DEBATES IN THE LITERATURE REGARDING AUDIT REPORTING

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Abstract: *The analysis of the literature review on the topic of audit reporting, can be divided into five main areas of research, specifically a) audit reporting and perceived audit quality, b) approaches to improve audit communication, c) means to reduce the audit expectation gap, d) going concern auditor reporting and e) other matters relating to audit reporting. We have followed the technique and the stages of the systematic literature review, because it offers a more defined approach to highlight the most important concepts discussed in the literature. Thus we believe that the literature reviews is a contribution in this research field. The analysed papers in the literature review confirm that there is a need for new and improved audit reporting regulations, that the IAASB and other regulating boards have concentrated on revision processes and that stakeholder feedback is crucial in the process. Other findings suggest that interested parties who have a higher level of accounting and audit education, better understand the auditor's responsibility, independence, and level of assurance they provide.*

Keywords: audit, negotiation, auditor, auditee

Jel classification: M42

Introduction

As a consequence of the international financial crisis and financial scandals, the audit report has recently been in the attention of standard setters and regulators, but also under the scrutiny of the public and third-party users. The introduction of revised regulations, focusing on increased disclosure requirements within the audit report has led, in turn, to an increase in the transparency level of the report.

The purpose of this literature review is to provide an understanding of the research topic in order to develop the capacity of delivering assessments, judgments, and interpretations. The goal is to outline new elements through which we can contribute and improve the state of scientific knowledge in our research domain, audit reporting, and audit reporting changes.

We consider that our research is aimed at a topic of great interest and with a great deal of importance nowadays – namely, the issue of changes conveyed to the audit report in the post-crisis period, with the purpose of disclosing more information concerning the audit mission and improving its communicative value. Our motivation for this part of the research is built on a core objective, which is our primary research question: *Are recent changes in auditor reporting enough to improve the structure, form, content and the understanding of the report?* The central purpose can be separated in five secondary objectives, which create our proposed main areas of research.

These secondary goals are intended to measure the degree of interference in each research direction, thus creating the setting to identify possible correlations. We reflect that these objectives are

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closely linked to audit reporting and audit reporting changes in the post-crisis period. We also deliberate that these aims can also be part of an audit reporting research framework, because of their influence on our research topic (Figure 1).

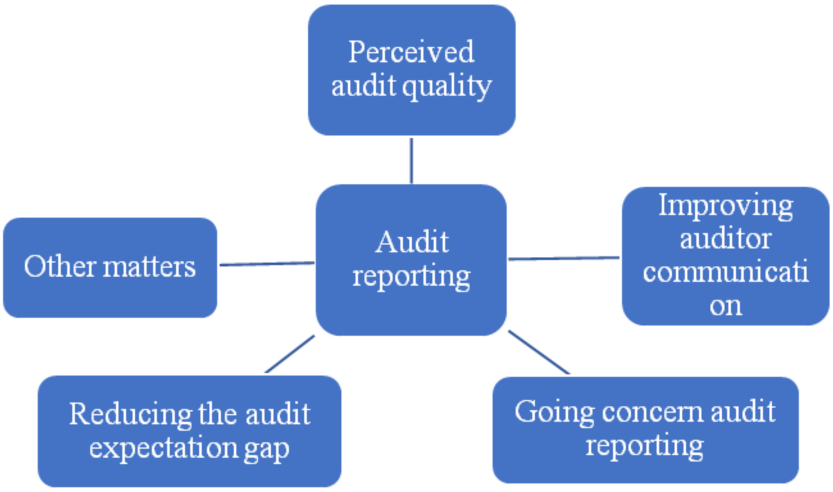

Figure 1: ***Proposed audit reporting research coordinates***
Source: Author's projection

Research methodology

Regarding methodological aspects of this literature review, we have followed the technique and the stages of the systematic literature review (Petticrew & Roberts, 2006; Ader et al., 2006; Silva et. al, 2014). This type of literature review collects and examines multiple papers that are relating to the research subject and could answer a pre-determined research question. When compared to a narrative or traditional literature review, the systematic review offers a more defined approach, given that it provides more comprehensive information from the selected sample of papers. Unlike the traditional review, the strengths of the systematic review stand in the fact that it provides a clear time-frame for selected studies (between year and year) in order to make it easier to draw conclusions – a broad sample of papers from different time frames might make it difficult to draw conclusions. Also, the systematic review removes the bias the researcher might have only to include papers that might support the research question – Consequently, a systematic review is more objective. Another strength of the systematic review is the fact that the search method for papers is more exhaustive, as compared to the traditional literature review where the search process can be far less thorough (Grant & Booth, 2009). Last but not least, in the systematic literature review, the researcher can include published or unpublished studies, as both reflect the current trend in the research topic. The stages of the systematic review are the following:

- Setting a clear research question;
- Searching relevant data;
- Extracting relevant data;
- Assessing the quality of the extracted data;
- Deciding on which data to include, analysis and the combination of data.

In the next part, we will present how we have employed the systematic literature methodology. We have already defined our research question, and we would like to continue this literature review with a brief quantitative analysis of the literature we have consulted. We have mainly focused on recent studies, with an emphasis on studies published in the 2008-2016. We consider that these studies must deal with current issues in audit reporting, as such, given the interest of regulating boards to revise the standards in the post-crisis period, and the *Auditor Reporting* project, that was started in 2007, we consider that this a good reason for choosing this period. Also, if we had chosen a larger timeframe, it would have been difficult to find common topics in the literature, with regards to auditor reporting and reporting changes. Nevertheless, there are high-quality studies published before 2008/2009 that still provide great insight on the topic, so we have decided to include these as well in the qualitative literature review.

To accomplish the current literature review on audit reporting, the following steps were taken:

1. Because our research is focused on audit reporting changes in the post-crisis period, we consider that only studies published after 2008 (included) are relevant for this review and quantitative analysis;
2. Articles were searched using the following keywords, on each of the five research objectives:
   a. Audit reporting, audit quality, auditor reporting, IAASB, audit report, Big-4 auditor, audit regulators;
   b. Auditor communication, Key Audit Matters, audit information gap, Critical Audit Matters, extended auditor reporting;
   c. Audit expectation gap, expectation gap, expectations gap, performance gap, reasonableness gap, audit education;
   d. Going concern, GCAR, business continuity, audit reporting lag;
   e. Audit independence, audit tenure, auditor rotation.
3. We have selected articles that focus on this field of research, published in journals from prominent publishing houses such as the American Accounting Association, Emerald, Elsevier, Taylor & Francis, Wiley, and others;
4. Following the above steps, the final sample of studies included in the literature review is 123; all studies have been published in 2008 or subsequent years.
5. Using the final selected sample, we proceeded with the quantitative analysis, exposed in the following paragraphs;
6. Following the quantitative analysis, we have proceeded with the qualitative study, the results and conclusions.

In the following paragraphs, we will expose the quantitative aspects of the literature review, descriptive statistics regarding the selected sample of articles.

Qualitative analysis of literature

A first analysis is the distribution of the selected articles, by publishing years. As Figure 2 shows, the 123 articles in our sample are distributed, as a whole, evenly throughout the years, which suggests a continued interest from researchers in the audit reporting topic.

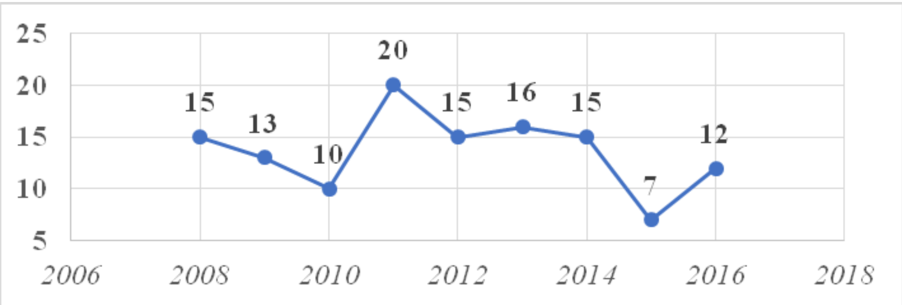

Figure 2: **Distribution of articles in the sample, by publishing year**
Source: Author's projection

Most of the papers in the sample (approximately 20%) were published in the "*Managerial Auditing Journal"* and in the *"Auditing: A Journal of Practice & Theory"*. 9% have been published in the "*Accounting Horizons"* journal while another 9% appear in the *CPA Journal*. 6% have been published in the "*International Journal of Auditing",* while another 9% of the studies have been published in other journals edited by the "*American Accounting Association*". Starting with 2011, we have found that there is much interest in the topic of audit reporting, given the fact that the IAASB, the AICPA, and other regulators had announced new proposals for revision. In the same logic, we assume that many studies will appear in 2016-2017, given the fact that IAASB published revised standards in January 2015 and the publication process will take a while.

As seen in Figure 3, we've selected articles that focus on this field of research, published in journals from prestigious publishing houses such as the American Accounting Association (36%), Emerald (24%), The CPA Journal (9%), Wiley (9%), Taylor & Francis (5%), Elsevier (5%), SAGE (1%) and others.

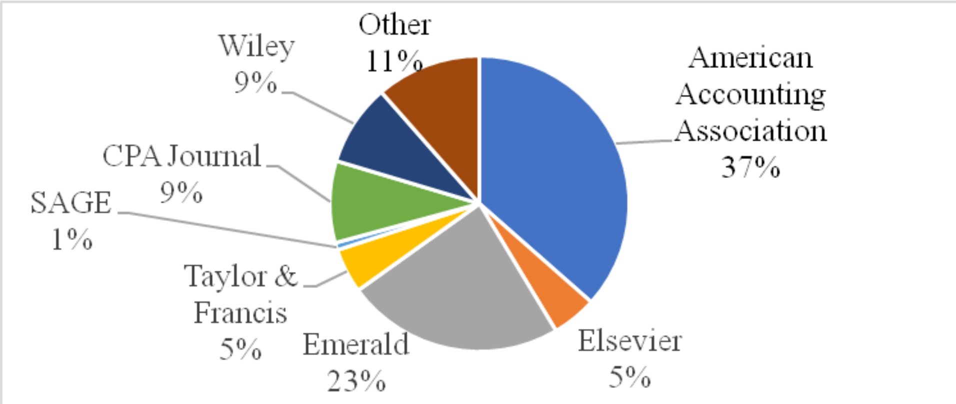

Figure 3: **Distribution of articles in the sample, by publisher**
Source: Author's projection

As mentioned in the first part of this paper, we consider that our research is aimed at a topic of great interest and we have found that the core objective, the usefulness and the effects of recent changes in audit reporting, can be split into five secondary objectives. The sample of the analysed articles can be distributed by research topics, as seen in Figure 4.

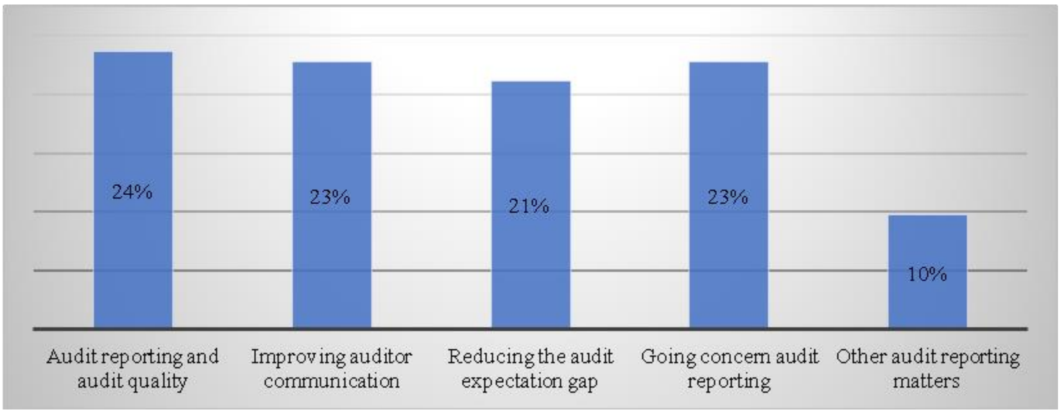

Figure 4: ***Distribution of articles in the sample, by research topic***
Source: Author's projection

Last but not least, the sample of selected articles can be grouped by type of study, being either a quantitative, qualitative or mixed research, as seen in Figure 5. Almost half of the papers use statistical methods to achieve their results while 34% use qualitative methods and 26% rely on both methods to achieve their results.

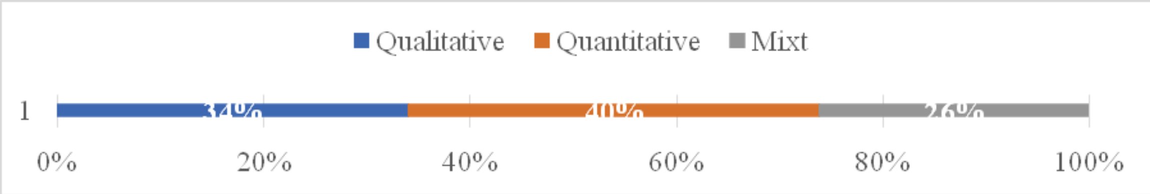

Figure 5: ***Distribution of articles in the sample, by type of research***
Source: Author's projection

In the next paragraph, we will start the qualitative part of the literature review:

a.) Audit reporting and perceived audit quality

Francis (2011) and Knechel *et al.* (2013) posit that research on in the auditing field, audit reporting, and audit quality have been the interest of academics for a while now. The audit profession has been concerned with much needed changes with regards to the re sponsibilities of the auditor in issuing an opinion on the financial statements, making it clear that an audit mission is value-less if the stakeholders do not trust the auditors (Maijoor & Vanstraelen, 2012).

Therefore, what can be done to enhance trust and confidence in the audit report? Academics, regulating boards, professional bodies and other stakeholders considers this subject as being essential to audit reporting. In this regard, the financial reporting and auditor reporting are being subjected to new developments and revisions in the years, endorsed by the IASB, IAASB, AICPA and PCAOB (Kranacher, 2011). Afterman (2016) praises the European audit reform and considers that some of the provisions might be adopted in the US as well, given the fact that US multinationals have a strong presence in the EU. The importance of standard setters and their role in regulating audit reporting is also stressed, given their implication in the regulatory space (Carmichael, 2014); these reforms and improvements that the standard revisions bring will have a direct effect on auditor communication and transparency (Fornelli, 2016). On the same aspect, Gramling *et al.* (2011), Nagy (2014) and Christensen *et al.* (2015) highlight the fact that throughout time, new regulations on audit reporting and oversight from regulators, have had a positive effect on the nature and extent of audit missions. Boolaky (2012) investigates the determinants of how audit standards are applied in 41 European countries and finds that standards application is influenced by the legal framework, corporate governance compliance, the stock market and the educational level. The IFAC has published, through its Compliance Program, the ISA Adoption around the world; some countries are required by law to use IASs, others have adopted ISAs or use ISAs as national standards, while some countries use national auditing standards based on ISAs or similar to them (IFAC, 2012).

Not only new regulations are necessary, the importance of ethics and organisational culture is also stressed by some researchers (Barlaup *et al.*, 2009; Sikka *et al.*, 2009; Svanberg & Ohman, 2013). Barlaup *et al.* (2009) propose an ethical decision-making framework as a tool for businesses and auditors; also, they posit that education is an important aspect - both audit and ethical education. While communication with *those charged with governance* (the Audit Committee, internal audit department, management) is important, audit issues can arise from team interaction of the audit partners as well – if unresolved, these problems lead to audit failures (Bobek *et al.*, 2012).

A great number researchers have analysed the current audit reporting model, in light of proposed changes from the above-mentioned regulators (Church *et al.*, 2008; Turner *et al.*, 2010; Coram *et al.*, 2011; Vanstraelen *et al.*, 2012; Glover *et al.*, 2012; Mock *et al.*, 2013). Some of these academics have been commissioned institutes or research centres to research projects on improving audit reporting: AICPA – Turner *et al.* (2010), ACCA & Maastricht Accounting, Auditing and Information Management Research Center (MARC) – Vanstraelen *et al.* (2011).
Another area of debate for researchers is auditor independence and its influence on audit quality, given the relationship between audit failures and audit-client tenure (Sikka *et al.* 2009; Li, 2009; Daniels &

Booker, 2011; Joe *et al.*, 2011; Al-Thundeibat *et al.*, 2011; Lin & Tepalagul, 2015, Gonthier-Besacier *et al.*, 2016). By analysing data from 163 audit engagements working papers, conducted by a Big-4 auditor, it is argued that post auditor report adjustments are more probable to be ignored for clients with tenure, but not in the case of income-decreasing adjustments (Joe *et al.*, 2011). Nevertheless, Litt *et al.* (2014) consider that the negative impact of auditor rotation is even more substantial if an auditing firm with a global presence (Big-4) is replaced with a smaller audit firm (non Big-4). A greater deficiency can be found, attributed to less experience and limited resources. After Enron's demise and the subsequent Sarbanes-Oxley amendment, several studies show that Big-N auditors have either resigned or have been dismissed by clients, in the process of switching to smaller auditors (Landsman *et al.*, 2009; Carver *et al.*, 2011). Some researchers suggest that Big-4 auditors responded to the Arthur Andersen crisis by dropping financially stressed clients (Brandon *et al.*, 2012), while others find that the audit delays cause realignments in the audit markets, as an effect of both audit tenure and audit reporting lags (Mande & Son, 2011).

Academics focus on differences in users trust in opinions issued by either Big-4 or non-Big-4 auditors (Hussainey, 2008; Gray & Ratzinger, 2010). These studies confirm that all Big-4 auditors apply the same interpretation to standards and that nonconformity with standards is very unlikely, but that the quality of services provided by small audit firms might be dissimilar, compared to companies from the Big-4 group. Conversely, in the case of going concern audit reporting, non-Big-4 auditors have a tendency of issuing more GCARs than Big-4 auditors, raising the question of audit quality and pushing companies and the public towards buying audit from Big-4 auditors, for a perceived higher quality of audit (Geiger & Rama, 2006; Ratzinger-Sakel, 2013). Campa (2013) disagrees and considers that the "premium" fee Big-4 auditors receive for their services does not translate into better quality services. Also stressed is the relationship between companies who pay both audit and non-audit fees to auditors, a topic which makes the public opinion (here, represented by three categories of users: auditors, preparers and users) question auditor independence (Brown, 2009; Wines ,2012) – this fact is also highlighted by Al-Ajmi & Saudagaran (2011) in an examination that focuses on different users (auditors, loan officers, and financial analysts) perception of 41 factors that influence auditor independence. This practice has since been limited by regulations that prohibit auditors offering both audit and non-audit services to clients.

As previously discussed, we can agree that regulating bodies in the auditing field, but also accounting professionals have claimed that if audit firms offer more transparency, they can aid reinstate the stakeholders' opinion on the quality of audit (Wyman, 2004). However, the complexity of the audit process can lead to problems in the stakeholders' understanding on what the audit mission achieves, especially when taking into account the fact that the audit report had been more or less standardised in structure, form and content (Wooten, 2003).. Consequently, many researchers focus on "audit/auditor quality" topic.

Researchers have examined how audit quality has developed over time, in the context of some jurisdictions refining the concept by introducing new guidelines concerning auditor independence (Francis, 2011; Knechel, 2013). Academics have tried to define and measure the concept of audit quality, but not even today consensus exists, despite the notion being discussed for over two decades (Knechel *et al.*, 2013). This reforms have introduced enhanced provisions towards improving the perceived quality of audit (Baker *et al.*, 2010). It is considered that the quality of the audit mission can be quantified by the reduction of risks and by the reputation the auditors have built (Brian *et al.*, 2007), or, in another conception, by their levels of competence (Knechel, 2000; Herrbach, 2001; Watkins *et al.*, 2004; Lowensohn *et al.*, 2007; Duff, 2009). Gonthier-Besacier et al. (2016) do not uncover any indication of differences in perception amongst preparers and auditors with regards to audit quality. Knechel *et al.* (2013), using a "balanced scorecard" approach, develop a framework for understanding the concept of "audit quality" which includes its characteristics (inputs) and aspects (outputs). They also provide an extensive review of literature relating to "audit quality," including different research methods, an addition to the framework developed by Francis (2011).

b.) Auditor's report communicative value

Academics like Church *et al.* (2008), Turner *et al.* (2010), Coram *et al.* (2011), Vanstraelen *et al.* (2012), Glover *et al.* (2012) and Mock *et al.* (2013) have examined the potential effect that the proposal of an extended audit report would convey to stakeholders' needs, by receiving additional facts from the audit mission. Most notably, it is considered that there are four categories that require expansion: the audit mission and procedures, the financial statements' quality and the quality of the reporting system, and, last but not least, the sustainability of the business - the going concern basis of accounting (Turner *et al.*, 2010). An examination of the purpose of an audit mission that is considered to be "of quality" by users is also necessary (Kueppers & Sulivan, 2010). Albeit investors regard the success or failure of an audit engagement through the absence of fraud within, or bankruptcy of the company, after the issuance of the audit report, the researchers consider that the significance of the report is high, and investor uncertainties must be mitigated through changed and improved regulations in accordance with the requirements of a globalized economy, calling into question the need for standards with global applicability, taking into consideration the differences in national cultures (Nolder & Riley, 2014).

A more recent study regarding the introduction of Key Audit Matters suggests that the *KAM* section has a communicative value to professional investors, while having no value to non-professional investors; the scholars attribute these results to the fact that non-professionals might have difficulties understanding the matters discussed in the section (Köhler *et al.*, 2016). Fakhfakh (2016) also finds that standardised illustrations provided by the IAASB, for modified opinions (ISA 705 and ISA 706) are not entirely comprehended by users of financial statements and that auditors should expand their explanations because comprehensibility is crucial for any report. We consider that these findings ascertain to the fact that stakeholders with a low level of accounting education do not fully understand the message of the audit report. Our assertion is consistent to what Simnett & Higgins (2014) find, through a content analysis of the responses submitted by stakeholders following the publication of exposure drafts / consulting standards produced by the IASB and FASB.

Another topic covered is the necessity of changes posits that some changes with the intention of improving the audit report and perceived audit quality (Wedemeyer, 2010). The need for these alterations comes from users concern regarding auditor judgements in the audit mission and from regulation changes imposed by the creation of the PCAOB, through the Sarbanes-Oxley amendment. While Wedemeyer (2010) concludes that investors consider the audit report contents as being insufficient, Elliott *et al.* (2016) find that an extended audit report has an impact on the overall reporting quality. Investors will choose their investments, in the case of companies with similar financial reporting quality, based on the message of the audit report. Another analysis is the relevance of the audit report by proposing an alternative proposal: audit by objectives. It has been considered that at that time, the final purpose of the audit was omitted, and an objective approach in the audit mission would help improve the communication between the auditor and management, by offering more precise information and recommendations (Kapoor & Valencia, 2013).

Equally, academics disagree with, or consider that an extended audit report will not help reduce the information gap or the expectation gap, nor will it increase the quality of users' investment decisions, thus making so extended audit report redundant (Chong & Pflugrath, 2008; De Muylder *et al.*, 2012; Gold *et al.*, 2012, Boolaky & Quick, 2016). The academics accomplish a mixt study in which they investigate the impact an extended audit report would have on investor decisions and conclude that none of the proposed extended audit report forms would reduce the expectation and communication gap, having no influence on improving the quality of investors' decisions (Gold et al., 2012). Given the fact that the UK has adopted new legislation on audit reporting since 2012, Lennox *et al.* (2016) analyse whether the UK audit reporting reform offers more informative reports to investors; their findings suggest that the supplementary disclosures are "incrementally informative" because some of the *Key Audit Matters* have been disclosed in the management report a year earlier. Thus, the "new" risks the auditors informs about are yesterday's news for informed investors. It is also found that an additional disclosure on the assurance level could be more informative to bankers, more than the new KAM section or details on the materiality level (Boolaky & Quick, 2016). We find this finding remarkable, as it seems stakeholders might better relate to a number (e.g.: 95% level of assurance), that to in-depth explanations within the KAM paragraph.

Given the fact that the Sarbanes-Oxley amendment instructs more frequent meetings between the auditors and the Audit Committee, it is found that all factors that affect the financial reporting quality should be discussed between the parties, with an emphasis on areas considered as threats, such as earnings management (Cohen *et al.*, 2008 Munro & Stewart, 2011). This is the reason behind the auditors' need to be sceptical about information obtained from the management, they have motivations to manage earnings (Kaplan *et al.*, 2008); solutions are bound to appear in these discussions given the unique expertise and perspectives of each party; all this, to improve the internal audit activity within the audited company (Paape *et al.*, 2006). Kilgore *et al.* (2014) highlight that audit firms are responsible for assuring on-going communication with the management, either through the Audit Committee (if one is established) or in other manners – this is viewed with importance by both "insiders" (audit committee members/chairs) and "outsiders" (financial analysts) to the company. Through the employment of a meta-analysis to study the connection between the audit committee and the quality of financial reporting, it is also concluded that audit committees are more efficient at enhancing audit quality, rather than financial reporting quality (Pomeroy & Thornton, 2008).

Since academics and regulators alike are divided on how and what will improve auditor communication, the question arises whether the profession should focus on ways to improve the current report or shift to the future. Could audit missions and audit reporting be improved, as Hunton & Rose (2010) envisage, by using advanced decision support systems which would achieve continuous auditing?

c.) Issues regarding the audit expectation GAP

An excellent starting point as to what is audit expectations gap (AEG) is provided in the literature: a misunderstanding between the public (stakeholders of the financial statements) and auditors, regarding the responsibilities of the auditor; more easily said, what the public believed the responsibilities of the auditors are, and what auditors actually consider to be their responsibilities (Bailey, 1981; Frank *et al.,* 2001; Porter & Gowthorpe, 2005; Zikmund, 2008; Turner *et al.,* 2010; Mock *et al.*, 2013; Kamau, 2013). These studies consider that the AEG has two components: a "reasonableness gap" and a "performance gap".

Similarly, Hassink *et al.* (2009), referring to the Cohen Comission's (1978) terms of reference, find that the audit expectation gap can be attributed to three different deficiencies:

- a *reasonableness gap* – the auditor cannot systematically detect fraud by following standard audit procedures because fraud is in its nature "non-systematic";
- a *deficient performance gap* – which appears because either lack of or inefficient corporate governance structures which could prohibit the auditor from taking actions or acting on a lower level that expected;
- a *deficient standards gap* – because public expectations are not reflected in current auditing standards.

Many of the researchers mentioned above find that audit education might better help reduce the expectation gap, together with an extended audit report. Still, as Bui & Porter (2010) conclude, audit and accounting education is an issue that not been resolved yet, as many accounting graduates lack the skills the profession expects them to have. So if accounting graduates are not educated in audit responsibilities, how can we expect non-professional investors to be?

Audit reporting must also be viewed from the perspective of audit expectation gap, audit communication gap and audit information gap, issues that have become problematic for auditors (Mock *et al.*, 2013). The academics focus on two main questions: what do users consider the auditor report should communicate, and what the effects of communicating this information might be with regards to reducing the expectation gap and communication gap. Salehi's (2011) research provides an excellent anaysis of the current state of knowledge on the audit expectation gap, but it differs from other studies in the sense that the author concludes that this deficiency should be reduced by the auditor directly. The author suggests that users are becoming more intelligent, but demanding as well, and now expect auditors to better protect their interest in the decision-making process.

The audit expectation gap can be defined as the "differences in beliefs and desires" regarding the duties of the auditors (Dennis, 2010). In the same sense, Ruhnke & Schmidt (2014) find that the audit expectation gap can be attributed to a failure by either the public, because of an exaggerated expectation of the auditor responsibility, the standard setter (because proposed changes can also increase uncertainty), and even the auditor (because they sometimes do not recognise some of their responsibilities).

Other studies focus on how the audit expectation gap regarding auditor responsibilities for fraud prevention and detection can be reduced. By using a questionnaire, they measure the input that individual expertise and experience with the expectation gap of bank loan officers can have on loan decisions in Malaysia (Bedard *et al.*, 2012). Bankers' awareness of the expectation gap in Iran is also measured by Salehi (2008), with findings are consistent with previous studies (Fadzly & Ahmad, 2004; Kamau, 2013; Okafor & Otalor, 2013), as they consider that the knowledge in audit education and the expectation gap play an important part in reducing this issue in audit reporting. Another study relies on a survey to determine how and why key stakeholder groups (management, auditors, users and regulators) differently understand the concept of "materiality" concerning its meaning, application, and importance in the audit mission. The findings suggest that stakeholders usually mistake "a higher level of materiality" with a "robust audit", whereas the relationship is the exact opposite; the authors suggest that educating the public to understand that materiality actually means "tolerable error" is necessary to reduce the AEG in this aspect (Houghton *et al.* 2011). Others consider that there is a degree of confusion revolving on what is being assessed in an audit, particularly how auditors can exhibit accountability for audit outcomes. While the results are based on public sector issues regarding auditing projects and public sector performance, one significant conclusion is drawn: most expectations are unrealistic, either overly optimistic or too pessimistic (Barrett, 2012).

There are differences in opinion regarding auditor responsibility, with stakeholders concerned about the ability of auditors to detect fraud, even though the level of trust in auditor activity is still high. Similar to previous researchers (Bostick & Luehlfing, 2004), it is considered that users who are more informed about audit missions and their objectives, better understand the responsibility and level of assurance provided by auditors. Another improvement could be the revision of standards so that the auditors cover expectation gap origins such as internal control deficiencies, managerial or employee fraud, illegal operations, and others. (Fadzly & Ahmad, 2004). Consequently, it is reflected that the audit expectation gap is linked to audit fraud detection and has two dimensions: the capability of the auditor to detect fraud, and his experience in detecting fraud. Several solutions are offered in order to improve auditor performance: continuous professional preparation, developing fraud detection knowledge and know-how, applying rigorous audit plans, and others. It is also concluded that, even though the auditor cannot pledge full assurance against fraud, this does not equal with inadequate preparation for a mission or the lack of auditor independence (Zikmund, 2008). Salehi *et al.* (2009) consider that the more independent an auditor is, the less likely the expectation gap appears.

d.) Going concern audit reporting

Another area of challenge in this research topic is the disclosure and discussion the auditor provides regarding the going concern basis of accounting, or reporting on business continuity. In order to function as an efficient market, this space need to rely on an efficient audit process, which can only be achieved by obtaining a "true and fair view of the financial position and performance of the entity" (IAASB, 2015). The approach the auditor needs to consider in this regard must be well-structured and adequate, in order to correctly assess whether the company has appropriately applied the going concern basis of accounting (Martens *et al.*, 2008), taking into consideration the operations in the current financial year and their hypothetical impact on the company's future.

Numerous researchers have studied the impact improved audit standards and improved audit oversight have on going concern opinions and have come to the conclusion that more stronger standards lead to a rise in modified opinions (Citron & Taffler, 2004; Nogler, 2008; Carcello *et al.*, 2009; Gramling *et al.*, 2011; Carson *et al.*, 2013).

Xu *et al.* (2011) and Gieger *et al.* (2014) study the effect the global financial crisis (GFC) has had on the frequency of going concern opinions. The former find that that the GFC has made auditors focus more on whether companies appropriately use the going concern basis of accounting – a rise from 12% in the 2005-2007 period, to 18%-22% in the 2009-2009 period. In the case of clients that have subsequently declared bankruptcy, Gieger *et al.* (2014), using data from 414 financially stressed companies that filed bankruptcy between 2004 and 2010, the authors find that after the GFC, all auditors (Big-4 or not) considerably increased the tendency to issue going concern opinions for clients that went bankrupt afterwards.

Conversely, some scholars (O'Reilly, 2009; Menon & Williams, 2010) argue that after a companuy received a qualified opinion due to going concern issues, the possibility of a subsequent bankrupcy is amplified, because of financial worries related to this opinion. The reason behind this phenomena is the fact that share prices will drop, making the auditor's report a "self-fulfilling prophecy" (O'Reilly, 2009) – the auditor has highlighted some business continuity issues, that transform into much serious issues subsequently, costing the company equity capital (Amin *et al.*, 2014). Feldmann & Read (2013) also find that problems with business continuity, confirmed by auditors when they issue a GCAR are also reflected in company ratings – by using logistic regression; the researchers find that Standard & Poor rating of the company is decreased after a GCAR.

Relating to perceived audit quality, Dao & Pham (2014) posit that the presence of an "audit report lag (ARL)" is a stimulus to uncertainty in users' decision-making process: whenever ARL appears, users see it as bad news. Blankley *et al.* (2014) find a positive association between the presence of an ARL and the prospect of a future restatement (Type II error), which is consistent with Knechel & Sharma's (2012) findings. In some cases, ARL appears because of the short tenure between client and auditor – which is also viewed as a cause for GC audit opinions. These findings are based on two expectations: if the auditor tenure is longer, auditor independence and perceived quality of the audit report is interfered. In the other situation, if the auditor and company have a longer relationship, the auditor will understand the company better, by having a better knowledge regarding the company's practices and operations, and will issue a more convincing report, with a correct opinion – no "Type I" or "Type II" errors (Al-Thuneibat *et al.*, 2011; Lin & Tepalagul, 2015). Still, when financial restatements appear, clients usually choose to change auditors, but no evidence has been found to suggest that this change appears because of the restatement, but because of different interests, such as perceived insufficiencies and flaws in the relationship (Calderon & Ofobike, 2008).

The 2015 standards feature a Going Concern paragraph in which the auditor states an opinion on whether the management has appropriately applied and used the "going concern basis of accounting". In previously drafted proposals, the 2013 Exposure Draft, for instance, the Going Concern section was proposed to contain more facts on materiality aspects regarding business continuity, but for the final standards is was considered that it is not in the duty of the auditor to issue a statement on this aspects, as it is the management's responsibility to assert whether they have correctly applied the principle. Also, if the auditor did release a statement on this aspects, they would have become liable, should that statement be proved wrong in the post-issue of the audit report.

e.) Other issues relating to auditor reporting

The hypothesis is that an auditor's tendency to give modified opinions is more probable when they know the company better, an aspect that can only be achieved by a longer tenure (Jackson *et al.*, 2008; Aschauer *et al.*, 2013). The latter researchers note that the trust between auditor and client is inversely proportional with the perception of users in the auditor's professional scepticism. Using statistical analysis, the academics concluded that the rotation of the auditor does not have any effects of the stakeholders' perceived audit quality, but will increase audit costs for the companies. Evidence of this matter is the fact that most countries that have adopted mandatory auditor rotation have later reversed their decision. Other academics believe that such a measure would have an adverse impact on the effectiveness of the audit mission, concerning the auditor's performance, and subsequently, on the audit firm, because of variations in clients. Also, another negative impact would be higher costs, such as those paid by former Arthur Andersen audited companies when they were forced to change their auditor, an increase of 88% in audit costs (Daugherty *et al.*, 2013).

Many studies provide additional evidence that does not support the mandatory auditor rotation initiative (Cameran *et al.*, 2014; Stewart *et al.*, 2013; Tyler *et al.*, 2013). Cameran et al (2014) note that in Italy, where mandatory auditor rotation adopted since 1975, it can be noted that in the years prior to the rotation, audit costs increase without reason, while in the period after the new auditor is contracted the expenditures on audit are lower (although rising on a yearly basis) even if the new auditor efforts are higher. Consequently, it is argued that a longer auditor-client tenure improves the quality of the audit engagement (Tyler *et al.*, 2013), while other suggestions are that audit rotation policies can have a negative impact on the auditor's specific knowledge concerning the client, especially in the case of geographical distance between the client and the auditor (Chen *et al.*, 2016). Williams & Wilder (2016) analyse comment letters to the PCAOB initiative for mandatory auditor rotation and find that respondents offer strong arguments for opposing such a regulation, one being a more robust relationship among the auditor and the Audit Committee. We consider this an appropriate solution, and in the EU, the recent regulation does impose a stronger Audit Committee, with more independent members and with members that have professional expertise in auditing.

Regarding the connection between the reputation of large audit firms, customer preference and the rotation of audit firms, the negative impact of auditor rotation is even more substantial if a large auditing firm (Big-4 auditor) is replaced with a non-Big-4 audit firm (Tanyi *et al.*, 2013). A greater deficiency can be found in this situation, attributed to less experience and limited resources. Also confirmed is the fact that all Big-4 auditors apply the same interpretation to standards and that nonconformity with standards is very unlikely; but that the quality of services provided by small audit firms might be dissimilar, compared to companies from the Big-4 group (Gray & Ratzinger, 2010).

Conclusions

By applying the systematic literature review working method, we have selected the most important papers published in the 2008-2016 period that could help us answer our research question: *Are recent changes in auditor reporting enough to improve the structure, form, content and the understanding of the report?* In this sense, we have focused on studies that focus on audit reporting and perceived audit quality, on improving audit communication but also studies that focus on ideas for reducing the audit expectation gap, going concern audit reporting and other matters relating to auditor reporting. We consider that our systematic review approach provides a clear contribution in this research field given the fact that we have selected papers in this area, published in journals from prominent publishing houses, and our working method has provided a more comprehensive view of the debates in the selected sample of papers.

The studies analysed in the literature review confirm that there are differences in opinion regarding auditor responsibility, with stakeholders concerned about the ability of auditors to detect fraud, even though the level of trust in auditor activity is still high. Another conclusion is that users who are more informed about audit missions and their objectives, better understand their responsibility, the independence auditors have, and level of assurance they provide. In the end, users search credibility, and that is what auditors are "trading" through their services; we believe that the changes, whether agreed upon by academics or users are consistent with the lending credibility theory (Hayes et al., 1999): any audited financial statement has elements that are required to surge users' confidence in management provided figures. We argue that an extended audit report, through the addition of *Key Audit Matters* section, is the first step in this direction.

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