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Update on Changes to The Auditor's Report

Presentation at
Auditing and Assurance Special Interest Group,
Auckland, 6 July 2014

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Outline

Background on the motivation for changing the current audit reporting model

An update on the new audit reporting model and how it is currently being implemented around the world

Overview of current research and opportunities for future research related to the new audit reporting model

Current Audit Reporting Model

Let’s take a look at what an opinion looks like under our current model.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TRANSFIELD SERVICES LIMITED

Independent auditor's report to the members of Transfield Services Limited

Report on the financial report

We have audited the accompanying financial report of Transfield Services Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2011, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 41 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TRANSFIELD SERVICES LIMITED

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

Remuneration Report

We have audited the Remuneration Report included in pages 47 to 65 of the directors report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Transfield Services Limited for the year ended 30 June 2011, complies with section 300A of the *Australian Corporations Act 2001*.

KPMG

KPMG

S J Marshall
Partner

Sydney
25 August 2011

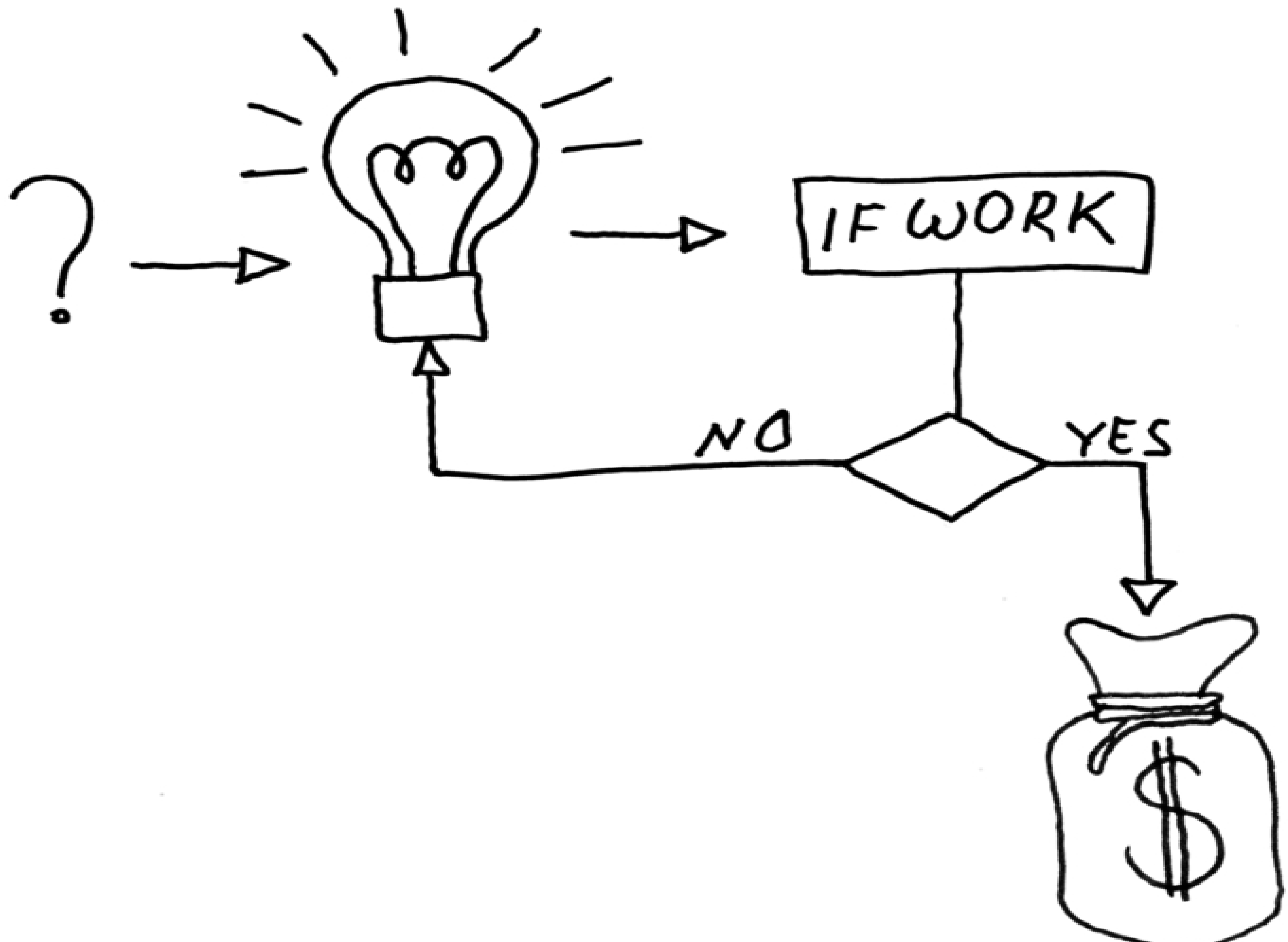
Standardised Audit Report

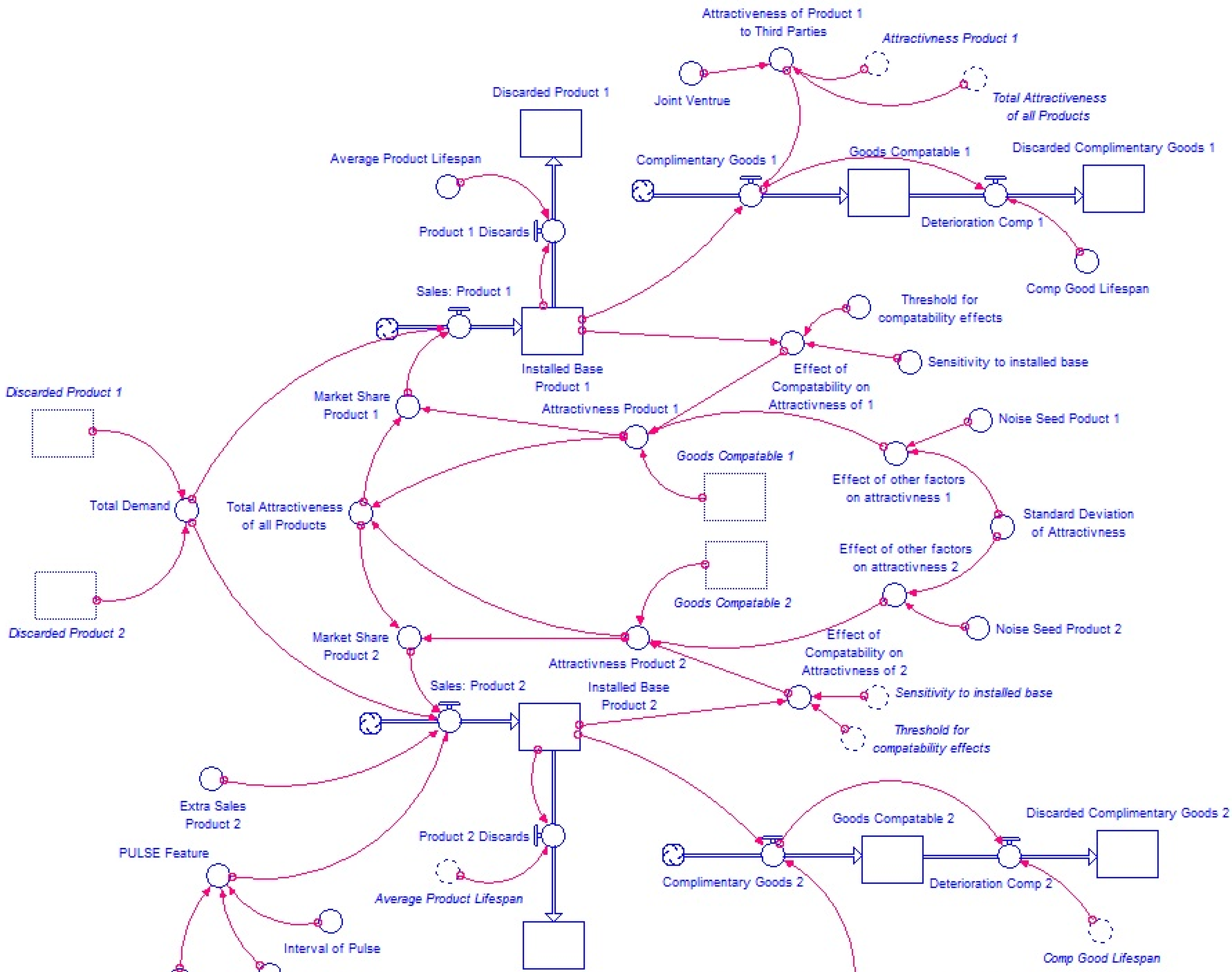
- Early on, audit reports were very unstructured, non-standardised long-form audit reporting was common up until the 1960s.
- Significant move by the profession to standardise commentary in audit reports
  - Benefits of comparability across entities
  - Supports the role of the auditor as enhancing the credibility of management's assertions (rather than adding new information or insights)
- We know that auditors "get it right" the vast majority of the time, firms that get unqualified opinions continue, those receiving going concern modifications may or may not go bankrupt and only rarely (but usually dramatically) do firms go bankrupt with a 'clean' opinion.

So what's wrong with audit reports?

Why is there a perceived need for a new audit reporting model?

BUSINESS IDEA





Attractiveness of Product 1 to Third Parties
Attractivness Product 1
Joint Ventrue
Total Attractiveness of all Products
Discarded Product 1
Average Product Lifespan
Complimentary Goods 1
Goods Compatable 1
Discarded Complimentary Goods 1
Product 1 Discards
Deterioration Comp 1
Comp Good Lifespan
Sales: Product 1
Threshold for compatability effects
Sensitivity to installed base
Installed Base Product 1
Effect of Compatability on Attractivness of 1
Discarded Product 1
Market Share Product 1
Attractivness Product 1
Noise Seed Poduct 1
Goods Compatable 1
Effect of other factors on attractivness 1
Total Demand
Total Attractiveness of all Products
Standard Deviation of Attractivness
Effect of other factors on attractivness 2
Goods Compatable 2
Discarded Product 2
Market Share Product 2
Noise Seed Product 2
Effect of Compatability on Attractivness of 2
Attractivness Product 2
Sales: Product 2
Installed Base Product 2
Sensitivity to installed base
Threshold for compatability effects
Extra Sales Product 2
Goods Compatable 2
Discarded Complimentary Goods 2
PULSE Feature
Product 2 Discards
Complimentary Goods 2
Deterioration Comp 2
Average Product Lifespan
Interval of Pulse
Comp Good Lifespan

"The global financial crisis demonstrated that relevant company information – including hidden financial risks and management judgements – was revealed too late. Perhaps auditor commentaries would have disclosed more information about areas such as where key estimates and assumptions were most subjective, vulnerable or susceptible to change, or areas in which the accounting – while appropriate – did not fully meet the standard-setting intent or masked the economics"

(S&P, 2012 in their response to the IAASB Invitation to Comment)

Key criticisms of the current audit report

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1. Binary (“pass/fail” model)
2. Language is boilerplate (boring/overly technical)
3. Does not reflect the effort, judgment and expertise of the auditor, exacerbating the expectation gap

Criticising the criticisms

1. Is the current model really binary?

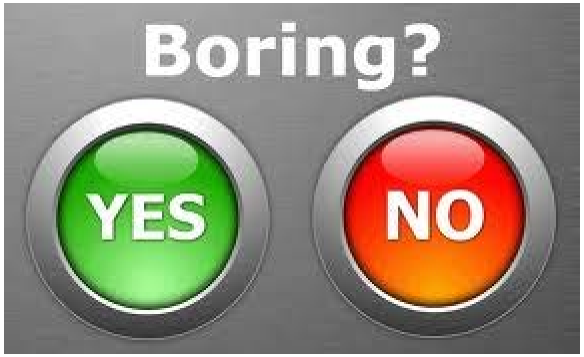
Auditors can provide an unqualified opinion, modify their report by the inclusion of one or more emphasis of matter paragraphs (of which there are a number of possibilities suggested in ASA 706), include an other matters paragraph for information which might be relevant to users. (Note: Limited to what is already disclosed in the financial statements)

Further auditors can qualify their report (providing an 'except for' opinion) or an adverse opinion or express that they are unable to form an opinion.

So the question is whether auditors are really using all the options already available to them under existing standards, and if not, why not? (Securities regulators part of the problem here).

Criticising the criticisms

2. Audit report wording is boring



Criticising the criticisms

2. Audit report wording is boring

Criticising the criticisms

3. Does not reflect the effort, judgment and expertise of the auditor, exacerbating the expectation gap

A valid concern. However we need to be very careful in developing a new audit reporting model. We can't assume that it will reduce the expectation gap, in fact it may have the potential to increase it.

Motivation for Current Projects to Change the Auditor's Report

- GFC - claims that auditors didn't predict the GFC or respond early enough to the increased risks of the GFC
- The value of the audit is being questioned by users and regulators.
- The profession wants to be seen to be doing "something" to improve the relevance of auditors
- Auditors have access to much more information and are able to provide insight on key areas of risk to users of financial statements (addressing an information gap and communications gap)

Worldwide Proposals to Change (Improve?) The Audit Report

- IAASB (International)
- PCAOB (US)
- FRC (UK)
- EC (Europe)

All of these proposals move us away from standardised audit reporting to customised audit reporting and are motivated by similar concerns.

My primary focus is on the IAASB proposals as they will most directly impact Australian/New Zealand auditors and users and the UK experience to date.

What content could be added to the current audit report to make it more useful?

Regulators, standard-setters, the profession as well as researchers have considered this.

In summary, a demand for more information about

- Scope of the audit
- Audit team identity and characteristics
- Engagement characteristics
- Audit process
- Discussion and analysis of audit findings

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Alternatively, what changes in format could be made to the current audit report?

- Nothing?
- A one sentence “pass/fail” report
- A free form audit report
- Supplement the existing report with expanded discussion on issues the auditor considers important (including explicit statements on going concern)
- Supplement the existing report with expanded statement on audit approach

Alternatively, what changes in format could be made to the current audit report?

- Nothing?
- A one sentence "pass/fail" report
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ssurance/auditor-reporting-iaasbs-1-priority

IAASB

Auditor Reporting - The IAASB's #1 Priority

Can the auditor's report be enhanced to provide more meaning and value for investors and other stakeholders? The IAASB believes that it can and has accelerated its Auditor Reporting project to tackle this challenging question.

A call for change—Enhancing the Auditor's Report

Stakeholders—all users of audited financial statements, but in particular, institutional investors and financial analysts—are calling for more pertinent information for their decision making. They want to know more about individual audits and to gain further insights into the audited entity and its financial statements.

The IAASB understands and embraces the significant need for, and importance of, international leadership on the topic of Auditor Reporting. The board is moving rapidly, in a coordinated and outspoken fashion, in developing a global solution in response to calls for change to the auditor's report. Check back frequently for updates to this page as the IAASB's work progresses.

The auditor's report is the auditor's primary means of communication with an entity's stakeholders—as such, it has to be meaningful and have value for them. More than ever before, users of audited financial statements are calling for more pertinent information for their decision-making in today's global business environment with increasingly complex financial reporting requirements. The global financial crisis also has spurred users, in particular institutional investors and financial analysts, to want to know more about individual audits and to gain further insights into the audited entity and its financial statements. And while the auditor's opinion is valued,

AUDITOR REPORTING TIMETABLE

- Comment period for Expo - November 22, 2013
- Approval of final revised standards – June 2014

**The time needed to finalize auditing standards takes int the rigorous due process fol the IAASB, which is critical t that the views of those affec standards are thoroughly co*

AUDITOR REPORTING LINKS

- Exposure Draft: Proposed Revised International Sta

Status and Timing of IAASB Project

May 2011 – Consultation Paper on Auditor Reporting released

June 2012 – Invitation to Comment released

September/October 2012 – Roundtables and Outreach

October 2012 – Comment period ended

July 2013 – Exposure Draft released

November 2013 – Comment period ended

<u>Predicted for approval in June 2014 – Approval of final revised auditing standards for application in financial years ending 31 December 2016 (with early adoption encouraged)</u>

Note: Revision of ISA 700 as well as 260, 570, 705, 706. New standard will be ISA 701.

Basis for IAASB Auditor's Report Proposals

Auditor knows a lot of useful information about the entity and its financial reporting which is not being communicated to users of financial statements.

Sets up a reporting model which is more consistent with extending audit beyond the statutory financial statement audit: Users are seeking assurance on information other than that traditionally provided in financial statements.

Example ‘New’ Audit Report

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Audit of the Financial Statements

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company (the Company) as at December 31, 20X1, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs). We have audited the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company within the meaning of [*indicate relevant ethical requirements or applicable law or regulation*] and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with [*those charged with governance*], but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

Valuation of Financial Instruments

The Company's disclosures about its structured financial instruments are included in Note 5. The Company's investments in structured financial instruments represent [*x%*] of the total amount of its financial instruments. Because the valuation of the Company's structured financial instruments is not based on quoted prices in active markets, there is significant measurement uncertainty involved in this valuation. As a result, the valuation of these instruments was significant to our audit. The Company has determined it is necessary to use an entity-developed model to value these instruments, due to their unique structure and terms. We challenged management's rationale for using an entity-developed model, and discussed this with [*those charged with governance*], and we concluded the use of such a model was appropriate. Our audit procedures also included, among others, testing management's controls related to the development and calibration of the model and confirming that management had determined it was not necessary to make any adjustments to the output of the model to reflect the assumptions that marketplace participants would use in similar circumstances.

Revenue Recognition Relating to Long-Term Contracts

The terms and conditions of the Company's long-term contracts in its [*name of segment*] affect the revenue that the Company recognizes in a period, and the revenue from such contracts represents a material amount of the Company's total revenue. The process to measure the amount of revenue to recognize in the [*name of industry*], including the determination of the appropriate timing of recognition, involves significant management judgment. We identified revenue recognition of long-term contracts as a significant risk requiring special audit consideration. This is because side agreements may exist that effectively amend the original contracts, and such side agreements may be inadvertently unrecorded or deliberately concealed and therefore present a risk of material misstatement due to fraud. In addition to testing the controls the Company has put in place over its process to enter into and record long-term contracts and other audit procedures, we considered it necessary to confirm the terms of these contracts directly with customers and testing journal entries made by management related to revenue recognition. Based on the audit procedures performed, we did not find evidence of the existence of side agreements. The Company's disclosures about revenue recognition are included in the summary of significant accounting policies in Note 1, as well as Note 4.

Going Concern

The Company's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we have concluded that management's use of the going concern basis of accounting in the preparation of the Company's financial statements is appropriate. Management has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, and accordingly none is disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty. However, neither management nor the auditor can guarantee the Company's ability to continue as a going concern.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. [*Those charged with governance*] are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with [*those charged with governance*] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We are also required to provide [*those charged with governance*] with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner responsible for the audit resulting in this independent auditor's report is [*name*].

[*Auditor Address*] [*Date*]

Example 'New' Audit Report (1)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Audit of the Financial Statements

Opinion PRETTY MUCH THE SAME BUT RIGHT UP FRONT

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company (the Company) as at December 31, 20X1, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs). We have audited the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion PRETTY MUCH THE SAME

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company within the meaning of [*indicate relevant ethical requirements or applicable law or regulation*] and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters NEW AND INTERESTING

Going Concern NOW REQUIRED FOR ALL COMPANIES

Responsibilities of Management and Those Charged with Governance for the Financial Statements PRETTY MUCH THE SAME

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. [*Those charged with governance*] are responsible for overseeing the Company's financial reporting process.

Example 'New' Audit Report (2)

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Auditor's Responsibilities for the Audit of the Financial Statements ENHANCED AND EXPANDED

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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The engagement partner responsible for the audit resulting in this independent auditor's report is [*name*].

[*Auditor Address*] [*Date*]

Example Going Concern Commentary for All

Going Concern

The Company's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we have concluded that management's use of the going concern basis of accounting in the preparation of the Company's financial statements is appropriate. Management has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, and accordingly none is disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty. However, neither management nor the auditor can guarantee the Company's ability to continue as a going concern.

Key Audit Matters

How to identify? Issues of most significance in the current period audit and have been communicated to those charged with governance

Example issues: goodwill impairment, valuation of financial instruments, acquisitions/change in group structure, revenue recognition, etc

How many? As appropriate

Should they be the same each year? Not necessarily.

Not permitted when report is adverse or disclaimed.

Example Key Audit Matters (1)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with [*those charged with governance*], but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

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Example Key Audit Matters (2)

Revenue Recognition Relating to Long-Term Contracts

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This is happening already – in the UK

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UK introduced expanded audit reporting in 2012 on a voluntary basis, mandatory from October 2012.

This includes a description of the risks that have the greatest effect on overall audit strategy, allocation of resources in the audit and in directing the efforts of the engagement team as well as an explanation of how the concept of materiality is applied in planning and performing the audit.

Examples of 2012 reporting include Vodafone.

In 2013, many more audit reports, one of the more interesting is Rolls Royce. Citigroup analyst report provides an interesting summary.

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Observations on the Rolls Royce Audit Report

Acclaimed by analysts as the Rolls Royce standard when it comes to audit reporting.

6 pages (double columns, small font) with 8 key areas of risks that had the greatest impact on the audit, the auditor's response and their findings

Use of language not usually used by auditors – "where there was room for interpretation we found the Group's judgement to be balanced" "our overall assessment is that the assumptions and resulting estimates resulting in mildly cautious profit recognition" "we found that the resulting estimate was acceptable but mildly optimistic"

Observations on the Rolls Royce Audit Report

Also discussion of materiality ($, % and base), what threshold for adjusted and unadjusted errors to be reported to audit committee, how the group audit was conducted and in which locations

A really interesting insight into Rolls Royce. Seems like it would contribute to the perceived value of the audit – auditors demonstrate what they have been working on for their fee and readers gain an independent perspective on the key risks which impact the financial statements and business of Rolls Royce.

The audit fee went from 4.7 million pounds to 5.8 million pounds.

This is happening already

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1. The Netherlands

PWC Netherlands has put together a report on their firm's experience in trying these out in the Netherlands. "Plain Speaking! Benchmarking the new auditor's report among Dutch listed entities" PwC, www.pwc.nl

2. France (Bédard et al, 2014)

Justification of Assessments (similar to KAMs) and fail to find that there is market reaction or impact on audit quality, symbolic rather than informative.

Speculation on likely outcomes and concerns

So, is this a ‘Game Changer’ or is it ‘Just More Boilerplate’? (Fargher, 2013)

Has generated discussion around the world – extremely high levels of responses to the IAASB’s Invitation to Comment (Simnett and Huggins, 2014).

Do users know what they want? Will users always want more? (especially if it is costless to them)

Will this add additional costs to the audit? If so, these are currently unquantified.

What is more important, the disclosure in the audit report or the conversations it entails with those charged with governance?

What will we see in Year 1 (variation?) and what will we see post-Year 1? (Boilerplating, convergence within industries and within years)

How can research inform us? (1)

It is very difficult to research what will actually happen to auditor, preparer, investor behaviour using archival data in advance of change.

One way to do this is to find an environment or a time period where this model is already in use.

For example, the UK would be a great setting to explore given the disclosure of significant risks in their revised ISA 700 audit reports (as yet no WPs).

For example, Dodija et al (2013 WP) examine Poland where extended audit reporting (auditor discussion and analysis) has been in place for over 20 years.

How can research inform us? (2)

Czerney et al (2013 WP) and Czerney et al (2014 WP) look at recent unqualified opinions in the US with additional explanatory language and find that the additional language is associated with the likelihood of financial statements being restated, increased discretionary accruals and that there is a market reaction (trading volume) around their issuance. This suggests that important information is currently being conveyed to users of financial statements via the audit report.

How can research inform us? (3)

However, researchers can design experiments and create a controlled setting in which to test alternatives which may or may not currently be present in reality.

For example, Christensen et al (2014 WP) examine non-professional investor decision making and find that when information is presented as a critical audit matter it is more likely to change investment decisions than when the information is published in the notes to the accounts. No such change is found with the standard audit opinion.

How can research inform us? (4)

Auditor’s opinion on management provided estimates is a likely area where users will expect a critical audit matter to be raised.

Doxey (2014 WP) finds similar results to Christensen et al in that auditor disclosures are found to be value relevant however auditors are viewed as *more* independent with when they agree rather than disagree with management. This is certainly an potential unintended consequence.

How can research inform us? (5)

In a very cool use of technology, Sirois et al (2013 WP) use eye-tracking devices to analyse user behaviour in reading financial statements when faced with standard or alternative format audit reports. They find that the inclusion of additional matters in the audit report impact the information search strategies employed and increase user attention on the disclosures in the financial statements mentioned by the auditors but *reduce* their attention to the rest of the financial statements. This study reports that there are a number of potential unintended consequences.

Fingers crossed…..

Conclusion

There are undoubtedly benefits to be gained from improvements to the audit reporting model, but at the same time, there is potential for unintended consequences.

The IAASB has flagged a post-implementation review two years after the adoption of ISA 701. Whether this provides a sufficient window to evaluate the success or otherwise of these changes is not clear.

Either way, there are many research opportunities examining the new audit reporting environment for archival and behavioural researchers.

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