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Does academic research provide sufficient evidence concerning possible changes to the audit reporting model?

August 29, 2014

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*Note: This article is based partly on a synthesis of the literature on the audit reporting model (Mock, Bédard, Coram, Davis, Espahbodi, and Warne 2013) and comment letters submitted by Mock, Bédard, Coram, Espahbodi, and Warne (2013a; 2013b) to the PCAOB and IAASB. It is written by a subset of the synthesis authors and expresses the views of these authors alone.
Does academic research provide sufficient evidence concerning possible changes to the audit reporting model?

Synopsis

The Public Company Accounting Oversight Board (PCAOB) and the International Auditing and Assurance Standards Board (IAASB) have each proposed a standard that could significantly change the independent auditor's report. Both proposed standards would require the auditor to make additional disclosures intended to close possible information and communication gaps and, in general, improve the relevancy of the auditor's report. Clearly, changes to the auditor's report could have significant consequences to financial market participants and other stakeholders.

We augment prior academic research related to the PCAOB and IAASB proposed standards with the main intent of providing standard setters with an updated synthesis of relevant research. We also provide an assessment of whether the proposed changes are likely to close the communication and information gaps. While significant research exists in many areas, in addition we identify areas where there seems to be a lack of sufficient research evidence.

These results should interest standard setters as they consider fundamental changes to the auditor's report and also as they consider ways of stimulating future relevant academic research. Additionally, our summaries that indicate limited research or inconsistent results should help academics identify important opportunities for future research.
Does academic research provide sufficient evidence concerning possible changes to the audit reporting model?

INTRODUCTION AND OBJECTIVES

The auditor’s report, which usually provides a standard unqualified opinion, has been the subject of long-standing discussions and debates concerning its form, content, and value (e.g., Commission on Auditor’s Responsibilities 1978; Geiger 1993; Smiejauskas et al. 2008; Church et al. 2008; Mock et al. 2013). However, the content and structure of the auditor’s report has changed little since the 1980s, and the pressure to change it continues to mount.

Given these pressures, the PCAOB and IAASB each have proposed a standard which incorporates important changes to the auditor’s report for the financial statement audit (PCAOB 2013; IAASB 2013). Most importantly, both standards call for:

- A new section in the audit report describing the matters the auditor determined to be of most significance in the audit ("Critical/Key Audit Matters")
- Additional procedures for the auditor to perform to evaluate the “other information” in the annual report and expression of the auditor’s conclusion regarding the outcome in a new section
- An explicit statement regarding the auditor’s independence and the sources of the independence requirements

Each proposed standard imposes additional requirements on the auditor. For example, the PCAOB standard would add new elements to the auditor’s report.

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1 In this article when discussing changes that are common to both the PCAOB and IAASB, we refer to the “standard setters” and the “proposed standards” or “exposure drafts.”
2 The PCAOB proposal requires the auditor to identify critical audit matters (CAMs) while the IAASB requires the auditor to disclose key audit matters (KAMs). For ease of exposition, we elect to use the term CAM throughout this analysis except to reference the specific IAASB proposed standard.
3 IAASB has proposed this via a revision of ISA 720.
related to auditor tenure and enhance certain standardized language in the report. The proposed IAASB standard would add a new section making explicit the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on material uncertainties. Furthermore, the IAASB exposure draft requires identification of the engagement partner's name.

Financial statement users, regulators, and audit oversight bodies have called for increased transparency regarding the financial statements, the audit and the auditor, and these proposed changes are the standard setters' responses to requests for more information from the auditor. In their exposure drafts, the PCAOB and IAASB list several effects of the proposed standards where prior audit research may provide insights regarding their likelihood of being realized. These include:

- Enhanced informativeness (communicative value) of the auditor's report and more transparency about the audit, thus potentially increasing its relevance and usefulness to investors and other financial statement users
- Renewed focus of the auditor on critical matters that arise during the audit, which could indirectly result in an increase in professional skepticism among other contributors to audit quality

In summary, the proposed standards require the disclosure of additional information highlighting matters that, as indicated in prior research, are important to users' understandings of audited financial statements. Furthermore, the additional disclosures could affect the auditor and nature of the audit.

Mock et al. (2013), building on the work of Church et al. (2008), provide a synthesis of audit report research published through 2011. Since that time, additional

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4 At its June 2014 meeting, the IAASB decided to remove this requirement and to revert to exception-based reporting on going concern matters.
5 There are other national and international initiatives related to auditor's report. For example, in April 2014, the EU adopted amendments to its Directive 2006/43/EC on statutory audits of annual accounts, which among other things requires the audit report to be signed by the audit engagement partner and include a description of the most significant assessed risks of material misstatement, a summary of the auditor's response to those risks; and where relevant, key observations arising with respect to those risks. Although there are overlaps with the PCAOB and IAASB initiatives, we do not attempt to synthesize research related to the other initiatives.
important research have been published and/or presented at academic research venues that augments our understanding of the auditor’s report. This article adds to Mock et al. (2013) in two important ways. First, we provide an updated synthesis of academic research and consider new aspects such as the proposed CAM disclosures. The primary intent is to bring the most current research to the attention of those involved in the standard-setting process, as it is much better to inform the process now rather than evaluate it later. More specifically, this review is intended to help regulators address the general question as to what extent does prior research provide sufficient evidence for standard setters in their assessments of whether the proposed changes are likely to close the communication and information gaps.

Second, in contrast to the prior synthesis, we consider research as it applies to the initiatives by both the PCAOB and the IAASB. Being more comprehensive in scope, this paper thus should help any standard setting body understand to what extent academic research provides sufficient evidence related to the options they are considering.

However, standard setting is an iterative process full of discussion and often controversy. Regardless of any changes implemented by standard setters in the near future, gaps can be expected to remain at least partly unfulfilled, and some of the questions and issues discussed in the literature and in this paper will persist. Thus, we also identify significant research gaps where prior literature does not seem to sufficiently inform standard setters, and we suggest important opportunities for future research considered necessary to provide appropriate evidential support for the standard setting process.

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6 For example, the PCAOB received 237 comment letters for the proposal entitled, “Proposed Auditing Standards on the Auditor’s Report and the Auditor’s Responsibilities Regarding Other Information and Related Amendments.”
FRAMEWORK, APPROACH AND RESEARCH QUESTIONS (RQS)

Mock et al. (2013) utilize communication theory to describe the audit process and components of the auditor's report. We base this paper on their framework, which builds upon an IAASB Consultation Paper (2011). The Consultation Paper highlights a common problem associated with the auditing process, the expectation gap, and disaggregates the expectation gap into an information gap, which relates to undisclosed information about the audit client, and the communication gap, which relates to undisclosed information about the audit process and the auditor. We also consider these two gaps in this paper.

To augment the Mock et al. synthesis with the considerable amount of research that has appeared, this paper considers three main RQs, summarized as follows:

**RQ 1**: What are the findings of subsequent research, and do the results confirm or disconfirm the synthesis findings in Mock et al. (2013)?

Research question 1 focuses on research that identifies stakeholder preferences concerning possible financial statement audit disclosures and the impact or lack of impact of such disclosures on stakeholders. The discussion is organized into two sub-questions:

RQ1a: What specific information do investors and other stakeholders want included in the audit report?

RQ1b: How do investors and other stakeholders use and react to existing and other auditor communications currently being proposed?

**RQ 2**: To what extent can the proposed disclosures be expected to close the communication and information gaps identified in Mock et al. (2013)?
Regulators strive to predict the costs and benefits of any changes to standards and to balance these. In this section of our paper, we summarize recent research into this issue and offer our assessment of whether the proposed changes are likely to close the communication and information gaps.

RQ 3: To what extent is there a “research evidence gap?”

As noted earlier, a critical question for both the standard setters and research communities is what are the important gaps in research and what key research opportunities are present.

To address RQ1, we focus on research subsequent to the Mock et al. (2013) synthesis, specifically 40 of the 46 publications listed in the references, which were not considered in Mock et al. (2013). For RQ 2 and RQ 3, we also consider the approximately 90 studies published between 2007 and 2011 that were considered in Mock et al. (2013). Thus in total, for RQ2 and RQ3, we consider approximately 130 papers.

Those interested in prior research, particularly standards setters, face many challenges in considering prior research, such as whether only published research should be considered, which sources (e.g., academic journals only) should be considered, and to what extent research may have become outdated. These choices are not ‘scientific’; rather they reflect judgments as to appropriate weight and relevancy. This paper focuses on the time period 2007 to 2014, and in particular research after 2011 for RQ1. Clearly, our findings should be modified as new research becomes available and by the weightings readers find to be appropriate to their needs.
FINDINGS WITH RESPECT TO RQ 1

RQ 1: What are the findings of subsequent research, and do the results confirm or disconfirm the synthesis findings in Mock et al. (2013)?

RQ1a. What specific information do investors and other stakeholders want included in the audit report?

Mock et al. (2013) summarize prior research with respect to stakeholders’ desired information in the audit report. The results indicate that stakeholders find value in the audit report, but they desire additional information related to the audit process, the auditor, and the financial statements. Such additional desired disclosures include information about the audit process, materiality levels, the client’s accounting policies, and specific information related to client risk.

Two recent studies examine the information desired by financial statement users. Carcello (2012) surveyed over 300 diverse and knowledgeable financial statement users. The results indicate that 91% of participants did not read the standard audit report, and 18% reported that the auditor’s report is useless. Participants also expressed a desire for more information from the auditor. For example, 79% of survey participants desire greater disclosures regarding management’s significant judgments and estimates. Also, 77% want more auditor disclosures related to risk. Overall, the results indicate that a sizeable majority of experienced financial statement users request more disclosures from the auditor.

Vanstraelen et al. (2012) conducted semi-structured interviews with a small number of auditors and professional financial statement users in Europe to assess the information gap associated with the auditor’s report. Results indicate that neither auditors nor financial statement users want the auditor to release engagement statistics or information about the audit process. However, financial statement users state a desire for more information related to the entity’s risks and internal controls.
Furthermore, they express a desire for the auditor to provide an “evaluation of accounting policies and practices, critical accounting estimates, and accounting judgments” (p. 207). However, because the interviews were with auditors and professional investors in Europe, the results related to internal control may not be relevant to the PCAOB proposed standard since public companies’ auditors report on this topic in the U.S.

Overall, the findings from these two studies are broadly consistent with Mock et al. (2013). That is, users would like more information about the financial statements and the audit. However, one difference noted by Vanstraalen et al. is that more information about the audit process was not particularly important to either group that they studied.

**RQ1b.** How do investors and other stakeholders use and react to existing and other auditor communications currently being proposed?

Many prior studies have investigated the above research question using archival, survey, interview, focus group, and verbal protocol methods. In their synthesis, Mock et al. (2013, p. 333) categorized research into the following areas:

1) The impacts of information currently included in standard public company audit reports;
2) The impacts of information included in other types of assurance reports;
3) The effects of auditor’s association with MD&A or other information outside the financial statements;
4) Additional auditor report content explicitly contained in PCAOB Release No. 2011-003; and
5) The engagement partner signing the audit report or being individually identified otherwise.

Recent studies have examined issues related to three of the above five categories. We summarize these studies in the two areas that are included in the proposed standards (1 and 5 above) and discuss their impact on Mock et al.’s findings below. In addition, we discuss the results of studies that have examined
disclosure of "Critical or Key Audit Matters," an item not covered in Mock et al.
synthesis, but that are included in the proposed standards.

The Impacts of Information Currently Included in Standard Public Company
Audit Reports

a. Clarification of the Audit Report

Mock et al. (2013) reviewed research studies on how investors and other
stakeholders react to or use expanded communications contained in a SAS 58 audit
report and an International Standard on Auditing (ISA) 700 audit report. They note
that investors noticed changes to the auditor’s report under SAS 58, but significant
audit expectation gap still exists. Specifically, they note that SAS 58 closed the gap
on areas associated with the audit process and audit environment, but it also moved
users’ perceptions further away from auditors’ on a number of dimensions related to
the outputs of the audit. Mock et al. further note that even more detailed
explanations, contained in the ISA 700 report, do not appear to improve the
information communicated by the audit report (i.e., they do not reduce the
expectations gap). In fact, the expanded wording in the ISA 700 standard has been
even more unsuccessful than the changes that created the SAS 58 audit report.

It is perhaps not surprising that there have been few recent studies examining
the disclosures in the “current” auditor’s report, as it has been known for several
years that changes are coming. Two recent studies have taken a new and innovative
approach to examining the effect of explanatory language in current unqualified
reports of US public companies. Czerney et al. (2014a; 2014b) utilized text-parsing
software to categorize the explanatory language of auditors’ reports into: (1)
inconsistency; (2) “emphasis of matters;” (3) audit related information; and (4) other
language that references supplemental information, going concern, and/or financial
distress. Czerney et al. (2014a) found that certain types of explanatory language is more associated with financial statement restatements and concluded that this type of additional disclosure in the current auditor's report is informative of misstatement risk, which shows that current auditor's reports do provide some information about financial reporting quality. Czerney et al. (2014b) also examined whether explanatory language affects abnormal returns and trading volumes. They found that non-going concern explanatory language does not affect the overall market valuation of the firm, but does affect trading volume. Disclosures related to the audit opinion result in higher abnormal trading volume but other types of additional disclosures result in lower abnormal trading volume, showing that investors do respond to audit reports with explanatory language and that it can increase or reduce disagreement among investors including disagreement arising from information asymmetry.

While these studies provide evidence of value in the current auditor's report, Czerney et al. (2014a) noted that investors' demands for more information about an audited financial entity extend beyond misstatement risk. Therefore, it appears reasonable to infer that additional disclosures as proposed by audit standard setters will provide more value to investors. However, a cautionary note is highlighted by the findings in Czerney (2014b) in that additional language can differentially affect information asymmetry. Therefore, they suggest that it will be important that guidance be provided with any additional disclosures provided in auditors' reports.

**b. Going Concern Reporting**

Mock et al. (2013) also reviewed studies on the impact and use of modified
audit reports, essentially for going concern issues. In a more comprehensive synthesis specifically relating to auditors and going concern (GC), Carson et al. (2013) reviewed research in three areas: determinants of GC opinion, accuracy of GC opinion, and consequences of issuing GC opinion to investors and lenders. The main area of interest to us relates to the informativeness of the auditor's report: whether there are consequences of a GC auditor's report on users' decision making. In this regard, both Mock et al. and Carson et al. syntheses document mixed results, but show that unless "new" information is provided in the audit report, a going concern audit report does not appear to have information content. The exception they note is the paper by Menon and Williams (2010), which found such opinions useful to the market through short-term abnormal returns.

We identify four articles related to the impacts of GC opinion since the publication of Mock et al. and Carson et al. syntheses. Using a large sample of Finnish private SMEs, Niemi and Sundgren (2012) found no association between modified audit reports and an increased usage of trade credit relative to bank debt, which they regard as a proxy for credit rationing. They explain their results indicating the possibility that lenders may rely more on other sources of information for financially stressed SMEs, thereby reducing the weight of modified audit reports.

For U.S. public companies, Kaplan and Williams (2013) examined whether issuing a GC report to financially stressed clients protects auditors from litigation. They find that for these clients, GC reports significantly deter investors from suing auditors and reduce the likelihood of paying a financial settlement in excess of $2 million.

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7 The synthesis by Mock et al. (2013) also reviewed the literature on internal control reporting under SOX 404 and assurance reports on sustainability. Our focus in this paper is on the going concern opinion because it is the only one of the three topics addressed by the proposed standards.
Kaplan et al. (2014) investigated the incremental market reaction to first-time GC reports relative to similarly distressed non-GC firms. Using a matched-sample research design, they find that first-time GC reports are associated with incremental negative abnormal returns and increases in market-adjusted share turnover at the annual report filing date. They also find that first-time GC reports signal an increased likelihood of bankruptcy and weaker operating performance in the subsequent year. Both results are impacted by the observed trading decisions of institutional investors.

Using a change in the Canadian auditing standards requiring auditors to add an emphasis of matter in the audit report highlighting the existence of a material GC risk when such disclosure is made in the financial statements, Bédard et al. (2014) investigate the incremental effect of the audit report over the disclosure of a GC risk only in the financial statement. For a sample of first-time GC disclosures they find that before the new requirement, the market reacted negatively to GC financial statement disclosure notes, suggesting that there is no need for attention direction to these notes. Comparing the market reaction before and after the new requirement, they find that unless the audit report provides more information than the GC financial statement disclosure notes, the market reaction to first-time GC disclosure is similar between the two periods. For a sample of repeat GC disclosure they find similar results; the market reaction is similar without and with audit report disclosure.  

\footnote{Previous archival studies on GC reporting are joint test of the auditor report and financial statement disclosure. Thus, these study tests whether going concern disclosures have value, not whether a going concern audit report has incremental informational value over a financial statements disclosure. While Kaplan et al. (2014) try to overcome this design problem through the use of a matched sample of distressed companies with and without a GC opinion, they only control for financial numbers associated with distress, not the disclosure of a GC risk in the financial statements. By controlling for such disclosure, Bédard et al. (2014) provide a more direct test of the incremental contribution of the audit report disclosure.}
As noted Carson et al. (2013) and Mock et al. (2013) found the value of going concern audit reports to be somewhat mixed, with earlier published archival papers questioning the value of the auditor's going concern opinion unless new information is provided. The study by Niemi and Sundgren (2012) supports the Carson et al. (2013) and Mock et al. (2013) conclusion that unless "new" information is provided in the audit report, a GC audit report does not appear to have information content. However, Kaplan and Williams (2013) suggested that such a report may have value for the auditors by reducing their expected liability loss.

Taken together, these recent studies seem to suggest more, but limited, value in these reports than was reported in Carson et al. (2013) and Mock et al. (2013). The existing archival research does not address the value of positive assurance on the going concern assumption when the auditor agrees with the management conclusion that the going concern assumption is appropriate.

The Engagement Partner Signing the Audit Report or Being Individually Identified Otherwise

Mock et al. (2013) highlighted a lack of audit evidence on this topic and reference a commentary by King et al. (2012) that applies insights from three academic frameworks of source credibility, accountability, and the theory of affordances; and suggest that unintended consequences may arise from the proposed changes in this area. Specifically, while King et al. find that the changes may increase perceived audit quality, they highlight that there is scarce empirical evidence on whether the changes will increase audit quality in actuality.

In a recent study, Carcello and Li (2013) examined a number of consequences associated with the engagement partner signing the audit report in the United Kingdom. The results indicate higher audit fees as a result of the
requirement, but also higher audit quality and earnings information. The authors also compare a sample of U.K. firms with a sample of similar U.S. firms, and the results suggest higher audit quality related to the audit partner signature. However, another archival study by Blay et al. (2014) found no evidence of a change in audit quality in the Netherlands from the new EU requirement to mandate that the audit engagement partner sign their name. An experiment by Lambert et al. (2013) provided experienced investor participants with summary information on several investment options and find that prospective investors are less likely to invest in a peer firm linked to a restating firm via audit partner name disclosure. The audit report modification language does not appear to alleviate this effect.

In summary, two of these three recent studies do suggest possible benefits related to the audit partner signing their name; however, the research generally does not address the question of whether the benefits exceed the costs. Along these lines, Mock et al. (2013) noted that many countries around the world have had this requirement for years with no apparent adverse effects.

The Impact of Additional Auditor Report Content: Critical/Key Audit Matters

Mock et al. (2013) highlighted a lack of research evidence on "auditor's discussion and analysis" or on "auditor commentary," proposals under consideration in the PCAOB and IAASB Invitation to Comment in 2012. However, although the responses of users were broadly supportive of these proposals, the standard setters decided against this specific type of disclosure by auditors and instead decided that auditors communicate critical/key audit matters (CAMs). A significant number of recent research studies by academics and others have addressed the value of this

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9 Prior research has not examined the potential litigation consequences of this requirement, which may be a significant concern since the U.S. legal environment is significantly different than the legal environments in countries already requiring the audit partner signature.
type of expanded communication by the auditor. We discuss these studies in three
categories: 1) Experiments on CAMs, 2) Experiments on the effect of other types of
enhanced auditor disclosures, and 3) Experiences with expanded auditor reporting.

1. Experiments on CAMs

Two recent studies have investigated how users react to disclosure of CAMs.
Cristensen et al. (2013) examined how nonprofessional investors react to a CAM
paragraph in the audit report. They found that investors were more likely to stop
considering a company as an investment when provided a CAM paragraph that
reported significant estimation uncertainty, as compared to investors who received a
standard audit report or investors who received the CAM paragraph in
management's footnotes. They also found that the effect of a standalone CAM
paragraph was reversed when it was followed by a paragraph offering assurance for
the CAM.

Sirois et al. (2013) in an experiment using eye-tracking technology examined
whether and how additional information in the audit report affected how users
navigate and integrate the information presented in the related audited financial
statements. They found that matters mentioned in the audit report affected the
participants' information searches and increased their attention to financial statement
disclosures mentioned in the audit report. However, the communication of additional
information was associated with a lower perceived value of the audit and a
perception that the degree of assurance provided by the auditor differed across
components of the financial statements.

Besides the information usefulness of the new audit reports, another
important issue is how it will affect auditors' potential legal liability. A study by Backof
et al. (2014) experimentally examined perceptions of participants assuming the role of jurors in a case of audit negligence. They found that simply identifying a CAM in the auditor's report did not affect auditors' negligence likelihood, but when this was presented in conjunction with more discussion on what “reasonable assurance” means, then the likelihood of jurors' assessing auditors as negligent decreased. Also, jurors were more likely to find auditors negligent when the CAM paragraph also included a description of specific audit procedures.

Overall, these studies suggest that there is an effect on users' decision making in this type of enhanced disclosure designed to improve the informativeness of the audit report.

2. Experiments on the Effect of Other Types of Enhanced Auditor Disclosures

Doxey (2014) performed an experiment on MBA students' evaluations of auditor provided estimate disclosures and found that additional auditor disclosures on management estimates increased the value relevance of the audit report. The author also found that auditors who agreed with management were perceived as more independent than those who disagreed. These results suggest that users' ability to evaluate auditor and management reporting on this type of information could lead to unintended consequences.

An experiment by Montague and Kelton (2014) examined the effects of uncertainty disclosures by auditors and management on nonprofessional investors' perceptions. They found an interaction effect between the auditor's emphasis of matter paragraph and the form of management's disclosure. If management provides a reasonable range of disclosure, then the auditor's emphasis of matter decreases perceived investment risk. However, if management does not provide a reasonable
range, the emphasis of matter increases investment risk. This finding illustrates that the benefits of changes to auditor’s disclosures may be affected by the disclosures provided by management.

Finally, a study by Cade and Hodge (2014) shows another potential unintended consequence of expanded disclosures in the audit report. The experiment manipulated the level of trust a manager has in the auditor and various additional disclosures in the audit report. They found that irrespective of the level of trust in the auditor, participants were less willing to share information about accounting choices with their auditors if they are required to disclose information on accounting estimates. However, communication was not harmed if the extra disclosure only related to more audit procedures.

These three studies show that with additional disclosures by auditors, there are a number of potential, sometimes unexpected, consequences associated with the perceptions of other financial statement disclosures and the way in which the management/auditor relationship is perceived. Two studies have specifically focused on the effect of disclosing audit procedures. Vera-Munoz et al. (2014) examined whether accounting students could reliably assess assurance on greenhouse gas emissions based on procedure descriptions. They found that inclusion or exclusion of a critical audit procedure did not affect users’ perceptions of confidence in the assurance report.

However, Wright and Wright (2014) provided non-professional users with positive and negative indicators about the going concern status of a client and manipulated whether judgment process information of the auditor was provided or not. They found that inclusion of more information in the auditor’s report about the
The auditor’s judgment process on going concern helped mitigate unfavorable attribution to the auditor when the client went bankrupt.

The findings from these two studies show mixed results as to the costs and benefits of disclosing more information to users about audit procedures. Presumably this is an area where users’ perceptions are relevant in determining the value of these additional disclosures.

3. Experiences with Expanded Auditor Reporting

Researchers have examined two types of expanded auditor disclosures. These are the “justifications of assessments”, which have been in use in France since 2003, and the U.K. revised audit report, which was introduced in 2013. A recent study by Bédard and Gonthier-Besacier (2013) provides research results on the disclosure of justification of assessments by French auditors between 2003 and 2011. For the 40 largest French companies, they found that auditors disclose an average of 3.2 critical matters per audit report, and that accounting estimates are the most frequent matters referred to in the report followed by disclosures on accounting methods. They also found that only 20 percent of the matters disclosed in the audit report were new matters with the other 80 percent usually being a simple “cut and paste” of the previous year’s description of the critical audit matters.

Bédard and Gonthier-Besacier (2014) extended their study to a sample of 331 companies and found that the number and nature of critical matters varied with the size of the companies and the introduction of the IFRS in 2006, but not the type of auditor (Big 4, non-Big 4). Regarding the change in the reported matter between years, they found that the number of new matters decreased over time.
Barde and Raimbault (2014) evaluated the content of the justifications of assessments for the 40 largest French companies for the year 2011 regarding three criteria: accuracy, ease of understanding, and relevancy. They found that they are accurate in that the auditors follow the requirements of the French auditing standards. Regarding the other two dimensions, they conclude that many matters were mentioned together in the same paragraph, related financial statement amounts were not provided, and the description included ambiguous and technical vocabulary.

Bédard et al. (2014) performed an archival study to evaluate the effect of the justifications of assessments on market, audit quality, cost, and efficiency. They did not find significant effects on audit quality (earnings management) or cost (audit fees). However, there was an increase in the audit report lag indicating a possible effect on audit efficiency. This study does suggest that the introduction of the justifications of assessments in France in 2003 had very little effect on the market as indicated by the lack of market reaction to the first disclosure of audit matters in 2003 and to new one in the subsequent years.

In 2013, the U.K. Financial Reporting Council (FRC) adopted a new audit report standard (ISA 700) requiring auditors to provide more detail concerning their audit. Similar to the concept of KAM/CAM proposed by the IAASB and PCAOB, the report must describe the main audit risks. Interestingly, the U.K. went further than the IAASB and PCAOB proposals by requiring more information on how the auditor applied the concept of materiality, including materiality threshold, and an explanation of how the scope of the audit was influenced by materiality and how the auditor addressed the described risks. Citi (2014) reported the results of the first year of implementation of this new auditor's report. They found extensive variation in the
length and quality of these new audit reports. Some reports were boilerplate, but some were highly specific about the company risk and the work done by the auditor. The majority reported the scope of the audit in terms of a coverage metric such as revenue, total assets, and profit. Regarding the materiality thresholds, Citi suggested that many analysts and investors would be surprised at how relatively high the auditor’s materiality levels are. Overall, Citi considers the new requirements for auditor’s reports as an improvement.

Poland provides another example of a jurisdiction where there has been an extended audit report since 1991 with extensive extra disclosures provided by the auditor. Dobija et al. (2013) interviewed auditors in Poland to get their views on their experience with these extended audit reports. They found that auditors perceived the level of prescription required in these audit reports resulted in the reports having little information value to users.

Various stakeholders have reacted to the IAASB and PCAOB propositions by providing comments on their proposals and “field testing” them. Simnett and Huggins (2014) conducted a comprehensive study of stakeholders’ views on the IAASB (2012) proposals by analyzing 165 stakeholder responses to the Invitation to Comment. Broadly, the study found that overall there is a high level of support for the changes proposed by the IAASB with 74.4 percent agreeing to the changes, and for some of the issues where stakeholders did not agree the IAASB did make some amendments to the proposals. In examining differences between groups, support from North American respondents was significantly lower and the positions of North American respondents more accurately reflected in the PCAOB proposals.

Audit firms from two countries have put the new auditor’s report to the test. In the Netherlands, in response to a call from the Institute for Chartered Accountants,
various firms have tested the report at a number of Dutch listed entity clients with managing and supervisory directors and in some cases in the public arena. For the year 2013, nearly half of large and mid-sized entities had a new auditor's report. PWC (2014) prepared a report on the experience so far. The report noted that CAMs had "high informational value" because they related specifically to the entity being audited and the disclosures were not "boilerplate." The report also noted that one-third of the CAMs related to specific risks that were not in the published risk profile of the company. It highlighted that this outcome could create a new expectation gap relating to why auditors include risk area in their auditor's report that are not reported by management. Related to this, the report noted that the respective responsibilities of the entity and the auditor under the new auditor's report were unclear.

In the U.S., The Centre for Audit Quality (2014) reported to the PCAOB their findings on field-testing of the new auditor's report with management and audit committees. They reported three main concerns:

- Issues with the sources and factors to be considered in determining whether something is a CAM
- Questions over how much documentation was required for CAMs and possible CAMs
- Field-testing noted diversity in length, detail and range or specific subject matters covered in CAM communications

In relation to the first issue, the CAQ suggests that, similar to the IAASB Exposure Draft, using matters communicated with the audit committee may be a way to provide a filter on potential CAMs

As can be seen from the above discussion, since the publication of Mock et al. (2013) there has been a significant amount of research on expanded audit reporting. The most obvious example of an environment where this type of disclosure is actually occurring is in France, and there was some discussion of this
fact in Mock et al. However, recent studies reported in this paper have found that over time there has been quite a bit of standardization of CAMs as well as a reduction in the number of CAMs disclosed in the French environment. Bédard et al. (2014) examined whether CAMs affected quality, cost, or efficiency. They did not find any effect on audit quality or cost from these additional disclosures, although some audit lag was observed indicating a possible effect on efficiency.

With the pending introduction of CAMs, there has been some recent applied research that has reported on the experience of other countries that have been early implementers of enhanced audit reporting such as the UK, the Netherlands, and some testing in the US. In the UK, it was concluded that the requirements for auditors to disclose more about audit procedures was an improvement. In the Netherlands, it was found that the new CAMs were not “boilerplate” and contained additional information not reported by management. This again is mixed research evidence as it is a different result compared to the studies from France. The field testing in the US also found a diversity of CAM communications but some concerns about determining whether a matter was a CAM. These studies provide some initial evidence that there may be more value from CAMs than appears to have been the case in the longer term French experience.

RQ1 Summary

In relation to RQ1a, which relates to the information that users want in the audit report, there have only been a couple of studies since Mock et al. (2013) and they support the Mock et al.’s findings that users want more information about financial statements and the audit.
There has been a considerable amount of research since Mock et al. (2013) on RQ1b, which relates to how users react to existing and other auditor communications being proposed.

There have been a couple of innovative recent papers by Czerney et al. (2014a; 2014b) that have used text parsing software to provide evidence of value to the market from the current auditor’s report. They speculate (but do not test) that additional disclosures, such as proposed by standard setters, should therefore provide more value to investors (Czerney et al. 2014).

With regards to the auditor’s going concern opinion, Mock et al. (2013) note that earlier published archival papers question the value of the auditor’s going concern opinion while later papers find such opinions useful to the market. The recent research provides mixed evidence with Kaplan et al. (2014) finding that financial statement users in the US react to auditor’s going concern opinion, Niemi and Sundgren (2012) finding no value in such report for private SMEs in Finland, and Bédard et al (2014) finding that compared to financial statement disclosure, audit report going concern disclosure does provide supplementary value to the market.

Mock et al. (2013) reported little empirical evidence regarding the effects of an engagement partner’s signature on the audit report. New studies provide mixed evidence on the issue. Carcello and Li (2013) found that in the U.K., such a requirement is related to improved audit quality but also to increased fees. Additionally, Lambert et al. (2013) showed that audit partner disclosure affects experienced investors’ decisions. On the other hand, Blay et al. (2014) found no evidence of a change in audit quality in the Netherlands from the new EU requirement to mandate a partner signature.
Mock et al. (2013) report that the provision of assurance on MD&A presentations—at least on the verifiable components such as financial information, key resources, and risks—is perceived to be value-relevant. No recent research has examined this issue. The focus of recent research has been on CAMs which was not covered by Mock et al. (2013) because no research had occurred on this topic. There have been a couple of recent experiments on the usefulness of CAMs. Sirois et al. (2013) found CAMs mentioned in the audit report affected participants’ information searches and increased their attention to financial statement disclosures mentioned in the audit report. Cristenson et al. (2013) found CAM disclosures also affect users’ perceptions of the value of the audit and the degree of assurance provided within various components of the financial statements.

Mock et al. (2013) provided a brief discussion on the French experience with additional information in the audit report. Recent research from the French environment has shown that the variability and extent of this enhanced disclosure has diminished over time. Contrary to these findings, studies in the UK, the Netherlands, and the US show that there appears to be significant variability and information content from the new audit report disclosures. Whether that will continue in the longer term is yet to be seen.

**FINDINGS WITH RESPECT TO RQ 2**

**RQ 2:** To what extent can the proposed disclosures be expected to close the communication and information gaps identified in Mock et al. (2013)?

Both the proposal from the PCAOB and the proposal from the IAASB indicate a goal to provide readers of the auditor’s report with enhanced information. The PCAOB states:
The proposed auditor reporting standard is intended to provide investors and other financial statement users with potentially valuable information that investors have expressed interest in receiving but have not had access to in the past (PCAOB 2013, p. 6).

Similarly, the IAASB proposal is designed to benefit third parties:

*The primary beneficiaries of the IAASB's work on auditor reporting will be investors, analysts and other users of the auditor's report* (KPMG, p. 25).

In this section, we evaluate whether the new information in the proposed standards is expected to close the "gaps" identified in Mock et al. (2013). Our evaluation, which is summarized in Table 1 and discussed below, is based on research cited in Mock et al. (2013) updated to include additional academic research since 2011. The evaluation is organized around the line items in Table 2 of the Mock et al. synthesis, which outlines a summary of findings and research opportunities. However, it is somewhat rearranged to correspond more closely to the requirements of the proposed standards.

**Information and Communication Gap Items (Table 1)**

Table 1 contains two panels and four columns. Panel A relates to information gaps and Panel B to communication gaps. Column (a) lists the possible information or communication gap items. Columns (b) and (c) summarize the requirements contained in the PCAOB and IAASB EDs respectively and our belief as to whether the EDs will be responsive to stakeholder needs and will possibly help close the information or communication gap, using a three-level scale *(Yes, Possibly, No)*. Column (d) indicates our assessment of the level of academic research that bears on the information item and to what extent significant research opportunities exist. We use a four-level scale *(Ample, Moderate, Minimal, None)* to signify the level of research on the information item, and a two-level scale *(Moderate, Significant)* to
signify the extent of research opportunities. This column is discussed in the next section. Both columns (c) and (d) require the use of author judgment. In both cases, two authors independently rated the items using the above scales. In the few cases of disagreement, these authors discussed the item and agreed on a rating.

Information Gap Items Concerning the Financial Statements (Table 1, Panel A)

**Financial Statements, Item 1**

The proposed requirement for communication of “critical/key audit matters” (CAMs) could potentially and significantly respond to any of stakeholders’ demands for financial statements information since the proposed standards require that the description of CAMs identify and describe the considerations, and refer to the relevant financial statement accounts and disclosures. This outcome assumes that the auditor would consider these items as CAMs in every audit. This assumption would hold for some entity information items, but not all. For example, the auditor would almost always view difficult or contentious issues as CAMs but may not view some of management’s judgments and estimates as such.

One potential issue relates to what stakeholders may infer if an item they consider important is not explicitly discussed in a CAM communication. The most likely inference is that the auditor did not consider that particular item to be “critical,” indirectly inferring the item was deemed “not critical.”

**Going Concern, Item 2**

More reporting on going concern is not addressed by the PCAOB exposure draft; it is on a separate PCAOB agenda. This topic was addressed by IAASB ED
ISA 570 on Going Concern, under which the auditor needs to conclude regarding the appropriateness of management’s use of the going concern basis of accounting.

Research on the effect of going concern opinion suggests that unless “new” information is provided in the audit report, a going concern audit report does not appear to have significant information content. Accordingly, given that the going concern information is already in the financial statement notes, the information about the going concern basis of accounting may not have information value. However, the auditor is making visible a conclusion about a specific assertion that is currently imbedded within the opinion on the financial statements. The users may then perceive that the auditor is giving a specific opinion on this assertion or think that the auditor is providing additional assurance. We are not aware of research on this issue.

Information Gap Items Concerning Other Information, Item 3

The proposed standards generally do not address the third information gap items. Non-GAAP information and MD&A are included in companies’ annual reports; thus, they would be considered “other information” in the proposed other information standard. As such, auditors will be responsible to perform procedures to evaluate this information with the intent to identify material misstatements of fact and material inconsistencies with information in the audited financial statements using the auditor’s knowledge obtained during the course of the audit. While the proposed standard raises the bar, it does not go so far as to require the auditor to obtain assurance on the other information. Thus, while the exposure draft will narrow the information gap in these areas, it does not respond to the users’ demands for additional assurance related to these items.
Summary

The proposed standards will likely close the information gap for some financial statement items of interest to various stakeholders. The proposed PCAOB standards do not require any new procedures or information related to going concern, which is on a separate agenda. However, the IAASB proposed standard addresses this issue. The information gap on information other than financial statements is not generally addressed, and thus this issue will likely persist. The exceptions include non-GAAP information and information in the MD&A since the proposed auditor’s responsibilities for these items likely will close the information gap.

Communication Gap Items Concerning the Audit (Table 1, Panel B)

Materiality, Item 1

The proposed standards do not address materiality. Thus, the proposed standards will not close this gap.

Auditor Independence, Item 2

A new element in the auditor’s report requires a statement that the auditor is independent of the company in respect to the relevant laws or regulations (and ethical requirements for the IAASB). However, the reduction in information gap will be limited because users may lack knowledge of the requirements referenced, and the auditor may refer to multiple requirements. In addition, research studies show that users’ perceptions of independence are affected by the level of non-audit services provided, the nature of these services, and the length of the auditor relationship with the company. Although the proposed PCAOB standard requires disclosure of audit tenure, and fees for non-audit services are disclosed in filing
documents, the nature of non-audit services will remain unknown to users. Accordingly, the information gap may not be significantly reduced.

**Items 3-8**

The proposed IAASB standard does not address the communication of information on the role of other auditors involved in the audit (Item 3). The PCAOB 2013 proposed standard on improving the transparency of audits requiring disclosure (name, location, and the extent of participation) about other firms participating in the audit and other persons not employed by the auditor. Such information could be valuable to investors and other users to evaluate the overall quality of the audit and has the potential to reduce the communication gap in this area as well as improving audit quality by discouraging firms to use other firms that do not possess the requisite expertise or qualifications to play significant roles in an audit. Under the IAASB standards, unless the use of other auditors constitutes a CAM, which may be the case in some audits, the existing communication gap in this area remains.

The proposed IAASB and PCAOB standards do not address communications regarding reasonable assurance (Item 4). Thus, the existing communication gap in this area remains.

The proposed PCAOB standard will likely close the gap related to auditor’s responsibility for fraud (Item 5) by clarifying the auditor’s responsibilities for fraud. These responsibilities may be somewhat clarified by adding the phrase, “whether due to error or fraud” to the auditor report. The current IAASB auditor reporting standard already has this statement included.
Both standards include an enhanced description of auditor's responsibility for financial statement disclosures (Item 6). This change may possibly reduce the communication gap. However, both the PCAOB and IAASB decided that no changes were needed to the discussion on management's responsibility (Item 7) for the preparation of financial statements.

As noted earlier, in relation to information outside the financial statements (Item 8), communications such as Non-GAAP information and MD&A are included in companies' annual reports, and thus would be considered "other information" in proposed standards relating to auditor reporting on other information.

**Items 9-10**

Issues related to significant audit risks (Items 9-10), such as issues of significance related to the audit scope or strategy, difficult or contentious matters, and audit procedures responsive to these risks, will likely be addressed as CAMs. Each CAM should identify a specific issue that arose during the audit and provide disclosures related to the relevant financial statement accounts.

**Audit Partner Name, Item 11**

The disclosure of the audit partner's name (Item 11) is required in the IAASB standard and the PCAOB 2013 proposed standards on improving the transparency of audits. This responds to stakeholder demand for the partner's name and some recent research that suggests it may increase audit quality.

A proposed change that was not part of the synthesis table in the Mock et al. (2013) study relates to auditor tenure. The PCAOB standard adds a new element to the audit report to provide information on auditor tenure. Although this information
has been available through the SEC filings, its appearance on the audit report might help close the communication gap. This is not proposed by the IAASB.

Summary

In summary, the proposed standards will likely significantly reduce the communication gap relative to many audit and auditor items of interest to various stakeholders. The proposed standards do not require new procedures or disclosures related to the role of other auditors (for the IAASB), materiality, or level of assurance. Thus, the communication gap relating to these items will remain.

FINDINGS WITH RESPECT TO THE RESEARCH GAP (RQ 3)

RQ 3: To what extent is there a “research evidence gap?”

Because topics related to the auditor’s report are critical to the financial markets, we evaluate the level of research evidence available related to the auditor’s report to inform standard setters and researchers. Our evaluation is summarized in column (d) of Table 1. As stated above, we employ a four-level scale (Ample, Moderate, Minimal, None) to conclude on the level of evidence from reviewed research and a two-level scale (Moderate, Significant) to conclude on the extent of research opportunities. The research reviewed includes approximately 130 academic research studies beginning in 2007. Our conclusion on the level of evidence is based on the amount of research and consistency of the findings. Research opportunities arise when few studies exist or findings are divergent.

Information Gap Items Concerning the Financial Statements (Table 1, Panel A)

Financial Statements, Item 1
Research discussed in Mock et al. (2013) and in this paper shows that users want more information about the financial statements. However, as Panel A of Table 1 indicates, there is either minimal or no prior research on what information is useful in decision making, on what information affects users’ decisions, on what disclosures are actually used, and on what information improves the quality of information or its context. As most of the financial statement items in Panel A may be communicated in the auditor’s statement concerning CAMs, the onus will be on auditors to decide which items to include in CAMs. A handful of studies have explored the use of CAMs and found there is an effect on users’ decision making of this type of enhanced disclosures (Christensen et al. 2013; Sirois et al. 2013; Backof et al. 2014). A number of other recent studies have examined the effect of more disclosure per se by auditors and found there can be unintended consequences associated with additional disclosures that can relate to matters that may be considered to be within the domain of management.

The newness of these disclosures creates significant research opportunities. For example, researchers could investigate the frequency of items that are included in CAMs or to assess which included items affect the users’ decisions. Also, the variability of disclosure will create opportunities for researchers to examine the decision making process of auditors in this task and the impact on various audit variables such as litigation risk, audit delay, audit costs, and financial statements quality.

Finally, researchers could examine the potential impact of this requirement on the nature and candidness of communications between the audit committee (and management) and the auditor, and thus the quality of audit. Also, experimental
research using eye-tracking technology could trace users’ reactions to and use of the extended information compared to cases that communicate the traditional pass/fail feature of the report.

**Going Concern, Item 2**

Research studies cited by Carson et al. (2013), Mock et al. (2013), and this paper offer mixed results with a few (e.g., Menon and Williams 2010; Kaplan and Williams 2013; Kaplan et al. 2014; Bédard et al. 2014) documenting value to auditors and investors of going concern (GC) audit reports. In general, these studies are joint tests of the auditor report and financial statement disclosure, and as such are not revealing of why GC reports do matter to stakeholders. The exception is Bédard et al. (2014), which provides a more direct test of the incremental contribution of the audit report disclosure of GC.

Although the PCAOB proposal does not reference going concern, given that the auditor’s CAMs may include factors related to the going concern assumption, there exists moderate opportunities to conduct studies to determine 1) which going concern items are included in the CAMs, 2) which items might be confusing or misleading, 3) which items affect the users’ decisions, 4) in what form the information is disclosed, and 5) why going concern auditor reports do or do not matter to investors. Research is clearly needed to ascertain what set of items will be investigated/considered by the auditor and whether the inference of factors not being communicated are indeed “not critical” factors.
There has been some research on many of the listed “other information” items. Because non-GAAP information and MD&A are included in companies’ annual reports and thus are considered “other information” in the proposed standards, auditors have to look for and report on material misstatements of facts and material inconsistencies with the audited financial statements using the auditor’s knowledge obtained during the course of the audit. This creates opportunities for standard setters and researchers to examine the impact of the expanded responsibility on the auditor’s evaluation of evidence, the quality of evidence examined and the quality of other information such as the non-GAAP and MD&A information.

Communication Gap Items Concerning the Audit (Table 1, Panel B)

Materiality, Item 1

We are not aware of any study that examines the effect of additional disclosures by auditors on materiality and methods of determining its level on users’ decisions. The proposed standards do not address disclosures regarding materiality, supposedly because other standards address or will address this matter. However, the lack of research and consideration by the proposed standards may be due to the fact that auditing standards “are silent about how these [materiality] amounts should be determined and methods being used in practice vary widely, lack theoretical support, and may either fail to meet the audit objective or do so at excessive cost” (Stewart and Kinney 2013).
The Bayesian group audit model that Stewart and Kinney (2013) develop and that generalizes and extends the single-component audit risk model to aggregate assurance across multiple components may have started a research stream that will better inform issues associated with materiality. This could in turn create significant opportunities for researchers to examine the effects of materiality disclosures on users’ decisions.

**Auditor Independence, Item 2**

Significant archival research has examined auditor independence related to factors such as provision and nature of non-audit services, auditor expertise and auditor tenure. However, there is no research about the effect of the value of information disclosure on independence on users’ perceptions and decisions, as proposed in the new standards. Thus, opportunities do exist for research in this area.

**Items 3 - 8**

Although addressed elsewhere, the use of other auditors (Item 3) in complex, multi-country audits may be considered a CAM in some audits, and as such it presents significant research opportunities. Other proposed communications include clarification of the auditor’s responsibilities for detecting fraud (Item 5) and the auditor’s responsibility for information outside the financial statements (Item 8). These issues have been researched minimally. Experiments, surveys, and protocol analyses could help identify changes that would potentially affect users’ decisions, or improve the communicative value of the audit report or the quality of the audit.
Items 9 - 10

Issues related to significant audit risks and difficult or contentious matters will potentially be disclosed in the new CAMs. Behavioral studies cited above suggest that disclosure of CAMs improves the informativeness of the audit report. However, given the variations in content depending on the context, users’ difficulty in understanding the technical language, and the costs associated with preparing CAMs, many questions remain unanswered. Thus, significant research opportunities still exist in these areas. For example, experiments, surveys, or protocol studies can examine whether the disclosure of audit risks and difficult or contentious matters affect and more importantly improve users’ decisions and audit quality.

Audit Partner Name, Item 11

Archival and experimental studies, including the three most recent studies cited above examining the impact of audit partner signatures on audit quality, offer mixed results. Future research should address the research limitations identified in Blay et al. (2011), such as obtaining direct evidence on the effect of the signature on user decisions or judgments, and exploring other potential benefits of a mandatory partner-level signature requirement. Research should also address the question of whether the benefits exceed the costs and effects on audit quality in settings with differing litigation risks.

Conclusion Concerning the Research Evidence Gap

The general question we address in this paper is, does academic research provide sufficient evidence concerning possible changes to the audit reporting model? Clearly, Column (d) of the Table 1 documents important gaps in research
evidence upon which to either assess the responsiveness of the proposed standards to the information and communication gaps or the likelihood of the gaps being reduced. In some cases the research outcome is mixed, but many items have essentially no prior research that is directly relevant. Given that most of the research evidence is at best moderate, it is difficult for standard setters and regulators to base their standards on sufficient research results.

Several factors may explain this lack of evidence published in academic journals. The most critical seems to be insufficient access to evidence collected by audit firms themselves or by external inspection and quality control activities. Also, researchers face significant challenges in accessing appropriate participants in experimental, survey, interview, and process-tracing studies, which could generate useful research evidence.

If one uses the publication process to filter out the most useful research, then another factor relates to timing as the time span from genesis of an academic research project to publication is usually quite lengthy. Also, some of the items being considered by the PCAOB and IAASB proposals are relatively new. While researchers may be studying them, the results of these studies may be in pre-publication form. As noted above, we have considered only a few such working paper studies. This research evidence “gap” suggests the need for the PCAOB and the IAASB to more closely work with the auditing research community and to provide or facilitate increased support to auditing researchers. Such support will help provide research relevant to standard deliberations, including facilitating the study of the impact of both proposed and implemented standards.
CONCLUSION

The PCAOB and the IAASB have issued proposals that will fundamentally change the auditor's report and disclosures to the public. Because such changes could have a profound impact on financial statement users and the capital markets, we analyze relevant research related to proposed requirements in the exposure drafts issued by the PCAOB and IAASB. We build on the synthesis performed by Mock et al. (2013) by analyzing 40 additional academic papers. The results of this paper should interest standard setters by providing relevant analysis related to the proposed standards. Furthermore, our paper should help academics see the research evidence gaps in the literature, thereby showing avenues of future research and hopefully encouraging researchers to investigate these topics.

Although this review is focused on the specifics of the PCAOB and IAASB exposure drafts, the results of our paper should remain relevant for the foreseeable future for a variety of reasons. First, the standard setting process is a long, slow, deliberative, and often controversial process. Thus, regardless of the standards ultimately enacted by the IAASB and PCAOB, questions and proposals regarding the auditor's report will likely persist for years to come. Second, there are multiple standard setting bodies including the PCAOB, ASB, and IAASB, and the differences in standards among these groups related to the auditor's reporting model will likely continue to foster research questions about the issues we analyze. Finally, certainly if the standard setting bodies enact rules in areas where limited academic research exists, researchers will likely conduct research into these areas and in more conventional areas post hoc. All of these provide opportunities for researchers and
standard setters to work together more closely to investigate ways to improve the auditor's report.
### Table 1: An Analysis of How the PCAB and IASSB Exposure Drafts Respond to the Information and Communication Gaps

<table>
<thead>
<tr>
<th>Gap Lenses</th>
<th>PCAB Proposal and Degree of Responsiveness to Stakeholders (a)</th>
<th>IASSB Proposal and Degree of Responsiveness to Stakeholders (b)</th>
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<td>(b)</td>
<td>Expenses (Yes, Possibly, No)</td>
<td>Expenses (Yes, Possibly, No)</td>
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2. Exposure Drafts

- **PCAB Exposure Draft**:
  - **Section 2.5.2:** Requirement
  - **Section 2.5.3:** Disclosure
  - **Section 2.5.4:** Interpretation

- **IASSB Exposure Draft**:
  - **Section 2.5.2:** Requirement
  - **Section 2.5.3:** Disclosure
  - **Section 2.5.4:** Interpretation

### Analysis

- **Moderate Level of Evidence from Prior Research (a)**
  - Evidence gap opportunities (Moderate)

- **High Level of Evidence from Prior Research (b)**
  - Evidence gap possibilities (High)

### Key Points

- The PCAB exposure draft includes a provision for the disclosure of key audit matters (KAMs) as part of the audit report.
- The IASSB exposure draft includes similar provisions for the disclosure of key audit matters (KAMs).

### Further Reading

- **Audit Risk**: Discussions on the audit risk model and its implications for audit planning and assessment.
- **Ethical Considerations**: Analysis of ethical considerations in the audit process.

### Conclusion

Both exposure drafts aim to enhance the transparency and accountability of financial reporting by requiring companies to disclose key audit matters (KAMs) and other critical audit information. This aligns with the principles of improved governance and stakeholder protection.
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References


Public Company Accounting Oversight Board. 2013. Release No. 2013-005. The auditor’s report of an audit of financial statements when the auditor expresses an unqualified opinion; The auditor’s responsibilities regarding other information in certain documents containing audited financial statements and the related auditor’s report. New York, NY.


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