

MSc in Accounting Auditing and Control

A new view of Auditor's Reporting Model - Reducing the information & expectation gap



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Date: Draft 24 February 2016
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Abstract

The auditor's report is the final outcome of the audit process that is distributed to the public. In the last few years, company shareholders have critically questioned the informativeness of this document. Intended users believe that an audit report is a standardized text that has no value to them and they demand more information from the report. Because of this information and communication gap, IAASB, FRC and PCAOB have released some new regulations that can possibly increase the information value in the report and also the readability of the text. The main aim of this thesis is to test if after the implementation of these new regulations the communication gap has been decreased and if with some changes in the representation of the information, the gap can be decreased even further. After an experimental analysis inside Erasmus University, the results suggest that the new audit report increase the relevance and the accuracy of information and the satisfaction level of the shareholder's overall. In addition the report that includes some graphical representation, helped the users even more, suggesting further decrease of the communication gap. The findings should be interesting for regulators, standard setters and intended users before the implementation of the updates by IAASB in EU at the end of 2016.

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1. Introduction

1.1 Introduction

An audit report is the outcome of the audit process and the result of the external auditing that is issued to the public. However an audit report seems to have a lack of information value. In the late 1920's professor Théodore Limperg developed the theory of inspired confidence. Limperg underlined that the information that management provides to company's third parties might be biased and in order for this information to be verified, the company must be audited by an independent third party. The agency theory also underlines that in some cases there might be an information asymmetry problem, because managers might act opportunistically in order to increase their own wealth, without considering company's shareholders. Principals can trust managers only if an independent third party can verify this information. (Hayes et al., 2014).

Both of these theories underline the importance of the audit process. However stakeholders and shareholders can only have access to the outcome of this procedure which is replicated in a brief text called the audit report. Partly as the result of the financial crisis the third parties started to doubt the relevance of the audit report and underlined the need for providing more information, making the audit reporting model more efficient. This is why the IAASB establish some new regulations that should be added to the audit report. The main objective of this thesis is to test the effectiveness of this new auditor's report.

The research design that has been used is an experiment inside Erasmus University, with students representing investors (intended users). More specifically students had access to Qualtrics survey design that could allow them to participate in the online experiment via the internet. Students were automatically divided into three different groups. Each group answer the same questions but view a different audit report. The first group view the old standardized audit report (X1), the second a new version with some new regulations of IAASB (X2) and the third a more innovative audit reporting model with some graphical representations and changes in the typography (X3).

The independent variable was the different audit reports.(X1, X2, X3) and the dependent variable was the willingness to invest or not in the company after reading the audit report. Difference between X1-X2 indicates changes in the information value of the report and differences between X2-X3 changes in the format of the report.

A number of 220 students completed the online questionnaire. The major outcomes have shown that X2 has more accurate, relevant information and increase their confidence and trust about the company, compared to X1 . In addition X3 has a better format and help participants to understand better some key audit matters. Strong evidence has been found that the new regulations of IAASB have reduced the communication gap in the report.

1.2 Research question

In a public meeting in 2014 about the audit reporting model by PCAOB, the CEO of Liability Dynamics Consulting, Richard Murray argued *"that the current form of the audit report is the least modified, most important, least informative, most expensive and least understood form of commercial expression"* (PCAOB, 2014).

In the last few years there is a vast literature that underlines the fact that although the audit report is the outcome and the most important part of the audit process, the majority of the intended users demand more auditor's insights from the report. Imagine that you are in a stadium with 70.000 fans, holding their breath before the outcome of a penalty kick, you need to be focused, you need to take a step back and think the whole preparation you have made in order to perfect the kick. You have to prove your hard work and hours of training to the crowd to make clear that they understand your effort until this moment. Imagine that the penalty kick is the audit report, it is the final outcome of your work after several months, which is being disclosed to the public. The report should be informative for the users, in order to be able to trust the opinion of the external auditor.

The world expects more in terms of communication, findings of individual audits and early warnings of what is really happening in the auditing process as a whole. Third parties want to increase the transparency between external auditors and shareholders, and this is why the FAASB, the IAASB, the PCAOB but also other organizations have tried to find a solution to this problem and have published some new regulations about the future of the audit report. More specifically from the end of 2016, companies in the EU should publish an audit report with

some additional information. This update might decrease the audit expectation and information gap.

Intended users have consistently commented that all audit reports are quite the same and use standardized language. Therefore some changes in the format of the audit report might also enhance the users experience, combined with the previous changes in the context. In 2011 the IAASB released a document that stated that an audit report could be improved if there are changes, not only in the context but also in the structure (IAASB, 2011).

In the 21st century, technology brings major changes in the communication process and the overwhelming majority of companies have an online annual report on their website. In such a way busy investors can read the annual report in their tablets and mobile devices during the day. Most annual reports try to avoid long texts with the use of some graphs or interactive images. In the same way audit reports could try to avoid long, standardized text and use some bullet points and colours to attract reader's attention and emphasize some key findings during the audit process. The use of some Key Audit Matters, Going concern assumptions and auditor tenure can take a different format in order to catch the reader's eye and decrease the communication gap even further.

Therefore the main research questions which this thesis wants to answer are:

RQ 1 " Is the new innovative audit reporting model more informative for the users? "

RQ 2 "Can some changes in the format (text) of the audit report reduce the information gap and make the report even more informative? "

1.3 Contribution

The main objective of this thesis is to make the audit reporting model more effective for the intended users. A new innovative model of the audit report will be structured based on the previous suggestions (regulations) from the IAASB and other academic articles in order to reduce the information and expectation gap in the current design. In this way, it can be examined if the proposed changes from the IAASB and some academic researchers can add value to the report.

Many researches have examined what kind of information should be added to the report, regarding intended users opinion but there is no study that deals with a complete and updated version of the new audit reporting model. Some academic articles and surveys tested the relevance of some individual suggestions but in my knowledge there is no academic paper that has tried to evaluate the relevance of the new audit reporting model and give users the chance to view an update version of the audit report. This thesis will continue the work of Vanstraelen (2011) that performed a survey about the audit reporting debate such as also Gray et al. (2011) who underlined the perceptions of the audit report and some suggestions (regulations) from the IAASB that might decrease the communication gap.

The new audit reporting model will not just focus on changes in the context of an audit report but will also give some new aspects about changes in the format that might provide a better understanding to the intended users. It is essential to have an insight before the implementation of the updates by IAASB in EU at the end of 2016. It might be the case that new regulations have the opposite effect and are not able to decrease the information and communication gap in the report. The outcome of this thesis will be valuable for regulators, standard setters and external auditors.

1.4 Summary

In this chapter of the thesis, the main research questions were described, the research design, the major results and the overall contribution of this study. It is true that the debate of the audit report has already started. Companies and accounting organizations such as the IAASB, the FRC have published some new regulations for the audit reports, in order to reduce the information and expectation gap. The idea of turning back the clock now might be unthinkable for the majority of the stakeholders. However auditors might feel insecure with the concept of disclosing more information for the company which is audited.

1.5 Outline

The next chapter provides an overview of the theory, on which the changes in the auditor reporting design are based. Chapter 3, gives a review of the relevant studies that have been conducted in this field and the major outcomes that have been found in order to further explain the major contribution and aim of this master thesis. Furthermore the proposed changes for the audit report are analytically explained and a big amount of audit reports from 2013, 2014 are examined to clearly show the evolutionary way of the report. In chapter 4 the main hypothesis will be developed. In chapter 5 the methodology of this current thesis will be analytically explained. Chapter 6 will deal with the statistical analysis and the interpretation of the results and in chapter 7 the final conclusion and the limitations of this study will be explained.

2. Theoretical background

2.1 Introduction

This chapter provides an overview of the different theories that can be related with the change of the auditor's reporting model. The IAASB regulations and the need for change in the model, can be explained through the eye of the stakeholder and agency theory.

2.2 Stakeholder theory approach

Since the beginning of 1960's a series of definitions for stakeholders, has been given from different academic articles. Stanford memo (1963) described the stakeholders as groups that without them the organization cannot further exist. Freeman (1984) "*underlined it as the group that can affected by the organizations objectives*" Clarkson (1995) "*as the groups that have claims, ownerships, rights or interests in a corporations and its activities.*" (Crane A & Matten Dirk, 2010). Therefore companies should in a way serve their stakeholders and take further actions based always on their stakeholders needs. According to Freeman (1984), stakeholder theory should be in the center of capitalism. Business should create value in a responsible way, care about the environment but also creates value to the stakeholders.

This is the reason why the audit reporting debate has been started in the first place. The idea that audit firms start to consider to change their audit reports is due to the link with stakeholder theory. CEO's will be reluctant to have this change if there was not an expectation gap with the stakeholders. Auditors will not be willing to spend time, effort and considering switching the audit reporting model if shareholders were already satisfied with the current model. The IAASB regulations and the major changes in UK (2013) and in Europe till the end of 2016, reveal the need to satisfy the stakeholders and try to reduce the expectation gap. Businesses and the IAASB will continue to change their audit reporting, disclose more information and making the audit report more effective and informative, for the satisfaction of company's stakeholders needs. Therefore this thesis is based on stakeholder theory. The switch from the old audit reporting model to the new innovative model with more information due to the auditing debate clearly focuses on the maximization of shareholders, stakeholder's value, allowing the firm to also create future value.

2.2 Agency theory

According to the agency theory which was originally proposed by Jensen and Meckling (1976) managers (agents) interests and desires can conflict with the interests of shareholders of the company. Managers can act opportunistically on behalf of shareholders in order to increase their own wealth and maximize their own profits. In this situation there exists an information asymmetry problem. Managers can have an advantage over shareholders regarding information from the company (Hayes et al., 2013). The agency theory is the basis for the auditing profession. In order for shareholders to verify management's targets and financial information and be able to trust the company, it is necessary to get assurance from an independent third party that managers provide appropriate and sufficient evidence that the company's financial statements represent a true and fair view (Hayes et al., 2013). Furthermore auditors should provide their opinion to the public which is the only available evidence that is disclosed from the auditing process. Auditors communicate with company's shareholders through the audit report. A recent study in the Netherlands, underline that the audit expectation gap is a classic agency problem (Litjens et al., 2015). Therefore the audit reporting debate, and the need for change in the auditor's model are related to the agency theory. The information gap that exists in the current model of the audit report increases the information asymmetry problems (Vanstraelen, 2011). When shareholders and stakeholders believe that they do not get enough information from the auditing process through the audit report, they demand a change in the current model in order to decrease the possibility of information asymmetry with the managers of the company.

2.3 Summary

The audit reporting model needs to change in order to serve the interest of company share-stakeholders and reduce any information gap that can lead to a possible information asymmetry problem and untrustworthy managers. Managers want to achieve the best possible communication with their shareholders in order to maximize company profit and in order to be able to accomplish this goal they should shoot ahead of a duck and come up with the best audit reporting model regarding the public needs and desires. In the next chapter the literature behind the auditor reporting debate will be analytically explained and the new regulations of IAASB for changes in the model.

3. Literature review

3.1 Introduction

In this chapter past research on the subject of audit reporting will be analytically explained. Different studies from all over the world mention the existence of an information and expectation gap in the current form of audit reporting and the further need for change. In addition some of the improvements of audit reporting will be followed based on current audit reports.

3.2 Audit reporting debate

Many studies suggest the existence of an information and expectation gap between auditors and intended users due to the information in the audit report. Due to this communication gap many academic articles and the IAASB published some regulations, regulations to improve the current model of the report.

Unqualified audit reports are all the same due to the boilerplate language, and have symbolic value. Audit reports have nothing more to offer besides the final outcome of the auditing process that indicate if the financial statements have material misstatements (Gray et al., 2011). According to Vanstraelen (2011), external auditors have a unique perspective of the company and their knowledge and inside information should be communicated to the public. Users are more interested in key areas of risk, the quality of the internal control system, the auditor's evaluation of accounting policies and practices, critical accounting estimates and management judgments. External auditors are also willing to increase the information content of the report, in order to decrease the expectation and information gap.

In contrast there is also the opinion that disclosing more information might lead to higher litigation risk. Therefore auditors should pay attention to what they are disclosing, because it can lead to information overload making the report less valuable than what it is now (Vanstraelen 2011). When the financial users expect from the auditor something different than what the auditor is presenting, there is an expectation gap (Gold et al., 2012).

According to Monroe et al., (1993) studies from the late 80s/early 90s concluded that indeed, there is such an expectation gap. The findings about an expectation gap strengthened by Gold et al., 2012 that also mentioned other several researches. The expectation gap became a worldwide phenomenon despite the independent national changes to reduce it (Gold et al., 2012). Frank et al., (2001) stated that the existence of the expectation gap in the report increased the possibility of lawsuits. A study from Singapore found that intended users were not satisfied with the role of the external auditor and the information that was disclosed to

the public (Asare and Wright 2012). An expectation gap was found in the sector about auditor responsibility for fraud, auditor's responsibility for the maintenance of accounting records, the judgment that the external auditors used during the auditing procedures. In addition there was an expectation gap in the evaluation of internal control of the company by external auditors. In an experimental study, users stated that there is a 40% possibility that the external auditors prevent a material fraud when a company receives the Standard Audit Reporting opinion. (SDR). Auditors reply to the same question with a likelihood of 60%. In addition the authors suggested that more precise and understandable language may reduce this gap.

There is also a clear communication gap when the external auditors use the word "reasonable" assurance and what really reasonable means for the auditors and for the intended users. Users believe that since the materiality level is not mentioned in the audit report it is difficult to conclude that the assurance is reasonable. When the auditors referred to the term reasonable assurance, users expect more work to be done, leading to more disclosure from the auditing process (Asare and Wright 2012). External auditors should not only provide their opinion, but also further commenting in a way that could convince investors to invest in the company (Mc Enroe and Martnes 2001). Users sometimes are confused with the terms "reasonable assurance", materiality and audit sampling. Moreover, they did not read the whole report and they just skipped the text to lead to the opinion if it's unqualified or not. More specifically the results from Gray et al., (2011) survey have shown that as soon as the users read that the report is unqualified and has been audited by a Big4 auditor, they never relate to this document again. Intended users seek more information and insights from the auditing process, in the audit report (Gray et al., 2011).

Beside the expectation gap, audit reports can also create an information gap. According to the IAASB (2011) an information gap exists when the information that the users believe is essential for investment decisions, does not correspond to the information that is available in the audited financial statements. Vanstraelen (2011) also indicates several researchers that underline the existence of an information gap, as regards the audit report.

Literature shows that both expectation and information gaps exist and the problem can be reduced by increasing the amount of information that external auditors provide to the users (investors) (Vanstraelen 2011). The information and expectation gap in the report can be re-

duced by a better audit reporting model. Reinforcing the audit report will stimulate the dialogue between the manager and the third parties. The debate of the audit report has now moved from "If it should change?" To "How the audit report can be changed?" In addition Gray et al., (2011) argue that if the audit report contains more information it will also add value to the investors. A recent survey that bankers from the Netherlands participated in, underline that the expectation gap can be reduced with the disclosure of more information in the audit process and going concern section (Litjens et al., 2015).

3.2.1 Improvements of audit reporting

Since the information and expectation gap of the audit report actually exists and has been identified by many researchers, organizations such as the IAASB, the FRC and also academic researchers started to make some suggestions for the future development of the audit report. Firstly, Vanstraelen, (2011) mentioned the idea of Mc Enroe and Martines (2001) that that audit report should include one sentence with big letters of pass or fail opinion. In the same direction Gray et al., (2011) suggested the external auditors should grade the report and how it responds to the financial position of the company. More analytically external auditors can provide for example the grade "A" with colourful text if the report is unqualified. Some other idea might be to divide the grades into the different elements of the report and external auditors rate individually each one of them. In addition the report could include the engagement partner's signature in order to show that the partner is fully responsible for the information provided in the report. However since external auditors should spend more time and effort, these additions might lead to higher audit fees. An audit report might also include a specific statement about the possibility of fraud in the organization, due to the belief of the public that external auditors should always detect fraud (Gray et al., 2011).

One of the most important suggestions that can add value to the report is the disclosure of the materiality level that has been used during the audit (Vanstraelen 2011; Turner et al., 2010; ISA 700 revised). As Gray et al., (2011) underlined many shareholders who read the report for some reason connect the reasonable assurance with the materiality level. Since it has previously been mentioned, reasonable assurance is extremely useful for indented users, the above disclosure in the report can enhance user's experience. However some argue that the materiality level might confuse the users especially if they want to compare different companies; because some companies base the materiality benchmark on assets and some others on revenue. Some CFOs underline that it must be better to set a standard definition of materiality in the audit report to make it clearer for the public.

In this point it is important to underline that it is quite impossible to change the audit reporting, if you first do not accept that there is a problem. Many academic researchers have shown through surveys and experiments that the audit report should definitely move forward and in a different direction. When the IAASB accepted the fact that there is a clear communication problem, it was able to regard the situation differently and come up with some new regulations.

The most important publications from the IAASB about the new elements of the audit report will be followed.

- **ISA 700 (revised):** The major objective of ISA 700 is the opinion of the external auditor, on whether the financial statements are free from material misstatements and the accounting estimates of management are truly reflect the business performance. For the purpose of this thesis only the revised changes and not the whole objective and elements of ISA 700 will be discussed. The most important addition to the ISA 700 (revised) which was published in 2013 was the information about the materiality level that the auditor used during the audit process. According to paragraph 19A of ISA 700 (revised), auditors should also refer to the scope of the audit. Auditors should refer to the percentages of the business components that was examined during the audit. For instance auditor should analytically explain that 70% of the Group's total assets and 65% of Group Revenue were subject to a full audit.
- **ISA 701:** Another important regulation from the IAASB, which raised lot of discussion in the audit reporting debate was the disclosure of the most important information from the audit process or some Key audit matters (KAM), (ISA, 701). These might be significant accounting policy choices, critical accounting estimations and valuation issues. According to ISA, 701 auditors should disclose areas of high risk of material misstatements, judgement on accounting estimates from the management, and the effect of those judgments on the financial statements. These examples are the Key Audit Matters (KAM). It is the auditor's professional judgment which matters should be disclosed and which not. Auditors should always collect appropriate and sufficient evidence. When there is a significant audit matter, external auditors should further collect persuasive evidence, in order to make their judgment for these particular matters. In addition they should disclose these matters in an understandable way in order

to give users some insight from the auditing process and help others that are not that familiar with the audit scope. Auditors should disclose highlights that might be significant and change users opinion. Although some important issues might be already mentioned in the notes of the annual report, the auditor could make a comment in the report (Gray et al., 2011).

- **ISA 570 (revised)**: According to Hayes et al., (2014) the ability of the company to continue its operations in the future is known as the Going concern opinion. This information is highly important for the users when reading the report (Gray et al., 2011). Findings from this study show that although the auditor checks for sufficient liquidity and cash flow predictions for the company's ability to continue as going concern (GC), intended users use different analysis than a financial analyst is using to determine if they should invest in this company (Gray et al., 2011). The IAASB also published ISA 570 (revisited) which includes some additional information to reach users demands for GC. Firstly the audit report should include a conclusion about the appropriateness of using the term GC, followed by a statement about material uncertainties for GC (reference to disclosures on FIS). Last but not least IAASB highlighted the importance of close calls. This is some particular information that make the auditor sceptical about the ability of the company to continue as GC and can play a crucial factor for company's future financial performance. That illustrates the problem of GC (IAASB, 2015).
- **ISA 260 (revised)**: This particular standard was revised in October 2012, and it is focused on the communication of the auditor to those charged with governance. The main scope of the auditor is to include internal control deficiencies. In addition the external auditor should communicate specific findings during the audit, such as the opinion of the auditor on the accounting policies that the company is using, information about accounting estimates and also the notes of the financial statements. Auditors should also be responsible to inform those charged with governance about any possibility of fraud in the organization.
- **ISA 720 - Auditors responsibilities**: The basis element of ISA 720 is the other information that the auditor should disclose in the report. Coming back to the argument that intended users need more information from the audit process ISA 720 is also an

update to decrease this part of the expectation gap. According to this standard auditors should also comment on other information that is included in the annual report besides, company's financial statements. External auditors should report that it is their responsibility to review this other information part and comment if there is any material inconsistency. Some of the most important items that should be reviewed by the external auditors could be Earnings per share, Operating Revenue, dividends, sales by geographical segments, liquidity and capital resource, financial ratios, explanations of some critical accounting estimates that have been done by management, information about other related parties and nature of off balance sheet agreements.

Another suggestion that is worth mentioning, and it is related with the ISA 701 & ISA 720 is explained in the academic paper of Bel et al., (2012). The main idea behind this article was to help auditors to add value to the audit report, with some commentary on accounts that have "high" uncertainty about their estimates. This means that auditors are not really convinced about the number illustrated in these accounts because are based on estimations by the management. As, it is already mentioned intended users do not know exactly how reasonable is the assurance that is provided during the audit process. In addition external auditors need to communicate their knowledge to the public about uncertain accounting estimates in the annual report. If the audit report includes commentary on those fair value estimates management bias can be decreased, because management will be more careful to disclose such accounting estimates since they could be part of the audit report. In such a way internal control of the firm might also increase, and simultaneously external auditors will add value to the users by evidence for reasonable assurance of some particular accounting estimates (Bell et al., 2012).

In the same path Christensen et al., (2012) conducted a paper about the auditor's commentary on fair value estimates. Auditors should flag or highlight accounts that have high uncertainty level in the notes of the financial statements. Furthermore they should further comment on each of these accounts on the auditing tests that took place in order to verify if these accounts can lead to a material misstatement or not. An audit report should include a list of accounts "with extreme measurement uncertainty". This list will indicate the audit procedures that have been performed and in such a way the audit report will drive users to the flagging accounts (Christensen et al., 2012).

One important suggestion that is not included in the IAASB new amendments is auditor tenure. External auditor's rotation has been a very crowded topic in the last few years. Big four (PwC, Deloitte, EY, KPMG) have published many papers that underline their view on auditor tenure. They believe that long audit tenure can increase audit quality. However other researchers believe that long audit tenure can create an agent problem, due to the friendly relationship of the auditor with the client (Carey et al., 2006). The reason behind this argument is beyond the scope of this dissertation and will not be further discussed. What could be essential to examine here, is the disclosure of the auditor tenure in the report and if this disclosure can further add value to the report. PCAOB first suggested in 2011 the disclosure of auditor tenure during the audit. PwC on the other hand, has negatively feedback for this idea, because they believe that such a disclosure can create wrong impressions on the public that external auditors can be influenced by the management, and the relationship could move from business professional relationship to a friendly deal to cover up huge economic losses in the audit report (PwC, 2011). In a paper that EY published about the changes of the PCAOB, it is underlined that the 52% of the commenters that participate in EY survey agreed that auditor tenure is important but should not be included in the report, due to the confusion or suspicions that can be created to the public (EY, 2014). In the paper of the PCAOB, it is referred that auditor tenure should be disclosed in the report because investors express their interest in this particular information. Since as it has already been mentioned in chapter 2, companies are based on stakeholder theory, PCAOB argue that if investors believe that this information is important to them, companies should include it in the report. Therefore external auditors should disclose when they begin to provide assurance services to the group (PCAOB, 2011). Many professional auditors strengthen this view in the PCAOB round table for auditor reporting. Others suggested that disclosing of auditor tenure can cause a direct correlation between audit tenure and quality and should be better placed in the audit committee report.

3.2.2 Implementation of new standards by IAASB

The ISA 700 (revised), ISA 701 (Key audit matters), ISA 570 (Going concern), ISA 720 (Revisited-Auditors liabilities) will be mandatory for audits after the 15th December of 2016 for EU. However, many companies in the UK and in the Netherlands have already started to implement the major regulations of IAASB in order to start moving forward, and maintain strong relationships with their shareholders.

3.3 Improvements already implemented in audit reports

In this chapter some information about companies from the UK that have already implemented some of the new regulations of the IAASB will follow. In such a way with the analytical examination of some of the major companies audit reports, it could allow us to understand how companies try to include the major elements of the IAASB regulations in their reports. Firstly a brief overview of audit reports from 2013 will be presented followed by some audit reports from 2014.

Since 2012, the ISA 700 (revised) was mandatory for companies in the UK. Many companies should change the way they approach the report and implement some of the regulations of the IAASB. The major elements that the new model include are:

- "Key audit matters: Identification of the matters/risks, Description of how the auditor responded in these matters, Description of the major outcomes of the auditors procedures."
- "Materiality level, explanation of materiality concept."
- "Statement regarding the outcome of auditor's consideration of 'other information- Scope of the audit' "

(PwC- Delivering the value of the audit 2015)

3.3.1 A review of 2013

3.3.1.1 Citi-bank-Audit report review

In order to have a better insight into a big number of new audit reports that have been published in the UK, after a personal request to Citi-bank UK, access was given to a review of 88 major companies in the UK, (FTSE 100-London stock exchange) from different sectors that have implemented the ISA Revised new standards in their audit report.

▪ Risks

In this section as previously explained auditors should comment on specific audit risks that they believe is vital to be included in the report. It is on external auditor opinion to decide what kind of risks are the most important for each company and should add value to the investors. The most common risks that were disclosed by the UK companies were impairments (55%), revenue recognition (52%), tax (43%) and provisions (32%). In addition Citi research underlined that KPMG has the most informative risks descriptions (Citi, 2014). The outcome of Citi research findings for some of the most famous UK companies can be better viewed in the following table (Citi, 2014).

Company	Auditor	Benchmark	Perectangle	Disclose	Kind of Risks
Anglo American	Deloitte	Adjusted PBT	4,1%	Disclosed	Impairment, assets held for sale, acquisition, tax, other
Antofagasta	Deloitte	PBT	4,8%	Disclosed	Impairment, capitalization, Provisions
AstraZeneca	KPMG	PBT	7,6%	Disclosed	Impairment, provisions, pension, revenue recognition, tax
BG Group	EY	Adjusted PBT	5,0%	Disclosed	Impairment, tax, other
Barclays	PwC	Adjusted PBT	5,0%	Disclosed	Impairment, Financial instruments, Provisions, Tax, Fraud, Controls
BP	EY	PBT	3,3%	Implied	Provisions, Acquisition
GlaxoSmithKline	PwC	PBT	5,0%	Disclosed	Provisions, Revenue recognition, controls, Management override, other
HSBC	KPMG	Adjusted PBT	5,0%	Disclosed	Impairment, Financial instruments, Provisions, Tax, Other
Lloyds Banking Group	PwC	Revenue	0,7%	Implied	Impairment, Insurance liabilities Provisions, Tax, Management override
National Grid plc	PwC	Adjusted PBT	5,0%	Disclosed	Financial instruments, Adjusted items, Controls, Other
Rolls Royce	KPMG	PBT	4,9%	Disclosed	Impairment, Revenue Recognition, Acquisition, Adjusted items, Other
Royal Dutch	PwC	PBT	5,0%	Disclosed	Impairment, tax, Provisions, Revenue Recognition, Adjusted item, management
Tesco	PwC	Adjusted PBT	5,0%	Disclosed	Impairment, Assets held, Provisions, Revenue Recognition, Management override
Vodafone	Deloitte	Adjusted PBT	5,0%	Disclosed	Impairment, Assets held, Provisions, Revenue Recognition, tax, controls, Acquisition

*PBT= Profit Before Tax

- *Materiality*

External auditors should always include the materiality level in their report. This indicates the maximum amount of misstatements that an auditor can identify and not flag them as material in the audit report. A misstatement can be considered material when it can influence the decision of the intended users (Hayes et al., 2013).

As regards Citi-research, they first investigated the percentage that auditors use in order to calculate materiality. Auditors use as an average percentage 5% of PBT (Profit Before Tax) to calculate materiality. Barclays, HSBC and Standard Chartered all used a PBT benchmark. In contrast Lloyds used Revenue and RBS the shareholder's equity.

- *Audit scope*

Auditors should share information for the objective of the audit and the specific audit procedures. Regarding this new section of the auditor's reporting model the 26% of companies they did not provide any audit scope measures.

3.3.1.2 FRC- Review of audit reports 2013

More recently FRC published a review paper in March of 2015 that includes some information of UK audit reports from 2013. In this review a number of 153 audit reports were examined in order to indicate how each individual company disclosed information for key audit matters, the materiality level and the outcome of auditor's consideration (FRC, 2015).

- *Risks*

In the key audit matters section every company disclosed some major risks that external auditors decided that shareholders should be aware of. For companies in FTSE 100 the average number of risks were 4.2 for Deloitte, 5.3 for EY, and 4.7 for KPMG. The company that disclosed the highest number of risks was Rolls Royce audit report for 2013. In addition FRC categorize the types of risks according to the different sectors. Companies that specialized in Oil and Gas sectors disclosed the bigger numbers of risks (8) followed by Telecommunications companies (6.5) and Industrials (6). In contrast Commercial Properties (4 risks) and Construction services (3 risks) company's disclosed the smaller amount of risks.

The majority of companies disclosed risks related to Impairments of assets and goodwill, represented by 23%. The next highest risk was about taxation. What it is really worthwhile to be mentioned is the comment of FRC for encouraging the experimentation by external auditors in order to possibly minimize the gap with company's shareholders.

- *Materiality*

FRC review, also commented on the materiality level that was disclosed in the report. The findings are correlated with Citi-research that were explained before. The overwhelming majority of companies (97%) disclosed the benchmark that was used in order to calculate materiality level. A smaller amount of auditors (37%) gave a small description of the reasons behind this benchmark's choice. In addition 79% of external auditors indicated that materiality was based on profit before tax as was reviewed by Citi table.

- *Audit scope*

In this section auditors should address the issues of material misstatements and the auditor's application of materiality. Focus was given on Rolls Royce audit report that mentioned that auditor's procedures cover 98% of Revenue, 99% of profit before taxes and 94% of the total assets.

- *Going concern*

According to ISA 700 (revised) for UK and Ireland, external auditors should report on the ability of the company to continue as a GC its operations. For example Deloitte's audit report of Kingfisher plc mentioned "*we have concluded that director's use of going concern basis is appropriate*" and highlighted the fact that they did not find any material misstatements that can cause doubt on company's ability to continue as a GC.

Furthermore FRC, underline the example of Lloyds Banking group for GC. The external auditors, since they first explained the definition of GC, further commented that companies directors draw the conclusion that companies prepare their financial statements on going concern basis form. More analytically they disclosed this information in the following way

"The regulatory capital position of the Group which is critical to the market maintaining confidence in the Group's ability to absorb losses that may occur in a market stress; and The funding and liquidity position of the Group to be able to meet its liabilities as they fall due, including in a market stress." (Audit report, Lloyds 2013.) (FRC, 2015, Page 41).

External auditors concluded that since Lloyds future events and conditions cannot be predicted they can't guarantee that company has the ability to continue as going concern.

Lastly the auditors further explained the specific reasons behind their choice:

"- critically assessed and challenged the appropriateness of the stress scenarios used and their impact on the Group's capital and liquidity position;

- understood and assessed key economic and other assumptions used in both the capital and liquidity plan and the Group's five year operating plan; and

- *substantiated the Group's unencumbered collateral position and potential to access central bank liquidity facilities.*" (Audit report, Lloyds, 2013) (FRC, 2015, Page 41).

In such a way auditors provide a better insight for company's shareholders.

- **Location of the auditor's opinion**

One of the outcomes of the auditor's reporting debate, was that the report used standardized text and shareholders are only interested in the opinion of the auditor. As a response to the intended users commentary, the IAASB came up with the idea to include the opinion paragraph in the beginning of the auditor's report, besides any other elements that will be added in the report and was mentioned before. According to the FRC, in the UK 48% of audit reports of PwC, 46 % of Deloitte located the opinion first without any further introduction. In the overwhelming majority of KPMG report's (88%) the opinion was located after a brief introduction. In contrast EY auditors placed the opinion paragraph after the audit scope. The majority of the Big 4 audit firms, placed the opinion paragraph in the beginning of the audit report, since it is the most important part for the intended users and what most of them expect from the report (FRC, 2015).

- **Representation of the discussed issues in the report**

Since the implementation of new standards of audit report, external auditors should also consider adding some headings for the new part of the report. More analytically in the section that external auditors referred to the risks during the audit, Deloitte auditors include headings such as *"How the scope of our audit responded to the risk"*. In the same way KPMG auditor's headings such as *"Our response"* and *"The procedures to address these audit risks included, amongst others, those listed below "* and PwC auditor's *"How the scope of our audit addressed the area of focus"*.

3.3.2 Investor's awards in the best audit reports

In November of 2014 the IMA Auditor's reporting awards took place. As FRC stated the main purpose of this event is to give an insight of what was being made in the audit reporting debate till now. The judges that were responsible for the report made a list with the strongest points of a well written audit report. In addition the judges were looking for the most innovative audit reporting if:

- a) *"Show innovation that goes further than the minimum requirements in Auditing Standards in order to provide insight and relevance to users;"*
- b) *"Have new and **innovative presentation**; and"*
- c) *"Include narrative that is innovative in communicating detail to investors." (FRC 2015).*

The audit report that was most innovative for the intended users was the report from Smiths group (plc). The strongest point of the report was the well explained context and risks and the reasoning behind the materiality level that has been used. The winner for insightfulness was the Rolls Royce audit report. Investors mentioned that the report was a step further and were impressed by the level of detail that external auditors used in the risks section. More comments on the Rolls Royce report will follow in the next chapter.

3.3.3 A review from 2014

Since some examples of audit reports from 2013 have been mentioned, the review of audit opinions should be continued for 2014 after the first year of the implementation of IAASB new regulations. Some comments about audit reports from FTSE 100, companies in the UK will follow.

In the report of ARM, which is a British multinational software design company, the audit report was analytically explained in five pages. In the section of Risks for the company external auditors of PwC, wrote multiple times the phrase "no material exceptions in our testing", in order to provide further evidence they precisely addressed any area of focus that lead to this outcome. Furthermore materiality was mentioned two times in the audit report. Firstly in the beginning of the report with a brief summary of the materiality level that has been used and more analytically in the section about materiality. Auditors include also the percentage of materiality that has been used in last year.

Vodafone's audit report of 2014, include a big section about significant findings in respect of each year, similar to what the Rolls Royce report of 2013 had been proposed. Deloitte auditors moved one step further than last year and expanded the form of the Vodafone report. In the

materiality section auditors used a graphical representation to better show the decrease in the materiality level from 2013 (500million) to 2014 (250million). Lastly the report is better structured and is more readable than what external auditors used last year.

Although the senior statutory auditor of Deloitte remain the same, in 2014 Vodafone published a more extended and better structured audit report.

Barclays-PLC's external auditors have further expanded the section about the audit scope. They represented with percentages the proportion of total income and total assets that have been audited. What might be interesting to underline is the percentages that indicate the proportions out of audit scope.

In the report of Royal Dutch Shell, in the materiality section the reasoning behind the benchmark that was used, has been mentioned by external auditors under the title "*rationale for benchmark applied*".

Similar to the audit report of Shell, external auditors of British American Tobacco plc, included in the report of 2014 the rationale behind the materiality level that has been used. Furthermore the report of 2014 is more structured than last year and a table with the most important areas of focus(Materiality, Audit scope, Areas of focus) has been placed in the first page of the report right after "Our opinion" and "What we have audited" sections.

Tesco is one of the examples of audit reports that came to major change between 2013 and 2014. In 2013 audit report, external auditors did not include any paragraph about the materiality level that has been used nor any information of company's risks and audit scope. In contrast in 2014, the report was expanded from 1 to 3 pages, with paragraphs about Tesco's materiality level, audit scope, areas of particular audit focus and going concern information.

In the same way with Tesco's auditors, SAB Miller's plc report of 2014 has come to a major change with the addition of the three elements that IAASB make mandatory for UK audit reports (Materiality, Scope of audit, KAM).

BG group also published a more detailed and well-structured audit report than in 2013.

Moreover, BG's external auditors tried to make an innovative audit report with the use of a graph in the beginning of the report that shows the planning of the audit.

In addition, in the area about the risks of business a new column has been added with the name "What we reported to the audit committee". Lastly in the section about audit scope

there are two graphical representations with the use of pie charts that indicate the percentages of business performance and total assets that a full audit has been provided.

BHP Billiton a mining metals and petroleum company is one more example of companies that changed dramatically their audit reports after one year. In the report of 2014, the opinion paragraph is located in the beginning of the report compared with last year that had the old form. Furthermore there is a risk distribution sector and a chapter that refers to the materiality level of the auditing process. Both of these previously mentioned sections were absent in the report of 2013. The materiality level was also illustrated with a graphical representation making the report more readable for the users.

In the same industry, but a bit more developed was the audit report of Rio Tinto Group. In the audit approach section there is a small introduction to the materiality level with the use of a table, followed by the audit risks section of the report. In the main section of materiality, external auditors referred to the way that the materiality level was determined and the reasoning behind this choice. In addition auditors underlined that *"because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Parent Companies' ability to continue as a going concern"* This might be an additional information for the intended users of the Rio Tinto's annual report. What might be unique for this report is that in the signature part, not only was the partner's name of PwC mentioned but also the name of the senior statutory auditor. In such a way external auditors might increase the reliability of the report itself and Rio Tinto's shareholders can better trust the company for future investments. This view can be correlated with the audit report expectation gap and the need of disclosing more information from the audit process.

Sky UK Limited is a British telecommunications company. In the audit report of 2014, external auditors added the audit risk part with the audit response explanatory part to each risk factor.

In the annual report of Centrica plc 2014, an electricity and gas supplier, external auditors made a small table of context in the beginning of the report with summarized information for the Group Materiality, the audit scope and a list with the area of focus of the audit. The report was expanded from four pages to seven. In the materiality section extra information was added regarding the rationality behind the materiality benchmark.

It is now clear and proven that audit reports are evolving and external auditors try to keep the audit reporting on an evolutionary road. Since 2013 audit reports showed the first signs of

change in the way that auditors approach the report. It is now clear that the report is changing and is actually moving forward. The overwhelming majority of companies tried to improve the audit report from last year with the addition of more pages with key audit matters or more information about the materiality benchmark.

3.4 The "Rolls Royce" of reports

The audit report that attracted the most attention was the one of Rolls Royce for the year 2013. KPMG external auditors did not only comply with the UK standards but moved the audit report one step ahead and came up with a text of five pages. More specifically, the audit report included the risks, the materiality concept and the scope of the audit as was obligatory from FRC. Moreover, a part about accounting for risk and revenue sharing agreements and also a part about bribery and corruption were included in the annual report. In March 2015, in a paper that was reviewing audit reports in the UK, FRC highlighted the importance of Rolls Royce audit report. More analytically it mentioned that auditors should not only inform shareholders about what they have indicated as a risk but also comment on what they have found, what kind of actions they took in order to minimize this risk, exactly how Rolls Royce auditors did in the section "Our findings" in the audit report. (Extended audit reports- a review of experience, 2015) PwC commented also positively in the audit report of Rolls Royce (KPMG). More specifically they highlighted that auditors should not only identify the key risks and why they are important but also have a deeper look into what they found and communicate this information to the shareholders. In the debate for audit reporting, investors comment many times that they find useful the information about the areas that the auditor focused on but this information should be followed by the outcome of these areas. This is the gap that the Rolls Royce report tried to cover. PwC mention that the Rolls Royce report was the best for investor's point of view. Furthermore, Citi bank had positive comments about Rolls Royce report such as "go beyond official guidance" and mentioned that this type of audit reports represents the future form of the auditor's reporting model.

In 2014, Rolls Royce provided the same information in his report. In addition the first signs of some auditor's graphs have been used in order to underline the summary of the audit scope. This new kind of audit report, that includes graphs and changes in typography, move the report a step further and make the report more useful to the shareholders.

3.5 Use of graphical representation in audit report¹

The format of the audit report could also change in order to increase user's readability. More specifically one academic paper mentioned that bullets points might be more essential for writing conclusions (Kozak 2011). In addition one other study about web-design indicates that users might be more attracted by colours (Hall and Hanna 2014). Colour enables users to handle greater amount of information and process it more effectively (Horton 1991). Colour text also grabs user attention before even reading the text and simplifying complex information (Keyes 1993). In an online survey about data visualization, researchers concluded that the human's eye finds the colour green, blue and brown better for information displays (Cawthon et al., 2007). Colours can lead the user to buy products (Hall & Hanna, 2004). This is maybe the reason why managers use colours in the annual report. Therefore since these colours attract users attention they can also be used by external auditors.

Rolls Royce and DIAGEO annual report of 2014 implemented some first graphs in the audit report, to give a more clear insight into the materiality scope of the audit. The major risks areas are highlighted with color text in the same way with the annual report, making it easier for shareholders to read. In Rolls Royce report, the materiality level was represented also as a graph. Astra Zeneca KPMG auditors in the report of 2014, also used the same graph to determine materiality level. They also included in a pie chart the percentage of group revenue, profit and losses and group total assets that the audit procedure covered and the percentage of specific risk audit procedures. In such a way intended users can create a better picture and value the auditing process compared with the specific risks that the auditor disclosed.

¹ Hypothesis 4

3.6 Summary

During the last five years the expectation gap between the intended users and the auditing process has been widened. Many academic articles have been mentioned that the audit report should come to a new format that includes more information for the auditing process. IAASB came up with some new regulations that has been already implemented in the UK since 2013 in order to minimize this gap. Someone could easily conclude that there is a revolution in the audit reporting, starting from the UK and approaching the rest of Europe soon. External auditors should be based on professional scepticism, but also be innovative. The business society, demands more disclosure from external auditors and auditing boards should cooperate in order to satisfy this need. The Rolls Royce audit report for 2013 has been selected as the most informative, based on the new regulations of IAASB and IFRC for UK in particular. The structure of the new audit report and the methodology will follow in the next section of this thesis.

4. Hypothesis Development

4.1 Introduction

In the following chapter the hypotheses that will be tested in this dissertation will analytically be explained, based on the previous literature of chapter 2 and 3.

4.2 Hypothesis Development

As discussed in the previous chapter of this thesis, there is a current audit reporting debate among the intended users that seek for more information in the report and the auditing companies that do not fulfil the wishes of the public. Based on the stakeholder theory, companies try to adjust to their stakeholder's needs in order to be sustainable in the future. Freeman (1984) has mentioned that firms should be managed in the interests of stakeholders and stakeholder theory should be in the centre of business in order to create future value and be profitable (Freeman 1984). In addition audit reporting might change due to the information asymmetry within the agency theory. When there is a communication gap in the report, intended users might believe that managers know more about the company than what they really disclose. Since the audit report is the only final outcome of the audit process if it is not addressing appropriate and sufficient evidence for the stakeholders the information asymmetry could be increased. Most of the users expect to see more information in the audit report, such as audit scope and specific companies risk factors (Vanstraelen 2011). Users expect more disclosures from the auditor in order to be able to get more information and insights from the audit process (Gray et al., 2011).

The IAASB underlined that indented users have called for the audit report to be more informative and provide greater insights from the auditing process. This is why the IAASB came up with some new suggestions (regulations) that might be able to decrease the gap and make the audit report more informative. Based on the IAASB, this new format of the audit report should include information about the materiality level, some key audit matters, the audit scope and GC. These regulations will be implemented in the new model of audit report that will be obligatory for all the listed companies in EU from the end of 2016.

These new elements will try to reduce the information and expectation gap in the report by addressing more information from the audit process by addressing user's needs

For this reason the following two hypotheses will be tested:

H1: Intended users will consider the new model of unqualified audit report more informative than the standardized audit reporting model. (X1 vs X2)

In today's world, investors can find the audit report in the official websites of each listed company. Annual reports changed dramatically in terms of format and design, with the use of graphical representations in order to avoid long lines filled only with text. The auditor's report has consistently been accused of using standardized text and boilerplate language, making it difficult for the users to read the text. Studies have shown that the human eyes are more attracted to colours and can stimulate the brain in order to purchase products via the internet (Hall and Hannah, 2004). Some audit reports in 2014, use graphical representations for materiality level and audit scope in order to differ from the standardized text of the old form of the report. With the rapid revolution in the field of smart phones, many users might read the annual report via the small screen of a tablet or Steve Jobs i-Phone. Therefore some additions to the report such as colourful text, graphical representations and typography might attract the user's attention more and make the report more readable and in such a way decrease even more the communication gap.

H2: Innovative audit reporting model that uses more colour text and has a distinguishing format will be considered more informative than the new audit report with the current format. (X2 vs X3)

4.3 Summary

This chapter included the two different hypotheses and the reasoning behind them that will be tested in the following chapters. The first hypothesis is based on the information and expectation gap of the audit report that was analytically explained in previous chapters. The last hypothesis, will test an innovative idea that might also decrease the communication gap further.

5. Methodology

5.1 Introduction

In this part the methodology of this thesis will be described followed by the construction of the survey questionnaire and the new innovative audit reporting model that will be used. Some argumentation behind the choice of the audit reporting model that will be used will follow, according to the previous literature in chapter 3. Lastly the steps of the survey questionnaire will be analytically explained to shed some light on the insight of web-experiment that has been used.

5.2 Research design

In this master thesis a web experimental design will be conducted with the use of a web questionnaire. Since the new innovative audit model has not been tested in practice yet, an experiment can illustrate the effectiveness of the new model. With the use of the experimental design three different audit reports (old, new, innovative report with use of graphs and changes in typography) will be distributed to separate groups. Every group of participants after reading the audit report will answer the exact same questions regarding the informativeness of the model. In such a way, later on with the use of a between subject design, the three different audit reports could be compared in order to find which model can decrease more the expectation and information gap.

What might be important to indicate is that the questionnaire will have the form of a scrolling design display. The reason behind this choice is simple. Scrolling design displays provide better context for respondents and can give them the opportunity to go back to the beginning of the questionnaire to review the information material. Fan and Yan, 2010 also highlighted the importance of the software that will be used for the questionnaire. Survey software should support different browsers so respondents will not struggle with answer submissions or not viewing the questions clearly. In addition it is also important to pilot the questionnaire to a small percentage of respondents before it is sent to the rest of the participants. In such a way any possible mistakes could be fixed and the questionnaire can be tested in a controlled environment.

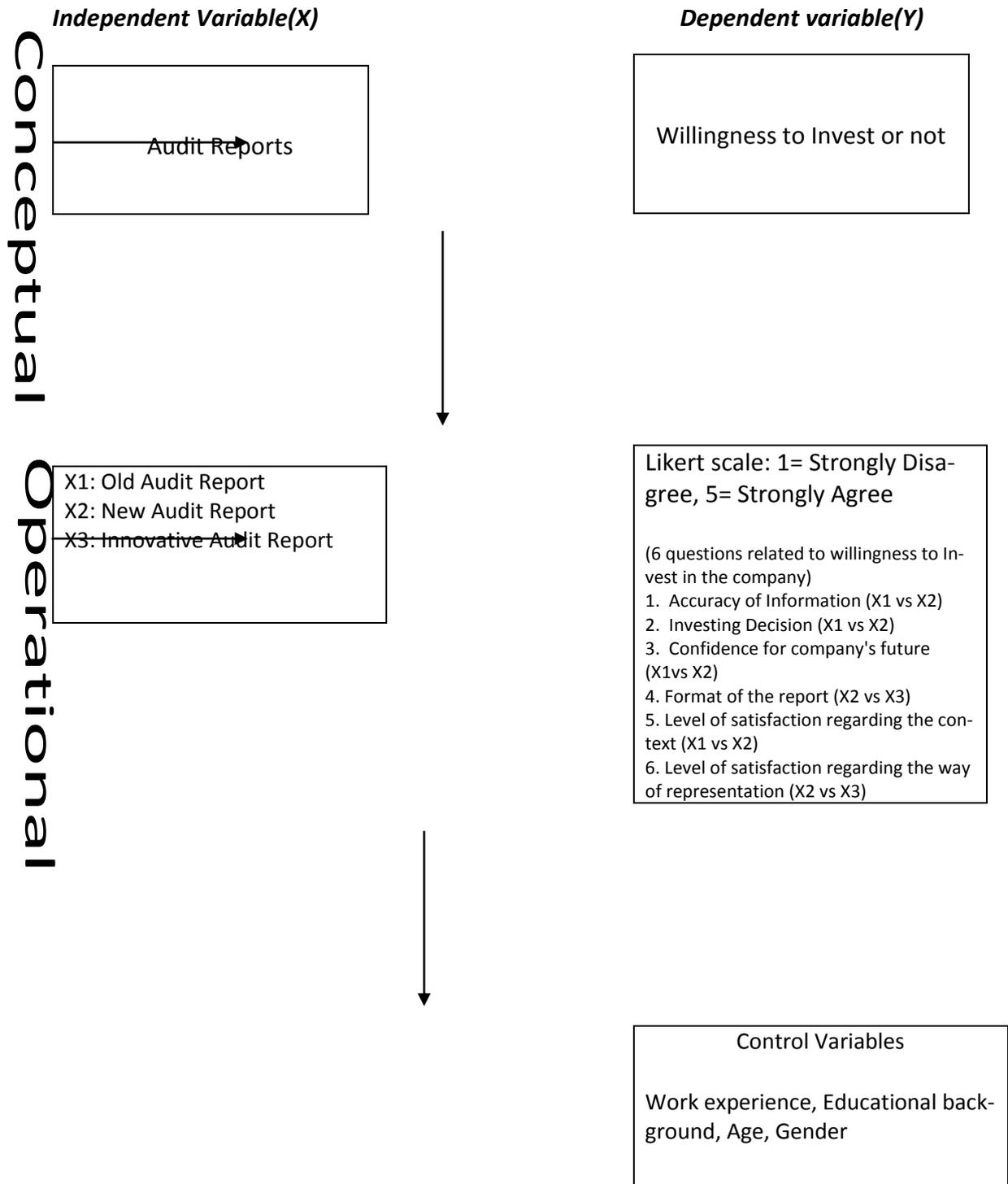
5.2.1 Measuring the expectation and information gap / Variables

As it was explained in the first chapter, the major reason for the new regulations of the IAASB and the FRC is the reduction of the information and expectation gap in the audit report. Due to the fact that users expect more information from the auditing process in the report, informativeness can play a major role in the decrease of the communication gap. In order to measure the informativeness, the willingness of the users to invest in the company or not after reading the audit report will be tested. If the audit report is more informative, and new additions add value to the report, users will have more information in order to invest or not in the company. Therefore the dependent variable Y will be the "Willingness to invest in the company" and the independent variable will be the three different audit reports (different treatments) that will try to minimize this gap. The old audit reporting model will be the X1, the new audit report with the proposed changes will be X2 and the innovative model of audit report with use of graphical representations and changes in typography will be X3. Previous studies have shown that the measurement of the expectation gap consist of the auditors responsibility in the report, the management responsibility and the reliability of the participants in the audited financial statements (Gold et al., 2012). In order to be able to cover these three dimensions of the expectation gap but also the information gap that exists in the auditor's reporting debate, the questionnaire will include questions such as the informativeness of the audit report, the willingness to invest in the company and the trustworthiness of the information that is provided. In order to test hypothesis 1, differences between X1 and X2 will be tested, regarding the information that has been added to the new model of the report.

Last but not least, the hypotheses of this study can find relevance beyond the field of financial accounting. As Libby (2002) suggest experiments could tie the financial accounting theory with a fundamental principle as psychology. In this current experimental study the dependent variable would be the willingness of investors to invest or not in a company after reading the audit report. Someone could argue that this concept will have a contribution to financial accounting research. However, the desire to invest or not in the company by providing more information in the report or changing the format of the report (H2) could be more related to psychology and how people's decision were influenced by changes in typography and graphical representations. In such a way it could be examined, how people's desire can be influenced by the quantity of information or the different typography of the report (Libby, 2002). Therefore in hypothesis 2, X2 and X3 will be compared since these reports have the exact

same content but different representation. Libby boxes are helpful in order to explain the validity framework of this experimental design.

Predictive validity framework



5.2.2 Web questionnaire procedure

In order to run the experiment three different audit reports have been send to three different groups of users. The users were randomly selected, in order to avoid assignment bias. The randomization of the participants has been performed with a variable on Qualtrics survey design software (Appendix). After reading the audit report, participants will answer the exact same questions in order to measure the willingness to invest in the company or not. In such a way the informativeness of the two different models can be tested and if indeed the new audit report (X2) decrease the communication gap. All the participants questions will be coded in a form of the Likert scale, when 5=Strong agree, 4 = agree, 3 = neither agree nor disagree, 2 = disagree and 1 = strongly disagree.

5.2.3 Respondents

The survey took place inside Erasmus University using accounting, finance or economic students, as information users that read the annual report. Smith (2011) underlined that many studies are in favour of using large proportion of students. In this experimental research study auditors from the profession and accounting students from undergraduate classes responded in the same way with external auditors and they showed that they already considered themselves part of the auditing profession (Frank et al., 2001). In the same way Elliott et al., (2007) mentioned that MBA students are a good proxy to non-professional investors in tasks that are low but also high in complexity. Due to the information that is provided in the report, it can be concluded that this web experiment is a low complex task for the participants. In the web-questionnaire participants will answer some questions regarding their educational level and work experience, in the same way as Elliott et al., (2007) did.

A requirement for all respondents that have been contacted to give their view in the web survey design, was to attend a bachelor or master program in the department of economics. More specifically students should have the appropriate knowledge to read the audit report and comprehend the information with financial terms. In such a way it is possible to reduce any non-response bias due to lack of understanding and knowledge in the field of accounting. In this web experimental design, around 1.500 bachelor and master students from the department of Economics in Erasmus University have received an invitation with the anonymous survey link in order to participate in the experiment. At the same time the same invitation message with the survey link has been posted in social media students groups. Due to the lack of participation through students e-mail, students have been also reached personally in order

to participate in the survey, in Erasmus University Library. In order to avoid double participation the message that participants received in their e-mail, underlined that the survey has been posted also in the social media and participants should complete the survey only once.

5.2.4 Task

Each group of participants dealt with one of the three different audit reports and answered the exact same questions about the informativeness of the new models compared to the old. Firstly, participants received an invitation message that motivated them to participate in the study. Later on, students that are willing to participate were lead to a different page where they viewed an introduction message on Qualtrics survey design. This message included all the necessary instructions and steps that participants should follow to complete the questionnaire. The invitation and instruction message can be found in the Appendix. Participants were randomly separated in three different groups. Random assignment of the participants would ensure the avoidance of omitted variables that can influence the causality in the study (Libby 2002). In such a way participants can be unbiased when answering the questionnaire after reading one of the three audit reports.

Each group viewed the same introduction message and a different unqualified auditor's report. A link led each group to one of the three unqualified auditor's reports. The first group view the old unqualified auditor's model, before the recent changes and regulations in the UK (X1, Appendix). The second group will view an updated audit report with the new regulations of the IAASB (X2, Appendix), and the third group the same updated audit report with some graphical representations and changes in the typography (X3, Appendix). The reason that this third audit report has been tested is the minimization of the standardized text and boilerplate language in the report that intended users have consistently negatively commented about. It is assumed that since users do not read the current audit report if this could come to a change might be considered more readable from the intended users and decrease the gap even further. After each group read the audit report, a few questions followed regarding their willingness to invest or not in the company after the information provided in the report. All groups answered the exact same questions. The questions had the form of a Likert scale with 5 strongly agree with the statement and 1 as strongly disagree.

In order to be able to test the questionnaire and have an insight to what is missing in the experiment before it gets distributed to participants, a pilot study has been carried out.

The pilot study was successfully completed by 6 different currently enrolled master students in the Erasmus school of Economics. The pilot study was really helpful in order to reveal possible problems that might affect the validity of the experimental design later on. Due to the big amount of information in the report the part about UK specific legislations were deleted from the audit report. These two paragraphs are country specific (only for UK) and are not included in the IAASB changes that this thesis will examine. Since those changes are not the same for other countries we believe that they will not influence our dependent variable and are deleted in order to emphasize on the changes of IAASB and how those changes influence the investment decision of participants.

5.3 Development of X2 & X3

The main goal of this chapter is to comment why the X2 audit report has this current format and from where it is based on. In order to be able to make a new innovative audit reporting model with some of the regulations that were published in academic papers, and have as our major pillar the IAASB new standards, an analytical and in depth review of audit reports from 2013 and 2014 has been performed in chapter 3.

During the literature review, the Rolls Royce audit reporting model has grabbed the most attention in the UK among the new audit reports that were implemented the previous year. Since in this master thesis, the two different audit reporting models will be compared in order to verify if the expectation and information gap has been reduced, it is better to use the best or the most informative audit reporting model, which was discussed more in the media, Big 4 publications and some round tables of PCAOB and IAASB. In such a way it can be ensured that the best possible model of audit reports has been used and the comparison can take place on equal terms. Therefore the form and the context of the new audit reporting model (X2) in the questionnaire is influenced by Rolls Royce audit report of 2013. The X2 should be pretty close to a real world example and there will be no use of any special references of audit procedures or materiality benchmarks that are hardly used. The audit report that will be used should be totally based on the review of early examples of reports that was already mentioned, in order to achieve a better outcome.

Furthermore in order to be able to test hypothesis 2, some of the innovative ideas of DIEAGEO and Astra Zeneca will be used, in addition to some personal ideas for the graphical representation of the audit outcome in the report.

The audit reporting model will contain the major new regulations from IAASB and some suggestions of several researchers. More analytically the X2 and X3 contain, the level of materiality that have been used during the audit (ISA 700 revised), the possibility of fraud and illegal event, Key audit matters (KAM), ISA 700, Auditor tenure and the ISA 570 (revised)- Going concern.

5.4 Development of the Old audit reporting model X1

As regards, the old model of audit report, the majority of the literature that has been earlier discussed, underlined that it is a standardized text with boilerplate language. Investors underline that most of the audit reports look exactly the same and have symbolic value (Vanstraelen 2011; Gray et al., 2013). Therefore participants in the survey should view an audit report that meets exactly the same findings with this previous literature. The old model of audit report as explained by the IAASB consists of the Information about the company that is being audited, Management responsibility, Auditors responsibility, an opinion paragraph that will not exceed 3-4 lines, the auditors signature, the Date and the Location² of the audit and the a auditor's address (ISA, 700).

5.5 Summary

The new format that will be used in the survey was examined in this chapter. The Rolls Royce audit report of 2013 was used as a pillar for X2. In such a way the new model is not a bizarre and out of the blue audit reporting that is not engaged in any form with the real case scenario. In contrast it is as close as possible to a model that has been already tested for its informativeness and many organizations have mentioned that it is the best current model and the audit report of the future. As a result the questionnaire can represent a real world based formula that does not differentiate that much from what companies are really reporting. Last but not least, the X3 audit report will include exactly the same information with X2 but only the format of the audit report will have some changes.

² Hypothesis 2

6. Results

6.1 Introduction

In this chapter the results from the One-Way Analysis of Variance will be discussed in order to test the two hypotheses of this study. First the number of final respondents and the participation will be discussed followed by the descriptive statistics and the main results section. An additional commentary section about the answers of the respondents in the open question from the questionnaire will be this chapter's epilogue.

6.2 Main Results

After about two weeks that the survey was activated in Qualtrics survey design, a number of 255 subjects have been participated in the survey. 220 of them completed all seven questions of the questionnaire. However some participants partially completed the questionnaire and more specifically they did not answer some of the demographic questions.

Firstly participants have been asked some questions about the informativeness of the report and the way of representation. Later on, they commented on their study program, age, and gender and work experience.

In order to test if there is a significant difference between the three audit reports, depending on the answers of the questionnaire, six independently one way ANOVA tests were performed for each individual question to compare the means of the three different groups. More specifically our null hypothesis will be $H_0: \mu_1 = \mu_2$. If we do not reject the null hypothesis this will mean that all the audit reports had the exact same level of informativeness and the average number of means was the same for every audit report of the three. The one way ANOVA was selected among the independent t-test because we are dealing with three different audit reports and in the t-test we can compare only two means. In addition ANOVA test is more suitable when we have categorical variables such as the three different groups that dealt with the audit reports (Field 2013).

6.2.1 Hypothesis 1

The results for Hypothesis 1, can be better illustrated in the table below:

Table 1
Result of ANOVA for Hypothesis 1 Questions 1, 2, 4, 6

Audit Reports	Q1: N:220	Q2: N:220	Q4: N:220	Q6: N:220
X1 N:72	2.51	3.10	2.56	2.56
X2 N:72	3.74	3.19	3.3	3.57
X3 N:76	3.97	3.36	3.45	3.78
(F Ratio) Or Welch F	44.026	1.448	32.33	36.63

*****Denote significance at the 0.05 level

The coding scheme used was 5 = strongly agree, 4 = Agree, 3 = Neither agree or disagree, 2 = Disagree, 1 = Strongly Disagree

Old audit Report: X1

New auditor's report: X2

Innovative audit report: X3

Q1: Relevance and accurate

Q2: Attractiveness of investing opportunity

Q4: Confidence Level

Q6: Information satisfaction level

- a. Mean difference for Q1, among X1 and the X2 is significant (-1.222, sig .000) (Based on Games Howell post hoc test)
- b. Mean difference for Q2, among the audit reports are not significantly different, (0.237 > 0.05)
- c. Mean difference for Q4 shows that there is a significant difference among X1 and X2 (-.722, sig value .000) (Based on Tukey post hoc test), sig .000<0.005
- d. Mean difference for Q6 shows that there is a significant difference among X1 and X2 (-1014, sig value .000). (Based on Tukey post hoc test), F=36.62, sig .000<0.005

In Hypothesis 1, possible differences between X1 and X2 have been examined. The difference of the two audit reports is in the context of the information.

Firstly a statistical test for question 1, has been performed, that participants has been asked if the audit report has relevant and accurate information.

As mentioned in the table above, the mean value of X2 is 3.47, in contrast with mean value of Old audit report which is 2.51.

Before we run the one way ANOVA in SPSS it is important to test the homogeneity of variance. More specifically a Levene's test is performed in order to indicate if the variances of our three different groups are significantly different. A Levene's test verified the equality of variances in the samples (Martin and Bridgmon 2012).

Question 1- Difference between the relevance and the accuracy of information in the audit report

Table 2 - Q1

Levene Statistic	df1	df2	Significance
7.523	2	217	.001

Since the Sig value in the test of homogeneity of variance is lower than .005 we have violated the assumption of homogeneity of variance. This is why, the Welsh and Brown test has been performed. This test suggest that even if there is a significant difference among the variances, the groups are significantly different among each other. The value Sig value is .000 and is lower than .005 we can reject the H0 and we can conclude that there is a significant difference among the means.

Table 3 - Q1

<i>Robust tests of equality of means</i>			
F Ratio	df1	df2	Significance
44,026	2	142,534	0,000
51,715	2	204,395	0,000

- a. Asymptotically F distributed
- b. F Welch Ratio 44.026 and p value <0.05 the null hypothesis can be rejected and there is a significant difference among the means.

Since we found a significance difference between the audit reports since in the table labelled ANOVA the column labelled sig has a value less than .05, we should perform a post hoc test in order to examine which particular audit reports are differ, according to the question we test every time. Tukey post hoc test has good power and tight control over Type 1 error rate (Field 2013). Therefore Tukey test has been used and the findings can be checked with the Games-

Howell procedure. At the same way, next questions will be tested in order to verify if there is a significant difference among the means.

Table 4 - Q1

<i>Games-Howell Post hoc test, 95% Interval</i>					
Reports	Means difference			St. Error	Significance
	X1	X2	X3		
X1	-		-1,460	0,164	0,000
X2	-1,222	-		0,156	0,000
X3		-238	-	0,141	0,214

- a. Means difference is significant at 0.005
- b. Mean difference among X1-X2 is significantly different p value 0,000<0,005

From the above table it is clearly stated that there is a significant difference among X1 and X2 (-1.222, sig .000).

The results from the first statistic test strength hypothesis 1 and underlined that the new regulations of the IAASB increase the relevance and the accuracy of the information in the audit report.

Question 2- Difference between their investing decisions after reading the audit report

In question 2 of the questionnaire participants were asked if their investing decision increased after reading the audit report. As has been concluded from the results of the descriptive statistics the means from each audit report are really close to each other. In addition the sig value 0.237 is higher than 0.05 so we have not found evidence that show that there is a significant difference between the audit reports.

Table 5 - Q2

ANOVA					
	Sum of Squares	df	Mean Square	F value	Significance Value
Between Groups	2.522	2	1.261	1.448	.237
Within Groups	189.005	217	.871		
Total	191.527	219			

- a. Significance level at 0.05
- b. Dependent variable: Investing Decision

Question 4 - Difference in the confidence level after reading the report

In the fourth question participants have been asked that since the audit report revealed some financial risks of the company this factor makes them more confident about company's future.

Table 6 - Q4

Levene Statistic	df1	df2	Significance
.219	2	216	.804

- a. Significance level at 0.05
- b. Dependent variable: Investing Decision

The sig value of Levene's test is higher than 0.05 so we have not violated the assumption of homogeneity of variances. Furthermore the F value suggest that there is a significant difference among the means since sig value is .000 which is lower than .005. This indicates strong evidence to reject the null Hypothesis.

Table 7 - Q4

<i>Tukey Procedure/Post hoc test, 95% Interval</i>					
Reports	Means difference			St. Error	Significance
	X1	X2	X3		
X1	-		-749	0,163	0,000
X2	-722	-		0,164	0,000
X3		-0,27	-	0,163	0,985

- a. Mean difference is significant at 0.005
- b. Mean difference among X1-X2 is significantly different p value 0,000<0,005

Post hoc testing shows that there is a significant difference among X1 and X2 (-.722, sig value .000). Although there was no significant difference in the previous question about the attractiveness of investing in the company after reading the audit report, this statistic test suggest that participants that have read the audit reports with new regulations of IAASB, trust the company more and are confident of the company's future. This might be explained by the factor that in the new audit report (X2) the section about GC has been added. However the mean (Table 1) of X2 is 3.3, so not really close to the agree section of the questionnaire (Likert scale 4). There is a change such as Christensen et al., (2014) found, that the risk section of the audit report make the participants skeptical about the company's future. Therefore although the auditor's disclose more information this does not necessarily increase confidence in the

company, since this information might indicate some hidden financial risks that are essential for investors.

Question 6- Difference in the satisfaction level between the reports

In question 6, participants have been asked if there are satisfied with the information that is presented in the report.

Table 8 - Q6

Levene Statistic	df1	df2	Significance
1.339	2	217	.264

The Levene's Significance Value is higher than 0.005 so the homogeneity of variance has been not violated and the equality of variance can be assumed.

As the table below suggests there is a significant difference among the three audit reports and strong evidence has been found to strengthen Hypothesis 1. More specifically sig value is .000 which is lower than .005. (F score=36.643)

Table 9 - Q6

ANOVA					
	Sum of Squares	df	Mean Square	F value	Significance Value
Between Groups	62.354	2	31.177	36.643	.000
Within Groups	184.628	217	.851		
Total	246.982	219			

- a. Significance level at 0.05
- b. Dependent variable: Investing Decision

Table 10 - Q6

Tukey Procedure/Post hoc test, 95% Interval					
Reports	Means difference			St. Error	Significance
	X1	X2	X3		
X1	-		-1221	0,154	0,000
X2	-1014	-		0,152	0,000
X3		-207	-	0,152	0,362

- a. Mean difference is significant at 0.005
- b. Mean difference among X1-X2 is significantly different p value 0,000<0,005

Table 10 have shown that there is a significant difference among X1 and X2 (-1014, sig value .000). In this point it is important to indicate that possible changes between X1 and X3 has not been tested. The reason is that hypothesis 1 deals with the differences in the information of the report. However participants that have read X3 faced also differences in the format of the report. Therefore it is difficult to conclude if the differences between the X1 and X3 happened because of the added information of the report or of the way of representation (two variables that have been manipulated). This is why hypothesis 2 has been tested for possible changes due to the format of the report.

Furthermore this table makes it obvious that the audit reporting gap might be decreased with the new proposed suggestions (regulations) but it is not covered in anyway. With highest mean number the value of 3.47, investors are close to 'Agree' section of the questionnaire but not highly satisfied. This suggests the need for continuous changing in the audit reporting model in order to satisfy companies' shareholders.

6.2.2 Hypothesis 2

In this section it will be tested if changes specifically in the format of the audit report can increase the informativeness value of the document. In this section it is expected that there will be a significant difference between X2 and X3, since questions 5 and 7 of the questionnaire deal specifically with the format and way of representation in the report.

The overall results from hypothesis 2, can be better illustrated in the table below:

Table 11
Result of ANOVA for Hypothesis 2 Questions 5, 7

Audit Reports	Q5 N:219	Q7: N:220
Old audit Report N:72	2.47	2.67
New auditors report N:72	3.14	2.93
Innovative N:75/76	3.88	3.96
(F Ratio) Or Welch	35.814	29.400

****Denote significance at the 0.05 level

The coding scheme used was 5 = Strongly agree, 4 = Agree, 3 = Neither agree or disagree, 2 = Disagree, 1 = Strongly Disagree

Q5: The format helped me to understand better the KAM

Q6: Satisfaction from the way that information is presented

- a. Mean difference for Q5 shows that **there is a significant difference between X2-X3** (-.741, sig .000). (Based on Games Howell post hoc test), Welch test .000
- b. Mean difference for Q7 shows that there is a difference among X2- X3 (-1.030, sig .000). Shows that (Based on Games Howell post hoc test), Welch test .000

Question 5 - The format of the report helped me to understand better the KAM

The fifth question in the questionnaire was about the importance of the format of the audit report and how this can help participants to understand some key issues in the report. The Levene's test showed that we have violated the assumption of homogeneity of variance (sig, .000, Appendix). However the Welch and Brown test stated that we can reject Hypothesis 2. That means that there is a significant difference between the reports means.

Table 12 - Q5

<i>Robust tests of equality of means</i>				
	F Ratio	df1	df2	Significance
Welch	35.814	2	139.742	.000
Brown-Forsythe	31.731	2	201.657	.000

- a. Asymptotically F distributed
- b. F Welch Ratio 35.814 and p value <0.05 the null hypothesis can be rejected and there is a significant difference among the means

Post hoc testing revealed that there is a significant difference between X2 - X3 (-.741, sig .000). This means that the new way of representation of the audit report make it indeed friendlier and more helpful for users to understand some key issues of the report that affect their investing decision. Many companies, especially in the UK, have already started to change the format of the report (DIAGEO, Astra Zeneca). This innovative audit reporting model moved a step further and these results have shown that these changes are absolutely essential for the intended users that read the report.

Table 13 - Q5

<i>Games-Howell Post hoc test, 95% Interval</i>					
Reports	Means difference			St. Error	Significance
	X1	X2	X3		
X1	-		-1,408	0,169	0,000
X2	-667	-		0,193	0,002
X3		-741	-	0,170	0,000

- a. Mean difference is significant at 0.005
- b. Mean difference among X2- X3 is significantly different p value 0,000<0,005

Question 7 - Satisfaction level depending on the way that the information is presented in the report.

In question seven participants commented of their satisfaction level about the way that the information was represented in the audit report. Welch test indicated that there is a significant difference among the three audit reports (sig .000).

Table 14 - Q7

<i>Robust tests of equality of means</i>				
	F Ratio	df1	df2	Significance
Welch	29.400	2	143.811	.000
Brown-Forsythe	29.062	2	213.279	.000

- a. Asymptotically F distributed
- b. F Welch Ratio 29.400 and p value <0.05 the null hypothesis can be rejected and there is a significant difference among the means

Table 15 - Q7

<i>Games-Howell Post hoc test, 95% Interval</i>					
Reports	Means difference			St. Error	Significance
	X1	X2	X3		
X1	-		-1,294	0,184	0,000
X2	-264	-		0,186	0,334
X3		-1030	-	0,173	0,000

- a. Mean difference is significant at 0.005
- b. Mean difference among X2- X3 is significantly different, p value 0,000<0,005

Table 15 shows that there is a difference X2 - X3 (-1.030, sig .000). Participants were more satisfied after reading the audit report with the different typography and graphical representations than users that read X2.

6.2.2.1 Gender differences

In this point since the main part of the statistical analysis has come to an end, it would be interesting to examine in question 5 and 7, if there is any significant difference between the genders of the participants regarding their answer. It might be the case that females that interacted with the new innovative audit report find the format more satisfactory than men that interacted with X3.

Table 16 - Gender differences on Q5, Q7

<i>ANOVA - Question 5, 7 Male - Female</i>		
	Question 5	Question 7
F Value	1,685	1,842
Significance	0,198	0,179

- a. Dependent Variable: Investing Decision
- b. Significance level at 0.05

The results from the statistical analysis have shown that there is no significant difference between males and females participants that viewed the innovative audit report. (Sig .198, higher than .05)

The same results have been found also for question seven about the way that information is presented in the report among male - female students that interacted with innovative audit report.

6.3.3. Additional Commentary

Although it was essential to perform One-Way ANOVA in order to compare the differences in the means between the three audit reports, it is important to underline that ANOVA test can only indicate if there is a significant difference between the groups. Therefore in the questionnaire, question 2 can give us some really interesting insights of why participants chose a specific answer, and what information drove them to their particular choice.

A small number of respondents underlined that they did not have enough or useful information in order to take an investing decision after reading the old audit report (Condition 1). Previous studies that showed that going concern opinion is essential for shareholders have been verified. Many students commented that the fact that company disclose information about GC was vital for their decision to trust the company. Two students mentioned that because of the fact that company addressed the materiality level made the firm more trustworthy with a transparent relationship with company's shareholders. Furthermore, a greater percentage of students commented that the risks of the company in the new audit report (condition 2 and 3) were very high, therefore they decreased their willingness to invest in this company. This is a very interesting outcome that shows that even when participants were satisfied with the quantity of the information in the report, the fact that more risks have been disclosed, decreased their investing decision.

Many students commented that the report was negatively based and point only some negative news for the company. Last but not least another group of people that have read the new form of the audit report (Condition 2, 3) commented negatively about the quality of the information that is included in the report. More specifically they demand more actual numbers in the report. " I need some ratios and NPV (Net Present Value) or some information about the costs and dividends of an investment". Although these comments might not be statistically supported I believe it is worthwhile to take a closer look.

As it has already been mentioned in the methodology part some participants were personally approached in Erasmus Library in order to participate in the survey. In the end of the survey I usually expressed my sincere thanks to these kind of participants and asked them their opinion on my topic. Among the many positive respondents, there were some students that mentioned that audit report is not important for them and they would never base their investment decision on the information in the audit report. In my opinion these comments are the perfect

example of the communication gap in the report. After these comments and students reaction, it became clearer to me that even economic students have this stereotype about the audit report, a document that cannot add value and has nothing to give back. Like an old political system that cannot serve people's needs anymore.

As chapter 6 section results show participants were more satisfied with the new audit reporting model. However, even this might be far enough from what investors are really looking for. According to stakeholder theory that has been previously mentioned in this thesis, companies should first serve the needs of their shareholders. Investors might really think that audit report has nothing to give. Auditors and communities as the IAASB and the FRC have the chance to prove them wrong and actually make the audit report a valuable investor tool. What we must now demand is a radical change in the audit report, and this revolution has already began. However it might take some more time before it can be beneficial for all and even the most reluctant investors will view the report as a strong tool for their future investments. The audit report changes might start small but they can grow quickly because the financial world is always changing and investors will always demand more from the auditing procedure.

6.4 Summary

In this chapter statistical tests has been performed in order to test hypothesis 1, 2 and conclude if the communication gap of the report has been decreased. One-Way Anova has been used in order to compare the means between the three different audit reports and indicate significant differences. Strong evidence that support hypothesis 1, has been found from the statistical tests. Investors believe that the new audit report has more accurate and relevant information, increase their confidence and their satisfactory level. Furthermore the innovative audit report has indeed a better format from the new and old report and helped the participants to understand better company risks that were important for their investing decision. To sum up, we found strong evidence that can show that the communication gap has indeed decreased. However, as the individual participants comments have shown, the changes, suggestions in the auditor's report will obviously take time and effort in order to have a mature auditor's reporting model, based on stakeholder's needs in the future.

7. Conclusion & Limitations

7.1 Conclusion

The main aim of this study is to measure if the communication gap that exists in the audit report has been reduced after the implementation of the IAASB and the FRC new regulations. Prior researchers have shown that an expectation and information gap exists in the auditor's report (Gold et al., 2012; Vanstraelen 2011). Intended users believe that the report is not informative and they demand more information from the external auditors (Mc Enroe and Martnes 2001; Vanstraelen, 2011). More disclosures in the auditing process and in GC section of the report can reduce the expectation gap (Litjens et al., 2015).

In order to decrease this communication gap in the report, IAASB has published some new regulations that are implemented in the first reports in 2013. Based on ISA 700 (revised), the materiality level has been included in the audit report. Furthermore audit report should include areas of high risk of material misstatements that can have an effect on the financial statements (Key audit matters, ISA 701), and the going concern ability of the company to continue its operations in the near future (ISA 570). The PCAOB (2011) have also suggested the disclosure of the auditor tenure in the report. Moreover, Rolls Royce, DIAGEO and Astra Zeneca implemented some first graphs in the report to better illustrate the materiality level and the auditing process.

In order to investigate if these suggestions reduced the expectation gap and if some changes in the format of the audit report can decrease the gap even further, an experimental study has been performed. The sample was economics and business students from Erasmus University Rotterdam. Students were randomly assigned to view one of three different audit reports and answer the exact same questions (Likert scale) regarding their willingness to invest after reading the auditor's report. During the statistical analysis the answers from the three different audit reports were compared in order to investigate if there is a significant difference among the reports.

The results suggested that the information and expectation gap has been decreased since the addition of the new elements in the report. More specifically, the new audit report (X2) increased the relevance and the accuracy of information and made the intended users more confident about the company's future. In addition the satisfaction level in the new auditor's

report has also been increased. Regarding the format of the audit report, participants underlined that the innovative audit report that include some graphs and changes in the typography, helped them to understand some key issues that were relevant for their decisions to invest in the company. Furthermore investors were more satisfied with this way of representation of the financial risks and auditor's process in the report. The results were related to the expectations in the beginning of this thesis, that the new amendments can increase the informativeness of the report and decrease the communication gap.

Last but not least, although there is evidence that the information and expectation gap in the report has been reduced, this should not suggest that is being fulfilled. The IAASB, the PCAOB and future researchers should cover a lot of miles since the audit report can become a valuable tool for professional investors. The audit report is changing and should continue to change in order to serve company's stakeholders, because based on stakeholder theory this is what a successful organization should do.

7.2 Limitations

Finally possible limitations of this study needs to be explained. Firstly an experimental method has been used in order to measure the communication gap in the audit report. As Trotman (1996) mentioned in experiments, one independent variable is manipulated in order to observe the effect in the dependent variable. Therefore since participants do not represent the real-world case scenario the results of this study cannot be treated like that. The study has low external validity. This means that the results cannot be further generalized since they do not representing the real world. Someone could argue that as it is mentioned in the methodology part of this thesis in chapter 4, participants view a real world example of audit reports that was based on a combination of audit reports from 2013/14. This outcome would suggest high external validity. However, the sample of this study influences the external validity of the results since not real investors have read the audit reports but economic students that are not real shareholders of a company. Participants of this experimental design, might not be that familiar with the concept of the report and the real purposes of this document for company's shareholders. This cannot suggest poor external validity since our sample was bachelor and master students from economics that would represent future shareholders in the next 2-5 years. In addition many experimental studies are in favour of using students as investors (Smith, 2011; Elliott et al., 2007).

Furthermore the participants were randomly assigned and the questionnaires were not just given to specific group of friends or fellow students. This is why participants have been asked to fill in their education program in the questionnaire (Appendix). Moreover willingness to invest in the company was used as a proxy to test the quality of information in the report (informativeness). However their decision to invest or not in the company might be influenced by other factors such as the time of the year, financial markets, risk appetite, investment surplus and reputation of the firm (Jagongo and Mutswenje, 2014).

Further studies in the audit report should measure the communication gap with the use of professional investors and shareholders from listed companies in FTSE 100 Index, to increase the external validity of the results.

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Appendix

8.1 Invitation message:

"Dear fellow student,

My name is Bill Vasileiadis and I am a master student at Erasmus School of Economics. I am currently writing my thesis about an auditing topic. I would like to kindly ask you to spend a maximum of 10 minutes to complete this web survey. Please follow the link and read the instructions carefully. After that please fill in the questionnaire.

This survey might also be posted on yours Facebook study group page. Please use either this or the Facebook link but not both.

Your cooperation is greatly appreciated

If you have any questions please contact me at my e-mail, be.ill@hotmail.com

Link #

Kind Regards,

Bill Vasileiadis "

8.2 Introduction message:

What is audit? / audit report?

The financial statements of a company should represent the true and fair view of a company's economic position. In order to verify if the financial statements provide this truth and fair view, an external independent party (external auditor) should provide an independent and expert opinion on the fairness of the statements. After the auditor completes all the required audit procedures, he gives his opinion of whether or not the financial statements provide an accurate picture of the company's financial position. This opinion is distributed to the public through the auditor's report. In the next part you will view an audit report of a company and you will be kindly asked to answer some questions regarding the informativeness of the report.

"Chio plc is a car manufacturer headquartered in London, UK. It is considered to be the biggest automaker in Europe and it has offices in 2 different geographical regions. In the next section you will view the independent auditor's report of Chio Plc that was published by external auditors in the annual report of the company for the year 2014. After reading the audit report, some questions will follow."

8.3 Questionnaire

"In this part the questionnaire will follow. Firstly you will view some questions about the informativeness of the audit report you have read. In some cases you are being asked for the reasoning behind your choice. This is important in order to help me look deeper into the subject. In the end a number of personal questions will follow"

1) The audit report of Chio ltc, has provided relevant and accurate information that I need as an investor in this company

1	2	3	4	5
Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly agree

2) You are about to make an investment decision. Based on the financial statements you assessed the financial position of the company as good. After reading the audit report did the attractiveness of this investment opportunity increase?

1	2	3	4	5
Strongly Decreased	Decreased	Neither Increased or Decreased	Increased	Strongly increased

3) Regarding the previous question (2), what is your main reason for your decision to invest or not in the company and why is that?

4) The information that was presented in the audit report indicated some financial risks that made me, as an investor, more confident about the company's future.

1	2	3	4	5
Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly agree

5) The format of the audit report helped me to understand some key issues that are relevant for my decision to invest or not in the company

1	2	3	4	5
Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly agree

6) As an investor in this company, I am satisfied with the information that is provided in the audit report.

1	2	3	4	5
Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly agree

7) As an investor in this company, I am satisfied with the way the information is presented in the audit report.

1	2	3	4	5
Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly agree

8) What is your gender?

- Male (1)
- Female (2)

9) How old are you?

10) How many years of full-time work experience do you have?

- 0-2 Years
- 2-5 Years
- > 5 Years

11) What is your major?

- MSc Economics and business
- MSc Econometrics
- MSc Econometrics and Informatics
- MSc Accounting and Finance or Msc in accounting & controlling
- MSc Marketing
- IBEB ESE
- IBA RSM

8.4 - X1 (Old audit report)

Independent Audit report on consolidated financial statements to the members of Chio Group Plc

We have audited the financial statements of Chio Group Plc for the year ending December 31, 2014 the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the related notes 1 to 24.

Management responsibility

Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. Management is responsible for such internal control as it determines is necessary to enable the preparation of the annual financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the groups and the parent companies Circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the financial statements

In our opinion the financial statements give a true and fair view on the financial position of Chio Plc as at 31 December 2014 and of its result and its cash flows for the year then ended in accordance with IFRS as adopted by European Union. In addition the financial statements

have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

For and behalf of GAZ LLP, Statutory Auditor
Chartered Accountants
London, England
24 February, 2015

Independent Audit report on consolidated financial statements to the members of Chio Group Plc

1. OPINION

We have audited the financial statements of Chio Group Plc for the year ending December 31, 2014. In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parents affairs as at 31 December, 2014 and of the Groups profit for the year ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (Adopted IFRS);
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. WHAT WE HAVE AUDITED

The Group financial statements, which are prepared by Chio Plc, comprise:

- the Group balance sheet as at 15 February 2014;
- the Group income statement and statement of comprehensive Income for the 51 weeks then ended;
- the Group statement of changes in equity and cash flow statement for the 51 weeks then ended and
- The notes to the Group financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRS as adopted by the European Union.

3 OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

We summarise below the risks of material misstatements that had the greatest effect on our audit strategy. The key audit procedures which address those risks and our audit findings from those procedures are presented below.

The measurement of revenue and profit for the car manufacturing business

The risk- The amount of revenue and profit recognized in a year on the sale of car manufacture can extend over significant periods and Chio Plc make significant accounting judgments to be able to be accountable for the period of 2014. The nature of these company's estimates can have a significant impact on Chio's balance sheet. In addition the assessment of these judgments involve large calculations in complex databases and the human factor can not be eliminated for possible mistakes.

Our response: We analytically tested all the controls that are designed to provide assurance that the estimates that used are appropriate and reflect the financial statements of the company as presented in the annual report. In addition we examine each of these estimates for possible hidden management bias in the context of high pressure to meet company's targets and the individual incentive for each manager. We checked the mathematical accuracy of revenue and profit to avoid calculations mistakes by the management.

Our findings: We identified some control weaknesses that would be remediated. In order to ensure that these weakness will not lead to material misstatements, we increased the scope and depth of our detailed testing and analysis that was originally planned. We found no further indication for serious misstatements and no indication of bias from management point of view.

Bribery and corruption

The risk- A large part of the Group's assets is characterized by competition for significant contracts with customers which might be associated with governments that provide awards to individually contracts to suppliers. During 2014, Chio plc informed from the Fraud office in UK that is under investigation for bribery and corruption. This under law activities for the company might lead from small penalties to even criminal prosecution and restrictions for future business.

Our response: We analytically provide sufficient and appropriate evidence in order to end some contracting arrangements with clients and ongoing management. We analytically discussed the possibility of bribery and corruption with the audit committee and the Board of directors as well as the Group's lawyers and advisors and seek for the proper documentation.

Our findings: We found that the disclosures in the note of financial statements reflected appropriately the matters required to be disclosed by IFRS and no indication for any incidence of breaches of policy can be made.

Tax provisions

The risk: Due to the complex city of transfer pricing, other tax legislation and tax accruals (tax liability, obligation for the company from the collection of sales tax) Directors usually make judgments and estimates in relation to tax issues and exposures.

Our response: We tested the Group's control surrounding tax provisions and assessment of correspondence with the relevant tax authorities in order to ensure that tax provisions are based on the current legislation by authorities. We also use our tax specialists to evaluate tax provisions and potential exposures for the year ended 31, March 2015. In respect of deferred tax assets, we have considered the appropriateness of management's assumptions and estimates.

Our findings: We conclude that Chio's estimations are based on conservatism accounting and the disclosures in the notes of Group's financial statements reflect the current status of uncertain tax provisions.

4 OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The materiality for the Group financial statements as a whole was set at £ 65 million. It was determined with reference to a benchmark of Group profit before tax. The materiality level (benchmark) is below 5% of profit before tax and below 1% of equity and represents 35% of total reported profit before tax. We report to the audit committee all the material misstatements and all the uncorrected misstatements that are over £4 million for income statement items. The total unadjusted audit differences that reported to the audit committee would have increased loss before tax by £30 million and decrease net assets by £23 million.

The Group operates in 17 countries across two geographical regions. Our Group audit scope focused on the shared service centers, the Group functions and a further five operating locations: the UK, Netherlands, Germany, Greece, and Turkey. In total, our audit procedures count for 97% of revenue, 99% percent of underlying profit before taxation and 95% of total assets.

5. GOING CONCERN

We confirm that:

-We concluded that the financial statements are based on the going concern basis and the information that is provided is appropriate.

-We have not identified any material uncertainty that may cause significant doubt on Group's ability to continue as going concern.

-The company did not have any indication of financial instability's signs such as negative operating cash flows, adverse key financial ratios, inability to pay creditors, inability to comply with the terms and loan agreements. We found no indication for operating problems such as labor difficulties, loss of major market or key customers and any intentions from the Directors to liquidate the entity.

However because not all future events or conditions can be predicted this statement is not a guarantee to the Groups ability to continue its operations in the future.

6. AUDITOR TENURE

This is the fifth year that we provide assurance for the Group's financial statements. According to the UK corporate governance 2012, and EU Audit regulation, 2014 audit partners should rotate once every ten years.

7. MANAGEMENT RESPONSIBILITY

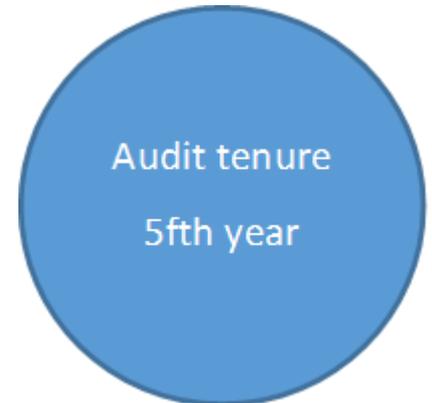
Management is responsible for the preparation of the financial statements and for verifying that they give a true and fair view of company's financial statements. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Management is responsible for such internal control as it determines is necessary to enable the preparation of the annual financial statements that are free from material misstatement, whether due to fraud or error.

8. AUDITORS RESPONSIBILITY

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

On behalf of GAZ LLP, Statutory Auditor
Chartered Accountants,
London, England
24 February, 2015

Independent Auditor's report on consolidated financial statements to the members of Chio Group Plc



1. Opinion

We have audited the financial statements of Chio Group Plc for the year ending December 31, 2014. In our opinion:

-The financial statements give:

- ✓ **true and fair view** of the state of the Group's and of the parents affairs as at 31 December, 20XX and of the Groups profit for the year ended
- ✓ have been properly prepared in accordance with **International Financial Reporting Standards** as adopted by the European Union (Adopted IFRS);
- ✓ have been prepared in accordance with the requirements of the **Companies Act 2006** and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. What we have audited

The Group financial statements, which are prepared by Chio Plc, comprise:

- The **Group balance sheet** as at 15 February 2014;
- The Group **income statement and statement of comprehensive Income** for the 51 weeks then ended;
- The Group **statement of changes in equity and cash flow statement** for the 51 weeks then ended; and
- The **notes** to the Group financial statements, which include a summary of significant accounting policies and other explanatory information.

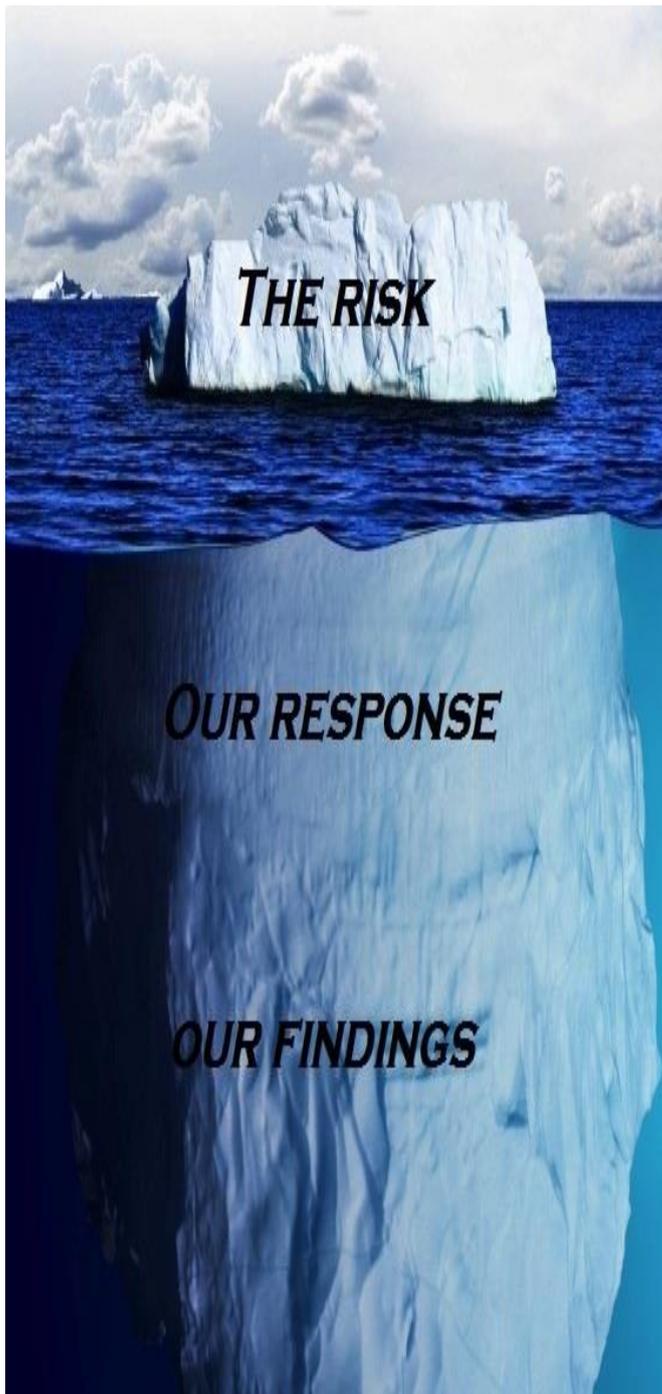
The financial reporting framework that has been applied in their preparation comprises applicable law and IFRS as adopted by the European Union.

3 Our assessment of Risks of material misstatement

We summarise below the risks of material misstatements that had the greatest effect on our audit strategy. The key audit procedures which address those risks and our audit findings from those procedures are presented below.



Measurement of Revenue & Profit

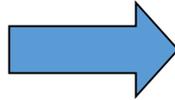


The amount of revenue and profit recognized in a year on the sale of car manufacture can extend over significant periods and Chio Plc make significant accounting judgments to be able to be accountable for the period of 2014. The nature of these company's estimates can have a significant impact on Chio's balance sheet. In addition the assessment of these judgments involve large calculations in complex databases and the human factor can not be eliminated for possible mistakes.

We analytically tested all the controls that are designed to provide assurance that the estimates that used are appropriate and reflect the financial statements of the company as presented in the annual report. In addition we examine each of these estimates for possible hidden management bias in the context of high pressure to meet company's targets and the individual incentive for each manager. We checked the mathematical accuracy of revenue and profit to avoid calculations mistakes by the management

We identified some control weaknesses that would be remediated. In order to ensure that these weakness will not lead to material misstatements, we increase the scope and depth of our detailed testing and analysis that was originally planned. We found no further indication for serious misstatements and no indication of bias from management point of view.

Bribery and corruption



A large part of the Group's assets is characterized by competition for significant contracts with customers which might be associated with governments that provide awards to individually contracts to suppliers. During 2014, Chio plc informed from the Fraud office in UK that is under investigation for bribery and corruption. This under law activities for the company might lead from small penalties to even criminal prosecution and restrictions for future business.



We analytically provide sufficient and appropriate evidence in order to over some contracting arrangements with clients and ongoing management. We analytically discussed the possibility of bribery and corruption with the audit committee and the Board of directors as well as the Group's lawyers and advisors and seek for the proper documentation.

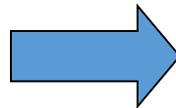


We found that the disclosures in the note of financial statements reflected appropriately the matters required to be disclosed by IFRS and no indication for any incidence of breaches of policy can be made.

Tax provisions



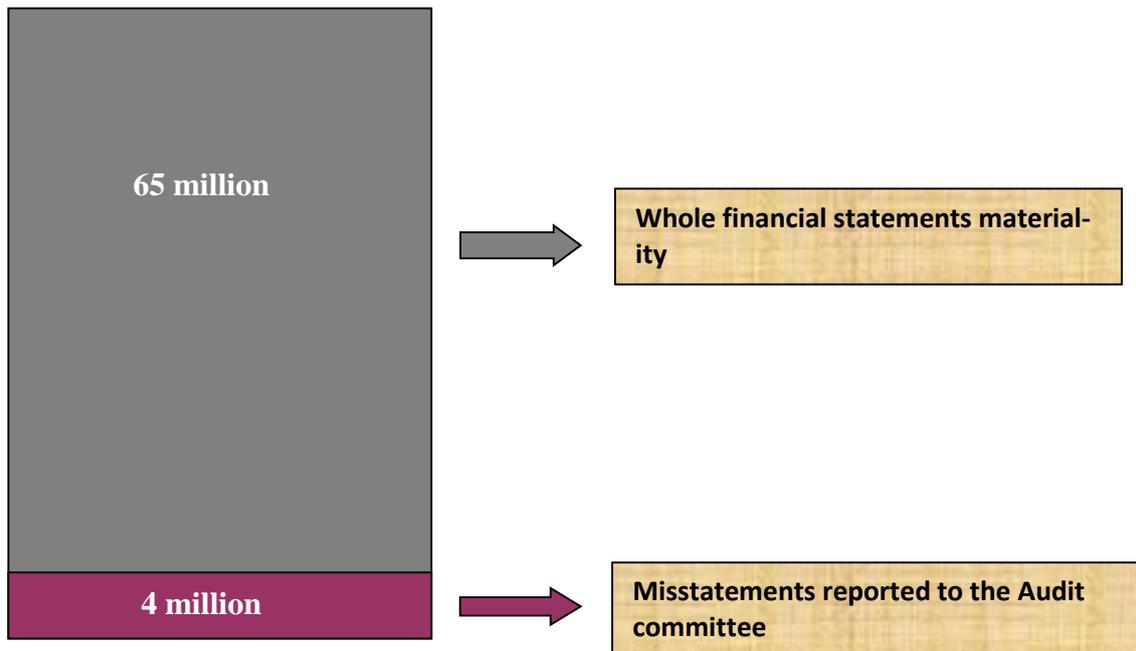
We conclude that Chio's estimations are based on conservatism accounting and the disclosures in the notes of Group's financial statements reflect the current status of uncertain tax provisions.



In order to ensure that tax provisions are based on the current legislation by authorities. We also use our tax specialists to evaluate tax provisions and potential exposures for the year ended 31, March 2015. In respect of deferred tax assets, we have considered the appropriateness of management's assumptions and estimates.

4 Our application of materiality and an overview of the scope of the audit

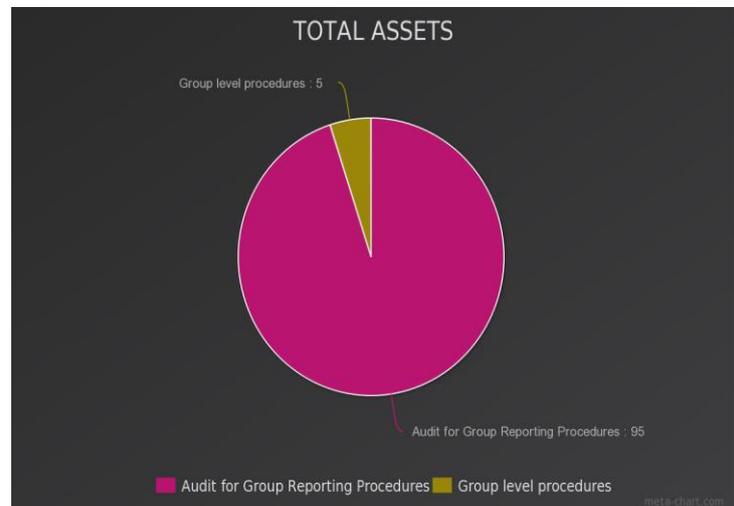
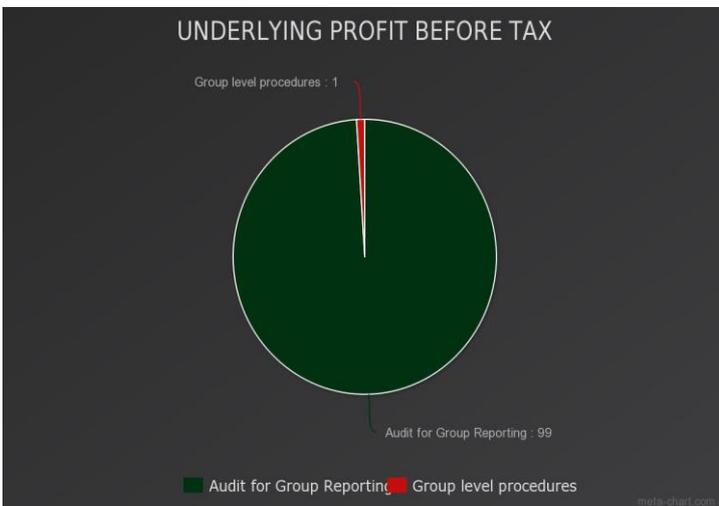
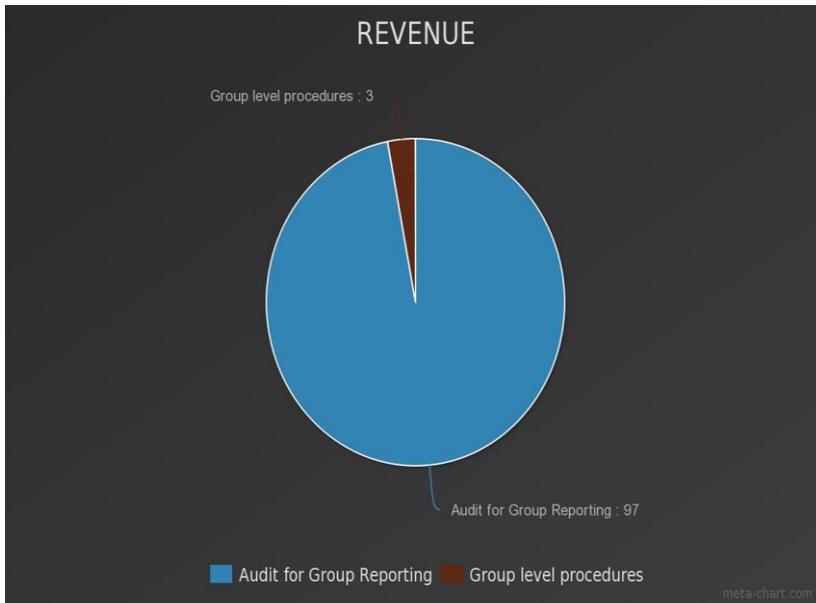
Materiality for the Group financial Statements



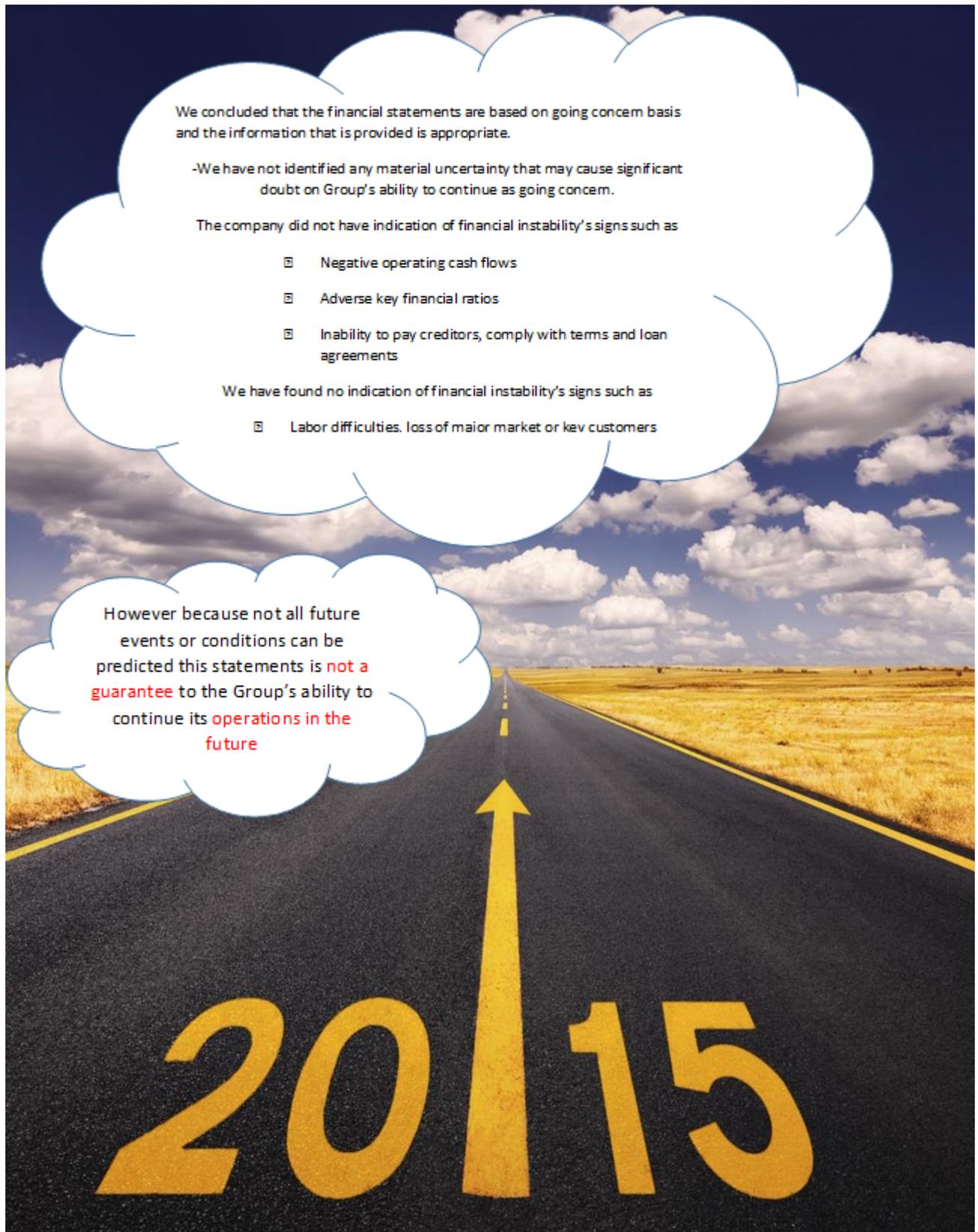
- The materiality for the Group financial statements as a whole was set at *£65 million*. It was determined with reference to a benchmark of Group profit before tax. The materiality level (benchmark) is below 5% of profit before tax and below 1% of equity and represents 35% of total reported profit before tax.
- We report to the audit committee all the material misstatements, all the uncorrected misstatements that are over *£4 million* for income statement items.
- The total unadjusted audit differences that reported to the audit committee would have increased loss before tax by *£30 million* and decrease net assets by *£23 million*.

The Group operates in 17 countries across two geographical regions. Our Group audit scope focused on the shared service centers, the Group functions and a further five operating locations: the UK, Netherlands, Germany, Greece, and Turkey.

Summary of audit scope and coverage (%)



5. Going concern



6. Management and Auditor's responsibility

As explained more fully in the directors' responsibilities statement set out on page 63, of the annual report the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of Financial Statements is provided on the Financial Reporting Council's website at www.frc.org.uk/gauditscopeukprivate.

*On behalf of GAZ LLP, Statutory Auditor
Chartered Accountants,
London, England
24 February, 2015*

8.7 Qualtrics final result

The screenshot displays the Qualtrics Research Suite interface. At the top, the Erasmus University Rotterdam logo is visible on the left, and navigation links for 'Research Suite', 'Support & Feedback', 'Help and Tutorials', and 'Billi Vasileiadiis' are on the right. Below the logo, a menu bar includes 'My Surveys', 'Create Survey', 'Edit Survey', 'Distribute Survey', 'View Results' (which is active), 'Library', 'Panels', and 'Reporting'. A secondary toolbar contains icons for 'View Reports', 'Responses', 'Download Data', and 'Cross Tabulation'. On the right side of this toolbar, statistics are shown: 'Surveys Started: 251 87%' and 'Surveys Completed: 219'. Below the toolbar, a dark grey bar indicates the current survey is 'Audit report questionnaire'. The main content area is titled 'Recorded Responses' and includes a sub-tab 'Responses in Progress'. On the right side of this area, 'Current Filters From Report' are listed: 'Response Set: Default Response Set', 'Subgroup: -', and 'Completion Status:'. Below the filters is a 'Response Search Criteria' section with several input fields: 'Response Type' (a dropdown menu), 'From Date' and 'to End Date' (date pickers), 'First Name', 'Last Name', 'Email Address', and 'External Reference' (text input fields), and 'Response ID' (a text input field). The Windows taskbar at the bottom shows the system tray with the time '3:49 PM' and date '19/11/2015'.

Qualtrics Randomization of the participants

The screenshot displays the Qualtrics Randomizer interface. At the top, a white box contains the text: "Participants were randomly assigned to view one of the three different audit reports." Below this, the Randomizer tool is configured to randomly present 1 of the following elements, with the "Evenly Present Elements" checkbox checked. The tool lists three conditions, each with a "Set Embedded Data" step:

- Condition = 1
- Condition = 2
- Condition = 3

Each condition includes a "Set Embedded Data" step with a "Condition" field set to the respective number (1, 2, or 3). The interface also features buttons for "Add Below", "Move", "Duplicate", "Add From Panel", "Options", and "Delete" for each condition. At the bottom right, there are "Cancel" and "Save Flow" buttons. The Windows taskbar at the bottom shows the date and time as 3:52 PM on 19/11/2015.

Different Study Programs Libby boxes Control variables

#	Answer	Response	%
1	Msc Accounting and auditing	29	14%
2	Msc Economics and business	36	17%
3	Msc Econometrics	20	10%
4	Msc Business information Management	9	4%
5	Msc Finance & Investments	18	9%
6	Msc Human Resource Management	4	2%
7	Msc Marketing	10	5%
8	Msc Management	19	9%
9	MBA RSM	2	1%
10	IBEB ESE	40	19%
11	IBA RSM	21	10%
	Total	208	100%

Work experience-Libby boxes

How many years of full-time work experience do you have?

Table Options

#	Answer	Response	%
1	0 - 2 years	178	82%
2	2 - 5 years	29	13%
3	> 5 years	9	4%
	Total	216	100%

It might be interesting to indicate if work experience can have an effect on the way of comprehending information in the audit report. However the overwhelming majority of the participants had 0-2 years of experience and only 9 participants in total had more than five.

Therefore there was no statistical test that has been performed since the number of participants with many years of experience was relatively small to compare the results.

8.8 SPSS Results

Question 1

Test of Homogeneity of Variances

Q1_1			
Levene Statistic	df1	df2	Sig.
7.523	2	217	.001

Descriptives

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Old Audit Report	72	2.51	1.061	.125	2.26	2.76	1	5
New Audit Report	72	3.74	.787	.093	3.55	3.92	1	5
Innovative Audit Report	76	3.97	.923	.106	3.76	4.18	2	5
Total	220	3.42	1.126	.076	3.27	3.57	1	5

Multiple Comparisons

Dependent Variable: Q1_1

	(I) Condition	(J) Condition	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Tukey HSD	Old Audit Report	New Audit Report	-1.222*	.155	.000	-1.59	-.86
		Innovative Audit Report	-1.460*	.153	.000	-1.82	-1.10
	New Audit Report	Old Audit Report	1.222*	.155	.000	.86	1.59
		Innovative Audit Report	-.238	.153	.269	-.60	.12
Innovative Audit Report	Old Audit Report	1.460*	.153	.000	1.10	1.82	
	New Audit Report	.238	.153	.269	-.12	.60	
Bonferroni	Old Audit Report	New Audit Report	-1.222*	.155	.000	-1.60	-.85
		Innovative Audit Report	-1.460*	.153	.000	-1.83	-1.09

	New Audit Report	Old Audit Report	1.222*	.155	.000	.85	1.60
		Innovative Audit Report	-.238	.153	.366	-.61	.13
	Innovative Audit Report	Old Audit Report	1.460*	.153	.000	1.09	1.83
		New Audit Report	.238	.153	.366	-.13	.61
Games-Howell	Old Audit Report	New Audit Report	-1.222*	.156	.000	-1.59	-.85
		Innovative Audit Report	-1.460*	.164	.000	-1.85	-1.07
	New Audit Report	Old Audit Report	1.222*	.156	.000	.85	1.59
		Innovative Audit Report	-.238	.141	.214	-.57	.10
Innovative Audit Report	Old Audit Report	1.460*	.164	.000	1.07	1.85	
	New Audit Report	.238	.141	.214	-.10	.57	

*. The mean difference is significant at the 0.05 level.

Question 2 - One way Anova

Descriptives

Q2_2

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
					Old Audit Report	72		
New Audit Report	72	3.19	.988	.116	2.96	3.43	1	5
Innovative Audit Report	76	3.36	.890	.102	3.15	3.56	1	5
Total	220	3.22	.935	.063	3.09	3.34	1	5

Test of Homogeneity of Variances

Q2_2

Levene Statistic	df1	df2	Sig.
1.128	2	217	.326

Question 4 - One way Anova

Multiple Comparisons

Dependent Variable: Q4_1

	(I) Condition	(J) Condition	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Tukey HSD	Old Audit Report	New Audit Report	-.722*	.164	.000	-1.11	-.33
		Innovative Audit Report	-.749*	.163	.000	-1.13	-.36
	New Audit Report	Old Audit Report	.722*	.164	.000	.33	1.11
		Innovative Audit Report	-.027	.163	.985	-.41	.36
	Innovative Audit Report	Old Audit Report	.749*	.163	.000	.36	1.13
		New Audit Report	.027	.163	.985	-.36	.41
Bonferroni	Old Audit Report	New Audit Report	-.722*	.164	.000	-1.12	-.33
		Innovative Audit Report	-.749*	.163	.000	-1.14	-.36
	New Audit Report	Old Audit Report	.722*	.164	.000	.33	1.12
		Innovative Audit Report	-.027	.163	1.000	-.42	.37
	Innovative Audit Report	Old Audit Report	.749*	.163	.000	.36	1.14
		New Audit Report	.027	.163	1.000	-.37	.42
Games-Howell	Old Audit Report	New Audit Report	-.722*	.163	.000	-1.11	-.34
		Innovative Audit Report	-.749*	.161	.000	-1.13	-.37
	New Audit Report	Old Audit Report	.722*	.163	.000	.34	1.11
		Innovative Audit Report	-.027	.166	.986	-.42	.37
	Innovative Audit Report	Old Audit Report	.749*	.161	.000	.37	1.13
		New Audit Report	.027	.166	.986	-.37	.42

*. The mean difference is significant at the 0.05 level.

Question 6 - SPSS

Descriptives

Q6_1

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
					Old Audit Report	72		
New Audit Report	72	3.57	.885	.104	3.36	3.78	2	5
Innovative Audit Report	76	3.78	.903	.104	3.57	3.98	2	5
Total	220	3.31	1.062	.072	3.17	3.45	1	5

Test of Homogeneity of Variances

Q6_1

Levene Statistic	df1	df2	Sig.
1.339	2	217	.264

Multiple Comparisons

Dependent Variable: Q6_1

	(I) Condition	(J) Condition	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
						Tukey HSD	Old Audit Report
		Innovative Audit Report	-1.221*	.152	.000	-1.58	-.86
	New Audit Report	Old Audit Report	1.014*	.154	.000	.65	1.38
		Innovative Audit Report	-.207	.152	.362	-.56	.15
	Innovative Audit Report	Old Audit Report	1.221*	.152	.000	.86	1.58
		New Audit Report	.207	.152	.362	-.15	.56
Bonferroni	Old Audit Report	New Audit Report	-1.014*	.154	.000	-1.38	-.64
		Innovative Audit Report	-1.221*	.152	.000	-1.59	-.85
	New Audit Report	Old Audit Report	1.014*	.154	.000	.64	1.38

		Innovative Audit Report						
	Innovative Audit Report	Old Audit Report	1.221*	.152	.000	.85	1.59	
		New Audit Report	.207	.152	.522	-.16	.57	
Games-Howell	Old Audit Report	New Audit Report	-1.014*	.155	.000	-1.38	-.65	
		Innovative Audit Report	-1.221*	.155	.000	-1.59	-.85	
	New Audit Report	Old Audit Report	1.014*	.155	.000	.65	1.38	
		Innovative Audit Report	-.207	.147	.340	-.56	.14	
	Innovative Audit Report	Old Audit Report	1.221*	.155	.000	.85	1.59	
		New Audit Report	.207	.147	.340	-.14	.56	

*. The mean difference is significant at the 0.05 level.

Question 5 - SPSS

Descriptives

Q5_1

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
					Old Audit Report	72		
New Audit Report	72	3.14	1.166	.137	2.86	3.41	1	5
Innovative Audit Report	75	3.88	.869	.100	3.68	4.08	1	5
Total	219	3.17	1.210	.082	3.01	3.33	1	5

Test of Homogeneity of Variances

Q5_1

Levene Statistic	df1	df2	Sig.
10.796	2	216	.000

ANOVA

Q5_1

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	72.931	2	36.465	31.957	.000
Within Groups	246.476	216	1.141		
Total	319.406	218			

Multiple Comparisons

Dependent Variable: Q5_1

	(I) Condition	(J) Condition	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Tukey HSD	Old Audit Report	New Audit Report	-.667*	.178	.001	-1.09	-.25
		Innovative Audit Report	-1.408*	.176	.000	-1.82	-.99
	New Audit Report	Old Audit Report	.667*	.178	.001	.25	1.09
		Innovative Audit Report	-.741*	.176	.000	-1.16	-.33
Innovative Audit Report	Old Audit Report	1.408*	.176	.000	.99	1.82	
	New Audit Report	.741*	.176	.000	.33	1.16	
Bonferroni	Old Audit Report	New Audit Report	-.667*	.178	.001	-1.10	-.24
		Innovative Audit Report	-1.408*	.176	.000	-1.83	-.98
	New Audit Report	Old Audit Report	.667*	.178	.001	.24	1.10
		Innovative Audit Report	-.741*	.176	.000	-1.17	-.32
Innovative Audit Report	Old Audit Report	1.408*	.176	.000	.98	1.83	
	New Audit Report	.741*	.176	.000	.32	1.17	
Games-Howell	Old Audit Report	New Audit Report	-.667*	.193	.002	-1.12	-.21
		Innovative Audit Report	-1.408*	.169	.000	-1.81	-1.01
	New Audit Report	Old Audit Report	.667*	.193	.002	.21	1.12
		Innovative Audit Report	-.741*	.170	.000	-1.14	-.34

Innovative Audit Report	Old Audit Report	1.408*	.169	.000	1.01	1.81
	New Audit Report	.741*	.170	.000	.34	1.14

*. The mean difference is significant at the 0.05 level.

Question 6 - SPSS

Descriptives

Q6_1

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
					Old Audit Report	72		
New Audit Report	72	3.57	.885	.104	3.36	3.78	2	5
Innovative Audit Report	76	3.78	.903	.104	3.57	3.98	2	5
Total	220	3.31	1.062	.072	3.17	3.45	1	5

Question 7- SPSS

Descriptives

Q7_1

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
					Old Audit Report	72		
New Audit Report	72	2.93	1.053	.124	2.68	3.18	1	5
Innovative Audit Report	76	3.96	1.051	.121	3.72	4.20	1	5
Total	220	3.20	1.226	.083	3.04	3.36	1	5

Test of Homogeneity of Variances

Q7_1

Levene Statistic	df1	df2	Sig.
3.521	2	217	.031

ANOVA

Q7_1

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	69.666	2	34.833	29.124	.000
Within Groups	259.534	217	1.196		
Total	329.200	219			

Question Male - Female

Test of Homogeneity of Variances

Q5_1

Levene Statistic	df1	df2	Sig.
1.515	1	74	.222

Multiple Comparisons

Dependent Variable: Q7_1

	(I) Condition	(J) Condition	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Tukey HSD	Old Audit Report	New Audit Report	-.264	.182	.318	-.69	.17
		Innovative Audit Report	-1.294*	.180	.000	-1.72	-.87
	New Audit Report	Old Audit Report	.264	.182	.318	-.17	.69
		Innovative Audit Report	-1.030*	.180	.000	-1.45	-.61
	Innovative Audit Report	Old Audit Report	1.294*	.180	.000	.87	1.72
		New Audit Report	1.030*	.180	.000	.61	1.45
Bonferroni	Old Audit Report	New Audit Report	-.264	.182	.447	-.70	.18
		Innovative Audit Report	-1.294*	.180	.000	-1.73	-.86
	New Audit Report	Old Audit Report	.264	.182	.447	-.18	.70

		Innovative Audit Report		-1.030*	.180	.000	-1.46	-.60
	Innovative Audit Report	Old Audit Report		1.294*	.180	.000	.86	1.73
		New Audit Report		1.030*	.180	.000	.60	1.46
Games-Howell	Old Audit Report	New Audit Report		-.264	.186	.334	-.70	.18
		Innovative Audit Report		-1.294*	.184	.000	-1.73	-.86
	New Audit Report	Old Audit Report		.264	.186	.334	-.18	.70
		Innovative Audit Report		-1.030*	.173	.000	-1.44	-.62
	Innovative Audit Report	Old Audit Report		1.294*	.184	.000	.86	1.73
		New Audit Report		1.030*	.173	.000	.62	1.44

*. The mean difference is significant at the 0.05 level.

Male - female

ANOVA

Q5_1

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.242	1	1.242	1.685	.198
Within Groups	54.548	74	.737		
Total	55.789	75			

ANOVA

Q7_1

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.960	1	1.960	1.842	.179
Within Groups	79.832	75	1.064		
Total	81.792	76			