM. 78.9% of the total valid answers are in agreement with this proposal. The mean response is relatively high at 4.09. Moreover, 21.6% of the total respondents have not provided feedback on this question. *Post hoc* comparisons, using Scheffe’s test (Table 11), have shown that *public sector organisations* ($\mu = 4.83$) offer the strongest support, followed by *member bodies and professional organisations* ($\mu = 4.22$) and *accounting and audit firms* ($\mu = 3.93$). The weakest support comes from *preparers of financial statements* ($\mu = 3.40$) respondents.

Table 11 Analysis of variance for Q8

<i>Q8: Emphasis of matter and other matter paragraphs retainment (n = 109)</i>					
<i>Stakeholder group</i>	<i>Mean</i>	<i>SD</i>	<i>Region</i>	<i>Mean</i>	<i>SD</i>
Investors and analysts	3.60	1.517	Europe	4.11	1.132
Regulators and oversight	3.57	1.016	North America	4.24	1.348
National auditing standard setters	3.92	1.115	South America	4.40	1.342
Accounting and audit firms	3.93	1.328	Asia Pacific	3.62	1.499
Public sector organisations	4.83	0.577	Middle East and Africa	4.46	0.776
Preparers of financial statements	3.40	1.817	Global organisations	4.11	1.023
Member bodies % other professional	4.22	1.158			
Academics and other	4.56	1.333			
Between groups (F-ratio)	1.779			1.007	

Source: Author’s projection

As for regions (Table 11), *Asia Pacific* ($\mu = 3.62$) respondents agreed less with proposals than respondents from the *Middle East and Africa* ($\mu = 4.46$) or *Europe* ($\mu = 4.11$). Most respondents have agreed that even if a new section (KAM) appears, the EoM and OM paragraphs still serve their purpose within the auditor report, as they

contain matters that are not KAM (KPMG, Germany's chamber of auditors, ACCA). The FEE points out that the IAASB needs to better explain the interaction between KAM, EoM and OM. Of those who disagree with the proposal, some respondents considered that these paragraphs are now redundant and should not be retained in the final standard (European Court of Auditors) The final ISA 701 and ISA 706 (revised) state that these paragraphs can be used, but are not to be used a substitute for the KAM section.

4.8 Support for "disclosure of the engagement partner's name" (Question 12 of ED)

Whether the name of audit engagement partner's name should be disclosed in the auditor report is Question 12 of the ED, to which the IAASB seeks respondents' support. Overall, 78.7% of valid responses are in agreement (13% have concerns) with this proposal. The mean response is high, with the 4.09 value.

Table 12 shows results of the *post hoc* comparisons and it can be noticed that the lowest support, in the *neutral* area, comes from *accounting and audit firms* ($\mu = 3.40$); a reason for this aspect is the fact that most of these companies have a global presence and in some regions (*North America* for instance) this is not a requirement, while in others (Europe), it is mandatory. *Regulators and oversight boards* ($\mu = 4.70$) and *academics and others* ($\mu = 4.70$) consider this proposal beneficial, and support it. As mentioned before, there is a significant difference between respondents from Europe and North America. *North American* ($\mu = 3.25$) respondents clearly support this proposal less than respondents from Europe ($\mu = 4.62$, $p = 0.026$). Most respondents from the USA do not consider this a relevant aspect, even with the 'harm's way' proposal and this is backed-up by several responses from Canada as well. Nothing has changed in the final standard and the proposal is still present, except 'harm's way'.

Table 12 Analysis of variance for Q12

<i>Q12: Partner name disclosure (n = 108)</i>					
<i>Stakeholder group</i>	<i>Mean</i>	<i>SD</i>	<i>Region</i>	<i>Mean</i>	<i>SD</i>
Investors and analysts	4.50	0.837	Europe	4.61 ^a	0.955
Regulators and oversight	4.67	1.000	North America	3.25 ^a	1.650
National auditing standard setters	4.08	1.441	South America	4.80	0.447
Accounting and audit firms	3.40	1.682	Asia Pacific	4.48	1.250
Public sector organisations	4.08	1.441	Middle East and Africa	4.29	1.437
Preparers of financial statements	4.00	2.000	Global organisations	3.76	1.480
Member bodies % other professional	4.24	1.403			
Academics and other	4.70	0.483			
Between groups (F-ratio)		1.147			3.529**

Notes: **Show significance at the 0.05 or 0.01 level.

^aMean difference between North American and European respondents for Q12 is significant at the 0.05 level ($p = 0.026$).

Source: Author's projection

4.9 Respondents' view on other ISA 700 proposed changes, as highlighted in paragraph 102 of ED (Question 13 of ED)

Overall, 79.8% of valid responses are in agreement with the ISA 700 proposed changes relating to the description of the responsibilities of the auditor being included in an Appendix or relocated on a website, concerning it within the audit report or to other reporting responsibilities of the auditor, in different national regulations. The mean response is a high 4.16.

The respondent's view is that the proposed changes streamline the report, offering better clarity. *Post hoc* comparisons using Scheffe's test (Table 13), show that *regulators and oversight bodies* ($\mu = 3.00$) tend to be neutral with regards to this proposal, as opposed to *member bodies and professional organisations* ($\mu = 4.45$, $p = 0.020$), who mostly agree with the IAASB. Table 13 highlights that there is little difference between the support given by respondents based on their region of origin, with *South America* ($\mu = 4.60$) having the strongest support and *Asia Pacific* and *organisations with a global presence* ($\mu = 4.00$), the weakest. The means for all regions are above 4.00. Of those respondents who disagree, one common concern is that transferring information regarding auditor responsibility to a website will deepen the expectation gap. This is in contrast with the UK example, where the Financial Reporting Council (FRC) has mandated this practice and it has proven to be efficient.

Table 13 Analysis of variance for Q13

<i>Q13: Other ISA700 reporting changes (n = 104)</i>					
<i>Stakeholder group</i>	<i>Mean</i>	<i>SD</i>	<i>Region</i>	<i>Mean</i>	<i>SD</i>
Investors and analysts	5.00	0.000	Europe	4.10	1.205
Regulators and oversight	3.00 ^a	1.673	North America	4.22	1.166
National auditing standard setters	3.69	1.182	South America	4.60	0.894
Accounting and audit firms	3.93	1.141	Asia Pacific	4.00	0.949
Public sector organisations	4.50	0.674	Middle East and Africa	4.54	1.127
Preparers of financial statements	4.67	0.577	Global organisations	4.00	1.138
Member bodies % other professional	4.45 ^a	0.846			
Academics and other	4.43	0.787			
Between groups (F-ratio)	3.775**			0.640	

Notes: **Show significance at the 0.05 or 0.01 level.

^aMean difference between regulators and member bodies for Q13 is significant at the 0.05 level ($p = 0.020$).

Source: Author's projection

The final standard still requires these descriptions of the auditor responsibilities and states that these can be presented in an Appendix or website as long as there is a reference. Germany's chamber of auditors reflects that by publishing information of the audit mission on a website, the expectation gap will increase because stakeholders might not be aware of the auditors' responsibility.

4.10 Support for the flexible structure of the auditor report (Question 14 of ED)

The last question of the ED focuses on the proposal of a flexible structure of the audit report, with the board not requiring the order of the sections of the report. The responses to this question are varied, with a high 34.2% of valid responses disagreeing with this proposal and 57.6% supporting this plan. The mean response is also average at 3.38, suggesting respondents are split between supporting and not supporting the idea.

Post hoc comparisons (Table 14) show that the weakest support comes from *member bodies and professional organisations* ($\mu = 2.77$) respondents, while strongest support comes from *accounting and audit firms* ($\mu = 4.20$) responses. Respondents consider that not mandating the ordering of the report will offer flexibility in all jurisdictions while those who disagree with the proposal consider that mandating provides comparability and a global audit report structure. By regions (Table 14), *South America* ($\mu = 1.60$) respondents are vehemently opposed to the flexible structure while respondents from *global organisations* ($\mu = 3.90$) are somewhat in support. European ($\mu = 3.00$) respondents are also ambivalent towards this question.

Table 14 Analysis of variance for Q14

<i>Q14: Report proposed structure (n = 111)</i>					
<i>Stakeholder group</i>	<i>Mean</i>	<i>SD</i>	<i>Region</i>	<i>Mean</i>	<i>SD</i>
Investors and analysts	4.00	1.155	Europe	3.00	1.677
Regulators and oversight	3.50	1.314	North America	3.78	1.555
National auditing standard setters	3.38	1.805	South America	1.60	1.342
Accounting and audit firms	4.20	1.265	Asia Pacific	3.29	1.765
Public sector organisations	3.83	1.467	Middle East and Africa	3.79	1.847
Preparers of financial statements	3.40	1.817	Global organisations	3.90	1.294
Member bodies % other professional	2.77	1.813			
Academics and other	3.38	1.996			
Between groups (F-ratio)	1.585			2.379*	

Source: Author's projection

Several responses agree with flexibility, but consider the IAASB should at least mandate the position of the opinion paragraph, for consistency. Many replies reflect that the report needs a predefined order of the sections, as this will allow stakeholders to classify matters rapidly and effortlessly across any jurisdiction. This is exactly what the IAASB has mandated in the final ISA 700, with the *opinion* and *basis of opinion* paragraphs being mandated at the beginning of the report unless national regulations state otherwise.

5 Conclusions

The objective of this study was to outline recent developments in relation to auditor reporting initiatives at the IAASB and other regulators. Since the request for the auditor to provide additional information originally came from investors, these stakeholders can be seen as successful in this circumstance. A unique contribution of this study is that it

analyses stakeholder responses to the IAASB's 2013 exposure draft "Proposed new and revised international standards on auditing. An invitation to comment" the last consultation publication before the issuing of the new standard in 2015. When considering the circumstances around which the audit report has changed in the past and is changing today, it is argued that IFAC and IAASB are involved with and influenced by a number of global actors. Using the chosen theoretical framework, these actors can be called primary or significant occupants of the regulatory space. Throughout IAASB's consultation process, which consisted of mainly three invitations for public stakeholder comments, many actors apart from the international regulators and audit firms mentioned above, took the opportunity to present their views and suggestions and thereby trying to influence the regulatory space.

The analysed literature confirms that there are differences in opinion regarding auditor responsibility, with stakeholders concerned about the ability of auditors to detect fraud, even though the level of trust in auditor activity is still high. Another conclusion is that users who are more informed about audit missions and their objectives, had a better understanding of their responsibility, their level of independence, and level of assurance they provide. In the end, users search credibility, and that is what auditors are 'trading' through their services. The authors argue that an extended audit report, through the addition of *KAM* section, is the first step in this direction.

Furthermore, the authors have underlined the stakeholders of the audit reporting process and how their different perspectives have an influence on their understanding of the audit mission. The stakeholder theory explains who the stakeholders of a company are and the fact that the company must strive to meet the expectations of all interested parties. There are important differences in responses from different geographical areas, especially when comparing respondents from Europe and North America.

By employing a quantitative and qualitative research methodology, based on content analysis and statistical methods, the objective has been to determine whether the stakeholders of the audit report contemplate that the introduction of 'KAM' is beneficial. Given the results, the authors have found that the new paragraph is beneficial, as the analysis of the received feedback reveals that most stakeholders agree with the proposals. Furthermore, this analysis provides added value to the literature in this field, for the reason that the responses to the 2013 exposure draft have not been analysed in the literature

The IAASB published new and revised auditing standards in January 2015, taking into account the feedback received from stakeholders, in the consultation process. The new standards will go into effect for financial statements issued after December 2016, thus, to what degree the new standards will achieve their desired effect, by offering more relevant information to stakeholders, remains to be seen. The IAASB has closely collaborated with other members of the regulatory space when drafting the revised auditing standards, but one of the main observations stakeholders conveyed is the fact that examples of good practices are needed, for interested parties and auditors to envisage better what the new standards propose. In this sense, there are a few standard setters that have adopted new auditing regulations since 2013, based on the 2013 exposure draft. These national auditing regulations have been developed to be convergent with the 2013 exposure draft and revised in 2015 after the new 2015 ISAs have been published. The authors consider that the audit reports that have been published since 2013 in the UK, subsequent to the 'FRC' audit reform, can be regarded as examples of good practices in the new and improved audit reporting.

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