

Perceptions of the Unqualified Statutory Audit Report in Malta: A Study

by

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
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Abstract

Perceptions of the Unqualified Statutory Audit Report in Malta: A Study

Purpose: This study investigates the perceptions of three Maltese stakeholder groups: external auditors, financial advisers and bank lending officers, pertaining to the Communication and Information Aspects of the recently revised ISA 700 Unqualified Audit Report.

Design: A mixed-method approach was adopted, consisting of both quantitative and qualitative techniques. A questionnaire was devised and disseminated to the groups under study, as to ascertain their perceptions, and the extent to which these vary amongst the groups. A sample of 12 participants was selected for an interview, to expand on prior quantitative findings and attain their recommendations on the research topic.

Findings: The findings indicate that the most important section in the Unqualified Audit Report is the opinion, as it helps users determine the reliance that they can place in an entity's accompanying financial statements. Yet, users proved sceptical on the clarity of the Unqualified Audit Report's message; auditors believed this is justified, since users are merely witnessing an audit from a third-party perspective, hence they are bound to remain with a certain element of uncertainty regarding the audit work performed. Key Audit Matters were identified as the most prominent introduction of ISA 700's revision, yet participants were concerned on how the technicality involved in this section may limit users' understanding of the matters being discussed. Although the introduction of Key Audit Matters has proven to be a positive shift towards non-standardised reports, the demand for further auditor information continues.

Conclusions: The Audit Report should be a valuable source of information which assists users in their interpretation of complex financial statements. Furthermore, auditors should seek to improve the way they communicate an audit's conclusions to an entity's stakeholders, bearing in mind the restrictions they may face from auditing standards.

Value: The findings are significant to the local auditing profession, financial institutions and client companies; suggesting how auditor communications can be improved in the local scenario, to guarantee that end-users have adequate audit information at their disposal to support their financial decisions.

Keywords: Communication Gap; Information Gap; Unqualified Audit Report; ISA 700 Revised

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*Dedicated to my mother;
for her unwavering support,
every step of the way*

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List of Abbreviations

FI	Financial Information
FS	Financial Statements
ISA	International Standards on Auditing
IAASB	International Auditing and Assurance Standards Board
AR	Audit Report
UAR	Unqualified Audit Report
IG	Information Gap
CG	Communication Gap
KAMs	Key Audit Matters
AEG	Audit Expectations Gap
CFA	Chartered Financial Analyst
PIEs	Public Interest Entities
JOAs	Justification of Assessments
EU	European Union
IASB	International Accounting Standards Board
U.S.	United States
UK	United Kingdom
GAAP	Generally Accepted Accounting Principles
B4	Big Four
MS	Medium-Sized
SP	Sole Practitioner

Chapter 1

Introduction

1.0 Introduction

This chapter initiates with a background to the topic and its ever-increasing relevance. It also explains the need for this study in the local scenario, the research objectives, and any limitations encountered.

1.1 Background to the Study

1.1.1 The Purpose of Auditing

Today's increasingly complex business environment has stimulated users' need for sound entity information, upon which they ought to base their financial decisions (IAASB, 2011). The primary source of an entity's financial information (FI) lies within its financial statements (FS), drawn-up by the entity's management and primarily utilised by: *“existing and potential investors, lenders and other creditors”* (IOSCO, 2009; IASB, 2010, par.OB2). To ascertain the credibility of the FI presented by management, an external auditor is typically engaged to conduct a statutory audit, comprising of:

“[...] the process of providing assurance about the reliability of the information contained in a financial statement prepared in accordance with generally accepted accounting principles (GAAP) or other rules.”

(Soltani, 2007, p.4)

Locally, the Income Tax Management Act 2014 (Art.19) obliges all Maltese registered companies, irrespective of their size, to conduct a full scope statutory audit. In doing so, the Maltese auditor must adhere to International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) (IFAC, 2018). These standards require the auditor to express an

independent opinion on the accompanying FS, in a specific, written report, shortly after an audit is finalised (IAASB, 2015a). This opinion is communicated in an audit report (AR), where auditors must document and present the outcome of an audit to the entity's shareholders (Boolaky and Quick, 2016). The auditor forms an unmodified (clean) audit opinion, when based on the audit evidence attained: "*the FS as a whole are free from material misstatement*" (IAASB, 2015a, par.11). An Unqualified AR (UAR) is issued for this type of opinion, presenting end-users with how assurances on the reporting entity's FI have been attained (ICAEW, 2013; Coram, 2014).

The AR provides users with information from a credible third-party, hence playing a crucial part in their financial decisions (Boolaky and Quick, 2016). By enriching the reliability of the FI provided in the FS, users' decision-making ability is enhanced (Coram, 2014). For a wide array of users, the AR is "*the only tangible evidence*" following a financial statement audit, thus having an effective AR to convey the work performed by the auditor, is something which is not to be understated (Coram, 2014, p.289).

1.1.2 Shortcomings in Previous Audit Reports

The recent series of corporate scandals, induced stakeholders to question the traditional AR's viability and its relevance for today's turbulent business environment (Boolaky and Quick, 2016). The standardised template and generic language which the AR is built upon, confines the information which an auditor can communicate on the audit and the conclusions attained (Coram *et al.*, 2011). Despite the AR's prominence as the users' primary source of information, studies reveal how most refrain from conducting a thorough review of its contents; reference is typically made to specific parts of it, specifically the audit opinion since it is its core aspect (Gray *et al.*, 2011).

This standardisation has been recognised as weakening the AR's value (Coram *et al.*, 2011). Indeed, studies recognise stakeholders' need for more information pertinent to the entity under scrutiny, with several highlighting how a more informative AR would have possibly made them aware of impending risks during the financial crisis, which potentially could have been averted (BooLaky and Quick, 2016). The IAASB (2011) itself acknowledged the limited scope of the AR and its usefulness to stakeholders beyond discussing the mere conclusions of an audit, inciting what it termed as: An Information Gap (IG).

Alternatively, studies show how the UAR's value may also be diminished, particularly in instances where the key message is not understood as expected, with widespread gaps being reported amongst auditors and users, even with users who are more sophisticated (Mock *et al.*, 2009). Other studies identify how certain incorporated technical jargon and concepts may not always be so discernible to the reader, causing misinterpretations (Gray *et al.*, 2011). Instances of unwarranted reliance in the AR have also been evident, with significant between-user gaps being reported, extending beyond the more obvious auditor-user gaps (Asare and Wright, 2012). Researchers have termed this as the Communication Gap (CG), arising from the numerous interpretations which can stem from the use of unclear terms and phrases which auditors use to communicate their findings (Asare and Wright, 2012). Any obstructions amid auditors and users ought to be eliminated, since misconceptions can lead users to make ill-informed decisions, impacting the perceived audit quality (Asare and Wright, 2012).

Such studies have led standard-setting bodies to question the form, content and value of their existing ARs, considering how prior attempts to reform the AR had already been unsuccessful in improving its communicative value (Vanstraelen *et al.*, 2012; Prasad and Chand, 2017). Although there were already uncertainties on the AR's relevance before the crisis, the series of audit failures and the

resulting doubt surrounding the auditor during this time, continued to highlight the prominence of having an AR which communicates value (Boolaky and Quick, 2016). This and other identified shortcomings, stimulated the IAASB, amongst other standard-setting bodies, to position the AR's reform at the top of its agenda.

1.2 Need for the Study

A revised audit reporting standard was issued by the IAASB in 2015 titled: ISA 700 (Revised), introducing several enhancements in attempt to address shortcomings. Given its recent introduction, there exists a lack of research locally in determining the perceptions of stakeholders following the release of the revised report. As this audit reporting standard has now been in effect for a few years, it would be useful to ascertain the perceptions which stakeholders hold regarding the manner the AR is communicating its primary message, including whether the information enhances its value.

Although studies which delved into stakeholders' perceptions of an AR have been performed locally, these relate to the prior AR version and were confined to two main stakeholder groups. In all cases, auditors were included as the issuer of the AR, in comparison to either shareholders or bankers (Cutajar, 2009; Maniscalco, 2012; Arpa, 2014). This presented the opportunity to investigate potential between-user gaps. By featuring auditors and two main sophisticated users of the FS who represent local investors and creditors, gaps amongst all three groups can be explored.

The AR is an essential tool which is published together with an entity's audited accounts. Therefore, it is appropriate to determine whether this is fulfilling its purpose of adequately conveying the end-user with relevant information. Gaining auditor and user insight on the subject is an opportunity to determine, if and how, reporting with the end-user can be improved in a small-island setting. This will enhance users' decision-making ability, which is ultimately the purpose of the AR.

1.3 Objectives of the Study

This study seeks to attain the objectives hereunder:

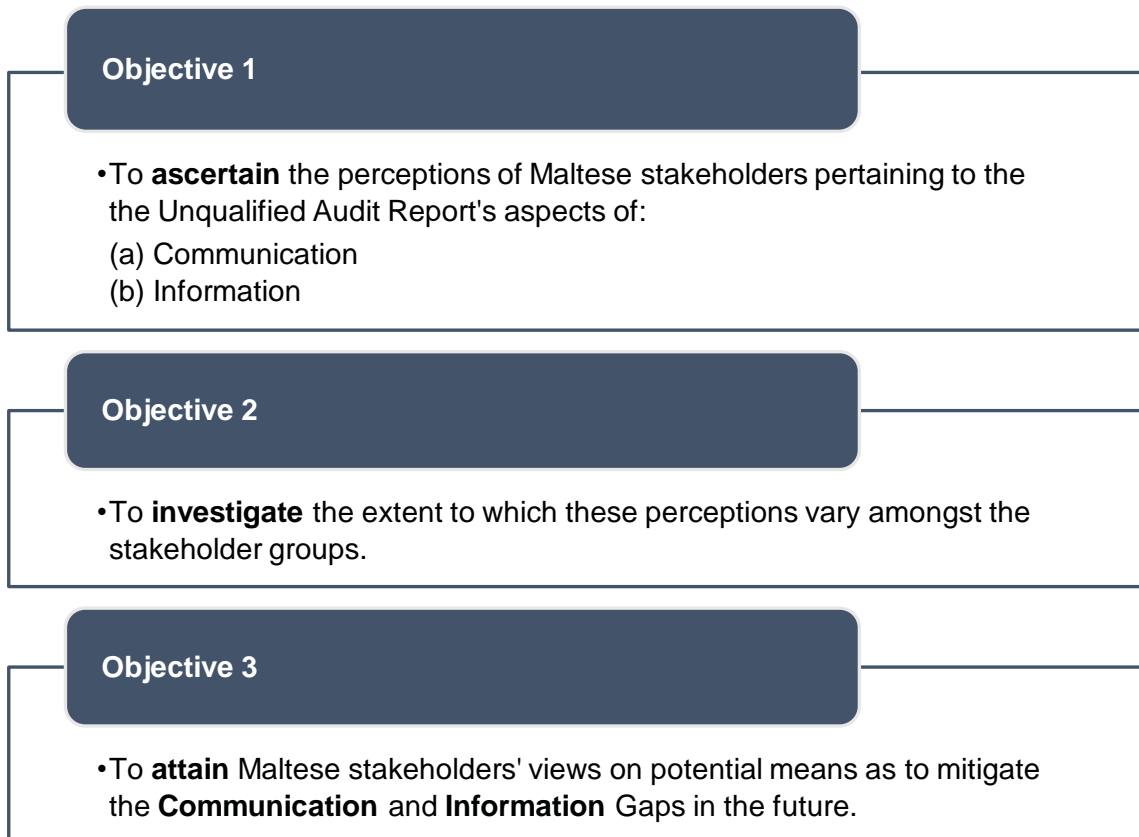


Figure 1.1: Research Objectives

1.4 Scope and Limitations

- In examining the AR's information aspect, the study investigates the following enhancements to the report (IAASB, 2015b, p.3):
 - i. Key Audit Matters (KAMs);
 - ii. Disclosure of the Engagement Partner's Name;
 - iii. Affirmative Statement about Auditor Independence and Fulfilment of Relevant Ethical Responsibilities; and
 - iv. Enhanced Description of Auditor Responsibilities.

Other enhancements including: [i] Enhanced Going Concern Reporting; and [ii] Opinion Placement, are outside the scope of this study. The former has recently been studied by Vrazhalska (2017), whereas the latter relates to a change in the form of the report, rather than its content.

- The AR's template varies according to whether it is being issued to a listed entity or an unlisted one; this study assumes a general view of the changes effected, with no distinction being made between the two types of ARs which can be issued, emerging as a limitation of this study.
- This study is limited to studying the Communication and Information Aspects of the UAR. However, there may be other variables which could also be influencing stakeholders' perceptions of the UAR, which will not be included in this study.
- This dissertation shall be confined to attaining the views of auditors, lenders and financial advisers. Exploring the perceptions of other suitable groups, such as: preparers, shareholders or tax authorities was not feasible due to constraints imposed.

- The study shall be referring to the following two standards:
 - i. ISA 700 (Revised): *Forming an Opinion and Reporting on FS*; and
 - ii. ISA 701: *Communicating KAMs in the Independent AR*.

Standards which call for a modification to the auditor's opinion, and an unmodified audit opinion with an Emphasis of Matter paragraph, are also not within scope.

- Finally, this dissertation is constrained to developments emerging until May 2019, limiting the conclusions drawn from the study to this particular time-frame.

1.5 Dissertation Structure

Figure 1.2 provides an overview of this dissertation:

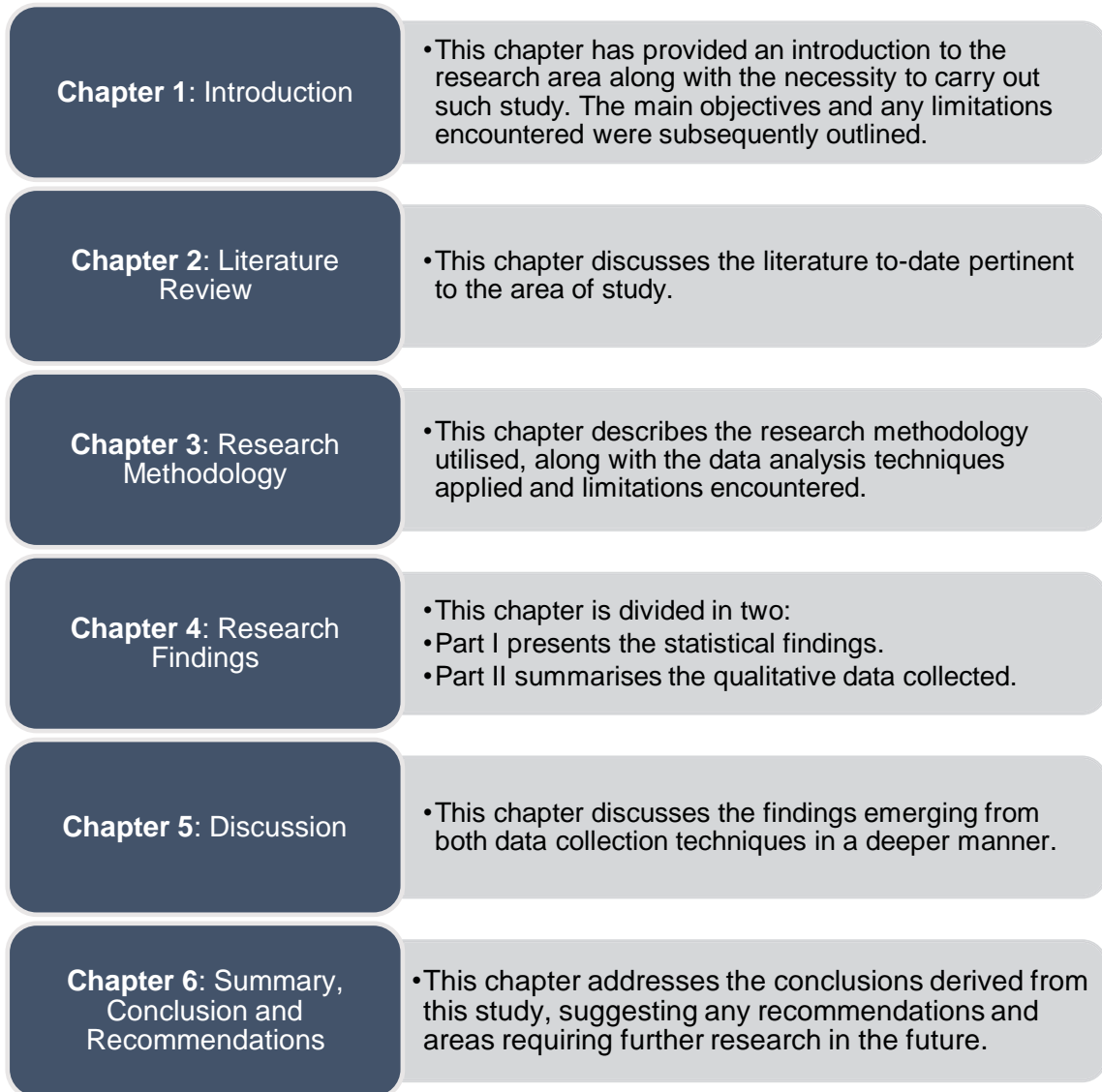


Figure 1.2: Dissertation Overview

Chapter 2

Literature Review

2.0 Introduction

This chapter commences with the AR's history, its development and the main criticisms which are averting it from attaining its true purpose. Related research performed in the local scenario is also discussed. Figure 2.1 presents an overview of the main areas reviewed.

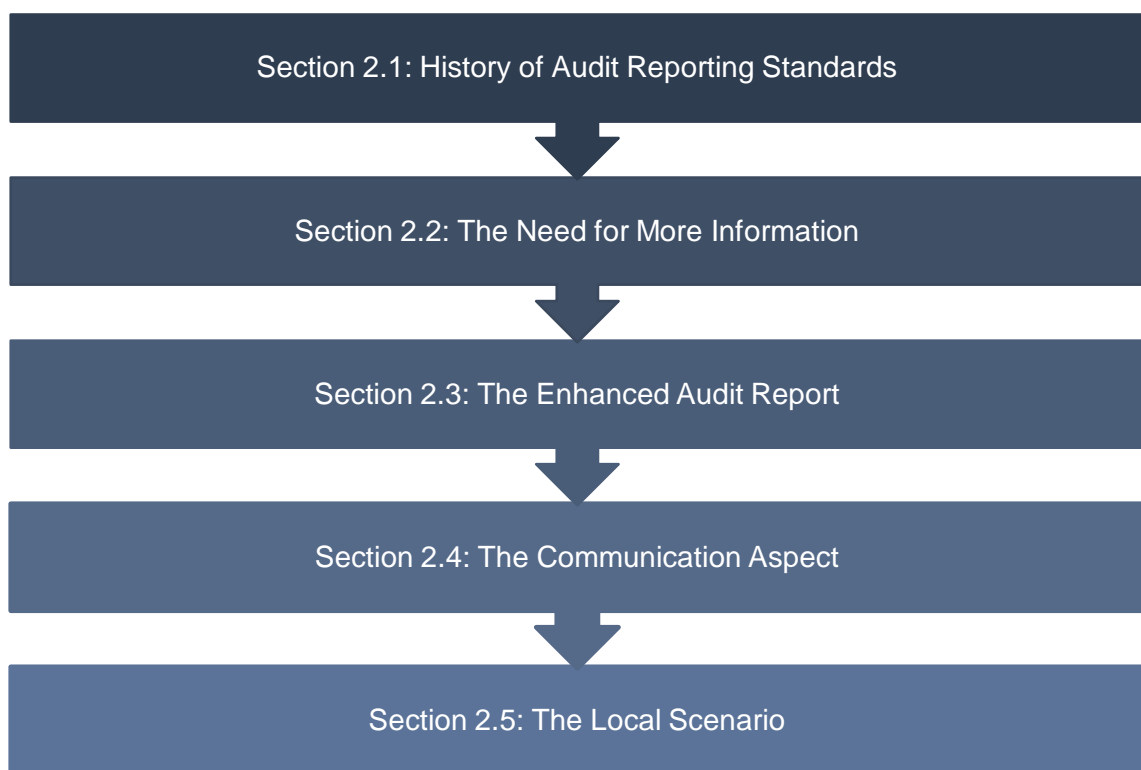


Figure 2.1: Overview of Chapter 2

2.1 History of Audit Reporting Standards

“Despite its long history, the debate on audit reporting seems far from settled.”

(Vanstraelen *et al.*, 2012, p.193)

2.1.1 Early Audit Reporting Standards

Audit reporting standards have been a matter of considerable debate since the twentieth century. This is a time where ARs were regarded as a mere certificate; these verified that the amounts contained in FS were true or fair (Church, Davis and McCracken, 2008). Despite various changes over the years, the report remained quite the same, consisting of the title, opinion and scope (Coram, 2014). This standardised template resulted in stakeholders considering it to convey little communicative value *“beyond pass/fail”*, since minimal information is divulged besides the audit opinion itself, providing: *“no reflection of the effort and judgement that goes into the audit”* (Church, Davis and McCracken, 2008, p.69; ACCA, 2010, p.9).

The first audit reporting standard was issued following the 1929 stock market crash (Coram, 2014). It was in the 1980's where significant efforts were made to change the report's format that had persisted for so long, due to criticisms surrounding its role (Coram, 2014). According to Vanstraelen *et al.* (2012), the message being communicated by ARs during this time resulted in perceptual differences amid auditors and users regarding an audit, eliciting an Audit Expectations Gap (AEG). This is characterised by the divide between users' expectations of the auditor, and the actual responsibilities of the auditor (IAASB, 2011). The Commission on Auditors' Responsibilities attributed the AEG's

emergence to the standardised language included in the AR, diminishing it to a symbol which users did not thoroughly read (AICPA,1978).

This AEG induced the Auditing Standards Board to issue SAS 58 (key enhancements illustrated in Figure 2.2), clearly defining the respective responsibilities of auditors and management, aimed at mitigating users' inaccurate expectations of the two. This provoked some of the earlier studies on users' evaluation of ARs, whereby evidence of enhanced user perceptions following its introduction was discovered (e.g. Kelly and Mohrweis, 1989, as cited by Gray *et al.* 2011; Miller, Reed, Strawser, 1993), yet others continued to report widespread AEGs amongst participants (e.g. Hatherly, Innes and Brown, 1991; McEnroe and Martens, 2001).

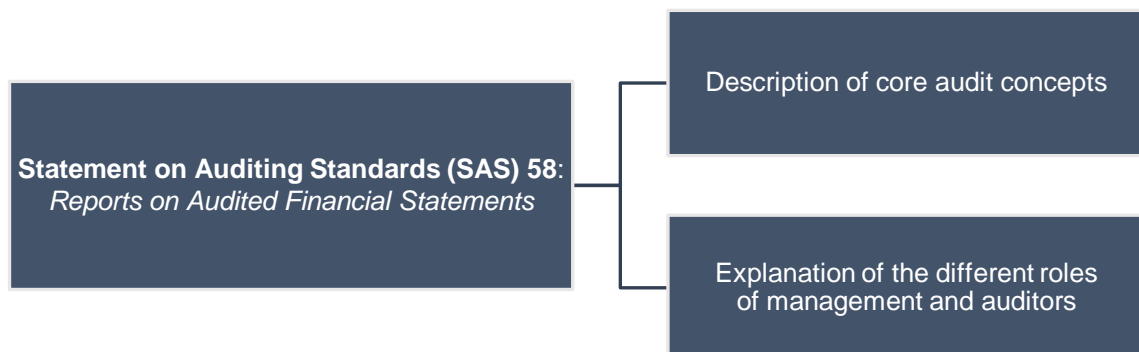


Figure 2.2: Enhancements of SAS 58, sourced from: Coram (2014, p.292)

2.1.2 Introduction of ISA 700

Evidence following ISA 700's introduction by the IAASB (main improvements outlined in Figure 2.3) remained rather consistent with prior studies. Despite increasing explanations, the AR was nevertheless produced using a standard template. In 1978, the American Institute of Certified Public Accountants had

flagged the pitfalls of producing standardised ARs, yet such template remained in practice even after the hereunder was declared:

“one effect of using a standard report is that as a person becomes familiar with its words, he tends to stop reading it each time he sees it”.

(AICPA, 1978, p.73)

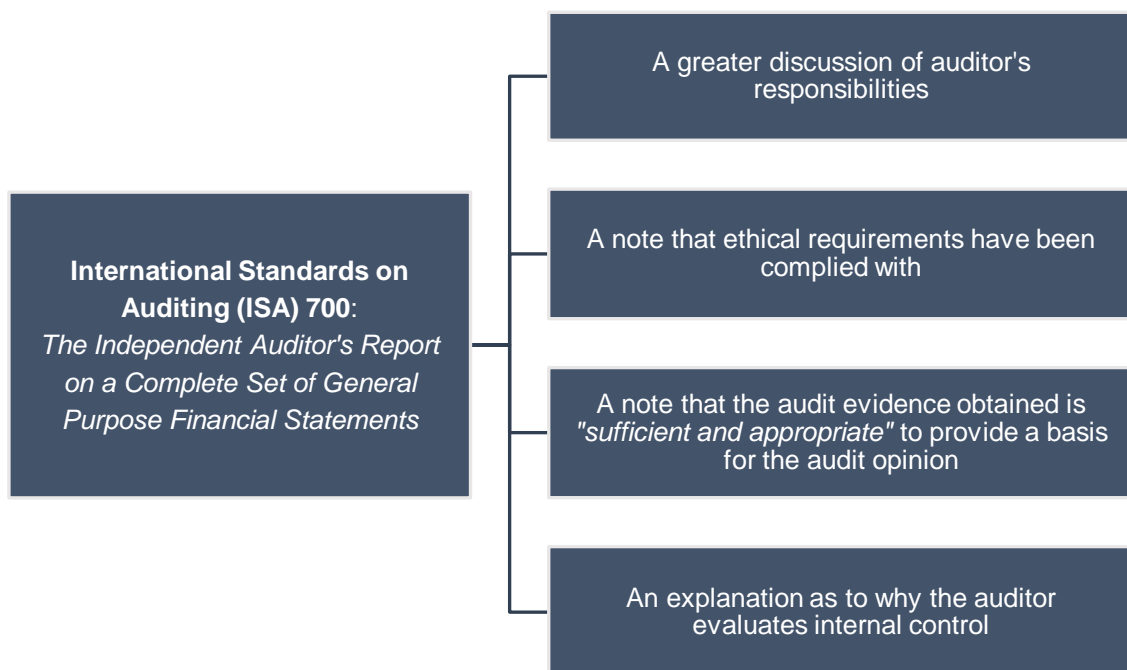


Figure 2.3: Additions of ISA 700, sourced from: Coram (2014, p.292)

Although explanations were increased through ISA 700, these had an insignificant effect on narrowing the AEG between non-sophisticated users and auditors (Chong and Pflugrath, 2008). Coram *et al.* (2011) later supported this through the study performed with sophisticated users.

2.2 The Need for More Information

2.2.1 Criticisms Following the Preceding Financial Crisis

The collapse of Enron in 2008 and the demise of their external auditors, Arthur Anderson, put a strain on the auditor's role as a reliable intermediary, and his/her *"primary means of communication with an entity's stakeholders"* (Soltani, 2007; IAASB, 2012, p.1). The financial crisis induced stakeholders across the globe to demand more information about each audit conducted, including information about the entity under scrutiny and its FS (IAASB, 2012). Though users do value the auditor's opinion, the IAASB recognised how a more informative AR was imperative, since prior AR versions were not considered as doing justice to the *"increasingly complex financial reporting requirements"* which corporations had become subject to over the years (IAASB, 2011, p.4).

2.2.2 The Information Gap

According to Boolaky and Quick (2016), the basic premise of an audit is to reduce agency costs, yet information asymmetries amongst the agents and principals have been identified, with users acknowledging how the information disclosed to them is merely a small section of the information accessible to management and the auditor (IAASB, 2011). Furthermore, the diminished use of relevant information in prior ARs resulted in:

"[...] a gap between the information they [users] believe is needed to make informed investment and fiduciary decisions, and what is available to them through the entity's audited FS or other publicly available information."

(IAASB, 2011, p.8)

According to the IAASB (2011), the absence of disclosures which were important to users' ability to understand key information about the financial reporting process and the audit conducted, provoked an IG (as illustrated in Figure 2.4). The survey conducted by the Chartered Financial Analyst (CFA) Institute (2010) post-crisis with its members, revealed how merely 37% of 500 respondents believed the preceding AR contained sufficient information, with such disdain being attributed to its standardised nature. Coram (2014) agreed how users required information tailor-made to each audit executed, as opposed to more standardised content. Providing stakeholders with meaningful information increases confidence in the FS presented by management, while safeguarding the efficiency of capital markets (Boolaky and Quick, 2016).

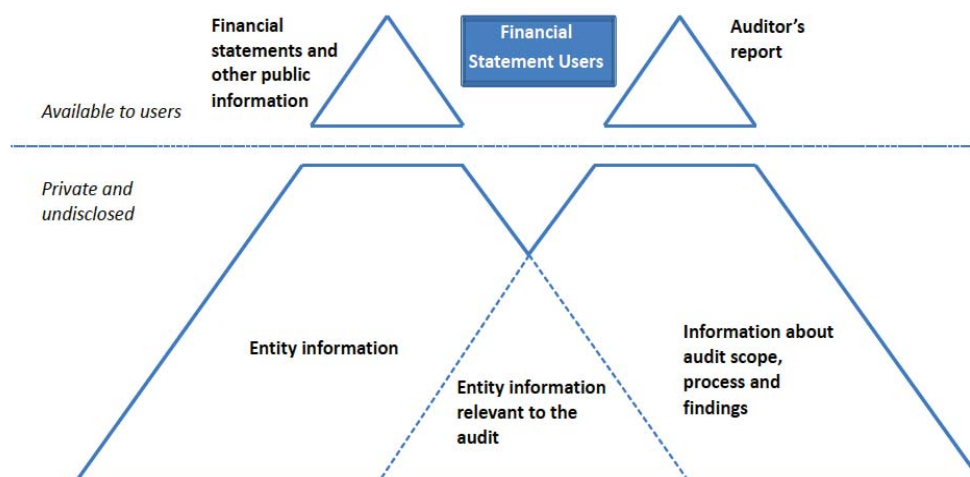


Figure 2.4: The IG, sourced from: IAASB (2011, p.9)

2.3 The Enhanced Audit Report

The standard-setting body proposed to narrow the aforementioned gaps by increasing the information auditors would be mandated to disclose, thus providing greater transparency on the audit performed (IAASB, 2011). Although certain information could be provided by management, the IAASB (2011) recognised that auditor insight would be particularly relevant to users.

After years of debate, the IAASB issued ISA 700 (Revised)¹ in 2015, the main standard dealing with the AR (Figure 2.5 presents the main changes effected). This revision intended to meet the needs of financial statement users by improving the communication and information value of the AR, with the aim of restoring trust in the audit and the subsequent FS, following the events of the financial crisis (BooLaky and Quick, 2016; Prasad and Chand, 2017). Despite recent developments, the audit reporting debate is not yet considered to be resolved; according to Prasad and Chand (2017) this revision stimulated several questions, primarily as to:

- whether user needs have been met through this reform; *or else*
- continued to increase the complexities and length which was existent in preceding ARs, without enhancing its value.

2.3.1 Overview of Changes

The first two changes are mandatory for financial statement audits of listed entities, whilst voluntary application for entities other than those which are listed².

¹ Vide Appendix 1.1 for a comprehensive view of the Enhanced AR.

² In Malta, these amendments are to be reflected for Public Interest Entities (PIEs) (Galea-Lauri, 2016).

1. Key Audit Matters	<p>New section to communicate KAMs, KAMs are those matters that, in the auditor's judgement, were of most significance in the audit of the current period financial statements. The description of the KAMs must include:</p> <p>Why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM; How the matter was addressed in the audit; and Reference to the related disclosure(s).</p>
2. Engagement Partner's Name	Disclosure of the name of the engagement partner
3. Opinion Placement	Opinion section required to be presented first , followed by the Basis for Opinion section, unless law or regulation prescribe otherwise
4. Enhanced Going Concern Reporting	<p>Description of the respective responsibilities of management and the auditor for going concern</p> <p>A separate section when a material uncertainty exists and is adequately disclosed, under the heading "Material Uncertainty Related to Going Concern"</p> <p>New requirement to challenge adequacy of disclosures for "close calls" in view of the applicable financial reporting framework when events or conditions are identified that may cast significant doubt on an entity's ability to continue as a going concern</p>
5. Auditor Independence	Affirmative statement about the auditor's independence and fulfilment of relevant ethical responsibilities , with disclosure of the jurisdiction of origin of those requirements or reference to the International Ethics Standards for Accountants' Code of Ethics for Professional Accountants
6. Auditor Responsibilities	Enhanced description of the auditor's responsibilities and key features of an audit. Certain components of the description of the auditor's responsibilities may be presented in an appendix to the auditor's report, or, where law, regulation or national auditing standards expressly permit, by reference in the auditor's report to a website of an appropriate authority.

Figure 2.5: Enhancements of ISA 700 (Revised), sourced from: IAASB (2015b, p.3)

As discussed in Chapter 1, this study shall delve largely into the contents of (1), (2), (5) and (6), which will be discussed in the following sections.

2.3.1.1 Key Audit Matters

For the first time, auditors must supplement the AR with their own information, by communicating significant findings from an audit through KAMs (IAASB, 2015b). France has been obliged to disclose KAMs since 2003, referred to as 'Justification of Assessments' (JOAs). These disclosures were deemed to enhance the report's communicative value and focused users' attention on specific areas, yet they were not understandable by those outside the profession (IAASB, 2011). Bédard, Gonthier-Besacier and Schatt (2014) report how initially capital-markets did not react to their disclosure, possibly because, users: [i] did not understand the technical jargon utilised; [ii] there was an information overload; or [iii] these reports used boilerplate statements. Eventually auditors started disclosing JOAs in a standardised manner, rather than adjusting them to the audit performed, thwarting their intended purpose (Footprint Consultants, 2011).

Mock *et al.* (2012) originally suggested how additional information could enhance the communicative value of the AR. Vanstraelen *et al.* (2012) argued that this may result in information overload, affecting stakeholders' decision quality and ability to recognise important information (Eppler and Mengis, 2004). This would result in an even longer AR, reducing stakeholders' prospect of reading it, predominantly considering sophisticated users' limited time available to read reports (Church, Davis and McCracken, 2008; Vanstraelen *et al.*, 2012). Although acknowledging their worth, Sirois, Bedard and Bera's (2018) eye-tracking experiment with accounting students revealed how KAMs had diverted users' attention from other important parts of the report. However, KAMs may have been perceived as important since participants had been conditioned to read them for the study's purposes.

Boolakay and Quick (2016) described KAMs as being able to reduce information asymmetry between users and auditors. However, when bank directors in their study were given information on KAMs, their decision on whether they should grant credit did not differ from when no KAMs were provided; demonstrating little added-value to this user group. Yet, it is noteworthy to include that no reference to management disclosures were made in the KAMs provided, possibly affecting the results attained. Information asymmetries may persist even with KAMs, since Cade and Hodge (2014) report an adverse effect on the auditor-client relationship due to auditors' requirement to disclose KAMs. Research shows that management may be less inclined to communicate openly with their auditors, preventing the latter from supplying end-users with potentially essential information.

In an analysis of European Union (EU) comment letters in response to the Exposure Draft on KAMs, Cordoş and Fülöp (2015) note the reservations of certain respondents regarding KAMs' voluntary application for entities other than those listed, fearing these might be issued solely when convenient. Other respondents expressed concerns on the illustrative paragraphs shown in the Exposure Draft, believing that auditors may issue paragraphs similar to the illustrations for ease, increasing the amount of boilerplate text in the AR.

Before the revision, Mock *et al.* (2012) explained that users were pushing for entity-specific information to be included; indeed, 110 respondents out of 138 supported the inclusion of KAMs in their comment letters (Prasad and Chand, 2017). Yet, the results discussed exhibit evidence of adverse perceptions following KAMs' actual implementation, suggesting how they may not have attained the enhancement standard-setters and users were expecting. Nonetheless, a recent study with Malaysian stakeholders revealed how KAMs overall resulted in positive perceptions; most investors are now more likely to read the AR before delving into the FS (ACCA, 2018b).

2.3.1.2 Audit Engagement Partner's Name Disclosure

The IAASB (2015b) sought to improve transparency and accountability in the AR by disclosing the engagement's partner's name. Yet, auditor interviewees in Vanstraelen *et al.* (2012) had previously recognised how engagement team information is not particularly value-adding to users. Indeed, Trpeska, Atanasovski and Bozinovska's (2017) quantitative study with 114 Macedonian lending officers, reports how lending officers perceived this as the least fundamental addition incorporated. Nevertheless, this study highlights how it was participants' first time experiencing the enhanced report since its revision, possibly impacting the results. Financial analyst interviewees in Vanstraelen *et al.* (2012) expressed satisfaction with the mere disclosure of the audit firm's name; no information was required on the partner responsible for the engagement.

2.3.1.3 Affirmative Statement on Independence and Ethical Responsibilities

Another new section includes an "*affirmative statement about the auditor's independence and fulfilment of relevant ethical responsibilities*" (IAASB, 2015b, p.3). In an UAR, this statement replaces the 'Basis for Opinion' paragraph (IAASB, 2015a). Auditor interviewees in Vanstraelen *et al.* (2012) discussed how users overlook independence information as they are more likely to be interested in critical risk areas, the entity's internal control system, and judgements undertaken by management. Indeed, Trpeska, Atanasovski and Bozinovska (2017) confirm how lending officers in their study perceived this as one of the least valuable additions effected.

2.3.1.4 Enhanced Description of Auditor Responsibilities

When the retention of such paragraph was questioned after the financial crisis, the CFA Institute's (2010) survey exhibited how 69% of respondents emphasised the prominence of retaining these communications in the report, since these highlighted the limitations of an audit. The IAASB (2015b) sought to enhance this description in its reformed AR and although this paragraph was less favoured when compared to for instance, KAMs, respondents nevertheless welcomed this enhancement (Cordoş and Fülöp, 2015).

User interviewees in Vanstraelen *et al.* (2012) expressed their disregard in receiving information about the work performed by the auditor. However, this type of information remains necessary for safeguarding the auditor from impending litigations (ACCA, 2010). Furthermore, auditors in Vanstraelen *et al.* (2012) highlighted how it may be more useful to emphasise what is *not* within the scope of an audit and the auditor's responsibilities, as opposed to what is.

2.4 The Communication Aspect

One imperative aspect of the financial reporting process is the communication of the auditor's work (Coram *et al.*, 2011). The sole means of communication available to the auditor is through the AR, whereby its importance was considered to have been diminished through miscommunications identified in it by standard-setters, (Duncan and Moriarty, 1998) contributing to a CG (depicted in Figure 2.6):

"[...] differences between what users desire and understand and what is communicated by the assurance provider".

(Mock *et al.*, 2012, p.7)

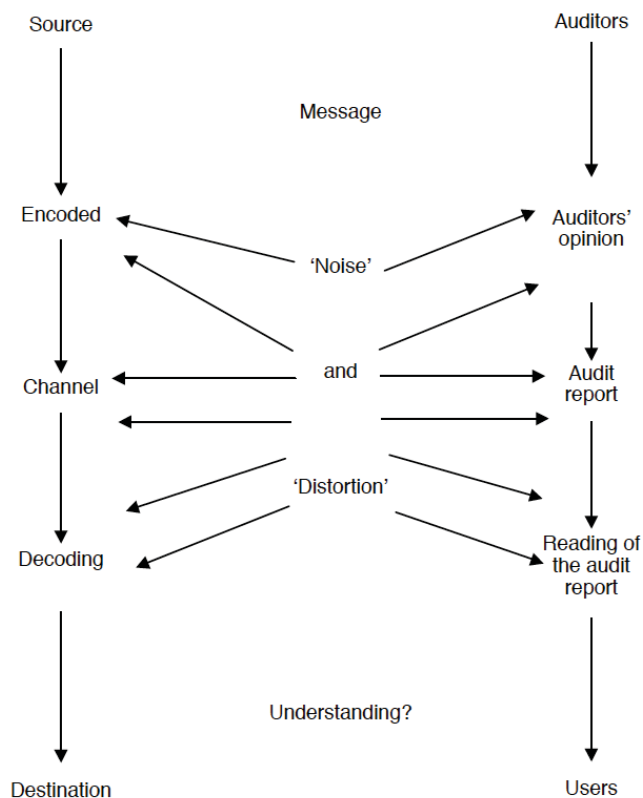


Figure 2.6: The CG, sourced from: Higson (2003, p.137)

2.4.1 Communication of the Key Message

The key message communicated in an UAR intends to depict the truth and fairness of the FS in line with an applicable financial reporting framework (Asare and Wright, 2012). A study by Gay, Schelluch and Baines (1998) reports how assurance providers were not convinced with the AR's ability to clearly convey this message. The focus group performed by Gray *et al.* (2011) with a range of sophisticated and non-sophisticated users³, demonstrates the challenge encountered by users in agreeing on the AR's intended communications.

Apart from the unresolved AEG where Vanstraelen *et al.* (2012) argue that those who do not understand the audit profession and its complexities, are likewise assumed as being unable to understand the AR's key message; communication could also be undermined since, those outside the accounting profession may find it difficult to understand certain concepts (CFA Institute, 2010). The International Accounting Standards Board's (IASB) Conceptual Framework (2010) stipulates how sometimes even sophisticated individuals holding a sound level of business knowledge may find it problematic to comprehend complex accounting notions. Scott (1994) explains these dissimilarities through reader-response theory, where individuals' different backgrounds, motives and expertise, can result in diverse interpretations for the same text. Considering how auditors and users hold distinct backgrounds, variations amongst interpretations cannot be ruled out.

Asare and Wright (2012) highlight the necessity of determining the elements which may be contributing to a CG, since these can lead to misinformed users, unintended investments and reduced confidence in the audit profession. Higson (2003) remarks how failure for auditors to properly communicate with

³ Collectively comprising of: preparers, lenders, analysts, auditors and investors.

stakeholders, can prompt the latter to question the value of audits. Therefore, addressing any gaps in communication between auditors and users would ensure the latter's interests are safeguarded (Turner *et al.*, 2010).

2.4.2 Audit Report Reading

“In summary, it appears that users have a preconceived understanding of the ‘meaning’ of an UAR; once this fact is confirmed, there is no need for further evaluation of the report.”

(Turner *et al.*, 2010, p.A3)

Focus group results by Gray *et al.* (2011) show how users do not read the report, whilst auditors did not presume they do; reference is solely made to the opinion and the name of the firm performing the audit. Despite the AR's importance, the standardised text incorporated in it, discourages users from reading it thoroughly (Mock *et al.*, 2012).

The reform stimulated debates regarding how the suggested implementations would severely lengthen the report, making it disheartening for users to read; this is more concerning given that users have already been skipping significant chunks of the report (Coram *et al.*, 2011; Ghandar, 2014). Consistent results were discovered following the reform, with an audit partner arguing how the report has become so extensive, that unless looking for something specific, users will rarely read anything else outside the opinion (ACCA, 2018a).

2.4.3 Confidence Provided by the Unqualified Audit Report

An UAR's primary purpose is to provide confidence on the FS' conformity to a set of relevant accounting criteria (ICAEW, 2013). Yet, as companies evolved, so have the interests of their stakeholders; shifting towards reporting of non-FI such as strategy or risk (Haddrill, 2011). Asare and Wright (2012) report how user interpretations could have likewise been influenced to shift accordingly. Indeed, users have exhibited to interpret an unqualified opinion as a sign that a company is: [i] properly managed; [ii] a sound investment; and [iii] able to meet its strategic goals (Asare and Wright, 2009). The quantitative study by Asare and Wright (2012) in the United States (U.S.) with 43 non-sophisticated investors, 33 bankers and 78 auditors, reports high confidence being ascribed by lenders on these factors when presented with an UAR, with auditors allotting a lower confidence, representing a gap between the groups.

Auditing standards assert how an UAR is not intended to provide confidence on these notions, since entities are bound to receive an unqualified opinion so long as their FS are fairly presented (Asare and Wright, 2012). Indeed, focus group participants in Gray *et al.* (2011) agreed how an UAR does not imply anything on these factors. However, since an AR does not explicitly state anything on these factors, it still provides information on them: "*by omission, creating opportunities for opportunistic interpretation*" (Asare and Wright, 2012, p.201).

2.4.4 Decision-Making Importance

Mautz and Sharaf (1961) acknowledge the AR's usefulness as a tool for aiding decision-making. Gómez-Guillamón's (2003) questionnaire study conducted with 112 Spanish credit institutions and brokering companies, finds evidence of both groups perceiving the AR's information as useful for their lending and investment decisions, respectively. A later survey performed by the CFA Institute (2010) showed how 72% of analysts recognised the AR's prominence in devising

financial decisions, yet some stressed how the boilerplate text may impinge on its value.

Furthermore, the IAASB (2011) aimed to confirm the AR's purpose for decision-making usefulness through its reform. Indeed, consistent results were reported after ISA 700's revision in Trpeska, Atanasovski and Bozinovska's (2017) study, where lending officers viewed the AR's contents as valuable, regardless of the opinion issued. Despite the AR's prominent role, it is important to consider how sophisticated users occupy a position where they can demand additional entity-information; otherwise they can resort to other available sources of information beyond the AR, to assist in their analysis (Trpeska, Atanasovski and Bozinovska, 2017).

2.4.5 Communication of Technical Terminology

The IAASB (2011) has highlighted the following phrases as being susceptible to misinterpretation: *materiality, reasonable assurance, fairly present and true and fair view*, amongst others. The Commission on Auditor's Responsibilities (1978) had already called for the elimination of such jargon, since these may mean one thing for the reader, whilst something else entirely to the auditor (IAASB, 2011). Despite suggesting how these should be replaced with simpler terms or thoroughly explained, the IAASB (2011) has yet to make a move towards their elimination (Asare and Wright, 2012). Although an explanation for 'Reasonable Assurance' has been recently introduced in the IAASB's (2011, p.12) AR, whilst acknowledging how other terminology in the report "*lacked a common meaning*"; to-date the UAR provides no clarifications for other technical jargon.

2.4.5.1 Reasonable Assurance

Due to certain limitations, the assurance exercised during an audit is usually at a *reasonable* level, explained as: “a *high, but not absolute, level of assurance*” (IAASB, 2010a, p.77). Asare and Wright (2012) report how auditors, on average, obtain 76.34% assurance that the FS are in accordance with GAAP, yet lenders overestimated a 91.94% level. Although this suggests undue reliance by sophisticated users, there was no presumption about the audit providing absolute assurance. However, participants in Gray *et al.* (2011) did consider the concept to be ambiguous, since it is not quantified.

The IAASB has since then presented the below explanation for the term, in its reformed AR:

“[...] reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.”

(2015a, par.37)

Although this highlights *reasonable assurance* as being a high level, in the absence of any explicit quantification: “*high assurance leaves a lot to the imagination*” (Asare and Wright, 2012, p.203).

2.4.5.2 Materiality

According to ISA 320 (IAASB, 2010b), when determining the audit strategy, auditors shall establish a materiality level for the FS in their entirety and for the

separate FS components. This concept is pertinent to the audit process and is determined through the auditor's professional judgement.

Focus group discussions in Gray *et al.* (2011) revealed how different participants interpreted 'Materiality' differently. According to Asare and Wright (2012), distinct interpretations stem from the absence of mandated disclosures of materiality thresholds in an UAR. Auditors in Asare and Wright (2012) claimed to use approximately 6.10% of net income as materiality, whereas lenders misperceived auditors to exercise a relatively higher percentage.

Since materiality levels are not obvious from merely reading an AR, even if users had to extensively search through auditing standards, no conclusion may be reached on 'Materiality's' definition: *"leaving the user to read what he/she wants into the term"* (Asare and Wright, 2012, p.203). Interviews by Houghton, Jubb and Kend (2011) with a range of stakeholders revealed how sophisticated users are in a better position to understand this complex notion, when compared to the ordinary shareholder, even considering how materiality is an extensively complex term (Boolaky and Quick, 2016).

2.4.5.3 Fair Presentation

When expressing an unmodified opinion, auditors must select one of the following phrases:

"in our opinion, the accompanying FS: [i] present fairly, in all material respects; or [ii] give a true and fair view of..."

(IAASB, 2015a, par.25)

The tendency is for the former to be used in the U.S., whereas the latter, in the United Kingdom (UK) and EU countries (McEnroe and Martens, 1998). Asare and Wright (2012) emphasise how terms such as 'Fairly Present' had to be clarified, to ensure that those reading the report would understand how this represents fair presentation with GAAP. Since, McEnroe and Martens' (1998) study reports how when presented with the sentence '*present fairly in conformity with GAAP*', auditors and investors believed that apart from the fair presentation with GAAP, the word "*fairly*" also implied that what is being presented, is being done so in a non-misleading manner (Asare and Wright, 2009).

Although both U.S. and UK investors in McEnroe and Martens (1998) preferred 'True and Fair View', they were indifferent to the terminology used when no modification was issued. Nonetheless, their preference suggests how the latter phrase may be less susceptible to ambiguity.

2.5 The Local Scenario

Desira and Baldacchino (2005) report early evidence of an AEG between Maltese jurors and auditors, deemed to partially arise from auditors communicating inefficiently the extent of audit work performed. Cutajar (2009) had recognised the possibility of bridging the AEG by expanding the preceding AR. However, most shareholders in this study either refrained from reading the AR or chose to refer to its opinion, primarily due to: [i] the technical jargon incorporated in it; and [ii] its inability to influence their investment decision.

Furthermore, Cutajar (2009) suggested how expanding the AR would have an insignificant effect, since most stakeholders opted against reading it. Despite preferring to refer to the opinion in the AR, Maniscalco (2012) observes how shareholders remained against opinion-only reports, whilst also demanded further improvements in the previous AR. Auditor commentary additions (currently known as KAMs) were welcomed by participants, since according to one participant, these would allow the auditor to justify the opinion issued (Maniscalco, 2012).

Participants in Arpa's (2014) study recognised the view that different stakeholders held diverse interpretations for phrases such as 'True and Fair View'. Respondents suggested the possibility of ARs incorporating a definition for 'Materiality', yet Arpa remarked how definitions would not necessarily solve the AR's communication issues, as also acknowledged by Cutajar (2009). Demanuele (2016) explored the improvement of this concept's understanding through potentially mandating local materiality threshold disclosures, yet the benefits were not identified as exceeding the potential shortcomings that these may have on the reader. Although replacing certain technical jargon with simpler terms may improve understanding, auditors in Maniscalco (2012) emphasised

how certain terms were specifically chosen to explain the audit process, hence substitution may not always be possible.

Although auditors considered the previous AR to be sufficient, certain auditor respondents deemed it to be inadequate in highlighting the value of an audit, since certain work carried out during an audit was not being communicated (Arpa, 2014; Vassallo, 2015). In a local article, Galea-Lauri (2014) noted that although acknowledging the worth of an auditor's opinion, stakeholders recognised that enhanced transparency could be imparted on the auditor's work and conclusions. Indeed, local bankers felt that the report was one of the several issues the profession ought to revisit, suggesting how auditors' sole intention for performing an audit was to comply with statutory requirements, as opposed to viewing it as an opportunity to interact with stakeholders (Arpa, 2014).

Arpa (2014) suggested that auditors should communicate beyond mere ISA requirements; Galea-Lauri (2014) emphasised how a change was not simply required in *how* auditors report (the structure), but *what* they report as to meet user needs (the contents). Indeed, this supports recent audit reporting changes effected by the IAASB.

2.6 Conclusion

This chapter examined the literature pertinent to the research area, with sections 2.4-2.5 reviewing evidence attained by previous studies as a basis for this dissertation. The subsequent section discusses the research methodology undertaken in this study.

Chapter 3

Research Methodology

3.0 Introduction

This chapter explains the methodology used to investigate the research objectives of this study. The limitations encountered during data collection and the analysis process are subsequently outlined.

3.1 Preliminary Research

Upon initiation of the research, a thorough understanding of the subject matter under study was attained from reading published peer-reviewed articles, books, dissertations, and websites. This allowed the researcher to acquire knowledge and understanding of the research area, and subsequently formulate the research objectives.

3.2 Research Approach and Design

This research was designed to identify and understand the different perceptions pertaining to the UAR's primary components, amongst auditors and two key financial statement user groups in Malta. One method utilised in the literature reviewed comprised of a quantitative questionnaire (e.g. Gómez-Guillamón, 2003; Asare and Wright, 2012; Trpeska, Atanasovski and Bozinovska, 2017). Other researchers opted for qualitative interviews, intended to collect participants' in-depth insights on the research area (e.g. Gray *et al.*, 2011; Vanstraelen *et al.*, 2012).

Based on the types of investigation techniques outlined above, and, to ensure achievement of the study's objectives, the researcher opted for a combination of both qualitative and quantitative techniques as the most suitable data collection

method. An explanatory mixed method approach was chosen, consisting of two components, as depicted in Figure 3.1. This requires the researcher to initiate with a quantitative data collection whilst building upon, and explaining the quantitative findings, using qualitative techniques (Creswell and Clark, 2007).

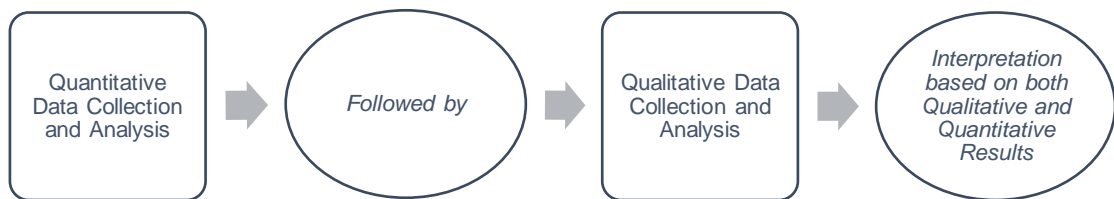


Figure 3.1: The Explanatory Design, adapted from: Creswell and Clark (2007, p.73)

According to Creswell and Clark (2007) this approach helps answering research questions which would not have otherwise been fulfilled through quantitative or qualitative techniques alone. This is because in qualitative studies one loses the ability to generalise the findings, since these studies are typically in-depth and restrained to a few participants (Creswell and Clark, 2007). Conversely, quantitative scenarios grant researchers the ability to analyse responses from large numbers of individuals, yet this investigation is normally constrained to a limited number of variables.

3.3 Quantitative Data Collection

3.3.1 Sample Selection

The participants from the three separate groups were chosen as follows⁴:

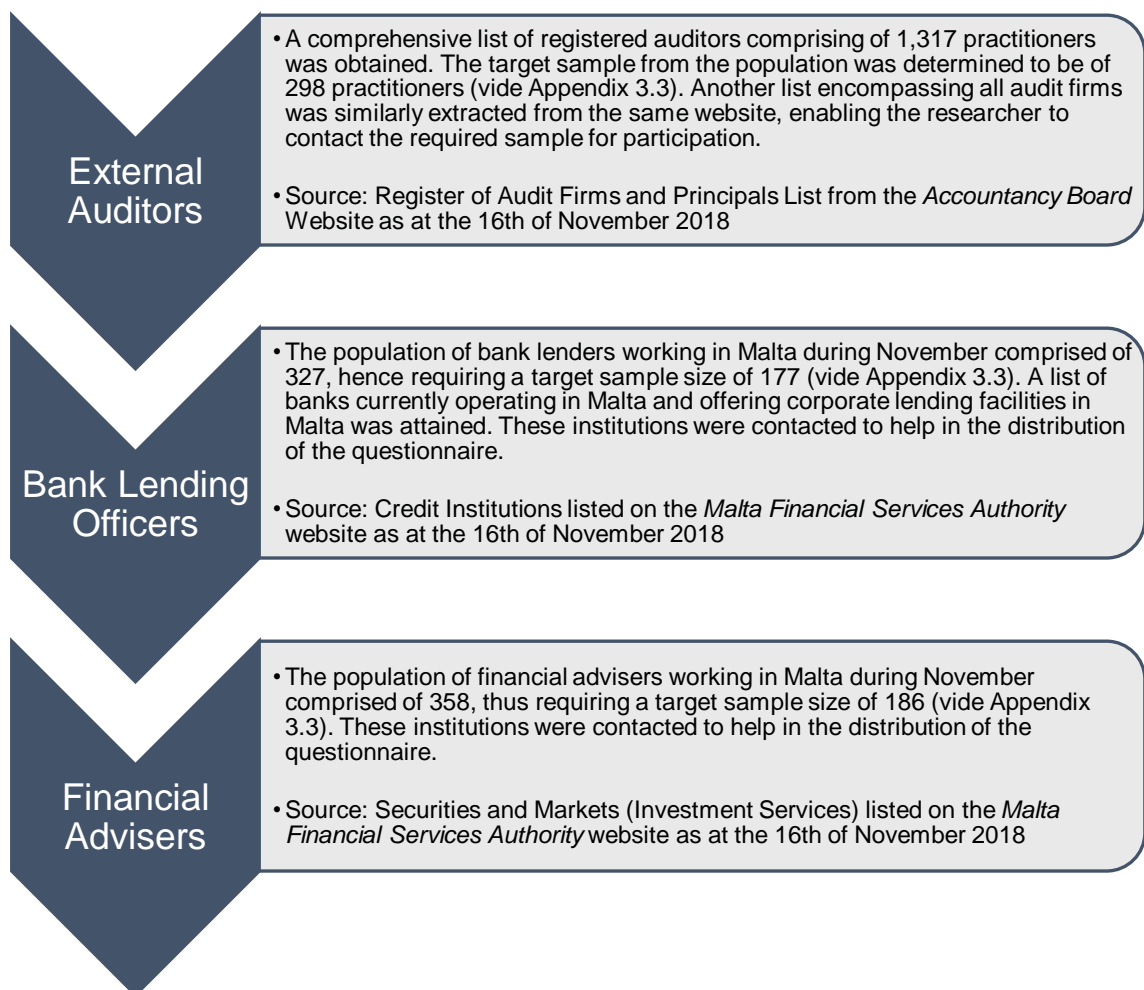


Figure 3.2: Survey Participants' Selection

⁴ The population size concerning Bank Lenders and Financial Advisers was supplied by Jobsplus, whereby: "The responsibility for the opinions expressed in this publication rests solely on the author(s), and the publication does not constitute an endorsement by Jobsplus of the opinions expressed in it".

For the purposes of this study, three key groups were targeted, including: auditors, lenders and financial advisers. These groups were used in most studies reviewed (e.g. Gómez-Guillamón, 2003; Gray *et al.* 2011; Asare and Wright, 2012; Trpeska, Atanasovski and Bozinovska, 2017). Figure 3.2 provides a summary of how the population and sample sizes were derived, including how lists of institutions and firms for the groups were attained. Firms and institutions extracted from their respective websites were all contacted, as to elicit a higher response rate.

3.3.2 Research Tool

The quantitative part of the study consists of a survey, allowing the researcher to collect “*descriptive and explanatory data about opinions, behaviours and attributes*” (Saunders, Lewis, and Thornhill, 2009, p.401). A web-administered survey was opted for, with the intention of maximising response rates by using user-friendly and automated techniques through *GoogleForms*, whilst also reducing any bias. To increase participant response rates, hard copies were also distributed to the population under study.

3.3.3 Questionnaire Design

Following an extensive review of the literature pertinent to the study, a single questionnaire was devised for all three groups (vide Appendix 3.5). This ensured consistency in the questions asked, and allowed for comparison of responses from different user groups to be performed, using statistical methods.

The questionnaire consisted of five sections (see Figure 3.3). It incorporated solely closed-ended questions, whereby most questions consisted of a five-point likert scale due to this approach’s success in “*measuring attitudes*” (De Vaus, 2002, p.102). In the majority, respondents were required to specify their level of

agreement to the statements presented, using a grid-based structure, making it simpler to answer (De Vaus, 2002). In other questions, respondents were asked to rate the level of importance. Additionally, the survey consisted of questions which were categorical in nature, requiring respondents to choose from a set of pre-defined options.

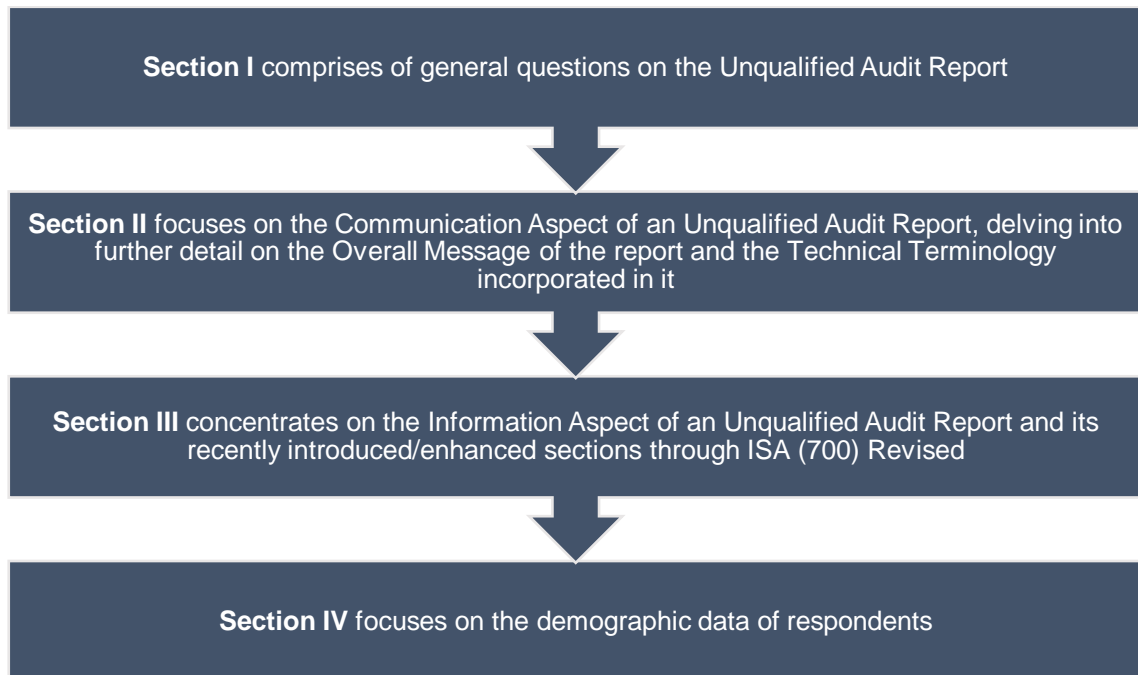


Figure 3.3: Questionnaire Structure

3.3.4 Response Rate and Demographics

To reach each participant group in an efficient manner, the questionnaire was disseminated via email. The participants were contacted through the generic email of their own firms (since the personal email of each participant was not available to the researcher), along with an introductory letter (vide Appendix 3.1), whilst requesting the possibility of the survey to be circulated with employees who fit the study's description.

An information sheet explaining the study and its purposes was sent to each firm receiving the survey's hyperlink. This was also presented as a front page for all surveys which were distributed as hard copies, assuring participants their anonymity will be safeguarded, hence encouraging their participation (vide Appendix 3.2). An overview of the responses attained from each group is depicted in Table 3.1. The respondents' demographic data can be located in Appendix 3.6.

	Target Population	Target Sample	Responses
External Auditors	1,317	298	83
Bank Lending Officers	327	327	67
Financial Advisers	358	186	69
Total	2,002	811	219

Table 3.1: Summary of Responses

A response of 219 participants was attained from a population of approximately 2,000 overall possible participants, guaranteeing a maximum **6.25%** margin of error, assuming a 95% confidence level (vide Appendix 3.7). Considering the associated time and cost constraints, and the likelihood that respondents from a non-accounting background could have found some of the more technical questions further challenging to answer, and opted against completing the questionnaire; a margin of error which falls between 4%-8% at the 95% confidence level, is satisfactory (Data Star, Inc., 2008).

3.3.5 Data Analysis

The electronic responses gathered were downloaded from *GoogleForms* and extracted to *MS Excel*. The handwritten responses collected were manually inputted into a separate excel sheet. The two excel sheets were combined to form one complete sheet, comprising of both handwritten and online responses. This was transferred to *IBM SPSS* as to initiate with data analysis, where the following non-parametric statistical tests were utilised (explained in Appendix 3.8):

- *Chi-Square Test* for testing the association between any two categorical variables.
- *Friedman Test* to elicit significant statistical differences amongst the mean scores of related likert-scale questions.
- *Kruskal-Wallis Test* for determining significant statistical differences amongst the mean scores of the three participant groups (Camilleri, 2001).

3.4 Qualitative Data Collection

3.4.1 Research Tool

A series of semi-structured interviews were performed with a selected sample of survey respondents, granting the researcher an opportunity to *'probe'* where interviewees are required to explain and build on their responses (Saunders, Lewis, and Thornhill, 2009). Consequently, the quantitative survey results were corroborated by deriving an in-depth insight of participants' perceptions, thoughts, and experiences regarding the subject under study (Gubrium *et al.*, 2012).

3.4.2 Interviewee Selection

To ensure proper representation, all three stakeholder groups participated in the interviews conducted. Before interviewees were selected, audit firms were further sub-divided into three categories, namely: Big Four (B4), Medium-Sized (MS) and Sole Practitioner (SP) to guarantee that interviewees represent the entire population of local audit firms.

Overall, 12 individuals participated in the study (see Appendix 3.4 for the interviewee selection process). Table 3.2 provides a summary of the interviewees chosen and their respective occupation. A code was given to each participant to protect their anonymity, which also allowed the researcher to identify each respondent's answers.

Participant Groups	Occupation	Participant Code
<u>Audit Firms</u>		
2 B4:	Associate Director	<i>EA1</i>
	Audit Manager	<i>EA2</i>
2 MS:	Partner	<i>EA3</i>
	Director	<i>EA4</i>
2 SP:	CEO	<i>EA5</i>
	Director	<i>EA6</i>
<u>3 Bank Lending Officers</u>	Senior Relationship Manager	<i>BLO1</i>
	Relationship Manager	<i>BLO2</i>
	Business Banking Relationship Manager	<i>BLO3</i>
<u>3 Financial Advisers</u>	Senior Research Analyst	<i>FA1</i>
	Analyst	<i>FA2</i>
	Manager – Research Unit	<i>FA3</i>
12 Interviewees in Total		

Table 3.2: Interviewee Selection

The interviewees were chosen randomly from the same population of participants used for the quantitative phase, following the guidance provided by Creswell and Clark (2011). At the outset of the study, these were all contacted via email through their separate firms' generic email address, with an enclosed information sheet (vide Appendix 3.9).

3.4.3 Data Collection and Analysis

Interviews were conducted between February and March 2019. All participants were sent a copy of the interview schedule beforehand (vide Appendix 3.10) and were required to sign a consent form (vide Appendix 3.11) prior to each interview's commencement. All interviews were recorded with the interviewees' consent. Data was transcribed after each interview and grouped in *MS Excel* according to the question, allowing the researcher to identify themes amongst interviewees' answers.

3.5 Achievement of Objectives

Figure 3.4 provides a detailed review of how the researcher intends to achieve the study's objectives, in line with the research approaches outlined. An illustration of the entire research process employed is presented in Figure 3.5.

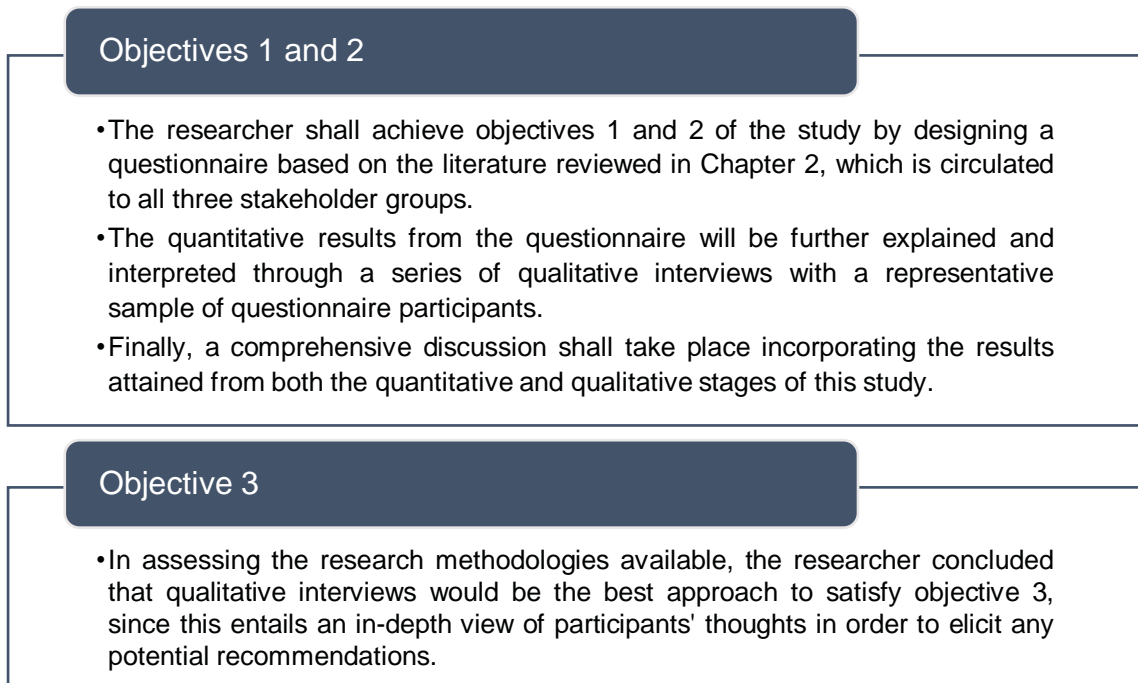


Figure 3.4: Objectives Achievement

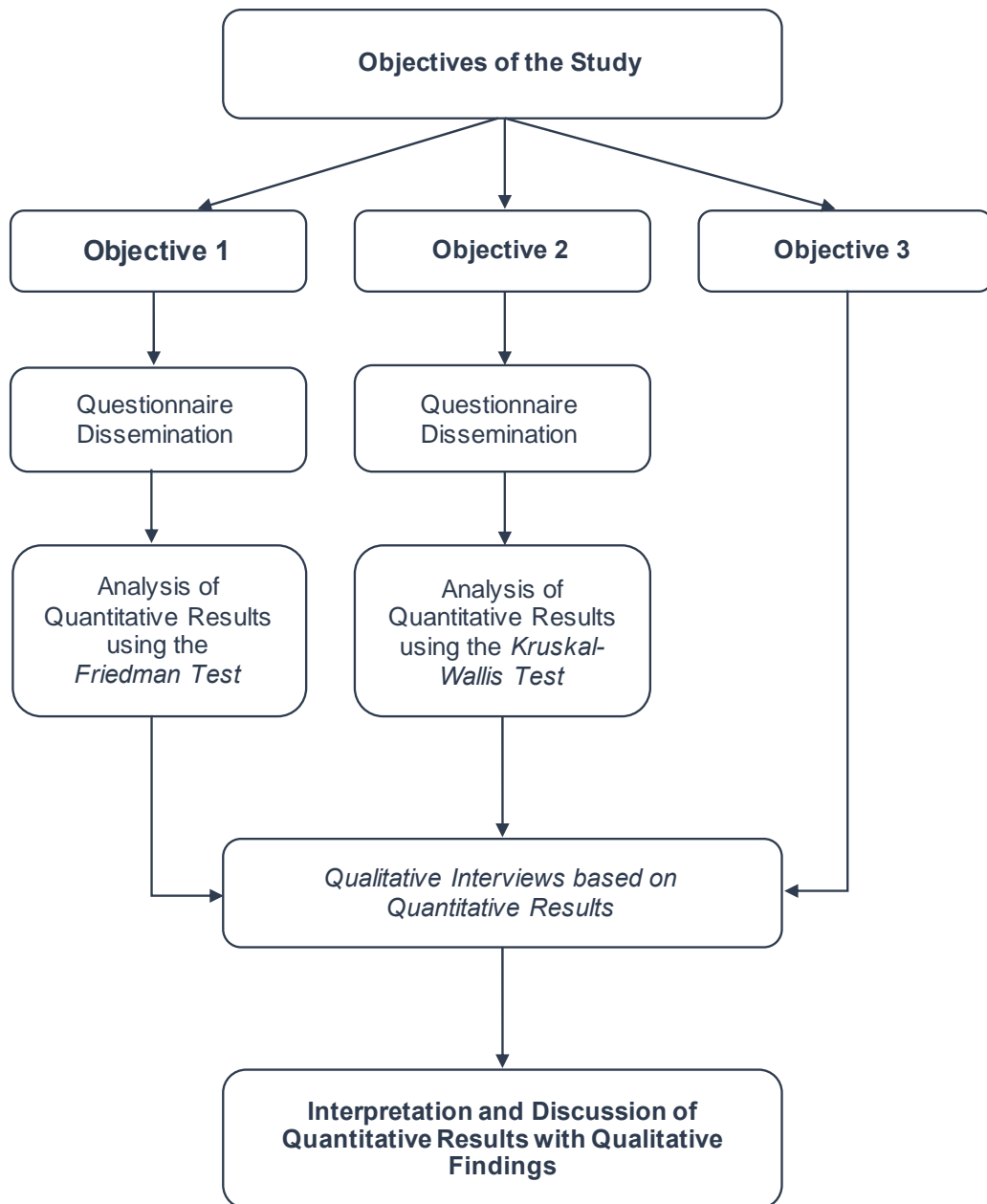


Figure 3.5: Research Process

3.6 Research Limitations

Considering the researcher did not have access to the personal emails of the target population, the survey may have been passed on and filled by individuals who did not necessarily fit the description of the study, possibly reducing the study's reliability. Since the initial number of online responses was low, hard copies had to be distributed, limiting the number of surveys which could be printed and circulated due to the time and cost constraints involved.

Although interviews provide in-depth insights about a participant's perceptions, there was a limit as to how many questions could be asked during interviews due to time restrictions, considering the professionals being interviewed maintain a busy schedule.

3.7 Conclusion

This chapter has provided an overview of the research methodology and tools selected, allowing the researcher to attain the main aims of this study. The next chapter presents the quantitative and qualitative findings.

Chapter 4

Research Findings

The chapter intends to provide an overview of the quantitative and qualitative results of the study. These will be presented as shown in Figure 4.1:

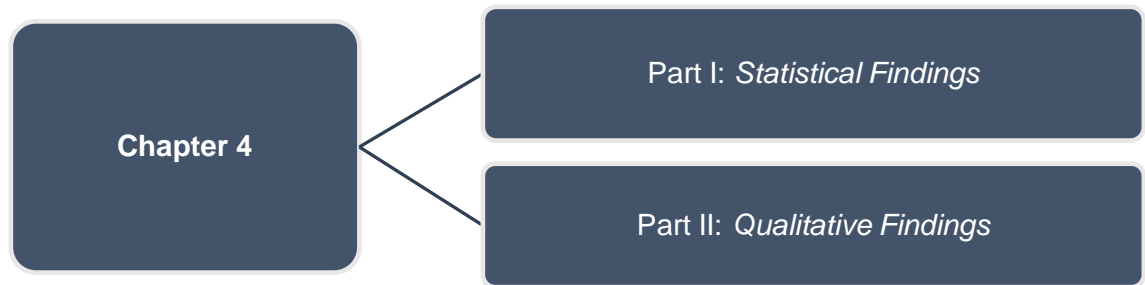


Figure 4.1: Findings Presentation

Part I

Statistical Findings

4.0 Introduction

This section outlines the findings emanating from the questionnaire conducted, aimed at meeting the first two objectives of this study. All questions were presented to auditors and users alike, to ascertain the divergences and/or similarities in perceptions which exist amongst the groups.

First, the results in Section 4.1 are presented using the *Chi-Square* test. The results spanning from Section 4.2-4.4 are presented using a series of *Friedman* tests and *Kruskal-Wallis* tests, aimed at achieving objectives 1 and 2, respectively. A post-hoc comparison of the *Kruskal-Wallis* tests was carried out to analyse the statistically significant results in greater detail, summarised in Appendix 4.1. Section 4.5 concludes this part of the chapter.

4.1 Unqualified Audit Report Reading

The Chi-Square Test shown in Table 4.1 sought to determine whether the respondents' role is related to the extent of UAR reading participants undertake, hence ascertaining whether a strong association exists between these two categorical variables.

Table 4.1: Role of Respondents vs. Percentage of an UAR Read ⁵						
Question 1: <i>Chi-Square</i> Test		Role			Total	
		External Auditor	Bank Lending Officer	Financial Adviser		
Percentage of an Unqualified Audit Report Read by Sophisticated Users	0%	Count	1	2	17	20
		% within Role	1.2%	3.0%	24.6%	9.1%
	25%	Count	22	5	8	35
		% within Role	26.5%	7.5%	11.6%	16.0%
	50%	Count	35	24	22	81
		% within Role	42.2%	35.8%	31.9%	37.0%
	75%	Count	17	27	16	60
		% within Role	20.5%	40.3%	23.2%	27.4%
	100%	Count	8	9	6	23
		% within Role	9.6%	13.4%	8.7%	10.5%
Total	Count	83	67	69	219	
	% within Role	100.0%	100.0%	100.0%	100.0%	

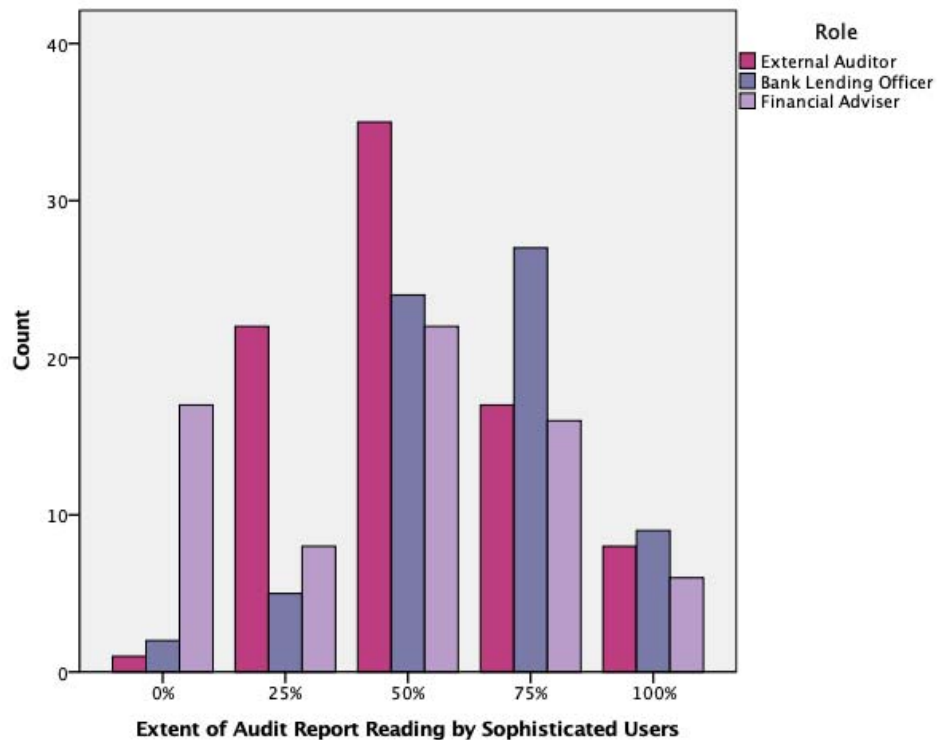
$$X^2(8) = 44.17, p < 0.001$$

Figure 4.2 shows how auditors commonly believe^(69.9%) users approximately read half of the report, and higher reading levels are more infrequent. Financial advisers corresponded to auditors' views, with an intriguingly large number^(24.6%) choosing not to read it at all. Conversely, the graph depicts lenders' higher interest in delving into the UAR, with most preferring to refer to at least half or

⁵ Sophisticated Users were asked on the percentage of an UAR they read. Auditors were asked on the level of an UAR which they believed Sophisticated Users read.

more (89.5%); demonstrating discrepancies amongst users' UAR reading tendencies.

Figure 4.2: Association between Role and Participants' Reading Tendencies/Perceptions



Since the p-value is less than the 0.05 level of significance⁶, we deduce that the reading preferences/perceptions differ significantly amongst the participant groups. Furthermore, this relationship is considered as significant and not attributable to chance, which can be generalised.

⁶'Statistical Significance' is a mathematical tool used to determine whether the outcome of an experiment is the result of a relationship between specific factors or merely the result of chance (Gunsch J., 2019, par.1).

When the p-value is less than 0.05 level of significance, a statistically significant result is deemed to exist. Conversely, when the p-value exceeds the 0.05 criterion, the result is not statistically significant.

4.2 Distinct Sections of an Unqualified Audit Report

This question⁷ presented participants with a list of sections found in an UAR, intended to gauge and compare the groups' perceived importance.

Table 4.2: Mean Rating Scores – Importance Assigned to Sections in the UAR ⁸		
Question 2: Friedman Test	Mean	Std. Dev.
2.1 Auditor's Unqualified Opinion	4.02	1.109
2.2 Basis for Opinion (Paragraph on the Auditor's Fulfilment of the Relevant Ethical Responsibilities)	3.47	1.106
2.3 Key Audit Matters	3.67	0.978
2.4 Responsibilities of Management and Those Charged with Governance	3.07	1.135
2.5 Auditor's Responsibilities for the Audit of the Financial Statements	3.05	1.182
2.6 Reporting on Other Legal and Regulatory Requirements	3.00	1.113
2.7 Audit Firm performing the Audit	3.70	1.040

$$\chi^2(7) = 235.07, p < 0.001$$

Table 4.2 depicts how the 'Auditor's Unqualified Opinion' ranked highest amongst participants (4.02)⁹; this is understandable considering how the opinion is the key area of interest in the report being issued. This is followed by sections 2.7 (3.70) and 2.3 (3.67). Since the p-value is less than the 0.05 criterion, and the Error Bar

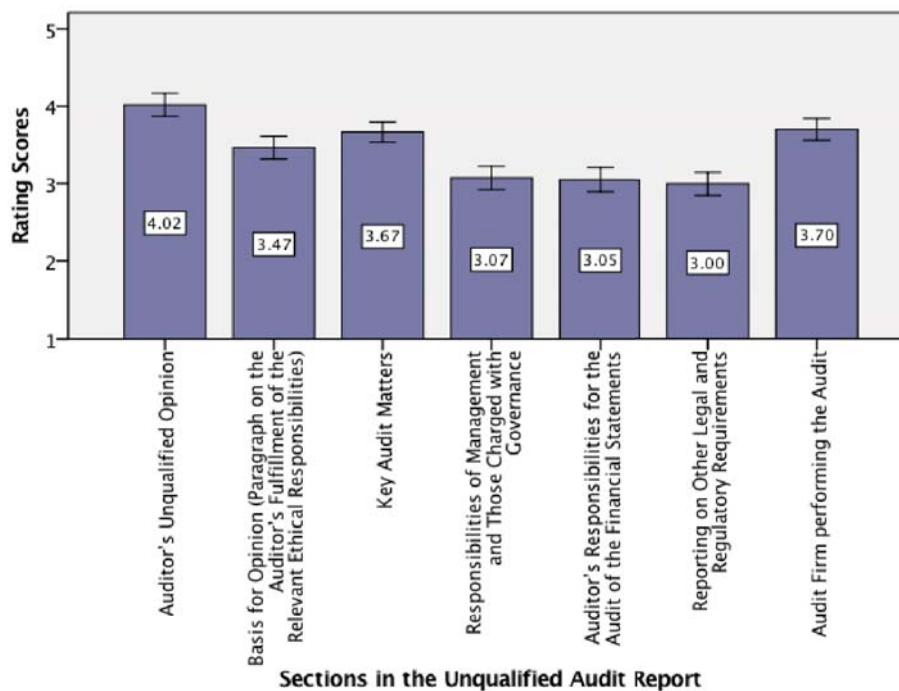
⁷ Sophisticated users were enquired on the perceived importance of these sections. Auditors were asked about the importance they believed sophisticated users assigned to such sections.

⁸ Response Scale provided to participants for this question: 1–unimportant; 2–somewhat important; 3–quite important; 4–very important; and 5–extremely important.

⁹ A mean rating score below 3.0 suggests disagreement with the provided statement. Conversely, a score exceeding 3.0, indicates agreement.

Graph¹⁰ in Figure 4.3 shows that these three sections' confidence intervals are disjoint from the remaining, implies that their mean scores are deemed to vary significantly.

Figure 4.3: Mean Rating Scores – *Importance Assigned* to Sections in the UAR



The *Kruskal-Wallis* test revealed considerable discrepancies between the three participating groups regarding the UAR's sections. The comparison of mean values in Table 4.3 demonstrates how the perceived importance assigned to sections 2.1-2.2, 2.4-2.5 and 2.7, varied significantly amongst participants, since

¹⁰ The *Error Bar Graph* provides the 95% confidence interval of the actual mean scores if the sample size had to be increased considerably (infinitely). If the confidence intervals (error bars) are disjoint or overlap slightly, there is a significant difference between the mean rating scores. Conversely, if the error bars overlap considerably these demonstrate that the mean rating scores for the different groups of participants are comparable, hence there is no significant difference amongst responses (Confidence Intervals: How they work, n.d.).

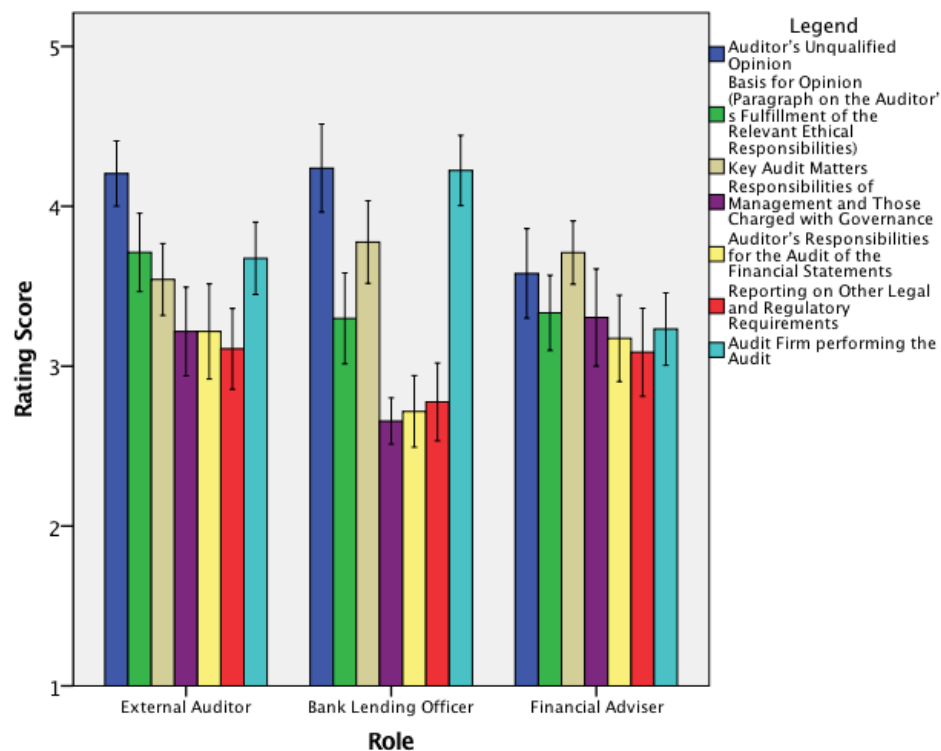
the p -value _{$p < 0.05$} did not exceed the 0.05 criterion. In the remaining sections, the mean rating scores varied only marginally, since the test yielded a p -value which surpassed 0.05.

Table 4.3: Mean Rating Scores Clustered by Role – Importance Assigned to Sections in the UAR				
Question 2: Kruskal-Wallis Test		Mean	Std. Dev.	p-value
2.1 Auditor's Unqualified Opinion	External Auditor	4.20	0.934	0.000
	Bank Lending Officer	4.24	1.129	
	Financial Adviser	3.58	1.168	
2.2 Basis for Opinion (Paragraph on the Auditor's Fulfilment of the Relevant Ethical Responsibilities)	External Auditor	3.71	1.121	0.036
	Bank Lending Officer	3.30	1.168	
	Financial Adviser	3.33	0.980	
2.3 Key Audit Matters	External Auditor	3.54	1.028	0.310
	Bank Lending Officer	3.78	1.056	
	Financial Adviser	3.71	0.824	
2.4 Responsibilities of Management and Those Charged with Governance	External Auditor	3.22	1.269	0.000
	Bank Lending Officer	2.66	0.592	
	Financial Adviser	3.30	1.264	
2.5 Auditor's Responsibilities for the Audit of the Financial Statements	External Auditor	3.22	1.362	0.020
	Bank Lending Officer	2.72	0.918	
	Financial Adviser	3.17	1.124	
2.6 Reporting on Other Legal and Regulatory Requirements	External Auditor	3.11	1.158	0.066
	Bank Lending Officer	2.78	0.997	
	Financial Adviser	3.09	1.147	
2.7 Audit Firm performing the Audit	External Auditor	3.67	1.037	0.000
	Bank Lending Officer	4.22	0.902	
	Financial Adviser	3.23	0.942	

Figure 4.4 illustrates how for 'Auditor's Unqualified Opinion', financial advisers' confidence interval is disjoint from those of auditors and lenders, indicating that financial advisers assigned a significantly lower importance to this section. Lenders assigned a significantly lower importance level to the area outlining

'Management and Auditor Responsibilities' than auditors and financial advisers, suggesting reduced added-value being derived from these sections.

Figure 4.4: Mean Rating Scores Clustered by Role – *Importance Assigned to Sections in the UAR*



Alternatively, auditors assigned higher importance to the 'Basis for Opinion' than the other user groups, illustrating that auditors are overestimating the importance this section holds to users. Regarding the importance assigned to the disclosure of the 'Audit Firm Performing the Audit', a significant difference was identified across all groups; lenders' mean value being the highest (4.22), demonstrating higher importance being assigned to audit firm information by this group.

4.3 The Communication Aspect

4.3.1 Communication of the Key Message

Table 4.4 shows the results of the eight statements pertaining to the UAR's communication effectiveness¹¹. Participants assigned the highest mean rating score (4.16) to the imperative role the UAR plays in aiding the investment/lending decisions being taken, followed by the importance of verifying the UAR's opinion (4.05).

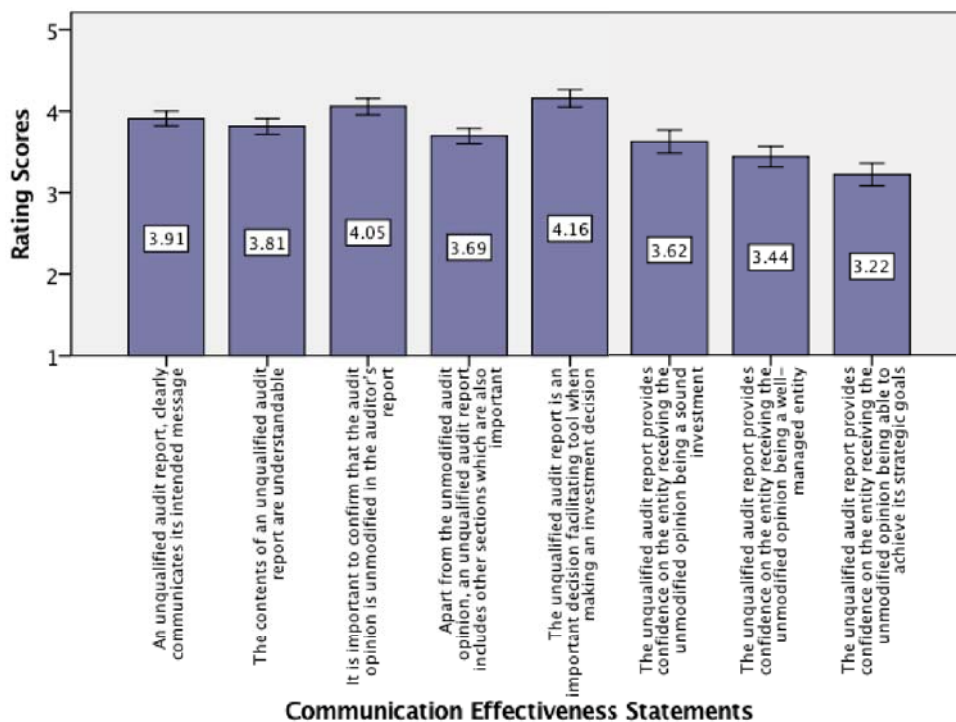
Table 4.4: Mean Rating Scores – Statements related to the UAR's <i>Communication Aspect</i>		
Question 3: <i>Friedman Test</i>	Mean	Std. Dev.
3.1 An unqualified audit report, clearly communicates its intended message	3.91	0.678
3.2 The contents of an unqualified audit report are understandable	3.81	0.727
3.3 It is important to confirm that the audit opinion is unmodified in the auditor's report	4.05	0.746
3.4 Apart from the unmodified audit opinion, an unqualified audit report includes other sections which are also important	3.69	0.705
3.5 The unqualified audit report is an important decision facilitating tool for sophisticated users when carrying out an investment/lending decision	4.16	0.809
3.6 The unqualified audit report provides confidence on the entity receiving the unmodified opinion being a sound investment	3.62	1.066
3.7 The unqualified audit report provides confidence on the entity receiving the unmodified opinion being a well-managed entity	3.44	0.962
3.8 The unqualified audit report provides confidence on the entity receiving the unmodified opinion being able to achieve its strategic goals	3.22	1.057

$$X^2(7) = 252.180, p < 0.001$$

¹¹ Response Scale provided to participants for this question and the rest of the questions: 1–strongly disagree; 2–disagree; 3–neither agree nor disagree; 4–agree; and 5–strongly agree.

Apart from a p-value which is less than the 0.05 criterion, Figure 4.5 illustrates how the confidence interval of statement 3.5 is disjoint from all remaining statements except for 3.3, indicating that statement 3.5 is scoring significantly higher than the remaining statements, with the sole exception of 3.3. This shows that although participants consider the UAR as significant in supporting financial decisions, it is important for them to verify that the opinion is unmodified.

Figure 4.5: Mean Rating Scores – Statements related to the UAR’s *Communication Aspect*



The *Kruskal-Wallis* results in Table 4.5 show how auditors essentially agreed that:

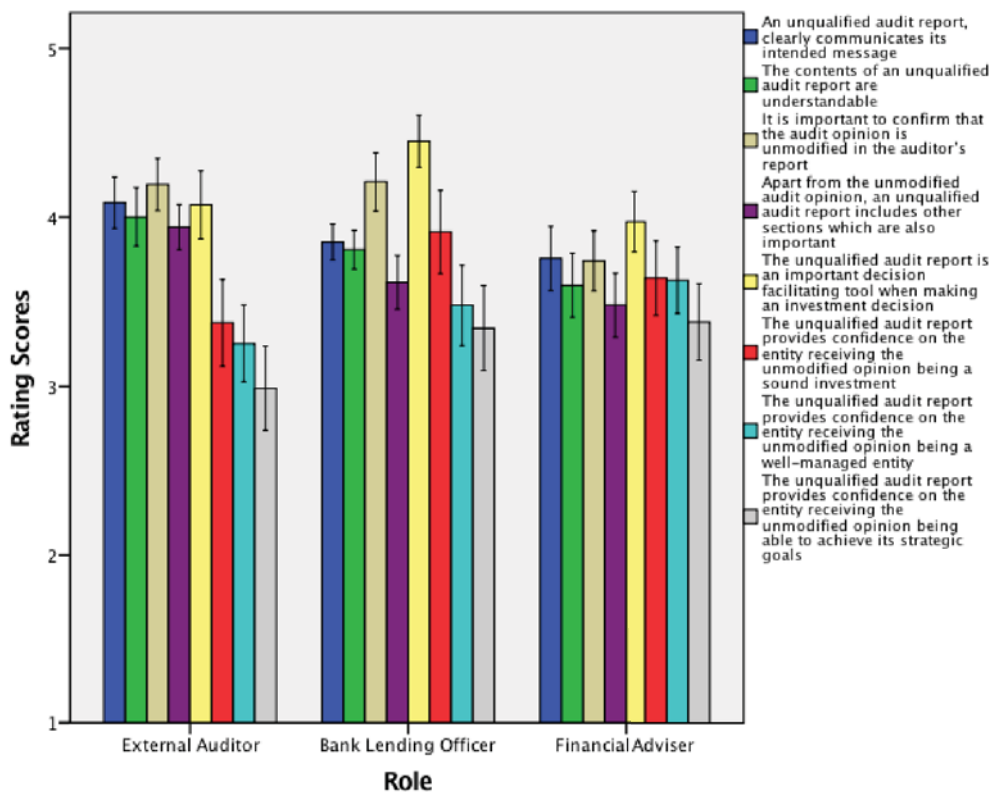
- the UAR communicates a clear message;
- the UAR’s contents are understandable; and
- sections other than the opinion also hold a degree of importance to users.

Sophisticated users agreed significantly less with all these statements; this is not entirely surprising considering how they are on the receiving end of the report, and their perceptions are expected to differ from those of auditors.

Table 4.5: Mean Rating Scores Clustered by Role – Statements related to the UAR's Communication Aspect				
Question 3: Kruskal-Wallis Test		Mean	Std. Dev.	p-value
3.1 An unqualified audit report, clearly communicates its intended message	External Auditor	4.08	0.702	0.002
	Bank Lending Officer	3.85	0.435	
	Financial Adviser	3.75	0.793	
3.2 The contents of an unqualified audit report are understandable	External Auditor	4.00	0.796	0.000
	Bank Lending Officer	3.81	0.468	
	Financial Adviser	3.59	0.792	
3.3 It is important to confirm that the audit opinion is unmodified in the auditor's report	External Auditor	4.19	0.706	0.000
	Bank Lending Officer	4.21	0.708	
	Financial Adviser	3.74	0.741	
3.4 Apart from the unmodified audit opinion, an unqualified audit report includes other sections which are also important	External Auditor	3.94	0.612	0.000
	Bank Lending Officer	3.61	0.650	
	Financial Adviser	3.48	0.779	
3.5 The unqualified audit report is an important decision facilitating tool when making an investment/lending decision	External Auditor	4.07	0.921	0.001
	Bank Lending Officer	4.45	0.634	
	Financial Adviser	3.97	0.747	
3.6 The unqualified audit report provides confidence on the entity receiving the unmodified opinion being a sound investment	External Auditor	3.37	1.166	0.009
	Bank Lending Officer	3.91	1.011	
	Financial Adviser	3.64	0.923	
3.7 The unqualified audit report provides confidence on the entity receiving the unmodified opinion being a well-managed entity	External Auditor	3.25	1.034	0.129
	Bank Lending Officer	3.48	0.975	
	Financial Adviser	3.62	0.824	
3.8 The unqualified audit report provides confidence on the entity receiving the unmodified opinion being able to achieve its strategic goals	External Auditor	2.99	1.142	0.076
	Bank Lending Officer	3.34	1.023	
	Financial Adviser	3.38	0.941	

Figure 4.6 illustrates how although financial advisers and auditors agreed with the importance of an UAR in supporting decision-making, lenders expressed greater concurrence with this statement. In comparison to their counterparts, financial advisers proved more sceptical regarding the importance of confirming the UAR’s opinion. Lenders and auditors shared different views on the perceived comfort which the UAR conveys for the investment decision to invest in the company’s shares, with lenders expressing greater agreement with the statement.

Figure 4.6: Mean Rating Scores Clustered by Role – Statements related to the UAR’s *Communication Aspect*



4.3.2 Communication of Technical Terminology

This section intended to test and compare stakeholders' perceptions pertaining to the technical jargon incorporated in the report.

4.3.2.1 Understanding the Jargon

This question assessed whether four key terms included in an UAR are perceived as difficult to understand by users¹². Table 4.6 shows that 'Fairly Present' scored the highest (2.99) in terms of difficulty in comprehension with participants, whereas 'True and Fair View' scored the least (2.74). However, both mean scores were not substantially different from neutrality (3.0), suggesting that respondents overall tended to disagree more than agree with the question presented.

Table 4.6: Mean Rating Scores – Sophisticated Users' Difficulty Encountered in Understanding Complex Terminology		
Question 4: Friedman Test	Mean	Std. Dev.
4.1 Reasonable Assurance	2.83	1.131
4.2 Material Misstatement	2.87	1.095
4.3 Fairly Present	2.99	1.094
4.4 True and Fair View	2.74	1.274

$\chi^2(3) = 18.224, p < 0.001$

¹² Sophisticated users were asked to rate their difficulty regarding four technical terms in the report, whereas auditors were asked to rate the perceived level of difficulty encountered by users.

Since the p-value is less than the 0.05 criterion, and the error bars of both terms in Figure 4.7 only overlap slightly, we deduce that users' difficulty varies significantly, when either faced with the term 'True and Fair View' or 'Fairly Present'.

Figure 4.7: Mean Rating Scores – Sophisticated Users' *Difficulty Encountered* in Understanding Complex Terminology

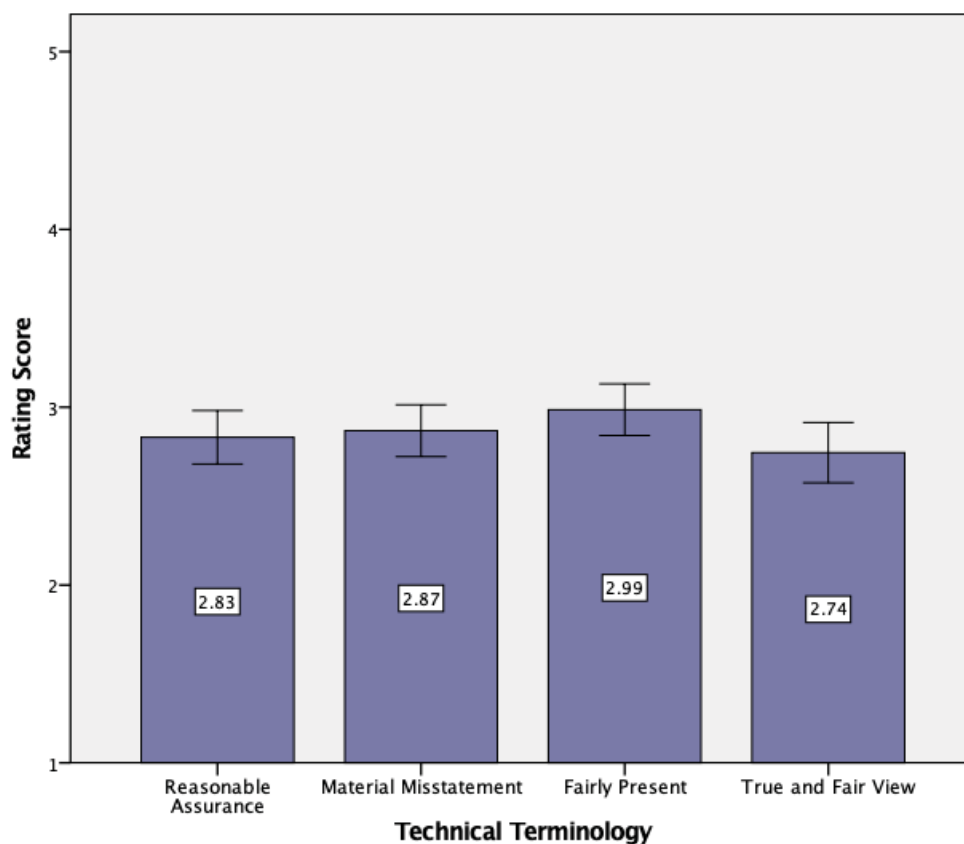


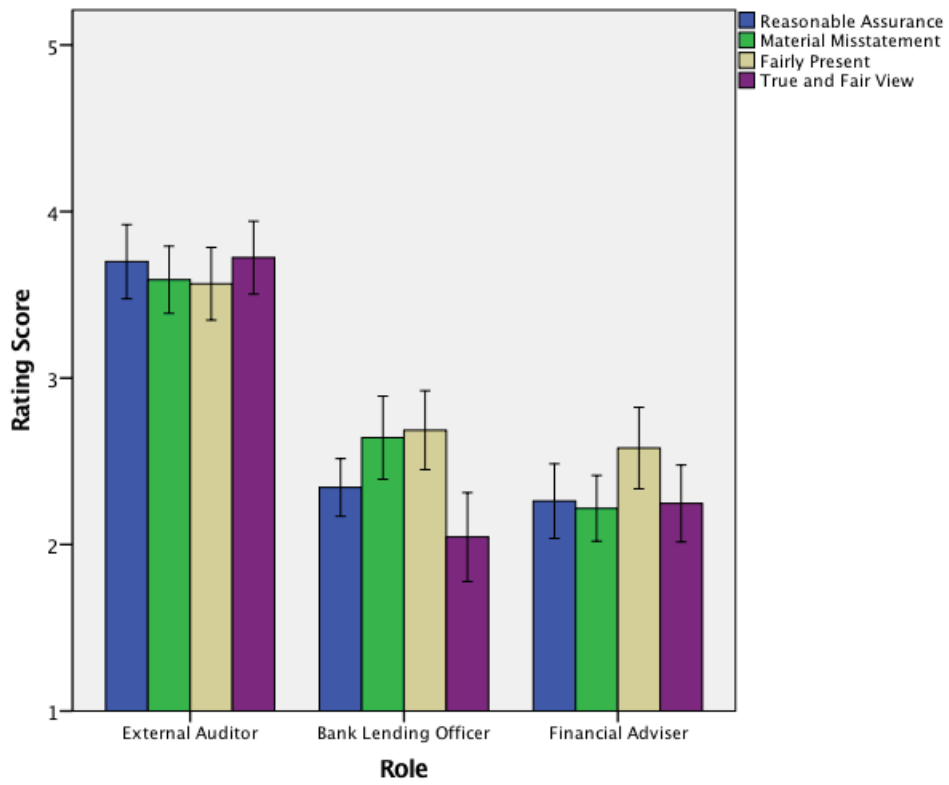
Table 4.7 shows considerable differences between participants' perceptions, since no p-value exceeded 0.05. For all four terms, auditors are assigning higher perceived difficulty than what users have assigned; suggesting that auditors underestimate their counterparts' ability to understand these terms.

Table 4.7: Comparison of Mean Rating Scores – Sophisticated Users' *Difficulty Encountered* in Understanding Complex Terminology

Question 4: <i>Kruskal-Wallis</i> Test		Mean	Std. Dev.	p-value
4.1 Reasonable Assurance	External Auditor	3.70	1.021	0.000
	Bank Lending Officer	2.34	0.708	
	Financial Adviser	2.26	0.934	
4.2 Material Misstatement	External Auditor	3.59	0.924	0.000
	Bank Lending Officer	2.64	1.025	
	Financial Adviser	2.22	0.820	
4.3 Fairly Present	External Auditor	3.57	1.002	0.000
	Bank Lending Officer	2.69	0.972	
	Financial Adviser	2.58	1.020	
4.4 True and Fair View	External Auditor	3.72	1.004	0.000
	Bank Lending Officer	2.04	1.093	
	Financial Adviser	2.25	0.961	

For 'Material Misstatement', a significant difference was identified across all three groups; financial advisers' mean score was the lowest, as illustrated in Figure 4.8. This suggests that financial advisers have a better understanding of this term when compared to lenders.

Figure 4.8: Mean Rating Scores Clustered by Role – Sophisticated Users' *Difficulty Encountered* in Understanding Complex Terminology



4.3.2.2 Explanation of Terms

Table 4.8 demonstrates participants' views on whether the UAR currently provides a thorough explanation for the four technical terms presented. Although the p-value did not exceed 0.05, the confidence intervals displayed in Figure 4.9 overlap considerably, indicating that participants believe that the UAR currently provides similar explanations for all four terms; no term is particularly better explained than the other.

Table 4.8: Mean Rating Scores – Perceived <i>Clear Explanation</i> of Complex Terms in the UAR		
Question 5: <i>Friedman</i> Test	Mean	Std. Dev.
5.1 Reasonable Assurance	3.35	0.882
5.2 Material Misstatement	3.32	0.938
5.3 Fairly Present	3.24	0.939
5.4 True and Fair View	3.32	0.962

$\chi^2(3) = 8.716, p = 0.03$

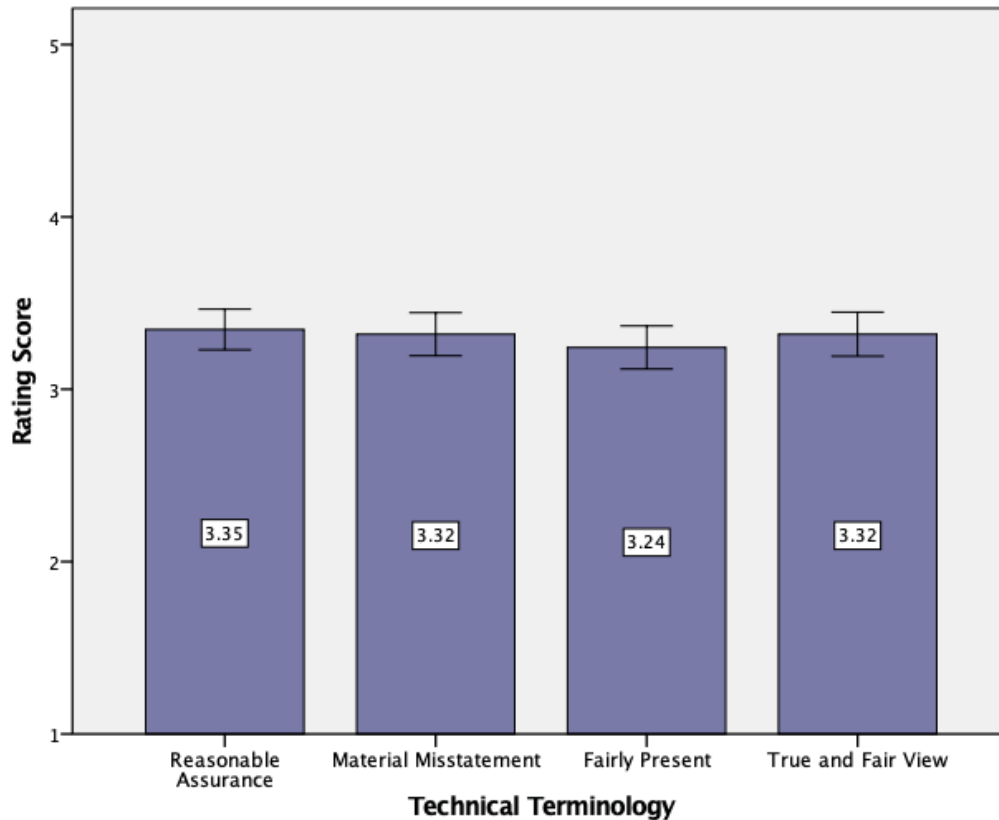
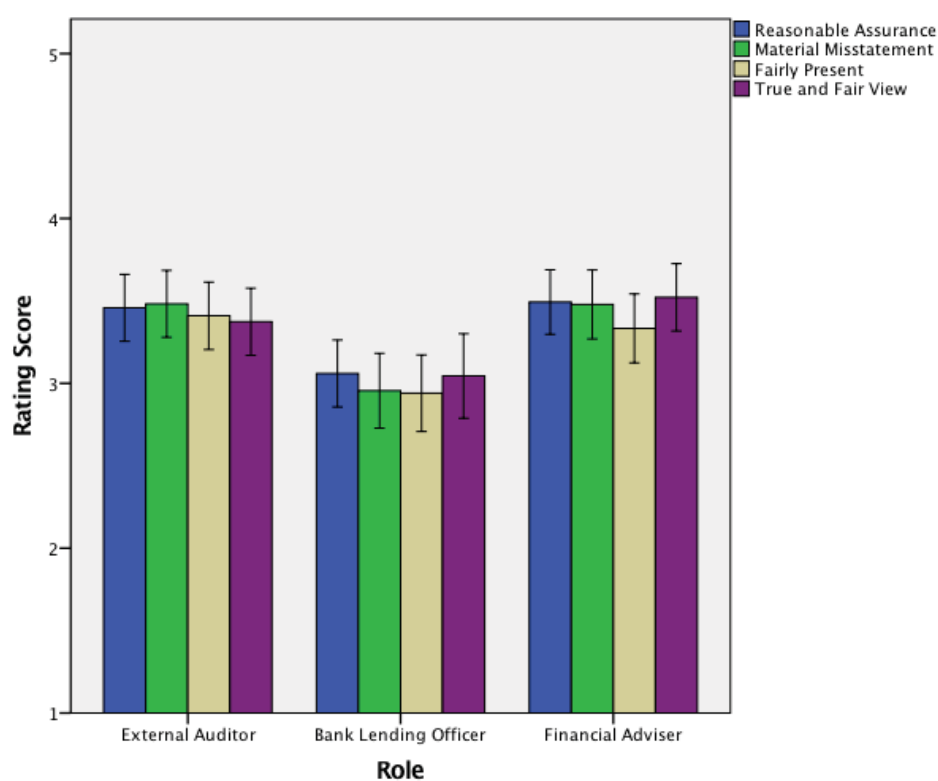
Figure 4.9: Mean Rating Scores – Perceived *Clear Explanation* of Complex Terms in the UAR

Table 4.9 demonstrates statistically significant results for all four terms amongst the participating groups, since no p-value exceeded 0.05. For terms 5.1-5.2 the prevalent differences are between lenders and the two remaining groups. For term 5.3, lenders held different views from those of auditors', whereas, for term 5.4, lenders' perceptions differed considerably from financial advisers' views, as illustrated through the respective disjoint error bars in Figure 4.10.

No statistically significant results were identified amongst auditors and financial advisers, suggesting that lenders are rather unconvinced on the clear explanation currently provided by the UAR for certain terms.

Table 4.9: Comparison of Mean Rating Scores – Perceived *Clear Explanation* of Complex Terms in the UAR

Question 5: <i>Kruskal-Wallis</i> Test		Mean	Std. Dev.	p-value
5.1 Reasonable Assurance	External Auditor	3.46	0.928	0.006
	Bank Lending Officer	3.06	0.833	
	Financial Adviser	3.49	0.816	
5.2 Material Misstatement	External Auditor	3.48	0.929	0.003
	Bank Lending Officer	2.96	0.928	
	Financial Adviser	3.48	0.868	
5.3 Fairly Present	External Auditor	3.41	0.938	0.015
	Bank Lending Officer	2.94	0.952	
	Financial Adviser	3.33	0.869	
5.4 True and Fair View	External Auditor	3.37	0.933	0.046
	Bank Lending Officer	3.04	1.051	
	Financial Adviser	3.52	0.851	

Figure 4.10: Mean Rating Scores Clustered by Role – Perceived *Clear Explanation* of Complex Terms in the UAR

4.3.2.3 Clarification Required

This question assessed whether additional clarification is required by participants for the technical jargon incorporated in the UAR. Table 4.10 demonstrates how ‘Material Misstatement’ (3.63) was chosen as the term which requires most clarification, whereas ‘Reasonable Assurance’ (3.49) was identified as needing the least.

Table 4.10: Mean Rating Scores – Further Clarification Required for Complex Terms found in the UAR		
Question 6: Friedman Test	Mean	Std. Dev.
6.1 Reasonable Assurance	3.32	0.958
6.2 Material Misstatement	3.63	1.043
6.3 Fairly Present	3.49	0.935
6.4 True and Fair View	3.41	0.916

$\chi^2(3) = 41.54, p < 0.001$

Since the p-value is less than the 0.05 criterion and Figure 4.11 shows that the confidence intervals for ‘Material Misstatement’ and ‘Reasonable Assurance’ are disjoint, we deduce that the clarification required by participants varies significantly between these two terms.

Figure 4.11: Mean Rating Scores – *Further Clarification* Required for Complex Terms found in the UAR

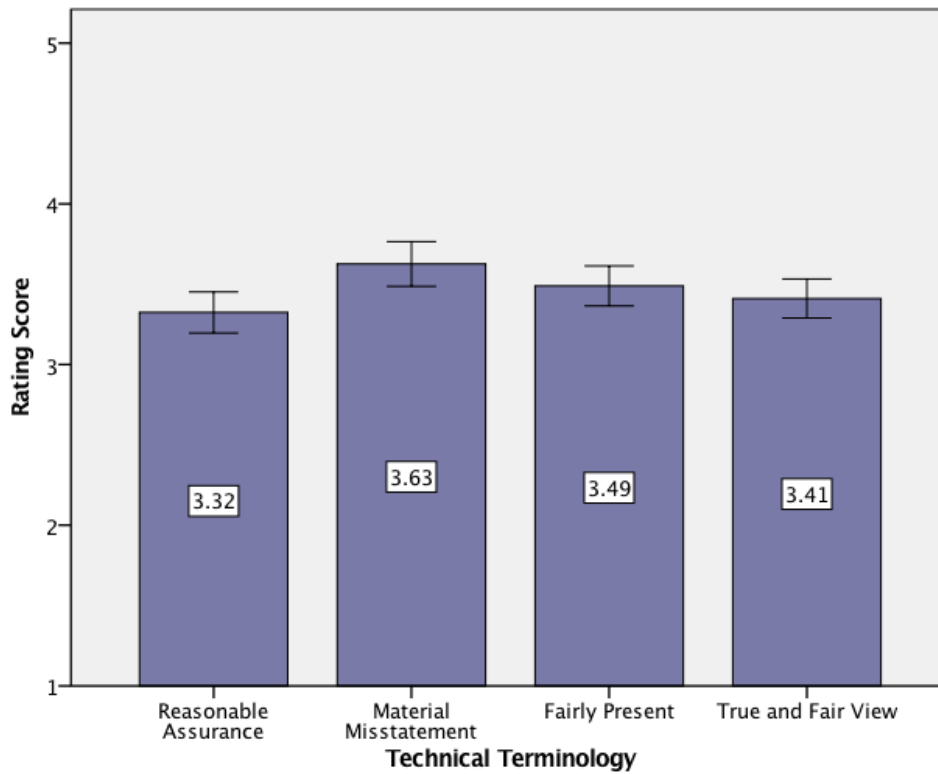
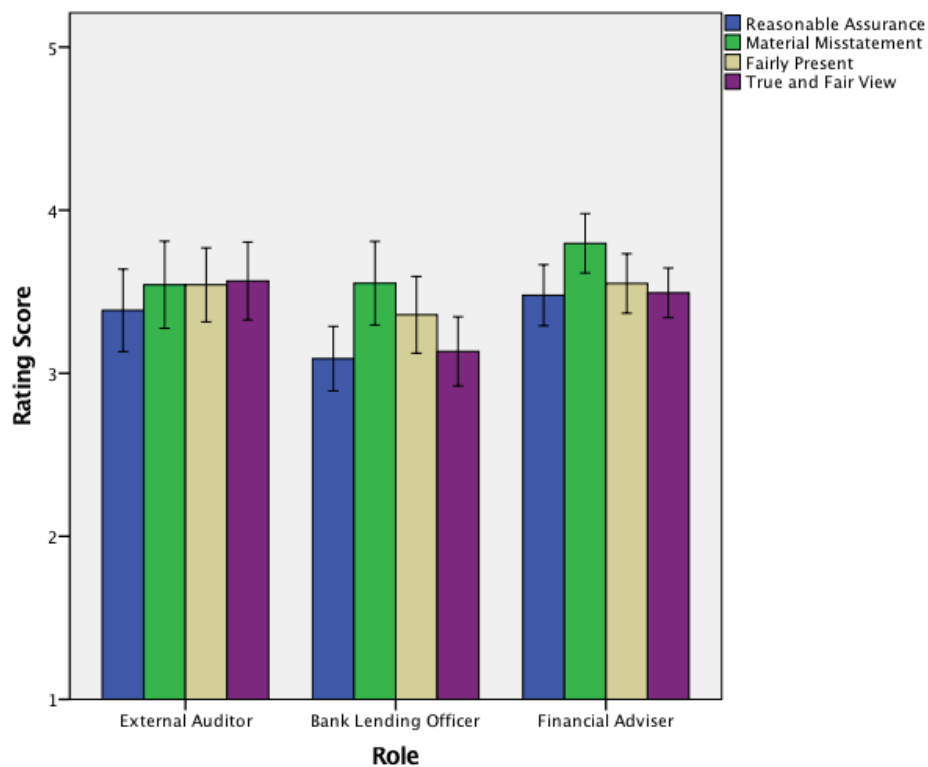


Table 4.11 demonstrates how lenders disagreed with auditors and financial advisers regarding how terms 6.1 and 6.4 need to be more clarified in the UAR. For terms 6.2-6.3, all participants shared similar views on the clarification required, as illustrated in Figure 4.12 through the significantly overlapping error bars.

Table 4.11: Comparison of Mean Rating Scores – Further Clarification Required for Complex Terms found in the UAR				
Question 6: Kruskal-Wallis Test		Mean	Std. Dev.	p-value
6.1 Reasonable Assurance	External Auditor	3.39	1.156	0.021
	Bank Lending Officer	3.09	0.811	
	Financial Adviser	3.48	0.779	
6.2 Material Misstatement	External Auditor	3.54	1.223	0.545
	Bank Lending Officer	3.55	1.049	
	Financial Adviser	3.80	0.759	
6.3 Fairly Present	External Auditor	3.54	1.039	0.446
	Bank Lending Officer	3.36	0.965	
	Financial Adviser	3.55	0.758	
6.4 True and Fair View	External Auditor	3.57	1.095	0.004
	Bank Lending Officer	3.13	0.869	
	Financial Adviser	3.49	0.633	

Figure 4.12: Mean Rating Scores Clustered by Role – Further Clarification Required for Complex Terms found in the UAR



4.4 The Information Aspect

4.4.1 Sufficiency and Value of Recently Introduced/Enhanced Areas

Table 4.12 illustrates the results of twelve statements presented to participants regarding the recently enhanced areas of the UAR. According to the results, participants mainly agreed that the following enhancements are *value-adding*:

1. The Description of KAMs;
2. The Affirmative Statement on Auditor Independence; and
3. Engagement Partner Name Disclosure.

Conversely, participants were less agreeable with:

1. The Information provided on the Partner Responsible for the Engagement being *sufficient*; and
2. The Statement Affirming the Auditor’s Ethical Considerations being *value-adding*.

Table 4.12: Mean Rating Scores – Perceived <i>Sufficiency and/or Value</i> of Recently Introduced/Enhanced Sections in the UAR		
Questions 7 to 11: <i>Friedman</i> Test	Mean	Std. Dev.
7.1 The current Unqualified Audit Report provides lending officers and financial advisers with sufficient information to make informed decisions	3.43	0.913
7.2 The recently revised Unqualified Audit Report has incorporated value-adding information as to aid users in decision-making	3.42	0.845
8.1 The current Unqualified Audit Report contains sufficient information on the most significant matters addressed during the audit	3.47	0.797

8.2 "The description of key audit matters considered to be the most significant in an audit' is value-adding to the unqualified audit report	3.71	0.700
8.3 "Information on how the matter was addressed by the auditor during the audit" is value-adding to the unqualified audit report	3.52	0.762
9.1 The current Unqualified Audit Report contains sufficient information on the responsibilities of the auditor and the key features of an audit	3.55	0.791
9.2 "The enhanced description of the responsibilities of the auditor and key features of an audit" is value-adding to the unqualified audit report	3.45	0.830
10.1 The current Unqualified Audit Report provides sufficient information on the auditor's fulfilment of relevant ethical responsibilities	3.50	0.719
10.2 "An affirmative statement about the auditor's fulfilment of relevant ethical responsibilities" is value-adding to the unqualified audit report	3.34	0.832
10.3 "An affirmative statement about the auditor's independence" is value-adding to the unqualified audit report	3.61	0.754
11.1 The current Unqualified Audit Report provides sufficient information on the partner responsible for the audit engagement	3.24	0.899
11.2 "The disclosure of the name of the partner responsible for the audit engagement" is value-adding to the unqualified audit report	3.58	0.850

$$\chi^2(11) = 63.96, p < 0.001$$

Since the p-value is less than the 0.05 criterion, we deduce that the mean values for the twelve statements vary considerably. This is confirmed in Figure 4.13 which shows various disjoint confidence intervals, illustrating significant variation amongst the statements' mean scores. This is evidence of respondents' distinct perceptions regarding the value and sufficiency of certain introduced sections. Conversely, where the confidence intervals overlap, participants share similar views on the enhanced areas.

Figure 4.13: Mean Rating Scores – Perceived Sufficiency and/or Value of Recently Introduced/Enhanced Sections in the UAR

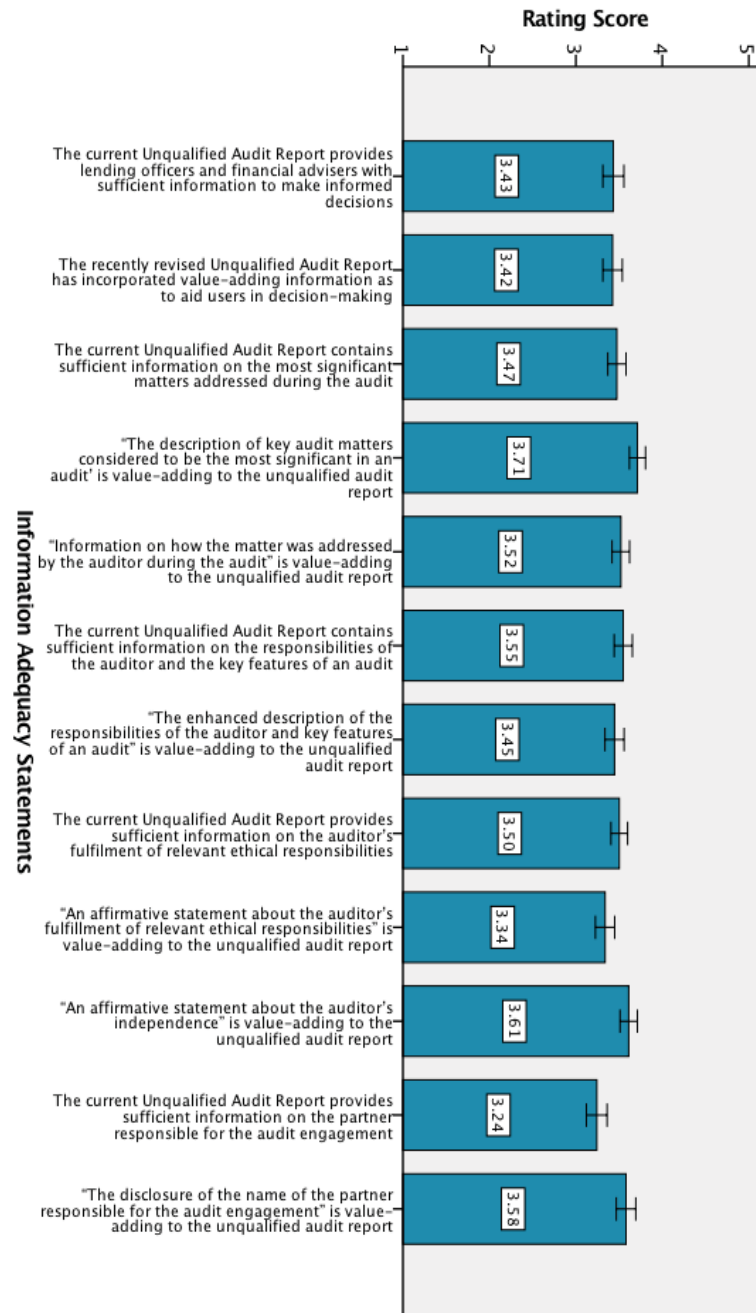


Table 4.13: Comparison of Mean Rating Scores – Perceived <i>Sufficiency and/or Value</i> of the Recently Revised UAR				
Question 7: <i>Kruskal-Wallis</i> Test		Mean	Std. Dev.	p-value
7.1 The current Unqualified Audit Report provides lending officers and financial advisers with <i>sufficient</i> information to make informed decisions	External Auditor	3.42	1.001	0.421
	Bank Lending Officer	3.34	0.897	
	Financial Adviser	3.54	0.815	
7.2 The recently revised Unqualified Audit Report has incorporated <i>value-adding</i> information as to aid users in decision-making	External Auditor	3.60	0.826	0.000
	Bank Lending Officer	2.96	0.860	
	Financial Adviser	3.67	0.657	

Tables 4.13-4.14 illustrate how lenders did not believe the UAR introduced information which was highly value-adding during its reform. One particular area which lenders considered to convey little value to them, is the section where auditors discuss how they addressed the identified KAMs during their audit. Although participants shared similar views on KAMs' value, lenders considered this section to convey an inadequate amount of information, in comparison to their counterparts.

Table 4.14: Comparison of Mean Rating Scores – Perceived <i>Sufficiency and/or Value</i> of the Recently Introduced 'KAMs'				
Question 8: <i>Kruskal-Wallis</i> Test		Mean	Std. Dev.	p-value
8.1 The current Unqualified Audit Report contains <i>sufficient</i> information on the most significant matters addressed during the audit	External Auditor	3.48	0.817	0.010
	Bank Lending Officer	3.30	0.871	
	Financial Adviser	3.64	0.664	
8.2 "The description of key audit matters considered to be the most significant in an audit" is <i>value-adding</i> to the unqualified audit report	External Auditor	3.76	0.709	0.525
	Bank Lending Officer	3.61	0.717	
	Financial Adviser	3.75	0.673	
8.3 "Information on how the matter was addressed by the auditor during the audit" is <i>value-adding</i> to the unqualified audit report	External Auditor	3.75	0.660	0.000
	Bank Lending Officer	3.19	0.875	
	Financial Adviser	3.57	0.653	

Table 4.15 demonstrates how auditors perceived the section clarifying their key responsibilities during an audit, as being both sufficient and value-adding. The users were less satisfied with the information about the auditor’s responsibilities contained in the UAR.

Table 4.15: Comparison of Mean Rating Scores – Perceived <i>Sufficiency and/or Value</i> of: ‘The enhanced description of the responsibilities of the auditor and key features of an audit’				
Question 9: Kruskal-Wallis Test		Mean	Std. Dev.	p-value
9.1 The current Unqualified Audit Report contains <i>sufficient</i> information on the responsibilities of the auditor and the key features of an audit	External Auditor	3.88	0.722	0.000
	Bank Lending Officer	3.28	0.692	
	Financial Adviser	3.41	0.828	
9.2 “The enhanced description of the responsibilities of the auditor and key features of an audit” is <i>value-adding</i> to the unqualified audit report	External Auditor	3.83	0.695	0.000
	Bank Lending Officer	3.00	0.888	
	Financial Adviser	3.42	0.695	

Table 4.16 shows discrepancies between auditors and users regarding the information provided by the UAR on the auditor’s independence and ethical requirements. Auditors thought that sufficient and value-adding information is being provided whilst users agreed less with this assertion, suggesting reduced value for users and higher perceived value for auditors from this section of the UAR.

Table 4.16: Comparison of Mean Rating Scores – Perceived <i>Sufficiency and/or Value</i> of: ‘The affirmative statement about the auditor’s fulfilment of relevant ethical responsibilities and independence’				
Question 10: Kruskal-Wallis Test		Mean	Std. Dev.	p-value
10.1 The current Unqualified Audit Report provides <i>sufficient</i> information on the auditor’s fulfilment of relevant ethical responsibilities	External Auditor	3.84	0.757	0.000
	Bank Lending Officer	3.27	0.592	
	Financial Adviser	3.32	0.630	

10.2 “An affirmative statement about the auditor’s fulfilment of relevant ethical responsibilities” is <i>value-adding</i> to the unqualified audit report	External Auditor	3.67	0.843	0.000
	Bank Lending Officer	2.82	0.695	
	Financial Adviser	3.43	0.696	
10.3 “An affirmative statement about the auditor’s independence” is <i>value-adding</i> to the unqualified audit report	External Auditor	3.81	0.671	0.010
	Bank Lending Officer	3.48	0.746	
	Financial Adviser	3.51	0.816	

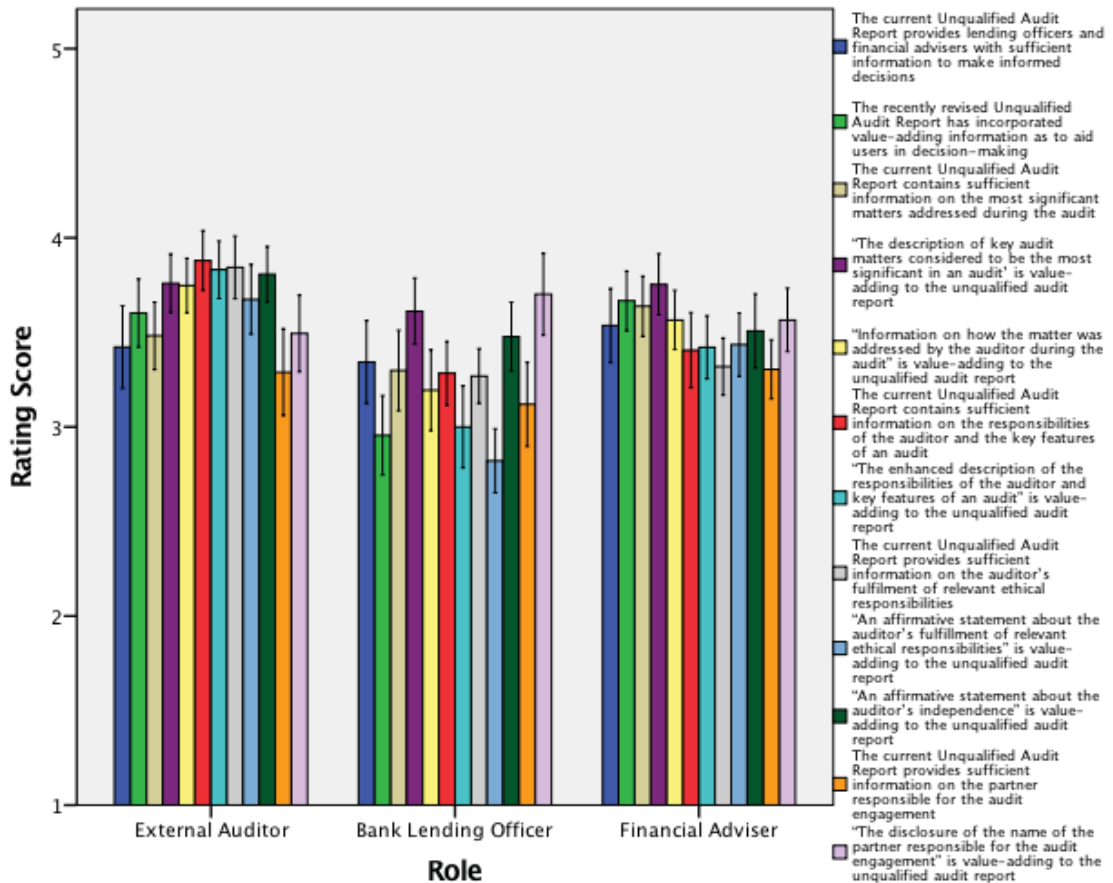
Where the p-values exceeded the 0.05 criterion, specifically Table 4.17, demonstrate how respondents shared similar views on the recently introduced sections in question.

Table 4.17: Comparison of Mean Rating Scores – Perceived *Sufficiency* and/or *Value* of: ‘The Disclosure of the Engagement Partner’s Name’

Question 11: <i>Kruskal-Wallis</i> Test		Mean	Std. Dev.	p-value
11.1 The current Unqualified Audit Report provides <i>sufficient</i> information on the partner responsible for the audit engagement	External Auditor	3.29	1.054	0.504
	Bank Lending Officer	3.12	0.913	
	Financial Adviser	3.30	0.649	
11.2 “The disclosure of the name of the partner responsible for the audit engagement” is <i>value-adding</i> to the unqualified audit report	External Auditor	3.49	0.929	0.252
	Bank Lending Officer	3.70	0.888	
	Financial Adviser	3.57	0.696	

The *Kruskal-Wallis* results illustrated in Figure 4.14 show that most introductions were mainly perceived to be sufficient and/or value-adding by auditors, proven by their high rating scores. However, distinct views were shared by users, since their mean values are significantly lower, particularly those pertaining to lenders.

Figure 4.14: Mean Rating Scores Clustered by Role – Perceived *Sufficiency and/or Value* of Recently Introduced/Enhanced Sections in the UAR



4.4.2 Perceived Drawbacks of Disclosing Key Audit Matters

Table 4.18 illustrates participants' prevalent agreement regarding how the value of KAMs may be reduced for readers who are not conversant with the accounting jargon used in this section (3.91). Participants also expect that when auditors communicate KAMs using a standard language which the IAASB issued in its Exposure Draft, the flexibility and clarity of the text in the UAR may be undermined (3.67).

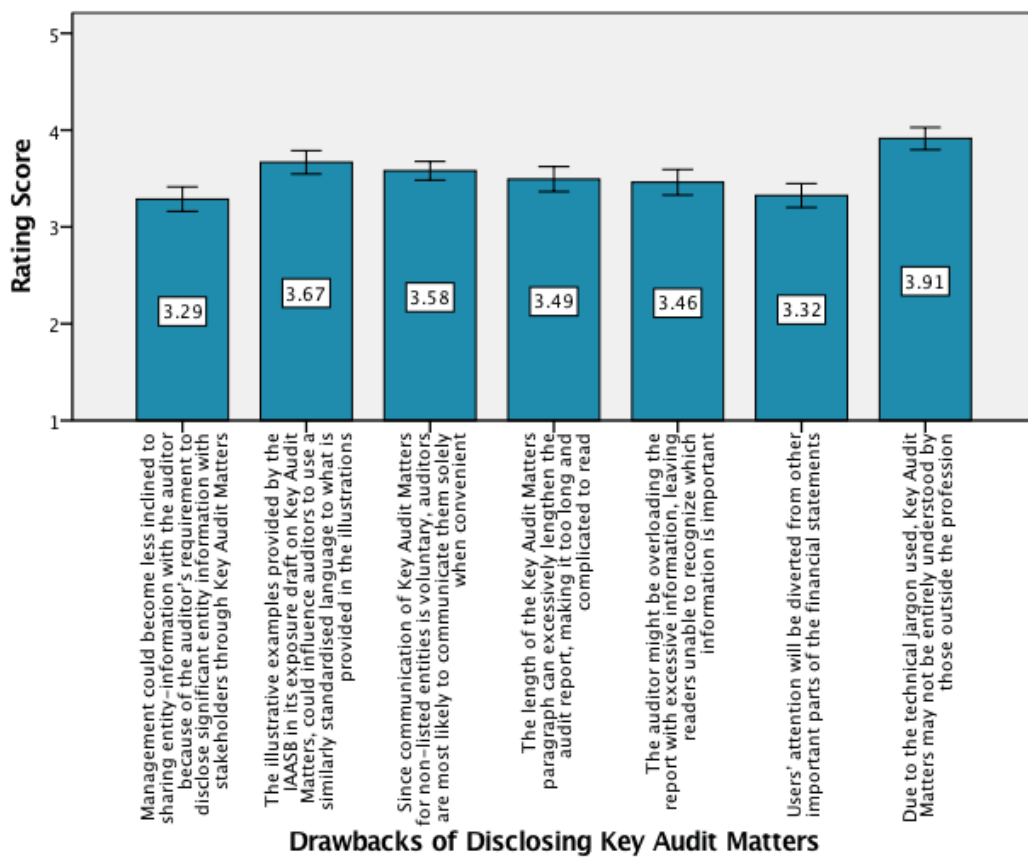
Participants were less concerned that the additional requirement for auditors to disclose information could reduce transparency between the auditor and the client (3.29). Also, participants did not consider KAMs to be a distraction to users from other important sections of the UAR and FS (3.32).

Table 4.18: Mean Rating Scores – Perceived Potential <i>Drawbacks</i> of Disclosing KAMs in an UAR		
Question 12: <i>Friedman</i> Test	Mean	Std. Dev.
12.1 Management could become less inclined to sharing entity-information with the auditor because of the auditor's requirement to disclose significant entity information with stakeholders through Key Audit Matters	3.29	0.955
12.2 The illustrative examples provided by the IAASB in its exposure draft on Key Audit Matters, could influence auditors to use a similarly standardised language to what is provided in the illustrations	3.67	0.905
12.3 Since communication of Key Audit Matters for non-listed entities is voluntary, auditors are most likely to communicate them solely when convenient	3.58	0.721
12.4 The length of the Key Audit Matters paragraph can excessively lengthen the audit report, making it too long and complicated to read	3.49	0.969
12.5 The auditor might be overloading the report with excessive information, leaving readers unable to recognize which information is important	3.46	0.996
12.6 Users' attention will be diverted from other important parts of the financial statements	3.32	0.929

12.7 Due to the technical jargon used; Key Audit Matters may not be entirely understood by those outside the profession	3.91	0.866
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$\chi^2(6) = 111.18, p < 0.001$

Figure 4.15: Mean Rating Scores – Perceived Potential *Drawbacks* of Disclosing KAMs in an UAR



Apart from a p-value which is less than 0.05, Figure 4.15 demonstrates how the confidence interval of statement 12.7 is disjoint from all remaining statements, except for 12.2; indicating that statement 12.7 is scoring significantly higher than the remaining statements, with the sole exception of 12.2.

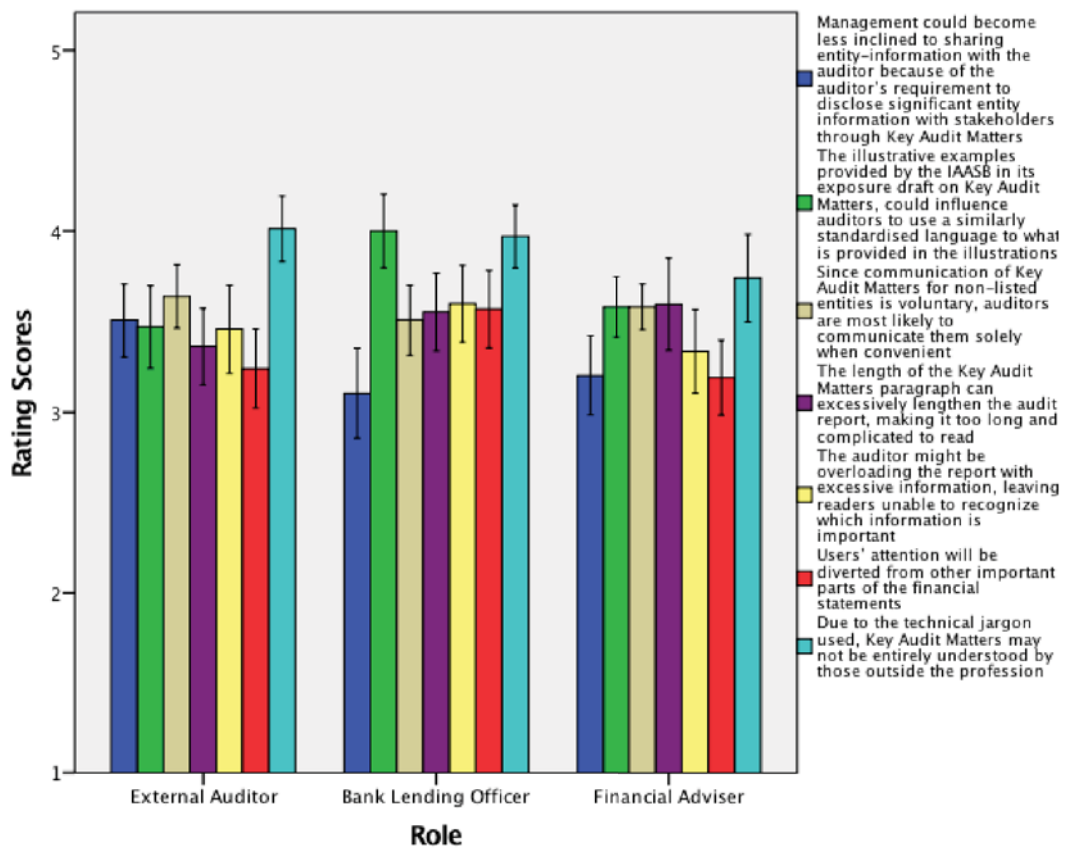
Table 4.19: Comparison of Mean Rating Scores – Perceived Potential Drawbacks of Disclosing KAMs in an UAR				
Question 12: Kruskal-Wallis Test		Mean	Std. Dev.	p-value
12.1 Management could become less inclined to sharing entity-information with the auditor because of the auditor's requirement to disclose significant entity information with stakeholders through Key Audit Matters	External Auditor	3.51	0.916	0.022
	Bank Lending Officer	3.10	1.017	
	Financial Adviser	3.20	0.901	
12.2 The illustrative examples provided by the IAASB in its exposure draft on Key Audit Matters, could influence auditors to use a similarly standardised language to what is provided in the illustrations	External Auditor	3.47	1.040	0.002
	Bank Lending Officer	4.00	0.835	
	Financial Adviser	3.58	0.695	
12.3 Since communication of Key Audit Matters for non-listed entities is voluntary, auditors are most likely to communicate them solely when convenient	External Auditor	3.64	0.805	0.176
	Bank Lending Officer	3.51	0.786	
	Financial Adviser	3.58	0.526	
12.4 The length of the Key Audit Matters paragraph can excessively lengthen the audit report, making it too long and complicated to read	External Auditor	3.36	0.957	0.191
	Bank Lending Officer	3.55	0.875	
	Financial Adviser	3.59	1.062	
12.5 The auditor might be overloading the report with excessive information, leaving readers unable to recognize which information is important	External Auditor	3.46	1.108	0.340
	Bank Lending Officer	3.60	0.871	
	Financial Adviser	3.33	0.965	
12.6 Users' attention will be diverted from other important parts of the financial statements	External Auditor	3.24	0.995	0.047
	Bank Lending Officer	3.57	0.874	
	Financial Adviser	3.19	0.862	
12.7 Due to the technical jargon used; Key Audit Matters may not be entirely understood by those outside the profession	External Auditor	4.01	0.834	0.194
	Bank Lending Officer	3.97	0.717	
	Financial Adviser	3.74	1.010	

Table 4.19 illustrates how the p-values for statements 12.1-12.2 and 12.6 did not exceed the 0.05 criterion, suggesting that participants shared distinct perceptions

for these statements. This is also evident in the disjoint confidence intervals of Figure 4.16.

Firstly, auditors were more concerned with KAMs’ ability to strain their relationship with management, when compared to user groups. Alternatively, lenders were more apprehensive regarding the possibility of auditors using standardised language for communicating KAMs, including how this section may divert their attention to certain information, simply because it is pointed out by the auditor. Since the p-values for the remaining statements exceeded 0.05, participants’ responses were deemed to be comparable.

Figure 4.16: Mean Rating Scores Clustered by Role – Perceived Potential *Drawbacks* of Disclosing KAMs in an UAR



4.4.3 Perceived Benefits of Disclosing Key Audit Matters

Table 4.20 demonstrates that the main benefit participants expect to derive from KAMs include: [i] their ability to offer increased transparency on the audit performed (3.75); and [ii] improvement of the UAR’s communicative value (3.67). Since the p-value did not exceed the 0.05 criterion and Figure 4.17 shows these two statements’ confidence intervals being disjoint from the remaining, the mean values are considered to vary considerably for the different statements.

Table 4.20: Mean Rating Scores – Perceived Potential <i>Benefits</i> of Disclosing KAMs in an UAR		
Question 13: <i>Friedman</i> Test	Mean	Std. Dev.
13.1 Key Audit Matters enhance the Unqualified Audit Report’s communicative value	3.67	0.816
13.2 Key Audit Matters provide greater transparency on the audit performed	3.75	0.800
13.3 Key Audit Matters reduce information asymmetry between auditors and users	3.39	0.794
13.4 Key Audit Matters serve as a road map to help users navigate through complex financial statements	3.25	0.945

$\chi^2(3) = 107.49, p < 0.001$

Figure 4.17: Mean Rating Scores – Perceived Potential *Benefits* of Disclosing KAMs in an UAR

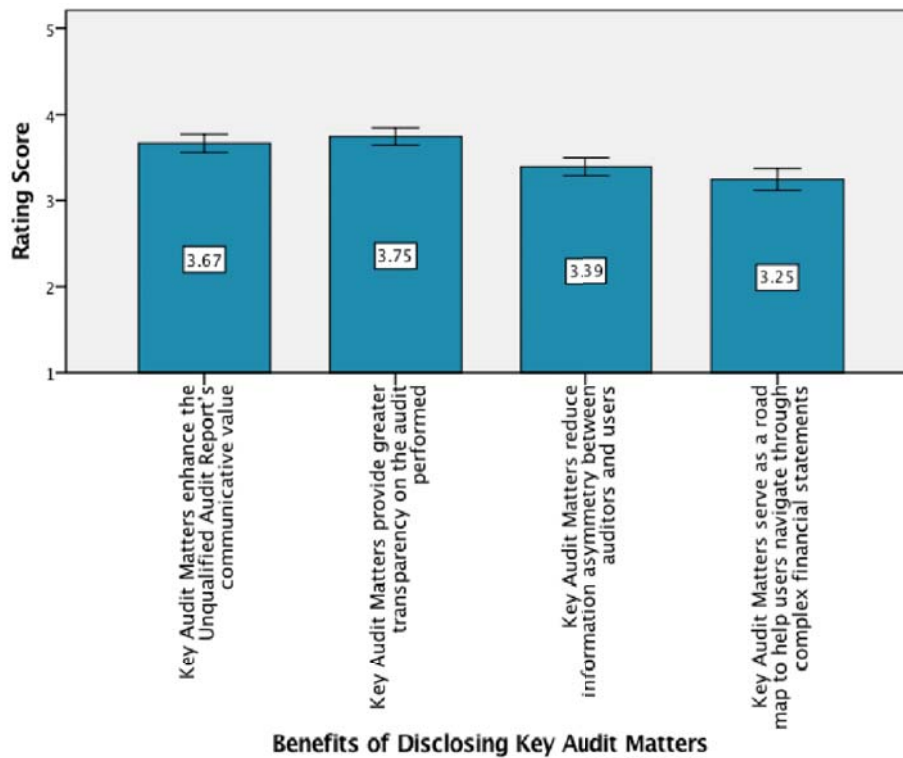
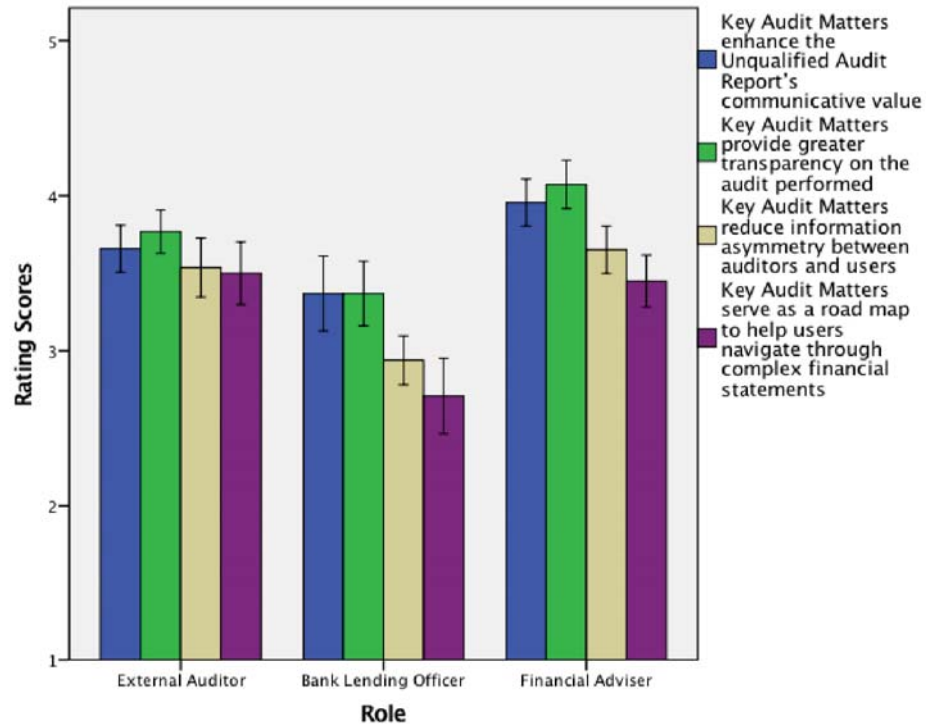


Table 4.21 and Figure 4.18 illustrate a significant difference across all groups for the two highest scoring statements. Financial advisers strongly agreed with KAMs' ability to improve the communicative value of the UAR, whereas, auditors highly considered KAMs to enhance transparency for the audit performed; lenders agreed significantly less with both these statements.

For the remaining two statements (13.3-13.4) lenders also expressed a significantly lower mean rating score, in comparison to their counterparts; highlighting their scepticism concerning the section of KAMs.

Table 4.21: Comparison of Mean Rating Scores – Perceived Potential <i>Benefits</i> of Disclosing KAMs in an UAR				
Question 13: <i>Kruskal-Wallis</i> Test		Mean	Std. Dev.	p-value
13.1 Key Audit Matters enhance the Unqualified Audit Report's communicative value	External Auditor	3.67	0.700	0.000
	Bank Lending Officer	3.33	0.991	
	Financial Adviser	3.96	0.629	
13.2 Key Audit Matters provide greater transparency on the audit performed	External Auditor	3.76	0.709	0.000
	Bank Lending Officer	3.61	0.717	
	Financial Adviser	3.75	0.673	
13.3 Key Audit Matters reduce information asymmetry between auditors and users	External Auditor	3.75	0.660	0.000
	Bank Lending Officer	3.19	0.875	
	Financial Adviser	3.57	0.653	
13.4 Key Audit Matters serve as a road map to help users navigate through complex financial statements	External Auditor	3.48	0.929	0.000
	Bank Lending Officer	2.69	0.972	
	Financial Adviser	3.45	0.697	

Figure 4.18: Mean Rating Scores Clustered by Role – Perceived Potential *Benefits* of Disclosing KAMs in an UAR



4.5 Summary of Part I

This section presented the quantitative results, outlining: [i] Maltese stakeholders' perceptions regarding several aspects of an UAR; and [ii] the degree to which these perceptions vary. The next section summarises the qualitative findings of this research.

Part II

Qualitative Findings

4.6 Introduction

This section presents the results from the qualitative interviews performed, intended to explain the statistical findings concerning objectives 1 and 2, whilst also satisfying objective 3 of this study. These interviews aimed to obtain participants' in-depth perspectives pertaining to the different aspects of an UAR and recommendations thereof, the key areas discussed being:

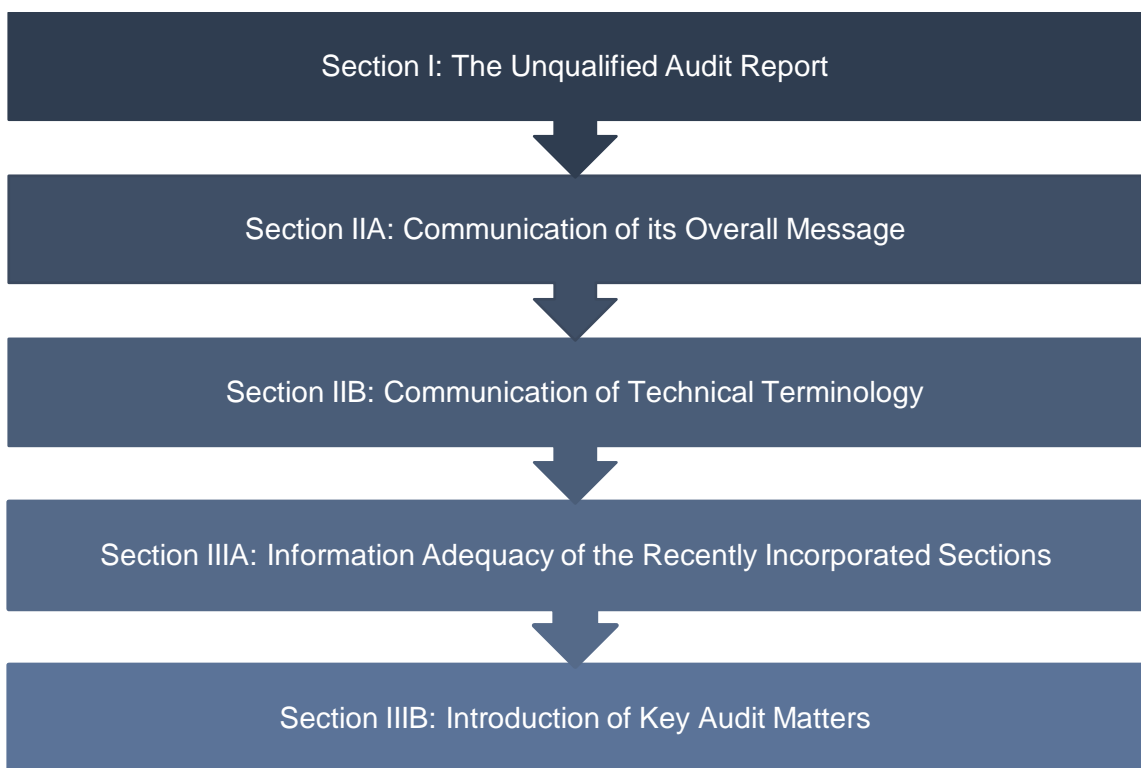


Figure 4.19: Interview Sections

4.7 Demographics

The professional experience of all 6 auditor interviewees ranged between 7 and 25 years. The experience held by the 6 user participants in their respective industries, varied between 3 to 26 years. Most user interviewees did not hold any prior accounting experience, except for BLO3, who is also a qualified accountant, and FA2 who had been studying with the Association of Chartered Institute of Accountants during the time of the research.

4.8 The Unqualified Audit Report

This initial section aimed to gather participants' overall perceptions regarding the UAR.

4.8.1 Audit Report Reading

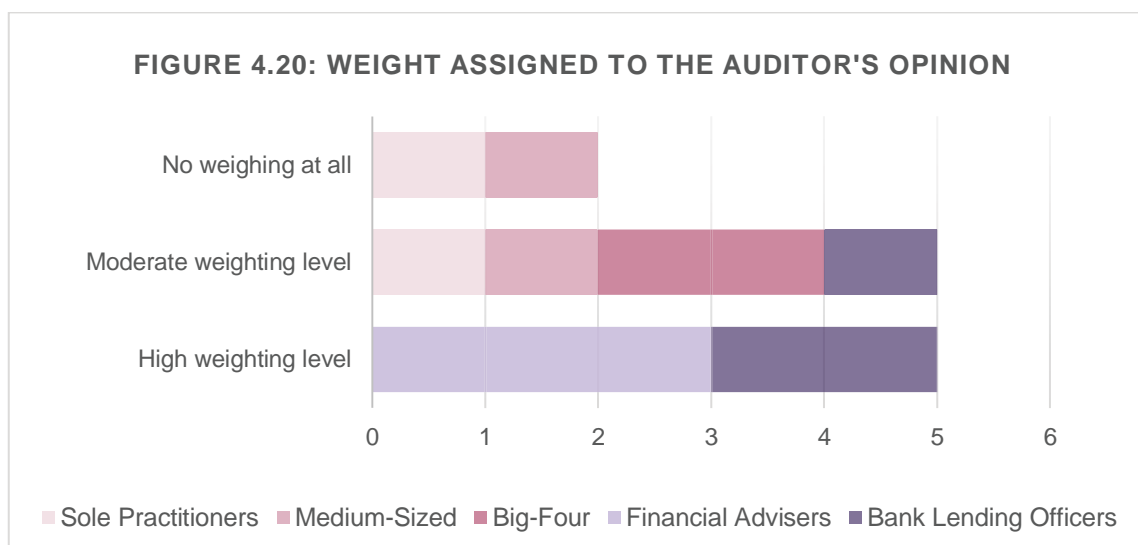
When queried about their reading of an UAR, 1 user mentioned how although they go through it: *“most of the time it does not say anything out of the ordinary”* [BLO1]. The remaining 5 users agreed how the report is used as a mere confirmation that: [i] there is no problem with the FS and thus can be relied upon; and [ii] the opinion is unqualified.

All 12 respondents agreed that the opinion is the main section read, since other sections are not considered important to their analysis. 3 auditors explained that because the text of the UAR is standardised, it is unusual for users to read anything else outside the opinion.

4.8.2 The Auditor's Opinion

Figure 4.20 exhibits how all users considered the opinion to hold at least a moderate level of weighting in their decision-making, with 5 stating that the audit firm performing the audit and its reputation are two major factors which influence the weight given to the opinion.

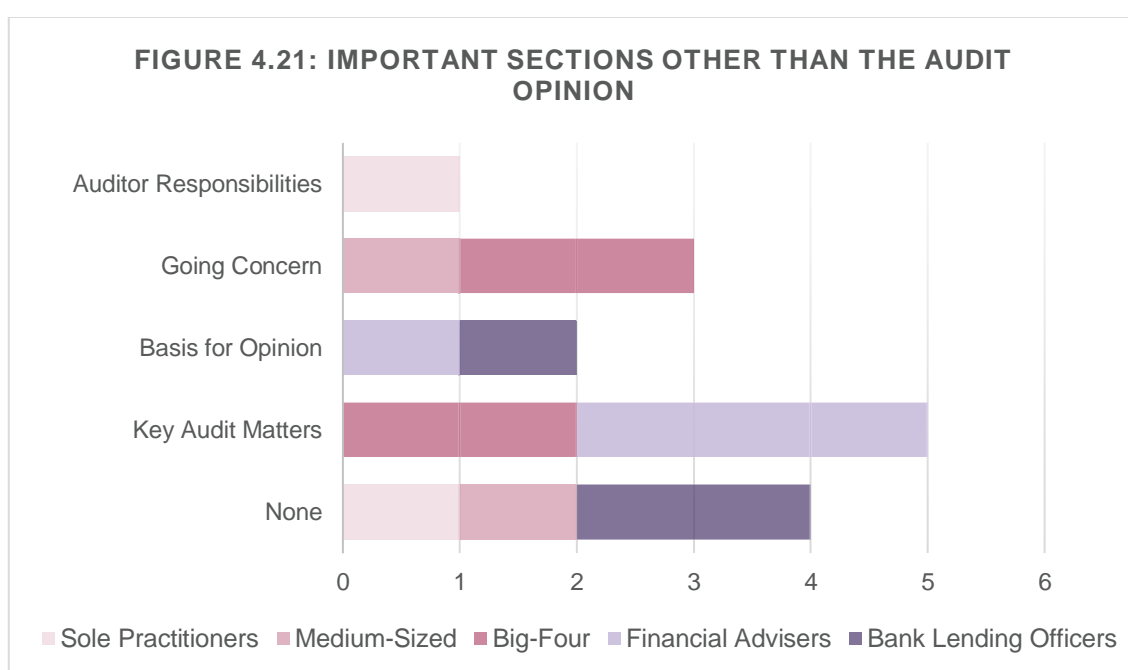
BLO3 explained that the audit opinion is the most relevant section, as it sheds light on whether the accounts in hand should be relied upon. BLO1 mentioned that despite the UAR's prominence, preference is given to figures in the audited accounts.



Conversely, 2 auditors were of the view that users do not consider the opinion to be important. One auditor emphasised that: *“the report is being drawn-up for no reason at all”* [EA5]. 4 auditors pointed out how despite its importance, users are unlikely to stop at a clean audit opinion, however: *“they would carry out their own analysis, which is separate from the opinion”* [EA3].

4.8.3 Importance of Sections

Figure 4.21 depicts the sections which users identified as being important and auditors' perception thereof¹³. 3 users commented that sections which may also occasionally be given importance included: the 'Basis for Opinion', 'KAMs', or both. BLO3 remarked that the importance ascribed varies according to the company being audited, its industry and any risks specific to the entity. 2 BLOs commented that the audit opinion is the most important section, since: *"the text is very standardised and remains identical from one UAR to the other"* [BLO1].



Conversely, 3 auditors believed Going Concern is an important section for users, 2 of which considered KAMs as also critical. 1 auditor remarked how the section outlining auditors' responsibilities is also important, whereas, 2 auditors believed that no other section is particularly essential to users, except for the opinion.

¹³ In this question respondents could mention more than one section.

4.9 The Communication Aspect

This section intended to gather participants' perceptions on the UAR's aspect of communication.

4.9.1 Communication of the Key Message

All auditors agreed that the key message of an UAR holds that: *“the FS give a true and fair view”* [EA6] and that: *“in all material aspects, are presented in line with the applicable framework”* [EA3]. Other interviewees added how: *“it is not a certification”* [EA2] and it represents: *“a clean audit opinion”* [EA5].

The responses provided by users corresponded with auditors' definition. BLO1 was unsure of the precise definition and simply stated that: *“when the report is not unqualified – it symbolises a red light”*.

4.9.1.1 Difficulty in Understanding the Key Message

All users agreed that the fair presentation of the FS is the key message being depicted in this report, and that, in their view, nothing else is being communicated. BLO1 added how: *“sometimes the message tends to be unclear”*. BLO3 (who is also a qualified accountant) agreed how: *“non-accountants sometimes turn to me for guidance, since what we do may not always be so clear-cut”*.

1 MS auditor assumed sophisticated users to not encounter any difficulty in interpreting the key message being conveyed. The remaining auditors believed that difficulty may be encountered either because: *“users do not have an idea of the judgements undertaken by the auditor”* [EA1]; or *“they are seeing an audit from a third-party view”* [EA2].

4.9.2 Decision-Making Importance

All users state that the report supports their decisions by: *“providing an indication of whether the financials should be trusted”* [BLO3]. 4 auditors agreed that the report is crucial for decision-making since it gives them: *“reliance of whether the figures they are looking at, are true and fair”* [EA3]. 2 auditors assumed users’ attention will be concentrated on the financials, rather than the UAR.

4 auditors hinted that banks are one of the primary users of the UAR, as they need to assess their customers’ default risk prior to issuing a loan. 1 SP emphasised how lenders carry a certain level of responsibility, to ensure repayment will be made based on financial statement figures prior to granting credit, particularly if the client is private and has less publicly-available information. 1 B4 mentioned how advisers may possess more relevant information at their disposal, particularly if the investments being considered are listed. However, another B4 points out that most companies being considered by financial advisers are large; often not carrying qualified opinions.

2 auditors were unsure as to which user group gave the AR most importance, claiming that: *“the opinion is not explicitly for users to rely on”* [EA2].

4.9.3 Confidence Provided by the Unqualified Audit Report

All interviewees were asked on the perceived confidence conveyed by an UAR, regarding the entity’s: [i] management; [ii] ability to reach its strategic goals; and [iii] shares being a sound investment. Auditors and users agreed how a low level of confidence or no confidence at all is conveyed by the report regarding all three

factors. 2 users stated that: *“any comfort can only be obtained through the analysis of the numbers and any accompanying notes”* [FA3, BLO3].

- i. 2 users and 1 auditor added how minimal additional comfort is attained on management’s integrity: *“through the manner in which the accounts are kept”* [BLO1, FA2, EA1] but not on the management of the company per se.
- ii. It is less conceivable for users to assume an UAR provides confidence on the entity’s ability to reach its strategic goals, since as mentioned by EA6: *“the report does not mention anywhere anything on the entity’s goals”*.
- iii. 1 user mentioned how no confidence is reported by the UAR on the entity’s shares being a sound investment as: *“one would need to carry out a deeper analysis which goes into much more detail than merely the AR”* [FA1].

1 B4 auditor mentioned how misinterpretations pertaining to these factors: *“could only be the case in the very unsophisticated users”* [EA1]. 1 SP agreed, since given that:

“the sophisticated users in Malta barely have any financial knowledge, they could possibly interpret an UAR as communicating something else”.

[EA5]

4.9.4 Communication of Technical Terminology

This section intended to examine interviewees' meaning of different terms found in the UAR, and potential difficulties encountered by users.

4.9.4.1 Reasonable Assurance

The definitions provided for 'Reasonable Assurance' by auditor and user interviewees were comparable, and all users agreed that the confidence communicated was not absolute, but merely at a reasonable level.

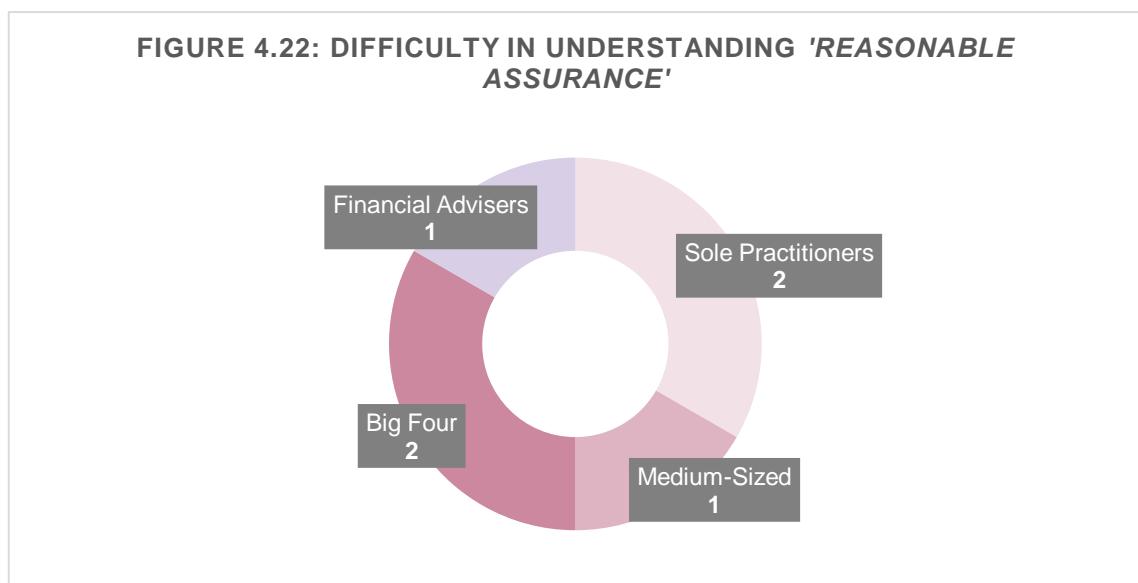


Figure 4.22 shows that most auditors believed users encounter difficulty in comprehending this term because: *“it is subjective”* [EA6] and since it remains unquantified: *“it is open to various interpretations”* [EA1]. Conversely, only 1 user found this term perplexing, questioning that: *“if you had to quantify reasonable assurance, how sure can you be on what the report is stating? 60%? 80%?”* [FA1].

4.9.4.2 Material Misstatement

11 interviewees defined ‘Material Misstatement’ as a: *“mistake that can potentially influence the decision of those reading the FS”*, or something similar. BLO1 encountered difficulty in attempting to explain this term, ascribing this complexity to the ambiguity involved.

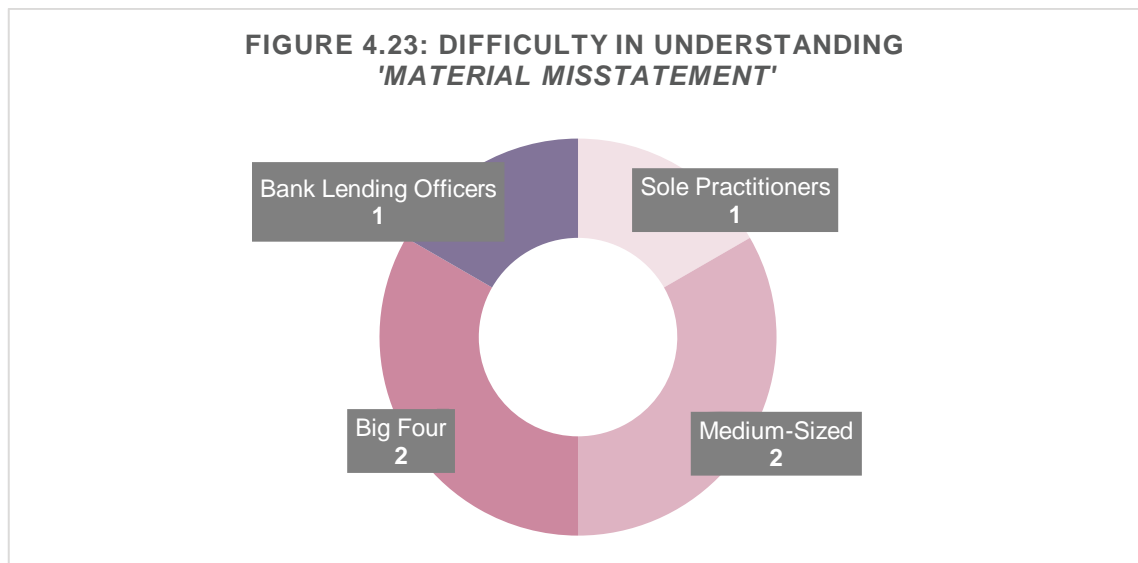
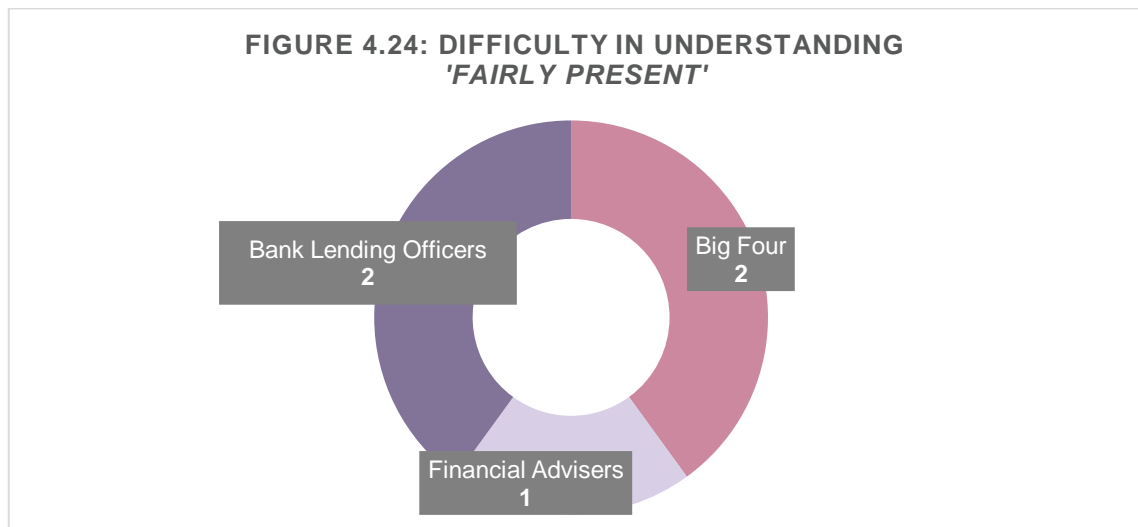


Figure 4.23 depicts how most auditors assumed users encounter difficulty in comprehending ‘Material Misstatement’, with 1 B4 highlighting how: *“what is material to the lender, is not necessarily material to the adviser”* [EA1].

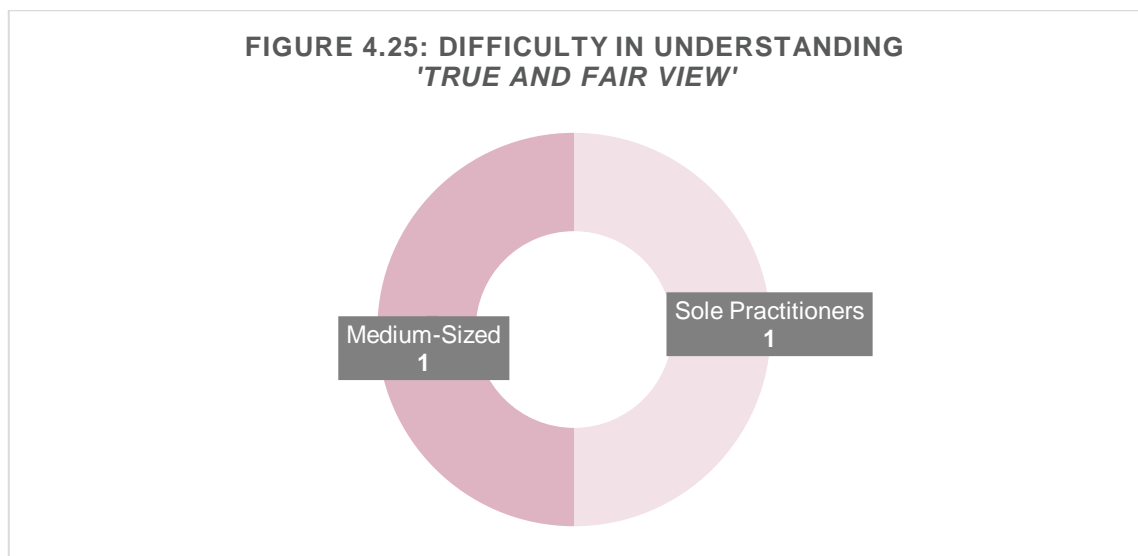
4.9.4.3 Fairly Present

Although most user interviewees had a broad understanding of this term, difficulty was encountered when attempting to explain it. Several considered it as ambiguous or being interchangeable with ‘True and Fair View’ (see Figure 4.24); 1 lender was not able to explain it at all. 2 auditors agreed how this term may be perplexing for users, potentially exposing it to numerous interpretations.



4.9.4.4 True and Fair View

No user identified this term as being particularly difficult to grasp, and all were able to appropriately define it. However, 2 auditors believed users encounter some difficulty in understanding this term (see Figure 4.25), since it might be interpreted as conveying absolute assurance.



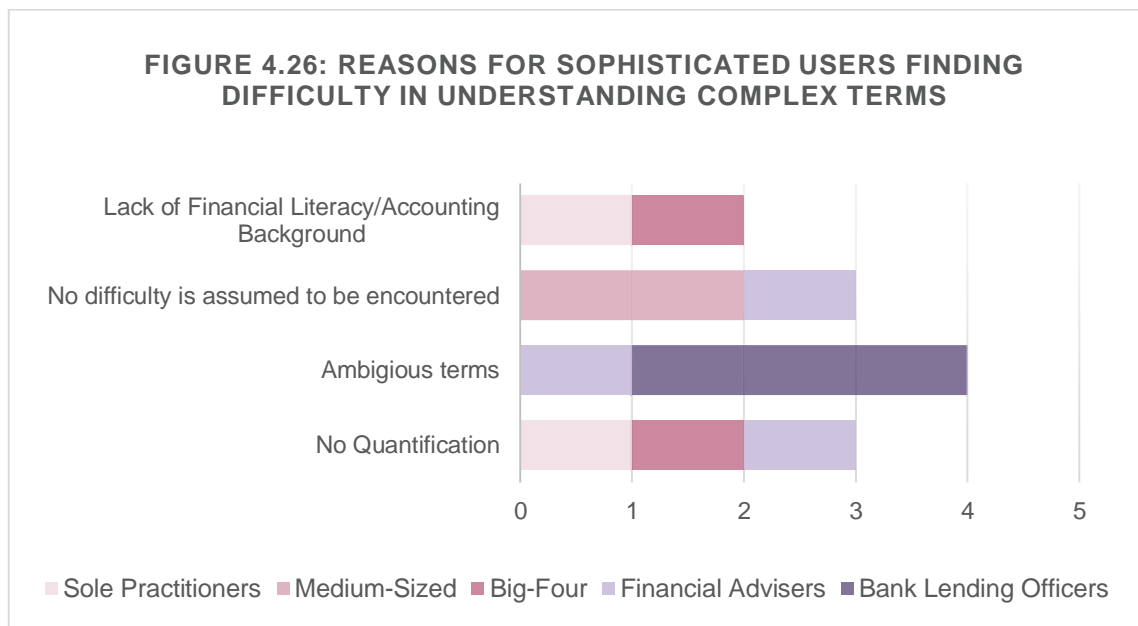
4.9.4.5 Reasons for any Difficulty Encountered

1 B4 discussed (see Figure 4.26) how certain accountancy notions will not be so straightforward to individuals with a limited accounting background, including how local users may not be as sophisticated as, for instance, UK users. Other interviewees believed that sophisticated users will not struggle to understand these terms, since they should be knowledgeable. 1 SP highlighted the lack of financial literacy, even amongst sophisticated users, commenting that:

“I am very sure that bankers are not capable of having a sound understanding of an entire set of FS”.

[EA5]

4 users perceived these terms as ambiguous and at times *“not very convincing”* [BLO2]. 3 respondents identified the lack of quantification given to certain terms as posing confusion to the reader.



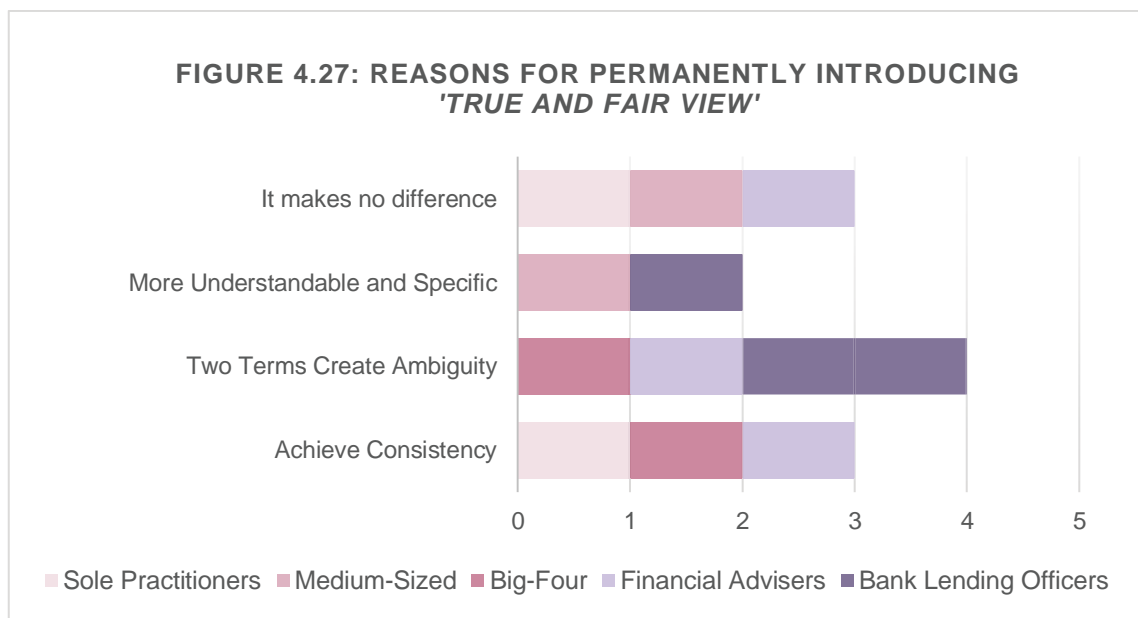
4.9.4.6 'True and Fair View' permanently substituting 'Fairly Present'

Figure 4.27 outlines the reasons why interviewees believed this should be done. 3 respondents did not oppose such idea, but one stated that users should be able to understand what both terms mean. The remaining participants agreed with the notion, emphasising how having two terms which mean the same can cause ambiguity and ultimately misinterpretation, therefore:

“one term should be in place with a definition, so individuals can truly understand what is true and fair”.

[EA1]

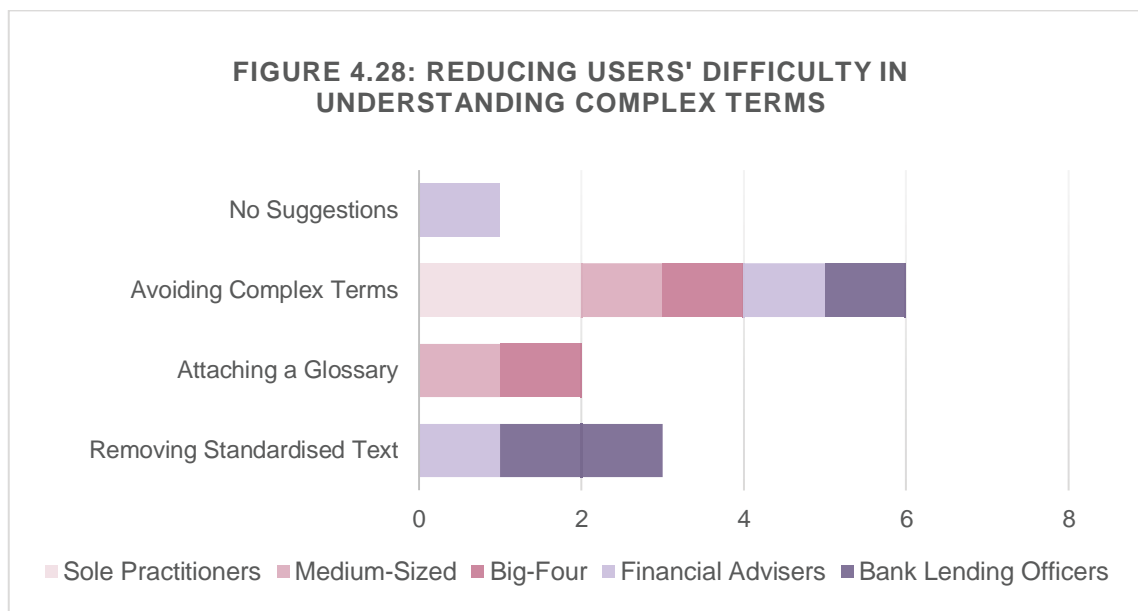
3 auditors remarked how 'True and Fair View' is already widely used in audit opinions issued locally.



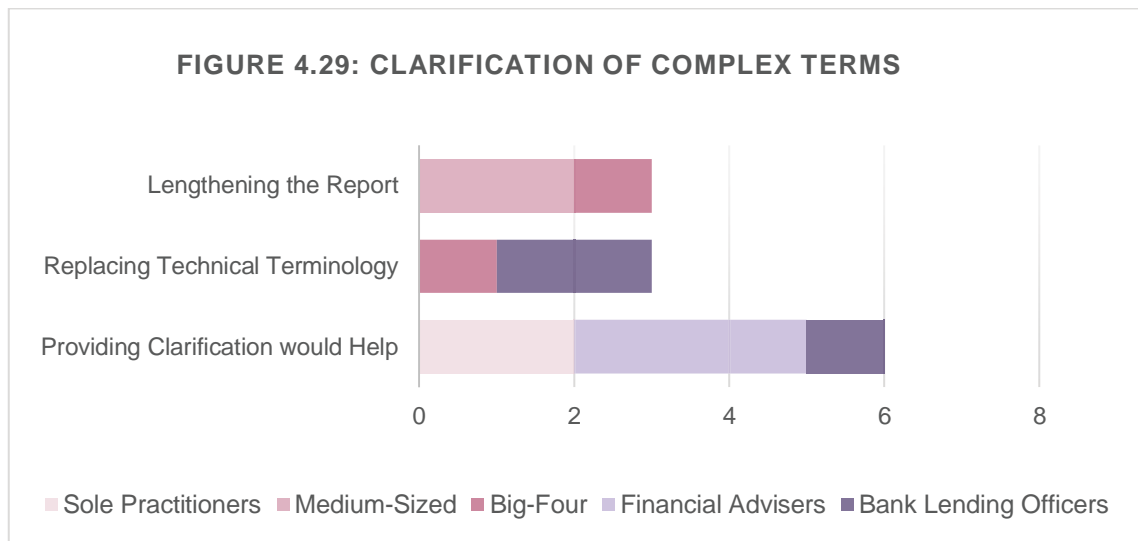
4.9.5 Suggestions for Mitigating the Communication Gap

4.9.5.1 Reducing Difficulty in Understanding Technical Terms

9 interviewees (see Figure 4.28) believed that this difficulty may be diminished if complex terms and standardised wording were avoided altogether. 2 auditors insisted how attaching a glossary of complex jargon would enhance communication of certain terms.

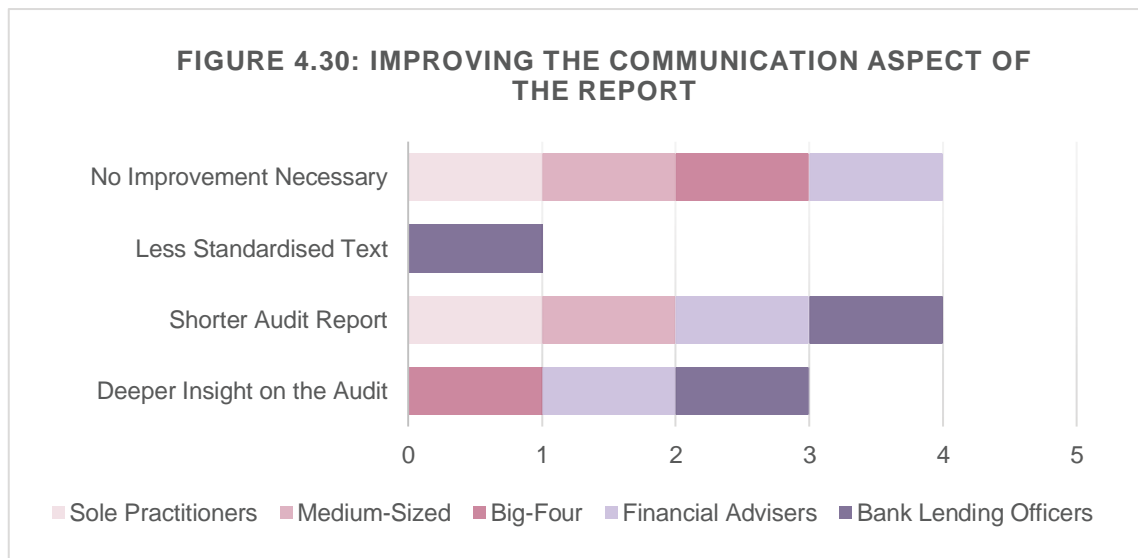


4 respondents (see Figure 4.29) suggested how introducing clarification for complex terms would aid the reader, specifically when simpler terms are not available. 3 respondents suggested the eradication of intricate terms, since clarifications result in unnecessary length to the UAR. Similarly, 3 others believed that increasing explanations may cause even more confusion, since: “*you would be adding more to an already long report*” [EA3], possibly leading to information overload. Although 2 SPs believed explanations would help, they expressed their concern as to what extent these will ultimately be read, particularly considering how the report’s contents would increase.



4.9.5.2 Improving the Report's Communication Aspect

4 respondents (see Figure 4.30) suggested how a shorter and concise UAR would be beneficial, since the longer it gets, the less time users will have to go through it.



3 respondents felt that the report should include further information about the audit performed, since currently it contains a chunk of standardised text which

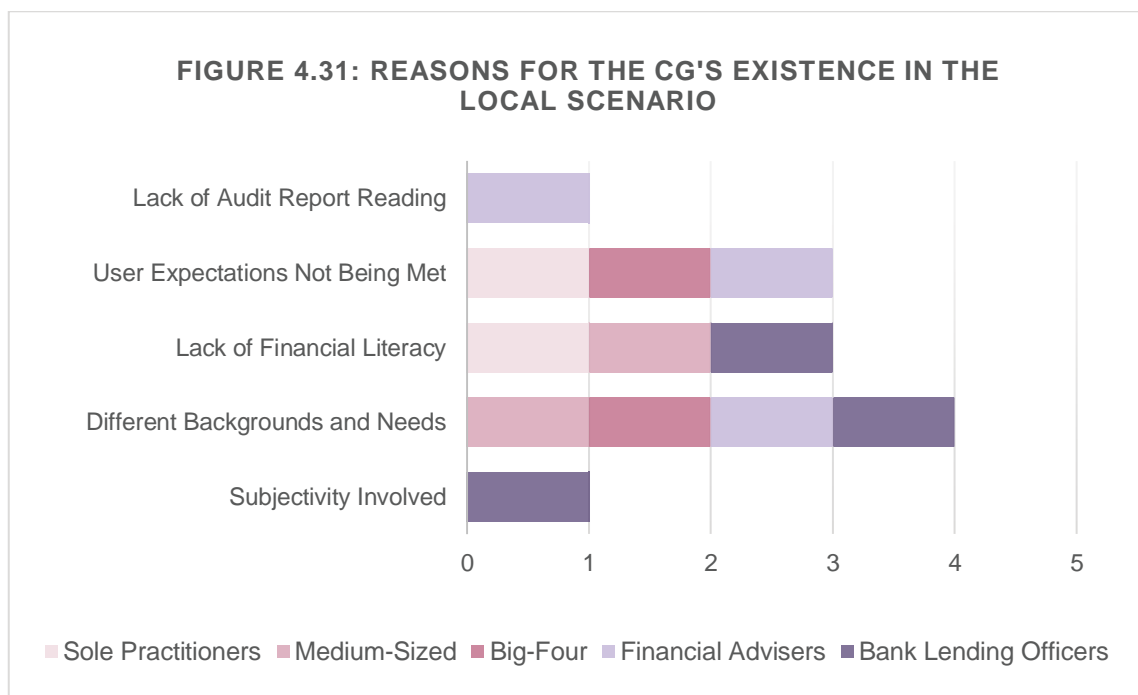
fails to convey anything useful to the reader. Conversely, 4 respondents believed that the current UAR is serving its purpose, hence there is no need for further improvement.

4.9.5.3 Persistence of the Communication Gap

Figure 4.31 highlights the reasons emphasised by interviewees for the CG's enduring existence, which 4 participants assumed is attributed to users' and auditors' distinct needs, since:

“the auditor is looking at the past, whilst lenders or investors need forward-looking information”.

[EA3, EA2]

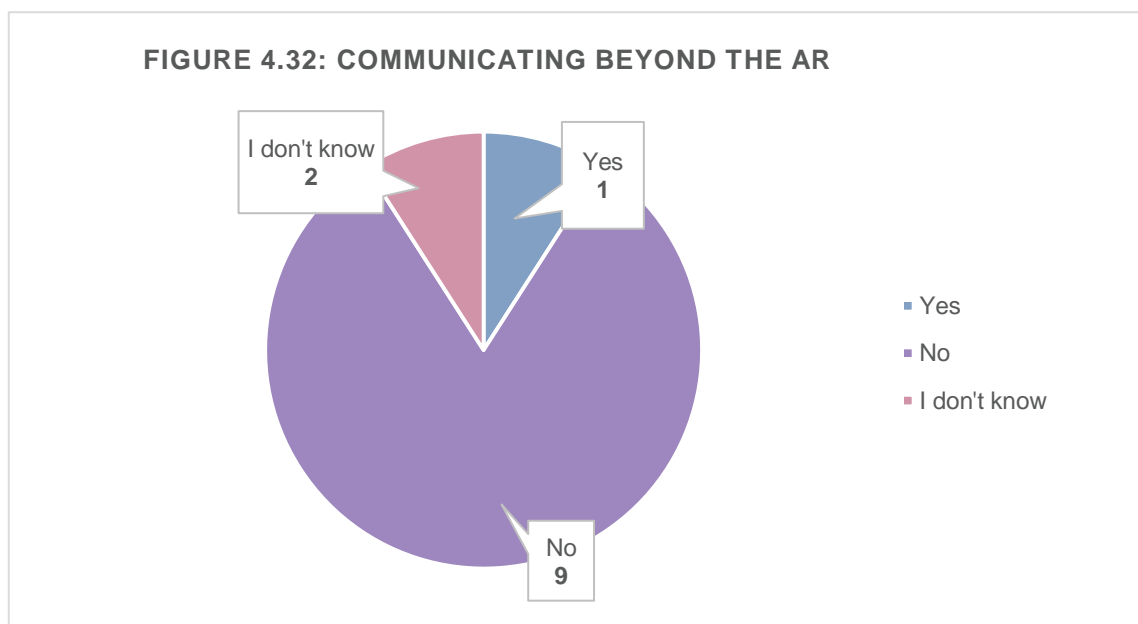


3 respondents believed the reduced financial literacy in Malta, even amongst the sophisticated users, may be contributing to this gap. 3 participants assumed that

the CG comes down to the AEG once again, and how auditing is not a front-line profession. Other reasons suggested included that: [i] since users refrain from reading the report, they cannot understand what is being portrayed; and [ii] the element of subjectivity involved can lead to various interpretations, since individuals are not always knowledgeable on the specifics of an audit.

4.9.5.4 Communicating Beyond the Report

Most interviewees (see Figure 4.32) did not believe the auditor should communicate in any other means besides the AR, since this may cause the auditor to breach confidentiality. Indeed, FA2 remarks how communication outside the report may lead auditors to become: *“responsible not only towards the shareholders, but to parties outside the entity”*.



FA1 mentioned how the auditor’s presence during the AGM already provides certain comfort, since he can intervene whenever necessary. BLO2 argued that there are already instances where communications are made with clients’ auditors, and queries can be presented in a more informal manner.

1 B4 auditor who agreed with this question mentioned that due to the advancement of technology, recent debates have shifted towards the auditor issuing different reports, for instance, on an entity's corporate governance or control environment. However, this would subsequently require the auditor to provide other types of assurance.

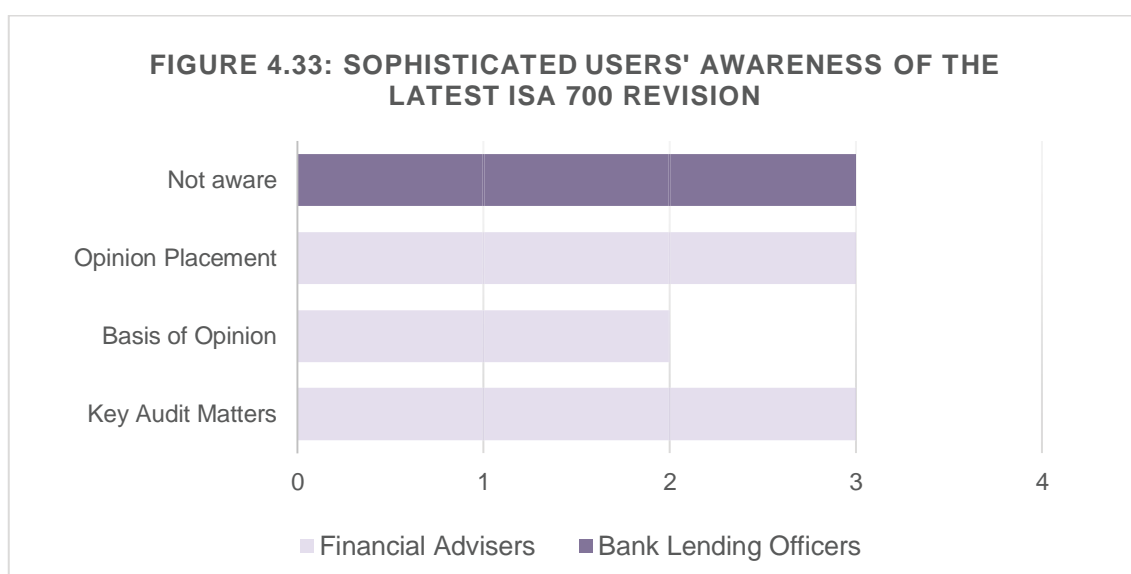
4.10 The Information Aspect

This section intended to assess interviewees' perceptions regarding the information adequacy of the reformed UAR, including its sufficiency and value.

4.10.1 The Revised Unqualified Audit Report

4.10.1.1 Awareness of Changes

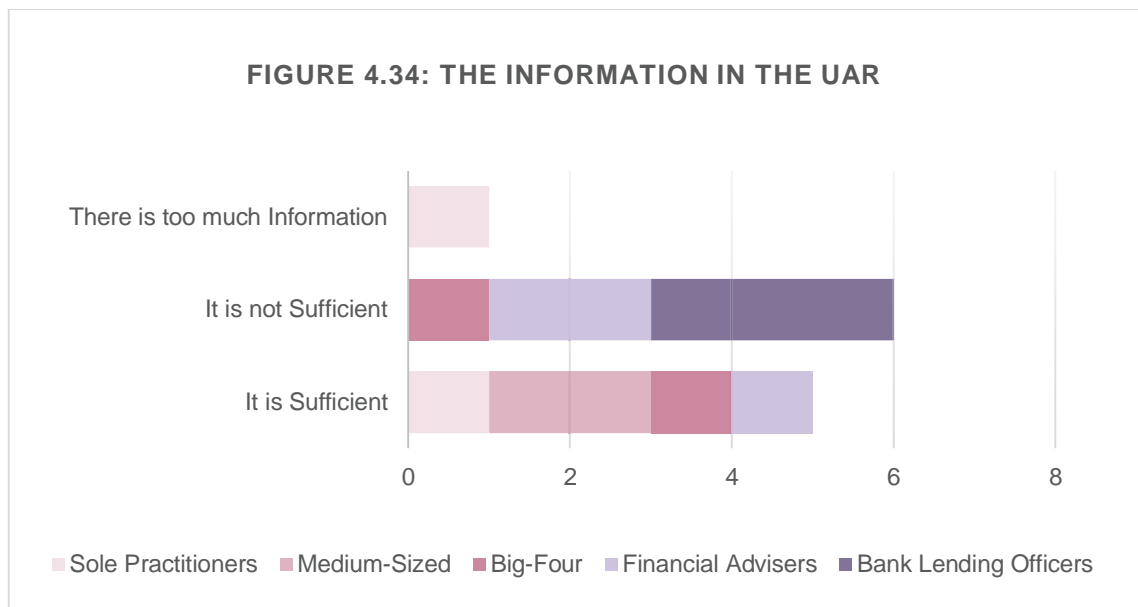
Figure 4.33 depicts the number of user interviewees who were aware about the different amendments effected to the report¹⁴. All financial advisers were aware of at least 2 changes; however, no lenders could particularly recall any adjustments made.



¹⁴ Users could mention more than one section.

4.10.2.2 Main Benefits and Shortcomings of the Revision

All auditors agreed that the most fundamental change was the placement of the auditor’s opinion to the front. 5 auditors pointed out KAMs as another valuable introduction. 2 auditors also looked positively on the enhanced auditor responsibilities section, since this became: *“more transparent and detailed”* [EA2]. 3 auditors highlighted how this revision severely lengthened the report, making it: *“too tedious”* [EA3] possibly causing: *“users to get lost in the information”* [EA2]. 1 auditor felt that the revision failed to address the AEG as it initially intended to do, whereas 2 auditors identified no shortcomings.



6 respondents (see Figure 4.34) still do not believe that an UAR communicates enough information, with 1 lender expressing the desire for additional auditor input since most of their decisions are based on the premise of audited information. 1 SP goes as far as to say that there is too much information, discouraging stakeholders from reading an UAR in its entirety.

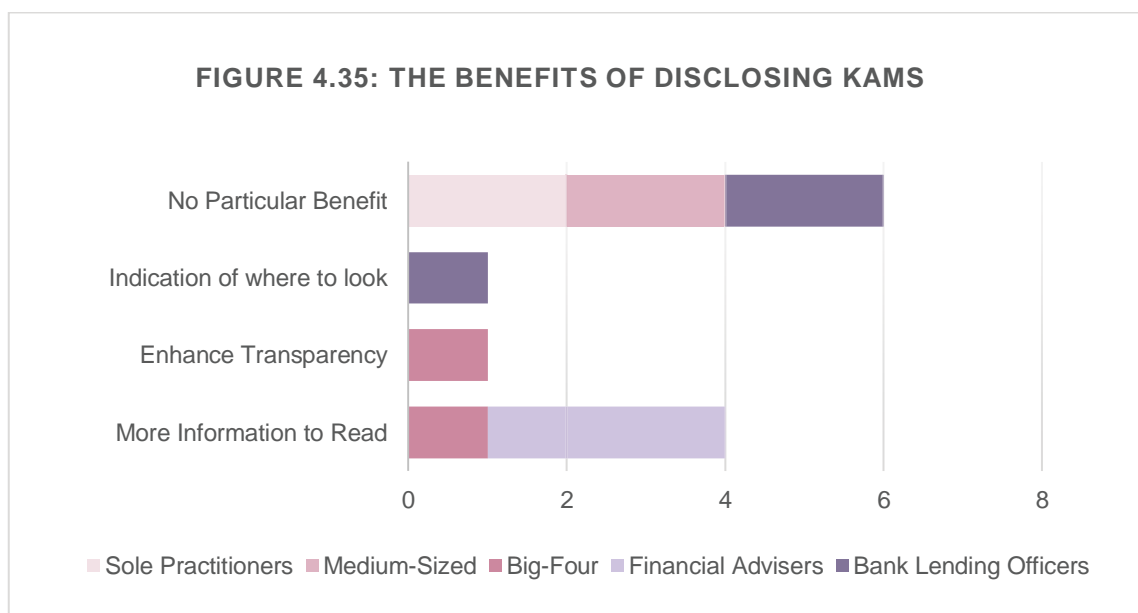
Users who considered the UAR as sufficient, however agreed, that it is merely their starting point. 1 B4 agreed how the information incorporated in it is enough, since:

“bearing in mind what the AR is – it is not within its purpose for users to use it for decisions, but merely as a contributing factor to their analysis”.

[EA2]

4.10.2 Introduction of Key Audit Matters

All respondents agreed that the benefits of KAMs outweighed any shortcomings, except for BLO1 who has not yet seen KAMs in the revised UAR. Most (see Figure 4.35) agreed that KAMs provide the reader with more information. Conversely, 2 auditors expressed their concern that KAMs could create additional confusion to the reader, since there may already be certain sections of the report which are not well-understood. However, 1 B4 explained that quality checks are performed, to ensure that technical jargon is reduced in KAMs.



1 B4 mentioned that KAMs enhance transparency. In contrast, 1 SP argued that KAMs can only add value if they are read and understood by users. 1 user argued that although KAMs give the reader an indication of which notes to look at:

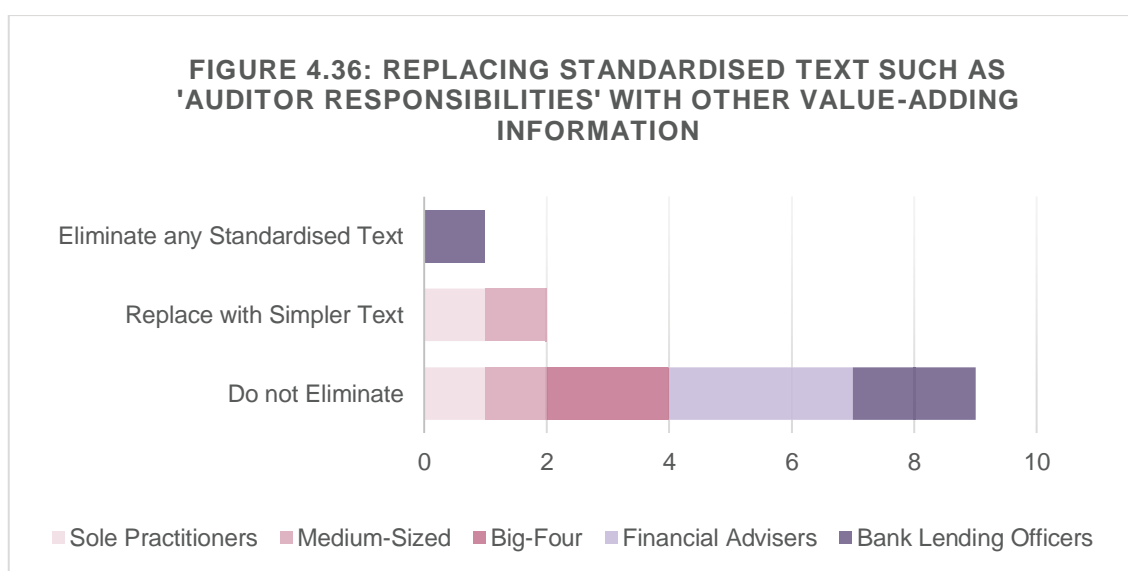
“the reader might be inclined to check only the notes pointed out by the auditor, possibly resulting in other important information going unnoticed”.

[BLO3]

4.10.3 Suggestions for Mitigating the Information Gap

4.10.3.1 Replacing Standardised Text

When interviewees were asked if standardised text in the report should be replaced by other value-adding information, most respondents (see Figure 4.36) replied that this standardised information should neither be changed nor reduced. However, boilerplate text may be provided in a website, with proper reference to it in the UAR, as to prevent any risks of information overload.



1 user acknowledged how although standardised text may not be completely understood, particularly by those with no accounting background, it remains crucial to the report. BLO2 who agreed with reducing boilerplate text, suggested how a non-standardised, but guided AR, would be more useful. 1 MS auditor believed that this could be eliminated:

“provided that it gives the same or better value, whilst putting it in simpler terms and not subjecting the auditor to litigation”.

[EA3]

Since, as 1 SP mentions, most of the UAR's wording is included to cover the auditor from impending litigation.

4.10.3.2 Potential Future Improvements

Interviewees, particularly auditors, had their own recommendations on what information the report could incorporate as to bridge the IG. This information is outlined under four main headings, in Figure 4.37.

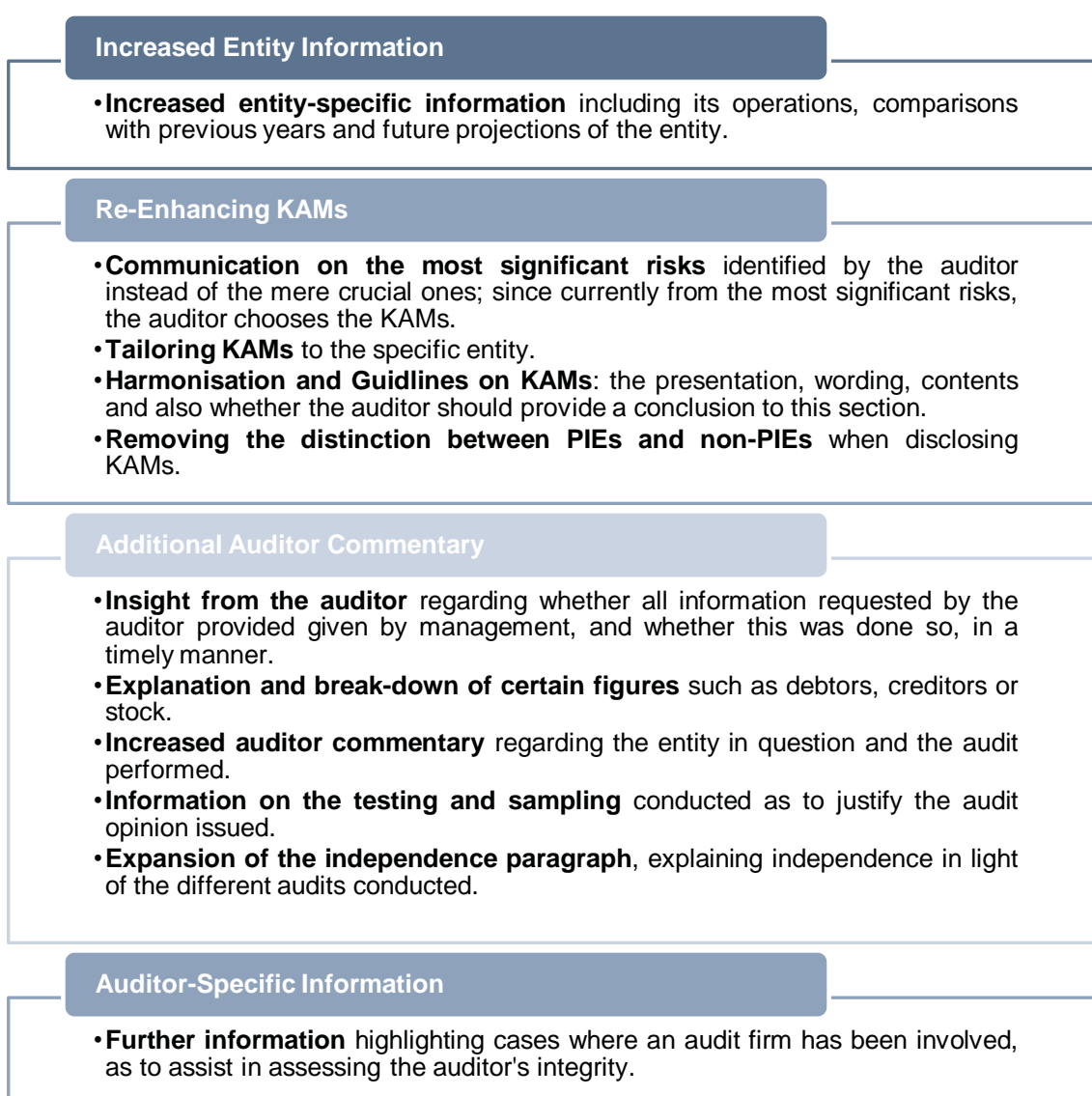
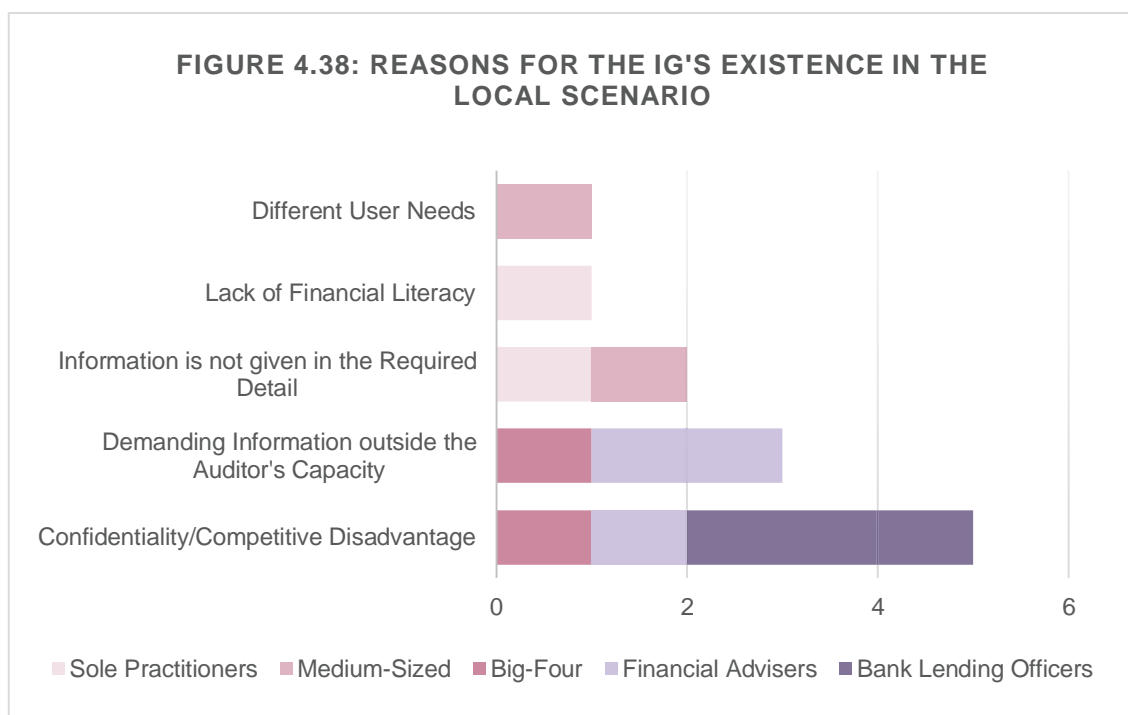


Figure 4.37: Additional Information

4.10.3.3 Persistence of the Information Gap

Interviewees (see Figure 4.38) suggested that there will be constraints regarding the information which is published since: *“management may not want to make it publicly available to competitors”* [BLO3]; or *“the client may not be comfortable with the auditor doing so, due to confidentiality”* [BLO2]. 3 interviewees mentioned how the responsibility to provide certain information ultimately rests with the entity’s management, and the auditor’s responsibility would merely be to provide assurance on that.



FA1 remarked how: *“you never know the extent of the work carried out by the auditor”*, hence information is continuously requested as much as possible from the auditor, since it is essentially unbiased information. Conversely, FA2 emphasised how it is not fair demanding additional information from auditors, since: *“ultimately the AR is being issued to the shareholders”*. Other barriers mentioned included: [i] individuals’ distinct backgrounds; and [ii] the lack of financial literacy locally.

4.11 Summary of Part II

This section has provided an overview of the results obtained from a series of interviews performed with various stakeholders. The next chapter discusses and compares the findings in light of the literature reviewed in Chapter 2.

Chapter 5

Discussion

5.0 Introduction

This chapter discusses the quantitative and qualitative findings in light of the relevant literature. An overview of this discussion is portrayed in Figure 5.1.

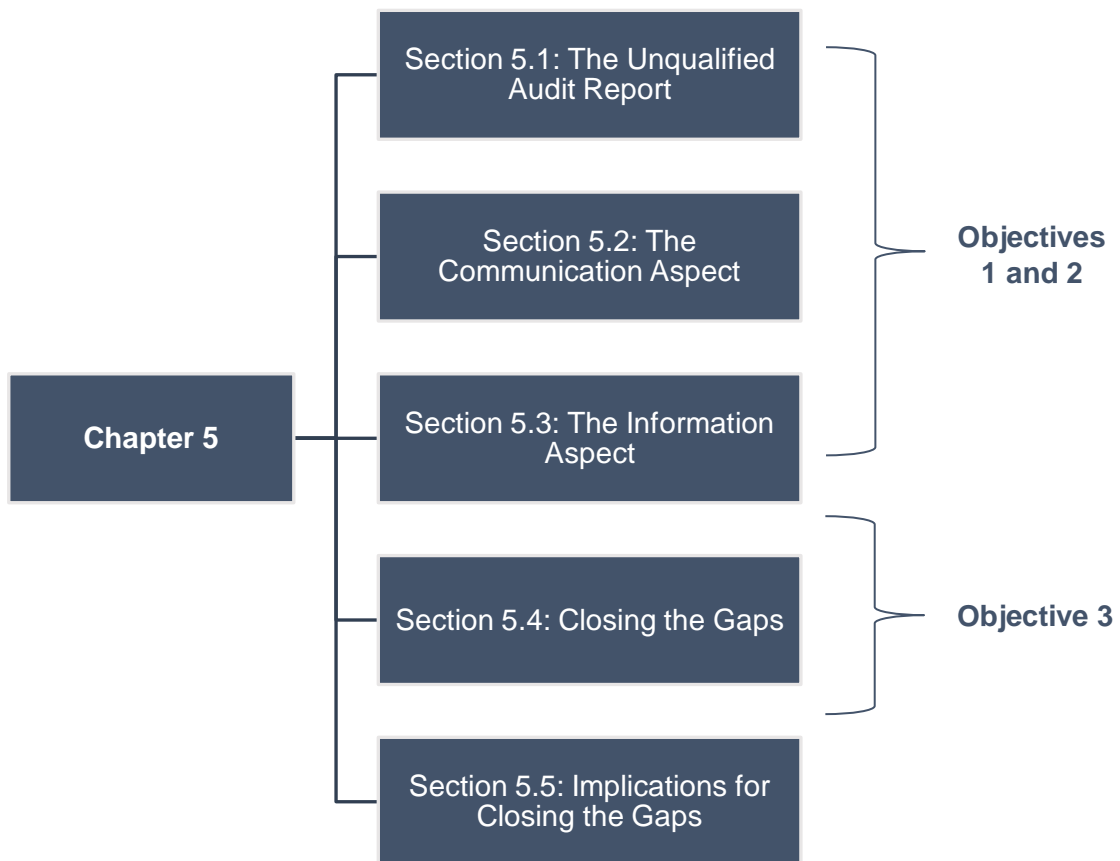


Figure 5.1: Discussion Overview

5.1 The Unqualified Audit Report

5.1.1 The Auditor's Opinion

The audit opinion is the most important section in an UAR¹⁵; readers' attention will almost always be concentrated on confirming that it contains no qualification¹⁶. The second element which readers tend to focus on is the audit firm performing the audit¹⁷. This is consistent with Gray *et al.* (2011) who discovered that given the standardised text in the report, users largely refer to the opinion and the audit firm performing the audit.

User interviewees_{5/6} agreed with the above result; if they know that the audit was performed by a firm which has a good reputation, users' confidence on the opinion being considered will be enhanced, increasing the level of trust they can place in the FS.

5.1.2 Sections other than the Opinion

Users assessed the 'Importance of Sections other than the Audit Opinion' to be significantly lower_{p<0.001} than the importance assumed by auditors¹⁸. Most interviewees_{10/12} agreed with this result; stating that users are likely to only consider an UAR from the aspect of reliance which it provides on the accompanying FS. This is something which can be acquired from reading the opinion paragraph, with no further information being required from other sections. Instead, auditor interviewees_{2/6} assumed users' concentration will mostly be on the FS, rather than the UAR.

¹⁵ Vide Ch.4 Table-4.2 (Statement 2.1)

¹⁶ Vide Ch.4 Table-4.4 (Statement 3.3)

¹⁷ Vide Ch.4 Table-4.2 (Statement 2.7)

¹⁸ Vide Ch.4 Table-4.5 (Statement 3.4)

Besides the opinion, user interviewees^{2/6} argued that at times, they also refer to the 'Basis for Opinion' section. However, statistical findings suggest contradictory results; a discrepancy_{p=0.036} in the views expressed by users and auditors was identified about the importance of this section. Users tend to give it less importance than auditors¹⁹.

This is likely because users tend to vary in the importance they assign to certain sections of the UAR, with the reply from one lender being that this depends on each specific company being considered, its industry and any risks specific to it. However, since most of the time an unmodified audit opinion is issued, it is customary for the 'Basis for Opinion' section to be replaced by the 'Affirmative Independence Statement'.

¹⁹ Vide Ch.4 Table-4.3 (Statement 2.2)

5.2 The Communication Aspect

5.2.1 Decision-Making Importance

Mautz and Sharaf (1961) portray the AR as a useful tool for assisting users in their decision-making process. This is consistent with the statistical results; where stakeholders, particularly lenders, strongly agreed with the importance of the UAR when making lending decisions $p=0.001$, resulting in a statistically significant result between lenders and their counterparts²⁰. This is not consistent with Asare and Wright (2012) whose study found no statistical differences $p=0.554$ in the views expressed by lenders and auditors, regarding the importance of the UAR in decision-making.

Auditor interviewees_{4/6} discussed that lenders may assign higher importance to the UAR because they have a responsibility to determine whether the entity being considered for credit will be able to repay the loan in full. The credibility provided by the unqualified audit opinion on the FS appears to be one of the main bases on which a lender decides whether a loan should be granted.

In comparison, financial advisers seemed more sceptical $p<0.001$ about the confirmation of an unmodified audit opinion in the UAR²¹. Auditor interviewees_{2/6} suggested that since financial advisers typically deal with larger entities, whose opinion is seldom qualified; they should have more entity-specific information available in addition to the AR. If the financial adviser is providing investment advice on a listed entity, then even more publicly issued information would be available, including share prices, company announcements or interim reports. This contradicts Gómez-Guillamón (2003) who identified the report as being

²⁰ Vide Ch.4 Table-4.5 (Statement 3.5)

²¹ Vide Ch.4 Table-4.5 (Statement 3.3)

equally useful to both user groups, denoting how local banks may rely more on the UAR as a source of FI, than Maltese financial advisers. The statistically significant result of the Chi-Square Test²² substantiates this; illustrating how lenders typically choose to read the UAR more thoroughly than financial advisers, with a substantially high percentage of financial advisers choosing not to read it at all (24.6%).

Despite the statistical significances derived, all groups agreed that the UAR is an important decision-making tool. Findings show that lenders place to have a higher degree of reliance on the UAR compared to local financial advisers. However, interviewees_{5/12} highlighted that the UAR is only a starting-point for all users; decisions on whether to invest in an entity or provide credit, can only be made from the figures in the FS through further analysis.

5.2.2 Communication of the Key Message

User and auditor interviewees had similar views of that the key message communicated in the UAR was that: “*the FS give a true and fair view*” and “*in all material aspects, are presented in line with an applicable framework*”. However, statistical results show that users disagreed with auditors²³ regarding the clarity with which this message is being communicated_{p=0.002}, and its understandability_{p<0.001}.

One MS auditor argued that the sophisticated user should not find difficulty in understanding the message in the AR. However, most_{7/12} interviewees agreed with the above result; arguing that at times the message is rather vague, particularly because it is not always easy to understand what the auditor’s work

²² Vide Ch.4 Table-4.1

²³ Vide Ch.4 Table-4.5 (Statements 3.1-3.2)

consists of. Since users must consider an audit from a third-party view, it is inherently more difficult to understand the judgements which the auditor has taken to arrive at the opinion issued; this makes it harder for the reader to understand exactly what the auditor is communicating in the UAR.

5.2.3 Confidence Provided by the Unqualified Audit Report

Research by Asare and Wright (2012) shows that users, even bankers, had assumed that when an entity receives an unmodified audit opinion, the UAR provides confidence on the following factors:

- i. Entity shares being a sound investment_{p<0.001}
- ii. Entity being well-managed_{p<0.001}
- iii. Entity's ability to reach its strategic goals_{p<0.001}

Auditors in their study had disagreed with bankers, prompting the above p-values (all approximately 0), illustrating widespread gaps for all three factors.

This study also attempted to uncover whether such prevalent differences exist locally amongst the three groups. Statistical results²⁴ suggest only one discrepancy; lenders strongly agreed with the UAR's ability to provide confidence to the reader that the entity in question is a sound investment, due to its unmodified opinion. However, auditors strongly disagreed with this statement_{p=0.009}. This discrepancy can be explained by the lack of a precise explanation in the UAR itself on how an unmodified opinion is not intended to provide confidence on these factors, as Asare and Wright (2012) had argued. This suggests that further clarification could be included in the UAR, to ensure

²⁴ Vide Ch.4 Table-4.5 (Statement 3.6)

that there are no misunderstandings on what an unmodified opinion is intended to convey.

No statistical differences were found between the other groups regarding the remaining elements; this is an indication that locally sophisticated users do understand that the UAR is not communicating anything on the aforementioned factors. This is consistent with the focus group findings of Gray *et al.* (2011).

5.2.4 Communication of Technical Terminology

This section discusses the difficulty users may be encountering in understanding certain technical jargon in the UAR, and asserts whether the jargon used can be explained to reduce any misinterpretations pertaining to them.

5.2.4.1 Understanding the Technical Jargon

Sophisticated users' level of difficulty encountered in understanding the four technical terms presented was much lower than that expressed by auditors²⁵. The discrepancies between auditors and users for each term presented to them were significant, since all p-values were approximately 0. This shows that auditors are underestimating sophisticated users' ability to understand the technical jargon in the UAR. Since, in reality, users do not find such a high difficulty.

Interviews demonstrate consistent results; all users_{6/6} were able to correctly interpret 'Reasonable Assurance' and 'True and Fair View'. Indeed, their

²⁵ Vide Ch.4 Table-4.7

explanations for both terms were consistent with auditors' definitions. Only one lender was unable to interpret 'Material Misstatement' correctly.

Although interviewees were aware of the explanation for 'Fairly Present' since they identified it as being interchangeable with 'True and Fair View', some_{3/6} noticed how 'Fairly Present' was more ambiguous than 'True and Fair View'. This substantiates the findings by McEnroe and Martens (1998), where users and auditors had assumed 'fairly' to also convey something else beyond fair presentation with GAAP. The findings in Malta are similar to those experienced in other countries, where this term was also associated with a degree of ambiguity.

Since 'Fairly Present' scored significantly higher²⁶ amongst participants as being a term which is quite difficult to understand, in comparison to 'True and Fair View', interviewees were presented with a question on whether the easier understood term should completely replace 'Fairly Present'. Although, most interviewees agreed_{9/12} how having two terms in the UAR which have the same meaning could be a driver of ambiguity; one auditor argued that the sophisticated user should technically not be confused when either term is used.

Nevertheless, certain auditors_{3/12} discussed that 'True and Fair View' is already included in most audit opinions issued locally; the tendency is for this term to be used in UK and EU countries, whereas 'Fairly Present' is more commonly used in the U.S. (McEnroe and Martens, 1998). Furthermore, the researcher concludes that much of the uncertainty which surrounds 'Fairly Present' is justified by the fact that this term is already not extensively used in local audit opinions issued, hence users are not accustomed to it.

²⁶ Vide Ch.4 Table-4.6 (Terms 4.3-4.4)

5.2.4.2 The Explanations Provided for the Technical Jargon

According to participants, 'Material Misstatement' is the term which needs to be clarified *most* in the UAR²⁷. Conversely, 'Reasonable Assurance' was identified as the term requiring the *least* clarification²⁸; this is not entirely surprising, given that the IAASB has recently added its definition in the report. However, lenders strongly disagreed²⁹ with both auditors and financial advisers, regarding the proper explanations which the following two terms currently have in the UAR:

- **'Material Misstatement'** had the lowest p-value $p=0.003$ indicating the lenders' strong view that this term is not well-explained in the UAR: 'Materiality' is a highly subjective concept in auditing. Furthermore, unless auditors disclose materiality thresholds in the UAR, which are currently not mandatory locally, one can never be entirely sure on what the auditor is referring to, when mentioning this term.
- **'Reasonable Assurance'** also attained a p-value $p=0.006$ which was considerably low: The fact that the UAR provides no quantification for Reasonable Assurance (e.g. 80% confidence that the FS are fairly presented), this 'high assurance' leaves room for interpretation. Furthermore, to ensure that readers' interpretations of the UAR are more aligned, standard-setters should consider introducing a more precise metric of the level of assurance an audit conveys.

The above shows that lenders highly disagreed with auditors' and financial advisers' perceptions regarding the sound explanation currently provided in the UAR for these two terms. The fact that these two terms are highly associated with a lack of quantification suggests how, introducing quantification may assist the

²⁷ Vide Ch.4 Table-4.10 (Term 6.2)

²⁸ Vide Ch.4 Table-4.10 (Term 6.1)

²⁹ Vide Ch.4 Table-4.9 (Terms 5.1-5.2)

reader in a sound interpretation of the UAR. Figure 5.2 provides a summary of the main points emanating from this section:

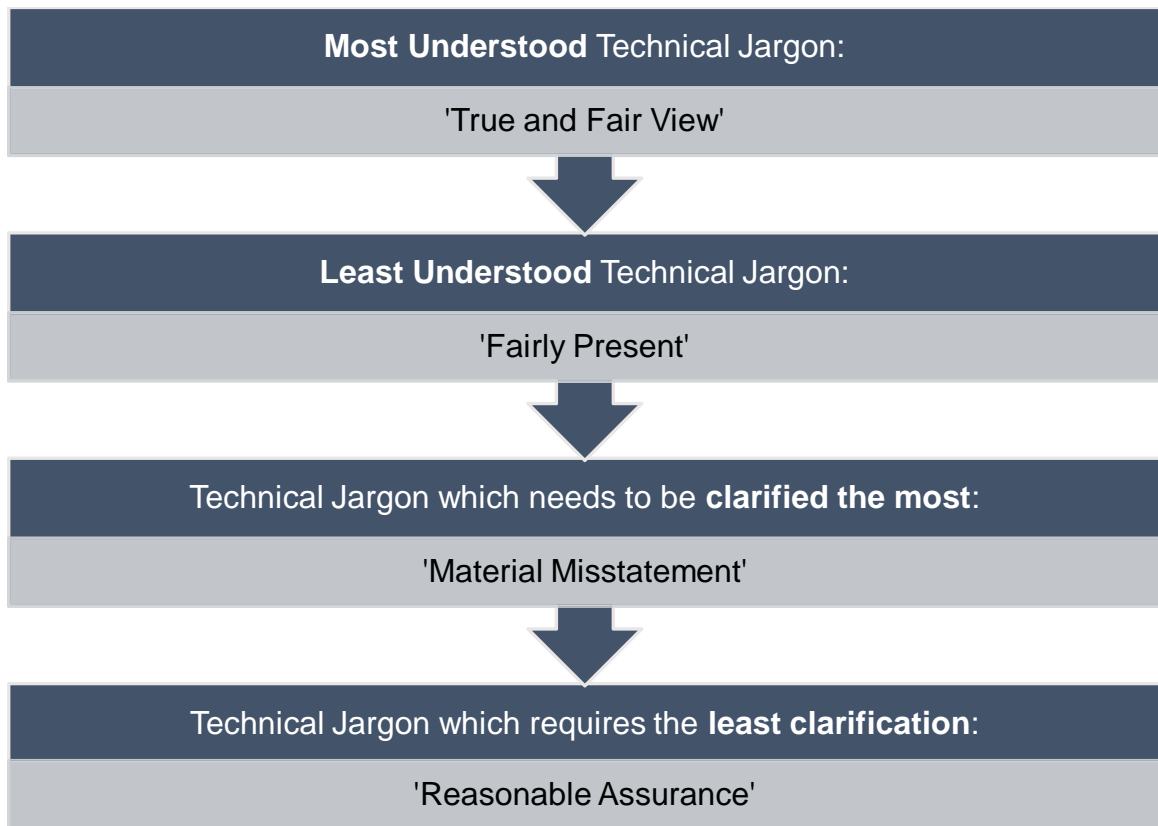


Figure 5.2: Perceptions on the UAR's Technical Jargon

5.3 The Information Aspect

5.3.1 The Revised Unqualified Audit Report

The IAASB (2015b) reformed its previous AR in effort to meet user needs by improving its communication and information value. This section aims to consider the value and sufficiency of certain changes made through this revision, comparing users' and auditors' perspectives.

5.3.1.1 Enhanced Description of Auditor Responsibilities

Auditors expressed their satisfaction with the amount of information the report provides on their responsibilities and key features of an audit³⁰. Users strongly disagreed_{p<0.001} with auditors in this respect; suggesting how further information on an audit may be required. However, users' discontentment regarding the use of standardised text in the report hints that, each AR should be tailored to the specific audit performed, as proposed by Coram (2014). User interviewees have already shown their desire for additional disclosures on how the audit was performed, rather than more general text describing the auditor's overall responsibilities in the context of all financial statement audits.

Lenders strongly disagreed_{p<0.001} with the value of the recently enhanced auditor responsibilities³¹ section; possibly because this merely increased the amount of boilerplate text in the report, which is typically overlooked by users. Conversely, auditors' stronger agreement with the value emanating from this section may be explained by their professional self-interest; with the granular detail which the paragraph goes into to describe what is within the scope of the auditor to perform

³⁰ Vide Ch.4 Table-4.15 (Statement 9.1)

³¹ Vide Ch.4 Table-4.15 (Statement 9.2)

and the limitations encountered during an audit, ensures protection from instances of litigation. Furthermore, the ACCA (2010) stresses how it is highly unlikely for this text to be ever completely omitted from the report.

5.3.1.2 Affirmative Statement on Independence and Ethical Responsibilities

The affirmative statement on auditor independence scored the second highest of all additions in terms of its value-adding ability, yet the ethical considerations part was considered as the least value-adding³². A disagreement between auditors and users was identified for both independence_{p=0.010} and ethical_{p<0.001} statements³³. Auditors' stronger agreement may be justified by their professional obligation; they are more likely to look positively upon sections which clarify their ethical requirements. This makes it clear-cut to the reader on the auditor's obligations and as previously mentioned, protects the auditor from potential litigations. However, since this section remains identical from one issued AR to another, users are likely to be more interested in other audited areas such as those constituting of high risk (Vanstraelen *et al.*, 2012).

Another discrepancy was identified_{p<0.001} amongst auditors and users regarding this section's ability to provide enough information³⁴. Users believed that more information is required for this section; indeed, interviewees expressed their interest in knowing the steps taken by auditors in safeguarding their independence, and ensuring all ethical obligations have been adhered to, for the different audits executed³⁵. This contradicts Vanstraelen *et al.* (2012) where auditor interviewees suggested that independence information may not be so

³² Vide Ch.4 Table-4.12 (Statements 10.2-10.3)

³³ Vide Ch.4 Table-4.16 (Statements 10.2-10.3)

³⁴ Vide Ch.4 Table-4.16 (Statement 10.1)

³⁵ Vide Ch.4 Figure-4.37

important to users, denoting how given our small-island state setting, independence implications are given a higher consideration by local users.

5.3.1.3 Audit Engagement Partner's Name Disclosure

All participants shared similar views_{p=0.252} on the value of disclosing the 'Engagement Partner's Name' in the UAR³⁶. This introduction scored the third highest in value from all additions made in this reform. This contradicts Vanstraelen *et al.* (2012) where users had considered the disclosure of the audit firm name in the UAR to be sufficient and information on the engagement partner was not required.

Distinct perceptions were expressed on the 'Disclosure of the Engagement Partner Name's' ability to communicate sufficient information, with this statement scoring amongst the least of all value and sufficiency statements³⁷. This low score could be explained by the fact that such disclosure only provides information on the engagement partner's name and contains no other detail which may assist the user in assessing the partner's professional competence. However, the IAASB (2015b) emphasised that the purpose of this section was to enhance accountability and transparency; therefore, the name may be sufficient for this purpose.

Interviews suggest contradictory results, since no interviewee mentioned the value achieved from this addition. Considering how certain users were not even aware of the reform the UAR experienced, the researcher suggests that it is possible that some users may have found out about this addition throughout the

³⁶ Vide Ch.4 Table-4.12 (Statement 11.2)

³⁷ Vide Ch.4 Table-4.12 (Statement 11.1)

questionnaire dissemination, where those who may have been previously unaware, would have found it value-adding. This is even more plausible given the number of stakeholders who do not read an entire UAR.

5.3.2 Introduction of Key Audit Matters

Statistical results demonstrate how KAMs is the third most important section of an UAR³⁸, with ‘The description of the KAMs identified by the Auditor’ being considered the reform’s most valuable addition by all participant groups³⁹. However, lenders_{p=0.010} believed that the *amount of information* this section currently conveys may not be satisfactory⁴⁰. In this section, auditors also discuss *how they addressed the identified KAMs* during the audit, with lenders_{p<0.001} not considering this type of information to add value to the UAR⁴¹.

5.3.2.1 Perceived Drawbacks

Participants agreed how two main potential drawbacks of KAMs⁴² are that:

- i. they can be misunderstood by readers outside the accounting profession; and
- ii. the illustrations provided by the IAASB on KAMs may encourage the use of similarly standardised text in the UAR.

Lenders strongly agreed_{p=0.002} with how auditors may be inclined to use standardised text when disclosing KAMs⁴³. Researchers Cordoş and Fülöp (2015) suggested that if KAMs were to become standard from one issued UAR to the other, their added-value will be less effective. If the UAR had to include more standardised text, users having a limited accounting background would find this information harder to decipher. This is consistent with the IAASB’s (2011) views shared on JOAs.

³⁸ Vide Ch.4 Table-4.2 (Statement 2.3)

³⁹ Vide Ch.4 Tables 4.12&4.14 (Statement 8.2)

⁴⁰ Vide Ch.4 Table-4.14 (Statement 8.1)

⁴¹ Vide Ch.4 Table-4.14 (Statement 8.3)

⁴² Vide Ch.4 Table-4.18 (Statements 12.7&12.2)

⁴³ Vide Ch.4 Table-4.19 (Statement 12.2)

Less concerning drawbacks of KAMs included how they can potentially: [i] divert users' attention from other important parts of the FS; and [ii] reduce management's willingness to share information with their auditors. Statistically significant results amongst all groups were identified for these two statements⁴⁴:

- i. Lenders strongly agreed_{p=0.047} with how *diversion of users' attention through KAMs* can pose as a potential drawback; this is consistent with findings from Sirois, Bedard and Bera's (2018) experiment. This also emerged during interviews, where a lender expressed her concern on the reader's possible inclination to check only those notes or disclosures pointed out by the auditor through KAMs, with the remaining information being disregarded. This can primarily be the case if the auditor is discussing a certain disclosure or notes made by management in the FS in a particular KAM. If no reference is made to a specific note, as outlined in Boolaky and Quick's (2016) study, less diversion to other parts of the FS may be expected.

- ii. Auditors showed greater concern towards *KAMs' possibility of straining their relationship with management*_{p=0.022}. This supports Cade and Hodge's (2014) findings, where due to auditors' obligation to disclose KAMs in the report, managers may be less inclined to communicate openly with their auditor. Considering that KAMs have been in place for a few years, and the fact that local auditors agreed with this statement, it is possible that they have already encountered circumstances where their relationship with the reporting entity's management could have been affected. However, since interviewees failed to mention this potential effect and this drawback received a relatively low score, suggests that Maltese auditors do not frequently encounter this situation.

⁴⁴ Vide Ch.4 Tables 4.18-4.19 (Statements 12.6&12.1)

5.3.2.2 Perceived Benefits

According to participants, the benefits of KAMs mainly consisted of enhancing the: [i] transparency; and [ii] communicative value of the UAR⁴⁵. However, lenders strongly disagreed with both perceived benefits⁴⁶, suggesting that they do not highly consider KAMs to be effective in improving the UAR's communicative value_{p<0.001} and transparency_{p<0.001}. Their disagreement_{p<0.001} with the *reform's introduction of value-adding information* in the overall UAR, also suggests how further improvement in the report's information may be required to support their lending decisions⁴⁷.

Statistical results show that lenders were significantly more inclined to express the potential adverse effects⁴⁸ KAMs may produce, as opposed to their benefits; hence, this introduction may not have been looked upon so positively by this group. This is in line with Boolaky and Quick's (2016) findings, where KAMs were not deemed to have a great impact on German lenders' decisions when granting credit. This may be because of the larger proportion of small-sized companies in Malta, compared to other countries. Non-PIEs do not have a mandatory requirement for the inclusion of KAMs, thus lenders may see no value as these are not included in most UARs.

Interviewees argued that the increased information which KAMs provide, ultimately exceeded any potential shortcomings. Consistent results were reported by the recent ACCA (2018b) study in Malaysia; investors have become more lenient towards reading an AR before reviewing the FS. Nevertheless, if

⁴⁵ Vide Ch.4 Table-4.20 (Statements 13.1-13.2)

⁴⁶ Vide Ch.4 Table-4.21 (Statements 13.1-13.2)

⁴⁷ Vide Ch.4 Table-4.13 (Statement 7.2)

⁴⁸ Vide Ch.4 Table-4.21 (Statements 13.1-13.4)

KAMs are not read, any potential benefits derived would become negligible. Figure 5.3 outlines the key points emerging from the discussion on KAMs:

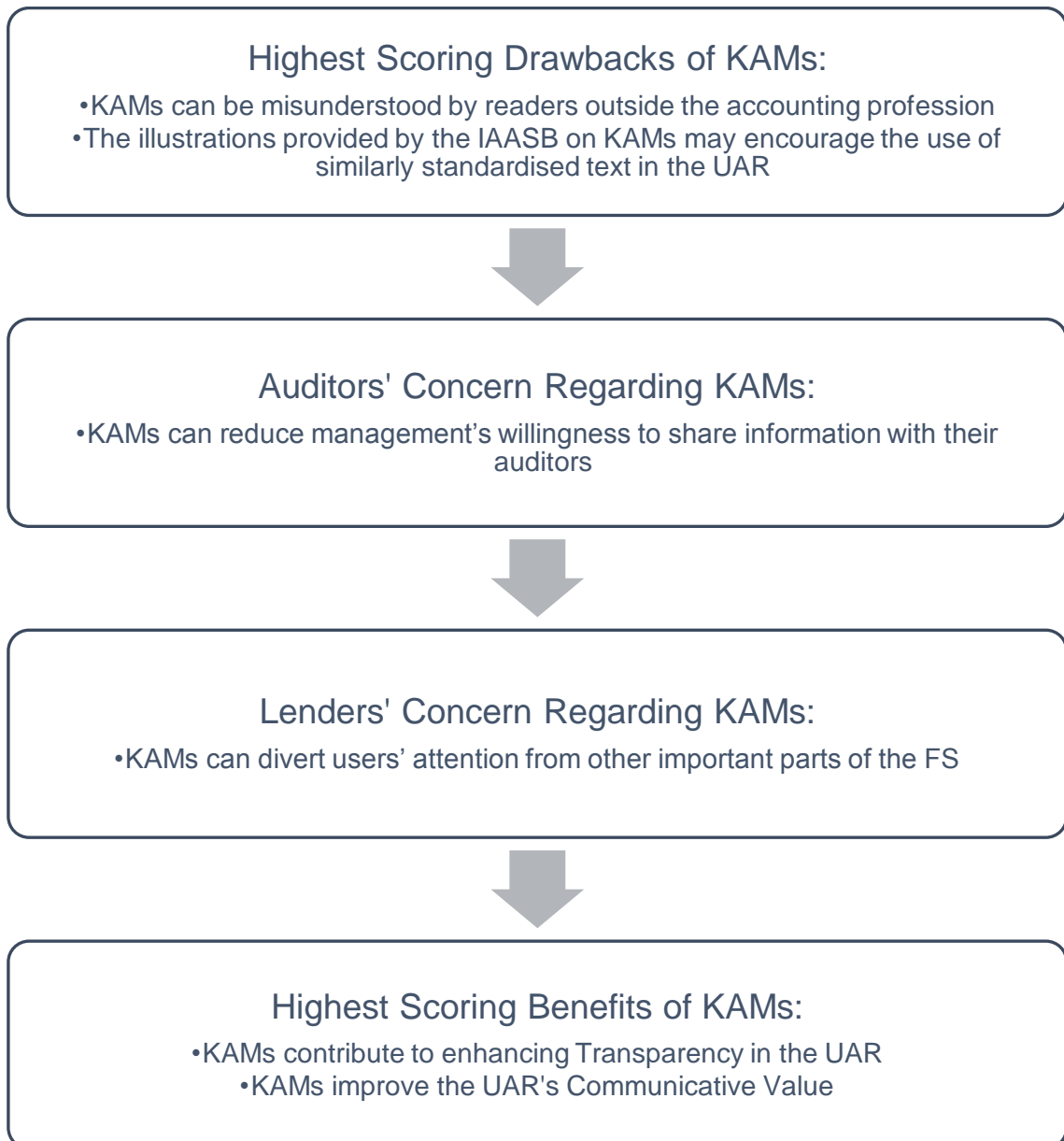


Figure 5.3: Summary of Stakeholder Perceptions regarding KAMs

5.4 Closing the Gaps

Interview findings suggest three main avenues for standard-setters to potentially close the gaps in the future (illustrated in Figure 5.4):

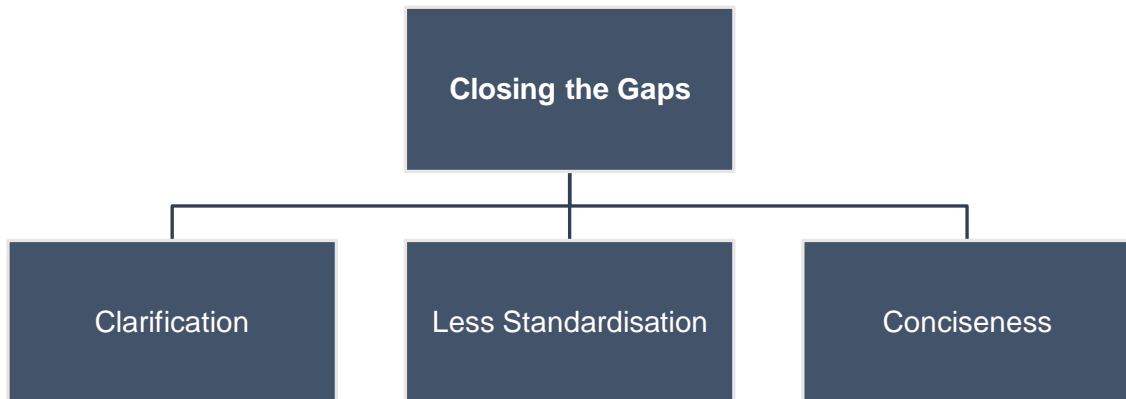


Figure 5.4: Avenues for Closing the Gaps

For technical terms such as 'Fairly Present', rather than complicating and increasing the report with further clarifications, replacement should be made with simpler terms, consistent with the Commission on Auditor Responsibilities' (AICPA, 1978) suggestion. Clarification should come secondary where simpler terms cannot be used, since as acknowledged by Maniscalco (2012), certain technical jargon cannot always be replaced. Interviewees suggested a glossary as the best way to clarify certain technical jargon in the UAR, particularly when certain ISA changes are made; this glossary would include terms being applied across the auditing industry. However, it is unknown as to what extent these will be read, as the UAR's contents would increase and information may get buried in an overly extensive report. Since standard-setters face restrictions on the volume of information which they can include; one B4 suggests presenting

explanations in a separate website (with reference to it in the UAR) may preclude risks of information overload.

For 'Reasonable Assurance', it may be useful to provide the percentage of confidence the auditor has attained from the audit work performed. Conversely, because the materiality threshold disclosures are inherently more complex, Demanuele (2016) suggested that such disclosures may not have the intended effect locally, because our market is not extensively developed; hence, any shortcomings would greatly outweigh any benefits derived.

The ambiguity surrounding 'Fairly Present' stems from its absence in the use of local audit opinions issued, whereas 'True and Fair View' seems to be more preferred. Considering the confusion which two interchangeable terms can cause, interviewees highlight how standard-setters should deliberate on introducing a single phrase, alongside a definition, to achieve consistency, not only in countries, but across states.

Findings indicate how standardisation seems to be a key barrier. Therefore, interviewees suggest moving away from it by providing increased information on audits conducted through a non-standardised, but possibly well-guided report. However, there will be implications if standard-setters choose to steer away from standardisation (discussed in Section 5.5). Furthermore, since certain clarifications and tailor-made reports may not be viable, a shorter and concise UAR can be essential to enhancing communication, since excessive information can pose more confusion for the reader, in attempting to distinguish between relevant and irrelevant information.

Church, Davis and McCracken (2008) argue that sophisticated users have limited time to read reports, hence the bulkier it gets, the less time they will devote to read it. Therefore, conciseness can be crucial in encouraging more users to read the report, which ultimately seems to be the fundamental problem. Despite any shortcomings identified, almost all interviewees^{9/12} agreed that auditors should not attempt to communicate in any formal means beyond the report itself.

5.5 Implications for Closing the Gaps

5.5.1 Communication Gap

The CG emanates from the divide between what the auditor intends to portray in an AR, and that being understood by readers (Mock *et al.*, 2012). Although widespread CGs have not been identified locally as in foreign scenarios, there are improvements which can be induced to mitigate this gap. This study identifies three main barriers, illustrated in Figure 5.5.



Figure 5.5: Elements Contributing to the CG

We have already established how standardisation seems to be a major issue in the UAR; this text appears to have an insignificant effect on users' perceptions, since it typically contains technical jargon, which makes it harder for the non-accountant to decipher, particularly if entirely overlooked. The extent of reading currently undertaken by the user groups in this study is concerning, suggesting that, particularly for the less sophisticated individual, the less reading one

undertakes, the less they are expected to understand the auditor's views on the accompanying FS.

Other auditors suggested that the gap lies within users' expectations. The fact that an AEG persists and will probably continue to do so in the future, obstructs individuals with a limited accounting background from understanding precisely what the auditor is communicating. The IASB (2010) suggests that even those enjoying a sound level of financial knowledge may encounter difficulty in understanding certain accounting notions. This is even more concerning, since B4 suggested that given our local market, Maltese sophisticated users may not have the necessary expertise as those exposed to foreign scenarios.

Alternatively, in evaluating a set of FS and the supporting AR, the user is looking at the future; this is an element which is not covered by the audit, as this would have been conducted on the premise of historical information. Even users themselves are bound to vary within their interpretations, since they are bound to look at the FS with a different approach; suggesting opportunistic expectations by different individuals according to one's own background, motives and expertise (Scott, 1994).

Conversely, the auditor would have simply attained comfort with the numbers portrayed in the FS. However, because users view an audit from a third-party perspective, they can never truly know all the judgements which the auditor would have exercised during an audit. Furthermore, the associated subjectivity involved in an audit not only leaves room for conceivable perceptual differences, but likewise unjustified reliance and expectations by users.

5.5.2 Information Gap

The IAASB (2011) recognised how an increasingly informative AR is crucial for today's business environment. However, findings suggest that respondents still believe that the UAR ought to provide additional information, highlighting how there remains room for improvement, with consistent interview results; indicating that an IG exists locally (refer to Figure 5.6).

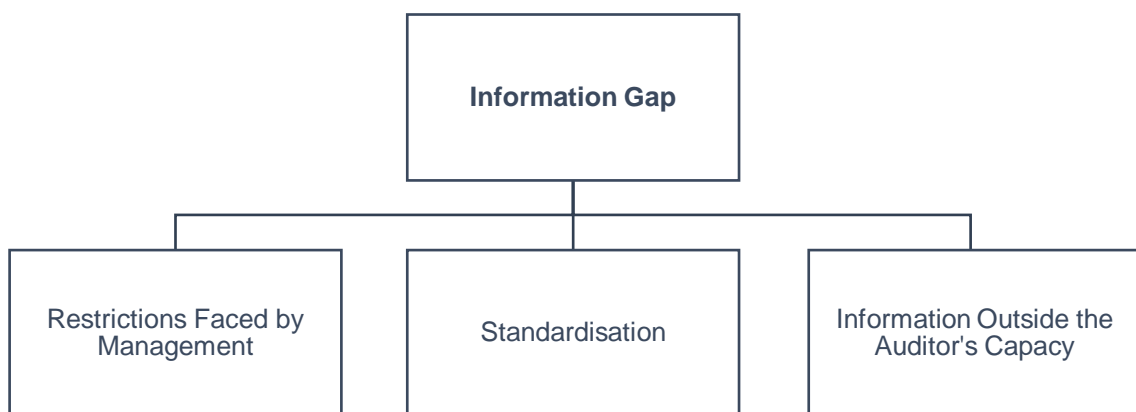


Figure 5.6: Elements Contributing to the IG

Interviewees discussed numerous suggestions on improvements which could potentially close the IG. However, disclosing certain information holds implications, diminishing the gap's possibility of being bridged, as emerging from interviews.

Stakeholders recognise that information revealed to them is merely a small part of a richer net of information available to the entity's management and its auditor (IAASB, 2011). Although presenting certain information safeguards the viability of capital markets (Bookey and Quick, 2016), there are restrictions on the information which both management and auditor can disclose. Findings show

how management may be constrained due to the risk that making certain information public could undermine their competitiveness. On the other hand, auditors face restrictions on the information they can disclose, due to client confidentiality.

Findings suggest that users are currently unaware of all the work the auditor has performed; they are demanding more information about how the audit was conducted, such as the sampling or testing carried out. Therefore, Coram (2014) proposes that tailor-made information is more relevant to stakeholders, as opposed to increased standardised content. However, standardisation may be imperative, since issuing a tailor-made report for each audit performed would require readers to apply a great deal of effort in understanding it, not to mention the increase in audit fees for the client, considering how the statutory audit in Malta may already be burdensome for certain companies, particularly smaller ones.

The IAASB (2011) recognised how certain information may need to come from management, since they are the party responsible for producing the FS. However, because the auditor is unbiased from the entity, the IAASB recognises that by providing his insight on certain matters, the AR's relevance would increase. Nevertheless, one financial adviser argues that it may be unfair for stakeholders to demand certain information from the auditor, since the AR is not being issued specifically for the creditor or investor. Even though users utilise the report, hence the term; this is ultimately drawn-up for the entity's shareholders.

5.6 Conclusion

This chapter has discussed the main results emerging from the findings. The following chapter concludes this study.

Chapter 6

Summary, Conclusions and Recommendations

6.0 Introduction

This chapter presents a summary of the key findings emerging from this study and concludes with potential future recommendations.

6.1 Summary

This study focused on the impact of the revised UAR on three stakeholder groups, and had the following objectives:



Figure 6.1: Dissertation Objectives

To achieve these objectives, the researcher examined the literature pertinent to the study and conducted a mixed-method research approach. This involved distributing a questionnaire and conducting a series of interviews with auditors; who are responsible for issuing the AR, and two sophisticated financial statement users, namely financial advisers and bank lending officers.

6.2 Key Findings

Objective 1 (a) revealed how the most important element in an UAR is the audit opinion. The reputation of the audit firm which performed the audit is also a key consideration for users to determine the level of trust which they can place in the FS. Since most of the UAR consists of standardised text, the attention given to the remaining sections would depend on the audited entity being considered in users' investment or lending decision, and its accompanying FS.

The impact of four technical terms on stakeholders' perceptions were studied, consisting of: 'Reasonable Assurance', 'Material Misstatement', 'Fairly Present' and 'True and Fair View'. This aimed to ascertain whether users reading the UAR find difficulty in understanding their meaning and implications. Findings suggest that since users are not provided with explicit quantification of the confidence being conveyed by the term 'Reasonable Assurance' and the materiality thresholds used for determining the 'Material Misstatement'; given the level of subjectivity of an audit, the reader would not be entirely comfortable with the assurance level being portrayed and materiality levels exercised. Users identified 'True and Fair View' as being simpler to understand than its counterpart 'Fairly Present', stemming from its prevalent use in local opinions issued.

Objective 1 (b) identified that the ‘Description of KAMs’ was the most prominent introduction of the revised ISA 700. This additional section aimed at enhancing the UAR’s transparency and communicative value. However, all participants were concerned that the level of technical knowledge required to understand the auditor’s text in this section may limit users’ understanding of the matters being discussed. This may be particularly relevant for Malta, a small-island state, since auditors suggest that the sophisticated user may not be always knowledgeable about technical accounting jargon, unlike more sophisticated users working in larger foreign markets.

Objective 2 ascertained that local bank lenders tend to place a higher degree of reliance in the UAR, in comparison to financial advisers. In reaching a lending decision, they prefer to read an UAR in a more detailed manner than financial advisers normally would. However, as decisions are mostly based on FS figures, this indicates that the UAR’s purpose is mainly to provide all users with an unbiased audit opinion of these audited accounts.

Users do not seem convinced with the clarity of the message being communicated by an UAR, with some suggesting that there is an element of ambiguity associated with it. Auditors suggest that since users can only witness an audit from a third-party perspective, they can never be fully aware of the judgements the auditor has exercised in reaching the audit opinion, particularly because certain users may not be entirely knowledgeable on what the auditor’s work entails. Furthermore, users may remain with a degree of uncertainty regarding what the auditor intends to convey in the UAR.

Auditors were in favour of the revisions coming through the revised ISA 700, but users did not consider the paragraphs explaining the auditor’s responsibilities as communicating additional value. Moreover, the users’ request for additional

information pertaining to the auditor's independence, highlights that this factor has a significant influence on their evaluation of an UAR.

Objective 3 discovered how simpler terms should be substituted for imprecise technical jargon, whenever possible; clarification should be provided in the UAR where replacements of technical terms are not feasible. However, explanations risk being disregarded once the reader familiarises himself with them.

Despite the IAASB's attempt to steer away from standardisation through the section of KAMs, findings indicate that there is still a vast amount of information which auditors acquire throughout an audit that Maltese users would potentially benefit from. Disclosing this information could encourage readers to analyse and understand this section in greater detail, but at the detriment of small local entities. Local entities might face an increase in audit fees as a result of the additional work needed by auditors to tailor the report for users, rather than use standard text. Given our local scenario, a concise AR may be more useful to increase reading, prevent misinterpretations and avoid increasing audit fees; widening the AR's scope may not be so feasible given the prevailing amount of small local companies.

6.3 Recommendations

The study identifies KAMs as the most important introduction of the reform. Given that presently auditors do not retain much leeway on how they communicate the findings of an audit, their efforts should be focused on providing optimal information to readers through KAMs, considering how this is the only section which grants auditors the most flexibility in the way they communicate with the readers of an UAR.

Findings indicate that there is an element of ambiguity associated with the overall message and contents of the UAR. Interviews reveal that audit firms are typically provided with guidelines on the way they communicate KAMs. This creates the need for the local auditing profession to re-evaluate the current use of KAMs, ensuring that the correct and precise text is used. Although larger audit firms may be subject to quality checks, which limits potential deviations from guidelines, smaller firms may prefer to follow closely any standardised templates, given their limited time, cost and resources. By ensuring that the correct wording is utilised, the communication of KAMs can be enhanced, mitigating any ambiguity which may exist in the UAR.

Findings suggest that it would be useful if auditors included KAMs for non-PIEs, even though this is not a mandatory requirement. This would render the UAR more useful for users. The provision of additional information in the UAR will entice users to read it more thoroughly than they typically would, which ultimately helps mitigate any misinterpretations which there may exist between readers and auditors.

To ensure that the communicated KAMs are understood and utilised as intended, local banks and investment firms should provide information sessions highlighting

the importance of such section, and how this information can be utilised as part of users' assessment of an entity's FS; in evaluating its financial position both from a lending or an investment perspective. By ensuring proper understanding, local banks and investment firms can use KAMs to their full extent, enhancing their decision-making ability.

Since auditors must adhere to their confidentiality obligations, their requirement to divulge KAMs should not impinge on the relationship between them and the reporting entity's management. Prior to disclosing KAMs, adequate discussions should be generated between the two parties, regarding the matters which auditors intend to publish. This is imperative, since if management becomes less willing to disclose significant entity information, the transparency between the two parties will be impaired.

6.4 Areas for Future Research

- One limitation of this study is that it incorporated solely sophisticated users. Another study could focus on a mix of sophisticated and non-sophisticated users. This could shed light on differences which may exist amongst Maltese users, with various levels of sophistication.

- Since quantification may be key to enhancing understanding of the assurance level depicted in the report, a future study could concentrate on the potential implications this disclosure would have in the AR, for users and auditors alike. Also, determining if the benefits derived would outweigh any shortcomings for the concerned stakeholders in a small-island state like Malta.

- A future research could focus on exploring the disclosure of different types of KAMs for separate FS areas, since different disclosures may elicit distinct perceptions amongst stakeholder groups.

6.5 Concluding Remark

Today's global dynamic environment presents new challenges to auditors in communicating on a financial statement audit. The current UAR is viewed as predominantly constituting of standardised text, which may not reflect the increasingly complex FS that management have become accustomed to preparing. Such burdensome FI may already pose certain difficulty to users in understanding precisely what the numbers are communicating; having an equally onerous AR stands to complicate matters further.

Although auditors face certain restrictions from auditing standards, a more proactive stance needs to be taken by the auditor, including efforts to move away from rigorous templates and towards more flexible audit reporting. By considering the AR as an opportunity to engage with the reporting entity's stakeholders, auditors can contribute greatly to increasing the value of a financial statement audit.

Appendices

Appendix 1.1: Independent Auditor's Report as per ISA 700 (Revised)

AUDITOR'S REPORT ON FINANCIAL STATEMENTS OF A LISTED ENTITY PREPARED IN ACCORDANCE WITH A FAIR PRESENTATION FRAMEWORK

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants together with the ethical requirements relating to the audit in the jurisdiction, and the auditor refers to both.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised).
- Key audit matters have been communicated in accordance with ISA 701.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA 701.]

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs,³ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Paragraph 40(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 40(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those

matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. The matters addressed by other law, regulation or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISAs may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISAs where such a difference exists.]

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

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

Sourced from: IAASB (2015b, pp.29-32)

AUDITOR'S REPORT ON FINANCIAL STATEMENTS OF AN ENTITY OTHER THAN A LISTED ENTITY PREPARED IN ACCORDANCE WITH A FAIR PRESENTATION FRAMEWORK

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.
- The auditor elects to refer to the description of the auditor's responsibility included on a website of an appropriate authority.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, *(or give a true and fair view of)* the financial position of the Company as at December 31, 20X1, and *(of)* its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

A further description of the auditor's responsibilities for the audit of the financial is located at [Organization's] website at: [website link]. This description forms part of our auditor's report.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

Sourced from: IAASB (2015b, pp.37-38)

Appendix 3.1: Introductory Letter



**Faculty of Economics,
Management &
Accountancy**

University of Malta
Msida MSD 2080, Malta

Tel: +356 2340 2720

www.um.edu.mt/fema

**DEPARTMENT OF ACCOUNTANCY
LETTER OF INTRODUCTION AND INVITATION TO PARTICIPATE IN RESEARCH**

14th April, 2018

Dear Sir / Madam,

This is to introduce Shannon Muscat, a Master in Accountancy student at the Faculty of Economics, Management and Accountancy at the University of Malta.

The student is undertaking research within the Department of Accountancy regarding the statutory auditor's report. This research aims to explore perceptions of stakeholders regarding the unqualified statutory auditor's report.

In this regard, the said student would like to invite you to contribute on this research project by participating in an interview covering aspects of this topic at your convenience.

This research is important and valuable in enhancing understanding of the subject area and helping practicing professionals and practitioners like yourself, as well as informing policy and support initiatives. The student would be happy to share with you general findings ensuing from this research.

The student is to ensure that any information provided will be treated in confidence, also in line with general Faculty research requirements and ethical obligations. A consent form will be separately provided. You are, of course, entirely free to discontinue your participation at any time or to decline to answer particular questions.

While I thank you beforehand for your consideration as well as your possible kind support and involvement in this important research, should you have any queries on this research please feel free to contact me via email at: accountancy.fema@um.edu.mt.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Peter J Baldacchino', written over a horizontal line.

Mr. Peter J Baldacchino
Head, Department of Accountancy
Faculty of Economics, Management and Accountancy

Appendix 3.2: Questionnaire Information Sheet

INFORMATION SHEET

Introduction

Name of Researcher: Shannon Muscat

Title of research project: Perceptions of the Unqualified Statutory Audit Report in Malta: A Study

Study description:

The study seeks to obtain perceptions from key stakeholder groups regarding the information adequacy and communication effectiveness of the current ISA 700 (Revised) Audit Report, including any recommendations stakeholders may have. The researcher also seeks to examine how these perceptions may differ amongst the distinct stakeholder groups.

As to gather the necessary data, the researcher is required to conduct a survey with all the stakeholder groups concerned. The questionnaire is expected to take approximately 10 to 15 minutes. All responses shall be used by the researcher for research purposes only. There will be no risk of harm or discomfort in neither a psychological nor physical manner to the participants.

Since this research is deemed to understand stakeholder perceptions regarding the recently revised Audit Report, it shall be contributing to previous literature on the research area. Furthermore, it is expected to be value-adding to users of the Audit Report and the Maltese audit profession.

The information obtained from this study will be used for the following purpose/s:

Dissertation/Thesis Publication Other _____

Participation

- Your participation is entirely voluntary, and you can withdraw from the study at any point without consequences and without any need to provide a reason.
- Refusal to participate, or withdrawal from all or part of the research, shall carry no penalty or loss of benefit to which you are otherwise entitled.
- In the event that you withdraw from the study, all records and information pertaining to your participation will be destroyed.
- A copy of the information sheet and consent form will be provided to you.
- A copy of the research findings shall be provided to you should you request it.

Confidentiality and Anonymity

- Your name and/or that of your organisation will not be revealed in any publications, reports or presentations arising from this research.
- The data collected will be anonymised and names will be replaced with codes and then deleted so that individuals will not be identified or identifiable in any way.

- The data will be treated as confidential and access will be primarily limited to the researcher; however, access to the data collected may also be provided to the supervisor/s, examiner/s and reviewer/s if necessary for verification purposes. These will also abide by the conditions and requirements established in this information sheet.
- The data collected (recordings, transcripts, etc.) will be erased/destroyed within 6-10 years of completion of the study.
- Under the General Data Protection Regulation, you have the right to access, rectify and where applicable ask for the data concerning you to be erased.

Name of Researcher: Shannon Muscat

UM Email address: shannon.muscat.14@um.edu.mt

Phone Number/s: 79990050

Signature of Researcher: _____



Name of Supervisor: Konrad Farrugia

UM Email address: konrad.farrugia@um.edu.mt

Phone Number/s: 0044 7774296639

Signature of Supervisor: _____



Appendix 3.3: Sample Size Calculation

Subject Group: External Auditors

Level of Confidence: 95%

Population: 1,317

$$\sigma p = \sqrt{\frac{p(1-p)}{n} \times \left(\frac{N-n}{N-1}\right)}$$

$$\sigma p = \sqrt{\frac{(0.5)(0.5)}{n} \times \left(\frac{1,317-n}{1,317-1}\right)}$$

$$\sigma p = \sqrt{\frac{0.25}{1,316} \times \left(\frac{1,317-n}{1,316}\right)}$$

$$\sigma p = 0.01378294616 \times \sqrt{\left(\frac{1,317-n}{1,316}\right)}$$

$$Z\sigma p = 1.96 (0.01378294616) \times \sqrt{\left(\frac{1,317-n}{1,316}\right)} = 0.05$$

$$0.02701457447 \times \sqrt{\left(\frac{1,317-n}{1,316}\right)} = 0.05$$

$$\sqrt{\left(\frac{1,317-n}{1,316}\right)} = \frac{0.05}{0.02701457447}$$

$$\sqrt{\left(\frac{1,317-n}{1,316}\right)} = 1.85085277$$

$$\frac{1,317-n}{n} = 3.425655978$$

$$1,317 - n = 3.425655978n$$

$$1,317 = 4.425655978n$$

$$n = \frac{1,317}{4.425655978}$$

$$\mathbf{n = 298}$$

Subject Group: Bank Lending Officers

Level of Confidence: 95%

Population: 327⁴⁹

$$\sigma p = \sqrt{\frac{p(1-p)}{n} \times \left(\frac{N-n}{N-1}\right)}$$

$$\sigma p = \sqrt{\frac{(0.5)(0.5)}{n} \times \left(\frac{327-n}{327-1}\right)}$$

$$\sigma p = \sqrt{\frac{0.25}{326} \times \left(\frac{327-n}{326}\right)}$$

$$\sigma p = 0.02769243878 \times \sqrt{\left(\frac{327-n}{326}\right)}$$

$$Z\sigma p = 1.96 (0.02769243878) \times \sqrt{\left(\frac{327-n}{326}\right)} = 0.05$$

$$0.05427718001 \times \sqrt{\left(\frac{327-n}{326}\right)} = 0.05$$

$$\sqrt{\left(\frac{327-n}{326}\right)} = \frac{0.05}{0.05427718001}$$

$$\sqrt{\left(\frac{327-n}{326}\right)} = 0.9211974533$$

$$\frac{327-n}{n} = 0.848604748$$

$$327 - n = 0.848604748n$$

$$327 = 1.848604748n$$

$$n = \frac{327}{1.848604748}$$

$$\mathbf{n = 177}$$

⁴⁹ The population size was supplied by Jobsplus, whereby: "The responsibility for the opinions expressed in this publication rests solely on the author(s), and the publication does not constitute an endorsement by Jobsplus of the opinions expressed in it."

Subject Group: Financial Advisers

Level of Confidence: 95%

Population: 358⁵⁰

$$\sigma p = \sqrt{\frac{p(1-p)}{n} \times \left(\frac{N-n}{N-1}\right)}$$

$$\sigma p = \sqrt{\frac{(0.5)(0.5)}{n} \times \left(\frac{358-n}{358-1}\right)}$$

$$\sigma p = \sqrt{\frac{0.25}{357} \times \left(\frac{358-n}{357}\right)}$$

$$\sigma p = 0.0264628062 \times \sqrt{\left(\frac{358-n}{357}\right)}$$

$$Z\sigma p = 1.96 (0.0264628062) \times \sqrt{\left(\frac{358-n}{357}\right)} = 0.05$$

$$0.05186710015 \times \sqrt{\left(\frac{358-n}{357}\right)} = 0.05$$

$$\sqrt{\left(\frac{358-n}{357}\right)} = \frac{0.05}{0.05186710015}$$

$$\sqrt{\left(\frac{358-n}{357}\right)} = 0.9640022259$$

$$\frac{358-n}{n} = 0.9293002915$$

$$358 - n = 0.9293002915n$$

$$358 = 1.9293002915n$$

$$n = \frac{358}{1.9293002915}$$

$$\mathbf{n = 186}$$

⁵⁰ The population size was supplied by Jobsplus, whereby: "The responsibility for the opinions expressed in this publication rests solely on the author(s), and the publication does not constitute an endorsement by Jobsplus of the opinions expressed in it."

Appendix 3.4: Interviewee Selection

In all, 12 interviewees participated in the interviews conducted, as outlined in Table A3.1:

	Number Selected
<i>Big-Four Firms</i>	2
<i>Medium-Sized Firms</i>	2
<i>Sole Practitioners</i>	2
<i>Financial Advice Firms</i>	2
<i>Banks</i>	2
Total Interviewees	12

Table A3.1: Interviewees Selected

The interviewees were chosen from the same lists used for choosing the participants for the survey performed. The interviewees were all selected at random from the lists previously extracted from the MFSA⁵¹ website (for banks and investment advice firms) and from the Accountancy Board⁵² website (for audit firms and SPs). A depiction of the interviewee selection is shown in Table A3.2:

Big-Four Firms	2 selected at random
Medium-Sized Firms	2 selected at random from the Accountancy Board website: <i>Audit Firms & Principals</i>
Sole Practitioners	2 selected at random from the Accountancy Board website: <i>Holders of a Practising Certificate in Auditing</i>
Financial Advisers	3 selected at random from the MFSA Register: <i>Securities & Markets (Investment Advice)</i>
Bank Lending Officers	3 selected at random from the MFSA Register: <i>Credit Institutions</i>

Table A3.2: Selection of Interviewees

⁵¹ MFSA, 2018

⁵² Accountancy Board, 2018

Appendix 3.5: Questionnaire Copies

EXTERNAL AUDITORS

Survey: Perceptions of the Unqualified Statutory Audit Report

By filling out this survey, you are aware that:

- (1) Your participation is entirely voluntary and you are free to withdraw at any time without giving any reason.
- (2) The data collected will be securely stored and accessible only to the researcher and potentially her supervisor, examiner/s and reviewer/s.
- (3) The data collected will remain anonymous, and that you will not be identifiable in any publications, reports or presentations arising from this research.

By filling out this survey, you are **consenting** to participating in the study. This research is carried out under the supervision of Mr Konrad Farrugia. Should you have any queries or require further clarification, kindly do not hesitate to contact me on: shannon.muscat.14@um.edu.mt

Thank you for taking the time to participate.

Section I: General Questions

Kindly mark your answer with a '✓'

1. In your view, how much of an Unqualified Audit Report, do sophisticated users read?

	0%	25%	50%	75%	100%	
None of it	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	All of it

2. In your view, how important are the follow sections of an Unqualified Audit Report to the more sophisticated user?

	Unimportant	Somewhat Important	Quite Important	Very Important	Extremely Important
Auditor's Unqualified Opinion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Basis for Opinion (Paragraph on the Auditor's Fulfillment of the Relevant Ethical Responsibilities)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Key Audit Matters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Responsibilities of Management and Those Charged with Governance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Auditor's Responsibilities for the Audit of the Financial Statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reporting on Other Legal and Regulatory Requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Audit Firm performing the Audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Sourced from: IAASB (2015b, pp.37-38)

Section II: The Communication Aspect

Section IIA: Effectiveness of Communication of the Unqualified Audit Report

3. Rate the extent to which you agree with the following statements:

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
An unqualified audit report, clearly communicates its intended message	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The contents of an unqualified audit report are understandable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It is important to confirm that the audit opinion is unmodified in the auditor's report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Apart from the unmodified audit opinion, an unqualified audit report includes other sections which are also important	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The unqualified audit report is an important decision facilitating tool for sophisticated users when carrying out an investment or lending decision	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The unqualified audit report provides confidence on the entity receiving the unmodified opinion being a sound investment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The unqualified audit report provides confidence on the entity receiving the unmodified opinion being a well-managed entity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The unqualified audit report provides confidence on the entity receiving the unmodified opinion being able to achieve its strategic goals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section II: The Communication Aspect

Section IIA: Communication of Technical Terminology

4. To what extent do you agree that the following phrases have been exposed to misinterpretation by sophisticated users?

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Reasonable Assurance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Material Misstatement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fairly Present	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
True and Fair View	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. To what extent do you agree that the following phrases are clearly explained in the unqualified audit report?

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Reasonable Assurance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Material Misstatement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fairly Present	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
True and Fair View	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. To what extent do you agree that the below phrases found in an unqualified audit report, require further clarification?

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Reasonable Assurance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Material Misstatement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fairly Present	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
True and Fair View	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section III: The Information Aspect

Section IIIA: Sufficiency and Value of Information contained in the Newly Revised Unqualified Audit Report

7. Indicate the extent to which you agree with the following statements:

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
The current Unqualified Audit Report provides lending officers and financial advisers with sufficient information to make informed decisions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The recently revised Unqualified Audit Report has incorporated value-adding information as to aid users in decision-making	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. Based on the below extract, indicate the extent to which you agree with the below statements:

Key Audit Matters (Illustrative Example and Extract from the Unqualified Audit Report)

“Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.”

Revenue Recognition

The amount of revenue and profit recognised in the year on the sale of [name of product] and aftermarket services is dependent on the appropriate assessment of whether or not each long-term aftermarket contract for services is linked to or separate from the contract for sale of [name of product]. As the commercial arrangements can be complex, significant judgment is applied in selecting the accounting basis in each case. In our view, revenue recognition is significant to our audit as the Group might inappropriately account for sales of [name of product] and long-term service agreements as a single arrangement for accounting purposes and this would usually lead to revenue and profit being recognised too early because the margin in the long-term service agreement is usually higher than the margin in the [name of product] sale agreement.

Extract sourced from the IAASB’s publication: *Auditor Reporting – Illustrative Key Audit Matters* (2015c, pp.1,5).

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
The current Unqualified Audit Report contains sufficient information on the most significant matters addressed during the audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
“The description of key audit matters considered to be the most significant in an audit’ is value-adding to the unqualified audit report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
“Information on how the matter was addressed by the auditor during the audit” is value-adding to the unqualified audit report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. Based on the below extract, indicate the extent to which you agree with the below statements:

Auditor's Responsibilities for the Audit of the Financial Statements (Extract from the Unqualified Audit Report)

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication."

Extract sourced from the IAASB's publication: *The New Auditor's Report: Greater Transparency in the Financial Statement Audit* (2015a, pp.11-12).

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
The current Unqualified Audit Report contains sufficient information on the responsibilities of the auditor and the key features of an audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
"The enhanced description of the responsibilities of the auditor and key features of an audit" is value-adding to the unqualified audit report*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

10. Based on the below extract, indicate the extent to which you agree with the below statements:

Basis for Auditor Opinion Paragraph - Auditor Fulfilment of the Relevant Ethical Responsibilities (Extract from the Unqualified Audit Report)

“We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.”

Extract sourced from Gasan Finance Company p.l.c Annual Report and Financial Statements 31 December 2017, (MFSA, 2018b, p.6)

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
The current Unqualified Audit Report provides sufficient information on the auditor’s fulfilment of relevant ethical responsibilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
“An affirmative statement about the auditor’s fulfillment of relevant ethical responsibilities” is value-adding to the unqualified audit report*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
“An affirmative statement about the auditor’s independence” is value-adding to the unqualified audit report*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11. Based on the requirement for the audit engagement partner to sign the Audit Report, indicate the extent to which you agree with the following statements:

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
The current Unqualified Audit Report provides sufficient information on the partner responsible for the audit engagement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
“The disclosure of the name of the partner responsible for the audit engagement” is value-adding to the unqualified audit report*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Sentences sourced from the IAASB’s publication: *The New Auditor’s Report: Greater Transparency in the FS Audit* (2015a, p. 3).

Section IIIB: Introduction of Key Audit Matters

12. In your view, to what extent do you agree that the following shortcomings can ensue, as a result of auditors disclosing Key Audit Matters:

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Management could become less inclined to sharing entity-information with the auditor because of the auditor’s requirement to disclose significant entity information with stakeholders through Key Audit Matters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The illustrative examples provided by the IAASB in its exposure draft on Key Audit Matters, could influence auditors to use a similarly standardised language to what is provided in the illustrations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Since communication of Key Audit Matters for non-listed entities is voluntary, auditors are most likely to communicate them solely when convenient	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The length of the Key Audit Matters paragraph can excessively lengthen the audit report, making it too long and complicated to read	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The auditor might be overloading the report with excessive information, leaving readers unable to recognize which information is important	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Users' attention will be diverted from other important parts of the financial statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Due to the technical jargon used, Key Audit Matters may not be entirely understood by those outside the profession	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. In your view, to what extent do you agree that the following benefits may arise as a result of auditors disclosing Key Audit Matters:

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Key Audit Matters enhance the Unqualified Audit Report's communicative value	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Key Audit Matters provide greater transparency on the audit performed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Key Audit Matters reduce information asymmetry between auditors and users	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Key Audit Matters serve as a road map to help users navigate through complex financial statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section IV: Demographics

14. What is your gender?

- Female
- Male
- Prefer not to say

15. What is your age?

- 18 – 22 years
- 23 – 27 years
- 28 – 32 years
- 33 – 37 years
- 38 – 42 years
- 43 – 47 years
- 48 years or over

16. What type of audit firm do you currently work for?

- Big 4 Audit Firm
- Medium Audit Firm
- Small Audit Firm or Sole Practitioner

17. Which job position do you currently hold?

- Associate
- Senior
- Assistant Manager or Manager
- Partner

18. How many years of experience do you have within your industry?

- 1 – 3 years
- 4 – 6 years
- 7 – 9 years
- 10 years or more

SOPHISTICATED USERS

Survey: Perceptions of the Unqualified Statutory Audit Report

By filling out this survey, you are aware that:

- (1) Your participation is entirely voluntary and you are free to withdraw at any time without giving any reason.
- (2) The data collected will be securely stored and accessible only to the researcher and potentially her supervisor, examiner/s and reviewer/s.
- (3) The data collected will remain anonymous, and that you will not be identifiable in any publications, reports or presentations arising from this research.

By filling out this survey, you are **consenting** to participating in the study. This research is carried out under the supervision of Mr Konrad Farrugia. Should you have any queries or require further clarification, kindly do not hesitate to contact me on: shannon.muscat.14@um.edu.mt

Thank you for taking the time to participate in my study.

Section I: General Questions

Kindly mark your answer with a '✓'

1. How much of an Unqualified Audit Report do you consider yourself to read?

	0%	25%	50%	75%	100%	
None of it	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	All of it

2. Rate the importance you ascribe to each of the following sections of the Unqualified Audit Report:

	Unimportant	Somewhat Important	Quite Important	Very Important	Extremely Important
Auditor's Unqualified Opinion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Basis for Opinion (Paragraph on the Auditor's Fulfillment of the Relevant Ethical Responsibilities)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Key Audit Matters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Responsibilities of Management and Those Charged with Governance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Auditor's Responsibilities for the Audit of the Financial Statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reporting on Other Legal and Regulatory Requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Audit Firm performing the Audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Sourced from: IAASB (2015b, pp.37-38)

Section II: The Communication Aspect

Section IIA: Effectiveness of Communication of the Unqualified Audit Report

3. Rate the extent to which you agree with the following statements:

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
An unqualified audit report, clearly communicates its intended message	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The contents of an unqualified audit report are understandable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It is important to confirm that the audit opinion is unmodified in the auditor's report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Apart from the unmodified audit opinion, an unqualified audit report includes other sections which are also important	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The unqualified audit report is an important decision facilitating tool when making an investment/lending decision*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The unqualified audit report provides confidence on the entity receiving the unmodified opinion being a sound investment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The unqualified audit report provides confidence on the entity receiving the unmodified opinion being a well-managed entity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The unqualified audit report provides confidence on the entity receiving the unmodified opinion being able to achieve its strategic goals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

* Bank Lending Officers = lending decision; Financial Advisers = investment decision

Section II: The Communication Aspect

Section IIA: Communication of Technical Terminology

4. To what extent do you agree that you have found it difficult to understand the below phrases at a certain point?

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Reasonable Assurance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Material Misstatement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fairly Present	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
True and Fair View	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. To what extent do you agree that the following phrases are clearly explained in the Unqualified Audit Report?

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Reasonable Assurance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Material Misstatement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fairly Present	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
True and Fair View	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. To what extent do you agree that the below phrases found in an Unqualified Audit Report, require further clarification?

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Reasonable Assurance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Material Misstatement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fairly Present	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
True and Fair View	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section III: The Information Aspect

Section IIIA: Sufficiency and Value of Information contained in the Newly Revised Unqualified Audit Report

7. Indicate the extent to which you agree with the following statements:

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
The current Unqualified Audit Report provides lending officers and financial advisers with sufficient information to make informed decisions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The recently revised Unqualified Audit Report has incorporated value-adding information as to aid users in decision-making	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. Based on the below extract, indicate the extent to which you agree with the below statements:

Key Audit Matters (Illustrative Example and Extract from the Unqualified Audit Report)

“Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.”

Revenue Recognition

The amount of revenue and profit recognised in the year on the sale of [name of product] and aftermarket services is dependent on the appropriate assessment of whether or not each long-term aftermarket contract for services is linked to or separate from the contract for sale of [name of product]. As the commercial arrangements can be complex, significant judgment is applied in selecting the accounting basis in each case. In our view, revenue recognition is significant to our audit as the Group might inappropriately account for sales of [name of product] and long-term service agreements as a single arrangement for accounting purposes and this would usually lead to revenue and profit being recognised too early because the margin in the long-term service agreement is usually higher than the margin in the [name of product] sale agreement.

Extract sourced from the IAASB’s publication: Auditor Reporting – Illustrative Key Audit Matters (2015c, pp.1,5).

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
The current Unqualified Audit Report contains sufficient information on the most significant matters addressed during the audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
“The description of key audit matters considered to be the most significant in an audit’ is value-adding to the unqualified audit report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
“Information on how the matter was addressed by the auditor during the audit” is value-adding to the unqualified audit report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. Based on the below extract, indicate the extent to which you agree with the below statements:

Auditor's Responsibilities for the Audit of the Financial Statements (Extract from the Unqualified Audit Report)

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication."

Extract sourced from the IAASB's publication: *The New Auditor's Report: Greater Transparency in the Financial Statement Audit* (2015a, pp.11-12).

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
The current Unqualified Audit Report contains sufficient information on the responsibilities of the auditor and the key features of an audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
"The enhanced description of the responsibilities of the auditor and key features of an audit" is value-adding to the unqualified audit report*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

10. Based on the below extract, indicate the extent to which you agree with the below statements:

Basis for Auditor Opinion Paragraph - Auditor Fulfilment of the Relevant Ethical Responsibilities (Extract from the Unqualified Audit Report)

“We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.”

Extract sourced from Gasan Finance Company p.l.c Annual Report and Financial Statements 31 December 2017 (MFSA, 2018b, p.6)

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
The current Unqualified Audit Report provides sufficient information on the auditor’s fulfilment of relevant ethical responsibilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
“An affirmative statement about the auditor’s fulfilment of relevant ethical responsibilities” is value-adding to the unqualified audit report*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
“An affirmative statement about the auditor’s independence” is value-adding to the unqualified audit report*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11. Based on the requirement for the audit engagement partner to sign the Audit Report, indicate the extent to which you agree with the following statements:

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
The current Unqualified Audit Report provides sufficient information on the partner responsible for the audit engagement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
“The disclosure of the name of the partner responsible for the audit engagement” is value-adding to the unqualified audit report*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Sentences sourced from the IAASB’s publication: *The New Auditor’s Report: Greater Transparency in the FS Audit* (2015a, p. 3).

Section IIIB: Introduction of Key Audit Matters

12. In your view, to what extent do you agree that the following shortcomings can ensue, as a result of auditors disclosing Key Audit Matters:

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Management could become less inclined to sharing entity-information with the auditor because of the auditor’s requirement to disclose significant entity information with stakeholders through Key Audit Matters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The illustrative examples provided by the IAASB in its exposure draft on Key Audit Matters, could influence auditors to use a similarly standardised language to what is provided in the illustrations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Since communication of Key Audit Matters for non-listed entities is voluntary, auditors are most likely to communicate them solely when convenient	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The length of the Key Audit Matters paragraph can excessively lengthen the audit report, making it too long and complicated to read	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The auditor might be overloading the report with excessive information, leaving readers unable to recognize which information is important	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Users' attention will be diverted from other important parts of the financial statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Due to the technical jargon used, Key Audit Matters may not be entirely understood by those outside the profession	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. In your view, to what extent do you agree that the following benefits may arise as a result of auditors disclosing Key Audit Matters:

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Key Audit Matters enhance the Unqualified Audit Report's communicative value	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Key Audit Matters provide greater transparency on the audit performed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Key Audit Matters reduce information asymmetry between auditors and users	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Key Audit Matters serve as a road map to help users navigate through complex financial statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section IV: Demographics

14. What is your gender?

- Female
- Male
- Prefer not to say

15. What is your age?

- 18 – 22 years
- 23 – 27 years
- 28 – 32 years
- 33 – 37 years
- 38 – 42 years
- 43 – 47 years
- 48 years or over

16. How many years of experience do you have within your industry?

- 1 – 3 years
- 4 – 6 years
- 7 – 9 years
- 10 years or more

17. Do you hold any prior experience in the accounting and/or auditing industry?

- Yes
- No

18. If yes, how many years of experience have you had within the accounting and/or auditing industry?

- 1 – 3 years
- 4 – 6 years
- 7 – 9 years
- 10 years or more

Appendix 3.6: Sample Composition

i. Questions applicable to all respondents:

Variable	Category	Frequency	Percentage
Role	External Auditor	83	37.9%
	Bank Lending Officer	67	30.6%
	Financial Adviser	69	31.5%
	<i>Total</i>	219	100.0%
Gender	Female	69	31.5%
	Male	150	68.5%
	<i>Total</i>	219	100.0%
Age	18-22 years	15	6.9%
	23-27 years	39	18.0%
	28-32 years	32	14.7%
	33-37 years	37	17.1%
	38-42 years	43	19.8%
	43-47 years	24	11.1%
	48 years or over	27	12.4%
	<i>Total</i>	219	100.0%

Table A3.3: Demographic Questions Applicable to All Respondents

ii. Questions applicable to External Auditors Only:

Variable	Category	Frequency	Percentage
Audit Firm Type	Small Audit Firm / Sole Practitioner	21	25.3%
	Medium Audit Firm	22	26.5%
	Big 4 Audit Firm	40	48.2%
	<i>Total</i>	83	100.0%
	Associate	21	25.3%

<i>Position within the Audit Firm</i>	Senior	35	25.3%
	Assistant Manager or Manager	6	7.2%
	Partner	21	25.3%
	<i>Total</i>	83	100.0%
<i>Experience in the Auditing Industry</i>	1 – 3 years	42	50.6%
	4 – 6 years	13	15.7%
	7 – 9 years	7	8.4%
	10 years or more	21	25.3%
	<i>Total</i>	83	100.0%

Table A3.4: Demographic Questions Applicable to External Auditors

iii. Questions applicable to Sophisticated Users Only:

Variable	Category	Frequency	Percentage
<i>Any prior experience in accounting and/or auditing</i>	Yes	43	31.6%
	No	93	68.4%
	<i>Total</i>	136	100.0%
<i>Years of prior experience in accounting and/or auditing</i>	1 – 3 years	9	20.9%
	4 – 6 years	12	27.9%
	7 – 9 years	8	18.6%
	10 years or more	14	32.6%
	<i>Total</i>	43	100.0%

Table A3.5: Demographic Questions Applicable to Sophisticated Users

Appendix 3.7: Margin of Error Calculation

Margin of Error = $z\sigma_{\bar{p}}$

For a 95% confidence level, $z = 1.96$

σ_p is the standard error (Standard deviation of the sampling distribution of proportion), which is given by:

$$\sigma_p = \sqrt{\frac{p(1-p)}{n} \left(\frac{N-n}{N-1} \right)}$$

where n is the sample size and N is the population size. The proportion p is unknown, however σ_p is maximized when $p = 0.5$.

When the sample size is $n = 219$ and the population size $N = 2000$, the maximum value of the standard error σ_p is:

$$\sigma_p = \sqrt{\frac{p(1-p)}{n} \left(\frac{N-n}{N-1} \right)} = \sqrt{\frac{(0.5)(0.5)}{219} \left(\frac{2000-219}{2000-1} \right)} = 0.0319$$

Maximum margin of error = $z\sigma_{\bar{p}} = (1.96)(0.0319) = 0.0625 = \mathbf{6.25\%}$

Find Confidence Interval

Confidence Level: 95% 99%

Sample Size:

Population:

Percentage:

Confidence Interval:

Appendix 3.8: Statistical Tests

Questionnaire Section	Statistical Test
I: General Questions (For Nominal Categorical Scale Questions)	<i>Chi-Square Test</i>
I: General Questions (For Likert Scale Questions)	<i>Friedman Test</i> <i>Kruskal-Wallis Test</i>
IIA: Effectiveness of Communication	<i>Friedman Test</i> <i>Kruskal-Wallis Test</i>
IIB: Communication of Technical Terminology	<i>Friedman Test</i> <i>Kruskal-Wallis Test</i>
IIIA: Sufficiency and Value of Information	<i>Friedman Test</i> <i>Kruskal-Wallis Test</i>
IIIB: Introduction of Key Audit Matters	<i>Friedman Test</i> <i>Kruskal-Wallis Test</i>
IV: Demographics	N/A

Table A3.6: Statistical Tests

Confidence Interval

“A confidence interval is an interval estimate of a population parameter and is used to indicate the reliability of an estimate and can be interpreted as the range of values that would contain the true population value 95% of the time if the survey were repeated on multiple samples.”

(Confidence Intervals: How They Work, n.d., par.1)

▪ FRIEDMAN TEST

The Friedman test is a non-parametric test which will be used to compare mean rating scores provided to a number of related statements. The mean rating scores range from 1-5, whereby 1 corresponds to strongly disagree/unimportant,

whereas 5 corresponds to strongly agree/extremely important. The larger the mean rating score, the higher is the agreement/importance provided to the statements.

The Null and Alternative Hypotheses would be:

H₀: The mean ranking scores differ marginally between the statements

H₁: The mean ranking scores differ significantly between the statements

The Null Hypothesis (H₀) specifies that the mean rating scores provided to the statements are comparable and is accepted if the p-value exceeds the 0.05 level of significance. The Alternative Hypothesis (H₁) specifies that the mean rating scores provided to the statements differ significantly and is accepted if the p-value is less than the 0.05 criterion.

▪ **KRUSKAL-WALLIS TEST**

The Kruskal-Wallis Test is used to gauge and compare the extent to which the mean rating scores provided to a statement vary between three or more independent groups (in this case being, external auditors, financial advisers and bank lending officers).

The Kruskal-Wallis test is a generalization to the Mann-Whitney Test, since the latter can only be applied to two independent samples, and a non-parametric equivalent to the One-Way ANOVA Test.

The Null and Alternative Hypotheses would be:

H₀: The mean ranking scores differ marginally between the groups

H₁: The mean ranking scores differ significantly between the groups

The Null Hypothesis (H_0) specifies that the mean rating scores provided to a statement vary marginally between the groups and is accepted if the p-value exceeds the 0.05 level of significance. The Alternative Hypothesis (H_1) specifies that the mean rating scores provided to a statement varies significantly and is accepted if the p-value is less than the 0.05 criterion.

- **CHI-SQUARE TEST**

The Chi-Square test is predominantly used to determine whether there exists an association between any two categorical variables.

The Null and Alternative Hypotheses would be:

H_0 : There is no association between the two categorical variables

H_1 : There is a significant association between the two categorical variables

The Null Hypothesis (H_0) specifies that there is no association between the two categorical variables and is accepted if the p-value exceeds the 0.05 level of significance. The Alternative Hypothesis (H_1) specifies that there is a significant association between two categorical variables and is accepted if the p-value is less than the 0.05 criterion.

Sourced from: (Camilleri, 2001; Laerd Statistics, 2018; Statistics Solutions, 2019)

Appendix 3.9: Interview Information Sheet

INFORMATION SHEET

Introduction

Name of Researcher: Shannon Muscat

Title of research project: Perceptions of the Unqualified Statutory Audit Report in Malta: A Study

Study description:

The study seeks to obtain perceptions from key stakeholder groups regarding the information adequacy and communication effectiveness of the current ISA 700 (Revised) Audit Report, including any recommendations stakeholders may have. The researcher also seeks to examine how these perceptions may differ amongst the distinct stakeholder groups.

As to gather the necessary data, the researcher is required to carry out an interview with the stakeholder groups concerned. The interview is expected to take around 45 minutes. All responses shall be used by the researcher for research purposes only. There will be no risk of harm or discomfort in neither a psychological nor physical manner to the participants.

Since this research is deemed to understand stakeholder perceptions regarding the recently revised Audit Report, it shall be contributing to previous literature on the research area. Furthermore, it is expected to be value-adding to users of the Audit Report and the Maltese audit profession.

The information obtained from this study will be used for the following purpose/s:

Dissertation/Thesis Publication Other _____

Participation

- Your participation is entirely voluntary, and you can withdraw from the study at any point without consequences and without any need to provide a reason.
- Refusal to participate, or withdrawal from all or part of the research, shall carry no penalty or loss of benefit to which you are otherwise entitled.
- In the event that you withdraw from the study, all records and information pertaining to your participation will be destroyed.
- A copy of the information sheet and consent form will be provided to you.
- A copy of the research findings shall be provided to you should you request it.

Confidentiality and Anonymity

- Your name and/or that of your organisation will not be revealed in any publications, reports or presentations arising from this research.
- The data collected will be anonymised and names will be replaced with codes and then deleted so that individuals will not be identified or identifiable in any way.

- The data will be treated as confidential and access will be primarily limited to the researcher; however, access to the data collected may also be provided to the supervisor/s, examiner/s and reviewer/s if necessary for verification purposes. These will also abide by the conditions and requirements established in this information sheet.
- The data collected (recordings, transcripts, etc.) will be erased/destroyed within 6-10 years of completion of the study.
- Under the General Data Protection Regulation, you have the right to access, rectify and where applicable ask for the data concerning you to be erased.

Name of Researcher: Shannon Muscat

UM Email address: shannon.muscat.14@um.edu.mt

Phone Number/s: 79990050

Signature of Researcher: _____



Name of Supervisor: Konrad Farrugia

UM Email address: konrad.farrugia@um.edu.mt

Phone Number/s: 0044 7774296639

Signature of Supervisor: _____



Appendix 3.10: Interview Schedule

EXTERNAL AUDITORS

The users during this interview shall solely refer to investment (financial) advisers and bank lending officers.

Preliminary Question:

- How many years of experience do you hold within the auditing industry?

SECTION 1: GENERAL QUESTIONS

1. Do you believe users tend to read only selected sections of an unqualified audit report? If yes, which sections and why?
2. In your view, what weight do users give to the auditor's opinion pertaining to the financial statements?
3. Apart from the auditor's opinion, are there any other sections in the unqualified audit report which, in your view, users consider important? If yes, which sections and why?

SECTION 2A: ASSESSING THE EFFECTIVENESS OF COMMUNICATION IN THE OVERALL MESSAGE OF THE UNQUALIFIED AUDIT REPORT

4. In your view, what is the key message being communicated in an unqualified audit report?
5. An unqualified audit opinion is indicating that the financial statements are fairly presented in line with the general applicable reporting framework. Do you believe that users may be interpreting an unqualified audit opinion as portraying something else beyond this?
 - (a) If yes, kindly elaborate why, in your opinion, there may be such misinterpretations?

6. In your view, do users utilize the unqualified audit report to support them in their decision-making?
7. Considering financial advisers and bank lending officers as two main users of the audit report, which of the two groups, in your view, may choose to refer to the audit report more during their decision-making?
8. What level of comfort does an unqualified audit report provide on:
 - (a) how well the company is managed
 - (b) the company's ability to reach its strategic goals
 - (c) the company shares being a sound investment

If confidence is found to be high: Can you explain the reason as to why you feel an unqualified audit report provides sophisticated users confidence on the aforementioned factors?

SECTION 2B: ASSESSING THE UNQUALIFIED AUDIT REPORT'S COMMUNICATION OF TECHNICAL TERMINOLOGY

9. Can you explain what the following terms found in the audit report mean to you?
 - (a) Reasonable Assurance
 - (b) Material Misstatement
 - (c) Fairly Present
 - (d) True and Fair View
10. From your experience, which of these terms are most likely to be misinterpreted by users?
11. In light of the recently effected changes to the unqualified audit report, do you believe users are currently finding it difficult to understand certain complex terms found in an unqualified audit report?
12. The quantitative findings indicate that the term '*fairly present*' was rated as the most difficult to understand. On the other hand, the term '*true and fair view*' was recognized as the least term which was susceptible to difficulty in

comprehension. (*In fact, a statistical difference was found between these two terms through the Friedman Test*).

Considering that auditors currently have a choice in choosing which term to include when expressing the audit opinion in the audit report, in your view, should there be the possibility of introducing ‘*true and fair view*’ as a permanent substitute for ‘*fairly present*’, thus possibly eliminating the auditor’s choice?

13. Communication Effectiveness Recommendations:

- (a) What would you suggest as a way for the auditing profession to mitigate the difficulty which users may be facing when encountering complex terms in the audit report?
- (b) Do you believe that by providing clarification of certain complex terminologies in the audit report, would reduce any confusion pertaining to them?
- (c) Why do you believe there continues to be a gap in the communication of the audit report amongst auditors and users (i.e. bank lending officers and financial advisers), particularly when considering that these types of users hold a sound level of financial knowledge?
- (d) Considering the most recent revision to the audit report, do you believe there is still work to be done with regards improvement of its communication? If so, how would you recommend the communication of the auditor’s work be improved?
- (e) Do you believe auditors should look towards means beyond the audit report to communicate their conclusions of an audit? If yes, kindly elaborate.

SECTION 3A: ASSESSING THE ADEQUACY OF THE RECENTLY INCORPORATED INFORMATION IN THE UNQUALIFIED AUDIT REPORT

14. Do you believe the current unqualified audit report communicates value-adding information to its users?
15. Do you think the current unqualified audit report provides enough information for users and stakeholders to make informed decisions?
16. In your view, what are the main benefits and shortcomings which have ensued following the recent revision to ISA 700: *Forming an Opinion and Reporting on Financial Statements*?
17. Are there areas in the standard where improvements may still be necessary?

SECTION 3B: INTRODUCTION OF KEY AUDIT MATTERS

18. Key Audit Matters hold both benefits and shortcomings through their disclosure. Do you believe that the benefits of disclosing Key Audit Matters in an unqualified audit report would outweigh the shortcomings, or vice versa?
19. Information Adequacy Recommendations:
 - (a) Could certain boilerplate text incorporated in the unqualified audit report (such as the paragraph on the auditor's responsibilities) be eliminated and replaced by other information which users might perceive to be more value-adding?
 - (b) Why do you think there continues to be a gap between the information demanded by users which would enable them to make informed decisions, and the information which is actually incorporated in audit reports?
 - (c) What other information could be introduced to the unqualified audit report which would aid users in their decision-making?
 - (d) In your view, are there any other improvements which could possibly be made to the unqualified audit report in the future?

SOPHISTICATED USERS

Preliminary Questions:

- How many years of experience do you have within your industry?
- Do you hold any prior experience in the accounting and/or auditing industry?
If yes, how many years?

SECTION 1: GENERAL QUESTIONS

1. How much of an unqualified audit report do you read while making lending/investment decisions? Which sections do you mostly refer to?
2. Do you consider yourself to, at times, read selected sections of the unqualified audit report? Kindly elaborate.
3. What weight do you give to the auditor's opinion in the financial statements?
4. Apart from the auditor's opinion, are there sections in the unqualified audit report which you also consider as important? If yes, which sections and why?

SECTION 2A: EFFECTIVENESS OF COMMUNICATION IN THE UNQUALIFIED AUDIT REPORT

5. In your view, what is the key message being communicated by the unqualified audit report?
6. An unqualified audit opinion is indicating that the financial statements are fairly presented in line with the general applicable reporting framework. In your opinion, when you encounter an unqualified audit opinion, do you believe this to be communicating something else to you, other than the fair presentation of the financial statements?
 - (a) If yes, what is an unqualified audit opinion communicating to you?
 - (b) Kindly elaborate why, in your opinion, there may be such misinterpretations.

7. Do you consider the audit report to be an important tool when making a lending/investment decision?
- (a) If yes, how does the unqualified audit report assist you in your analysis of the company under scrutiny?
 - (b) If no, why do you choose to exclude it when undertaking a lending/investment decision about a company?
8. What level of comfort does an unqualified audit report give you on:
- (a) how well the company is managed
 - (b) the company's ability to reach its strategic goals
 - (c) the company shares being a sound investment
- If confidence is found to be high: Can you explain the reason as to why you feel an unqualified audit report provides you confidence on the aforementioned factors?*

SECTION 2B: COMMUNICATION OF TECHNICAL TERMINOLOGY

10. Can you explain what the following terms found in the audit report mean to you?
- (a) Reasonable Assurance
 - (b) Material Misstatement
 - (c) Fairly Present
 - (d) True and Fair View
11. Which of these terms have you found difficult to understand at some point? Why do you believe you have encountered this difficulty?
12. The quantitative findings indicate that the term '*fairly present*' was rated as the most difficult to understand. On the other hand, the term '*true and fair view*' was recognized as the least term which was susceptible to difficulty in comprehension.

Considering that auditors currently have a choice in choosing which term to incorporate as part of the audit opinion in the audit report, in your view, should there be the possibility of introducing true and fair view as a permanent substitute for fairly present, thus eliminating the auditor's choice? Kindly explain why.

13. Communication Effectiveness Recommendations:

- (a) What would you suggest as a way for the auditing profession to mitigate the difficulty which users are facing when encountering complex terms in the audit report?
- (b) Do you think that by including clarification of certain complex terms in the audit report itself, would contribute to reducing any confusion pertaining to them?
- (c) Why do you believe there continues to be a gap in the communication of the audit report amongst users (i.e. in this case financial advisers and bank lending officers) and auditors, particularly when considering that these types of users hold a sound level of financial knowledge?
- (d) Considering the most recent revision to the audit report, do you believe there is still work to be done as to improve its communication? If so, how would you recommend the communication of the auditor's work be improved?
- (e) Do you believe auditors should look towards means beyond the audit report to communicate their conclusions of an audit?

SECTION 3A: ASSESSING THE ADEQUACY OF THE RECENTLY INCORPORATED INFORMATION IN THE UNQUALIFIED AUDIT REPORT

14. Are you aware of the latest revisions and changes to the unqualified audit report as mandated by ISA 700 Revised: *Forming an Opinion and Reporting on Financial Statements*? If yes, which amendments are you aware of?

15. Do you perceive the current unqualified audit report to communicate value-adding information?
16. Do you think the current unqualified audit report provides enough information for users and stakeholders to make informed decisions?

SECTION 3B: INTRODUCTION OF KEY AUDIT MATTERS

17. Are you aware of the most recently introduced section to the unqualified audit report, named as '*Key Audit Matters*'?

If yes, Key Audit Matters hold both benefits and shortcomings through their disclosure. Do you believe that the benefits of disclosing Key Audit Matters in the unqualified audit report would outweigh the shortcomings, or vice versa?

18. Information Adequacy Recommendations:

- (a) Could certain boilerplate text incorporated in the unqualified audit report (such as the paragraph on auditor's responsibilities) be eliminated and replaced by other information which, as a user, you would consider as value-adding?
- (b) Why do you think there continues to be a gap between the information demanded by users as to enable them to make informed decisions, and the information which is actually incorporated in audit reports?
- (c) What type of information should be introduced to the unqualified audit report which would aid users like yourself, in your decision-making?
- (d) In your view, are there any other improvements which could possibly be made to the unqualified audit report in the future?

Appendix 3.11: Interview Consent Form

CONSENT FORM

Name of Researcher: Shannon Muscat

Title of research project: Perceptions of the Unqualified Statutory Audit Report in Malta: A Study

Declaration by Participant:

- I confirm that I have been given a copy of the information sheet and consent form for the above-mentioned study. I have had the opportunity to read and consider the information provided, and to ask questions; any questions have been answered in a satisfactory manner.
- I understand that my participation is voluntary and that I am free to withdraw at any time without giving any reason and without any penalty or loss of benefit to which I am otherwise entitled.
- I understand that the data collected will be securely stored and accessible only to the researcher, and potentially to his/her supervisor/s, examiner/s, and/or reviewer/s. I have been informed that data will be erased/destroyed within 6-10 years of completion of the study.
- I understand that the data collected will be anonymised and that I will not be identifiable in any publications, reports, or presentations arising from this research.
- I understand that under the General Data Protection Regulation, I have the right to access, rectify and where applicable erase any data concerning me.

Please tick as appropriate:

- I agree to be interviewed and recorded for purposes of this study.

YES NO

- I agree to be contacted for a follow-up meeting/interview at a later date.

YES NO


I consent to participate in the study.

YES NO

Name of Participant: _____

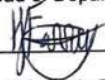
Signature: _____ Date: _____

Name of Researcher: Shannon Muscat

Researcher Signature:  _____

UM Email address: shannon.muscat.14@um.edu.mt Phone Number/s: 79990050

Name of Supervisor / Head of Department: Konrad Farrugia

Supervisor Signature:  _____

UM Email address: konrad.farrugia@um.edu.mt Phone Number/s: 0044 7774296639

Appendix 4.1: Kruskal-Wallis Post-Hoc Comparison

The *Kruskal-Wallis* Post-Hoc Comparison was carried out in order to test and compare the extent of similarities or divergences in perceptions across the three participant groups, pertaining to the statistically significant results identified in Chapter 4. This provided the researcher with more information about where the statistically significant results lie, and amongst which groups, thus helping in achieving objective 2 of this study. Those results which did not contain any statistically significant differences amongst the groups have been excluded.

The tables hereunder demonstrate the *Kruskal-Wallis* Post-Hoc Comparison Test Results. In cases where the p-value exceeds the 0.05 level of significance, no statistically significant result can be identified amongst the two participant groups; this implies that participants' mean rating scores did not vary significantly between each other. Furthermore, the groups in question would have expressed similar perceptions.

Conversely, where the p-value does not exceed the 0.05 criterion, a statistically significant result can be identified amongst the two participant groups; this means that the mean rating scores of the groups are considered to vary significantly from one another. Furthermore, the groups in question would have expressed distinct perceptions.

Distinct Sections of an Unqualified Audit Report:

Table A4.1: Pairwise Comparisons Clustered by Role – Importance Assigned to Sections in the UAR					
Variable	Role	Role	Difference	Std. Error	P-value
2.1 Auditor's Unqualified Opinion	External Auditor	Bank Lending Officer	0.034	0.176	0.457
		Financial Adviser	0.625	0.175	0.001
	Bank Lending Officer	Financial Adviser	0.659	0.184	0.000
2.2 Basis for Opinion (Paragraph on Auditor's Fulfillment of the Relevant Ethical Responsibilities)	External Auditor	Bank Lending Officer	0.412	0.180	0.025
		Financial Adviser	0.378	0.178	0.033
	Bank Lending Officer	Financial Adviser	0.035	0.188	0.905
2.4 Responsibilities of Management and Those Charged with Governance	External Auditor	Bank Lending Officer	0.560	0.182	0.001
		Financial Adviser	0.087	0.180	0.539
	Bank Lending Officer	Financial Adviser	0.648	0.190	0.000
2.5 Auditor's Responsibilities for the Audit of the Financial Statements	External Auditor	Bank Lending Officer	0.500	0.191	0.012
		Financial Adviser	0.043	0.190	0.980
	Bank Lending Officer	Financial Adviser	0.457	0.200	0.018
2.7 Audit Firm performing the Audit	External Auditor	Bank Lending Officer	0.549	0.159	0.001
		Financial Adviser	0.443	0.158	0.010
	Bank Lending Officer	Financial Adviser	0.992	0.166	0.000

Communication of the Key Message:

Table A4.2: Pairwise Comparisons Clustered by Role – Statements related to the UAR's Communication Aspect					
Variable	Role	Role	Difference	Std. Error	P-value
3.1 An unqualified audit report, clearly communicates its intended message	External Auditor	Bank Lending Officer	0.234	0.109	0.013
		Financial Adviser	0.331	0.108	0.001
	Bank Lending Officer	Financial Adviser	0.097	0.114	0.415
3.2 The contents of an unqualified audit report are understandable	External Auditor	Bank Lending Officer	0.194	0.117	0.035
		Financial Adviser	0.406	0.116	0.000
	Bank Lending Officer	Financial Adviser	0.212	0.122	0.078
3.3 It is important to confirm that the audit opinion is unmodified in the auditor's report	External Auditor	Bank Lending Officer	0.016	0.118	0.934
		Financial Adviser	0.454	0.117	0.000
	Bank Lending Officer	Financial Adviser	0.470	0.123	0.000
3.4 Apart from the unmodified audit opinion, an unqualified audit report includes other sections which are also important	External Auditor	Bank Lending Officer	0.328	0.112	0.004
		Financial Adviser	0.461	0.111	0.000
	Bank Lending Officer	Financial Adviser	0.134	0.117	0.358
3.5 The unqualified audit report is an important decision facilitating tool when making an investment/lending decision	External Auditor	Bank Lending Officer	0.375	0.129	0.012
		Financial Adviser	0.101	0.128	0.166
	Bank Lending Officer	Financial Adviser	0.477	0.135	0.000
3.6 The unqualified audit report provides confidence on the entity being a sound investment	External Auditor	Bank Lending Officer	0.537	0.172	0.002
		Financial Adviser	0.264	0.171	0.255
	Bank Lending Officer	Financial Adviser	0.273	0.180	0.067

Communication of Technical Terms:

Table A4.3: Pairwise Comparisons Clustered by Role – Sophisticated Users' <i>Difficulty Encountered</i> in Understanding Complex Terminology					
Variable	Role	Role	Difference	Std. Error	P-value
4.1 Reasonable Assurance	External Auditor	Bank Lending Officer	1.356	0.149	0.000
		Financial Adviser	1.438	0.148	0.000
	Bank Lending Officer	Financial Adviser	0.082	0.156	0.659
4.2 Material Misstatement	External Auditor	Bank Lending Officer	0.949	0.152	0.000
		Financial Adviser	1.373	0.151	0.000
	Bank Lending Officer	Financial Adviser	0.949	0.159	0.036
4.3 Fairly Present	External Auditor	Bank Lending Officer	0.880	0.164	0.000
		Financial Adviser	0.987	0.163	0.000
	Bank Lending Officer	Financial Adviser	0.880	0.171	0.665
4.4 True and Fair View	External Auditor	Bank Lending Officer	1.678	0.167	0.000
		Financial Adviser	1.477	0.166	0.000
	Bank Lending Officer	Financial Adviser	1.678	0.175	0.323

Table A4.4: Pairwise Comparisons Clustered by Role – Perceived <i>Clear Explanation</i> of Complex Terms in the UAR					
Variable	Role	Role	Difference	Std. Error	P-value
5.1 Reasonable Assurance	External Auditor	Bank Lending Officer	0.398	0.142	0.004
		Financial Adviser	0.035	0.141	0.987
	Bank Lending Officer	Financial Adviser	0.433	0.148	0.007
5.2 Material Misstatement	External Auditor	Bank Lending Officer	0.527	0.149	0.003
		Financial Adviser	0.004	0.148	0.673
	Bank Lending Officer	Financial Adviser	0.523	0.156	0.007
5.3 Fairly Present	External Auditor	Bank Lending Officer	0.469	0.151	0.004
		Financial Adviser	0.076	0.150	0.412
	Bank Lending Officer	Financial Adviser	0.393	0.158	0.051
5.4 True and Fair View	External Auditor	Bank Lending Officer	0.329	0.155	0.092
		Financial Adviser	0.148	0.154	0.384
	Bank Lending Officer	Financial Adviser	0.477	0.162	0.015

Table A4.5: Pairwise Comparisons Clustered by Role – <i>Further Clarification</i> Required for Complex Terms found in the UAR					
Variable	Role	Role	Difference	Std. Error	P-value
6.1 Reasonable Assurance	External Auditor	Bank Lending Officer	0.296	0.156	0.019
		Financial Adviser	0.093	0.155	0.774
	Bank Lending Officer	Financial Adviser	0.389	0.163	0.012
6.4 True and Fair View	External Auditor	Bank Lending Officer	0.432	0.148	0.001
		Financial Adviser	0.074	0.147	0.425
	Bank Lending Officer	Financial Adviser	0.358	0.155	0.020

The Revised Unqualified Audit Report:

Table A4.6: Multiple Comparisons Clustered by Role – Perceived <i>Sufficiency and/or Value</i> of Recently Introduced/Enhanced Sections in the UAR					
Variable	Role	Role	Difference	Std. Error	P-Value
7.2 The recently revised Unqualified Audit Report has incorporated value-adding information as to aid users in decision-making	External Auditor	Bank Lending Officer	0.647	0.129	0.000
		Financial Adviser	0.064	0.128	0.754
	Bank Lending Officer	Financial Adviser	0.711	0.135	0.000
8.1 The current Unqualified Audit Report contains sufficient information on the most significant matters addressed during the audit	External Auditor	Bank Lending Officer	0.183	0.130	0.049
		Financial Adviser	0.156	0.129	0.237
	Bank Lending Officer	Financial Adviser	0.339	0.135	0.003
8.3 “Information on how the matter was addressed by the auditor during the audit” is value-adding to the unqualified audit report	External Auditor	Bank Lending Officer	0.553	0.120	0.000
		Financial Adviser	0.182	0.119	0.160
	Bank Lending Officer	Financial Adviser	0.371	0.125	0.013
9.1 The current Unqualified Audit Report contains sufficient information on the responsibilities of the auditor and the key features of an audit	External Auditor	Bank Lending Officer	0.596	0.123	0.000
		Financial Adviser	0.474	0.122	0.000
	Bank Lending Officer	Financial Adviser	0.122	0.128	0.299
9.2 “The enhanced description of the responsibilities of the auditor and key features of an audit” is value-adding to the unqualified audit report	External Auditor	Bank Lending Officer	0.831	0.125	0.000
		Financial Adviser	0.411	0.124	0.001
	Bank Lending Officer	Financial Adviser	0.420	0.130	0.022
10.1 The current Unqualified Audit Report provides sufficient information on the auditor’s	External Auditor	Bank Lending Officer	0.575	0.110	0.000
		Financial Adviser	0.525	0.109	0.000

fulfilment of relevant ethical responsibilities	Bank Lending Officer	Financial Adviser	0.050	0.115	0.595
10.2 "An affirmative statement about the auditor's fulfillment of relevant ethical responsibilities" is value-adding to the unqualified audit report	External Auditor	Bank Lending Officer	0.854	0.124	0.000
		Financial Adviser	0.240	0.123	0.054
	Bank Lending Officer	Financial Adviser	0.614	0.129	0.000
10.3 "An affirmative statement about the auditor's independence" is value-adding to the unqualified audit report	External Auditor	Bank Lending Officer	0.330	0.122	0.015
		Financial Adviser	0.300	0.121	0.007
	Bank Lending Officer	Financial Adviser	0.030	0.127	0.824

Disclosing Key Audit Matters:

Table A4.7: Multiple Comparisons Clustered by Role – Perceived Potential <i>Drawbacks</i> of Disclosing KAMs in an UAR					
Variable	Role	Role	Difference	Std. Error	P-value
12.1 Management could become less inclined to sharing entity information with the auditor because of the auditor's requirement to disclose significant entity information with stakeholders through Key Audit Matters	External Auditor	Bank Lending Officer	0.402	0.155	0.014
		Financial Adviser	0.303	0.154	0.025
	Bank Lending Officer	Financial Adviser	0.098	0.162	0.817
12.2 The illustrative examples provided by the IAASB in its exposure draft on Key Audit Matters, could influence auditors to use a similarly standardised language to what is provided in the illustrations	External Auditor	Bank Lending Officer	0.530	0.145	0.001
		Financial Adviser	0.110	0.143	0.783
	Bank Lending Officer	Financial Adviser	0.420	0.151	0.004
12.6 Users' attention will be diverted from other important parts of the financial statements	External Auditor	Bank Lending Officer	0.326	0.151	0.045
		Financial Adviser	0.053	0.150	0.690
	Bank Lending Officer	Financial Adviser	0.379	0.158	0.002

Table A4.8: Multiple Comparisons Clustered by Role – Perceived Potential <i>Benefits</i> of Disclosing KAMs in an UAR					
Variable	Role	Role	Difference	Std. Error	P-value
13.1 Key Audit Matters enhance the Unqualified Audit Report's communicative value	External Auditor	Bank Lending Officer	0.346	0.128	0.029
		Financial Adviser	0.282	0.127	0.031
	Bank Lending Officer	Financial Adviser	0.628	0.134	0.000

13.2 Key Audit Matters provide greater transparency on the audit performed	External Auditor	Bank Lending Officer	0.485	0.122	0.004
		Financial Adviser	0.289	0.121	0.014
	Bank Lending Officer	Financial Adviser	0.774	0.127	0.000
13.3 Key Audit Matters reduce information asymmetry between auditors and users	External Auditor	Bank Lending Officer	0.598	0.121	0.000
		Financial Adviser	0.116	0.119	0.250
	Bank Lending Officer	Financial Adviser	0.714	0.126	0.000
13.4 Key Audit Matters serve as a road map to help users navigate through complex financial statements	External Auditor	Bank Lending Officer	0.792	0.145	0.000
		Financial Adviser	0.051	0.143	0.772
	Bank Lending Officer	Financial Adviser	0.742	0.151	0.000

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