Implications of Recent Reforms to Auditor Reporting Requirements in Australia

A thesis in fulfilment of the requirement for the Degree of Master of Research

by

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List of Acronyms

AASB	Australian Accounting Standards Board
ACCA	Association of Chartered Certified Accountants
AICD	Australian Institute of Company Directors
AICPA	American Institute of Chartered Public Accountants
AOB	Audit Oversight Board
ANOVA	Analysis of Variance
ASA	Auditing Standards in Australia
AUASB	Auditing and Assurance Standards Board in Australia
CAM	Critical Audit Matters
CAANZ	Chartered Accountants Australia & New Zealand
ED	Exposure Draft
EOM	Emphasis of Matter
E&Y	Ernst and Young Global Limited
FASB	Financial Accounting Standards Board
FRC	Financial Reporting Council
IAASB	International Auditing and Assurance Standards Board
IAG	International Auditing Guidelines
IAPC	International Auditing Practices Committee
IAS	International Accounting Standard
ICAEW	Institute of Chartered Accountants of England and Wales
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
KAM	Key Audit Matters
MIA	Malaysian Institute of Accountants
NZAuASB	New Zealand Auditing and Assurance Standards Board
PCAOB	Public Company Accounting Oversight Board
PPE	Property Plant and Equipment
PwC	PricewaterhouseCoopers
IOSCO	International Organization of Securities Commissions
TCWG	Those Charged with Governance
UK	United Kingdom

Abstract

Past corporate scams and failure to convey valuable information to financial information users have cultivated severe criticism of the audit report. The long-lasting debate culminated in introduction of the new ISA 701 and revision of some extant auditing standards to enhance the quality of audit reports while providing transparent and entity-specific information. Of all the changes to audit reporting, the disclosure of key audit matters (KAMs) in a new separate section of the audit report is one of the most significant and has attracted the most controversy. There still exists polemics among standard-setters, academics, investors, and other stakeholders regarding the merits of the new reporting requirements. Motivated by continuous debate and the lack of prior research, this study investigates the degree of conformity with the new auditor reporting requirements in Australia and the extent of variations in the reporting of KAMs by companies within and across industries. The results indicate that there is a high degree of conformity with the new reporting framework, yet significant variations in the contents of the report, particularly in KAM disclosures. We observe that the number of KAMs, the types of KAMs presented, and their extent of disclosure generally varies both within and across industries. We further provide evidence that auditors do not disclose negative KAMs, rather they tend to avoid negative wordings when describing KAMs. Overall, we provide evidence that auditors are reactive in the innovative KAM disclosure; however, we still report some discrepancies in their reporting. In addition, we reveal significant differences in the pre-and post-ISA 701 audit reports in terms of its length; therefore, disclosures contained in the post-ISA 701 audit reports are much more comprehensive. These findings have important policy implications for the standard-setters, regulators, auditors, and users of financial reports on the adequacy of the new auditor reporting framework.

Keywords: audit reports, key audit matters, ISA 701, ISA 700 (Revised), IAASB

Statement of Originality

This thesis work has not been submitted for a higher degree or diploma to any other university or institution. To the best of my knowledge and belief, the thesis contains no material previously written or published by another person except where due reference is made in the thesis itself.

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Chapter 1: Introduction

1.1 Overview

Dynamism in business practices compounded by the complexity and sophistication of business transactions has begot remarkable changes in financial reporting. Auditing and auditor's reporting requirements are driven, to a large extent, by these changes. In fact, accounting and auditing practice has always been an integral part of accountability, governance, sustainability, and other monitoring and controlling regimes (Miller and Napier, 1993; Carnegie, 2014). The last two decades have seen enormous changes in the way organisations report financial information to the different stakeholders, particularly after the worldwide accounting scandals, including Enron, WorldCom, Xerox, Lehman Brothers, HealthSouth, HIH Insurance, and Telco. These corporate scams and failure to convey useful information by auditors, which in the extreme resulted in financial crises, have sparked heated debates regarding the roles of auditors and the form and contents of audit reports among the standard-setters, policymakers, auditors, and users of financial statements.

Transparency and integrity in financial reporting has been the prime concern across the globe and this has led to the enactment of the Sarbanes-Oxley Act of 2002. Resultantly, the Public Company Accounting Oversight Board (PCAOB) was formed to protect investors and public interest by overseeing audit of public companies. The International Auditing Practices Committee (IAPC) was reconstituted as the International Auditing and Assurance Standards Board (IAASB) to buttress and foster continuous development and issuance of effectual standards and guidelines for auditing. Accordingly, there has been a series of reforms to achieve a prudent and credible reporting regime while ensuring global financial stability.

Recently, responding to stakeholders' recurrent demand, the IAASB has provisioned one new standard and amended six standards to ensure sufficient and fit-for-purpose audit reporting with enhanced informational value of the audit report. The new standard *ISA 701: Communicating Key Audit Matters in the Independent Auditor's Report* and the amended auditor reporting standards including ISA 260, ISA 570, ISA 700, ISA 705, ISA 706, and ISA 720 were adopted in Australia by the Auditing and Assurance Standards Board (AUASB) in 2015 for all listed companies, making it effective from the reporting period ending on or after 15 December, 2016 (AUASB, 2015; CAANZ, 2015).

In light of the controversies surrounding the recent audit reforms, this study addresses three key research questions. First, we investigate the degree to which the top 200 listed companies in Australia are conforming with the recent requirements of the new audit report. The theory of regulatory compliance indicates that all rules or regulations are not created equal and full compliance with all rules is not necessarily a good policy (Fiene, 2016). Additionally, it is implicitly believed that when accounting and auditing standards are issued, firms applying the standards are sometimes forced or helped by auditors (Willingham and Wright, 1985). Nonetheless, one may argue that there might be incentives to comply partially or even not at all as long as the costs of such noncompliance do not exceed the benefits (Jegers and Houtman, 1993). In the context of this study, besides the inclusion of Key Audit Matters (KAMs), the recent reforms obviated the standard audit report layout and imposed a new reporting model with significant changes to the format and contents of the report. It is implicitly assumed that all listed companies in Australia are intimately following the new reporting requirements. However, there is no evidence that empirically assures the extent of conformity. The literature on reporting harmonisation shows that sometimes, companies deviate from the rules and reporting requirements.

The current study argues that there may be some discrepancies in applying the new reporting model and, hence, we investigate the degree of conformity from a sample of the top 200 ASX companies. We compare the 64 elements identified in the applicable standards with the auditor's report from the sampled companies to determine the degree to which the listed companies in Australia are complying with the requirements of the new audit report.[1] In a longitudinal "pre" and "post" comparison, we also identify how significantly the length of the audit report (post-ISA 701) increased with the application of the new audit reporting regime. Additionally, an inter-industry comparison is made to examine any significant differences among the industries while conforming to the requirements of the new audit report.

Second, we identify the extent to which the informational content of the KAMs section is consistent within and across the industries in Australia. Third, we also determine whether KAMs reported are negative and/or positive and identify the rankings of positive and negative KAMs within the audit report. The present study addresses the knowledge gap in the existing

[1] We developed a checklist comprising sixty-four elements related to the format and contents of the audit report based on the revised standards and new ISA 701.

literature on the presentation and disclosure of KAMs. While a few studies identified the nature or types of KAMs reported, no prior study has attempted to identify the extent of KAMs disclosure, tendencies (negative and/or positive), and variations (or consistencies) within and across industries in Australia. Engaging the content analysis technique, we investigate the ASX top 200 companies' audit reports to determine whether KAMs presented are negative or positive in tone. We also identify the auditors' choice of placing a particular KAM type over another. We further scrutinise whether KAMs reported are consistent over the years within the company and industry or whether they deviate across companies and industries.

1.2 Background

Various types of organisations, including private and public limited companies, investors, government bodies, market regulators, tax authorities, and other stakeholders lean on credible financial information to make their business decisions. Auditors provide independent and expert opinion through their reports on the fairness of the financial statements produced and furnished by the companies to bolster user confidence in the information (Courtis, 1986; Chen et al., 2013; IAASB, 2015a; Boolaky and Quick, 2016). However, auditors and audit reports have long been censured for their perceived failure and inadequacy to meet stakeholder demands for audit-specific and entity-specific information (Humphrey et al., 1992a; King and Case, 2003; Church et al., 2008; Smieliauskas et al., 2008; Mock et al., 2013). After the high-profile corporate collapse in 2008, many economic actors and practitioners, along with investors and other market participants, raised severe questions about the role of auditors and the informative value of the audit report (IOSCO, 2009; Gray et al., 2011; IAASB, 2011). Correspondingly, academic researchers, over the past decade, have also critiqued the auditor's report for its "boilerplate" format and pass/fail character (Asare and Wright, 2012; Vanstraelen et al., 2012; Mock et al., 2013) while continually urging that change in the audit reporting regime is needed (Gray et al., 2011).

Until recently, financial statement users considered the traditional auditor's report as uninformative, particularly because almost all companies received the same "unqualified opinion" (Church et al., 2008; Gray et al., 2011) irrespective of the size, complexity, or nature of operations. Alternatively, auditors issued, though this is the rare case in practice, a qualified opinion if the auditor concluded that the financial statements were not free from material misstatements or they were unable to obtain enough evidence to form an opinion that the financial statements and the attached notes are free of serious distortions (IFAC, 2009). Thus, these two (binary) options: unqualified (pass) or qualified (fail), along with its technical language made the audit report "boilerplate" and less useful (IOSCO, 2009). Moreover, the traditional report neither conveys information about critical transactions that a firm may be involved in that could engender potential risk nor does it convey any statement regarding the specific procedure the auditor followed in conducting the audit. Consequently, users feel less interested in reading the auditor's report (Turner et al., 2010; Carcello, 2012) and in most cases they just check for the type of opinion provided (Gray et al., 2011).

Nevertheless, it is highly believed that the auditors can play a vital role in protecting public interests (Deumes et al., 2012), thereby contributing to the formation of a resilient and robust capital market. The IAASB introduced the new auditor reporting framework in 2015 to reduce the dissatisfaction over auditor reporting and to enhance market efficiency (IAASB, 2015a). They argued in their Exposure Draft (ED) that the reforms would help to reinvigorate the public's trust and confidence in the independent auditor (IAASB, 2013). Consequently, under the new regime, auditors are now required to provide greater clarity and transparency about serious matters in the financial statements and provide more details on the conduct of an audit (IAASB, 2015b).

Though not congruous with the clean report that was in use until recently, the novel unmodified report developed with the latest reforms overshoots the so-called "standardised report". Auditors now have to disclose firm-specific information on the new "key audit matters" section of the report (IAASB, 2015c) and mention the name of the audit engagement partner in the audit report, as well as add a section on 'other information' i.e., information other than financial statements and auditor's report. However, this new legislation requiring the disclosure of added information is only applicable for audits of listed companies (IAASB, 2015d). Nevertheless, many countries across the world have adopted this long-form of reporting with the aim of ensuring greater transparency in audit function and eventually in financial reports. However, polemics raised and yet continues on the competency of the newest reforms.

While KAM proponents are uncompromising on their perceptions of informative value enhancement, polemicists are raising different concerns. The IAASB, for illustration, firmly believes that the introduction of KAMs would significantly improve the quality of the audit, increasing the value of the information in the auditor's report (IAASB, 2015c). The board's peer PCAOB, also believes that the reporting of critical audit matters (CAMs), an equivalent concept of KAM in the US jurisdiction, would amplify auditors' scepticism and effort, prompted by increased accountability, which in turn yields higher quality financial statements (PCAOB, 2011). Similar notions were expressed by their UK counterparts, the Financial Reporting Council (FRC) with evidence of positive findings in their early implementation of enhanced reporting in 2013 (FRC, 2016). Moreover, reporting KAMs may inspire client management to adopt less aggressive accounting and encourage fair financial reporting, predicting the forthcoming disclosure challenge (IAASB, 2015c; Reid et al., 2018).

However, on the other hand, worries burgeoned among many, arguing that the revisions would incur more costs than benefits (IAASB, 2013) and, hence, are far from being implemented. Vanstraelen et al. (2011), for instance, claim that stakeholders may prefer the auditor's report to financial statements in making their business decisions resulting in eschewal of statement analysis, which could leave them terribly vulnerable. The IAASB also showed a similar concern, arguing that users may consider the KAM disclosures as a substitute for financial statements and feel less interested in studying those statements (IAASB, 2012a). Consequently, the objective to improve the users' decision-making ability based on more crucial information may be deteriorated (Sirois et al., 2018). The scepticism is that reforms will make the report more complex and unnecessarily lengthy and add no value (Ghandar, 2014). Since the auditors are not allowed to disclose any new information to third parties (IFAC, 2006), it will be challenging for auditors to identify KAMs (Deloitte Touche Tohmatsu Limited, 2013). Further, it will also be arduous for them to maintain relevance while writing about KAMs in a succinct and explicable way (Deloitte Touche Tohmatsu Limited, 2013). Moreover, it is also argued that the disclosures may not be readily comprehensible because of the use of technical language (Footprint Consultants, 2011; Asare and Wright, 2012).

Further arguments state that in an effort to fulfil the KAM requirements auditors may go beyond maintaining confidentiality (Humphrey et al., 2009). Consequently, clients may lose their troth in auditors and auditors may lose their clients (Humphrey et al., 2009). Conversely, with the fear of being discharged or the trepidation of breaching confidentiality, if the auditors do not include enough information in the KAMs, the report will go back to being symbolic and just a boilerplate (Lennox et al., 2018), thus, losing communicative value (AUASB, 2013;

IAASB, 2013). Also, the presentation of KAMs may divert resources from critical audit tasks and affect audit quality (Deloitte Touche Tohmatsu Limited, 2013).

Additionally, it is further claimed that the KAM disclosures could widen auditor's legal obligations (Tysiac, 2014) and, thus, influence their choice of information for the KAM section (AUASB, 2013). To protect themselves from legal liability, auditors may disclose information not discussed with management or the board of directors and KAMs may become overly detailed and cumbersome (AICD, 2013). Further, management may persuade auditors in regard to the content of the KAMs (AUASB, 2013) and any disagreement may raise questions about transparency (IODSA, 2015). Furthermore, it is also argued that disclosing the name of the audit engagement partner, as additional information, will not affect audit quality or assist investors to make better decisions (PwC, 2014).

Given this backdrop of optimism and criticism from both sides, questions arise as to how well auditors are conforming with the new reporting requirements. The contemporary studies provide foresight regarding the effects of the new reporting model on investors' decisions, auditors' judgement, audit fee, audit quality, and jurors' assessments of auditor liability. However, no investigation yet provide a comprehensive assessment of the new reporting legislation (see for example, Christensen et al., 2014; Boolaky and Quick, 2016; Brasel et al., 2016; Carver and Trinkle, 2017; Bédard et al., 2018; Reid et al., 2018; Sirois et al., 2018).

Admittedly, some prior studies attempted to explore the nature of KAMs in auditor's reports in the very first year of adoption. However, the extent to which the auditors have disclosed KAMs in new reports has not been thoroughly investigated, nor is it clear whether reported KAMs are consistent. Furthermore, substantial attention is yet to be given to the issue that auditors may exploit opportunism in their exercise of judgement imposed by principle-based standards. More specifically, the tone of KAMs is at the discretion of the auditor and, thus, a concern that prior studies (Rudkin et al., 2018) have shown that negative information is presented as favourable amid positive information.

The current study aims to address the gaps in the body of literature in auditing. Given the new standards are in effect and research that has explored the aftermath is limited, we fill the knowledge gap concerning how auditors are conforming with this massive transformation to extended reporting. In addition, we examine the extent of disclosure, tones of KAMs and their consistency to provide an insight to the stakeholders involved with such transformation.

1.3 Aims and Objectives

This study aims to examine the degree of conformity with the new auditor reporting requirements in Australia and the extent of variations in the reporting of KAMs within and across the industries. The specific objectives of the study are as follows:

- To investigate the degree of conformity with the new audit reporting requirements across the listed companies in Australia;
- To identify the extent to which the informational content of the KAMs section is consistent within and across the industries in Australia; and
- To determine whether KAMs reported are negative and/or positive and to identify the rankings of positive and negative KAMs within the audit report.

1.4 Motivation and Contributions

This study is motivated by some important contemporary factors and inspired by manifold contributions to the body of literature. First, the rising global interest in audit aspects combined with recent audit reforms motivated largely to investigate the aftermath of the policy applications. The IAASB has stated that the effect of the changes to the audit standards will be reviewed a few years after their implementation across various countries resulting in the creation of numerous research opportunities to inform this process. There is limited research on audit reforms, and there still exists polemics among standard-setters, academics, investors, and other stakeholders regarding the merits of the new reporting requirements. Furthermore, there is also a need for research on how auditors are applying the requirements of the new audit reporting model as there is a presumption that auditors are fully conforming to the new framework. Yet, this supposition remains to be factually tested.

The new ISA 701 and other revised ISAs require a new layout of the report with several additions, such as most significant matters, risk assessment, audit approach, name of the engagement partner, and other information (IAASB, 2015c; IAASB, 2015d; IAASB, 2015e).

Given this setting, our study is one of the first to examine whether auditors are fully conforming to the new audit reporting model in Australia. We also determine how significantly the length of the report has increased with the application of the new reporting regime. We find that there is a high degree of conformity with the new audit reporting framework in Australia yet significant variations in the contents of the report, particularly in KAM disclosures. Our study will inform standard-setters and regulators on how auditors implemented ISA 701, ISA 700 (revised) and ISA 720 (revised) in Australia and the adequacy of the new auditor reporting framework. The findings will also have implications for current monitors overseeing the standard's implementation and standard-setting bodies in the future.

Second, the overriding objective of the KAMs is to enhance the communicative value of audit report by providing firm-specific and audit-specific information. Standard-setters and researchers, however, show conflicting concerns indicating that the desired objective may not be achieved. KAM's value relies on the extent of details provided by the auditor (IAASB, 2012b), but increasing the number of such elements can also shrink the effectiveness of their signals (Li et al., 2019). Therefore, exploring the present state of KAM disclosures is greatly needed. In our study, we identify the nature and extent of KAM disclosures in the audit report and confirm that additional disclosures of both client-specific and audit-specific information are made in the audit report, which was an ongoing demand of various stakeholders. Further, repudiating the scepticism, we assure that the auditors' approach KAMs not as a compliance exercise but rather as an opportunity to stimulate enhanced reporting. Investors and other users of financial statements would be interested in our observations to see how well their long-standing demand has been met.

Third, it is important to investigate how auditors are presenting KAMs, as an inconsistent and biased presentation of the KAMs could impact a user's investment decision and ultimately, how the capital market functions. Prior studies have yet to examine the extent of variation in the reporting of KAMs. This study is a pioneering contributor in the literature in determining KAM consistencies (or variations) within and across industries. We generally find that the number and types of KAMs presented and the extent of disclosures vary both within and across industries. Both standard-setters, while assessing the effectiveness of the new standards, and auditors, while seeking to know the trends of KAMs reporting, may be interested in the result. Fourth, given the flexibility in KAM presentation along with the concepts of psychology and relevant prior studies, auditors are assumed to exploit opportunism in their choice of words and tone in reporting KAMs. We are motivated to find empirical evidence on KAM tendencies (negative and/or positive) and their order of placement in the KAM section. The findings could be of interest to the standard-setters and researchers endeavouring to minimise the expectation gap. Our observations show that auditors in Australia are not reporting negative KAMs at all. Hence, considering our study as evidence, the concerned regulators or interested researchers could investigate further to assess the adequacy of the current wording or contents of the KAMs reported by auditors.

Overall, our study significantly contributes to the audit report reform literature in particular and auditing literature in general. Different stakeholder groups, including local and international standard-setters and policymakers, professional bodies, accounting firms, corporate communities, research institutes, providers and users of financial statements all may be interested in our findings and conclusions, specific to their own needs.

1.5 Organisation of the Thesis

The rest of the thesis proceeds as follows. Section 2 presents the background of the study. Section 3 delineates relevant literature and develops the hypotheses to be tested. Section 4 is devoted to the research design, followed by the results in Section 5. The final section concludes the thesis.

Chapter 2: Overview and Literature Review

2.1 The Audit Report and its Informational Value

Agency theory implies that agents will capitalise on their knowledge to reach their own goals by exploiting the principal's resources (Jensen and Meckling, 1976). For example, managers (agent) could benefit themselves at the expense of the owners' interest (principal) as organisations are operated by managers, not by investor-owners. This is the heart of the agency problem (Watts and Zimmerman, 1979). To protect the interest of investors and other stakeholders, auditors are hired to monitor whether the principal's interest was considered in various decisions made by management (Carrington, 2014). Auditors then communicate their findings to the stakeholders through the audit report.

The auditor's report is valuable to financial statement users (Deumes et al., 2010) and the value is escalated by any audit process that improves the quality of financial statement information (Coram et al., 2011). Researchers used different terms with regard to the value relevance of audit reports, such as informational value, informative value, communicative value, and communication value in their studies (e.g., Smith and Smith, 1971; Pound, 1981; Coram et al., 2011). From a general perspective communication value relates to how easily the readers can understand the message that was indented to be shared, and the informational value means how informed are the users so they can make better decisions. In fact, these two are very much intertwined. Accordingly, Lundgren and Oldenborg (2016) noted two types of gaps with respect to the audit report: the information gap and the communication gap. The information gap relates to *which* information is presented in the auditor's report, while the communication gap relates to *how* the information is presented (Lundgren and Oldenborg, 2016).

Effective communication of information provided in the auditor's report depends on how simply the users can understand it (Pound, 1981). Smith and Smith (1971) posited that the communicative value, in financial reporting, is conspicuous when the information furnished by the source is acknowledged by the destination. A similar definition was given by Coram et al. (2011) in their study on audit reports noting that communication value is explicit when the intended message conveyed by the report is received by the intended users. Hence, if the users' understanding of the audit engagement is improved by the choice of words used by the auditor, then it means both communicative and informational value have increased. The principal objective of expanded audit reports is to improve their informational value and relevance (IAASB, 2015b) and, thereby, enhance the user's understanding of the financial statements and of the audit (Boolaky and Quick, 2016).

Previously, due to the extreme financial crisis around the world, the users of financial statements lost confidence in the financial statements and auditor's report provided by companies. Consequently, concerns rose about the adequacy of the so-called standard audit report, particularly whether it is still fit for the intended purpose of demonstrating the transparency of the state of affairs of the client. Standard audit reports also received extensive condemnation because it lacked a message about the audit scope (Power, 1997; Carrington, 2014). Moreover, critics argued that the standard audit report was not informative enough (Coram et al., 2011; Carcello, 2012), and the report lacked information about how the audit was conducted (Humphrey et al., 2009; Asare and Wright, 2012). Thus, it is argued by both standard-setters and researchers that more information needs to be disclosed about the audit process to regain public confidence in the report (IOSCO, 2009; Gray et al., 2011; Vanstraelen et al., 2012; IAASB 2015a; FRC, 2016).

In contrast, there is evidence indicating that the amount of information in the audit report has a trivial impact on information and communication value. Coram et al. (2011), documented that although the auditor report signals a level of reliability, the longer structure of the report does not increase communicative value. Mock et al. (2013) also argue that the extended statement does not necessarily result in more information value. Chen et al. (2013) also claimed that investors choose to ignore audit reports when they are overloaded with additional information. Sirois et al. (2018) also found similar results that the expanded report had nugatory impacts on the informative value because a user's ability to understand the reports was linked to the additional information where 'valuable' was absent. Further, extended reporting may result in more dissimilarities among users and auditors as additional information can contribute in added difficulties in understanding the report (Chong and Pflugrath, 2008).

Academic researchers mainly rely on the information gap, the expectation gap, and user perceptions to evaluate the communication value of audit reports. The information gap is the gap between information available to the users and information not publicly available but users believe necessary to make better decisions (Barker, 2002; IAASB, 2011; Simnett and Huggins, 2014). The expectation gap is the difference between what users perceive an audit should be and what the audit actually is (Porter, 1993; IAASB, 2011; Pinto and Morais, 2019). Though research on the information gap is scarce, there is a panoply of scholarly papers scrutinising the impacts of various auditor report formats and contents on perceptions and the expectation gap. A study by Bailey et al. (1983), for instance, concluded that changes to the format, content, and wording of an auditor's report affects the meanings perceived by auditors and users, but such changes do not greatly reduce the expectation gap. Kelly and Mohrweis (1989) claimed that an extended report increases users' understanding of the audit procedures and management's responsibility for the financial statements. Kipp (2017) also presented evidence on the effect of the language used in CAMs on investor judgements. He found that financial statement users find more confidence in the accuracy and reliability of the statements when the CAMs are explained in greater detail compared to just a generic description.

Unlike others, Chong and Pflugrath (2008) investigated shareholders' perception vis-à-vis auditors' perception to see the impacts of numerous audit report formats. Conducting a questionnaire survey to 280 audit partners from five chartered accounting firms and 600 Australian Shareholders' Association members, the study found that a greater number of significant differences existed between the perception of shareholders and that of the auditors while fewer significant differences were evident for the 'plain language' report that has an opinion at the beginning. Further, Miller et al. (1993) conducted a study on bank loan officers and found that the expanded audit report better communicates the responsibilities for both management and the auditor. Manson and Zaman (2001) surveyed three groups: preparers of financial statements, auditors, and users in their inquest. The study concluded that an expanded report, from the perception of all three groups, ensures more clarity in conveying the purpose of the audit. However, the study also concluded that it was less successful in communicating the nature of the auditors' work in relation to evidence gathered, the auditors' responsibility regarding fraud or illegal acts, and the use of judgement to form an audit opinion. Lundgren and Oldenborg (2016) also found that the new changes to the audit report had a positive effect on the non-professional investors' perception of the audit report.

Some early studies banked on 'readability' to evaluate how well the audit reports communicate the message to the users (e.g., Barnett and Loeffler, 1979; Pound, 1981). Barnett and Loeffler (1979) observed that users consider reading the audit report as very difficult task. Pound (1981) also found that most of the users find it challenging to comprehend the audit report. However, Smith (2016) documented that audit report readability has improved in the post-ISA 700 era.

Taken together, the wording of the report affects the understandability and changes are needed to improve the communication value of the audit report. However, polemicists of previous standard audit reports postulated that the auditors themselves had used their echelon and dominance to force and retain their reports with inadequate informative value (Humphrey et al., 2009; Mock et al., 2013). The audit profession has counterclaimed that financial statement users had not realized the purpose and practice of auditing (Humphrey et al., 1992a; Mock et al., 2013; Litjens et al., 2015). The profession further claimed that the users had impractical expectations of audit works due to their incomplete understanding of audit affairs. Consequently, auditors did not provide entity-specific information, rather they supplied more general, i.e., standardised information, in the audit reports.

Researchers also claimed that the main focus of auditing reforms during the past has been intended to embolden solid confidence in the standing of auditors instead of attaining better transparency and informative value for financial statement users (Smieliauskas et al., 2008). Thus, auditors have been denounced for using just an ‘image management’ tactic to amplify the moral but not pragmatic legitimacy of their work (Humphrey et al., 1992b; Power, 2003). As noted by Litjens et al. (2015), standard auditor’s reports only present moral legitimacy by their declaration that standards were followed in conducting the audit. However, currently, mere moral legitimacy does not offer adequate trust in the audit report and auditing profession.

2.2 Recent Audit Reforms and their Implications

To many, audit reports are the keystone of analysis and investigation prior to investment decisions. However, in the wake of the global financial crisis, the issue of form, contents, and standard wording of audit reports has spawned a vigorous debate among audit practitioners, academics, investors, and other stakeholders (Brasel et al., 2016). Holding significant implications, the paradigm shift from short, uninformative, boilerplate reports to the extended audit report has not happened overnight. Several notable changes worldwide have been made to both the form and content of auditor’s report over time. Continuous debate on the expectation gap fueled by a series of accounting scandals led to this much-needed transformation.

The most recent reform was executed by the IAASB in 2015 with the incorporation of *ISA 701: Communicating Key Audit Matters in the Independent Auditor’s* Report and modifications to some extant standards with a view to providing more entity-specific and audit-specific information in the audit report. However, before recent reforms, the last significant amendment to the auditor’s report was in 2006 with the revision of ISA 700 to enhance understanding of the auditor’s responsibility and auditor’s report (IFAC, 2008; Fakhfakh and Fakhfakh, 2010; Coram et al., 2011). The applied changes were an improved discussion on auditors’ responsibilities, a proclamation stating that ethical requirements have been complied with, a statement that the audit evidence obtained is ‘sufficient and appropriate’ to provide basis for the audit opinion, and an explanation relating to the need for internal controls to be evaluated by the auditor (Coram et al., 2011). The term “due to fraud or error” was also imported for the first time in the audit report in relation to statements about the assessment of risk of material misstatements (Fakhfakh and Fakhfakh, 2010). However, the standard was further revised and given a new title *ISA 700: Forming an Opinion and Reporting on Financial Statements,* in 2009 (IAASB, 2009). The standard obliges the auditor's report to deliver clear explanations of the auditor's and management's responsibilities, as well as a description of the nature, scope, and procedures of the conducted audit (Gold et al., 2012). Finally, ISA 700 (Revised) was issued in 2015 (as part of the recent reform) with the requirement of clearly stating the financial reporting framework that was used to prepare the financial statements in the audit report (IAASB, 2015e).

As already mentioned, in line with continuous reforms, the IAASB has provisioned one new standard (ISA 701) and amended six standards (ISA 260, ISA 570, ISA 700, ISA 705, ISA 706 and ISA 720) to enhance the informational value of the audit report. Emphasis on materiality judgements, adequate going concern opinions, audit of other information, and separate disclosure of KAMs are the major issues addressed by these reforms. While previously, materiality decisions, a very important aspect of audit planning, were made with no or little application of judgement (Messier et al., 2005), currently an all-inclusive approach, not merely a prescribed percentage, is applied to determine materiality thresholds (Edgley, 2014; IAASB, 2014; IAASB, 2015a). Previously, auditors did not focus on information outside the financial statements and auditor’s reports provided in the annual reports. Now they are required to report on management responsibilities and the auditor’s responsibilities relating to other information and misstatements, if any, comprised in other information furnished in annual reports (IAASB, 2015f).

Furthermore, with respect to going concern opinion, auditors now have enhanced responsibilities to evaluate the sufficiency of disclosures in a “close call” situation (IAASB, 2015g). Moreover, the existence of material uncertainty related to going concern with adequate disclosures in the financial report is no longer referred to as an emphasis of matter (EOM), but is reported under the title “Material Uncertainty Related to Going Concern”, a separate section of the audit report (IAASB, 2015g). In addition, a positive statement, regarding the independence of the entity, compliance with ethical requirements, and fulfilment of other ethical responsibilities is required to be made by the auditor (IAASB, 2015e). The name of the engagement partner beside the name of the audit firm is now required to be disclosed in the auditor’s report (IAASB, 2015e).

Additionally, the new audit report requires the auditor’s opinion section to be placed upfront (earlier it was at the end) and the basis for such opinion second, succeeded by going concern issue and/or an EOM, if applicable. The next section is KAMs, a new section followed by another new section called “Other Information” or an appropriate title. Followed by the directors’ responsibilities regarding financial statements and the auditor’s responsibilities for the audit. Finally, the name of the partner engaged in the audit is mentioned by mandate for listed companies (KPMG, 2015; Prasad and Chand, 2017). Further, the description of the management responsibilities section has been enhanced to report on assessment of the entity’s ability to continue as a going concern, and the use of the going concern basis of accounting. It also includes, when applicable, an additional statement that highlights the responsibilities of those charged with governance to oversee the financial reporting process. Furthermore, the auditor’s responsibility section has been made more comprehensive, with options to present a detailed list of responsibilities on specific website or an appendix. The enhanced responsibilities include the exercise of professional judgement, understanding internal controls, identifying and assessing risk, evaluating accounting policies, identifying material uncertainties, concluding about management’s use of the going concern basis of accounting, complying with independence requirements, communicating with those charged with governance, and reporting KAMs (IAASB, 2015e).

The most noteworthy change, however, is the disclosure requirement of KAMs in the audit report (IAASB, 2015b; CAANZ, 2016; Sirois et al., 2018). KAMs are the most important matters arising from the audit of financial statements as per the auditor’s professional judgement. The purpose of communicating KAMs in the audit report is to enhance the communicative value of the auditor's report, as well as assisting the users of financial statements to understand the management and auditor's judgements that were the most significant in preparing and auditing the financial statements (IAASB, 2015b).

Nevertheless, controversy arises regarding the adequacy of the reforms, particularly KAM contents, wording, and presentation. KAMs advocates maintain a stance that these disclosures enhance informational and communicative value of the report (PCAOB, 2013), while others hold divergent view claiming that KAMs report would be boilerplate statement (Footprint Consultants, 2011; IAASB, 2012a) and consequently reduces informational value (IAASB, 2013; The World Bank, 2013; IAASB, 2017). Moreover, it is also argued that sophisticated users will not read the whole report because they have the audit opinion at the beginning of the report and the report is too lengthy (Association of Chartered Certified Accountants, 2018). Scepticism also arises that presentation of KAMs may vary depending on the auditor's exposure to legal liability (AUASB, 2013). It is also argued that increasing the responsibilities of the auditor would increase audit costs and fees (New Zealand Auditing and Assurance Standards Board, 2013; Turner, 2013).

Additionally, as stakeholders are influenced by KAMs disclosure, there are incentives for management to persuade auditors to not disclose negative KAMs since that would be contrary to the company's interest and firms rarely disclose 'bad news' (Guthrie and Parker, 1990; Piotroski et al., 2015). Thus, client pressure can influence an auditor's judgement on how KAMs are presented in the report, which may lead auditors to shirk their responsibilities. Additionally, the financial condition of the company can also influence an auditor's judgement on the presentation of KAMs, because poorly performing companies are highly likely to fail, and this could lead to litigation against auditors.

Furthermore, in the new ISA 701 applied reports, the language for the KAMs section is auditor-generated, which can confer additional insights into its communicative value. However, the opportunism hypothesis implies that auditors may apply opportunistic behaviour as there is no steadfast rule regarding the KAMs polarity (i.e., positive or negative). The new standard includes the term *"Matter of Professional Judgment"* as guidance regarding the KAM's order or presentation and description, leading it to the auditor's discretion and hence a matter of concern (Bédard et al., 2014). Agoglia et al. (2011) argued that reporting quality was enhanced further when more precise (rule-based) standards are applied compared to less precise (principle-based) standards. Accordingly, in the context of this current study, it is argued that an auditor may minimise the presentation of negative KAMs due to “negativity bias” coupled with management’s persuasion; since negative information has a more cognitive impact and, thus, more effect on judgements and decisions.

Moreover, professional accounting and auditing standard-setting bodies have raised questions about local and global consistencies of KAMs disclosure (IAASB, 2013) as inconsistent KAM presentation could impair user’s decisions and eventually, the capital market. While the new reporting model has been implemented by the accounting practitioners worldwide, the standard-setters and regulators, along with the research groups, are assessing the effectiveness and adequacy of the paradigm shift.

Chapter 3: Relevant Literature and Hypotheses Development

3.1 Complying with the Requirements of the New Audit Report

With the growing number of corporate breakdowns combined with the need for operational integrity and transparency, organisations are frequently adopting different regulatory compliance controls to protect the interest of different stakeholders (Lin, 2016). In general, regulatory compliance aims at ensuring that organisations achieve their goals while conforming to the applicable rules, laws, and standards. Compliance may take different forms (Taplin et al., 2014); it may be imposed by regulators (Ayres and Braithwaite, 1992) or it may be self-imposed (Murphy et al., 2009). Further, regulatory compliance may vary from one organisation to another, from one industry to another or even by location (Malyshev, 2008). Today, however, due to the cascading effects of globalisation, organisations are moving towards a harmonised platform to accomplish greater comparability to facilitate investment and business decisions. Similarly, in the context of accounting and auditing, when any standard is issued by the International Accounting Standards Board (IASB) or IAASB, different countries around the world adopt that standard to protect the stakeholders' interest and attain global convergence.

Accordingly, the purpose of IASB's conceptual framework is to provide guidelines for financial reporting so that various stakeholders of the reporting entity can make informed decisions about that entity (Taplin et al., 2014). Given these standards are adopted and imposed by local standard-setters, the independent auditors are required to verify whether the concerned entity has complied with statutory requirements that set out to expose entity's true financial performance and position. Thus, the objective of an external audit is to systematically scrutinise an entity's financial statements and convey an opinion on whether or not the financial report gives a true and fair view of its state of affairs. The external audit, therefore, extends reliability to the financial reports (Sikka, 2009).

To make the external audit process justified and authentic, the IAASB sets standards on auditing to fortify the level of auditing compliance at both the national and international level (IFAC, 2011). In Australia, the functions of investigation, monitoring, and enforcement of the responsibilities of companies in financial reporting, auditors' reporting requirements, and compliance with auditing standards are vested largely in the Australian Securities and

Investments Commission (ASIC) and particularly in the Australian Auditing and Assurance Standards Board (AUASB). However, in a way that agrees with the theory of regulations, forming laws and regulations to meet an intended purpose and implementing them is never that simple.

Many prior studies indicate that regulations usually lag behind the conduct and practice of the controlling industry (Chand et al., 2015; AASB, 2017; ACCA, 2018). When a regulation is promulgated, operators of the relevant industry may change their behaviour to the novelties of the regulatory system in a way to skirt the new laws. Afterwards, regulators realise that the target groups found how to circumvent the regulation (Asquer, 2018). There may be incentives for the firms to not conform or partly conform with the rules because of the costs associated with implementing the rules and regulations (Jegers and Houtman, 1993). Wilson (1984) asserted that adaptation of regulation depends on the degree of the costs and benefits involved. Thornton et al. (2008) also found that associated benefits and costs of compliance fabricate the regulatory programs and affects the response of regulating entities or industries (Thornton et al., 2008). Nevertheless, controlling entities or industries may conform to the legislation because of their ethics, moral practice, or image, depending on the specificities of the enforcement program (Ko et al., 2010). They may also comply if they see the regulation as rational (Murphy et al., 2009) or neutral and fair (Braithwaite, 1995, Tyler, 2006; Murphy et al., 2009). An organisation's professionalism (Parker, 1999) and professional independence (Makkai and Braithwaite, 1993) may also influence compliance. Moreover, firms sometimes apply standards with force from or helped by auditors (Willingham and Wright, 1985).

However, reported information is likely to be poor if the entity does not conform to the regulations or if the flexibility provided in standards has been utilised tactically, even though the regulations are of high quality (Alfaraih, 2009). Kothari et al. (2000) also noted that the quality of information could be poor if enforcement is weak, regardless of the quality of the standards. Thus, reaping the optimal benefit requires more than just adopting high-quality standards, be it domestic or international.

Further, there is evidence that fuels the impeachment against the entrusted auditors as to whether they are duly discharging their responsibilities. For example, Lehman Brothers, a US bank, was given an unqualified audit opinion just six months before it filed for bankruptcy in September 2008. America's fifth-largest investment bank, Bear Stearns, received a clean opinion at the end of January 2008. However, on 14 March the bank was sold to JP Morgan Chase, just four days after its financial problems came to light (US Securities and Exchange Commission, 2008). A few years earlier, in 2001, the collapse of Enron resulted in the destruction of one of the "BIG-5" professional audit service providing firms 'Arthur Andersen'. The accounting firm was convicted and proven as one of the major players in the scandal that caused a $74 billion loss for its shareholders (Baker and Hayes, 2004; Smith and Quirk, 2004; Krishnamurthy et al., 2006). In addition, it is also observed that IFAC and IAASB have criticised auditors, who asserted that financial statements fully comply with International Accounting Standards (IASs) while the accounting policies and notes show otherwise (Cairns, 1997).

There are empirical studies in the auditing literature that focus on audit reports, specifically the degree of conformity to different standards (Archer et al., 1989; King, 1999; Lin and Chan, 2000; Gangolly et al., 2002; Fakhfakh and Fakhfakh, 2010). Lin and Chan (2002), for instance, investigated how the Chinese standard on audit reporting compared with elements of ISA 700. They found some differences between the terminologies used and terminologies in the guidelines provided. However, they observed no significant differences in the content and structure of the audit reports. Gangolly et al. (2002) compared 50 national standards of audit reports with ISA 700. They found that 86% of the standards adhered to international requirements.

An earlier study by Archer et al. (1989) undertook a comparative survey among 16 European standards on audit reports and International Auditing Guidelines (IAG)-13. Examining 206 audit reports, they concluded that among these standards, only four standards, published in Italy, Spain, Ireland, and the UK, are in accord with the international report. Additionally, King (1999) analysed the basic elements of the audit report listed in the ISA 700 for different European countries. The results demonstrate that three of the five issues related to form are congruent across the countries studied; however, none of the contents are in harmony.

Fakhfakh and Pucheta-Martínez (2007) investigated the form and contents of auditor reports published by Tunisian auditors. They found that audit reports issued by the international auditing firms in Tunisia are not fully compliant with five (out of the 26) elements specified by the IFAC. In another study, Fakhfakh and Fakhfakh (2007) observed similar results. An investigation of 71 Tunisian audit reports revealed that the wording of the reports is not in conformity with the elements prescribed in ISA 700. A further rigorous study by Fakhfakh and Fakhfakh (2010) covering 278 auditor reports from 41 countries issued in 2007 and 2008 concluded that there exist significant anomalies when it comes to conforming with ISA 700 (revised).

Past accounting and audit debacles, such as Enron, WorldCom, Tyco, HealthSouth, AIG, Freddie Mac, and Lehman Brothers also provide cogent evidence that auditors do not always adhere to the applicable laws in their reporting. Further, there are innumerable examples that demonstrate noncompliance exercises by firms including but not limited to, tax avoidance, labour exploitation, environmental devastation, product adulteration, and quality testing forgery (Rudkin et al., 2018). Unfortunately, in many cases auditors are found to be involved in such perpetrations. A number of auditors also have a negative stance towards extended audit reporting, because it demands auditors to make disclosures about intricate issues of the audit. Auditors, hence, prefer a standardised report to avoid the increased complexity to produce reports with extended statements (Motahary and Emami, 2016).

Australia adopted the new standard ISA 701 with the other revised standards effective from reporting period ending on or after 15 December, 2016. Consequently, as reporting variations can have divergent impacts on users and can disrupt harmonisation, there is a need to ascertain the degree of conformity (or variability) with the new auditor reporting requirements in Australia. To assess the degree of conformity, we cautiously developed a checklist comprising of 64 elements to be presented in the new audit report based on the requirements of the new ISA 701, revised ISA 700 and ISA 720. Based on the preceding discussion, it is perspicuous that standards are not always properly complied with and auditors sometimes disclose more or less information than required. Thus, the following hypothesis is stated as follows:

H1: There are differences in the extent of disclosures in the new audit report across the listed companies in Australia.

3.2 Informational Contents of KAMs

Ever-increasing complexity coupled with information overload of financial statements and related disclosures have been the interest of inquest to many (You and Zhang, 2009; KPMG, 2011). Even in these disclosure intricacies, the addition of a new separate section in the auditor's report to highlight the KAMs is regarded as informative, value-adding, bespoke, insightful, credible, and useful (Deloitte, 2015; IAASB, 2015a). The extended audit report is considered as a unique way to share important knowledge, and insight gained about the company during the audit with shareholders (Deloitte, 2015). The concerned standard ISA 701 elucidates the aspect of KAMs determination. However, there is no steadfast direction indicating the number of KAMs to be reported rather the issue is extricated upon the auditor's professional judgement.

The standard prescribes a framework for auditors to determine KAMs and recommends the following factors for consideration when selecting KAMs for presentation: 1) issues of the higher apprised risk of material misstatement or areas where significant risks have been identified in reference to ISA 315; 2) areas of the financial statement that required the auditor to make significant judgements and accounting estimates or those that have been recognised to have high estimation uncertainty; and 3) the effects on the audit of significant transactions and events that happened during the accounting period (IAASB, 2015c).

Notwithstanding, the value of KAMs to information users relies on the extent of details provided by the auditor (IAASB, 2012a), and the disclosure of many such elements may reinforce information complexity (Smith, 2016) and forestall the intended purpose of enhancing communicative value (IAASB, 2013; Sirois et al., 2018). KAMs draw the user's attention and make the connected disclosures more noticeable (Sirois et al., 2018), but increasing the number of KAMs can also diminish the functionality of their signals (Li et al., 2019). Nevertheless, the IAASB and its peer, the PCAOB, anticipated that at least one KAM would be in the auditor's report (IAASB, 2015b; PCAOB, 2017).

With respect to the description of the KAMs section, the pertinent standard promotes two key aspects: why the matter was considered significant and how the matter was addressed (IAASB, 2015d). The sufficiency of the description is vested in the auditor's professional judgement. However, the description should provide a lucent explanation of why a particular issue is considered as one of the most significant while communicating a better insight into the audit and audit judgements (IAASB, 2015d). Further, how a KAM was addressed is again a matter of professional judgement. The standard denotes some points regarding the description of KAMs including the auditor's approach that were most relevant to the matter or specific to the assessed risk of material misstatement, an overview of procedures performed, key observations with respect to the matter, an indication of the outcome of the auditor's procedures, or some combination of these elements (IAASB, 2015d).

Studies focusing on the nature and extent of KAMs in the audit reports reveal the aftermath of such an initiative. As noted earlier, there are only a few studies that have examined the outcomes on the very first year of implementation of the new ISA 701 (e.g., Brouwer et al., 2016, Deloitte, 2017; KPMG, 2017; Wei et al., 2019). Out of those only two studies (KPMG, 2017 and Wei et al., 2019) were conducted in the context of Australia, while KPMG covered a sample size of 56 entities to see the nature of KAMs reported on in the first year of adoption, Wei et al. (2019) took a large sample of 860 reports and identified 25 types of KAMs reported (see Appendix 1 for details).

Analysing ASX 500, KPMG revealed that only 56 entities in Australia applied the new KAMs presentation requirement in their audit report for the financial period ending on 31 December 2016 (KPMG, 2017). KPMG examined the nature of KAMs included in the auditors' report and showed 18 different KAM categories reported by the firms. According to the study, the most common (45%, i.e., 25 entities) KAM reported by entities is related to the carrying value assessment or impairment of goodwill and intangibles. Acquisitions and revenue recognition are both in the second most reported KAM; each was reported by 13 entities (23.21%). The third-largest number of KAM topics was taxation, reported by 12 entities (21%). These top four items covered more than 40% of all KAMs reported in the observed companies. The study also showed the number of KAMs presented ranged from 1 to 5, with an average of 2.8 items.

Wei et al. (2019), in a recent study on ASX listed companies in Australia, classified KAMs into 25 types based on their nature. The most-reported KAMs are related to exploration for and evaluation of mineral resources (16.9%), goodwill and intangible assets (13.5%), revenue recognition (8.7%), acquisition (5.5%), asset valuation (4.7%), provisions (4.5%), and taxation (3.9%). They found the number of KAMs reported varied from one to six with a mean value of 2.01 and a median of two KAMs.

Deloitte (2017) conducted their comprehensive analysis focusing KAMs for the listed companies in Switzerland. They analysed 19 companies listed on the Swiss Market Index (SMI) and 31 companies listed on the Swiss Performance Index (SPI) totalling 50 companies to explore the areas that auditors identified and disclosed as KAMs. The study shows that the auditor reported 2.8 KAMs per group audit, while in the case of holding companies, the auditor disclosed 0.7 KAMs on average. The study also shows that the number of KAMs reported ranges from no KAM to two KAMs for holding companies and the range is significantly higher for consolidated financial statements, from one up to seven. Based on frequency, the most, 62% (31 out of 50) of the reports analysed disclosed goodwill and intangibles as KAMs and 44% (22) reported revenue recognition as KAMs. Taxation related issues were presented by 19 companies as KAMs, followed by 12 companies that reported provision related matters, which is the fourth most disclosed KAM. Further, seven auditors (14%) considered pension as a KAM. In total, 138 KAMs were reported by 50 companies, while the above top five represents two-thirds of all KAMs reported (Deloitte, 2017).

Brouwer et al. (2016) in another study on 50 companies listed on the Dutch AEX and Midkap in the year 2015 showed that the number of KAMs disclosed ranged from two to six with a mean of 4.43. The most commonly reported KAM is tax position (reported by 61%, i.e., 27 companies) followed by goodwill valuation (57%, i.e., 25 companies). However, the most frequently reported KAMs are tax position (15% of all KAMs), valuation and impairment of goodwill (14%) and revenue recognition (11%) from the perspective of the total number of KAMs disclosed by all the companies. The ranking also includes internal control (7%), first year audit (5%), and other (2%), covering only 14% of the total number of KAMs (102) reported. It also reports that the lion share of the KAMs are related to balance sheet items, 66% and 57% for AEX companies and Midkap companies, respectively.

In the UK, a survey by Deloitte observed that the companies in the UK reported 17 different categories of KAMs in 2015. The majority of companies (55%) reported 'revenue recognition' as a KAM. Tax, alongside goodwill and intangibles, is also in the priority list with goodwill and intangibles reported by 44% of the companies and tax by 32%. It is also observed that companies reported no KAM to a maximum of 9 KAMs. However, most companies maintained a range of two to four KAMs (ICAEW, 2017).

Another survey, covering 179 audit reports of public listed companies in New Zealand, was conducted by the Financial Market Authority (FMA) and the External Reporting Board (XRB). The key findings show that the most common KAMs reported are impairment of goodwill and other intangible assets and investments in related entities, while a total of 293 KAMs were reported (XRB and FMA, 2017).

In Hong Kong, PwC Hong Kong in 2017 undertook a study to uncover the first-year experience of executing the new reporting model. Observing 1400 reports, the study found that a total of 3217 KAMs were disclosed with an average of two KAMs in each auditor’s report. The most frequently reported KAMs include impairment of goodwill and intangible assets, impairment of loan and receivables, valuation and impairment of property, financial instrument, and revenue recognition (PwC, 2017a). Another study by PwC, based in Singapore, determined that there were 1163 KAMs reported by auditors in the 499 reports surveyed. The survey also found that the top three elements in the KAM section are valuation of loans and receivables, revenue recognition, and impairment of goodwill and intangible assets (PwC, 2017b).

In 2018, the Malaysian Institute of Accountants (MIA), the Audit Oversight Board (AOB), and the ACCA conducted an investigation examining 190 audit reports of public listed companies for the financial year ending on 31 December 2016 as the first year of the KAMs reporting in Malaysia. The study recorded that the average number of KAMs is 2.09 per entity. The most widely reported KAM in Malaysia relates to revenue recognition (not fraud) (32%), impairment of receivables (28%), impairment of goodwill and intangible assets (27%), and inventory valuation (21%) (AOB, MIA, and ACCA, 2018).

Unlike other studies domiciled in one country, in a multi-country analysis including Brazil, Cyprus, Kenya, Nigeria, Romania, Oman, Zimbabwe, the UAE, and South Africa, the Association of Chartered Certified Accountants (ACCA) revealed the nature and types of KAMs reported by auditors where the enhanced audit report was adopted for the first time in the reporting period ending in December 2016, as suggested by the IAASB. The study documented that a total of 1321 KAMs were disclosed in 560 audit reports analysed. The five most common KAMs, in order, are asset impairment, revenue recognition, doubtful debt, goodwill impairment, and taxation (ACCA, 2018).

In the first year of implementing the new regulation, i.e., KAM disclosures, in the UK, it is observed that most of the audit reports included risk related to fraud in revenue recognition as a KAM. However, the critical review of FRC concluded that the auditor did not meet the requirement of the KAMs as the reported KAMs were generic, not specific and, hence, regarded the KAMs disclosure as unhelpful (FRC, 2015). Consequently, the issue of fraud in revenue recognition (as a KAM) dropped drastically in the following years (ACCA, 2018).

The KAMs that are commonly reported by auditors from different countries are impairment of goodwill and intangible assets, revenue recognition, asset valuation, provisions, and taxation. A generic similarity is observed in the nature of the KAMs reported in the few studies conducted so far. However, these studies mainly focused on the results of the very first year of implementing the extended reporting requirements. No study has examined trends in a year to year analysis. Therefore, examining the situation in Australia is relevant.

The KAMs are expected to be varied and fitted to each entity and respective industry (Wei et al., 2019). The ICAEW argues that "the directors do not issue identical annual reports every year, so why would the auditor issue an identical audit report?" Therefore, in most cases KAM issues will be the same as were in previous year; however granular reporting of KAM may result in some changes in the specifics year on year (ICAEW, 2017). Also, KAM would be too short or too lengthy (IAASB, 2012b) and over time it would be boilerplate (AUASB, 2013).

However, the ICAEW (2017) recommended making KAMs specific to the company and the industry it operates in. In a particular industry, across a number of entities, certain matters may be reported as KAMs due to the circumstances of that industry or the inherent complexity in financial reporting (IAASB, 2015a). The organisations belonging to a specific industry tend to report similar items. Dye and Sridhar (1995) propound that firms are more likely to unveil information in accordance with the nature and characteristics of their industry (Dye and Sridhar, 1995). Thus, industry type is a determinant of disclosure in financial statements since disclosures differ from one industry to another. Empirical results have a significant relationship between industry category and risk disclosure (Wallace and Naser, 1995; Khlif and Hussainey, 2016). In addition, auditing some industries is more complicated than auditing others (Simunic, 1980; Hay et al, 2006) and, hence, reported KAMs may vary across industries depending on opacity, complexity, agency conflicts, or due to individual and collective risk exposure prevalent to a specific industry (Pinto and Morais, 2019). Accordingly, it is anticipated that auditors of one entity may follow the audit report of other entities in the same industry, leading to reported KAMs being similar across that industry.

Additionally, in the French jurisdiction justification of assessments (JOA), which is a similar concept to KAMs, has been reported since 2003. Studies show that 80% of matters disclosed were copied from the previous year (ICAEW, 2017). Thus, a reporting homogeneity in KAMs disclosure is expected, within the industry.

To examine the consistency (or variations) of KAMs reported in our sample of the top 200 ASX companies in Australia, we coded the number and types of KAMs reported by each company within and across various industry sectors they operate in.[2] We also counted the number of words and paragraphs each company used to report each KAM for each year being studied. Based on the above discussion, we expect the auditors of firms that belong to a particular industry will follow each other and report nearly the same number and similar types of KAMs, mainly due to industry characteristics. Thus, we develop the following hypotheses:

H2a: The number, type, and length of KAMs reported by auditors of the listed companies in Australia are consistent within each industry.

H2b: The number, type, and length of KAMs reported by auditors of the listed companies in Australia are different across the industries.

3.3 Presentation of Positive and Negative KAMs

There are a number of theories, including agency theory, legitimacy theory, signalling theory, and proprietary costs theory, that explain the motivations for risk disclosure by companies (Hassan, 2009; Taylor et al., 2010). According to agency theory, reporting risk may minimise agency costs and information gaps between managers and shareholders (Watts and Zimmerman, 1983). In line with legitimacy theory, firms increase risk disclosures to indicate their legitimacy and protect their corporate image (Oliveira, 2011). According to signalling theory, it is assumed that firms have information that investors do not, and, thus, managers disclose risk information to signal investors and creditors that the firm has the ability to manage risk (Elzahar and Hussainey, 2012) and avoid any undervaluation of their shares (Giner, 1997). In contrast, proprietary costs imply the costs levied on a firm if disclosed information is used by external parties in a way that is damaging to the firm (McKinnon and Dalimunthe, 1993).

[2] We adopted twenty-five types of KAMs identified by an earlier study of Wei et al. (2019). The list and descriptions of the types of KAMs are attached in Appendix 1.

Thus, proprietary costs act as a deterrent for companies to willingly disclose information to the market (Kelly, 1994; Prencipe, 2004).

The inclusion of a KAM in the audit report aims at enriching the informational value of the report. The new standard ISA 701 noted, "the order of presentation of individual matters within the KAMs section is a matter of professional judgement". Further, the standard is tacit about KAM polarity, i.e., whether the KAMs highlight positive or negative issues. From the perspective of risk signaled by auditors, KAMs are segregated into two groups, negative and positive. Kohler et al. (2016), considered a KAM as negative if the auditor signals it as a high risk that would negatively affect the net income and economic situation of the company. If the auditor signals a low risk that the net income or economic situation of the company will be affected, then it was considered a positive KAM. For example, if the auditor discloses that a small change in the key assumptions could eventually lead to a goodwill impairment, it is highly likely that impairment will occur in the future and in this case "goodwill impairment" is regarded as a negative KAM. Conversely, if the auditor reports that only a large change in the key assumptions could ultimately lead to a goodwill impairment, the likelihood of the impairment occurring is small and the KAM is regarded as positive.

Although disclosing a KAM in the audit report does not necessarily indicate that it is negative, this study argues that auditors may avoid presenting or wording KAMs as negative. Empirical evidence shows that companies are more likely to disclose positive information in which they display responsibility and gain a positive public image (Elmagrhi et al., 2016; Lepore et al., 2018). There is also evidence that shows negative information is less likely to be disclosed. Prior research in psychology and auditing concluded that negative information is frequently underreported (Deegan and Gordon, 1996; Grote et al., 2001; Rice and Weber, 2012; Nishizaki et al., 2014). Negative information is detected more quickly than positive information (Dijksterhuis and Aarts, 2003), and it leaves a greater impression and that impression last longer when compared to positive information (Peeters and Czapinski, 1990; Bebbington et al., 2017). Thus, information providers suppress negative information (Degaan and Gordon, 1996; Grote et al., 2001).

The phenomenon that negative traits are given a higher weighting compared to positive traits is confirmed by other studies as well (e.g., Feldman, 1966; Fiske, 1980). Indeed, people prefer avoiding a loss to obtaining a gain (Tversky and Kahneman, 1991). Generally, an individual's physiological, emotional, and social responses are greater towards negative than positive events and information (Taylor, 1991). This sensitivity towards negative information has been confirmed and recognised as the ‘negativity bias theory’ (Ito et al., 1998).

Studies in accounting and auditing literature also provide evidence that more positive than negative information is disclosed (Guthrie and Parker, 1990; Deegan and Gordon, 1996; Kothari et al., 2009; Feldmann and Read, 2010; Piotroski et al., 2015). Guthrie and Parker (1990) found that firms rarely disclose ‘bad news’, particularly when related to environmental performance. Similar results were established by Deegan and Gordon (1996). They found that firms disclose positive matters of environmental performance but avoid disclosing negative aspects. Kothari et al. (2009) argue that managers have incentives to delay the disclosure of bad news to investors. Piotroski et al. (2015) provide more recent evidence to the practice of delaying the release of information. They investigated stock price behaviour of listed companies in China at the time of significant political events. They found that when the affiliated firms momentarily controlled and restricted the flow of bad news, firms observed relatively fewer falls in stock prices.

Admittedly, it is perspicuous that firms like to disclose information as the amount of information provided within annual reports of firms continues to expand over time (Chauvey et al., 2015). However, there is an argument to be made that the information provided is poor and vague; and such information is mainly shared to mask negative incidents and shelter the firm’s legitimacy (Laufer, 2006; Chauvey et al., 2015). In fact, firms like to disclose positive information to uphold their company reputation and image (Milne et al., 2009; Khan et al., 2013). Conversely, if they are required to disclose negative information or scandals, they provide the information in such a way that has the potential for them to control or discard the impact of that bad news (Lundholm and Van-Winkle, 2006).

Indeed, firms use diverse legitimisation policies to counteract the consequences of a negative event or scandal, which could disrupt operations (Pollach, 2015; Li et al., 2016). For example, firms can report negative incidences by first reciting their past achievements or mingling it in with its parent company’s fame and reputation to affect stakeholder perception (Higgins and Walker, 2012). This can be linked to Cialdini (2009), who documented that negative events have adverse effects on company evaluations, which results in unfavourable and unpleasant behaviour of stakeholder groups toward the company. A company’s legitimacy may be jeopardised due to the disclosure of negative incidents (Rudkin et al., 2018). Moreover, if the negative information emanates from third parties (i.e., an auditor), it carries a message that the addressed company is hiding information from the public and, thus, cause serious damage to its reputation (Janney and Gove, 2011). Therefore, managers have incentives to hide bad stories to protect the firm's legitimacy or restore damaged trust.

Previous studies demonstrate that client pressure has a significant influence on external auditor's decisions. Hatfield et al. (2011), in their experimental study of 149 participants analysed the impact of an auditor's prior involvement and client pressure on the magnitude of proposed audit adjustments. The investigation shows that auditors who were previously involved (continuing auditors) in waiving an issue for adjustment advise significantly smaller audit adjustments compared to auditors who were not previously involved. The study also found that auditors in high-pressure conditions recommend significantly lesser audit adjustments than those in low-pressure conditions. Thus, client pressure significantly reduces the extent of proposed audit adjustments, which in turn affects an auditor's judgement. In another study, Felix et al. (2005) investigated the impact of client pressure along with two other variables (external auditor reliance and the provision of non-audit services) on the activities of internal auditors. The results showed that an external auditor's decision to accept the internal auditor's work was highly influenced by clients who purchased considerable amounts of non-audit services from the external auditor. This implies that a better economic relationship between the client and the auditor enhances the effect of client pressure on auditor judgements. Auditors, therefore, exercise motivated reasoning (Kunda, 1990), that is, they process and interpret information in a way that enables them to establish the result urged by the client (i.e., desired conclusion).

The extant literature further shows that auditors limit negative information. For example, Rice and weber (2012), examined the disclosures of internal control weaknesses in U.S. firms and found that only a small percentage of firms acknowledged internal control weaknesses during a misstatement period and the proportion of such acknowledgements declined over time. Nishizaki et al. (2014), in a similar study in Japan found that the disclosure rate of internal control weaknesses, in the first two years of implementation, by Japanese firms was only 1.9 per cent when compared to the U.S. Evidence also exists regarding the tendency to restrain the issuance of going concern opinion (negative information). For example, only 50% of the firms that filed bankruptcy had previously received audit report modified for going concern issue

(Geiger and Raghunandan, 2001; Carcello et al., 2009) and the rate of such issuance declined after 2004 (Feldmann and Read, 2010). Thus, improving the wording used in auditor’s reports has been recommended (e.g., Gray et al., 2011; Asare and Wright, 2012; Vanstraelen et al., 2012).

Moreover, many auditors have a negative attitude towards additional disclosures in an audit report, because it requires auditors to be cautious with the information they supply to avoid tarnishing the company’s image (Öhman, 2007). Furthermore, there is evidence that preparers are opportunistically motivated, and they lobby for reforms that maximise their self-interest (Francis, 1987; Booth and Cocks, 1990; Tandy and Wilburn, 1996; Adams, 1997). Thus, one may suspect a lack of auditors’ fair judgement/inclination in reporting what they ought to report, given the reporting flexibility ascribed by the new principle-based standards.

In a contrasting view, it can be argued that auditors would include more negative KAMs in auditor’s report when the financial condition of the client is poor. A number of studies contend that company characteristics, such as the financial condition of the firm, affects an auditor’s judgement and opinion (i.e., Knapp, 1985; Citron and Taffler, 1992; Raghunandan and Rama, 1995; Hudaib and Cooke, 2005; and Basioudis et al., 2008). Knapp (1985), for example, asserts that there is a relationship between the financial condition of the firm and an auditor’s judgement. He studied the perceptions of bank loan officers on auditor compliance with client-preferred accounting treatment depending on the financial condition of the client. The researcher concluded that auditors compromise their judgement when the client is financially stronger.

The firms with greater profitability are less likely to default and have a high propensity to receive an unqualified opinion (Loebbecke et al., 1989; Laitinen and Laitinen, 1998; Beasley et al., 1999) that reduces the litigation between the managers and auditor. Investigating auditor opinions and the financial condition of the client, Citron and Taffler (1992) documented that the likelihood of receiving a going concern opinion is higher when the financial condition of the client is weak. Similar results were observed in the study of Raghunandan and Rama (1995) where they found that financially distressed companies were more likely to receive a going-concern modified opinion particularly after the application of the Statement of Auditing Standard (SAS) 59 in the U.S. Louwers (1998) also recorded similar findings by analysing 808 financially distressed firms between 1984 and 1991. Some recent studies (e.g., Hudaib and

Cooke, 2005; Basioudis et al., 2008) also beget the evidence that financially poor firms are highly likely to get a going-concern modified opinion and financially wealthy firms are much less likely to receive the same opinion. In addition, firms with poor performance are inclined to apply more creative accounting in preparing the financial statements that in turn increases the likelihood of more KAMs in the report and receiving a qualified opinion.

Indeed, there exists an inverse relationship between the firm's financial health and the auditor's litigation risks (Stice, 1991; Carcello and Palmrose, 1994). In other words, auditors of financially distressed firms have a higher litigation risk (Farmer et al., 1987; Palmrose, 1987). Auditor's litigation risk can, therefore, invigorate auditors to provide unbiased and objective reports because lawsuits can have damaging effects on their image and reputation, as well as impose legal costs. Hence, auditors of low-yielding firms are highly likely to unveil more negative information in the auditor's report than auditors of well-performing firms where litigation risk is minimal. On the contrary, it is also claimed that auditors may face increased litigations due to this anticipated risk disclosure (Katz, 2014, Gimbar et al., 2016), and the liability concerns may conduce auditors to reporting as few issues as possible or furnishing a long list of wordy and redundant disclosures to avoid litigation risk (IAASB, 2012a). Moreover, it is further claimed that KAMs do not affect the auditor's liability when the concerned accounting standard is imprecise (Gimbar et al., 2016). However, long term relationships with clients can influence the auditors to work in favour of the client's management (Tepalagul and Lin, 2015) and, thus, disclose less negative KAMs.

In summary, companies have many reasons to coerce auditors not to expose negative KAMs that are against the management's interest, and it is clear that firms suppress 'bad news'. Moreover, the financial health of the client can also shape an auditor's judgement on how KAMs are presented, since well-performing firms are less likely to collapse, resulting in low litigation risk. Therefore, in the context of the current study, we posit that auditor may curb presentation of negative KAMs since negative information has a more cognitive and pervasive effect on investor judgements and decisions. Presumably, auditor's opportunistic tendencies would be to suppress negative information or at least putting them last in the array. Hence, the relevant hypotheses are:

H3a: Auditors of the listed companies in Australia will present more positive than negative KAMs in the audit report.

H3b: Auditors of the listed companies in Australia will present negative KAMs after positive KAMs in the audit report.

Chapter 4: Methodology

The methodological stance is very crucial in conducting any study on the pursuit of generating new knowledge. This dimension indicates how researchers collect data, so the results of the study are unbiased and widely accepted. The method chosen to collect data is directly linked to what the researchers aspire to obtain (Saunders et al., 2009). This implies that epistemological contemplations are at the forefront of an investigation. From this perspective, we mainly approach an objectivistic view, yet interpretive to some extent, in addressing the problem pursued in our study. Since the study seeks to identify the degree of conformity and uniformity in implementing new reporting frameworks and to determine the consistency (or variations) in how new KAMs are reported by Australian listed companies, the objectivistic point of view is more suited to this context.

Prior studies in the field of our interest employed different approaches, such as questionnaire survey (Chong and Pflugrath, 2008; Trpeska et al., 2017), experiments (Gold et al., 2012; Brasel et al., 2016; Boolaky and Quick, 2016; Sirois et al., 2018), statistical models (Bédard et al., 2014; Gutierrez et al., 2018; Wei et al., 2019), and content analysis (Hussein et al., 1986; Tiron and Muller, 2009; Holder et al., 2013; Prasad and Chand, 2017). However, the most commonly used and highly accepted technique is content analysis in the disclosure literature (Gray et al., 1995).

This study uses content analysis, which is considered as a mixture of both qualitative and quantitative approaches to a study. Content analysis is a technique for making replicable inferences, and there are many advantages to using content analysis. It provides convenient opportunities to measure the quantity and quality of information disclosed in a content or report (Da Silva Monteiro and Aibar-Guzmán, 2010). It is regarded as a transparent and inobtrusive research method that permits longitudinal analysis (Bryman and Bell, 2015). The method allows large amounts of data to be grouped or broken down into categories or codes. This makes it an ideal tool for data analysis as it enables the creation of a meaningful set of data (Kulatunga et al., 2007).

4.1 Method and Data Collection

Both qualitative and quantitative approaches were exploited to collect relevant data for the study. The research method used in this study to measure the extent of conformity and variations in the auditors' reports is content analysis. Within content analysis we used the 'index approach' (checking for the presence or absence of an item and follow binary coding by assigning '1' for presence and '2' for absence) and the 'volumetric approach' (i.e., counting the number of words, sentences, paragraphs, and pages). Further, we used both inductive coding, which allows codes or categories to emerge from the text itself (Bernard, 2000; Mayring, 2000), and deductive coding, which uses already established codes or categories based on prior literature (Bernard, 2000; Mayring, 2000). In addition to textual content analysis (i.e., word counts), we used conceptual or thematic analysis (Krippendorf, 2004, Franzosi, 2004). This is used to scrutinise the text to identify the existence of a concept or theme. We performed both manual and computer-assisted content analysis techniques. We carefully read the audit reports and coded data (e.g., title, addressee, opinion paragraph, number of KAMs, KAM title, type of KAM, and whether the KAM is positive/negative), and we used online word counters to count the number of words, paragraphs, and pages.

Furthermore, to ensure accuracy, we also manually counted and coded data from the independent auditor's report of each of the companies under study. An integrated spreadsheet was developed for data coding, which was then sourced as input to the statistical software for conducting the appropriate analyses. To test the appropriateness and reliability of the data collected, we used a combination of different tests as our dataset contains divergent groups of data. For example, for data relating to the format and contents, most of which are dichotomous, we used Cronch's alpha, which generates a high value of reliability at 0.937. Also, for testing the hypotheses, we tested for the required distribution patterns of concerned variables, i.e., the Sharpiro-Wilk test of normality before running one-way ANOVA.

4.2 Sample

The concerned reforms and the auditing standards apply to all the listed companies in Australia from 2016. Our sample is drawn from the companies listed on the ASX as these firms represent the major companies in Australia. The required data for the study were mainly collected from the annual reports of the top 200 ASX companies (excluding, 27 financial firms, 12 foreign firms and seven firms with non-availability of annual reports) covering a period from 2015 to 2018, four years surrounding the reforms.[3] We garnered all the relevant annual reports from the DatAnalysis Premium database. We then acquired the relevant data for four years, starting with 2015, a year before the enactment cut-off of 2016, from the auditor's report of the sampled companies. Our, initial sample size is 200 companies with 800 firm-year observations. Table 4.1 outlines the sample selection that provides coverage of 77% of the top 200 ASX companies in Australia.

Table 4.1 Sample selection

Particulars	Total
No. of firms listed on the ASX top 200	200
No. of Financial firms on the ASX top 200	27
Foreign firms on the ASX top 200	12
Total excluding foreign and financial	161
Non-availability of Annual Reports	7
No. of firms in the sample	154
Percentage of total in the sample	77%

To achieve the objective of the study, we divided the dataset into multiple groups. Using the year of adoption as the main factor, we divided data into last year of pre-adoption (T_0), post-adoption year one (T_1), post-adoption year two (T_2), and so on. We used the data from the very first year of adoption (T_1) to analyse the extent of conformity with standards and to assess the reporting variations among organisations using the new reporting model regardless of the calendar year.[4]

For analyzing variations in pre-and post-reform regime, we used data from the year of adoption (T_1) and the year immediately preceding the year of adoption (T_0). For additional analysis of

[3] We investigate top 200 firms in Australia rather than all of the listed firms because of investors' high interest in these firms, they are also regarded as investment benchmarks in Australia. We use cross-sectional data because observations of a particular entity or industry may be sudden and situation specific.

[4] More specifically, for 40 firms out of 154, we use the data of 2016 as they adopted the new framework early for their reporting period ending on June 30, 2016. On the other hand, for the remaining 114 companies, we use data of 2017 audit reports.

KAMs reporting over the first two years of adoption, we used data from (T_1), and (T_2), i.e., the first two years of adoption of KAMs disclosure.

Table 4.2 represents the sample sorted by industry. There are 11 sectors as per categorisations of the ASX. However, financial companies apply different regulatory and reporting requirements, and financial statements of financial firms are not comparable to those of non-financial firms (Wilson and Wang, 2010); thus, they need to be examined separately (Linsley and Shrives, 2006). Therefore, we excluded the financial sector from the study. We also omitted foreign companies listed on the ASX. The largest proportion of the sample consists of the materials sector with 35 companies (22.73%), followed by consumer discretionary with 26 firms (16.88%), and industrials with 20 firms (12.99%). The smallest groups of the sample comprised utilities and telecommunication services each with only four firms (2.60%).

Table 4.2 Sample by industry sector

	Industry Sector	**N**	**%**
1	Consumer Discretionary	26	16.88
2	Consumer Staples	12	7.79
3	Energy	10	6.49
4	Health Care	12	7.79
5	Industrials	20	12.99
6	Information Technology	12	7.79
7	Materials	35	22.73
8	Real Estate	19	12.34
9	Telecommunication Services	4	2.60
10	Utilities	4	2.60
	TOTAL	**154**	**100**

4.3 Measurement and Analysis

Based on prior studies, applicable standards, and policy guidelines, we cautiously developed a checklist (see Table 4.3) to extract information from the auditor’s reports. The checklist-based comparison approach has been used in prior studies analysing report formats and contents (e.g., King, 1999; Fakhfakh and Fakhfakh, 2010; Fakhfakh, 2017). The elements of the auditor's report in the checklist were identified from the reporting requirements of the ISA 700 (Revised), ISA 701, ISA 720 (Revised) and the guidance provided by the IAASB (2015c, 2015d, 2015e, 2015f) and KPMG (2015) on the new audit reporting framework.

Each of the audit reports in the sample was analysed to identify the presence or absence of each of the elements listed in Table 4.3. These were used as a basis of comparison with the auditor's reports scrutinised in our sample. If a particular element was found in the audit report, a value of "1" is ascribed; if the element was not found, a value of "2" is assigned. The coding for each of the elements was then tabulated for each of the companies being studied.

For variables related to analysing KAMs (i.e., the number of KAMs, paragraphs, and words), total count or frequency was used. A positive KAM was coded as '1', and a negative KAM was coded as '2'. To compare the type of KAMs reported, we used 25 KAM types identified by Wei et al. (2019) (see Appendix 1). Statistical software SPSS and STATA were used to perform different tests, including univariate, multivariate, rank sum, and ANOVA.

Table 4.3 Checklist of the form and contents of the new audit report

1. Title (Indicating the Report of an Independent Auditor)
2. Addressee
3. Auditor's Opinion: a) Entity Audited Identified b) State that Financial Statements Audited c) Title of Each Statements Audited d) Refer to the notes including Significant Accounting Policies e) Specify the date of, or period covered by, each financial statement f) Present Fairly or True and Fair View g) Conformity with IFRS h) Conformity with Laws (where needed)
4. Basis of Opinion: a) Accordance with ISA b) Refers to the Auditor's Responsibilities Section c) Affirmative Statement about the Auditor's Independence d) Sufficiency and Appropriateness of Evidence
5. Going Concern Opinion (If Material Uncertainty Exists with Adequate Disclosure)
6. Key Audit Matters (KAMs): a) Why KAM b) How Addressed
7. Other Information (Title) or A different Suitable Title: a) Management is Responsible b) Identification of other information c) Information Obtained (if any)

d) Expected to be Obtained (if any) e) Opinion doesn’t cover f) Not Express opinion/ assurance g) Responsibilities - reading, considering, reporting h) State that Nothing to Report i) Describe uncorrected material misstatement (if needed)
8. Emphasis of Matters and Other Matters (when needed)
9. Responsibilities of the Management/ Directors/ Those Charged with Governance for the Financial Report: a) Preparing Financial Report b) Ensuring Internal Control c) Assessing Going Concern d) Going Concern Basis of Accounting e) Those Charged with Governance (if applicable) f) The preparation and fair presentation g) A true and Fair View
10. Auditor’s Responsibilities for the Audit of Financial Statements: a) Obtain Reasonable Assurance b) Issue an Opinion c) Not a guarantee d) Material Misstatement (defined) e) Accordance with ISAs f) Professional Judgement and Skepticism g) Identify and Assess Risks of Material Misstatement h) Obtained Understanding of Internal Control i) Appropriateness of Accounting Policies used and Reasonableness of Accounting Estimates j) Appropriateness on the Going Concern Basis k) Overall Presentation, Structure and Contents of the Financial Statements l) Obtain Sufficient Appropriate Audit evidence (group audit) m) Responsibility for Direction, Supervision and Performance (group audit) n) Sole responsibility for auditor’s opinion (group audit) o) Communicate with TCWG about scope, timing and significant findings p) Provided statement that Auditor complied with Ethical Requirements q) Determination of KAMs r) Use a link for details presentation of auditor’s responsibilities (optional)
11. Report on Other Legal and Regulatory Requirements
12. Name of the Auditor
13. Signature of the Auditor
14. Name of the Firm
15. Auditor’s Address
16. Date of Auditor’s Report

As listed in Table 4.3, the 16 broad categories deal with the form of the report, and the remaining elements in subcategories illustrate the contents of the audit reports in the post-reform regime. The elements of form are title, addressee, opinion, basis of opinion, going concern opinion (if applicable), KAMs, other information, emphasis of matters and other matters (when needed), responsibilities of the management, auditor’s responsibilities for the audit of financial statements, report on other legal and regulatory requirements, name and signature of the auditor, name of the firm, auditor’s address, and date of the auditor’s report.

Eight of the content related elements come with the title “Opinion”, four address basis of opinion, seven illuminate responsibilities of management, 18 describe the auditor’s responsibilities, nine portray ‘other information’, and two represent the KAM section. There are 64 elements in total that make up the form and contents required to be presented in the audit report under the new reporting model.

Chapter 5: Empirical Results and Discussions

5.1 Conformity with the Requirements of the New Audit Report

H1 predicts that there are differences in the extent of disclosures provided in the new audit report across the listed companies in Australia. Our checklist has indicated that there are 64 elements in total, inclusive of all elements of form and contents required to be presented in the audit report under the new reporting model.

Descriptive statistics of disclosure scores are presented in Table 5.1 for the year of adoption (T_1), where the total frequencies of each element are presented with their respective percentages. To illustrate how the listed companies in Australia conform to the new reporting framework, we briefly discuss observations from the tabulation of compliance score.

Table 5.1 shows that all the firms are following the reporting standards regarding the form and contents of audit reports, typically a high level of compliance with 100% of nearly all the elements. We do not observe any nonconformity with the standards. However, regarding some issues, there are differences in disclosures that are still allowed under the applicable jurisdiction. For example, 113 reports (73.38%) use the title "Other Information" to disclose their audit issues regarding other information in the audit report while the remaining firms (26.62%) use different suitable terms, i.e., "Information other than the financial statements and auditor's report". Similarly, around 39% of the audit reports use the term "information obtained" or "information expected to be obtained" to identify other information in their report. The remaining firms have not disclosed whether all the information is already obtained before the audit report date or will be obtained after. In contrast, some reports more specifically mentioned what other information they already received, i.e., Director's Report and Diversity Report, etc and what are expected to be received after the report date, i.e., Performance Summary, Chairman's Report, etc.

Another major issue noticed from the observations is, in terms of disclosing the auditor's responsibilities for the financial statements, 54.55% reports used a link to a website, which is permitted in the standard. However, they did partially disclose their responsibilities in the face of the audit report. Resultantly, disclosures regarding professional judgement and scepticism, understanding of internal control, responsibilities regarding KAM determination, and identification and assessment of risk are missing in the face of the audit report of 84 of the observed companies.

Table 5.1 Descriptive statistics on the extent of disclosures provided in the new audit report across the listed companies in Australia

	Description Measure (1= presence; 2= absence)	**N (T_1)**		**%**	
		1	**2**	**1**	**2**
1)	Title (Indicating the Report of an Independent Auditor)	154	0	100	0
2)	Addressee	154	0	100	0
3)	Auditor's Opinion:	154	0	100	0
	a) Entity Audited Identified	154	0	100	0
	b) State that Financial Statements Audited	154	0	100	0
	c) Title of Each Statements Audited	154	0	100	0
	d) Refer to the note, Including Significant Accounting Policies	154	0	100	0
	e) Specify the date of, or period covered by, each financial statement	154	0	100	0
	f) Present Fairly or True and Fair View	154	0	100	0
	g) Conformity with IFRS	154	0	100	0
	h) Conformity with Laws (when needed)	154	0	100	0
4)	Basis of Opinion:	154	0	100	0
	a) Accordance with ISA	154	0	100	0
	b) Refers to the Auditor's Responsibilities Section	154	0	100	0
	c) Affirmative Statement about the Auditor's Independence	154	0	100	0
	d) Sufficiency and Appropriateness of Evidence	154	0	100	0
5)	Going Concern Opinion (If Material Uncertainty Exists with Adequate Disclosure)	0	154	0	100
6)	Key Audit Matters (KAMs):	154	0	100	0
	a) Why KAM	154	0	100	0
	b) How Addressed	154	0	100	0
7)	Emphasis of Matters and Other Matters (when needed)	1	153	0.65	99.35
8)	Other Information (Title):	113	41	73.38	26.62
	a) Different Title (An Alternative)	41	113	26.62	73.38
	b) Management is Responsible	154	0	100	0
	c) Identification of other information	154	0	100	0
	d) Information Obtained (if any)	60	94	38.96	61.04
	e) Expected to be Obtained (if any)	58	96	37.66	62.34
	f) Opinion doesn't cover	154	0	100	0
	g) Not Express opinion/assurance	154	0	100	0
	h) Responsibilities - reading, considering, reporting	154	0	100	0
	i) State that Nothing to Report	154	0	100	0
	j) Describe uncorrected material misstatement (if needed)	0	154	0	100

9)	Responsibilities of the Management/ Directors/ Those Charged with Governance for the Financial Report	154	0	100	0
	a) Preparing Financial Report	154	0	100	0
	b) Ensuring Internal Control	154	0	100	0
	c) Assessing Going Concern	154	0	100	0
	d) Going Concern Basis of Accounting	154	0	100	0
	e) Those Charged with Governance (if applicable)	0	154	0	100
	f) The preparation and fair presentation	154	0	100	0
	g) A true and Fair View	154	0	100	0
10)	Auditor's Responsibilities for the Audit of Financial Statements:	154	0	100	0
	a) Obtain Reasonable Assurance	154	0	100	0
	b) Issue an Opinion	154	0	100	0
	c) Not a guarantee	154	0	100	0
	d) Material Misstatement (defined)	154	0	100	0
	e) Accordance with ISAs	70	84	45.45	54.55
	f) Professional Judgement and Skepticism	70	84	45.45	54.55
	g) Identify and Assess Risks of Material Misstatement	70	84	45.45	54.55
	h) Obtained Understanding of Internal Control	70	84	45.45	54.55
	i) Appropriateness of Accounting Policies used and Reasonableness of Accounting Estimates	70	84	45.45	54.55
	j) Appropriateness on the Going Concern Basis	70	84	45.45	54.55
	k) Overall Presentation, Structure and Contents of the Financial Statements	70	84	45.45	54.55
	l) Obtain Sufficient Appropriate Audit evidence (Group audit)	70	84	45.45	54.55
	m) Responsibility for Direction, Supervision and Performance of Group Audit	70	84	45.45	54.55
	n) Sole responsibility for auditor's opinion (group audit)	70	84	45.45	54.55
	o) Communicate with TCWG about scope, timing and significant findings	70	84	45.45	54.55
	p) Provided statement that Auditor complied with Ethical Requirements	70	84	45.45	54.55
	q) Determination of KAMs	70	84	45.45	54.55
	r) Use a link for details of auditor's responsibilities (An alternative)	84	70	54.55	45.45
11)	Report on Other Legal and Regulatory Requirements	154	0	100	0
12)	Name of the Auditor	154	0	100	0
13)	Signature of the Auditor	154	0	100	0
14)	Name of the Firm	154	0	100	0
15)	Auditor's Address	154	0	100	0
16)	Date of Auditor's Report	154	0	100	0

Furthermore, references to the relevant notes in the KAM section were diverse. Around 57% (88 out of 154) of the reports showed that a reference is made with the title of the respective KAMs disclosed, and 25.32% (39) included the reference in the last paragraph of the 'Why

KAM' subsection of the audit report. The remaining companies (17.53%) disclosed the issue in the first line of the respective KAM type.

Finally, none of the reports included a 'material uncertainty related to going concern', which is required by ISA 570 only when a material uncertainty related to going concern exists and adequate disclosure has been made by management in the financial statements. One report included an 'emphasis of matter' or 'other matter' section as per ISA 706 to draw attention to a matter presented or disclosed in the financial statements, particularly in this case, a note to the financial statements that describes uncertainty related to the outcome of a lawsuit. However, apart from the elements (required by standards) listed in Table 5.1, some other elements, which go beyond the requirements of the standards, including audit approach, audit scope and determination of materiality disclosed under separate headings are also observed in some 47 (30.52%) audit reports.

The findings suggest that auditors are disclosing all the elements that the standards require the auditor to disclose in the audit report. However, there are variations in the disclosure particularly in the KAM section and auditor's responsibility section. This variation may further be widened and may have adverse impact on user's decision making. Further, given the option to disclose the auditor's responsibilities for financial statements in a separate website might result in no disclosure regarding the auditor's responsibilities in the face of the audit report. This in turn may decline users' understanding regarding the auditor's responsibilities.

5.2 Informational Contents of KAMs

Table 5.2 summarises the descriptive statistics of the types of KAMs disclosed for (T_1) and (T_2), i.e., first two years of adoption. It reports the frequency of the type of KAMs reported in the audit reports by year while showing percentage with respect to the total number of KAMs reported in a particular year. It also shows the total frequency for each type of KAM with their respective proportion against the grand total over the period of the first two years of adoption.

Figure 5.1 depicts the type of KAMs disclosed in the very first year of adoption by Australian firms. In total, there were 455 KAMs reported across 154 audit reports (see Table 5.2). By a significant margin, the most common KAM reported relates to the recoverability and impairment of goodwill and intangible assets (15.60% of all KAMs reported) with 71 observations where more than 46% of the companies reported it. The rank for issues related to goodwill and intangible assets is as per expectation and well justified. The proper accounting treatment for these assets is crucial because the valuation of such assets is complex and, thus, difficult to measure reliably, and the results may impact financial statements significantly (Wei et al., 2019).

Table 5.2 Types of KAMs disclosed in the audit reports across the listed companies in Australia

	Type of KAM	**Two years post-adoption (n=154)**				**Total**	**%**
		T_1	**%**	T_2	**%**		
1	Accruals	7	1.54	6	1.45	13	1.49
2	Acquisition	35	7.69	34	8.19	69	7.93
3	Asset Evaluation - other	4	0.88	3	0.72	7	0.80
4	Cash & Cash Flows	1	0.22	1	0.24	2	0.23
5	Equity Accounting Method	16	3.52	17	4.10	33	3.79
6	Exploration & Evaluation Assets	4	0.88	6	1.45	10	1.15
7	Financial Assets	14	3.08	10	2.41	24	2.76
8	Going Concern	1	0.22	-	0.00	1	0.11
9	Goodwill & Intangibles	71	15.60	71	17.11	142	16.32
10	Inventory	26	5.71	28	6.75	54	6.21
11	Investment	29	6.37	27	6.51	56	6.44
12	Legal Issues	2	0.44	-	0.00	2	0.23
13	Liabilities	9	1.98	5	1.20	14	1.61
14	Liquidity & Funding	6	1.32	2	0.48	8	0.92
15	Mining Properties	11	2.42	9	2.17	20	2.30
16	Oil & Gas Assets	3	0.66	2	0.48	5	0.57
17	Operation	13	2.86	11	2.65	24	2.76
18	PPE	41	9.01	35	8.43	76	8.74
19	Provisions	33	7.25	28	6.75	61	7.01
20	Receivables	7	1.54	7	1.69	14	1.61
21	Research & Development	12	2.64	13	3.13	25	2.87
22	Revenue Recognition	47	10.33	50	12.05	97	11.15
23	Share Based Payments	1	0.22	-	0.00	1	0.11
24	Taxation	40	8.79	36	8.67	76	8.74
25	Others	22	4.84	14	3.37	36	4.14
	Total	**455**	**100**	**415**	**100**	**870**	**100**

Revenue recognition (10.33%) is the second most commonly reported KAM, followed by valuation and impairment of property, plant and equipment (PPE) (9.01%). The rankings continue with issues relating to taxation (8.79%) as the fourth most reported KAM and then matters related to business acquisition or accounting for acquisitions (7.69%). These top five KAMs represent more than 50% of all KAMs reported in the first year of adoption in Australia.

This observation suggests that KAM contents are not unique across the companies and it is less likely to have such a diversity in KAM topics.

In the year two, the observations are almost similar. However, most of the types of KAM show a declining trend when 415 KAMs were reported in year two (T_2) against 455 KAMs in total, in year one (T_1).

Figure 5.1 Types of KAMs disclosed in the first year of adopting the new auditor reporting requirements across the listed companies in Australia

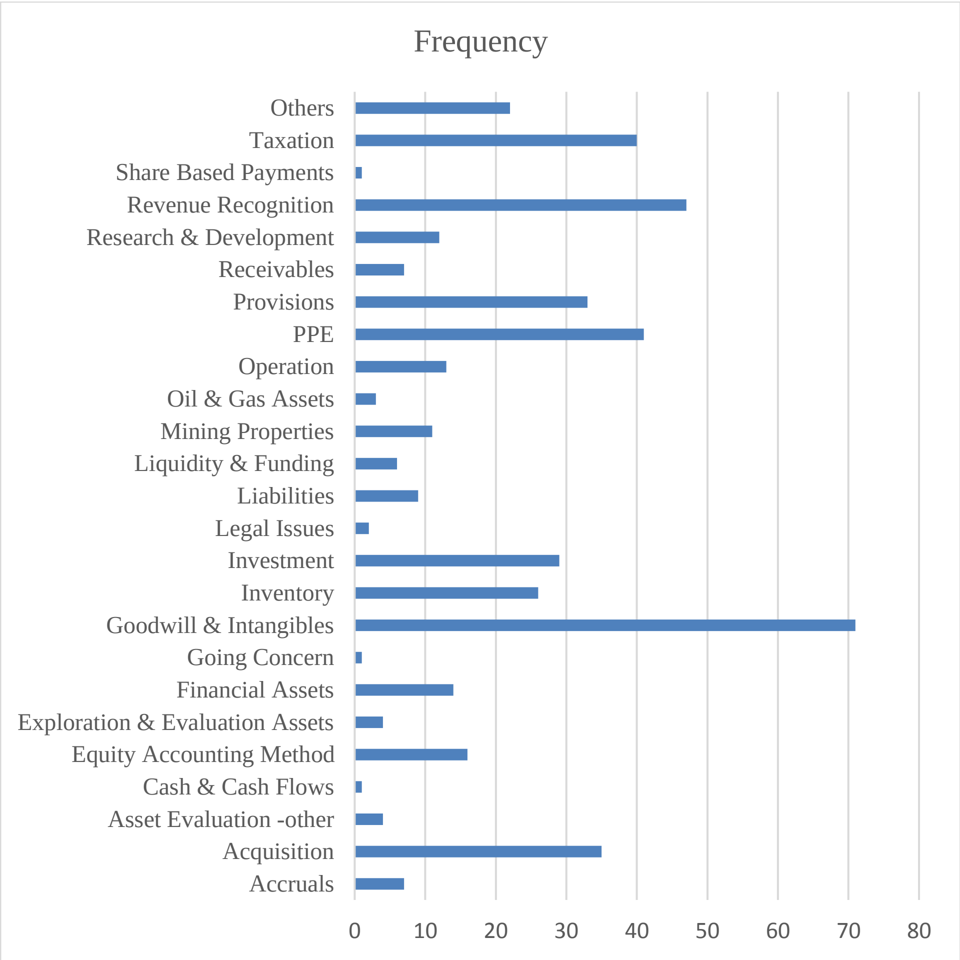


Table 5.3 provides the descriptive statistics of the number of KAMs and their presentation length measured in the number of paragraphs and words. The mean number of KAMs reported was 2.96 in the year of adoption (T_1) and 2.71 in the following year. The observed companies reported a maximum of 7 KAMs while they disclose at least one KAM in their first year of the audit report after adopting the new auditor reporting requirements. Most of the audit reports contained a combination of paragraphs and bulleted paragraphs to present the KAMs. Auditors

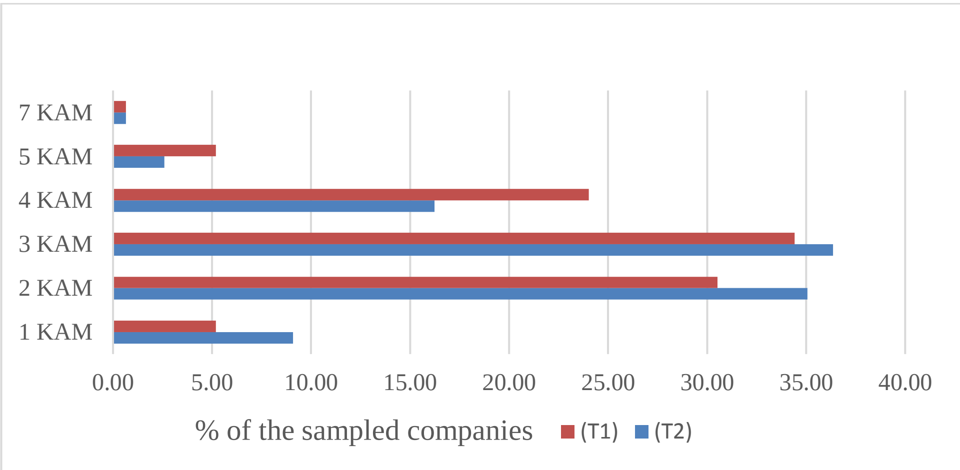
used 1014 words on average. However, the number of paragraphs ranged from 10 to 67 with a mean value of 30.05 in the year of adoption and ranges from 5 to 66 averaging 28.90 paragraphs in the second year of adoption (see Table 5.3). The maximum number of words used was 2144 and the minimum was 330 in the first year.

Table 5.3 Descriptive statistics of the number of KAMs disclosed and the presentation lengths of KAMs in the audit reports across the listed companies in Australia

Particulars	(T_1) n = 154				(T_2) n = 154			
	Mean	**S.D.**	**Min**	**Max**	**Mean**	**S.D.**	**Min**	**Max**
Number of KAM	2.96	1.03	1	7	2.71	1.00	1	7
Number of Paragraphs[5]	30.05	11.19	10	67	28.90	11.95	5	66
Number of Words	1014.55	385.11	330	2144	953.95	381.39	244	2017

Figure 5.2 depicts the percentage of listed companies reporting a certain number of KAMs in the first two years of adopting the new KAM presentation in the audit reports in Australia. Just over one-third of the firms, around 34.50% (53 out of 154), disclosed 3 KAMs and nearly another third, around 31%, of firms reported 2 KAMs in the first year of adoption (Figure 5.2). Then, 24% of companies disclosed 4 KAMs, followed by 5% of companies reporting 5 KAMs, and another 5% reported 1 KAM. No company reported exactly 6 KAMs, while 0.65% reported a maximum of 7 KAMs in their reports.

Figure 5.2 Percentage of companies presenting the relevant number of KAMs within the audit report



[5] In the audit reports, auditors use a combination of paragraphs and bulleted paragraphs to report KAMs. However, in our study, we include both types of paragraphs for the purpose of our analysis.

However, there is a notable shift in the number of reported KAMs as more firms reported a smaller number of KAMs in the second year of adoption (T_2). This may be because of management's persuasion to report less KAMs or may be because of auditors' comprehension that others are reporting less. However, in today's complex business scenario more KAMs are expected to be reported. A reverse observation may raise questions about the effectiveness of the new standards.

Table 5.4 Lengths of types of KAMs disclosed in the audit reports across the listed companies in Australia in the year of adoption

	No. of Words			
KAM Types	**Mean**	**S.D.**	**Min.**	**Max.**
Accruals	320	85	226	485
Acquisition	310	136	92	710
Asset Evaluation - other	298	114	188	448
Cash & Cash Flows	255	-	255	255
Equity Accounting Method	319	114	104	507
Exploration & Evaluation Assets	313	68	233	394
Financial Assets	303	140	119	636
Going Concern	251	-	251	251
Goodwill & Intangibles	335	113	191	676
Inventory	319	118	172	607
Investment	359	138	150	709
Legal Issues	160	16	148	171
Liabilities	252	61	182	359
Liquidity & Funding	329	147	179	512
Mining Properties	304	85	154	453
Oil & Gas Assets	461	193	289	669
Operation	296	123	117	557
PPE	385	132	159	718
Provisions	263	82	120	467
Receivables	303	77	220	435
Research & Development	274	67	154	429
Revenue Recognition	306	157	136	1025
Share Based Payments	387	-	387	387
Taxation	258	86	111	496
Others	249	76	138	470
Total	311	122	92	1025

Table 5.4 shows the descriptive statistics, while Figure 5.3 illustrates how many words were in each type of KAM in the year of adoption. Out of the 25 types of KAMs, the longest disclosure

was on reporting of oils and gas assets where 461 words (min. 289 and max. 669) were used on average to describe the issue. The disclosures related to share based payment, and valuation and impairment of property, plant and equipment (PPE) as KAMs hold the second and third position in terms of length with 387 words and 385 words, on average, respectively (Figure 5.3). However, the shortest disclosure was legal issues, having a mean of only 160 words. Overall, around 310 words, on average, were used to describe an issue. This variation may be driven by the significance and importance of the KAM topic or may be affected by the number of KAM reported i.e. the more the number of KAM, the less the length of KAM, on average.

Figure 5.3 Lengths of types of KAMs disclosed in the audit reports across the listed companies in Australia in the year of adoption

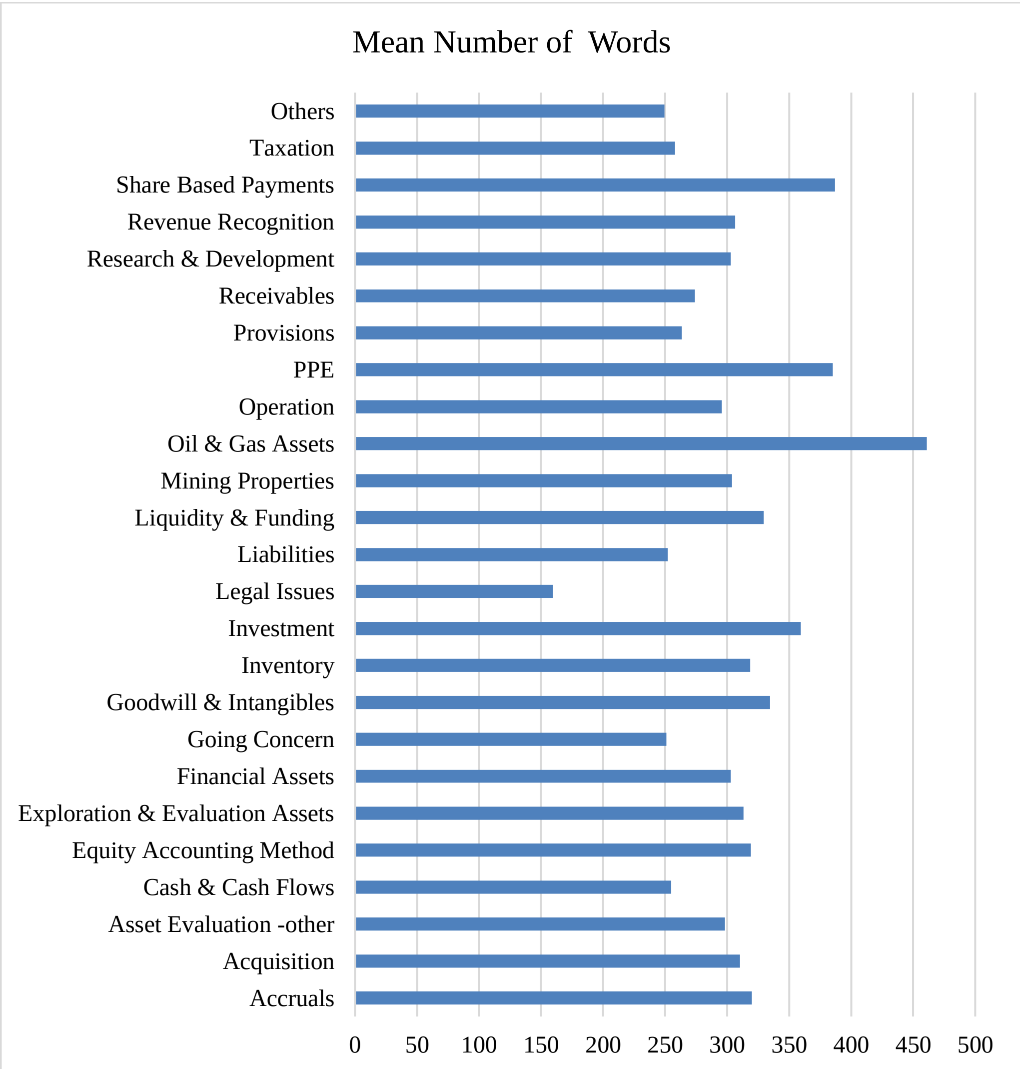


Figure 5.4 Number of KAMs disclosed in the audit reports of the listed companies across various industries in Australia

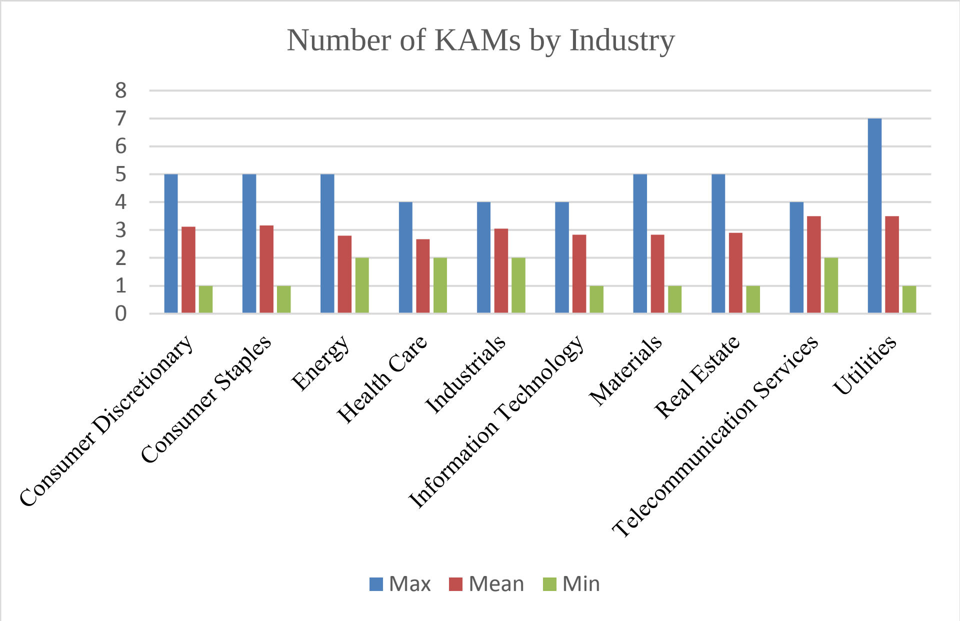
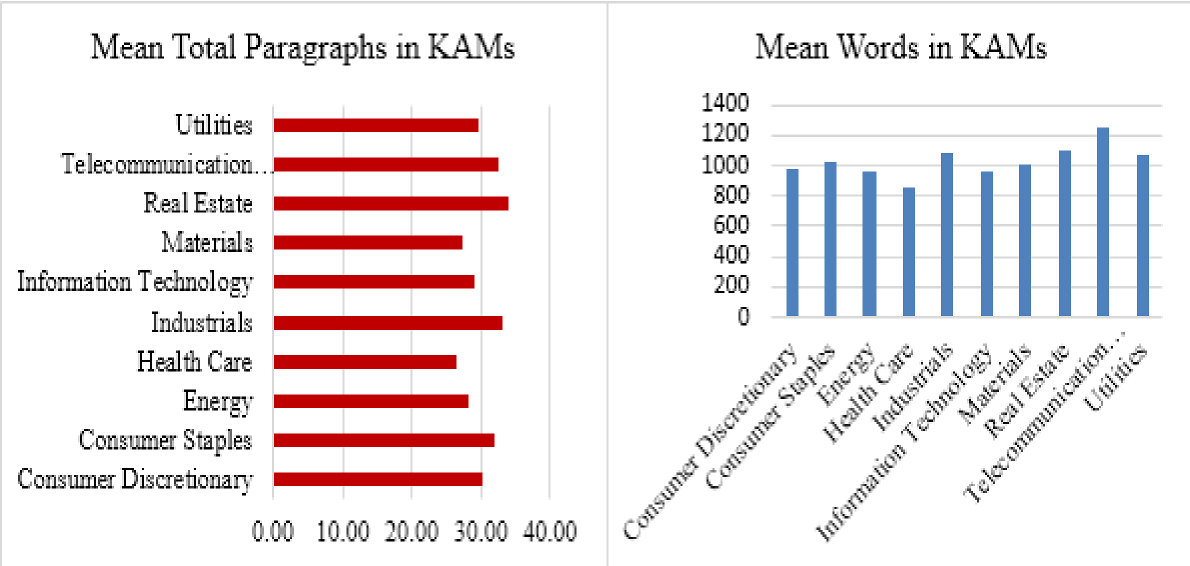


Figure 5.4 illustrates the industry-wise concentration for number of KAMs disclosed in the audit reports of listed companies in Australia. The analysis shows considerable variations with some reporting one KAM while others documenting as many as seven KAMs.

The most seven KAMs were reported by a firm belonging to the utilities sector, which averages 5 KAMs per report. The second most number of KAMs (five) in a single report was disclosed by different firms from the consumer discretionary, consumer staples, energy, materials, and real estate sectors. However, with respect to the mean number of KAMs presented, utilities (3.50), telecommunication services (3.50), consumer staples (3.17), and consumer discretionary (3.12) are top of the list, providing more than 3 KAMs on average. In contrast, the lowest number of KAMs, on average (2.67), is disclosed by companies in the health care sector.

In terms of word count, KAMs presented by telecommunications services are the longest with 1248 words and 32.50 paragraphs on average (Figure 5.5). The second-longest disclosures were produced by the real estate sector using 1100 words in 33.90 paragraphs on average. The lowest word counts, 864 words on the average, were used by auditors from the health care sector to report KAMs in their audit report. The length of disclosure so measured are inconsistent with the average number of KAMs disclosed by industries. This industry variations may be because of the complexity of issues pertaining to specific industry that requires more detailed explanation, or this is may be a random observation.

Figure 5.5 Length of KAMs disclosed in the audit reports of the listed companies across various industries in Australia



H2 results

H2a predicts that the number, type of KAMs, and their lengths of disclosure reported by auditors of the listed companies in Australia are consistent within the industry. H2b predicts that the number, type of KAMs, and their lengths of disclosure reported by auditors of the listed companies in Australia are different across the industries. We utilise univariate and multivariate analyses of variance to measure the differences for each of the variables within and across industries.

Table 5.5 Descriptive statistics and univariate and multivariate results for the number of KAMs disclosed in the audit reports of the listed companies within and across various industries in Australia

			Number of KAMs			
	Industry Sector	**N**	**Mean**	**S.D.**	**F**	**p-value**
	Multivariate test (across 10 industry sectors)				33.221	0.000**
1	Consumer Discretionary	26	3.12	1.03	15.385	0.000**
2	Consumer Staples	12	3.17	1.19	9.192	0.000**
3	Energy	10	2.80	1.03	8.573	0.000**
4	Health Care	12	2.67	0.65	14.182	0.000**
5	Industrials	20	3.05	0.83	16.522	0.000**
6	Information Technology	12	2.83	1.03	9.530	0.000**
7	Materials	35	2.83	0.95	17.533	0.000**
8	Real Estate	19	2.89	1.10	11.468	0.000**
9	Telecommunication Services	4	3.50	1.00	7.00	0.006**
10	Utilities	4	3.50	2.65	2.646	0.077

***Significant at 1% level *Significant at 5% level*

The results reported in Table 5.5 show that the number of KAMs presented differs significantly within the industry for all sectors except the utilities sector. The findings are partly inconsistent with our prediction: that number of KAMs disclosed are the same or similar within industry; however, the results support our hypothesis that the number of KAMs disclosed are different across the industries. The findings also indicate that the opportunity remains for many firms to disclose more KAMs, as they disclosed fewer KAMs than their counterparts. This variation in number of KAM disclosed is presumably due to the firm's characteristics and auditor judgement on KAM selection.

Table 5.6 illustrates the results for the number of paragraphs used to report KAMs in the auditor's reports of listed companies by industry sectors in Australia in the year of adoption of new ISA 701. The results show significant variations within each industry under observation as well as across the industries in using the number of paragraphs for KAMs disclosure. The findings, therefore, is not consistent with our prediction that the lengths of KAMs in terms of paragraphs disclosed are same or similar within industry but, consistent with our prediction that KAM's length varies across the industries.

Table 5.6 Descriptive statistics and univariate and multivariate results for the number of paragraphs used to report KAMs in the auditor's reports of listed companies within and across various industries in Australia

		Number of Paragraphs in KAMs Reporting				
	Industry Sector	**N**	**Mean**	**S.D.**	**F**	**p-value**
	Multivariate test (across 10 industry sectors)				36.848	0.000**
1	Consumer Discretionary	26	30.15	10.49	14.651	0.000**
2	Consumer Staples	12	31.92	13.10	8.442	0.000**
3	Energy	10	28.10	12.12	7.335	0.000**
4	Health Care	12	26.33	6.32	14.445	0.000**
5	Industrials	20	33.25	13.50	11.013	0.000**
6	Information Technology	12	29.08	7.43	13.563	0.000**
7	Materials	35	27.34	10.46	15.469	0.000**
8	Real Estate	19	33.89	13.17	11.222	0.000**
9	Telecommunication Services	4	32.50	8.70	7.472	0.005**
10	Utilities	4	29.50	14.15	4.168	0.025*
***Significant at 1% level *Significant at 5% level*						

Table 5.7 provides the results for the number of words used to present KAMs in the auditor's reports of listed companies by industry sectors in Australia. The results show that the number of words used to present KAMs differs significantly within and across industries. The findings,

thus, do not support our hypothesis that the length of KAMs, in terms of word count, are the same or similar within an industry but, the results agree with the prediction that the word counts vary across the industries. This diversity in length of KAMs, even within the same industry may be because of the different number of KAMs reported by firms along with auditor's choice of the way the KAMs are presented in the report.

Table 5.7 Descriptive statistics and univariate and multivariate results for the number of words used to report KAMs in the auditor's reports of listed companies within and across various industries in Australia

			Number of Words in KAMs Reporting			
	Industry Sector	**N**	**Mean**	**S.D.**	**F**	**p-value**
	Multivariate test (across 10 industry sectors)				31.377	0.000**
1	Consumer Discretionary	26	972.15	344.08	14.407	0.000**
2	Consumer Staples	12	1022.08	425.17	8.327	0.000**
3	Energy	10	957.00	376.95	8.028	0.000**
4	Health Care	12	864.08	303.48	9.863	0.000**
5	Industrials	20	1082.00	436.03	11.098	0.000**
6	Information Technology	12	967.25	301.65	11.108	0.000**
7	Materials	35	1010.97	380.15	15.733	0.000**
8	Real Estate	19	1099.63	443.67	10.804	0.000**
9	Telecommunication Services	4	1248.25	369.46	6.757	0.007**
10	Utilities	4	1061.00	615.71	3.446	0.041*
***Significant at 1% level *Significant at 5% level*						

We further investigate the type of KAMs disclosed within and across the industries. The multivariate results (Table 5.8) show that there are significant differences in the type of KAMs disclosed by companies across industry sectors ($p = 0.000$). Out of the 25 KAM types, 12 are also significantly different within the industries ($p < 0.05$). These KAMs include matters related to financial assets, recoverability and impairment of goodwill and intangible assets, taxation, investments, provisions, mining properties, oil and gas, PPE, revenue recognition, receivables, research and development, and others. We, therefore, find no evidence in support of our hypothesis that the types of KAMs disclosed are the same within an industry. However, we do provide evidence that the types of KAM disclosed varies across industries.

Table 5.8 Descriptive statistics and ANOVA results for the types of KAMs disclosed in the auditor's reports of listed companies across various industries in Australia

KAM Types	N	Mean[6]	S.D.	F	p-value
Multivariate test (across 10 industry sectors)				2.131	0.000**
Accruals	154	0.03	0.178	1.414	0.187
Acquisition	154	0.23	0.42	1.543	0.138
Asset Evaluation – other	154	0.02	0.139	1.908	0.055
Cash & Cash Flows	154	0.01	0.081	0.733	0.678
Equity Accounting Method	154	0.09	0.288	0.935	0.497
Exploration & Evaluation Assets	154	0.03	0.16	1.884	0.059
Financial Assets	154	0.08	0.279	5.131	0.000**
Going Concern	154	0.01	0.081	0.364	0.951
Goodwill & Intangibles	154	0.44	0.498	5.864	0.000**
Inventory	154	0.17	0.376	1.29	0.247
Investment	154	0.17	0.376	14.03	0.000**
Legal Issues	154	0.01	0.114	0.523	0.856
Liabilities	154	0.06	0.235	1.141	0.338
Liquidity & Funding	154	0.04	0.194	0.754	0.659
Mining Properties	154	0.06	0.235	3.039	0.002**
Oil & Gas Assets	154	0.02	0.139	4.028	0.000**
Operation	154	0.07	0.258	1.022	0.425
PPE	154	0.25	0.433	2.14	0.03*
Provisions	154	0.21	0.407	4.197	0.000**
Receivables	154	0.08	0.269	2.276	0.02*
Research & Development	154	0.05	0.209	2.276	0.02*
Revenue Recognition	154	0.29	0.453	2.486	0.011*
Share Based Payments	154	0.01	0.081	1.341	0.221
Taxation	154	0.25	0.436	2.064	0.036*
Others	154	0.14	0.387	3.641	0.000**
***Significant at 1% level *Significant at 5% level*					

[6] The mean values are calculated based on the data coded as '1' for presence and '0' for absence of a particular type of KAM across all the 154 companies.

We conducted additional analysis to determine whether there is a significant difference in the number of KAMs presented within and across the industries between the year of adoption (T_1) and the following year (T_2). Generally, there is a declining trend in the number of KAMs disclosed as the mean value is smaller for the (T_2) compared to (T_1) for each of the industries. The results indicate significant differences in the number of KAMs reported between the two years. Interestingly, differences within each of the 10 industries are not statistically significant (Table 5.9).

Table 5.9 Descriptive statistics and univariate and multivariate results for the number of KAMs disclosed in the audit reports of the listed companies across various industries in Australia (first year and second year)

Industry	N	First Year (Mean)	Second Year (Mean)	F	Significance level
Multivariate test (across 10 industry sectors)				5.797	0.027*
Consumer Discretionary	26	3.12	2.77	1.409	0.241
Consumer Staples	12	3.17	2.58	1.571	0.223
Energy	10	2.80	3.10	0.249	0.624
Health Care	12	2.67	2.58	0.096	0.760
Industrials	20	3.05	2.65	2.211	0.145
Information Technology	12	2.83	2.75	0.051	0.823
Materials	35	2.83	2.60	1.084	0.302
Real Estate	19	2.89	2.68	0.362	0.551
Telecommunication Services	4	3.50	3.00	0.429	0.537
Utilities	4	3.50	3.00	0.097	0.766

**Significant at 5% level*

Our further analysis also shows that 100 (64.94%) companies reported exactly the same types of KAMs in T_2 that were reported in T_1, without changing any KAM types. Of the remaining companies, 51 (33.12%) changed KAM type by either including one or more new KAMs and/or excluding one or more previously reported KAMs. Thus, only 3 out of the 154 companies reported totally different issue(s) as KAMs in year two (T_2) to year one (T_1). Moreover, in T_1 455 KAMS were reported by 154 firms, where 346 (76%) of those 455 KAMs were repeated in T_2. In T_2, 415 KAMs were disclosed, which implies that auditors of all the companies took 69 new issues as KAMs in the second year of adoption. We also observe a declining trend in the number of KAMs reported in every industry under investigation. However, in most cases, a year on year assessment reveals a very high similarity between the successive years in KAM descriptions given the chosen KAM topic are the same for both the years. The findings can be related to the concern raised by the AUASB (2013), which is that KAMs would be 'boilerplates' in a few years. Pragmatically, an organisation is not expected to have a new issue disclosed as a KAM each year.

In addition, we concentrate on the most common KAMs reported across the companies and industries. We notice that the most common seven KAMs represent 65.04% of all KAMs reported in T_1 (see Table 5.2). In the following year, the ratio is higher at 67.95%, which implies that more firms, compared to year one, reported the same types of KAMs in year two (T_2). The ratio is even higher when the analysis envisages industry-wise concentration. For example, the most frequently reported seven KAMs of the consumer discretionary sector represents 75% and 79.16% of all KAMs reported in the sector in year one and year two, respectively. The scenario is similar for some of the other industry sectors even only if the top three or four KAMs are considered. These observations are totally inconsistent with the IAASB's expectation that KAMs should be unique to each entity.

5.3 Presentation of Positive and Negative KAMs

H3a predicts that auditors of the listed companies in Australia will present more positive than negative KAMs in the audit report. H3b expects that auditors of the listed companies in Australia will present negative KAMs after positive KAMs in the audit report. However, as per our observation, there are no negative KAMs reported by auditors of Australian firms.

Rather, we further observe that some company's auditors even deleted some slightly negative sentences in their current reports that were presented in the preceding year's audit report. For example, one company stated "these complex transactions may have a significant economic effect and have extensive accounting and reporting obligations" in the 2017 audit report to disclose a KAM related to derivative valuation and hedge accounting. However, in their 2018 report, the contents remain exactly the same but with the above phrase excluded. Similarly, another firm included "these complex transactions may have a significant financial effect and have extensive accounting and reporting obligations" in their KAM relating to financial assets in 2016 but removed the sentence from their 2017 report leaving the rest unchanged. Further, one company reports in the KAM section "for residential apartments we note that in the current year market commentary suggests potential heightened settlement risk of residential apartments compared to prior year" in the audit report of 2017 but omitted this in the 2018 report while making no other changes. These disclosures were still placed later in the sequence of KAMs disclosed. Moreover, no company reported a conclusion; neither on a particular KAM discussion nor at the end of the KAM section, which we have observed auditors in other jurisdictions doing voluntarily.

These observations could be related to one or more factors, such as the negativity bias theory, concerns raised about breaching confidentiality, management pressure to not disclose bad news, or avoiding any potential dissatisfaction from management over the audit committee or auditor. After all, auditors may not like raising any potential bad news that could cost them clients. Further, negative disclosures may result in severe impacts, going beyond expectation, on the client's stock market performance. Consequently, auditors may face litigation for any such inconsistent disclosure, i.e., divulging information that is deemed confidential. This fear of losing clients or litigation risks may deter auditors from disclosing negative KAMs in audit reports.

We provide more insights on which KAMs were given priority and placed earlier in the audit report. The mean values for presentation order are calculated based on the order of KAMs in the audit report. Since the maximum number of KAMs presented is 7, a value was assigned from 1 to 7 based on the order in which they were presented in the auditor's report. A KAM with presentation order rank of 1 received a score of 7; a KAM with a presentation order rank of 2 received a score of 6; a KAM with a presentation order rank of 3 received a score of 5; and so on. KAMs not presented by a particular firm received a zero. Thus, a higher mean indicates that the relevant KAM was presented before a KAM that has a lower mean for presentation order rank score.

The result shows significant differences between the choice of placement of particular types of KAMs (Table 5.10). Our rank order analysis shows auditors prefer (whenever applicable) disclosing matters related to goodwill and intangible assets as their first KAM followed by revenue recognition (placing in 2nd position) and issues related to PPE (3rd position). Auditors then prioritise acquisitions related matters followed by taxation, provision, and investment-related disclosures before presenting other types of KAMs, if chosen to be reported. This may be because of the importance, quantitative weight, and relevance of the subject matter in the KAM.

Table 5.10. Descriptive Statistics and ANOVA results for the presentation order of KAMs in the audit reports of listed companies in Australia

	Presentation Order of KAMs (N=154)			
KAM Types	**Mean**	**S.D.**	**F**	**p**
Multivariate test (across 25 KAMs)			4.801	0.000**
Goodwill & Intangibles	2.73	3.14	10.778	0.000**
Revenue Recognition	1.82	2.94	7.714	0.000**
PPE	1.58	2.80	6.993	0.000**
Acquisition	1.38	2.60	6.601	0.000**
Taxation	1.30	2.31	6.969	0.000**
Provisions	1.13	2.27	6.181	0.000**
Investment	1.08	2.43	5.537	0.000**
Inventory	0.96	2.17	5.491	0.000**
Others	0.68	1.81	4.665	0.000**
Equity Accounting Method	0.56	1.79	3.865	0.000**
Receivables	0.44	1.54	3.553	0.001**
Financial Assets	0.40	1.34	3.668	0.000**
Operation	0.39	1.43	3.372	0.000**
Mining Properties	0.38	1.53	3.046	0.003**
Liabilities	0.29	1.18	3.067	0.003**
Liquidity & Funding	0.25	1.27	2.483	0.014**
Research & Development	0.25	1.18	2.663	0.009**
Accruals	0.21	1.15	2.248	0.026*
Exploration & Evaluation Assets	0.14	0.90	1.978	0.05
Asset Evaluation -other	0.13	0.93	1.739	0.084
Oil & Gas Assets	0.12	0.86	1.696	0.092
Legal Issues	0.07	0.63	1.413	0.16
Going Concern	0.04	0.48	1.00	0.319
Share Based Payments	0.04	0.48	1.00	0.319
Cash & Cash Flows	0.03	0.40	1.00	0.319
***Significant at 1% level *Significant at 5% level*				

5.4 Additional Analysis

Length of the audit report in Australia pre and post-ISA 701 implementation

We now examine the differences in the length of the audit report in Australia pre and post-ISA 701 implementation. Many predicted very lengthy audit reports because of the additional disclosures required, in particular, due to including KAMs.

Table 5.11 Descriptive Statistics and univariate results for the length of the audit reports of the listed companies in Australia pre and post-ISA 701 implementation

Reporting Regime	**Mean**	**S.D.**	**F**	**p-value**
Pages in Audit Report (T_0) n = 154	1.81	0.381	893.699	0.000**
Pages in Audit Report (T_1) n = 154	5.25	1.378		

***Significant at 1% level*

Table 5.11 summarises the results for the length of auditor's reports before and after the application of the new standards. Mean length of the report was 1.81 pages before the reform, and 5.25 pages, on average, after the reform.[7] As expected, the findings suggest a significant difference between the length of the pre-ISA 701 report and the post-ISA 701 report at 1% significant level (F = 893.699; p = 0.000). Indeed, the new KAM disclosure causes the audit report to be significantly longer. While before the inclusion of KAMs, the audit report length ranged from one page to 2.5 pages (mean = 1.81), after including KAMs the audit report now ranges from 1.75 pages to 9.5 pages long (mean = 5.25) in the first year of adoption. Obviously, the enhanced audit reports are provided with more information. Nevertheless, the variations in the length of report may have adverse effect on user's decision making. Investors may assume an investment risky in a firm that has been issued a lengthy audit report.

However, as presented in Table 5.12, the descriptive statistics and univariate results indicate that the length of the report in the second year of adoption does not significantly differ from that of the first year. In the second year, the minimum length of the audit report was found to

[7] For counting the number of pages, we divided the whole page into four quarters to account for the part of audit report occupying a fraction of a page, if any. For example, if a report covers one whole page and a quarter of the next page, we count 1.25 and if it is one whole page and a half of the next, we count 1.50 and so on.

be 2 pages and a maximum of 8.5 pages with an average of 5.19 pages, slightly lower from year one.

Table 5.12 Descriptive statistics and univariate results for length of the audit reports of the listed companies in Australia in the year of ISA 701 implementation and the following year

Year	Mean	S.D.	F	p-value
Pages in Audit Report (T_1) n = 154	5.25	1.378	0.071	0.790
Pages in Audit Report (T_2) n = 154	5.21	1.293		

This outcome is consistent with the declining trend for the number of KAMs (mean: $T_1 = 2.96$; $T_2 = 2.71$), number of paragraphs used in KAMs (mean: $T_1 = 30.50$; $T_2 = 28.90$), and the number of words in KAM disclosures (mean: $T_1 = 1014.55$; $T_2 = 953.95$).

KAM disclosures across the Big-4 and Non-big-4 firms

We further scrutinise KAM disclosures from the auditor's standpoint to unveil variations across the big-4 and non-big-4 firms. As illustrated in Table 5.13, the greatest number of KAMs per audit report was disclosed by PwC, who reported 3.33 KAMs on average, followed by Ernst & Young (EY) (3.03), and non-big 4 firms (3.00).

Table 5.13 Descriptive statistics and univariate results for the number of KAMs disclosed by different audit firms in Australia in the year of ISA 701 implementation

Audit Firms	Mean	S.D.	F	p-value
Deloitte (n = 27)	2.67	1.33	2.802	0.028*
PwC (n = 42)	3.33	0.82		
Ernst & Young (EY) (n = 39)	3.03	0.81		
KPMG (n = 36)	2.67	1.07		
Non-Big 4 (n = 10)	3.00	1.25		

* *Significant at 5% level*

However, Deloitte and KPMG reported the same number of KAMs (2.67), on average. We test whether there are significant differences among the auditors with respect to the number of

KAMs disclosed in the audit report of listed companies in Australia. The results show significant differences (F = 2.802, p = 0.028) in the number of KAMs reported.

Table 5.14 Descriptive statistics and univariate results for the number of paragraphs used to present KAMs by different audit firms in Australia in the year of ISA 701 implementation

Audit Firms	Mean	S.D.	F	p-value
Deloitte (n = 27)	25.11	11.00		
PwC (n = 42)	35.74	11.91		
Ernst & Young (EY) (n = 39)	28.31	8.45	5.102	0.001**
KPMG (n = 36)	30.14	11.63		
Non-Big 4 (n = 10)	25.90	7.00		

** *Significant at 1% level*

Also, as reported in Table 5.14, there are significant differences across the audit firms in the number of paragraphs used to presents KAMs. The greatest number of paragraphs was used by PwC, 35.74 paragraphs on average, to report KAMs. KPMG holds the second position with 30.14 paragraphs used on average. In comparison, EY and non-big-4 firms reported KAMs using 28.31 and 25.90 paragraphs, respectively; the lowest number of paragraphs used by Deloitte.

Table 5.15 Descriptive statistics and univariate results for the number of total words used to present KAMs by different audit firms in Australia in the year of ISA 701 implementation

Audit Firms	Mean	S.D.	F	p-value
Deloitte (n = 27)	830.48	443.69		
PwC (n = 42)	1218.52	370.83		
Ernst & Young (EY) (n = 39)	952.87	280.98	5.773	0.000**
KPMG (n = 36)	1023.72	373.31		
Non-Big 4 (n = 10)	862.40	335.44		

** *Significant at 1% level*

In terms of the number of words to report KAMs, PwC used the most with 1218.52 words, on average (Table 5.15). KPMG employed 1023.72 words, on average, to explain their KAM topics while their nearest counterpart EY used 952.87 words, on average, to report such issues. Deloitte and non-Big-4 firms used 830.48 and 862.40 words, respectively, to report KAMs. The differences, however, are big enough to be statistically significant (F = 5.773; p = 0.000). The results provide some evidence that auditors are approaching KAM disclosures in different ways.

We further investigate whether there are significant differences in the lengths of the audit reports furnished by different auditors. As we see in Table 5.16, the longest (6.16 pages, on average) reports are issued by PwC while the second-longest are generated by Ernst & Young (5.19 pages, on average). KPMG and the non-big 4 firms, however, issued audit reports of almost the same length while Deloitte seems conservative in providing a more detailed disclosure in the extended reporting. The findings are consistent with KAMs disclosed except for KPMG; they are presenting less KAMs on average, yet using relatively more paragraphs and words to present KAMs. It is perhaps because of their presentation style throughout the report. However, there are statistically significant differences in the length of reports issued by different auditor groups.

Table 5.16 Descriptive statistics and ANOVA results for length of the audit reports presented by audit firms in Australia in the year of ISA 701 implementation

Audit Firms	**Mean**	**S.D.**	**F**	**p-value**
Deloitte (n = 27)	4.62	1.188		
PwC (n = 42)	6.16	1.222		
Ernst & Young (EY) (n = 39)	5.19	1.360	8.391	0.000**
KPMG (n = 36)	4.83	1.329		
Non-Big 4 (n = 10)	4.90	0.876		

*** Significant at 1% level*

Overall, auditors are presenting KAMs in divergent ways. This diversity may further be expanded because of the provision for applying the subjective judgment by the auditors in determining the number of KAMs and their extent of disclosure. This in turn may widen the expectation gap.

Chapter 6: Conclusions, Implications, Limitations and Future Research Directions

6.1 Conclusions and Implications

Motivated by lacuna of research and continuous debates on the recent reforms in auditors' reporting requirements, this study investigated the degree of conformity with the new auditor reporting requirements in Australia and the extent of variations in the reporting of KAMs by companies within and across the industries. To provide first-hand empirical evidence on the efficacy of the new KAMs communique, we have relied on content analysis while exploiting both qualitative and quantitative research approaches. In this section, we provide a summary of our findings juxtaposed with the implications of such findings.

With a view to attain greater transparency in auditing and better quality in audits, the IAASB has revised some extant standards and issued one new ISA 701 standard, which was adopted by AUASB making it effective for all the listed companies in Australia in their audit of financial reports for periods ending on or after 15 December 2016. The auditors are now required to provide bespoke and firm-specific insights in their audit reports. Indeed, there was increased support for the development and implementation of this new reporting model.

Regarding the degree of conformity with the new reporting framework, our results indicate that the auditor's reports are strongly conforming to the requirement of the revised ISAs and new ISA 701 standards. For each of the required elements to be presented in the audit report, the percentage of conformity is almost 100%. There are no significant differences regarding the format and structure of the reports across the companies except some noticeable variations in some cases. However, there are some significant differences in the contents of the new auditors' reports, specifically with respect to other information, auditor's responsibilities for the financial statements section, and the new KAM section. Thus, firms are implementing the new standards in divergent ways.

These observations have direct implications for national and international standard-setters, regulators, and users of audit reports. The findings provide evidence of professionalism and due diligence of the personnel concerned in implementing the new reporting model as the execution of the revised standards at least ceased the standardised reporting. The local or national standard-setters now have the upshot of their policy efforts for extended reporting.

The results indicate that the intended purpose of enhancing informational value is achieved to some extent. It also provides incentives for standard-setters, accounting firms and, auditors of other countries who are still in the process of implementing the new reporting framework. Additionally, with this given evidence of strong compliance, the investors and users of audit reports would gain greater confidence and regard it as a reliable source of information.

Further, our findings of notable variability in contents along with some observable variations in the format of audit reports across companies have important policy implications. These variations may further lead to fortuitous disparities thereby making the report unwieldy and incongruous to global convergence. The standard-setters should consider these inconsistencies and the resultant complexities that may arise while contemplating the issue of reporting harmonisation across the globe. They may also focus on the general similarity of our findings and those of in other jurisdictions to lessen the between-country discrepancies in disclosures.

Nonetheless, our analyses in relation to the number of KAMs and their extent of disclosure finds significant differences within, as well as across, the industries. Though partially incongruous with our prediction, the findings do signal important policy implications. Some companies are disclosing more KAMs, using more words and paragraphs, and additional information (i.e., materiality determination) than required by standards, while some are just providing minimal disclosures. These inconsistencies are definitely because of the fact that the KAM disclosures are at the discretion of the auditors.

Auditors might have had different views regarding the selection of KAMs. Some might have disclosed more KAMs to fully discharge their reporting responsibility while others might have compromised due to management pressure to report as minimal as possible. Management may have concerns for not disclosing information to their competitors and, thus, persuade auditors to not present more KAMs. However, such inconsistencies may question the comparability and defeats the purpose of KAM disclosures. Investors and other stakeholders interested in a particular industry, for example, may find some ideas or risk potentials about an entity while they may receive less or no information at all about another entity that belongs to the same industry. Further, users of financial reports (mostly being non-professional investors used to receiving boilerplate statements) may wrongly consider that there must be something bad with the company disclosing more KAMs. Conversely, some others may assume a company disclosing less KAMs means they are hiding something. This incongruous behaviour of investors, in turn, may adversely affect the capital market.

Moreover, there is a declining trend in KAM disclosures, whereas a substantial number of companies are reporting exactly the same types of KAM even without tailoring any changes in their description. In this everchanging global economy where businesses are facing more challenges, the number of KAMs are expected to increase. Perhaps, auditors have encountered considerable problems in choosing new KAM issues, or they were less interested in being proactive in this long-form reporting. Further, cost-benefit consideration could be a reason. However, while enhanced communicative value with utmost transparency has been promoted as the prime objective of this notable reform, such shirking trends coupled with the boilerplate nature of the disclosures tarnishes the aim of extended reporting. It goes in contrast to the expected entity-and-audit-specific tailored reporting and, therefore, signals that KAM reporting is yet a mere compliance exercise rather than a true platform to protect investors' interest.

The findings further imply that there are inherent problems in standards and there is a lack of appropriate guidelines for auditors. Consequently, we observe such inconsistencies in KAM reporting. These distinctions may frustrate investors and other stakeholders as they need legitimate information. Moreover, the boilerplate nature of presenting KAMs by some auditors may discourage other auditors from being agile in this innovative reporting era that requires deeper concentration and more time spent. Also, the findings further suggest that a well-balanced and consistent report will not be imminent unless a major recasting is made to the standards. The regulators, therefore, may further think about the adequacy of the standards and bring any amendment or revision in the standards addressing the noted discrepancies. They may consider fixing a range or ceiling to the number of KAMs to be reported along with additional reporting guidelines to make this extended reporting more obvious, truly remarkable, and viably effective.

Furthermore, though there are some differences in the choice of KAM topics across the industries, there are high similarities observed in KAM topics within the same industry and even to some extent, across the industries. For instance, the issues related to the valuation and impairment of goodwill and intangibles are commonly reported by most of the companies, regardless of industry sector. In addition, the disclosure tones remain industry-specific rather than entity-specific. Most companies relate the reported issues with external economic and political factors, consumer preferences, strategy and business models. Important matters like internal controls and their audit aspects are seldom reported. Possibly, there is a gap between risk discussed with the board and the risk disclosed in the report. Further, some reports used technical language and, thus, the expected jargon-free reporting is not yet prevalent. The standard-setters and policymakers should be vigilant and take these concerns seriously because it questions the adequacy of the new standards and, thus, the extended reporting.

The appalling findings of the study is that there are no negative KAMs disclosed in any of the audit reports. Examining the tone of the KAM disclosures, we observed that they are inclined to avoid negative tones in their sentences. Though in some cases, auditors provided some additional information even going beyond the requirement of the standards; no report, however, drew any conclusion or findings on the KAMs. One of the probable reasons for such findings may be client pressure to not disclose negative information. Another reason could be that auditors might have been observing what their peers are disclosing or not disclosing. Whatever the case, again standard-setters and regulators have to rethink whether the intended purpose of the reforms is achieved. They may try to explore the factors behind not reporting any negative disclosures. Also, they may provide additional guidance in the standards to assist and motivate auditors to provide more granular risk reporting.

Additionally, our investigation finds that the length of post-ISA 701 audit reports significantly increased, particularly because of the KAM section. Also, there is a significant difference in the length of reports across the companies as different auditors provided different sized reports. Clearly, this extended reporting is a notion for more audit-specific information disclosures. However, there are concerns that users may take this as a substitute for financial statements, thereby reducing the relevance of financial reporting. Also, disclosures that are too detailed may make the report too complex to be useful and eventually a mere symbolic gesture. Standard-setters, therefore, must assess whether the reports in the post-ISA 701 regime are too lengthy and whether users really read such lengthy reports that are painstakingly produced.

All things considered, the reforms with the mission of enhancing the communicative value and relevance of the auditor's reports have definitely impacted the auditors of Australian firms. However, the long demanded extended reporting has not reached its intended goal. Unless more granular risk reporting ensues, the greater transparency in financial reporting, which is needed to increase confidence in the capital market, cannot be achieved and sustained. Thus, the national and international standard-setters, policymakers, professional accountants, and others concerned must take concerted efforts to instil a true and effective extended reporting that serves the users' vital information need to make prudent investment decisions and establish a stable capital market.

6.2 Limitations and Avenues for Future Research

The outcomes of this study should be considered in view of some potential limitations. First, consistent with any other study, our investigation is limited by its methodology. Admittedly, content analysis can engender some challenges. To address the inherent limitations of the method itself, we applied necessary steps, including double-checking of coding; consultation with relevant experts in any dithering observation, i.e., positive or negative KAM; multilevel focus, i.e., words, sentences, and paragraphs. In addition to computer-assisted techniques, we manually checked for reassurance.

Additionally, contents relating to the major part of our subject of interest is clearly directed by the applicable standards, i.e., there is lucent guidance regarding the wording of the different parts of the audit report. For ensuring proper judgement in assigning a coding value to a dubious abstract or concept, i.e., whether a KAM is positive or negative, we repeatedly consulted with the experts in the concerned area. Further, to gain a better insight into the audit report, we relied on a mixed approach. We not only conducted directed content analysis, where the use of predetermined codes or categories are derived from prior studies (Hsieh and Shannon, 2005), but also conventional content analysis, which allows categories and codes to emerge from the content or text itself (Bernard, 2000). However, in lieu of content analysis, future research might apply survey or experimental approaches to investigate any association between KAM wordings and investors' understandings as the value enhancement requires a jargon-free, bespoke, and insightful disclosure.

Second, this study is delimited by its context as it covered the top 200 ASX firms in Australia. Moreover, we excluded financial and foreign firms in our sample and, hence, caution should be taken in the generalizability of the results. A larger sample in the same context or including other countries could engender a different picture of the findings, thereby, representing a proliferous scope of potential research. Also, focus can be turned to presenting KAMs in the banking and financial sector.

Third, the inadequacy of similar studies has precluded the integration of our findings with those of our peers. This is, however, also a strength of the study as it is the first attempt to explore consistency or variations in applying the new reporting model. However, our study is restricted to the first two years of KAM implementation. After a few years, future research endeavours could be taken to reconfirm the present findings or uncover new observations and the pertinent value of relevance over time.

Finally, we do not ponder the reason behind the relevant disclosures in the audit report. i.e., why a particular KAM is chosen. Researchers may launch investigations on identifying factors affecting the choice of KAMs in the auditor's report in Australia. Also, an interesting research agenda may be to examine whether there exists any relationship between such disclosures and audit firms or more comprehensively, engagement partners. Moreover, literature could be advanced by exploring negative impacts, if any, of KAM disclosures on the audit profession. Furthermore, future investigation could assess whether KAM disclosures are unnecessarily lengthy and cumbersome, and the KAM presentation is consistent with or complementary to matters expressed in the Audit Committee Reports.

Overall, in light of the above limitations, we submit our empirical findings that make significant contributions to the existing body of knowledge by documenting new KAM features and reporting variability. Yet, any future study addressing the limitations would further produce valuable insights to overcome obstacles to achieve transparent and improved audit reporting practices while applying the reformed standards worldwide.

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Appendix 1

Description of Different Types of KAMs

	Type of KAM	Description
1	Accruals	Matters relating to adequacy or recoverability of the accruals
2	Acquisition	Matters relating to business acquisitions or accounting for acquisitions
3	Asset Evaluation - other	Matters relating to valuation of assets other than cash, inventories, receivables, PPE, goodwill and intangible assets
4	Cash & Cash Flows	Matters relating to cash, cash equivalent and cash flows
5	Equity Accounting Method	Matters relating to the impairment or carrying value of equity accounted investment
6	Exploration & Evaluation Assets	Matters relating to recoverability or capitalisation of Exploration & Evaluation assets and expenditures
7	Financial Assets	Matters relating to hedging or valuation of financial assets including derivatives, convertible notes and options
8	Going Concern	Matters relating to events or conditions which may cause doubt on entity’s ability to continue as a going concern
9	Goodwill & Intangibles	Matters relating to recoverability, useful life or impairment of goodwill and intangible assets
10	Inventory	Matters relating to existence or evaluation of inventory
11	Investment	Matters relating to the existence or valuation of investment and investment properties
12	Legal Issues	Matters relating to legal issues, such as the impact of an Act or the calculation of provisions for legal claims
13	Liabilities	Matters relating to loans, payable or contingent liabilities
14	Liquidity & Funding	Matters relating to funding requirements or capital management

15	Mining Properties	Matters relating to recoverability, valuation, or impairment of mining properties
16	Oil & Gas Assets	Matters relating to the impairment, valuation or estimation of oil and gas assets
17	Operation	Matters relating to companies' operation, such as internal control, strategy execution or disposal of subsidiaries
18	PPE	Matters relating to the existence, impairment or valuation of plant, property and equipment
19	Provisions	Matters relating to provisions, for example, rehabilitation provisions
20	Receivables	Matters relating to recoverability or impairment of trade receivables and other receivables
21	Research & Development	Matters relating to capitalisation or valuation of research and development costs
22	Revenue Recognition	Matters relating to the accuracy or presentation of revenue
23	Share Based Payments	Matters relating to accounting for share based payments
24	Taxation	Matters relating to deferred tax assets or accounting for income tax
25	Others	Matters that could not be included in other categories

Appendix 2

Elements of Pre-ISA 701 Report
1) Title 2) Addressee 3) Introductory Paragraph: a) Entity Audited Identified b) Financial Statements Audited Identified (Titles) c) Period Covered Stated d) Reference of Significant Accounting Policies 4) Management Responsibilities for Financial Statements 5) Auditor’s Responsibilities for the Audit of Financial Statements: a) Express an Opinion b) Reasonable Assurance c) Obtain Evidence d) Procedures by Auditor’s Judgement e) Appropriateness of Accounting Policies used and Reasonableness of Accounting Estimates f) Description of the Audit g) Sufficiency and Appropriateness of Evidence 6) Auditor’s Opinion: a) Present Fairly or True and Fair View b) Conformity with IFRS c) Conformity with Laws 7) Report on Other Legal and Regulatory Requirements 8) Signature of the Auditor 9) Date of Auditor’s Report 10) Auditor’s Address