

Auditor Reporting Post-Implementation Review (PIR)–Academic Research and Other Literature Review

Introduction

1. This paper:
 - (a) Outlines the scope of the academic research and other literature review undertaken by IAASB Staff in relation to the Auditor Reporting PIR information-gathering activities; and
 - (b) Identifies key findings and aspects of the academic research and other literature review relevant for the Auditor Reporting PIR.
2. Appendices to this paper include:
 - (a) **Appendix 1** provides mapping of key aspects of academic research and other literature reviewed to topics relevant for the Auditor Reporting PIR.
 - (b) **Appendix 2** outlines a register of relevant academic research and other literature for purposes of the Auditor Reporting PIR information gathering activities.
 - (c) **Appendix 3** shows the Auditor Reporting PIR objectives.

Scope of the Academic Research and Other Literature Review

3. The scope included identifying academic research undertaken, as well as research or other summaries on first or year-to-year implementation of the new and revised Auditor Reporting Standards¹ and ISA 720 (Revised)² published by regulators and oversight bodies, national standard setters, audit firms, professional accountancy organizations (PAOs), across all global jurisdictions.
4. The compilation of the initial list of research was outsourced to a team of researchers from the University of Dayton, School of Business Administration and Department of Accounting. This initial list was compiled by searching for published studies which either in their abstract, or in their title available on electronic databases accessed via the internet, included key words on a range of issues around the implementation of the new and revised Auditor Reporting Standards and ISA 720 (Revised).
5. To this initial list of research, several other identified published studies and literature were added based on inputs provided by Auditor Reporting Implementation Working Group (ARIWG) members, including those that had been based on information provided by respondents to the short survey

¹ The new and revised Auditor Reporting Standards comprise: ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; ISA 570 (Revised), *Going Concern*; ISA 260 (Revised), *Communication with Those Charged with Governance*; and conforming amendments to other ISAs

² ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

undertaken with support of the International Federation of Accountants (IFAC)³ and who provided responses to the question about whether they are aware of any research that may be of relevance for the Auditor Reporting PIR.

6. There were 52 research papers identified and examined. These were further mapped in terms of their relevance to the PIR as well as their attribution to the standards subject to the PIR.
7. From this initial list of identified research papers, 16 studies were scoped out because they were not relevant to the Auditor Reporting PIR objectives (either because the research predated the revisions to the auditor reporting standards that became effective in 2016 or they considered topics and standards which were out of the scope for the Auditor Reporting PIR).
8. Further analysis was performed for the remaining 36 relevant research papers, including identifying key takeaways relevant to the PIR.
9. **Appendix 2** to this paper outlines the register of 36 relevant academic research and other literature for purposes of the Auditor Reporting PIR.
10. The 36 relevant research papers can be further analyzed:
 - (a) By the year when the relevant research was published or undertaken:
 - No studies of relevance were identified prior to 2015.
 - The majority of the relevant research papers (28 papers of the 36) were published or undertaken in the last three years (i.e., between 2018 and 2020).
 - (b) By standards covered:
 - The majority of the relevant research papers (27 papers of the 36) made a direct reference to the new and revised Auditor Reporting Standards, with a significant focus on communication of key audit matters (KAM).
 - Some research papers focused on the extended auditor reporting as applicable in jurisdictions that have adopted the revised standards with certain regulatory modifications, as for example in the United Kingdom⁴, France⁵ and USA.⁶
 - Some relevant research papers also addressed findings related to other information, going concern and the voluntary or required reporting with respect to the outcome of the audit procedures in respect of the KAM, materiality, and the scope of the audit.

³ With the support of IFAC, the ARIWG obtained information (using a short survey) during December 2019 to understand the global implementation of the Auditor Reporting Standards and ISA 720 (Revised). Responses were received from 83 jurisdictions. The survey results were published in the [Auditor Reporting PIR Project Update](#), January 2020.

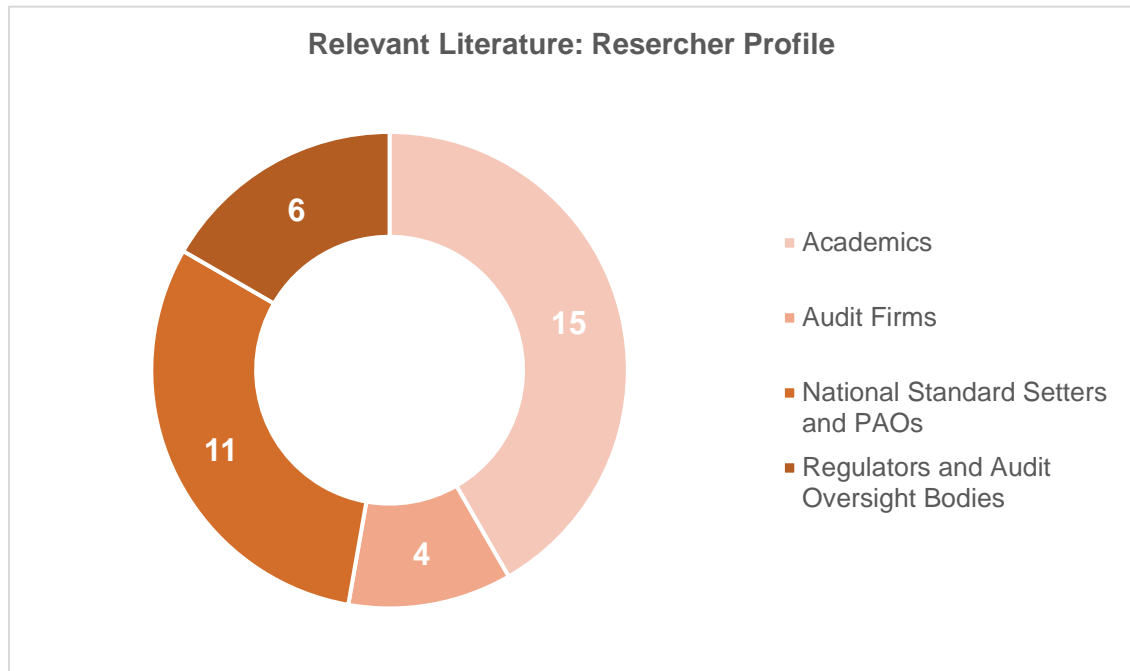
⁴ In the United Kingdom the auditor reporting regime differs from the IAASB standards as regulatory changes are introduced by the Financial Reporting Council (FRC). For example, in the United Kingdom, auditors are required to expand their report to include a discussion of material misstatement risks, materiality, and the scope of the audit.

⁵ The French auditing standards and regulations require disclosure of Justifications of Assessment (JOA), which are similar to the requirements for communication of key audit matters.

⁶ In USA, there are some technical distinctions between the IAASB standards and the Public Company Accounting Oversight Board (PCAOB) rules, including unique language to define and identify the Critical Audit Matters (CAM) and to specify that CAMs relate to a component of an account or disclosure that is material to the financial statements. In addition, PCAOB rules require an additional requirement to disclose the auditor's tenure in the report.

(c) By researcher profile (see graph below):

- The most significant category (15 papers of the 36) are academic studies and articles.
- Reports published by national standard setters and PAOs are the second most significant category of researcher profiles (11 papers of the 36) followed by reports from regulators and oversight bodies (6 papers of the 36).

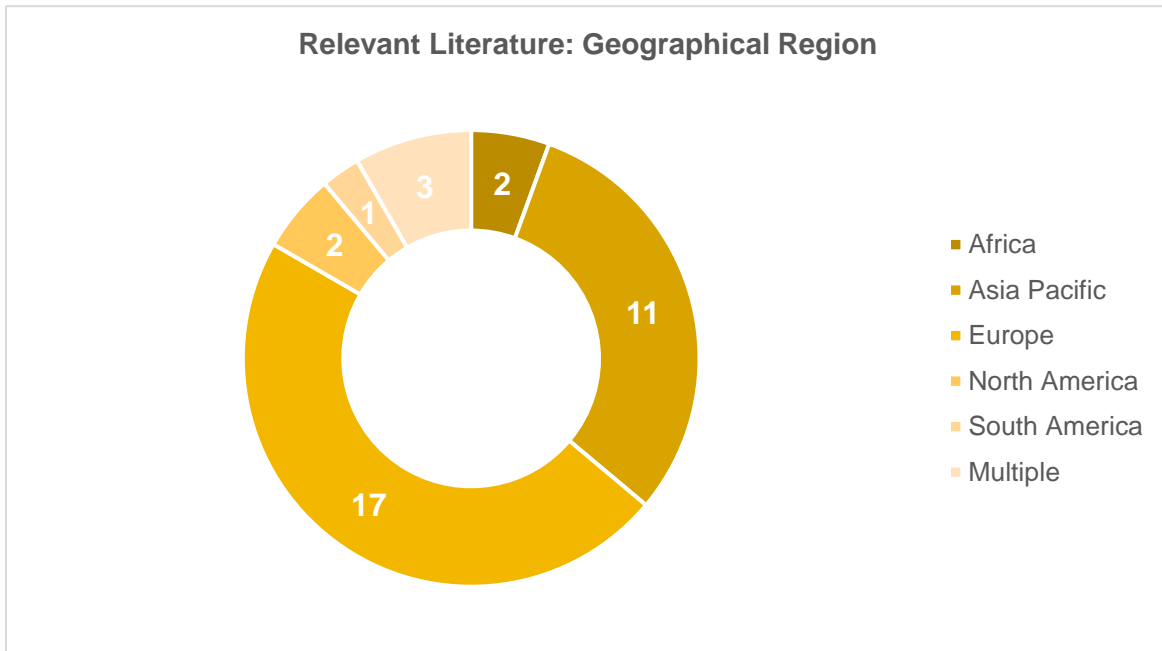


(d) By research approaches chosen:

- Many of the academic studies and articles had applied quantitative methods of research, making use of published financial statement data from annual reports and databases, and by applying statistical methods of analysis aimed to detect relationships and trends.
- There were a few academic studies which applied experimental methods to explore the cause-effect while testing the research hypothesis.
- Many reports researched first year and year-to-year implementation of the new and revised Auditor Reporting Standards in specific jurisdictions or across multiple jurisdictions.
- Other methods of research and information gathering included literature reviews, surveys and focused group discussions.

(e) By the geographical region (see graph below):

- The majority of the relevant research papers were undertaken in Europe (17 papers of the 36), with United Kingdom and Germany being the most significant countries within this region.
- The second significant region where research originated was Asia Pacific (11 papers of the 36).



Key Findings

11. **Appendix 1** provides detailed mapping of the key aspects of academic research and other literature reviewed to topics relevant for the Auditor Reporting PIR.
12. Three topics of relevance were identified and related to the PIR objectives, including:
 - Topic 1: Benefits achieved through implementation of the new and revised Auditor Reporting Standards.
 - Topic 2: Practical challenges with the new and revised Auditor Reporting Standards.
 - Topic 3: Extent of demand for additional information in the auditor's report to improve transparency about the audit performed.
13. The academic and other literature reviewed did not identify any relevant aspects with respect to the PIR objective concerning the understanding of the extent of global demand for wider application of the requirements that currently apply only to audits of financial statements listed entities.
14. Paragraphs 15-26 below provide a summary of the key aspects of academic research and other literature reviewed related to the three topics of relevance identified.

Topic 1: Benefits achieved through implementation of the new and revised Auditor Reporting Standards

15. The academic research and other literature indicated many benefits from the implementation of the new and revised Auditor Reporting Standards across global jurisdictions. These include:
 - There were significant improvements in financial reporting and audit quality.
 - KAM help the auditor to focus on the areas of the audit requiring the most careful judgement; this in turn contributes to higher audit quality.
 - The information value was significantly improved and by that, communication and information gaps narrowed.

- There was a positive effect on promoting transparency.
 - The extent of communication by the auditor had improved and this improved the relevance and value of the auditor's reports.
 - The auditor's reporting is tailored to the unique circumstances of the various engagements.
 - Audit Committee discussions about financial reporting risks with auditors and management are more focused and robust, putting Audit Committees in a stronger position to ensure accountability on behalf of investors.
 - More engagement was observed between auditors, management and those charged with governance (auditors embraced the opportunity to promote the value and relevance of the audit).
 - Investors are also gaining more insight into the financial reporting risks of the companies they invest in, as well as the audit process.
 - Management are making efforts to improve disclosures in the annual report, following discussions about KAM.
 - Viewed favorably by users as the expanded auditor's report provides enhanced information about significant accounting and audit issues of the company and how they were dealt with in the audit.
 - Enhanced auditors' interaction with preparers, management and those charged with governance.
16. The academic research generally indicated absence of evidence that the new and revised auditor reporting requirements were associated with a significant effect on audit fees. One study, found that the auditor reporting standards had achieved their intended benefit of improved audit quality, but the implementation of the new audit standard was associated with higher audit fees which may argument that the implementation of the new audit standards was costly. An audit firm and engagement partner survey undertaken in relation to initial implementation of the enhanced auditor reporting indicated that audit firms made significant investments to support initial implementation of the new reporting requirements.
17. Although some papers had indicated that the new auditor's report provided little incremental informational value, the research suggested that investors generally greatly valued the enhanced information provided by the expanded auditor's report. The value added was considered particularly important for those audited entities where there were fewer sources of other information, including smaller companies.
18. Two studies indicated that the lack of incremental information content is because the expanded information of the revised auditors report does not provide any new information to investors, and that investors are already informed about the majority of the risks before they become disclosed by auditors in the expanded audit reports.
19. Focused discussions with investors in the United Kingdom indicated that investors felt that more could be done to enhance auditor's reports, including:
- Providing more complete information about the sensitivity ranges used in testing,

- The auditor's assessment of the quality of an entity's internal controls informing their significant risk assessment; and
- The auditor's view on the appropriateness of management estimates. Investors would prefer greater transparency about assumptions made by management and benchmarks used by auditors.

Topic 2: Practical challenges with the new and revised Auditor Reporting Standards

20. The most consistently identified challenge highlighted across the various research papers related to describing the KAM in an informative, yet succinct, manner, and avoiding boilerplate descriptions:
- In New Zealand, the year to year auditor reports indicated no substantial change in the language, content and details of the KAM descriptions or the way in which the matter was addressed by the auditor. The report indicated that this could suggest that the entity's operations did not change significantly and that the matter(s) of most significance for the audit remained the same as prior years. Investors had indicated that there is a risk of KAM becoming boilerplate. There was a call to raise the bar further and comparisons were made to some auditor reports in the United Kingdom, where the KAM reporting includes indicating if the risks are increasing, decreasing, or staying about the same.
 - One academic study undertaken in the United Kingdom indicated that there were improvements introduced to the audit report (including changes to the audit report content, improved readability, and changes in word choice) in the initial year of implementation of the revised standard. When expanding the analysis to examine the second year of implementation, continued improvements in reducing complexity were found, but there is still room for auditors to vary their disclosure content each year.
 - In South Africa, an increase in the number of KAM communicated was noted when there was a change in auditors. For some audits, the nature of the KAM reported by the new auditor were substantially the same. In other instances, there were either additions to the KAM reported by the new auditor or the nature of the KAM reported varied from year to year.
 - A common feedback from users participating in a study undertaken in Hong Kong was that most KAM reviewed used standardized language, which did not provide sufficient insight into the reported KAM and nature of audit work performed. This could be enhanced by linking the KAM and the specific audit work performed, although the research acknowledged that it is challenging for auditors to strike a balance between the granularity of KAM description and writing a clear and concise description of the key audit procedures.
 - One study undertaken in the USA found that KAM have an attention directing impact, in that participants access KAM-related disclosures more rapidly and pay relatively more attention to them when KAM are communicated in the auditor's report. However, when exposed to an auditor's report with several KAMs, participants devote less attention to the remaining parts of the financial statements.
21. Other implementation challenges as outlined in a report of a regulator indicated the following matters:

- Going concern modifications are inappropriately reported as KAM, when in fact a modified opinion in accordance with ISA 705 (Revised) ⁷ should have been reported, or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern as required by ISA 570 (Revised). ⁸
 - KAM were not always representative of the area to which the auditor had given significant attention and audit effort.
 - There were no documented reasons on the engagement file as to why the auditor chose not to report a KAM.
 - A common “pitfall” noted is that auditors use KAM as a substitute for expressing a modified opinion.
22. Both investors and audit firms in the United Kingdom had suggested some more aspirational changes which include:
- Introducing a discussion within either the auditor's report or the Audit Committee report as to why an auditor raises a risk that is not also dealt with by the Audit Committee in its report.
 - Including the new information provided in the extended auditor's report in the preliminary announcement.
 - Providing an opportunity for stakeholders to challenge the proposed scope of the audit by publishing the audit plan in advance of the year end.
 - Providing more encouragement for the reporting of issues arising from the quality of company's systems.

Topic 3: Extent of demand for additional information in the auditor's report to improve transparency about the audit performed

23. The analysis undertaken indicated that auditors in various global jurisdictions provided additional information in the auditor's report to improve the transparency about the audit performed on an optional or voluntary basis.
24. Most often, auditor's reports provided voluntary information in respect of the outcome of the audit procedures with respect to KAM, disclosures about materiality, and information about the scope of the audit.
25. In one jurisdiction (i.e. the United Kingdom), where there is a regulatory requirement to disclose materiality, investors had suggested a number of improvements to the explanations with regard to auditors' application of materiality (e.g., benchmark and level). Investors had also expressed a strong preference for enhanced disclosure on all aspects of materiality and how it impacts on the conduct of the audit. Many of the audit firms believed that performance materiality is a particularly difficult and technical aspect of materiality to explain, and questioned the value of further disclosure.
26. The academic research and other literature suggested mixed views when it came to the usefulness of the additional information:

⁷ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

⁸ ISA 570 (Revised), *Going Concern*

- An experimental study undertaken in Germany could not identify a material effect of expanding the audit report to include the materiality level or KAM. As a consequence, the study concluded that standard setters should carefully analyze the effect of additional information before making decisions on expanding the content of the auditor's report. The study concluded that such expansions are not necessarily perceived as useful by stakeholders.
- Stakeholders in New Zealand had mixed reactions when it came to voluntary reporting on the outcome of the audit procedures performed. While some investors found the reporting of materiality and the outcomes of the procedures as especially useful, some directors and investors were indifferent as to whether materiality should be included in the auditor's report. More experienced investors, such as analysts, expressed views that as there is generally a standard way of establishing materiality, it can often be determined without being explicitly reported. Some directors noted that materiality is not a contentious issue, and has been reported to boards each year. There were also others who expressed opinions for a preference of consistency across auditor's reports in jurisdictions.
- In Malaysia, the majority of audit committee members (59%) and investors (63%) felt that the auditors should voluntarily disclose the materiality used in the audit and information about the scope of the audit for better understanding of the extent of work performed.
- A survey undertaken in Hong Kong indicated that users are generally in favor of auditors including an indication of the outcome of the audit procedures performed in respect of each KAM. They noted that this provided them with more transparency and insight.

Mapping Key Aspects of Academic Research and Other Literature to Topics Relevant for the Auditor Reporting PIR

| Key Aspects of the Relevant Academic Research and Other Literature that Impact the Auditor Reporting PIR |
|--|
| <i>Topic 1: Benefits achieved through implementation of the new and revised Auditor Reporting Standards</i> |
| <ul style="list-style-type: none"> <p>Research Paper 1</p> <p>A study undertaken in the United Kingdom found the new auditor reporting requirements associated with a significant improvement in financial reporting quality without detecting a significant increase in audit costs.</p> <p>Research Paper 2</p> <p>An earlier study found lack of evidence that the regulatory change in the United Kingdom with respect to auditor reporting significantly affected investors' reaction to the release of auditors' reports, audit fees, or audit quality. The study concluded that the expanded auditor's report is providing little incremental information to investors.</p> <p>Research Paper 3</p> <p>Although risks of material misstatement (RMM) disclosures reliably captured the uncertainty in accounting measurements, investors in the United Kingdom did not find them incrementally informative. RMM disclosures lacked incremental information content because most of the risks had already been disclosed by management in the prior earnings announcement, conference call, or the previous year's annual report and investors were already informed about a majority of the risks before the risks were disclosed by auditors in the expanded audit reports.</p> <p>Research Paper 4</p> <p>A New Zealand study found that revisions to the auditor reporting standards have achieved their intended benefit of improved audit quality, but the implementation of the new audit standard was followed by a significant increase in audit fees.</p> <p>Research Paper 5</p> <p>One study concluded that the French expanded audit report did not have the expected consequences on investors and the quality of the audit. There was a lack of effect on investors as the Justifications of Assessment (JOAs) did not provide new information in addition to what is already expected by investors, or to what they may infer from the financial statements.</p> <p>Research Paper 6</p> <p>Research undertaken in Croatia, concluded that the information value of the new audit report was significantly improved as a result of the new and revised auditor reporting standards, and by that, communication and information gaps were narrowed.</p> |

**Key Aspects of the Relevant Academic Research and Other Literature
that Impact the Auditor Reporting PIR**

- Research Paper 9

A report from New Zealand, indicated that the inclusion of KAM in the auditor's report had a positive effect on promoting transparency, there was more engagement observed between auditors, management and those charged with governance, and auditors embraced the opportunity to promote the value and relevance of the audit. It was observed that auditors had invested a large amount of resources and effort in the process.

The report also found that the expectation gap remains and there is an ongoing need to enhance awareness of the value of the audit among stakeholders.

- Research Paper 12

A report from South Africa noted that the extent of communications by the auditor had improved following implementation of the revised auditor report, in that the reporting is now more transparent and tailored to the unique circumstances of the various engagements.

- Research Paper 14

One report indicated that the extended auditor reporting had improved the relevance and value of the auditor reports in Malaysia. The report suggested that Audit Committee discussions about financial reporting risks with auditors and management are more focused and robust, putting audit committees in a stronger position to ensure accountability on behalf of investors. Investors are also gaining more insight into the financial reporting risks of companies they invest in, as well as the audit process. The audit process had been strengthened through more visible audit partner involvement in discussions with Audit Committees, due to the need for in-depth deliberation and discussion of KAM in particular. Management are making efforts to improve disclosures in the annual report, following discussion about KAM.

- Research Paper 15

A report showed that in Hong Kong, the reporting of KAM is viewed favorably by users as it provides enhanced information about significant accounting and audit issues of the company and how they were dealt with in the audit. It also enhances auditors' interaction with preparers, management and those charged with governance. As a result, the report found that management and those charged with governance have gained deeper insight on the financial reporting of their companies and therefore strived improvements in annual report disclosures.

- Research Paper 16

One report found that KAM encourage better conversations between the auditor and those charged with governance (this in turn contributed to better governance); KAM help the auditor to focus on the areas of the audit requiring the most careful judgement (this in turn contributes to higher audit quality); and KAM give preparers incentives for revisiting financial reporting and disclosures in areas related to those KAM, which in turn lead to better financial reporting. The report concluded that together, these contribute to a much broader impact of KAM on the financial reporting process beyond merely providing better information for investors.

- Research Paper 18

A regulator report found that investors in the United Kingdom greatly valued the enhanced information provided by the enhanced auditor reporting. The value added can be particularly important for those audited entities where there are fewer sources of other information, including smaller companies.

The report indicated that investors felt that more could still be done to enhance auditor reports, including: providing more complete information about the sensitivity ranges used in testing; the auditor's assessment of the quality of an entity's internal controls informing their significant risk assessment; and the auditor's view on the appropriateness of management estimates. The report found that investors would prefer greater transparency about assumptions made by management and benchmarks used by auditors. One disappointing finding indicated by the regulator was that auditor's reports generally lacked a dynamic analysis of changes over time.

- Research Paper 19

In the USA, audit firms made significant investments to support initial implementation of the CAM requirements (i.e. firms developed tools and guidance, trained personnel, established networks of CAM subject matter experts, and established consultation and review protocols for draft CAM communications). In addition to investments made at the audit firm level, individual audit engagement teams spent (on average) about 1% of total audit hours identifying, developing, and communicating CAMs in the year of implementation. Extensive upfront preparations—including pilot and dry run programs—contributed to a generally smooth experience for issuers.

The study also indicated that, although investor awareness of CAMs communicated in the auditor's report is still developing, some investors are reading CAMs and find the information beneficial. Among other things, investors are using CAMs to better understand the work of the auditor and company disclosures. Some investors have emphasized that they value CAMs that are specific and tailored to the audit, and others have encouraged auditors to expand CAM communications to provide information about the outcome of audit procedures.

- Research Paper 21

This study found that audit must evolve in order to add more value to users and that audits must become more than an opinion on the historical financial statements.

- Research Paper 24

A member's survey undertaken by the CFA Institute provided insight that high quality and insightful communication to investors was the topmost assessed factor influencing investor perceptions of the value of audit. Outputs of the audit and the financial process, including the quality of communication within the auditor report, were considered to be the most important by investors for assessing audit quality.

- Research Paper 36

The overall findings of a study undertaken in Turkey were that the new reporting requirements had contributed to the increase of audit quality, exercise of professional skepticism, additional focus by emphasizing risky areas, and enhanced communications.

**Key Aspects of the Relevant Academic Research and Other Literature
that Impact the Auditor Reporting PIR**

Topic 2: Practical challenges with the new and revised Auditor Reporting Standards

- Research Paper 8

Audit inspections in South Africa have observed the following challenges with implementation of the new and revised auditor reporting requirements:

- Boilerplate and template language encountered for KAM.
- Going concern modifications were inappropriately reported as KAM, when in fact a modified opinion in accordance with ISA 705 (Revised) should have been reported, or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern as required by ISA 570 (Revised).
- KAM were not always representative of the area to which the auditor has given significant attention and audit effort.
- There were no documented reasons on the engagement file as to why the auditor chose not to report a KAM.
- A common "pitfall" noted was that auditors used KAM as a substitute for expressing a modified opinion.

- Research Paper 10

In a report from New Zealand, on the year to year auditor reporting indicated no substantial change in the language, content and details of the KAM descriptions or the way in which the matter was addressed by the auditor. The report indicated that this could suggest that the entity's operations did not change significantly and that the matter(s) of most significance for the audit remained the same as prior years. Investors had indicated that there is a risk of KAM becoming boilerplate. There was a call to raise the bar further and comparisons were made to some auditor reports in the United Kingdom, where the KAM reporting includes indicating if the risks are increasing, decreasing or staying about the same.

- Research Paper 11

A study undertaken in the United Kingdom indicated that there were improvements introduced to the audit report (including changes to the audit report content, improved readability, and changes in word choice) in the initial year of implementation of the revised standard. When expanding the analysis to examine the second year of implementation, continued improvements in reducing complexity were found, but there was still room for auditors to vary their disclosure content each year.

- Research Paper 12

One report indicated there was an increase in KAM when there was a change in auditors. For some audits, the nature of the KAM reported by the new auditor report were substantially the same. In other instances, there were either additions to the KAM reported by the new auditor or the nature of the KAM reported varied from year to year.

**Key Aspects of the Relevant Academic Research and Other Literature
that Impact the Auditor Reporting PIR**

- Research Paper 15

Common feedback from users participating in a study undertaken in Hong Kong was that most KAM reviewed used standardized language which did not provide sufficient insight into the reported KAM and nature of audit work performed. It was considered that this could be enhanced by linking the KAM and the specific audit work performed, although it was recognized it could be challenging for auditors to strike a balance between the granularity of KAM description and writing a clear and concise description of the key audit procedures.

- Research Paper 17 & 18

Regulator findings in the first-year post implementation of the enhanced auditor reporting requirements in the United Kingdom indicated that investors criticized the lack of granularity in the risk reporting (i.e., they found the explanations overly generic or abstract). In the second year of implementation there was a move away from generic risk descriptions and language generally, in favor of more granular descriptions.

Investors and audit firms had also suggested some more aspirational changes in United Kingdom which include:

- Introducing a discussion within either the auditor's report or the Audit Committee report as to why an auditor raises a risk that is not also dealt with by the Audit Committee in its report.
- Including the new information provided in the extended auditor's report in the preliminary announcement.
- Providing an opportunity for stakeholders to challenge the proposed scope of the audit by publishing the audit plan in advance of the year end.
- Providing more encouragement for the reporting of issues arising from the quality of company's systems.

- Research Paper 26

The study found that KAM have an attention directing impact, in that participants access KAM-related disclosures more rapidly and pay relatively more attention to them when KAM are communicated in auditor reports. However, the study found that when exposed to an auditor report with several KAM, participants devote less attention to the remaining parts of the financial statements.

- Research Paper 29

A survey of auditor reporting of KAM in the Banking Sector in Europe generally found that KAM were presented in a clear manner and are easy to pursue and understand, being cross-referenced to the disclosures in the financial statements.

**Key Aspects of the Relevant Academic Research and Other Literature
that Impact the Auditor Reporting PIR**

Topic 3: Extent of demand for additional information in the auditor's report to improve transparency about the audit performed

- **Research Paper 6**
A report from Croatia found that auditors chose to voluntarily disclose materiality in their audit reports, as this was considered an important concept for economic decision making of users.
- **Research Paper 7**
An experimental study undertaken in Germany could not identify a material effect of expanding the audit report to include the materiality level or KAM. As a consequence, the study concluded that standard setters should carefully analyze the effect of additional information before making decisions on expanding the content of the audit report. Such expansions were not necessarily perceived as useful by stakeholders.
- **Research Paper 9 & 10**
Resorts from New Zealand had indicated that stakeholders had mixed reactions when it came to voluntary reporting the outcome of the audit procedures performed.

Some investors found the reporting of materiality and the outcomes of the procedures as especially useful. Some directors and investors were indifferent as to whether materiality should be included in the auditor report. More experienced investors, such as analysts, expressed the view that as there is generally a standard way of establishing materiality, it can often be determined without being explicitly reported. Some directors noted that materiality is not a contentious issue and has been reported to boards each year. There were also others who expressed a preference for consistency across auditor's reports versus varying level of voluntary disclosures.
- **Research Paper 12**
Research in South Africa found that 65% of audit reports contained voluntary reporting on the outcome of the audit procedures. One audit firm (big 4) provided consistently and in each report (except when joint audits were performed) reporting information on materiality and the scope of the audit.
- **Research Paper 13**
In Singapore, a report noted that 42% of the KAM reported included outcomes or results of the procedures performed, providing some insight on the auditor's resolution of the KAM. There were also voluntary disclosures by one audit firm about materiality and group scoping consistently (for each auditor's report).
- **Research Paper 14**
Based on feedback by respondents in a survey undertaken in Malaysia, the majority of Audit Committee members (59%) and investors (63%) felt that the auditors should voluntarily disclose the materiality used in the audit and information about the scope of the audit for better understanding of the extent of work performed.

**Key Aspects of the Relevant Academic Research and Other Literature
that Impact the Auditor Reporting PIR**

- Research Paper 15

A survey undertaken in Hong Kong indicated that users are generally in favor of auditors including an indication of the outcome of the audit procedures performed in respect of each KAM. They noted that this provided them with more transparency and insight.

- Research Paper 17 & 18

In the United Kingdom, investors had suggested improvements with the explanations with regard to auditors' application of materiality (e.g., benchmark and level). The regulators also identified reporting on materiality as an area of challenge.

Many investors had expressed a strong preference for enhanced disclosure on all aspects of materiality and how it impacts on the conduct of the audit. Many of the audit firms believed that performance materiality is particularly difficult technical aspect of materiality to explain, and questioned the value of further disclosure.

- Research Paper 28

The survey in Brazil showed that 23% of the audit reports included KAMs that considered the outcome of auditing procedures, which is allowed but not required by the standards.

- Research Paper 29

Only 5% of auditors of European banks chose to voluntarily include reporting on materiality and the scope of the audit (excluding United Kingdom and Netherlands who have a regulatory requirement to report on these aspects).

- Research Paper 35

In New Zealand, regarding the optional reporting, 78% of auditors reported the materiality amount, 60% reported the materiality benchmark and 42% reported findings and scoping decisions.

Appendix 2

Register of Relevant Academic Research and Other Literature for Purposes of the Auditor Reporting PIR Information Gathering Activities

| No | Title, Author and Year |
|-----|---|
| 1. | <i>Impact of Auditor Report Changes on Financial Reporting Quality and Audit Costs: Evidence from the United Kingdom</i> , Lauren C. Reid, Joseph V. Carcello, Chan Li, Terry L. Neal [2019] |
| 2. | <i>Consequences of adopting an expanded auditor's report in the United Kingdom</i> , Elizabeth Gutierrez, Miguel Minutti-Meza, Kay W. Tatum, Maria Vulcheva [July 2018] |
| 3. | <i>Are Expanded Audit Reports Informative to Investors? Evidence from the U.K.</i> , Clive S. Lennox, Jaime J. Schmidt, Anne Thompson [March 2019] |
| 4. | <i>Assessing the Impact of the New Auditor's report</i> , Hong Li, David Hay, David Lau [July 2018] |
| 5. | <i>Consequences of Expanded Audit Reports: Evidence from the Justifications of Assessments in France</i> , Jean Bedard, Nathalie Gonthier-Besacier, Alain Schatt [August 2019] |
| 6. | <i>The Key Audit Matters as an Element of the Independent Auditor's Report - A Booster to the Corporate Governance</i> , Boris Tusek, Ana Jezovita [May 2018] |
| 7. | <i>Bank Directors' Perceptions of Expanded Auditor's Reports</i> , Pran Krishansing Boolaky and Reiner Quick [2016] |
| 8. | <i>Revisiting Key Audit Matters, an analysis of reporting trends</i> , Pieter Cloete CA(SA), RA, Senior Professional Manager: Inspections at the IRBA, and Sanele Sikhakhane CA(SA), Technical Assistant: Standards at the IRBA [November 2019] |
| 9. | <i>Key audit matters: A stock take of the first year in New Zealand</i> , External Reporting Board (XRB) and Financial Markets Authority (FMA) [November 2017] |
| 10. | <i>Enhanced auditor reporting: A review of the third year of the revised auditor's report</i> , External Reporting Board (XRB) and Financial Markets Authority (FMA) [May 2020] |
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Auditor Reporting PIR Objectives

The PIR objectives are to:

- (a) Determine whether the Standards are being consistently understood and implemented in a manner that achieves the IAASB's intended purpose in developing them so that the IAASB can determine what actions, if any, are needed:
 - To increase the consistency of practitioners' understanding of the Standards; and
 - For the Standards to achieve the intended purpose.
- (b) Identify how practical challenges and concerns are being addressed (by auditors, management and audit committees), and whether further action by the IAASB is needed.
- (c) Understand the extent of global demand for additional information in the auditor's report to improve the transparency of the audit (e.g., including the outcome of audit procedures with respect to Key Audit Matters (KAMs), additional communications about going concern, the disclosure of materiality, and information about the scope of the audit).
- (d) Understand the extent of global demand for wider application of the requirements that currently apply only to audits of financial statements listed entities (i.e., communication of KAM, the name of the engagement partner and, when applicable, communicating specific matters relating to other information).