



Professional and Non-professional Investors' Opinion on Critical Audit Matters in the Auditor's Report

Esmail Shoja

Ph.D. Student in Accounting, Firoozkooch Branch, Islamic Azad University, Firoozkooch, Iran
Shoja_2009@yahoo.com;

Seyed Yousef Ahadi Sarkani

Associate Professor, Department of Accounting, Firoozkooch Branch, Islamic Azad University, Firoozkooch, Iran
(Corresponding Author);
ahadisarkani@gmail.com;

S. Atefeh Hosseini

Assistant Professor of Accounting, Firoozkooch Branch, Islamic Azad University, Firoozkooch, Iran
hosseini_accounting58@yahoo.com;

Submit: 07/05/2022 Accept: 25/05/2022

ABSTRACT

The paper aims to study the sentiments of professional and non-professional investors on Critical Audit Matters (CAM) according to International Auditing Standard No. 701. The paper, however, is survey-based, and a questionnaire was used to collect data. The statistical sample includes 100 investors, 50 professional investors, and 50 non-professional investors who have been purposefully selected and available (professional investors include managers of investment firms and non-professional ones consist of undergraduate and graduate students majoring in management and accounting, who do not have a professional background and whose investment activities are not considered part of their professional activities). Findings show modifies in the level of disclosure reported by the auditor on the quality of reporting, the level of credibility of the firm's management, and the amount of investment, and modification in the level of credibility of the firm's management on the level of auditors' confidence, quality of reporting and the amount of investment. Furthermore, there is no difference between the modification in the level of disclosure reported by the auditor and the credibility of the firm's management on the auditor's independence and the risk of material misstatement not reported by the auditor. From the point of view of professional investors, in other words, events with the highest risk of material misstatement of the auditor's report, the auditor's assessment of major events and transactions, and matters that are relevant to the auditor's professional judgment in the financial statements would further affect their decision to invest. However, this is not the case for non-professional investors.

Keywords: Professional and Non-Professional Investors, Auditor Report, International Standard No. 701, Critical Matters, Public Company Accounting Oversight Board

1. Introduction

Independent auditing plays an important role in supporting the quality of financial reporting, and the auditor's report, as an integral part of the financial reporting process, plays a major role in informing users. Moreover, the demand to monitor and revise the information value and relevance of the auditor's report has always been of concern to regulators. However, the demand for more and more relevant information increased through the auditor's report following the recent financial scandals, the 2008 financial crisis, the globalization of the business environment, and the increasing complexity of financial reporting (such as the use of subjective estimates and difficult judgments, the need for multiple disclosures and global audiences). Therefore, regulators - such as the International Auditing and Assurance Standards Board (IAASB) and the Public Company Accounting Oversight Board (PCAOB) - revised some of their existing standards or developed new standards to improve the auditor's report and increase the transparency. The two corporations, however, have added up a section entitled Key Audit Matters/ Critical Audit Matters to the new auditor's report to increase the information value of the auditor's report. Since then, the Board of Auditing Standards and Accreditation has developed International Auditing Standard 701, in which a new section entitled " Key Audit Matters" has been added to the auditor's report and came into effect on December 15, 2016. The PCAOB, however, developed a new standard that has mandatory disclosed key audit matters in the auditor's report. In this way, the paragraph related to the critical audit matters for large firms whose fiscal year ends June 30, 2019, and afterward, and for other firms from December 15, 2020. Furthermore, PCAOB and IAASB conducted extensive surveys by various groups such as auditors, preparers of financial statements, and investors around the world to develop the new standards. The responses received were different from different groups; e.g., Deloitte, Ernst & Young, Grant Thornton, and KPMG have all supported the addition of key audit issues to the audit report. At the same time, however, the issues raised some challenges. As an example, the New York State Association of Certified Public Accountants (2013) opposed the decision, as it believes that this does not increase the usefulness and promotion of the auditor's report and, on the contrary, dilutes the effect of the message of

rejection/acceptance of the auditor's report and reduces the value of the auditor's report. The Official Institute of Accountancy and Public Finance (2013) states that adding the section may deepen users' perception of the audit procedure and at the same time, the volume of the auditor's report shall increase, leading to an increase in user efforts to better recognize the report. Accordingly, the paper aims to study the views of professional and non-professional investors regarding the impact of key audit matters on their decision to invest. Furthermore, what made the important and necessary research, is the novelty of the subject, the different legal, economic, and political environment of Iran from other countries, and the lack of sufficient evidence and experience; the present paper would bridge the gap among the existing literature.

Literature Review

Auditing enhances the quality of financial reporting, reduces information risk, and strengthens public confidence. However, poor quality audit reports may result in extreme consequences for the audit profession, individuals, and society, as well. Presently, the main method of communicating with the stakeholders of a business unit is the audit report, the most important part of which is the auditor's opinion, which is presented in the form of two-sided rejection/acceptance. Generally, the studies show that: (a) the audit of the financial statements and the independent auditor's comments on the entity's financial statements are considered valuable. However, the content of the auditor's report has no informational value other than informing concerning the overall results; (b) users are well aware that there is rich information regarding the entity and its audit operations that are not currently audited in the financial statements or through other corporate disclosure mechanisms as well as the auditor's report. Moreover, users tend to receive this information directly through the business unit or the auditor based on their perception of the matters. They believe that such information helps them assess the financial condition and performance of the business unit, as well as the quality of corporate reporting and auditing operations; (c) various users believe that the information value of the audit report may be improved by changing the structure or terms used in the report (IAASB, 2011).

However, the results of theoretical research show that users' views on audit quality are influenced by the information value of the auditor's report. Because the auditor's current report does not disclose complete information about the auditor's performance, choices, and judgments applied in submitting the opinion, it provides little information to evaluate the quality of the audit. Given the positive impact of increasing transparency about the audit process on users' attitudes about audit quality, users want more and more relevant information (IAASB, 2011). Accordingly, IAASB has revised International Auditing Standard 700 entitled "Reporting on Financial Statements", one of the modifications which are to add key audit matters to the auditor's report, and developed International Auditing Standard 701, entitled "Informing Key Audit Matters in the Independent Auditor's Report." The US PCAO also issued a new standard, "the Auditor's Report on the Audit of Financial Statements", in which a new section entitled "Critical Audit Matters" is added to the auditor's report (PCAO, 2017). The transfer of risk information is one of the matters that the IAASB and the PCAO of the United States have sought to address in critical/key Audit matters (Plzer, 2016). However, both boards sought to provide users with more information about audit risk by introducing the new standard. According to USA PCAO, the main audit matters are those that have been or should inform to the audit committee during the audit process and: (a) relates to accounts or disclosures that are material in the financial statements; (b) require challenging, subjective, and complex auditor judgments (PCAO, 2017). According to International Auditing Standard 701, key audit matters are those that have been most relevant in auditing current period financial statements based on the judgment of the auditing profession. The matters are selected from the matters reported to the governing bodies (International Auditing Standard 701). Furthermore, key audit matters should be specific to the entity under review and audit operations to convey relevant and relevant information to users; therefore, International Auditing Standard 701 includes a judgment-based decision-making framework that assists auditors in identifying matters that are key audit matters from the matters reported to management. This decision-making framework is designed to focus the auditors on matters of interest to investors and further users; in particular, parts of the financial statements that require substantial or complex

judgments by managers or that require the auditor to focus on them following the risk-based approach in International Standards on Auditing. The auditor, however, should identify among the matters that have been reported to the governing bodies, the matters that require special attention of the auditor during the audit operation, and in this regard, the following should be considered: a) matters that have a high risk of material misstatement or that are subject to significant risk under International Auditing Standard 315 (revised); b) material auditor judgments concerning matters in the financial statements that include material management judgments, i.e. accounting estimates contain substantial ambiguity; c) the impact of major events or transactions that occurred during the financial period (IAASB, 2015). International Auditing Standard 701 requires that a description of key audit matters should include sufficient explanations depending on the auditor's professional judgment to enable users to recognize why these matters were important and how the firm dealt with them. However, the extent and form of information transfer on key audit matters are not addressed in the standard to make auditors more flexible in emphasizing the entity (IAASB, 2015b). Disclosure of key audit matters in the auditor's report may have a positive effect on users' assessment of audit quality, which in turn increases users' confidence in the audit process and financial statements. Moreover, the IAASB supposes that the presentation of key audit matters in the auditor's report results in: a) increase the transparency of the audit process; b) focuses investors and other users on areas of the financial statements that require major managerial judgments and the auditor's special attention, which in turn help investors and users to reflect the status of the entity, the financial statements and the outcome of the audit process in the manner reflected in the auditor's statement; c) provides users with a basis for interaction between management and governing bodies (including audit committees) on specific matters relating to the entity, the audited financial statements, or the audit process; d) improves the relationship between the auditor and the audit committee on the most important matters that occur in the audit and may lead to more attention being paid to the disclosure of the matters that the directors and the audit committee make in the financial statements and e) causes the auditor to focus more on informing regarding matters that may

indirectly lead to increased professional skepticism and improve the quality of the audit (IAASB, 2015a).

Given the novelty of the discussion of key audit matters in the auditor's report and its challenge due to the use of the auditor's professional judgment in determining the matters, it is necessary to examine investors' views on key audit matters. The paper aims to answer this research question: what is the impact of key audit matters on the auditor's report on their investment decisions from the perspective of professional and non-professional investors?

Methodology

The paper studies the impact of the professional and non-professional investors' opinions on key audit matters in the auditor's report on their investment decisions. Accordingly, the approach of this article is based on research objectives, except for applied studies, and in terms of data type, except for quantitative research; since it has included the collection and analysis of quantitative statistics and information and seeks to measure the objective reality that the researcher is separate from the research. The paper is a descriptive one in terms of data collection. Furthermore, the statistical sample is obtained by available sampling. Therefore, 50 professional investors and 50 non-professional investors were selected to answer the research questions; And have been analyzed using structural equations. Structural modeling is one of the statistical methods for analyzing multivariate data for the theoretical structure of latent variables and the relationships between them (Violato & Hecker, 2007). However, a questionnaire was used to collect data; the questionnaire consists of two parts: demographic questions and specialized questions. The questionnaire included variables and determining factors and was set on a 7-point Likert scale (from "very low" = 1 to "very high" = 7). The total number of variables identified after reviewing and screening the appropriate number that had the most repetition and emphasis in terms of the number of interviews, articles, documents, and reports were used. A questionnaire was developed to assess the content or face validity of 20 professors of accounting and management, some of whom were also members of the Iranian Society of Certified Public Accountants. Upon confirming the content validity, then through Cronbach's alpha method, its internal reliability or stability was calculated using SPSS24 (= 0.760) and

confirmed. Cronbach's alpha coefficient showed that most of the structures and their related variables provide acceptable internal stability. Finally, the present research questionnaire was prepared in two sections: demography and the main research questions. In this study, a two-step method is used for structural modeling; in the first stage, through the factor load, the relationships between the research components are measured to determine the accuracy of each component in explaining the desired variable. Subsequently, in the second stage, the effect of variables on each other is evaluated (Hooman, 2005).

Hypotheses Development

The independent auditor's report does not provide any additional support (ie more than the comment section) for one or more other hypotheses (a simple rejection/acceptance model for audit reporting). However, an audit disclosure may be construed as "extended" examples of fair (or distorted) hypotheses by stating agreement (or disagreement) with specific items in the financial statements. Accordingly, auditors and managers may influence investors' perceptions of financial statements by explicitly developing one or another hypothesis. As a result, several related perspectives are expected to modify, such as perceived accuracy, risk, and the competence of management and the auditor. If investors' perceptions and investment decisions are affected by the content of the audit disclosure, however, may argue that expanding audit disclosure is effective in achieving regulatory objectives to increase relevance to the auditor's report. Understanding management credibility and auditor independence should have a positive relationship with perceived reporting quality (RQ), as they affect impartiality as well as the auditor's role in verifying completeness and error-freeness. Additionally, the results of empirical research show that both management credibility and auditor independence are likely to affect the perception of reporting quality.

One of the modifications that are considered by standardization bodies, especially the auditing practices board (APB) is the disclosure of important judgments of the auditor (Doxey, 2013). Previously,

auditors' assessments/opinions have not been made public and it is unclear what effect they will have on investors' decisions and judgments. Auditors' definition of materiality relates to matters that are important to financial statement investors (Louwers et

al., 2011). The concept of significant and insignificant items should be transferred from the investors of the financial statements to the auditor (Doxey, 2013). However, if auditors disclose their assessment of materiality to investors (directly or indirectly), they may influence investors' judgment of materiality. The potential for extensive disclosure under the supervision of standardization bodies helps auditors to recognize the significance. Investors, on the other hand, want disclosure of importance to have a better framework for evaluating the auditor's work, followed by the audit opinion (Doxey, 2013).

Therefore, the following hypotheses were developed:

H1. Professional investors differ from non-professional investors in the level of disclosure reported by auditors (including the level of importance).

H2. Professional investors differ from non-professional investors in the level of management credibility.

Independent variable: reported disclosure level, management credit level;

Dependent variable: Investors' views on auditor independence, significant risk of misstatement, quality of reporting, auditors' confidence level, and amount of investment.

Findings

Table 1 exhibits the demographic data.

As shown in Table 1, among the sample of non-professionals, the highest frequency is related to the age group under 30 years (72%) and the lowest frequency is related to the age groups of 31 to 40 years

and 41 to 50 years (14%). However, for the non-professional group, the age groups 51 to 60, 61 to 70 years, and over 70 years have been removed from the table due to the zero-frequency distribution. Accordingly, a two-step approach is applied in structural modeling; in the first stage, the relationships between latent variables and explicit variables are determined through the confirmatory factor load. Moreover, the relationships between reagents and latent variables are investigated to evaluate the accuracy of each reagent in measuring the desired component. In Table 2, the concepts and symbols of research as well as the variables shown in each of them are stated, and the "sign" is used to observe the paths of the factor loading.

However, in the second stage, the relationships between the hidden variables are determined through structural modeling. In this section, the effect of the desired components on each other is measured using structural modeling based on the conceptual model of the research. The study of the structural path analysis of the conceptual model, which expresses the standard coefficients of the effects of the relationships between the research variables, shows the number of significant numbers. Numbers with significance coefficients higher than 1.96 indicate the confirmation of the hypothesis that there is a significant relationship between the two variables.

Table 1. Descriptive statistics of demographic variables

Investor Type	variables	Variables type	%
non-professional	Gender	Female	42%
		male	58%
	Hiring independent accounting		100%
	Investment shares		103 /thousand
	Stock trading is part of business activity		20%
professional	Gender	Female	0%
		male	100%
	Hiring independent accounting		10%
	Investment shares		210/2 / thousand
	Stock trading is part of business activity		86%

Table (2), concepts, research factors, and their signs

group	variable	sign
non-professional	Credit Management	a1-a15
	Disclosure level	b1-b23
	The reassuring dimension of the auditor	c1-c16
	Independence of auditor comments	d1-d15
	financial reporting quality	e1-e21
	Significant distortion risk	f1-f14
	The amount of investment	g1-g14
	modification in the type of auditor report	h1-h4
professional	Credit Management	aa1-aa15
	Disclosure level	bb1-bb23
	The reassuring dimension of the auditor	cc1-cc16
	Independence of auditor comments	dd1-dd15
	financial reporting quality	ee1-ee21
	Significant distortion risk	ff1-ff14
	The amount of investment	gg1-gg14
	type of auditor report modification	hh1-hh4

Table 3. Factor analysis and significant numbers of the first order (H1)

results	professional		Non-professional		group
	Significance level	Factor load	Significance level	Factor load	Hypothesis
There is a difference.	•/••	-•/50	•/••	•/48	the difference between the views of professional investors and non-professional investors regarding the level of credibility of the firm's management in case of modification in the level of disclosure
There is a difference.	•/••	-•/45	•/••	-•/48	the differences between the views of professional investors and non-professional investors regarding the independence of the auditor when changing the level of disclosure reported by the auditor
There is a difference.	•/••	-•/48	•/••	•/49	the differences between the views of professional investors and non-professional investors regarding the quality of reporting if the level of disclosure reported by the auditor modifications
There is a difference.	•/••	-•/50	•/••	-•/46	the differences between the views of professional investors and non-professional investors regarding the occurrence of material misstatement risk not reported by the auditor if the level of disclosure reported by the auditor modifications
There is not any difference	•/••	-•/51	•/••	•/52	Investigating the differences between the views of professional investors and non-professional investors regarding the modification in the amount of investment is different if the level of disclosure reported by the auditor's modifications

As Table 3 shows, for non-professional investors, the modification in the level of disclosure reported by the auditor has a positive and significant effect on the credibility of the firm's management; while this amount is negative and significant for professional

investors; which indicates there is a difference in the views of professional and non-professional investors with the modification in the level of disclosure reported by the auditor, regarding the level of credibility of the firm's management.

This may also apply to modifies in the level of disclosure reported by the auditor and the amount of investment and the quality of reporting. In other words, there is a difference in the perception of professional and non-professional investors about the quality of financial reporting and the amount of investment if the level of disclosure reported by the auditor modifications; which indicates that modification in the level of disclosure for professional investors reduces the quality of financial reporting and the amount of investment. For non-professional

investors, the quality of financial reporting and the amount of investment increase.

As Table 3 displays, there is no difference between the views of professional investors and non-professional investors regarding the auditor's independence and the occurrence of unreported significant risk of distortion when the level of disclosure reported by the auditor modifications; since the relationship is negative and significant for non-professional investors and the measure is negative and significant for professional ones.

Table 3. Factor analysis and significant numbers of the first order (H2)

results Factor load	professional		Non-professional		group
	Hypothesis	Factor load	Significance level	Factor load	Hypothesis
There is a difference.	•/••	-•/49	•/••	•/45	the difference between the views of professional investors and non-professional investors regarding the level of assurance in case of modification in the level of credibility of the firm's management
There is no difference.	•/••	•/46	•/••	•/48	the differences between the views of professional investors and non-professional investors regarding the independence of the auditor when changing the level of credibility of the firm's management
There is a difference.	•/••	-•/47	•/••	•/51	the difference between the views of professional investors and non-professional investors about the quality of reporting in case of modification in the level of credibility of the firm's management
There is no difference.	•/••	•/46	•/••	•/47	the difference between the views of professional investors and non-professional investors about the quality of reporting in case of modification in the level of credibility of the firm's management
There is a difference.	•/••	-•/49	•/••	•/44	the difference between the views of professional investors and non-professional investors about the change in the amount of investment is different in case of a modification in the level of credibility of the firm's management

As Table (4) shows, for non-professional investors, a modification in the level of credibility of the firm's management has a positive and significant effect on the auditor's assurance dimension. While for professional investors, this amount is negative and

significant; which indicates there is a difference in terms of the views of professional and non-professional investors with the modification in the credibility of the firm's management, regarding the auditor's assurance dimension. This may also apply to

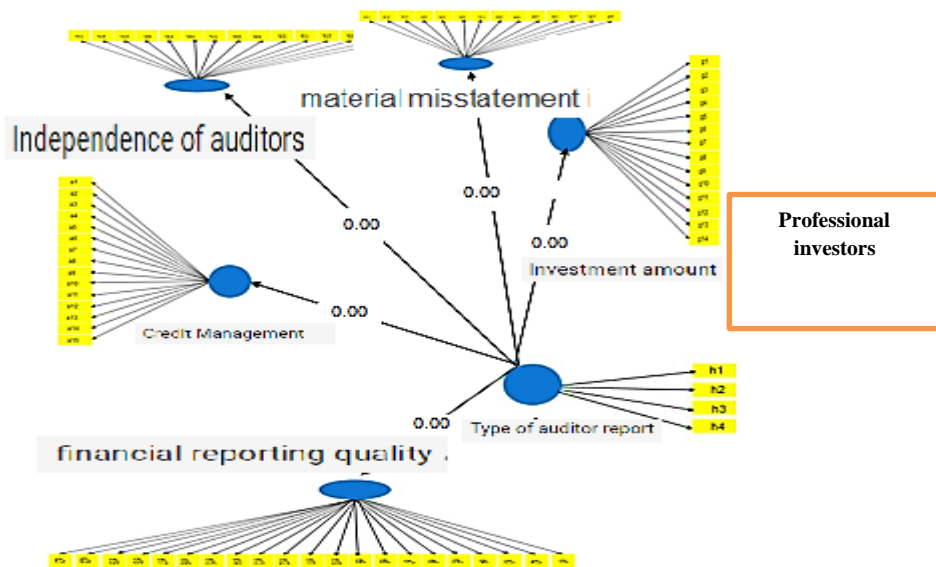
modifications in the level of credibility of the firm's management and the amount of investment and the quality of reporting; that is, there is a difference in the perception of professional and non-professional investors about the quality of financial reporting and the amount of investment in the event of a modification in the level of credibility of the firm's management. This indicates that by changing the level of corporate governance, for professional investors, the quality of financial reporting and the amount of investment decreases. However, for non-professional investors, the quality of financial reporting and the amount of investment increase.

Therefore, as Table (4) shows, there is no difference between professional investors' opinions towards non-professional investors regarding the

independence of the auditor and the occurrence of distortion risk with unreported material when changing the level of credibility of the firm's management. However, this relationship is negative and significant for professional and non-professional investors.

After estimating the model parameters, the question that arises is to what extent the model is compatible with the relevant data. The response to the question may seek through the fitness of the model. Therefore, numerous criteria and indicators for fitting the model of specialized structural equations are studied and analyzed; and explain how to interpret the overall fit, the measurement fit, and the structural fit of the model while expressing the conditions and characteristics of each.

Graph of standard coefficients of research variables



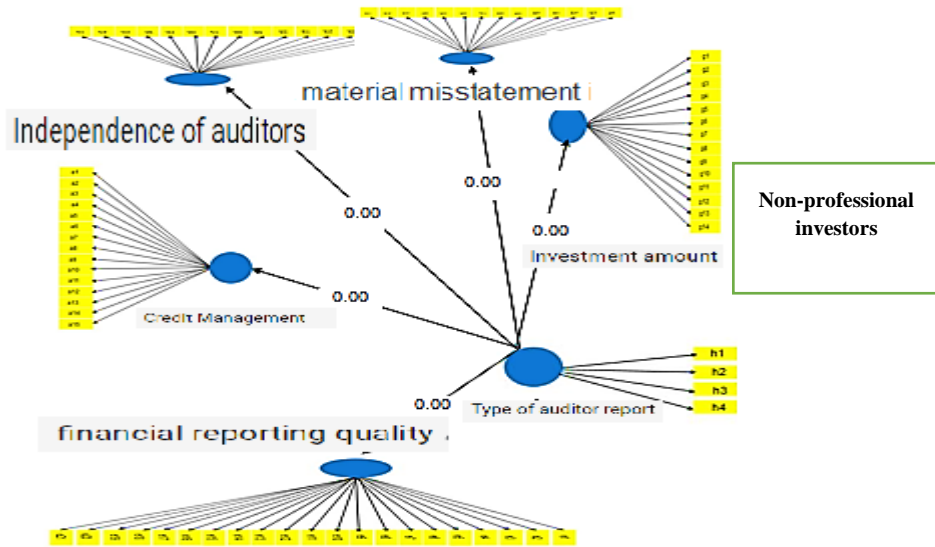
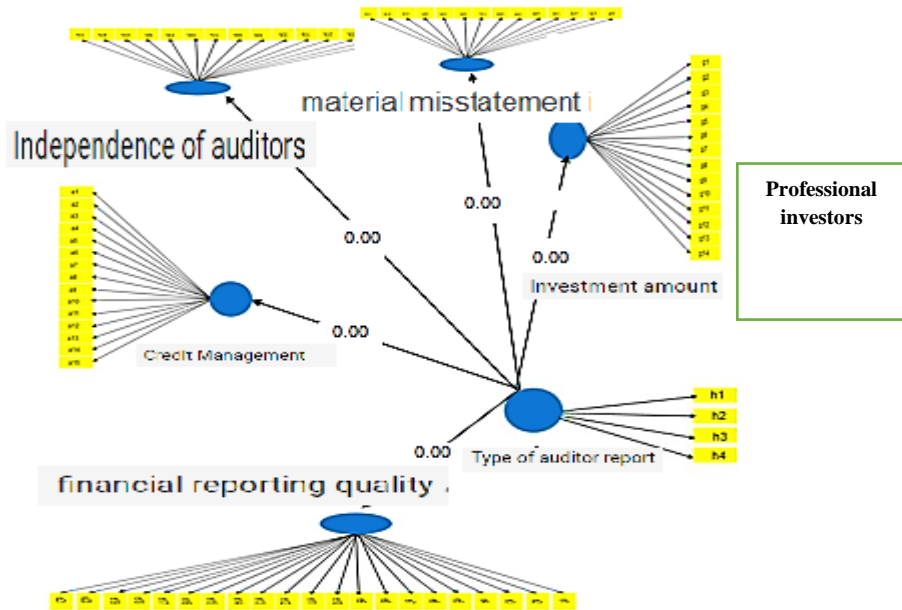


Figure (1), the value of standard coefficients of research variables



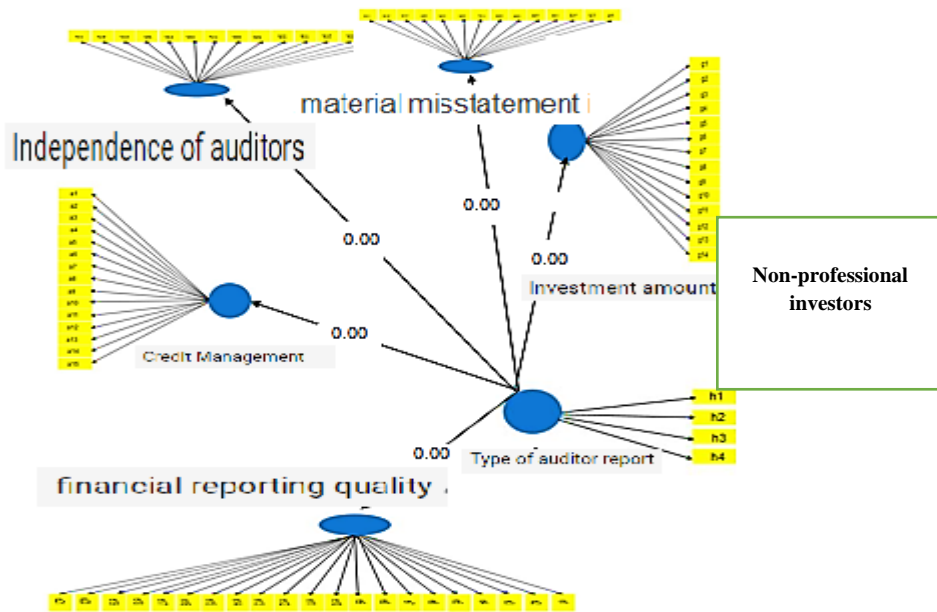


Figure (2), based on the significance of the relationship between two-to-two variables

Quartile 2 (Q²)

Quartile 2 determines the predictive power of the model and if the value of Q² in the case of an endogenous structure achieves three values of 0.02, 0.15, and 0.35; however, it indicates the weak, medium, and strong predictive power of the structure

or related exogenous structures, respectively. It is necessary to mention that the value of this criterion is calculated only for endogenous structures of the model whose characteristics are of reflective type. As Table 6 shows, all the variables provide strong predictive power.

Table 5. The predictive power of the model

predictive power	1-SSE/SSO	variable	group
high	·/35	Credit Management	Non-professional
high	·/37	Disclosure level	
high	·/36	The reassuring dimension of the auditor	
high	·/39	Independence of auditor comments	
high	·/37	financial reporting quality	
high	·/40	Significant distortion risk	
high	·/38	The amount of investment	
high	·/42	the type of auditor report modification	
high	·/36	Credit Management	Profession
high	·/38	Disclosure level	
high	·/35	The reassuring dimension of the auditor	
high	·/38	Independence of auditor comments	
high	·/36	financial reporting quality	
high	·/39	Significant distortion risk	
high	·/41	The amount of investment	
high	·/37	type of auditor report modification	

R-squared (R²)

The R-Squared criterion is applied in the structural part of structural equation modeling and indicates the amount of prediction of the behavior of an endogenous variable by one or more exogenous variables. The higher the value for the endogenous variables of the structural model, the better the selection of the selected variables in the model. As Table 6 shows, roughly 27.15 and 27.18% of the behavior of the management credit variable for the non-professional and professional groups are due to the model behavior, respectively, and the remaining values are related to the external variables. However, roughly 21.12 and 25.19% of the behavior of the disclosure level variable for non-professional and professional groups is a result of the model behavior and the remaining values are related to the external variables.

Approximately, 21.36 and 25.23% of the variable behavior of the auditor's reassurance dimension for the non-professional and professional group is attributable to the model behavior, and the remaining values are related to the external variables. Roughly, 25.32 and 27.12% of the behavior of the variable is the

independence of the auditor's opinions for the non-professional group as a result of the behavior of the model and the remaining values are related to the external variables. Moreover, 32.42% and 35.32% of the behavior of the quality of financial reporting variable for non-professional and professional groups is a result of the model behavior and the remaining values are related to the external variables. Approximately 27.31% and 37.32% of the behavior of the risk variable are significant distortions for the non-professional and professional group attributable to the model behavior and the remaining values are related to the external variables. Furthermore, 33.24 and 24.26% of the behavior of the variable is the amount of investment for the non-professional and professional group as a result of the behavior of the model and the remaining values are related to the external variables. Finally, 24.26 and 28.19% of the behavior of the variable in the type of auditor report for non-professional and professional groups is attributable to the behavior of the model and the remaining values are related to the external variables.

Table 6. R-Squared value evaluation

R-Squared	متغير	group
27/15	Credit Management	Non-professional
21/12	Disclosure level	
21/36	The reassuring dimension of the auditor	
25/32	Independence of auditor comments	
32/42	financial reporting quality	
27/31	Significant distortion risk	
33/24	The amount of investment	
24/26	type of auditor report modification	
27/18	Credit Management	
25/19	Disclosure level	
25/23	The reassuring dimension of the auditor	
27/12	Independence of auditor comments	
35/32	financial reporting quality	
37/32	Significant distortion risk	
24/26	The amount of investment	
28/19	type of auditor report modification	

Discussion and Conclusion

to respond to users' demands to improve the auditor's report with the aim of greater transparency, standardization bodies have added a new section entitled key audit matters to the auditor's report.

However, the section provides more information for users of audited financial statements to help them recognize the matters that were most material in auditing current period financial statements based on the auditor's professional judgment. The paper evaluates the views of professional and non-

professional investors on the critical audit matters in the auditor's report. Moreover, the findings show investors believe identification and disclosure of key audit matters increase the information value of the auditor's report, reduce the uniformity/standardization of the auditor's report, increase the auditor's professional and legal liability, improve investor decision making, improve audit quality, and increase auditor independence. Nevertheless, the opposite is true for non-professional investors. The findings are like the IAASB and Deloitte, Ernst & Young, KPMG, Grant Thornton, Certified Public Accountants of Canada, the National Audit Office, and Christensen et al. (2014), who revealed that the disclosure of the key audit matters influences investors' decisions, and Silo & Flop (2015) who showed that key audit matters show a positive effect on the audit reporting process.

Additionally, the results of structural modeling show that there is a difference in the views of professional investors compared to non-professional investors about the independence of the auditor when changing the level of disclosure reported by the auditor. For non-professional investors, the relationship is negative and significant; however, positive and significant for professional investors. As professional investors know that disclosing key audit matters reduces the probability of investing in a firm since the disclosures offer more information. Modifying the auditor's report, Grant Thornton (2013) supported the insertion of the key audit matters in the auditor's report and states that the auditor may be considered the primary source of information for the entity or that the description of key audit matters may turn into clichéd over time or may in some cases be considered a defect in the disclosure of financial statements. Furthermore, Grant Thornton states that

“we as auditors are unable to predict the user's conclusions of key audit matters; however, the sensitivity of the auditor's information and responsibilities need to be kept confidential at all times”.

Additionally, users hold different requirements that may arise from factors such as regional, legal, or industry expectations. Therefore, it may be necessary for the IAASB to provide the necessary resources and training items for users to get a better understanding of the audit reporting model. Moreover, executive guidance may be required to deal with situations where the manager or governing body objects to the auditor

disclosing key matters since the matter's description includes the concept that the entity has information that it considers sensitive and confidential.

There is a difference between the views of professional investors and non-professional investors about the occurrence of distortion risk and the material not reported by the auditor in the event of a change in the type of auditor's report. For non-professional investors, this relationship is negative and significant, and positive and significant for professional investors. The findings provide information on the differences between financial reporting systems for professional and non-professional users. Therefore, the main source of information can be considered as follows: users perceptions of having separate comments on key audit matters, non-acceptance of auditor comments by users, differences in key audit matters because of professional judgment by auditors, increased audit costs, negative effect on the relationship between the client and the auditor, increasing the pressure from the client on the auditor to prevent the publication of key audit issues, the perception of the auditor by users. The findings are similar to those of CPA Australia, CPA Canadian, KPMG, Grant Thornton, Deloitte, and Ernst & Young.

Moreover, the results show that the change in the level of disclosure reported by the auditor shows a positive and significant effect on the credibility of the firm's management; while, it is negative and significant for professional investors. This means that there is a difference in the views of professional and non-professional investors with the change in the level of disclosure reported by the auditor, regarding the level of credibility of the firm's management. This also applies to modifications in the level of disclosure reported by the auditor and the amount of investment and the quality of reporting; that is, there is a difference in the perception of professional and non-professional investors about the quality of financial reporting and the amount of investment if the level of disclosure reported by the auditor modifications.

Accordingly, the research results show that non-professional investors have poor insight into the importance they place on the characteristics of modification in the type of auditor reporting due to investment-related decisions and judgments; however, this issue is more important in the decisions and judgments of professional investors. That is, the more relevant reporting data, irrespective of its reliability,

the more influential is in the opinion of the auditor's reporting users.

References

- 1) Haidar Ali, Hooman, (2005); Analysis of multivariate data in behavioral research; Third edition. Tehran: Peyk Farhang Publications.
- 2) Jafari, Neda and Mahnaz Mollanazeri, (2016), Current and New Auditor Report: The Viewpoint of Iranian Auditors, Quarterly Journal of Empirical Accounting Research
- 3) APB, A. P. B. 2012. Consultation Paper: Proposed Revisions to International Standards on Auditing (UK and Ireland) to Give Effect to the FRC Effective Company Stewardship Proposals. London, England: Financial Reporting Council
- 4) Ball, R.; Robin, A.; and J. S. Wu .2003. "Incentives Versus Standards: Properties of Accounting Income in Four East Asian countries". Journal of Accounting and Economics, Vol. 36, No. 1- 3, pp. 235-270.
- 5) Barton, J., & Mercer, M. 2005. To Blame or not to Blame: Analysts' Reactions to External eExplanations for Poor Financial Performance. Journal of accounting and economics, 39(3), 509-533.
- 6) Becker, C.L., DeFond, M.L., Jiambalzo, J. and Subramanyam, K.R. 1998, The effect of audit quality on earnings management, Contemporary Accounting Research, Vol. 15 No. 1, pp. 1-24
- 7) Christensen, B. E., S. M. Glover, and C. J. Wolfe. 2014. Do Critical Audit Matter Paragraphs in the Audit Report Change Nonprofessional Investors' Decision to Invest? Auditing: A Journal of Practice & Theory 33 (4):71-93.
- 8) Cohen Sandra, Karatzimas Sotirios, 2017 "Accounting information quality and decision-usefulness of governmental financial reporting: Moving from cash to modified cash", Meditari Accountancy Research, Vol. 25 Issue: 1, pp.95-113, doi: 10.1108/MEDAR-10-2015-0070
- 9) Dopuch, N. King, R. Schwartz, R. 2003. Independence in Appearance and in Fact: An Experimental Investigation. Contemporary Accounting Research 20(1):79 – 114.
- 10) Doxey, M.M. 2013, The Effect of Increased Audit Disclosure on Investors' Perceptions of Management, Auditors, and Financial Reporting: An Experimental Investigation (Unpublished Doctoral dissertation). University of Kentucky, USA. Available from http://uknowledge.uky.edu/accountancy_etds/2 [Accessed 28 July 2015].
- 11) Ebaid. Ibrahim El-Sayed, 2016,"International accounting standards and accounting quality in codelaw countries", Journal of Financial Regulation and Compliance, Vol. 24 Iss 1 pp. 41 - 59
- 12) EC, E. C. 2012. Proposal for a Regulation of the European Parliament and of the Council on Specific Requirements Regarding Statutory Audit of Public- Interest Entities. Brussels, Belgium: European Commission
- 13) Fisher, M. H. 1990. The Effects of Reporting Auditor Materiality Levels Publicly, Privately, or Not at All in an Experimental Markets Setting. Auditing 9:184-223
- 14) Gaynor, I., Kelton, a.& Mercer, M, 2006. Understanding the Relation between Financial Reporting Quality and Audit Quality,3(4)
- 15) Grant Thornton. 2013. Comments to the IAASB Re: The exposure draft Reporting on audited financial statements: Proposed new and revised International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB). (November 22, 2013). Available at: <http://www.ifac.org>.
- 16) Hirst, D. E., Koonce, L., & Venkataraman, S. 2007. How Disaggregation Enhances the Credibility of Management Earnings Forecasts. Journal of Accounting Research, 45(4), 811-837.
- 17) Jennings, M., Kneer, D. C. and Reckers, P. M. J. 1996 Mitigating the auditor's legal risk. ManagerialFinance22 (9): 61 – 85
- 18) Kadous, K. 2000. The Effects of Audit Quality and Consequence Severity on Juror Evaluations of Auditor Responsibility for Plaintiff Losses. The Accounting Review (2000) 75 (3): 327–341.
- 19) Khan mohammadi, mohammad hamed. forough heyрани, nezam golestani. 2013. Impact of conservatism on the accounting information quality and decision making of the shareholders and the firms listed on the tehran stock exchange, international journal of academic research in accounting, finance and management sciences vol. 3, no.3, july 2013, pp. 186–197
- 20) Lennox, C., 2005,"Do Companies Successfully Engage in Opinion-Shopping? The UK

- Experience." *Journal of Accounting and Economics*, Vol. 29, Issue. 3, PP. 321-337.
- 21) Mayhew, B. W. 2001. Auditor Reputation Building. *Journal of Accounting Research* 39 (3):599-617
- 22) Mock, T., J. Bedard, P. Coram, S. Davis, R. Espahbodi, and R. Warne. 2013. The Audit Reporting Model: Current Research Synthesis and Implications. *Auditing: A Journal of Practice and Theory* 32 (1): 323-351.
- 23) PCAOB 2010b. Evaluating Audit Results. AS No. 14. Washington, D.C.: PCAOB.
- 24) PCAOB 2011a. Auditor Independence and Audit Firm Rotation. In Concept Release No. 2011-006. Washington, DC: Public Company Accounting Oversight Board.
- 25) PCAOB 2011b. PCAOB Release No. 2011-003: Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements, edited by P. C. A. O. Board. Washington, D.C.: Public Company Accounting Oversight Board.
- 26) PCAOB 2011c. PCAOB Release No. 2011-008: Proposed Auditing Standards Related to Communications with Audit Committees; Related Amendments to PCAOB Standards; and Transitional Amendments to AU Sec. 380, edited by P. C. A. O. Board. Washington, D.C.: Public Company Accounting Oversight Board, 113.
- 27) PCAOB 2011d. PCAOB Roundtable on Auditor's Reporting Model. Washington D.C.: Public Company Accounting Oversight Board. Audio Webcast
- 28) PCAOB. 2010a. Consideration of Materiality in Planning and Performing an Audit. AS No. 11. Washington, D.C.: PCAOB.
- 29) Poudel. Ghanshyam, Andreas Hellmann, Hector Perera. 2014. The adoption of International Financial Reporting Standards in a non-colonized developing country: The case of Nepal, *Journal: Advances in Accounting*, Available online 28 March 2014
- 30) Redelmeier, D.A. Koehler, D.J. Liberman, V. 1995. Probability Judgment in Medicine. *Medical Decision Making* 15(3):227-30
- 31) Tversky, A., & Koehler, D. J. 1994. Support theory: A nonextensional representation of subjective probability. *Psychological Review*, 101(4), 547-567.
- 32) Violato, C., & Hecker, K. G. 2007. How to use structural equation modeling in medical education research: A brief guide. *Teaching and learning in medicine*, 19(4), 362-371.