

Advanced Auditing - Week 4

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1. The report may be more user friendly as it is expanded, as covered in the lecture, which gives more information to users of the audit report. Less condensed audit reports promote more transparency and a finer amount of detail to be provided. The headings give a clear guide on what is happening in the report so that it is easy to follow what is happening. This is a positive note and leaves the report similar to a textbook in ease of reading although the language is heavy throughout. The user can get a gist of the report from the headings and directly read a section. The language is largely clear and the sentences well constructed so as to provide maximum user informativeness. The sentences, although signalled clearly can be quite difficult to read on first skimming and require a deeper look at to understand. The graph on page 184 is a great summary of the misstatement likelihood in Rolls Royce and means a user can pick out where the risks are in the company. How this would be useful for decision purposes isn't obvious but it does provide good information on the companies riskiness, which is in summary an excellent thing to have in the report. The size is too long for a concise report but remains basically readable to anyone who is interested. This may not be entirely user friendly but it is still very manageable and not laborious.

The 2022 report is more akin to a detailed analysis document than a report to the users in that some of the key headings to guide the reading have been replaced with long-form text. It includes extra sections that align with more information on the non-financials which is mentioned as part of users wants. The document still seems accessible to the interested reader but it may require a breaking down of each page. There is no the same signalling in the writing, but instead the page is split in half, which is still helpful. Overall the 2022 report may be better for user friendliness as it has catered to the needs of the users by including non-financial information. This might be important to them enough that a slightly more condensed Key Audit Matter section is okay. The paragraphs are still followable and the language used is more accounting terminology heavy but the writing is shorter. Overall it is not too far from the 2017 version.

2. The paper highlights that the expectation gap as an education gap was put forward as a consideration at the other points in time when the audit report was being considered to be changed. This was thought to be a sticking point. I.e the fact that the public were not well informed led to 'swaying' and reserved opinions being put forward when discussing changing the audit report.

3. The education gap highlights the users lack of knowledge on the subject so therefore casts doubt on the idea that providing them with information would help them understand any better what an audit had achieved. It is a point that was included and caused background 'noise'. This was highlighted in the paper.

4. Of the six points proposed, 5 of them have proven viable, as in they have been successfully implemented. The decimal scoring system, which was rated poorly in the interviews by auditors, has not been implemented. This may not have taken into account managers motivation and possible remuneration capabilities, It is though given that there are many caveats to implementing this system. The previous audit report and pass/fail audit report are short form audit reports and both have viability in that there has been much support for and use of them over the years. The three extension of the audit report have come into common usage since 2013. This is so as to make the audit report more informative for users and due to the large uptake of these options it would seem that they are viable alternatives that are well supported by auditors and business.

5. The two groups had very different angles on what they were asked about. The users were more informative and probing of each of the points, where it seems the auditors preferred to have a slightly reserved opinion of the questions. They also note that they would be happy with the changes if it was what was required by government. The users rated that audit report adds value with a 6.2 average, this average was 6.3 for auditors. The users think auditors have valuable information that could be passed on to themselves and they look to audit reputation to measure audit quality. The users do not want to know who spent how long doing what as they think that the audit firm and the oversight board cover enough info.

The information on auditors was not deemed required by auditors. The public oversight board already cover this, and they find no benchmark for it, it would be easy to manipulate, and hard to compare. They think it offers no real info on audit quality. The Auditors are looking for better scope and a level of assurance. Auditors also look to close the expectation gap so are happy to provide information on the audit process, the scope of the audit, and their responsibilities with regard to fraud. Educational material could be provided through a website. It is noted that it may not lessen the expectations gap about the true responsibilities of an auditor. Auditors would like to include the level of materiality, specific areas that required special attention and the auditors opinion on plausibility of measurements made by the client. Conclusion on fairness, important findings and challenges. They are willing to discuss auditors evaluation of the financial statements but only if it is required by law and does

not hurt client confidentiality. The auditors highlight many possible problems with providing too much information.

6. The main reasons as noted in this paper for extending the audit report were to improve the information given to users about the audit by showing how the decisions of the auditors and the management were come to, when preparing and auditing the financial statements. This would be seen to have users be more informed, and possibly left feeling more involved, by the decisions of managers and auditors when preparing financial statements and conducting the audit. The judgements that were made are laid so that the opinion of the auditor on the financial statements may be enhanced. This could be seen by giving an idea of how the financial statements were made and how they are viewed. Doing this in the light of Key Audit Matters lets an investor have an idea of the key matters the business is concerned with. This is great for analytical investors.

7. There was thought a possibility that the auditors, under increased scrutiny and stress, may do more to create the audit and as such this would lead to an increase in fees. This seems to have been side-stepped and is an admirable outcome of the extended audit report. Fees remaining steady shows that auditors are capable in their professional and ethical role in dealing with new directives of the extended audit report without having it impact on their payment structure too heavily. This can be supported by the extended audit report not having an impact on the audit fees (p.1543). With this in place, further adjustments, which may be required, may be better supported and the view of auditors may be improved. Another concern was the potential improvement in investors' understanding and scrutiny of the auditor's work. A change in the investors understanding highlights that there are concerns over the significance of the extended audit report. It is to be helpful to the users, but given the obvious lack of knowledge the information may not prove to be significant. This is an argument shaped by the expectations gap and is therefore with the many possible problems, something that ought to be considered.

8.

Is the adoption of the expanded auditor's report in the UK associated with a change in the decision usefulness of the annual report's disclosures for equity market participants?

The paper states that there is 'little evidence that investors' reaction is contingent on the report's content.' The incomplete reactions of investors was attributed to the lack of response from investors to auditors explanatory language in extended audit reports. It might be important to note that also the previous disclosure of information may also factor in to the reasoning of a lack of response. This harms the relevance of the information as the information can be found elsewhere. The report may factor into investors financial analyses on the company and this is an open empirical question. It does not seem to be that the extended audit report was offering valuable direction for investors, so it may have been put aside. Their analyses will already have been factored and the repeating of the information would not be useful. The information provided can though create opportunities for further interaction between investors and auditors. This may lead to business insights.

Is the adoption of the expanded auditor's report in the UK associated with a change in audit fees?

It is indicated that audit fees do not increase significantly.

Does the adoption of the expanded auditor's report in the UK have an indirect effect on audit quality?

It's not clear how the content of the report relates to audit quality. The content of the audit report may not indicate directly that the quality of the audit was good. Given the contentious variable of modified opinions as indicative of audit quality, it may be thought that the extended report does not necessarily connote there being more thorough work done. This variable seems to be flip-pant as to the quality of audit and having the opinion be modified, although given the reporting quality of the auditor to signal this, it does position it as a stronger audit. The lack of tight interaction of this point is obviously patchy but it none the less holds as an interesting idea. The expanded report might improve quality by having companies be more accountable, although it is not a direct link in research.

9. Smaller companies may have the extended audit report be a significant report that shows their ability to comply with relevant standards and produce work that enhances their credibility through explanation, while giving a better idea of their environment. This may lead directly to investment and lending opportunities given the business is ethical and accountable. The SME's may be able to capitalise on the extended audit report as a a chance to inform investors of how they are performing and give them an ability to win favour. The company may win favour through pity, and showing their hard work. This may appeal to the audience who would wish to invest in a smaller company. The extended audit report may be a USP/information point, that will help to bolster trust and have them garner investment.

10. The extended audit report adds information to the report where before there was an opinion (Minutti-Meza, 2021). This seems to strike at the core of the extended audit report query. The question is of information vs. opinion at usefulness. Opinion would canonically be put as being useless. Info is not useful, but can be made useful. Opinion gives merely tacit usefulness. Therefore it wins in usefulness. It seems the more useful opinion, positioned as a bypassing mark, or tacit help, has been given extra information.