

AFAANZ Grant Report 2018/19:

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(2) Exploring the Implementation and Informational Value of Reporting Key Audit Matters (KAMs) in Australian Audit Reports.

(3) *Updated Project Summary (500 words) including any variations between the project undertaken and the original application.*

During 2019, face-to-face semi-structured interviews and/or focus groups were conducted with auditors, financial market regulators and standard setters, investors, and listed company directors; some involved with or on audit committees (stakeholders' groups). This wide range of participants helped gather opinions reflecting different perspectives on audit regulations and the profession, due to their different roles. The interviews and focus groups provide an opportunity to probe issues in more depth. These in-depth approaches provide a source of data richness as the researcher can enquire further into the complexity of issues. Also, additional objectives of the focus groups/interviews were to gain an understanding of the participants' perspectives on how new form auditor reports are prepared and what considerations are taken into account when these reports are prepared.

Focus groups and/or interviews were conducted in major business cities and more regional centres such as Sydney, Melbourne, Brisbane and Perth. Face-to-face semi-structured interviews were also used for participants that could not join the allocated focus group times. The focus groups or office interviews, each lasting approximately one hour (up to 90 mins) were conducted throughout the first seven months of 2019 up to July 31st. Focus groups and interviews were all audio recorded to capture the detail of these discussions. In Australia in total 20 participants were involved during the year 2019, and all the Big Four firms were represented, and five different non-Big Four firms took part in the research. Thematic analysis will be used to induce themes and draw conclusions that are developed from the analysis. The dominant themes identified will be compared to highlight similarities and differences between the various stakeholder groups. Table 1 indicates the 10 out of 20 participants (50%) were auditors. Table 2 indicates most participants were from Melbourne (35%) and Perth (30%). Data analysis has been completed and the first research paper (WP1) has been submitted to an academic journal (see below).

Table 1: Summary of participants from Australia by Stakeholder in 2019

Categorization	N
Regulators/Standard Setters	3
Big-4 Auditors	5
Non-Big-4 Audit Partners	5
Audit Committee Chairs/Directors/CFOs	5
Investors	2
Total	20
Gender	Males (12), Females (8)

Table 2: Summary of participants from Australia by Stakeholder Group and Location in 2019

Location >	Australia			
	Sydney	Melbourne	Brisbane	Perth
Regulators/Standard Setters	1	2	-	-
Big 4 Auditors	1	2	1	1
Non-Big 4 Audit Partners	1	1	1	2
Audit Committee Chairs/Directors/CFOs	0	1	1	3
Investors	1	1	-	-
Total	4	7	3	6

(4) **\$4,000 Funds Granted (funds requested \$9,700).**

(5) *Detailed Report on Expenditure of Funds against Budget Items, with variations explained.*

Activity	Budgeted	Actual
Travel/Meals/Taxi/Transcribing services/RA salary	9,700	3,780
Funds requested/provided	9,700.00	4,000.00
Balance	\$0.00	-\$220.00

(6) **Working paper one (WP1): Have Disclosures of Key Audit Matters in Australia Added Value to Auditor Reports: Stakeholder Insights on these Additional Audit Disclosures.**

Abstract

The aim of this research study is to understand how the new reforms related to Key Audit Matters (KAM) disclosures in Australia have impacted audit quality and the value of audits and audit reports by eliciting the views of key stakeholders in the audit and assurance services market. The study uses a qualitative approach and New Institutional Sociology (NIS) to also explain how auditors have responded to the KAM reforms. Interviews were conducted with 20 individuals representing identified groups of stakeholders in the market for audit and assurance services in Australia. While the study finds there was little consensus on whether the KAM reforms have improved audit quality, most participants seem to agree that KAM disclosures add value to audits and audit reports. The findings showed that the auditors and regulators, standard setters acknowledge that KAM disclosures are either costly and/or time consuming to implement. The Big Four auditors indicate changes mainly around internal consultations and independent reviews, whereas the non-Big Four auditors highlighted increased interactions with clients due to the new KAM reforms.

Working paper two (WP2): Audit Reform in Australia: An Analysis of the KAM Disclosures in Auditor Reports 2017-2018.

In progress

The aim of the study is to explore the new Australian auditing regulation around Key Audit Matters (KAMs), fully adopted since 2017, by reporting on matters published in over 3,000 Australian statutory audit reports from 2017 and 2018. By investigating the changes in the audit procedures (2017 & 2018), after the initial year of implementation (of the KAMs reform) and in the 2nd year, the study will provide the first evidence on whether auditors used the same or different disclosures related to audit procedures when reporting on the same KAM in the second year. The data will also be analysed to find differences between auditors of similar or different sizes, different industries and amongst similar sized audit clients. In addition, this study helps to understand if the new auditor reporting regime has enhanced the informational value of the auditor's report in Australia.

(7) **Future Intentions for this Project (give full details)**

Working Paper One (WP1) submitted to *Managerial Auditing Journal*, currently under review since early November 2019.

Working Paper Two (WP2) in progress and to be submitted to AFAANZ conference by February 2020 for presentation in Melbourne, July 2020.

(8) *Summary of Outcomes and Benefits*

Further the study has made several key contributions to accounting research, policy and practice. The research conducted highlights the following:

- only non-Big Four audit partners and regulators/standard setters shared views indicating that KAMs implementation in Australia improved audit quality. Big Four auditors and audit clients did not share those same views.
- although the implementation of KAMs in Australia has not been without some issues, generally it has been considered a good concept that has been helpful, including for investors.
- the KAM reforms have created a greater need for more internal quality control checks for auditors, more technical reviews, and more internal discussions generally about key risk areas.
- more training, independent review processes, word clarity and grammar checks, have all added to audit process costs and the workloads of senior auditors, particularly the sign off or engagement partners; and
- participants believe that the reforms related to KAM disclosures are enough for now and that the risk of information overload to users of financial statements is a risk if more disclosures are mandated. Many suggest a wait and see approach in Australia is now required related to auditor report disclosures.