

Key audit matters: did IAASB unravel the knots of confusion in audit reports decisions?

Key audit
matters

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Abstract

Purpose – This study aims to investigate how external auditors properly classify the requirements of ISA 701 for key audit matters (KAM) compared with an emphasis of matter or other matters (EOM) in ISA 706 and going concern (GC) in ISAs 706 and 570. Such investigation is important to assess whether the explanatory matters included in ISAs 701, 706 and 570 are appropriate for external auditors so they can properly classify identified audit matters as either KAM, EOM or GC matters and considering the relationship among them.

Design/methodology/approach – The research used questionnaires sent to a sample of external auditors in five audit firms with international affiliations including two of the Big 4 audit firms. The Z-test for two proportions is conducted to assess whether external auditors were confused when interpreting the explanatory matters included in the ISAs.

Findings – The research suggests that the current ISA 701 explanations may not adequately help some auditors in their aim of properly identifying all KAM from among the different matters they reach during their audit. When classifying EOM and GC, most of the external auditors misclassified them as KAM.

Practical implications – This is a timely study. The results have implications for standard setters and regulators through revising the explanations included in the different audit reporting standards including ISA 701 and considering the relationships among them.

Originality/value – According to the authors' knowledge, this study is considered among the first that surveyed the appropriateness of the explanations included in ISAs for KAM, EOM, GC and how auditors perceive such explanations when forming their opinion about their clients' financial statements.

Keywords Egypt, External audit, Audit opinion, Going concern, ISA, Emphasis of a matter, Key audit matters

Paper type Research paper

1. Introduction

Audit reports had a long history of debate among academic researchers regarding their usefulness to users of financial reports (Giral *et al.*, 2007; Church *et al.*, 2008). Financial statements' users do not perceive such reports to have information value, which, in turn, can increase the audit expectation gap (Church *et al.*, 2008). For a long time, there has been a significant "expectations gap" between what financial statement users expect an audit is delivering and what the audit profession believes it is providing. This is especially true after the accounting failures of Enron and other companies where auditors were held accountable for such failures (Mock *et al.*, 2013; Heilmann and Pott, 2018). However, Vanstraelen *et al.* (2012) suggested that the usefulness of the audit report will depend on the inclusion of relevant information presented to users. Users expect to receive information to help them



better understand the financial statements, as well as assess the effects of significant issues (including misstatements) identified by auditors on the company's financial position and results of operations. Auditors, on the other hand, tend to minimize the risk of litigation by providing the minimum level of information required by the auditing standards in their audit reports.

Because of the above criticism of the standardized audit report, there were initiatives and attempts taken by the International Auditing and Assurance Standards Board (IAASB, 2015a, 2015b), regarding the additional reporting requirements that would help reduce the audit expectation gap created by the current reporting framework. These initiatives are also intended to reduce the information gap that is the gap between the information users desire and the information available through the audited financial statements, other corporate disclosures and the auditor's report (Bedard *et al.*, 2016). Dobija *et al.* (2014) concluded that auditors believe that there is a need for the extended audit report to reduce such information gap and enhance the informational value of the audit report. Thus, the IAASB (2015a, 2015b) revised some of its current audit reporting standards providing additional disclosure to improve communication value and decision-usefulness of the audit reports (Financial Reporting Council [FRC], 2013). The IAASB introduced the new audit reporting standard, ISA 701, which became effective on December 15, 2016, mainly to communicate key audit matters (KAM) that should significantly improve audit reporting decisions. KAM are those matters that, in the auditor's professional judgment, were of most significance in the audit of the current period financial statements. KAMs are selected from matters communicated to those charged with governance. They could include areas identified as significant risks including significant management judgment and significant unusual transactions and areas in which the auditor encountered significant difficulty during the audit including the accumulation of sufficient appropriate audit evidence. KAMs could also include circumstances that required significant modifications of the auditor's planned approach. Communicating KAMs in the audit report is not intended to express an opinion on those matters or be a substitute for a qualified or adverse audit opinion when required. However, those KAMs may assist financial statements' users to understand the entity and areas of significant management judgments in the audited financial statements (ISA 701). In addition, the Public Company Accounting Oversight Board [PCAOB], (2018) Release No. 2017-001 focused on communicating critical audit matters (CAM) that are considered material to the financial statements or involve complex judgments. However, the current debate about the new standard provided mixed views and reactions in the academic research regarding the usefulness of the KAMs reforms. Some studies suggested that including KAM in the audit report has significant positive impact on investment decisions and audit quality (Christensen *et al.*, 2014). Other studies did not support this notion adding that it does not even reduce the expectation gap (Köhler *et al.*, 2016; Gutierrez *et al.*, 2018; Heilmann and Pott, 2018). Moreover, Bedard *et al.* (2016) provided that, as auditors have some flexibility on the amount and extent of CAM information that is disclosed, the extent to which CAM disclosures will close the information gap is yet to be fully determined. More interestingly, there were arguments regarding the type of information presented by the new audit report. Some suggest the need to focus more on non-financial information such as internal control systems, risk management systems, sustainability information and entity breach of the loans' covenant provisions (Coram *et al.*, 2009; Vanstraelen *et al.*, 2012; Trpeskaa *et al.*, 2017).

ISA 701 provides auditors with guidelines to identify KAMs; however, those guidelines and explanatory material might be considered too general, leading to confusion among auditors about the proper selection of KAMs. Therefore, this may affect the achievement of

the intended objectives of the standard. At the same time, ISA 701 imposes restrictions on auditors by avoiding disclosing original information about the entity and selecting a small number of significant matters, communicated with those charged with governance, based on the auditor judgment about which matters were of most significance in the audit of the financial statements of the current period. Also, the new reporting standard needs to be properly interpreted by auditors to avoid confusion with other reporting standards such as ISA 706, emphasis of matter or other matter paragraphs (EOM) and ISA 570, going concern (GC).

ISA 706 requires the auditor to draw users' attention to matters, such as significant subsequent events or material uncertainty relating to future outcomes that are fundamental to users' understanding of the financial statements or their understanding of the audit, the auditors' responsibilities or the auditor's report. However, the new reporting requirements have recently proposed changes to ISA 706 when reporting EOMs. The revised ISA 706 provided that the auditor should consider that an EOM has not been determined to be a KAM and should state that the EOMs are separate from KAM. Although matters related to significant risks may be determined as KAM, other planning and scoping matters of the audit may be communicated in an EOM paragraph. When KAMs are communicated in the audit report, the purpose of an EOM paragraph is to draw users' attention to other financial statement matters that are not KAMs. An EOM paragraph may be presented after the KAM section in the audit report. However, ISA 706 (Para.A2) clearly stated that *when a KAM section is included in the auditor's report, Emphasis of Matter paragraphs are expected to be rare, except when otherwise required by other ISAs or by law or regulation*. This indicates that ISA 701 and its requirements could affect the auditor's inclusion of EOM paragraphs in the audit report. Under ISA 570 (revised), the auditor is responsible to conclude, based on the audit evidence obtained, about the appropriateness of management's use of the GC basis of accounting and whether a material uncertainty exists related to events (such as loss of a major market) that may cast significant doubt on the entity's ability to continue as a GC. The auditor should also consider if adequate disclosure of a material uncertainty is made in the financial statements and refers to such disclosure in the audit report according to the revised ISA 570. The auditor's report shall include a separate section under the heading "GC" to address those matters. Even though the IAASB recognizes that any material uncertainty is a KAM in its nature but should be presented in the GC section, the Big 4 audit firms still stress the confusion on how KAM and material uncertainties work together (Silviu and Timea, 2015). The IAASB acknowledges that matters related to GC may be determined to be KAM and this may be a significant or difficult auditor judgment in forming the opinion on the financial statements as a whole (IAASB, 2015a, 2015b).

The Association of Chartered Accountants (2018) has found some varied practices concerning the interactions between the concept of material uncertainty on the ground of GC, EOM and KAM. They stated that *it appears that auditors may not comprehensively understand the interactions between ISA 570, ISA 701 and ISA 706*. Also, Gold and Heilmann (2019) concluded that auditors should carefully decide how many and what matters they disclose as KAM in the audit report. According to a content analysis of comments on the IAASB (2013) Exposure draft, Cordos and Fulop (2015) provided that some respondents (accounting and audit bodies) find the ISA 701 is not clear enough as to where to include a matter within the audit report, in the EOM paragraph or in the new KAM paragraph. Accordingly, we argue that the classification of audit matters as either KAMs or EOMs or even GC matters could be a great challenge to several auditors.

We contribute to the current international debate about the new KAM reforms by critically analyzing ISA 701 requirements, concerned with communicating KAM in the

independent auditor's report and identifying potential areas of confusion among matters included in the three auditing standards, ISAs 701, 706 and 570. We analyze whether the new audit reporting requirements, included in ISA 701 involve sufficient and appropriate explanations to help auditors adequately communicate matters that are of interest to users or does it still needs some modifications to avoid confusion with other audit reporting standards such as ISAs 706 and 570. Using a survey-based questionnaire, the findings reveal that auditors were confused with the proper allocation of KAM, EOM and GC matters when classifying the 31 selected explanatory statements. More than half of the statements were properly identified as KAMs by most of the participants while the other statements did not gain such adequate identification. The results also indicated that when classifying EOM, most of the participants were not able to differentiate them from KAM. On the other hand, the statistical analysis showed that there was a little confusion among the participants regarding the classification of KAMs as matters requiring GC opinion. However, when the participants classified GC matters, it was found that there was a misclassification of some of them as KAMs.

The present study has several important contributions. First, previous research on expanded audit reports has mainly focused on its impact on audit quality (Boolaky and Quick, 2016; Gutierrez *et al.*, 2018) and the informational value of such reports (Lennox *et al.*, 2019; Bedard *et al.*, 2019a). To the best of our knowledge, this is the first study that explores how auditors interpret the different reporting standards after KAM reforms are introduced. The present study contributes toward identifying possible areas of confusion that could result when auditors classify different audit matters as either a KAM, a GC matter or an EOM. Second, there is a lack of research that considers the reporting requirements of the revised ISA 706 after new KAM reforms had been introduced. Our paper narrows this research gap through considering auditors' ability to differentiate between KAM and EOM matters from among the different audit matters they could reach during their audit. Third, our findings may serve to inform regulators and standard setters if additional changes are needed to the current ISA 701 to provide a more complete and clearer picture regarding KAMs. The study provides the IAASB, the governments and other monitoring oversight boards with detailed analysis and assessment of the effectiveness of the content of the new ISA 701 related to KAMs and how effectively auditors understand its application. The results of the study provide recommendations to the IAASB for areas and circumstances, which should carefully be studied and assessed to minimize confusion among auditors when reporting KAMs, EOM and GC matters. Finally, our results contribute to the concerns raised by some practitioners (ACCA, 2018) that auditors may not comprehensively understand the relationships among ISA 570, ISA 701 and ISA 706.

In the next section, we provide an overview of the related regulatory development, the literature review of the nature and objectives of the audit report and the development of the research questions. Sections 3 and 4 include the research method and discussion of the results reached. The main findings, their implications and limitations are discussed in Section 5.

2. Regulatory developments and literature review

Audit reporting had been a subject of debate among standard setters, regulators and academic researchers because of the raised concerns regarding its form, content and information value (Church *et al.*, 2008; Mock *et al.*, 2013). In response to such debate, the IAASB in 2013 issued an Exposure Draft *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*. In 2015, the IAASB issued the revised ISA 700 and ISA 701. The most significant change in those standards is a

new section to communicate KAM I the audit report by auditors of listed entities. Similar requirements were also introduced by different regulatory bodies in different jurisdictions (EC, 2011; Financial Reporting Council (FRC), 2012; PCAOB, 2018). The PCAOB (2018) Release No. 2017–001 focused on communicating CAMs that are considered material to the financial statements or involve complex judgments. In the UK, the Financial Reporting Council (FRC) revised their reporting requirements to enhance the value of the auditor's report. According to FRC revisions, the auditor's report should communicate the significant risks of material misstatements (RMM) that were identified by the auditor, and which had the greatest impact on the audit strategy, resources required and the work of the engagement team (Financial Reporting Council [FRC], 2016). The European Commission (EC), (2011) has introduced similar proposals that focus on the content of audit reports and audit communications with the audit committee (EC, 2011). According to the EU-Regulation No 537/2014, the auditor's report shall provide a description of the most significant assessed RMM, a summary of the auditor's response to those risks and where relevant, key observations arising with respect to those risks. The EU-Regulation is effective for audits of public interest entities from June 2016 (European Parliament and European Council of the European Union, 2014). Moreover, The French Financial Security Act, which was adopted in 2003 as a response to various corporate scandals, requires auditors to justify their assessments. Justification of Assessment (JOA) (similar to KAM issued by IAASB) is aimed at providing financial statements' users with a better understanding of audit opinion. JOAs are those matters that are essential to users' understanding of the financial statements such as critical accounting estimates (Haut Conseil des Commissaires aux Comptes, 2006) as cited by Bedard *et al.* (2019b). Although the new reporting requirements among the different jurisdictions vary in some details, they are all focusing on the necessary communication of significant matters, i.e. KAM.

Several studies have examined the impact of reporting on KAM from different aspects (Cordos and Fulop, 2015; Simnett and Huggins, 2014). Vinson *et al.* (2018) found that reporting on KAM had a significant impact on jurors' assessment of the auditor's negligence. Supporting such a finding or conclusion, the study of Christensen *et al.* (2014) found that non-professional investors, who received CAM paragraphs, are more likely to change their investment decisions than those who received standard audit reports. On the other hand, Boolaky and Quick (2016) did not find such an impact from the banks' directors' perceptions of the quality of the audit or the credit approval decisions. Gimbar *et al.* (2016) presented evidence that, under precise accounting standards, auditor liability increases with either a related CAM (a CAM that specifically relates to a legitimate issue) or an unrelated CAM (a CAM that is different from the accounting issue identified in subsequent litigation) relative to an imprecise accounting standard environment. Contrary to such results, Brasel *et al.* (2016) study provided experimental evidence that disclosing CAMs, either related (serving as an advanced warning) or unrelated to an undetected material misstatement, will not increase and likely could decrease (depending on the type of misstatement), the probability of jurors holding auditors liable when audits fail to detect material misstatements. Further, if no CAMs are disclosed this could increase the auditor's liability. Tiron-Tudor *et al.* (2018) used stakeholders' comments on the IAASB (2013) Exposure Draft in a content analysis and found an increased informational value for stakeholders. Recently, Sirois *et al.* (2018), using an experimental study with accounting students, noted that KAM disclosures attract users' attention to related financial statements disclosures and paid less attention to other financial statement components. They also argued that communicating several matters influences users' information acquisition. However, Velte and Issa (2019) raised concerns about the validity of those experimental research studies that relied on

students and “Amazon’s Mechanical Turk” participants to measure private investors’ behavior, suggesting the need for more research studies that directly question different investors. In their synthesis of all academic research, which examined changes in the audit reporting standards, [Bedard et al. \(2016\)](#) suggested that more research is needed due to mixed findings, unsophisticated participants and the need to consider various countries.

Other groups of studies have critically analyzed the new audit reporting requirements after their actual implementation in different countries (France, UK, Poland and New Zealand) focusing on both the benefits of KAM disclosures (audit quality and investors’ decisions) and related costs (audit cost, fees and delays). Using firms with a Premium listing of equity shares on the London Stock Exchange, [Reid et al. \(2018\)](#) found evidence of improvements in financial reporting quality, as abnormal accruals and the propensity to just meet or beat analyst forecasts significantly decreased after expanded reporting requirements are introduced, but no significant changes in audit fees or the reporting lag had been noticed. Moreover, [Hong et al. \(2019\)](#) found that KAM disclosures and auditor signature in New Zealand were followed by an improvement in audit quality as proxies by a reduction in absolute abnormal accruals but there was also an increase in the audit fees. Alternately, [Gutierrez et al. \(2018\)](#) did not find a significant effect on the investors’ reaction, audit fees and audit quality after the release of the new audit report in the UK. Consistent with such results, [Lennox et al. \(2019\)](#) found that the market reactions to RMM disclosures in the UK are insignificant, suggesting that the expanded audit reports have not provided investors with additional value-relevant information. Moreover, according to [Dobija et al. \(2014\)](#), the extended audit report as prescribed by the Polish Auditing Standards, in general, is not found to be particularly useful if such information is available in the financial statements, footnotes or the management report. In France, [Bedard et al. \(2019a\)](#) study confirmed the idea that the disclosure of additional information by auditors has more of a symbolic value than an informative value.

Despite the broad range of research studies on KAM, there is no notable study to date that examined the relationship among KAM, EOM and GC matters. The importance of differentiating between those types of matters lies in the users’ understanding of such matters and their effects on the decisions made by them. The current research follows the agency theory of corporate governance where auditors represent shareholders in a particular business and are expected to represent the best interests of those owners and other users of the financial reports without regard for any party’s self-interest. The introduction of KAMs and the changes in reporting requirements in the audit reports presented to shareholders and other stakeholders would help to reduce the existing principal-agent problem and enhance the companies’ corporate governance. In a content analysis of the [IAASB, 2013](#) Exposure Draft, [Prasad and Chand \(2017\)](#) concluded that many of the respondents supported the enhanced auditor reporting on GC matters. [Bens et al. \(2019\)](#) study provided empirical evidence that the expanded audit report in the UK increased the likelihood of issuing GC opinions or using additional paragraphs in the audit report to draw users’ attention to matters that will affect their use of financial reports. [Crezeny et al. \(2019\)](#) provided evidence that the traditional audit reports with explanatory language, including EOM and GC matters, restricted auditors’ abilities to communicate risk to investors effectively, suggesting that the new expanded audit report with its different sections could have more informative value to investors. Supporting such views, [Bedard et al. \(2019b\)](#) found that the GC-EOM paragraph can have an incremental value to investors in the Canadian setting. They found incremental negative abnormal returns and lower abnormal trading volumes for weak financial statement statements disclosure of a GC uncertainty if the audit report includes a GC-EOM paragraph. Those prior studies support

the importance of communicating EOM and GC matters in the new audit report to enhance the information value to investors. Therefore, there should be a proper identification and classification of those different audit matters in the audit report. For example, classifying a KAM as a GC matter may result in the investors not acquiring investment in a company due to the risk associated with its future economic viability. Similarly, any confusion between KAM and EOM would give wrong signals to various stakeholders including analysts about the issues being presented in the auditor's report, which, in turn, lowers audit quality.

In summary, there are mixed results found in prior research studies regarding the usefulness and the impact of the revised and the new audit reporting standards. However, according to the best of our knowledge, no study had examined whether the explanatory matters included in the new audit report standard, ISA 701, provided auditors with the proper guidelines that help them select and distinguish KAM from other reporting requirements (i.e. EOM and GC), a matter that will yield the expected information value to users. Standard setters and regulatory bodies may need to consider additional areas and circumstances in ISA 701 to effectively communicate matters as KAM that could be of more interest to users. Therefore, this led us to the development of the following research questions:

- RQ1.* Do external auditors properly classify significant matters, communicated with those charged with governance, as KAM from among the various matters identified during an audit?
- RQ2.* Is there a potential confusion among external auditors when properly classifying a matter as either KAM or EOM?
- RQ3.* Is there a potential confusion among external auditors when properly classifying a matter as either KAM or GC opinion?

3. Research design

A questionnaire was designed to examine the auditors' ability to properly identify the appropriate type of audit report for different audit matters including those requiring KAM paragraphs. The questionnaire was revised by the authors to ensure the clarity of the explanatory matters extracted from ISA 701, 706 and 570. Then, the questionnaire was pilot tested as it was presented to two auditing professors and two audit partners with 15 years of experience in audit firms with international affiliations including one of the Big 4 in Egypt. Audit firms in Egypt follows the Egyptian Standards on Auditing and Egyptian Accounting Standards, which are translated versions of the ISAs and IFRS. The pilot testing aimed at ensuring that explanations provided in the questionnaire accurately reflect the requirements in IASs for KAM, EOM and GC, as well as assessing the sequence and extent of the questions to achieve the research objectives. It also ensured if the wording of the questions and related instructions are clear and understandable by the participants at different levels. Improvements had been made in the light of the pilot study including the sequence and clarity of the questions. The next step included the establishment of initial contact with the external auditors participating in this research. A letter stating the purpose of the study along with a brief explanation of the main requirements of ISA 701 were included in the questionnaire. The questionnaire was directed to several auditors (audit seniors, vice audit managers, audit managers and partners), with experience exceeding five years working in 5 audit firms with international affiliations (who accepted the authors request to participate in the survey out of the top 10 audit firms in Egypt), including 2 of the Big 4. Those firms are aware of the changes in ISAs and related implications as they are

international affiliations of audit networks that had been affected by those new audit reporting requirements in different jurisdictions. The distribution of the questionnaires was made randomly among the levels of partners and their subordinates within each audit firm to ensure no bias in the selection. The selection of seniors and vice managers was because of their usual participation in brainstorming sessions with managers in drafting the audit report for presentation to partners, as well as to assess the effects of job positions on auditors' classification of KAMs. The response rate was 77% as a total of 154 questionnaires collected out of 200 sent to the five audit firms (each audit firm received 40 questionnaires representing the maximum numbers accepted by each firm for distribution among their staff) after excluding participants with incomplete information and questionnaires, which were not returned.

The authors presented to the participants with 31 statements. In total, 14 statements (Statements no.1, 4, 5, 7, 10, 11, 13, 15, 16, 18, 22, 24, 27 and 30) are extracted from the explanatory paragraphs of ISA 701, so they are related to KAM. In total, 12 statements (Statements no.3, 6, 9, 12, 17, 19, 20, 23, 25, 26, 28 and 31) are extracted from ISA 706 so they are related to EOM paragraphs. The other five statements (Statements no.2, 8, 14, 21 and 29) are extracted from ISA 570 and are related to GC opinion, including financial, operating and other events or conditions that may cast significant doubt on the entity's ability to continue as a GC (ISA 570, para.2). The rationale behind selecting most of those matters is the potential overlap among them. Most of the EOM selected matters (e.g. X_3 , X_9 , X_{16} and X_{19}) and GC matters (e.g. X_8 , X_{14} , X_{21} and X_{26}) could also be areas of significant risks that could affect the entity and could be interpreted by auditors as similar to KAMs (i.e. X_1) that should be reported to those charged with governance. Such potential confusion could result from ISA 701 (para.8a) requirement that involves communicating areas of significant risks as KAM. More specifically, there could also be an overlap between X_{11} (a KAM) and X_{12} (EOM). Both matters focus on the emergence of a new accounting policy or a standard that could affect the entity, which could create potential confusion among auditors toward the correct classification. Moreover, both X_5 (a KAM) and X_2 (a GC matter), focusing on changes in laws and regulations that could adversely affect the entity, could represent an overlapping issue among auditors. In addition, X_{17} , an EOM, could create confusion with ISA 701 requirement (para.8c) to report changes in the audit plan as a KAM (X_{10}). Furthermore, KAMs, such as X_4 (uncertainty of an accounting estimate), X_7 (changes in entity strategy) and X_{15} (significant unusual transactions) and similar matters (e.g. X_{13} and X_{24}) could be interpreted as matters that are fundamental to the user understanding of the financial statements (i.e. a matter that should be reported under EOM paragraph (X_6)).

The participants were asked to identify the correct classification for each of those matters from among four different choices (*KAM/EOM/matters requiring GC opinion GC* and matters requiring qualified opinion *QO*). The questionnaire did not include statements related to qualified opinion as they could be easily identified by the participants through recognizing the word *MATERIAL*. However, the choice *QO* itself is included to examine if auditors would mistakenly classify KAM as matters requiring qualifications of opinion. The statements were presented in a different sequence to avoid order effect on participants' responses and the possibility that earlier matters could provide context for subsequent matters. The final part of the survey provided questions on demographic data including job position and working experience. Table 1 provides demographic information of the participants.

Approximately, 40% of the respondents are audit partners and managers whereas the rest are vice audit managers and senior auditors. Although the latter group's job positions are lower in the audit firms' hierarchy, they are also in the appropriate position to participate

in the survey. The average working experience of the participants in their present position was 8.4 years. To measure the consistency and the internal reliability of the questionnaire, test-retest reliability is conducted as 35 participants agreed to answer the questionnaire twice, at two different points of time. The results of the test showed that the correlation between the scores of their first and second responses for each set of items related to KAM, EOM and GC are 0.988, 0.975 and 0.972, respectively, with excellent reliability levels of 0.994, 0.987 and 0.986, respectively. Moreover, the Cronbach's alpha test is conducted for all questionnaire items and it shows a Cronbach's alpha of 0.748 indicating an acceptable level of reliability.

4. Results and discussion

Users' perceptions were measured, using two dummy variables, with values of "0," indicating incorrect classification or "1," indicating the correct classification. The correct classification is identified through comparing the responses of the participants with the explanatory matters included in ISAs 701, 706 and 570. The Z-test for two proportions is conducted to compare two observed proportions. It tests for significant differences in responses between two proportions. To answer the first research question, the Z-test determines if there is a significant difference between the proportion of participants who correctly selected KAM classification for the set of matters that should be classified as KAM (i.e. proportions of correct classification) and the proportion of those who selected other classification (i.e. EOM, GC and QO) for the same set of matters (i.e. proportions of incorrect classifications). In addition, the Z-test for two proportions helps to answer the second research question as it tests for significant differences in the proportions of KAM selection and EOM selection for either the set of KAM matters (Table 2, Panel A) or EOM matters (Table 2, Panel B). Moreover, it tests for significant differences in the proportions of KAM selection and GC selection for either the set of KAM matters (Table 2, Panel A) or GC matters (Table 2, Panel C) and this helps to answer the third research question. The researchers also conducted the Kruskal-Wallis test to test for analysis of variance in responses among the different job positions. It is a rank-based nonparametric test that can be used to determine if there are statistically significant differences between two or more groups of an independent variable. Moreover, Mann Whitney test is conducted after obtaining the results of the Kruskal-Wallis test for the matters that gained a significant difference among the mean ranks of the four job levels. It compares the mean ranks between two grouping variables. This helps to determine the classification differences between job positions. To answer the research questions, the results will be presented in three different sections.

4.1 ISA 701 and proper classification of key audit matters

To answer the first research question, the results of the two proportions Z-test (KAM and other selections) in Table 2/Panel A show that the matters that had been properly classified as KAM by most of the participants are those related to statements no.1, 4, 10, 13, 16, 18, 27

| Current position | Frequency | (%) | Cumulative |
|---------------------|-----------|------|------------|
| Audit partners | 14 | 9 | 14 |
| Audit managers | 44 | 28.6 | 58 |
| Vice audit managers | 40 | 26 | 98 |
| Senior auditors | 56 | 36.4 | 154 |

Table 1.
Summary of the
demographic data on
respondents from
external auditors

Table 2.
The Z-test for two proportions

| Matter | % of selections | | | | % of selections other than KAM (i.e. EOM, GC and QO) | | Z-test for two proportions (KAM and other selections) | | Z-test for two proportions (KAM and EOM) | | Z-test for two proportions (KAM and GC) | |
|--|--------------------|--------------------|-------------------|-------------------|--|--|---|---------|--|---------|---|---------|
| | % of KAM selection | % of EOM selection | % of GC selection | % of QO selection | % of selections other than KAM (i.e. EOM, GC and QO) | | Z-value | p-value | Z-value | p-value | Z-value | p-value |
| <i>Panel A/ matters that should be classified as key audit matters (KAM)</i> | | | | | | | | | | | | |
| X ₁ | 70.1 | 18.2 | 2.6 | 9.1 | 29.9 | | 7.72 | 0.000 | 10.77 | 0.000 | 17.3 | 0.000 |
| X ₄ | 55.8 | 31.2 | 2.6 | 10.4 | 44.2 | | 2.07 | 0.039 | 4.51 | 0.000 | 12.67 | 0.000 |
| X ₅ | 41.6 | 48.10 | | 0 | 58.4 | | -3.01 | 0.003 | -1.15 | 0.251 | 6.67 | 0.000 |
| X ₇ | 48.1 | 32.5 | 10.4 | 9.1 | 51.9 | | -0.68 | 0.494 | 2.82 | 0.005 | 7.98 | 0.000 |
| X ₁₀ | 64.9 | 23.4 | 2.6 | 9.1 | 35.1 | | 5.49 | 0.000 | 8.15 | 0.000 | 15.55 | 0.000 |
| X ₁₁ | 50.6 | 40.3 | 7.8 | 1.3 | 49.4 | | 0.23 | 0.820 | 1.84 | 0.066 | 9.38 | 0.000 |
| X ₁₃ | 68.8 | 11.7 | 3.9 | 15.6 | 31.2 | | 7.14 | 0.000 | 12.58 | 0.000 | 16.05 | 0.000 |
| X ₁₅ | 40.3 | 24.7 | 13.0 | 22 | 59.7 | | -3.49 | 0.000 | 2.96 | 0.003 | 5.96 | 0.000 |
| X ₁₆ | 61 | 28.6 | 6.5 | 3.9 | 39 | | 3.97 | 0.000 | 6.06 | 0.000 | 12.39 | 0.000 |
| X ₁₈ | 59.7 | 13 | 14.3 | 13 | 40.3 | | 3.49 | 0.000 | 9.76 | 0.000 | 9.36 | 0.000 |
| X ₂₂ | 48.1 | 18.2 | 3.9 | 29.9 | 51.9 | | -0.68 | 0.494 | 5.87 | 0.000 | 10.23 | 0.000 |
| X ₂₄ | 31.2 | 37.7 | 10.4 | 20.8 | 68.8 | | -7.14 | 0.000 | -1.20 | 0.229 | 4.625 | 0.000 |
| X ₂₇ | 66.2 | 23.4 | 1.3 | 9.1 | 33.8 | | 6.02 | 0.000 | 8.38 | 0.000 | 16.57 | 0.000 |
| X ₃₀ | 72.7 | 14.3 | 5.2 | 7.8 | 27.3 | | 8.32 | 0.000 | 12.54 | 0.000 | 17.3 | 0.000 |
| <i>Panel B/ matters that should be classified as emphasis of matter or other matters (EOM)</i> | | | | | | | | | | | | |
| X ₃ | 41.6 | 13 | 36.4 | 9.1 | 58.4 | | -3.01 | 0.003 | 5.94 | 0.000 | 0.94 | 0.349 |
| X ₆ | 45.5 | 46.8 | 5.2 | 2.6 | 54.5 | | -1.6 | 0.109 | -0.23 | 0.819 | 9.16 | 0.000 |
| X ₉ | 62.5 | 27.3 | 5.2 | 5.2 | 37.5 | | 4.47 | 0.000 | 6.61 | 0.000 | 13.31 | 0.000 |
| X ₁₂ | 50.6 | 36.4 | 7.8 | 5.2 | 49.4 | | 0.23 | 0.82 | 2.56 | 0.011 | 9.38 | 0.000 |
| X ₁₇ | 16.9 | 70.1 | 5.2 | 7.8 | 83.1 | | -19.32 | 0.000 | -11.17 | 0.000 | 3.33 | 0.000 |
| X ₁₉ | 13.0 | 33.8 | 45.5 | 7.8 | 87 | | -19.32 | 0.000 | -4.44 | 0.000 | -6.71 | 0.000 |
| X ₂₀ | 46.8 | 44.2 | 3.9 | 5.2 | 53.2 | | -1.14 | 0.253 | 0.46 | 0.647 | 9.94 | 0.000 |
| X ₂₃ | 61.0 | 26.0 | 5.2 | 7.8 | 39 | | 3.97 | 0.000 | 6.98 | 0.000 | 13.64 | 0.000 |
| X ₂₅ | 20.8 | 71.4 | 0.0 | 7.8 | 79.2 | | -12.64 | 0.000 | -10.35 | 0.000 | 3.31 | 0.001 |
| X ₂₆ | 57.1 | 26 | 3.9 | 13.0 | 42.9 | | 2.53 | 0.011 | 5.85 | 0.000 | 12.44 | 0.000 |
| X ₂₈ | 44.2 | 51.9 | 1.3 | 2.6 | 55.8 | | -2.07 | 0.039 | -1.37 | 0.170 | 10.44 | 0.000 |
| X ₃₁ | 37.7 | 54.5 | 3.9 | 3.9 | 62.3 | | -4.47 | 0.000 | -3.02 | 0.003 | 8.03 | 0.000 |

(continued)

| Matter | % of selections | | | | % of selections other than KAM (i.e. EOM, GC and QO) | | Z-test for two proportions (KAM and other selections) | | Z-test for two proportions (KAM and EOM) | | Z-test for two proportions (KAM and GC) | |
|-----------------|--|--------------------|-------------------|-------------------|--|--------|---|---------|--|---------|---|---------|
| | % of KAM selection | % of EOM selection | % of GC selection | % of QO selection | | | Z-value | p-value | Z-value | p-value | Z-value | p-value |
| | <i>Panel C/ matters that should be classified as going concern of opinion (GC)</i> | | | | | | | | | | | |
| X ₂ | 13.0 | 33.8 | 50.6 | 2.6 | 87 | -19.32 | 0.000 | -4.44 | 0.000 | -7.76 | 0.000 | |
| X ₈ | 36.4 | 29.9 | 24.7 | 9.1 | 63.6 | -4.97 | 0.000 | 1.21 | 0.225 | 2.25 | 0.025 | |
| X ₁₄ | 40.3 | 31.2 | 14.3 | 14.3 | 59.7 | -3.49 | 0.000 | 1.67 | 0.094 | 5.35 | 0.000 | |
| X ₂₁ | 45.5 | 14.3 | 37.7 | 2.6 | 54.5 | -1.60 | 0.109 | 6.36 | 0.000 | 1.39 | 0.164 | |
| X ₂₉ | 48.10 | 33.8 | 15.6 | 2.6 | 51.9 | -0.68 | 0.494 | 2.58 | 0.010 | 6.53 | 0.000 | |

Table 2.

and 30. It is shown from Table 2 that those items gained positive z -values with a p -value less than 0.05. P -values that are less than 0.05 mean that the proportions of those who correctly selected KAM for the set of KAM matters are statistically different from the proportion of those who incorrectly chose other classifications (EOM/GC/QO), and the positive Z -values mean that the proportions of KAM selection are greater than that of other incorrect selections. X_{30} gained the highest percentage of correct KAM classification (72.7%), followed by X_1 (70.1%), then X_{13} (68.8%) and X_{27} (66.2%). Moreover, the proportions of correct KAM classifications for X_{10} , X_{16} , X_{18} and X_4 are 64.9%, 61%, 59.7% and 55.8%, respectively. Therefore, more than half of the statements were properly identified as KAM by most of the participants while the rest of the statements were not adequately identified by a considerable number of participants as matters that should be included as KAM in the audit report. These correctly classified statements included issues related to auditors' assessment of significant risks and complexities in the financial reports, accounting estimates including the existence of litigations, deficiencies in the internal control and issues related to the planning of the audit and related audit evidence. Those eight matters are clear to many participants that they represent significant risks and involve significant auditor judgment requiring a KAM paragraph in the audit report.

However, there was a poor classification of the other matters as KAM such as statements no.5, 7, 15, 22 and 24 with negative z -values as the proportion of KAM selections is less than that of other selections. Statement no. 24 (Z -value of -7.14) is related to the economic conditions that affect auditors' ability to obtain audit evidence. A high percentage of participants misclassified this item (68.8%) compared to those who correctly classified it as KAM (31.2%) and there is a significant difference between the two proportions with p -value < 0.01 . Some participants identified it as EOM, while others viewed it as a qualified opinion due to scope restrictions on the audit. Such results show the confusion in some of the explanations provided in ISA 701 for KAMs compared with EOM and qualified opinion. Another example of a misidentified matter is Statement no 5 (i.e. significant economic, accounting, regulatory or other developments that affect management judgment) with only 41.6% of KAM selection and z -value of -3.01 . This means that the proportion of KAM selection (41.6%) for X_5 is significantly ($p = 0.003$) different from and smaller than the proportion of the other incorrect classifications (58.4%). Moreover, many participants misclassified statements no.7, 15 and 22 as an EOM, GC or QO. Statements no 7 and 15 are related to changes in entity strategy or business model that had a material effect on financial statements and significant unusual transactions that could include difficulty in management judgment. Statement no. 7 gained a percentage of correct classification of only 48.1% with p -values of 0.494. This indicates that there is clear confusion among the participants when classifying this matter as there is no significant difference between the proportions of correct and incorrect classifications. This may imply that some participants interpreted X_7 as risks that may affect the company's current and future operations indicating GC uncertainty or risks that may require an EOM paragraph. Statement no.15 gained about only 40.3% of correct KAM classification, which is significantly less than the percentage of incorrect classifications (59.7%) as the p -value is 0.000. X_{15} may also be interpreted as a misstatement for the unusual transactions, which may not have been corrected requiring a qualified report. Similarly, Statement no. 22 gained a percentage of correct KAM classification of only 48%. It indicates a potential difficulty or limitation to obtain evidence, which may be interpreted by some participants as a qualification due to scope restriction. However, this should not be the case, as ISA 701 stated that GC matters should not be described as a KAM and even an EOM paragraph is not a substitute for the description of matters as a KAM. The z -test for two proportions (KAM and EOM) in Panel A

also shows that there is no significant difference between proportions of KAM and EOM selections for both X_5 and X_{24} with p -values of 0.251 and 0.229 and z -values of -1.15 and -1.20 , respectively. Such results confirm the confusion by auditors for the proper interpretation of the explanations provided by ISAs 701 and 706 for KAM and EOM. In addition, Statement no. 11 is not properly classified as KAM as there is no significant difference between proportions of KAM selections (50.6%) and other selections (49.4%) for such matter with a p -value of 0.820.

The results of analyzing the first research question show that, although ISA 701 explanations enabled some auditors to identify some KAM matters, they did not adequately help them to identify all KAMs from among the different matters they reached during their audit. The results suggest that many auditors could be confused while identifying some matters to be included in the new audit report section, KAM section and this supports the need for more guidance in the audit reporting standards.

4.2 Proper classification of key audit matters in comparison with emphasis of matter

To answer the second research question, Table 2/Panel A shows that there are significant differences among KAM and EOM selections for all the statements except for three statements, which are statements no. 5, 11 and 24, with p -values of 0.251, 0.066 and 0.229, respectively. This indicates that there was a little confusion among the participants when KAM statements were introduced to them and they were able to properly differentiate them from EOM. However, there was a clear confusion regarding statements related to recent significant economic or regulatory development that could affect management's assumptions (Statement no 5), new or emerging accounting policies (Statement no. 11) and the economic conditions that affect the auditor's ability to obtain audit evidence (Statement no 24). The proportions of those who correctly selected KAM for X_5 , X_{11} and X_{24} are 41.6%, 50.6%, 31.25%, respectively, while the proportions of those who incorrectly classified those matters as EOMs are 48.1%, 40.3% and 37.7%, respectively. The two-proportion Z-test shows that there is no significant difference among the responses in selecting those matters as either KAM or EOM with P -values > 0.05 . Those statements are misclassified by a considerable number of participants as EOMs as they could be interpreted as matters, which are fundamental to users' understanding of the financial statements. For instance, ISA 706, clearly stated that a new accounting standard that is expected to have a material effect on the financial statements should be included in the EOM paragraph, and at the same time, it is a KAM (X_{11}) according to ISA 701. This creates potential confusion among auditors when classifying such matter as an EOM or a KAM.

On the other hand, Table 2/Panel B shows the 12 matters that should be classified as EOM. The z -test for two proportions (EOM and other selections) shows that only 3 matters, X_9 , X_{23} and X_{26} , are properly classified as EOM (the proportions of EOM selections are 62.5%, 61% and 57.1%, respectively). They have positive z -values with p -values less than 0.05.

To determine the extent of confusion when classifying an EOM matter as an EOM or KAM, the results of the Z-test for two proportions (EOM and KAM) Panel B show that X_{17} , X_{19} , X_{25} and x_{31} has negative z -values with p -values less than 0.05. This indicates that there is a significant difference between EOM and KAM selections for those matters, but a large number of participants incorrectly classified them as KAM. Some participants misclassified, X_{19} , a major catastrophe significantly affecting the entity as KAM (33.8%) rather than properly classifying it as EOM (13 %). They may have interpreted such matter as areas of significant risk affecting the entity as indicated by ISA 701 (para.16). In addition, a considerable number of participants (45.5%) consider it as a matter affecting the entity's

ability to continue as a GC. Statements no 25 and 31, namely, “explaining why it is not possible for the auditor to withdraw from the engagement” and “when a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact it is prescribed by law or regulation” were considered by participants as matters, which should be reported to those charged with governance, therefore, they were misclassified as KAMs with proportions of 71.4% and 54.5%, respectively. Although auditing standards require the inclusion of the audit planned scope (Statement no.17) in an EOM paragraph and the inclusion of significant changes in the planned approach to be considered as KAM, most of the participants (70.1%) considered Statement no. 17 as KAM. In the authors’ view, the overlap between the above statements resulted in such confusion. Moreover, X_6 and X_{28} have also negative z-values but there is no statistical difference between proportions of EOM and KAM selections with p -value of 0.819 and 0.170, respectively. Those statements related to matters that are appropriately presented or disclosed in the financial statements that in the auditor’s judgment are important to user understanding of the financial statements and matters other than those presented or disclosed in the financial statement that in the auditor’s judgment are important to users’ understanding of the audit, auditor’s responsibilities or auditor’s report. ISA 701 defines KAMs as those matters that in the auditor’s professional judgment were of most significance in the audit of the financial statements. This requirement may lead to confusion when classifying statement, no 28, which should be identified as EOM, according to ISA 706. In addition, there is no significant difference between EOM and KAM for Statement no. 20 with a positive z-value of 0.46 and p -value of 0.647.

On the other hand, there are five matters, X_3 , X_9 , X_{12} , X_{23} , X_{26} , from the 12 EOM matters have positive z-values and p -values less than 0.05 as shown in Table 2 Panel B. The proportions of participants who classified those matters as EOMs are statistically different from and greater than the proportions of those who misclassified them as KAM. Those matters gained a percentage of EOM selection of 41.6%, 62.5%, 50.6%, 61% and 57%, respectively. It could be argued that auditors’ knowledge and their frequent exposure to such matters strengthen their ability to identify those matters as EOMs rather than KAMs.

The results indicated that when classifying KAMs from among the different matters, presented to the participants, most of them were properly classified as KAM rather than EOM. However, when classifying EOM, most of the participants were not able to differentiate them from KAMs. An interpretation of such results is that most of the matters that should be included as an EOM in the audit report as being fundamental to users’ understanding of the financial statements could also be in the auditor’s judgment as significant in the audit of financial statements, i.e. a KAM. This may lead to the introduction of the same matter under two different sections in the audit report and consequently causing confusion among users of such reports and unnecessary duplication. In addition, IAS 706 (revised) states that the purpose of EOM paragraphs is to draw users’ attention to other financial statement matters that are not KAMs in accordance with ISA 701.

4.3 Proper classification of key audit matters in comparison with going concern opinion

Table 2 Panel C, the Z proportion test for two proportions (GC and other selections), shows that most of the participants did not correctly select GC classification for the five GC matters with negative z-values. However, to identify the degree of confusions among GC and KAM classifications and to answer the third research question, the Z-test for two proportions (KAM and GC) in Table 2/panel a shows that there is a significant difference between KAM and GC selection in the mean responses for all the 14 explanatory matters with p -value < 0.05. For example, the proportions of KAM selection for X_1 , X_{27} and X_{30} are

70.1%, 66.2% and 72.7%, respectively, while the proportions of GC selection for those matters are only 2.6%, 1.3% and 5.2%, respectively. This indicates that when GC selection was available, there was a little confusion among the participants regarding the classification of KAMs matters. On the other hand, the Z-test for two proportions (GC and KAM) Table 2/Panel C shows that when the five explanatory matters that require GC paragraphs were included, the mean responses of those classified as KAMs were not significantly different from those classified as GC for two matters (X8 and X14) with p -values of 0.225 and 0.094, respectively. Those matters, as shown in the Appendix, include the inability to comply with the terms of loan agreements and those involving fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment. Some participants were able to correctly identify them as GC matters, while others might have interpreted them as significant risks affecting the entity, justifying their classification as KAM and reporting them to those charged with governance.

Moreover, the percentage of those who selected KAM (33.8%) for the second matter (X₂) is greater than that of GC (13%) with a z -value of -4.44 and p -value of 0.000. This means that changes in law or regulation, adequately disclosed in the financial statements, expected to adversely affect the entity were misclassified by a considerable number of auditors as KAM rather than GC. This could arise from the requirements of ISA 570, which states that the changes in laws or regulations that adversely affect the entity (X₂) to be classified as GC matter. This is also implicitly similar to the ISA 701 requirement, which states that any recent regulatory development that affects management assumption (X₅) to be considered as KAM. Thus, there is an overlap between X₂ and X₅. None of those two matters gained a high mean response of the correct classification, indicating a clear confusion among participants for such explanatory matters. However, the last two explanatory matters (X₂₁ and X₂₆) were properly classified as GC by a greater number of participants (45.5% and 48.1%, respectively) compared to those who classified them as KAMs (14.3% and 33.8%, respectively) with z -values of 6.36 and 2.58, respectively. Loss of a major market or negative operating cash flow could be a clear indicator for the entity's disability to continue as a GC.

The above findings show that when there are explanatory matters that should be included as KAMs in a separate section in the audit report, a considerable number of auditors could properly classify them as KAMs rather than matters requiring a GC paragraph. However, when classifying GC matters, there could be a misclassification of some of them as KAMs. According to the results, some of the GC matters could also be interpreted by auditors as matters that could be significant in the audit and accordingly need to be communicated to those charged with governance, i.e. KAMs. Although there is an explicit requirement in ISA 701, which states that conditions that may cast significant doubt on an entity's ability to continue as a GC should not be described in the KAMs section (ISA 701, para.11), there should be more explicit and sufficient explanations to enable auditors to avoid misclassification with GC opinion. Despite the above results, it is shown in Table 2 that the participants were aware that qualified audit opinion QO is a less proper selection, with an exceptionally low percentage of selection across all the matters presented to them.

5. Supplementary analyses

5.1 Proper classification of emphasis of matter in comparison with going concern

As an additional analysis, the Z-test for two proportions (EOM and GC) test in Table 2, Panel B showed that there is a significant difference between EOM and GC selection for 10 out of 12 EOM matters presented to the participants, with p -value less than 0.05 and positive z -values. A high percentage of participants were able to properly classify the EOM matters relative to the percentage of those who misclassified them as matters that would raise a

significant doubt about the entity's ability to continue as a GC. Thus, there was little confusion among the participants when classifying those EOMs as a GC factor. However, it could be notable that X_{19} (a major catastrophe that has had or continues to have, a significant effect on the entity's financial position) was misinterpreted by a high percentage of participants (45.5%) as a GC matter rather than an EOM with z -value of -6.71 . Moreover, an uncertainty relating to the future outcome of exceptional litigation or regulatory action (X_3) is the only matter that gained confusion among the participants, as 41.6% of the participants properly classified it as an EOM while 36.4% of them classified it as GC matter and the p -value of 0.349, which indicates the insignificant difference between those two proportions. This event or condition could be misinterpreted by some participants as one that could lead to a material uncertainty and may cast significant doubt about the entity's ability to continue as a GC.

The Z -test for two proportions (GC and EOM), Table 2, Panel C also showed that there is a significant difference between GC and EOM selections among the participants when classifying four of the five GC matters presented to them and this is according to the two-proportion test, which showed p -values less than 0.05. However, it is worthy to mention that one of those four matters (X_2) has a negative z -value of 7.76 and was misinterpreted by a high percentage of participants as an EOM (50.6%) rather than GC matter (13 %). Changes in law or regulation or government policy expected to adversely affect the entity (X_2) has been identified by most of the participants as a matter that could be fundamental to users' understanding of the financial statements rather than an event that may significantly affect the entity's ability to continue as a GC. Moreover, the only GC matter that did not differ significantly among GC and EOM selections is X_{21} with p -value of 0.164. It seems that the participants are confused to some extent when classifying such GC matter as 45.5% of the participants properly classified it as a GC matter while approximately 38% of them misinterpreted it as an EOM. To sum up, a large number of participants were able to distinguish between EOM and GC matters, indicating that KAM matters could be the ones that introduce confusion among auditors.

5.2 Analysis of the results based on the participants' job positions

The nonparametric Kruskal-Wallis test is conducted to analyze if the participants' responses differ based on their demographic data, mainly their job positions. In addition, a Mann Whitney test is conducted for those matters that gained significant difference among the groups (with p -values < 0.05). The results of the Kruskal-Wallis test in Table 3 Panel A show that there are no significant differences among the four different groups of job positions (seniors/vice-audit managers/managers/partners) regarding their classification of seven KAM matters, which are X_1 , X_5 , X_{10} , X_{11} , X_{13} , X_{22} and X_{24} (p -values > 0.05). This indicates that X_1 , X_{10} , X_{13} gained correct classifications (as previously discussed in Section 4.1) among the different job levels, but there is confusion regarding the other four matters as an even higher level of positions (managers and partners) were also confused and their responses did not differ significantly from other lower levels such as audit seniors. This may raise doubts about the clarity of those four matters, X_5 , X_{11} , X_{22} and X_{24} , in ISA 701.

However, there is a significant difference of the mean ranks for the other seven KAM matters, X_4 , X_7 , X_{15} , X_{16} , X_{18} , X_{27} , X_{30} among the four groups at a significant level less than 0.05. According to the Kruskal-Wallis test, senior auditors have the highest mean ranks for X_4 , X_7 , X_{18} and X_{30} , however, vice audit managers have the highest mean ranks for X_{15} , X_{16} and X_{27} . The results show that senior auditors and vice audit managers have higher mean ranks for those seven matters than audit managers and partners. For example, the mean ranks for x_7 for senior auditors and vice managers are 87.36 and 85.20, respectively, while

| Kruskal-Wallis test | | | | | *Mann-Whitney test | | | | |
|--|-------------------------------|-----------|-------------|---------|--------------------|---------------|-----------|--------|---------|
| Job position | | Mean rank | H statistic | p-value | Job position | | Mean rank | Z | p-value |
| <i>Panel A/ matters that should be classified as key audit matters (KAM)</i> | | | | | | | | | |
| X1 | Senior auditors (n = 56) | 86.57 | 7.040 | 0.071 | | | | | |
| | Vice manager (n = 40) | 67.20 | | | | | | | |
| | Managers (n = 44) | 76.45 | | | | | | | |
| | Partners (n = 14) | 73.93 | | | | | | | |
| X4 | Senior auditors (n = 56) | 90.25 | 12.379 | 0.006 | X ₄ | Seniors | 54.89 | −2.952 | 0.003 |
| | Vice manager (n = 40) | 66.95 | | | | Vice managers | 39.55 | | |
| | Managers (n = 44) | 77.45 | | | | Seniors | 38.46 | −2.654 | 0.008 |
| | Partner (n = 14) | 56.79 | | | | Partners | 23.93 | | |
| X5 | Senior auditors (n = 56) | 82.43 | 2.925 | 0.403 | | | | | |
| | Vice manager (n = 40) | 77.20 | | | | | | | |
| | Managers (n = 44) | 76.41 | | | | | | | |
| | Partners (n = 14) | 62.07 | | | | | | | |
| X7 | Senior auditors (n = 56) | 87.36 | 12.725 | 0.005 | X ₇ | Seniors | 56.93 | −2.704 | 0.007 |
| | Vice manager (n = 40) | 85.20 | | | | Managers | 42.32 | | |
| | Managers (n = 44) | 65.05 | | | | Seniors | 38.39 | −2.542 | 0.011 |
| | Partners(n = 14) | 55.21 | | | | Partners | 23.93 | | |
| X10 | Senior auditors (n = 56) | 80.72 | 3.880 | 0.275 | | | | | |
| | Vice manager (n = 40) | 73.70 | | | | | | | |
| | Managers (n = 44) | 79.05 | | | | | | | |
| | Partners (n = 14) | 60.21 | | | | | | | |
| X11 | Senior auditors (n = 56) | 83.46 | 5.020 | 0.170 | | | | | |
| | Vice manager (n = 40) | 72.85 | | | | | | | |
| | Manager (n = 44) | 69.82 | | | | | | | |
| | Partner (n = 14) | 91.07 | | | | | | | |
| X13 | Senior auditors (n = 56) | 84.50 | 4.863 | 0.182 | | | | | |
| | Vice audit manager(n = 40) | 78.50 | | | | | | | |
| | Managers (n = 44) | 68.45 | | | | | | | |
| | Partners (n = 14) | 75.07 | | | | | | | |
| X15 | Senior auditors (n = 56) | 83.36 | 9.581 | 0.022 | X ₁₅ | Seniors | 38.36 | −2.465 | 0.014 |
| | Vice manager (n = 40) | 87.45 | | | | | | | |
| | Managers (n = 44) | 68.55 | | | | Partners | 24.07 | | |
| | Partners (n = 14) | 53.79 | | | | | | | |

(continued)

Table 3.
Kruskal-Wallis test
and Mann-Whitney
test (job positions)

(continued)

| Kruskal-Wallis test | | | | | *Mann-Whitney test | | | | | |
|--|----------------------------|-----------|-------------|---------------|--------------------|---------------------|-----------|--------|---------|--|
| | Job position | Mean rank | H statistic | p-value | | Job position | Mean rank | Z | p-value | |
| X16 | Senior auditors (n = 56) | 82.71 | 17.340 | 0.001 | X ₁₆ | Seniors | 56.25 | −2.652 | 0.008 | |
| | Vice manager (n = 40) | 93.00 | | Managers | | 43.18 | | | | |
| | Managers (n = 44) | 63.18 | | Seniors | | 37.86 | −2.234 | 0.000 | | |
| | Partners (n = 14) | 57.36 | | Partners | | 26.07 | | | | |
| X18 | Senior auditors (n = 56) | 102.25 | 37.257 | 0.000 | X ₁₈ | Seniors | 56.46 | −3.523 | 0.000 | |
| | Vice manager (n = 40) | 70.65 | | Vice managers | | 37.35 | | | | |
| | Managers (n = 44) | 59.55 | | Seniors | | 62.79 | −5.190 | 0.000 | | |
| | Partners (n = 14) | 54.50 | | Managers | | 34.86 | | | | |
| | | | | Seniors | | 40.00 | −3.874 | 0.000 | | |
| | | | | Partners | | 17.50 | | | | |
| | | | | | | | | | | |
| X22 | Senior auditors (n = 56) | 73.71 | 1.519 | 0.678 | | | | | | |
| | Vice manager (n = 40) | 75.90 | | | | | | | | |
| | Managers (n = 44) | 83.68 | | | | | | | | |
| | Partners (n = 14) | 77.79 | | | | | | | | |
| X24 | Senior auditors (n = 56) | 73.61 | 4.261 | 0.235 | | | | | | |
| | Vice manager (n = 40) | 77.25 | | | | | | | | |
| | Managers (n = 44) | 87.14 | | | | | | | | |
| | Partners (n = 14) | 63.50 | | | | | | | | |
| X27 | Senior auditors (n = 56) | 81.50 | 9.941 | 0.019 | X ₂₇ | Seniors | 54.79 | −2.070 | 0.038 | |
| | Vice audit manager(n = 40) | 88.70 | | | | | | | | |
| | Managers (n = 44) | 66.50 | | | | Managers | 45.05 | | | |
| | Partners (n = 14) | 64.07 | | | | | | | | |
| X ₃₀ | Senior auditors (n = 56) | 85.72 | 9.789 | 0.020 | X ₃₀ | Vice audit managers | 49.45 | −2.859 | 0.004 | |
| | Vice manager (n = 40) | 63.30 | | | | | | | | |
| | Managers (n = 44) | 77.86 | | | | Managers | 36.18 | | | |
| | Partners (n = 14) | 74.36 | | | | | | | | |
| Panel B/ matters that should be classified as emphasis of matter (EOM) | | | | | | | | | | |
| X ₃ | Senior auditors (n = 56) | 75.96 | 0.6333 | 0.889 | | | | | | |
| | Vice audit manager(n = 40) | 77.05 | | | | | | | | |
| | Managers (n = 44) | 77.23 | | | | | | | | |
| | Partners (n = 14) | 85.79 | | | | | | | | |
| X ₆ | Senior auditors (n = 56) | 83.07 | 6.113 | 0.106 | | | | | | |
| | Vice audit manager(n = 40) | 66.85 | | | | | | | | |

Table 3.

(continued)

| Kruskal-Wallis test | | | | | *Mann-Whitney test | | | |
|---------------------|------------------------------------|-----------|-------------|---------|--------------------|---------------|-------|---------|
| | Job position | Mean rank | H statistic | p-value | Job position | Mean rank | Z | p-value |
| X ₉ | Managers (<i>n</i> = 44) | 75.23 | 5.283 | 0.152 | | | | |
| | Partners (<i>n</i> = 14) | 92.79 | | | | | | |
| | Senior auditors (<i>n</i> = 56) | 73.54 | | | | | | |
| | Vice audit manager(<i>n</i> = 40) | 78.45 | | | | | | |
| X ₁₂ | Managers (<i>n</i> = 44) | 74.82 | 1.763 | 0.623 | | | | |
| | Partners (<i>n</i> = 14) | 99.07 | | | | | | |
| | Senior auditors (<i>n</i> = 56) | 79.46 | | | | | | |
| | Vice manager (<i>n</i> = 40) | 82.15 | | | | | | |
| X ₁₇ | Managers (<i>n</i> = 44) | 71.14 | 13.006 | 0.005 | X ₁₇ | Vice Managers | 49.2 | −3.220 |
| | Partners (<i>n</i> = 14) | 76.36 | | | | | | |
| | Senior auditors (<i>n</i> = 56) | 84.93 | | | | | | |
| | Vice manager (<i>n</i> = 40) | 85.70 | | | | | | |
| X ₁₉ | Managers (<i>n</i> = 44) | 61.82 | 15.420 | 0.001 | X ₁₉ | Vice Managers | 37.00 | −2.185 |
| | Partners (<i>n</i> = 14) | 73.64 | | | | | | |
| | Senior auditors (<i>n</i> = 56) | 66.57 | | | | | | |
| | Vice manager (<i>n</i> = 40) | 70.40 | | | | | | |
| | Managers (<i>n</i> = 44) | 88.27 | | | | Seniors | 32.21 | −2.884 |
| | Partners (<i>n</i> = 14) | 107.64 | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| X ₂₀ | Senior auditors (<i>n</i> = 56) | 77.21 | 0.501 | 0.919 | | Partners | 27.09 | −2.280 |
| | Vice manager (<i>n</i> = 40) | 75.30 | | | | | | |
| | Managers (<i>n</i> = 44) | 80.82 | | | | | | |
| | Partners (<i>n</i> = 14) | 74.50 | | | | | | |
| X ₂₃ | Senior auditors (<i>n</i> = 56) | 83.50 | 6.607 | 0.086 | | Partners | 37.07 | 0.023 |
| | Vice manager (<i>n</i> = 40) | 64.34 | | | | | | |
| | Managers (<i>n</i> = 44) | 75.23 | | | | | | |
| | Partners (<i>n</i> = 14) | 85.50 | | | | | | |
| X ₂₅ | Senior auditors (<i>n</i> = 56) | 79.89 | 4.922 | 0.178 | | | | |
| | Vice manager (<i>n</i> = 40) | 70.80 | | | | | | |
| | Managers (<i>n</i> = 44) | 84.32 | | | | | | |
| | Partners (<i>n</i> = 14) | 65.64 | | | | | | |
| X ₂₆ | Senior auditors (<i>n</i> = 56) | 75.86 | 3.152 | 0.369 | | | | |

(continued)

Table 3.

| Kruskal-Wallis test | | | | | *Mann-Whitney test | | | | |
|---|----------------------------|-----------|-------------|---------|--------------------|---------------|-----------|--------|---------|
| Job position | | Mean rank | H statistic | p-value | Job position | | Mean rank | Z | p-value |
| X ₂₈ | Vice manager (n = 40) | 71.10 | 4.918 | 0.178 | | | | | |
| | Managers(n = 44) | 81.05 | | | | | | | |
| | Partners (n = 14) | 91.21 | | | | | | | |
| | Senior auditors (n = 56) | 82.86 | | | | | | | |
| | Vice audit manager(n = 40) | 77.50 | | | | | | | |
| X ₃₁ | Managers (n = 44) | 67.41 | 12.248 | 0.007 | X ₃₁ | Vice Managers | 49.45 | −2.859 | 0.004 |
| | Partner (n = 14) | 87.79 | | | | | | | |
| | Senior auditors (n = 56) | 85.54 | | | | | | | |
| | Vice manager (n = 40) | 87.00 | | | | | | | |
| | Managers (n = 44) | 63.32 | | | | | | | |
| | Partners (n = 14) | 62.79 | | | | Managers | 36.18 | | |
| Panel C/ matters that should be classified as going concern of opinion (GC) | | | | | | | | | |
| X ₂ | Senior auditors (n = 56) | 83.71 | 3.081 | 0.379 | | | | | |
| | Vice manager (n = 40) | 75.30 | | | | | | | |
| | Managers (n = 44) | 70.09 | | | | | | | |
| X ₈ | Partners (n = 14) | 82.21 | 6.396 | 0.094 | | | | | |
| | Senior auditors (n = 56) | 70.61 | | | | | | | |
| | Vice manager (n = 40) | 82.25 | | | | | | | |
| X ₁₄ | Managers (n = 44) | 87.23 | 8.114 | 0.044 | X ₁₄ | Seniors | 45.50 | −2.077 | 0.038 |
| | Partners (n = 14) | 60.93 | | | | | | | |
| | Senior auditors (n = 56) | 72.75 | | | | | | | |
| X ₂₁ | Vice manager (n = 40) | 66.85 | 12.214 | 0.007 | X ₂₁ | Managers | 56.86 | | |
| | Managers (n = 44) | 91.00 | | | | | | | |
| | Partners (n = 14) | 84.50 | | | | | | | |
| | Senior auditors (n = 56) | 68.54 | | | | | | | |
| | Vice manager (n = 40) | 71.10 | | | | | | | |
| X ₂₉ | Managers (n = 44) | 85.55 | 8.092 | 0.044 | X ₂₉ | Seniors | 32.04 | −3.081 | 0.002 |
| | Partners (n = 14) | 106.36 | | | | | | | |
| | Senior auditors (n = 56) | 73.36 | | | | | | | |
| | Vice manager (n = 40) | 67.00 | | | | | | | |
| | Managers (n = 44) | 91.00 | | | | | | | |
| | Partners (n = 14) | 81.64 | | | | Vice Managers | 35.55 | −2.778 | 0.005 |
| | | | | | | Managers | 48.82 | | |

Table 3. **Note:** *Mann-Whitney test shows only those two grouping variables (job positions) that gained significant difference among their mean ranks

managers and partners have lower mean ranks of 65.05 and 55.21, respectively. According to the Mann Whitney test in Table 3, this significant difference is shown by the Kruskal-Wallis test mainly results from the significant difference between the mean ranks of seniors and that of partners and the mean ranks of seniors and that of managers. This indicates that seniors and vice auditor managers are more capable to deal with KAMs. We interpret such a result that seniors and vice managers have more time to read and grasp ISA 701 requirements given their daily involvement in the performance of the various audit tasks. On the other hand, managers and partners are aware of the requirements of the standards but they are not yet sufficiently exposed to such new requirements in a real audit setting.

Regarding EOMs, it is shown in Table 3 Panel B that there is no significant difference in the classification of those matters among the different levels of job position except for three matters, X_{17} , X_{19} , X_{31} with p -values of 0.005, 0.001 and 0.007, respectively. Thus, EOMs classifications did not differ significantly across the different job levels for most matters. This indicates that there is an agreement among the different groups of auditors and there is a little confusion across the job levels when classifying those EOM matters related to X_3 , X_9 , X_{12} , X_{23} , X_{26} , as EOMs rather than KAMs (as previously discussed in Section 4.2). However, regardless of the job position, there is a clear confusion among all the groups of auditors regarding EOM matters related to X_6 , X_{20} , X_{25} and X_{28} with p -values > 0.05 , a matter that necessitates standard setters' attention toward clarifying those EOM matters to avoid confusion with KAM matters.

Moreover, the results of the Kruskal-Wallis test in Table 3 Panel C show that there is no significant difference in the classification of two GC matters, X_2 and X_8 , from the five GC matters among the four different groups of auditors. Thus, all the groups were confused regarding the correct classification of those GC matters. However, the other three GC matters, X_{14} , X_{21} , X_{29} gained a significant difference in their responses with p -values of 0.044, 0.007 and 0.004, respectively. Audit managers and partners have higher mean ranks than seniors and vice audit managers for those three matters. For example, the mean ranks of audit managers and partners for X_{14} are 91 and 84.5, respectively, while seniors and vice managers have lower mean ranks of 72.75 and 66.85, respectively. The Mann Whitney test shows a significant difference between the mean ranks of seniors and managers for those three matters and a significant difference between the mean ranks of seniors and partners for X_{21} . It also shows a significant difference between the mean ranks of vice managers and managers for X_{14} and X_{29} . Thus, managers and partners are more capable of classifying GC matters than lower job levels, i.e. seniors and vice managers. This could be because of their frequent exposure and experience with such matters and their responsibility to protect their audit firms from any potential litigation resulting from possible potential business failures of their audit clients.

It is shown that the job position of the participants did not significantly affect the classification of the different matters as there is no significant difference among the levels of job positions for most of the presented matters. However, it is worthy to mention that, for those KAM matters that gained significant difference among job levels, the mean ranks of senior auditors are statistically different from and higher than the mean ranks of either managers or partners.

6. Conclusion

The current study critically analyzed the explanations included in the new ISA 701, which is concerned with communicating KAM in the auditor's report compared with those provided in ISA 706 and 570 for EOM and GC matters. The aim is to ensure auditors' proper understanding and ability to differentiate between KAM, EOM and GC based on the content

and explanations provided by the related ISAs. The research also analyzed whether ISA 701 involves sufficient and appropriate explanations to help auditors adequately communicate matters that are of interest to users or if it still needs some modifications. The statistical analysis of the first research question showed that ISA 701 explanations may not adequately help auditors in their proper identification of all KAMs from among the different matters they reach during their audit. Auditors were confused about the proper allocation of KAM, EOM and GC among the 31 selected explanatory statements. More than half of the statements were properly identified as KAMs by most of the participants while the other statements were not adequately identified. The statement that did not gain proper classification as KAM relates to the economic conditions that affect the auditor's ability to obtain audit evidence. Some participants identified it as EOM, while others viewed it as a matter that requires a qualified opinion.

Moreover, the results related to the second research question indicated that there was a little confusion among the auditors when KAM statements were introduced to them compared to EOM. Auditors were able to properly differentiate KAMs from EOM given that there was a clear confusion regarding some explanations related to recent significant economic or regulatory development affecting management's assumptions, new or emerging accounting policies and the economic conditions that affect the auditor's ability to obtain audit evidence. The results also highlighted that when classifying EOM most of the participants were not able to differentiate them from KAMs. As for the third research question, the statistical analysis showed that there was a slight confusion among the participants regarding the classification of KAM as a matter requiring GC opinion. However, when the participants classified GC matters, it was found that there was misclassification of some of them as KAM. Finally, there is a considerable level of agreement among the participants that the explanatory matters that require KAM paragraphs are far distanced from being classified as matters requiring qualifications of opinion.

This study surveyed the appropriateness of ISAs for KAM, EOM, GC and how auditors perceive such reporting standards when forming their opinion about their clients' financial statements. It contributes toward assessing whether the new audit reporting requirements in ISAs 701, 706 and 570 involve sufficient and appropriate explanations to help auditors identify KAM, EOM and GC independently. Auditors' confusion about these reporting matters may affect the quality of the audit services and its implications for users' reliance on financial reports for various business decisions. This may have negative implications on the efficiency of the operations of the stock markets and the business environment at large. It contributes toward understanding how auditors can interpret and apply ISA 701 in practice. Such contribution is achieved by testing how auditors assess the explanations provided in ISA 701 and other reporting standards. This leads to a better understanding of these explanations and identifying any loopholes in their interpretations. This study's findings are based on audit practice in the field using the practical experience and perceptions of auditors in dealing with different audit matters that have different significance and risks. The findings may provide auditors with more elaborations and practical examples for auditors' decisions for KAM compared with EOM and GC. The study is timely and could help standard setters assess whether additional changes are needed to the current ISA 701 to provide a more complete and clearer picture regarding the matters communicated with those charged with governance that could be classified as KAM. Thus, this could, in turn, help to avoid confusion among auditors and assist them in being more accurate in their selection of KAMs. The study contributes to the current academic literature of KAM but from a different perspective.

Our study is subject to several limitations that could provide avenues for future research. The research study relied on a sample of external auditors for investigating the extent of auditors' understanding of KAM, EOM and GC explanations included in ISAs 701, 706 and 570. Only five audit firms with international affiliations including two of the Big 4 were contacted to take the research questionnaire, given that all Big 4 and most of the international audit firms are represented in the Egyptian market. This may provide an avenue for generalizing the findings in other emerging markets and add to the literature for the application of the new audit report in developed countries. Moreover, the results are limited to certain audit matters selected from the different audit reporting standards. This approach helps avoid information overload and lengthy questionnaires. Although auditors in the field may face more specific observations rather than a general description of a problem, the matters selected for the survey are formulated in a generic manner. This is logical because they are intended to be illustrative in the context of the auditing standards. The limitations could provide avenues for future research, which can be conducted using similar investigation while using the perceptions of auditors from different countries. The study's results are based on the perceptions of auditors, so future research can use actual audit reports to identify if misclassifications exist in such reports. Moreover, research may be undertaken to provide standards setters with more specific practical guidelines for auditors to follow when taking decisions about KAM requirements in different audit situations. Future studies can also consider the impact that the confusion among audit reporting requirements might have on users' decision-making and perceived audit quality. Future research opportunities in this regard include whether different investors' reactions are driven by the classification of different audit matters within an audit report.

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Appendix

Matters that should be identified as KAM/ ISA 701 or EOM ISA 706

- X₁ Areas identified as significant risks or involving significant auditor judgment in preparing the financial statements
- X₄ Accounting estimates with high estimation uncertainty that are of interest to users of the financial statements
- X₅ Recent significant economic, accounting, regulatory or other developments that could affect management's assumptions or judgments or the auditor's approach
- X₇ Changes in the entity's strategy or business model that had a material effect on the financial statements
- X₁₀ Circumstances that required significant modification of the auditor's planned approach to the audit, including as a result of the identification of a significant deficiency in internal control
- X₁₁ New or emerging accounting policies, for example, entity-specific or industry-specific matters on which the engagement team consulted within the firm
- X₁₃ Areas in which the auditor encountered significant difficulty during the audit, including with respect to obtaining sufficient appropriate audit evidence
- X₁₅ Significant unusual transactions, including significant transactions with related parties. This could include difficulty in judgment in relation to recognition, measurement, presentation or disclosure of the transaction
- X₁₆ Areas of complexity in financial reporting that are specific to a particular industry or accounting policies unique to that industry
- X₁₈ The matter involved a number of separate, but related, auditing considerations. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition, litigation or other contingencies and may influence other accounting estimates
- X₂₂ Potential difficulties could relate to limitations to obtain evidence on related party transactions; limitations on the group audit; extensive unexpected effort required to obtain sufficient appropriate audit evidence
- X₂₄ Economic conditions that affected the auditor's ability to obtain audit evidence, for example, illiquid markets for certain financial instruments
- X₂₇ Significant risks that have been specifically identified in the context of the entity, rather than to those that have been so identified only because they are presumed in the ISAs to be significant risks. For example, significant risk due to fraud
- X₃₀ Whether the auditor determined it was necessary to obtain written representation from management to support other audit evidence relevant to the matter. For example, such written representations may include representations about plans or intentions that may affect the carrying value or classification of assets and liabilities
- X₃ An uncertainty relating to future outcome of exceptional litigation or regulatory action
- X₆ A matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements
- X₉ A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report
- X₁₂ A new accounting standard that is not yet effective but is expected to have a material effect on the financial statements
- X₁₇ Communicating about audit planning and scoping matters (e.g. the planned scope of the audit or the application of materiality in the context of the audit)
- X₁₉ A major catastrophe that has had or continues to have, a significant effect on the entity's financial position
- X₂₀ Communicating that the auditor's report is intended solely for the intended users and should not be distributed to or used by other parties
- X₂₃ To alert users that the financial statements are prepared in accordance with a special purpose framework

(continued)

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- | | |
|-----------------|---|
| X ₂₅ | Explaining why it is not possible for the auditor to withdraw from the engagement |
| X ₂₆ | Referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general-purpose framework and that the auditor has issued a report on those financial statements |
| X ₂₈ | A matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report |
| X ₃₁ | When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation |
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Matters that should be identified as GC opinion/ISA 570

- | | |
|-----------------|---|
| X ₂ | Changes in law or regulation or government policy expected to adversely affect the entity. There is adequate financial statement disclosure of such matter |
| X ₈ | Inability to comply with the terms of loan agreements. There is adequate financial statement disclosure of such matter |
| X ₁₄ | Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets. There is adequate disclosure of such matter |
| X ₂₁ | Loss of major market, key customer franchise license or principal supplier. There is adequate disclosure of such matter |
| X ₂₉ | Negative operating cash flows indicated by historical or prospective financial statements. There is adequate disclosure of such matter |
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About the authors



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Professor Hegazy has two bachelors' degrees from Cairo University, namely, the first in Accounting and the second in Law. He holds two masters' degrees, namely, one in Accounting from Birmingham University – UK and the other in knowledge-based systems (i.e. expert systems) from Edinburgh University – UK. Professor Hegazy has a PHD in Accounting and Finance from Birmingham University – UK. His research and teaching interests include financial reporting (i.e. IFRS and GAAP), auditing and other assurance services, information systems, corporate governance, financial and administrative restructuring of business enterprises and corporate finance. Professor Hegazy has published more than 40 articles in the areas of Financial Accounting, Corporate Governance, Internal and External Auditing and information systems in leading referred International Journals. Hegazy has also presented research papers in International Conferences such as the *American Accounting Association (AAA)*, *European Accounting Association (EAA)* and *Eurasia Business and Economic Society*. Hegazy published chapters in international books in the areas of accounting, auditing and taxation. He also published 10 books including co-authoring the famous book “auditing and assurance services” with Arens, Elder and Beasley, which is taught at many of the leading School of Businesses in the Arab World.

Hegazy is an Associate Editor of the reputable *Managerial Auditing Journal (MAJ)* and *Journal of Economic and Administrative Sciences (JEAS)* – Emerald publications, member of the Editorial Board of the *Eurasia Business review Journal*, member of the Advisory Board of *Eurasia Business and Economics Society (EBES)* Istanbul, Turkey, which contributes to the advancement of knowledge in the fields of accounting, management, economic and other related fields. He is also a member of the “International Advisory Board” for the “First and Second International Congress on Pervasive Computing and Management,” held in New Delhi and Sydney. He reviewed many research papers presented for publications in refereed journals and conferences such as *Managerial Auditing Journal*,

International Journal of Accounting, Auditing and Performance Evaluation, International Journal of Accounting and Information Management, Journal of Financial Reporting and Accounting and EAA and AAA annual conferences. Professor Hegazy has taught undergraduate and postgraduate courses (MSc and MBA) and has supervised students studying for the Master and PHD Degrees in Accounting and Finance.

Because of his wide knowledge, qualifications and experience, Dr Hegazy is also a specialist in providing Assurance Services, as well as Management Advisory Services at a leading multinational CPA firm “Crowe Dr A. M. Hegazy and Co.” (Crowe International no 8 Worldwide). He has managed the audit and consulting services for banks, financial institutions, mutual funds, manufacturing and service companies, hotels and tourism, insurance, not for profit organizations for the past 30 years. He also provides management advisory services such as corporate finance, due diligence, tax services, internal audit outsourcing, corporate governance, accounting and bookkeeping. Hegazy is the co-founder and chairman of the Financial Consultancies Company for Marketable Securities that provides corporate finance for Egyptian listed companies. He is also an active member of the board of directors and audit committees of some companies in the areas of insurance, medical and mortgage industries. Dr Hegazy provided training workshops and seminars for top management level and board members in the areas of external auditing, internal auditing and corporate governance with both the Egyptian Institute of Directors, as well as the Egyptian Banking Institute. www.CroweGlobal.org Mohamed Abdel Aziz Hegazy is the corresponding author and can be contacted at: mahegazy@aucegypt.edu



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Dr Noha is an Assistant Professor at the faculty of commerce – Cairo University teaching both undergraduate and postgraduate students. For the undergraduate level, she teaches information systems, principles of auditing, advanced auditing, intermediate accounting and other related topics. For postgraduate students, Dr Noha teaches auditing and accounting courses for both Diploma and master's degree in accounting and auditing.