

## Impact Of New Isa Introduction On Uzbekistan's Auditing Environment

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### ABSTRACT

The International Audit and Certification Standards Committee (IAASB) has released the Revised International Audit Reporting Standard (IAA) to mitigate the expected differences in financial statement sacries and improve the value of the audit report. In this study, a survey of 128 certified public accountants was conducted in order to predict the impact of New ISA on the audit environment in Uzbekistan and to prepare for them.

The results of the study are as follows: First, the key audit matters in the audit report claimed that the quality of the audit financial report ingested would be improved. It appears that specific regulations are needed through the domestic working guidelines, yet they are not recognized as important. Second, whether or not it is positive to distinguish between management and auditor responsibilities for continued enterprises, it is believed that these results did not provide an accurate answer, since there was no accurate information on this. Third, it is not known whether the audit time will increase if the auditor's other information verification procedures are strengthened, but it is said that it is highly likely to lead to an increase in audit fee. Fourth, although the disclosure of the executive director's name was said to improve the quality of the audit, it was necessary to exclude the obligation to disclose executive director's name through the enactment of domestic laws.

There is a contribution to this study that the New ISA sifts through the impact of audit quality, financial reporting quality, information value, etc. on the audit environment and provides prior knowledge of the problems that may arise after implementation.

**Keywords:** New ISA, key audit matters, management and auditor responsibilities, audit quality

### INTRODUCTION

As the question of the reliability of accounting information has been raised since the 2008 global financial crisis, there is an increasing difference in the level of accounting audit recognition of auditor's perception of between information users and auditors. This difference in expectations may lead to social costs, such as litigation, by lowering the credibility of information users for auditing. On the other hand, efforts are being made to reduce the expected difference incurring social costs of domestic and abroad. As part of this effort, the International

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Auditing and Assurance Standards Board (IAASB) issued series of revised International Audit Reporting Standards in 2015 to increase auditing usefulness. The main characteristics of the New ISA are as follows: first, stock listed companies should list key audit matter in their audit reports. Key audit matters are selected among those requiring significant attention according to the auditor's expert judgment while individual key audit matter is described after the heading of "key audit matter in a separate paragraph of audit report. Second, the executive team and auditor responsibilities for ongoing concern should be described separately. In addition, close call situations are to be disclosed to increase the transparency of the ongoing concern situation. Third, the concept of other information is clearly defined, and a separate paragraph is included in the audit report, which encompasses executive team and auditors' responsibilities for other information. Fourth, in order to secure transparency in the audit process, it is required to disclose the executive director's name in the audit report (listed company). The purpose of this study is to anticipate the impact of amendments to the New ISA on auditing environment in Uzbekistan and to prepare a plan for its revision. While configuring this investigation, the previous study of Kwangyoon Kim (2016) was referred to. We surveyed 128 certified public accountants all over Uzbekistan (CPA).

This study differs from previous studies in that various parts of the New ISA which targets to the CPA of Uzbekistan. Previous studies held surveys or experimental studies on only a fraction of the New ISA's (eg, key audit matter). However, the primal content of the New ISA study was surveyed by CPA in Uzbekistan from the perspective of auditors.

In 2015, International Audit and Certification Standards Board (IAASB) published the revised International Standards Auditing (New ISA). The New ISA enhances communication between auditors, investors, and governing bodies and boosts management and governing body interest in financial statements referred to audit reports. It is expected that the auditor will focus on the audit report and escalates professional doubts. Among the published New ISA, the standard that is expected to bring about numerous changes in the domestic audit environment includes the key audit matters (New ISA 701), going concern (New ISA 570), other information (New ISA 720), and engagement partner (New ISA 700).

The New ISA 701 entails that the key audit matters needs to be described in the corporate audit report. If the key audit items written the transparency of the auditing work is improved, the difference in information and expectation can be abated. In addition, restore market trust is expected to be assisted. The key audit matters are that the auditor communicated with the governing body during the audit process of financial statements.

The major revisions of the New ISA 570 is comprised byb the followings: ① describing important uncertainties related to ongoing concern as separate paragraphs, ② describing close call, ③ describing management and auditor responsibilities related to ongoing concern, respectively.

The responsibility for management and auditor responsibility for the continuation of a company should be described respectively. In principle, management and governing bodies are responsible for disclosing the uncertainty of continuing business. In order to prevent the misunderstanding that auditors' audit procedures and reporting enhancements do not act as management responsibilities, the auditors and management responsibilities are classified and disclosed.

The New ISA 720 clearly defines the inclusion of annual reports in the range of other information, requires the increase of the auditor's work efforts related to other information, and provides an audit report related to other information to enhance transparency. According to the

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New ISA 720, “other information” is defined as financial or non-financial information enclosed in a company's annual report. The annual report includes the company's financial statements and audit reports, future prospects and risks, and uncertainties and opinions issued by the company's governing body.

Auditors should review other information and consider whether or not there are significant discrepancies between financial statements and the other information. Auditors should compare the specific amount of other information with the specific amount in the financial statements to review for any significant discrepancies, and then present any significant discrepancies between other information and the savvy gained in the audit process.

The New ISA 70 calls for that the name of the engagement partner can be recorded in the audit report of financial statements of the listed company. It is expected that this description will provide additional transparency to information users.

### LITERATURE REVIEW

Kachelmeier (2014) reviewed the impact of the key audit matters' description on information users' confidence in the financial statements and on the perception limits of auditors' liability for not finding significant indications of distortion. Pursuant to the repercussion of the investigation, disclosure of the key audit matters of cognizance provides useful data to information users.

Sirois (2014) verified that the key audit items in the audit report are valuable. According to the results of the study, if key elements of concern are listed in the audit report, the information user is provided with financial statements. However, even if the key audit matters were written, it was found that information users did not receive the elaboration of audit quality. Moreover, when the key audit matters were included in the audit report, it was found that information users perceived the level of certification provided by auditors differently for each component of the financial statements.

Brasel (2015) vindicated the effect of the key audit matters on the auditor's responsibility. In terms of study results, disclosure of the key audit matters can reduce the susceptibility of an auditor's exposure to legal liability. Nonetheless, in this experimental study, there is a limitation assuming only one key audit matter of perception.

Jaeun Lee (2015) argued that it is desirable to prepare as closely as possible for the domestic audit guidelines or casebooks for the method of selecting key audit matters or disclosure details and to configure the audit practice guidelines applicable in domestic situations.

Kwangyoon Kim (2016) conducted a survey of 157 certified public accountants to predict the impact of revisions to the New ISA on the domestic audit environment in Korea. The quality of the audit and financial report will not be ameliorated even if the key audit matters are listed in the audit report. On the other hand, it was answered that specific domestic guidelines for the selection of key audit matters are needed.

Campbell and Mutchler (1998) substantiated that creditors crave for receiving information related to a foot concern from the auditor early. Additionally, when questions were raised about the company's proceeding concern assumptions, the auditors reported that they were obligated to communicate these advisory messages to the information users.

Anandarajan (2008) scrutinized whether or not there is a incongruity among experts and general public when evaluating the company's continuing concern assumptions. In reality, the judgment of an ongoing concern is influenced by various factors, financial difficulties, bad news, and pending litigation cases, to name but a few. In an ordinary situation, there was no difference in a going concern judgement between experts and the general public. However, in a complicated situation, the difference between the general public and the experts appeared to be significant.

Jaeun Lee (2015) insisted that there is a need to prepare specific guidelines to be applied to “close call” situations, and to prepare practical guidelines to demonstrate the due diligence of auditors.

Respondents to Kwangyoon Kim (2016) replied that it was positive to separate executive and auditor duties related to going concern for companies, but expressed concern that information users might misapprehend separate paragraphs with auditors and other opinions. On the other hand, even if one describes a close call situation, an information user is not bound to elaborate. It was answered that specific domestic practical guidelines for the description is of grand significance.

Kwangyoon Kim (2016) hold a perspective that when other information is found to be significant, the auditor sought specific follow-up measures to be taken. On the other hand, regulations that force the auditor to verify other information prior to the publication of the business report are ineffective in consideration of the working situation, and if the description of other information paragraphs is mandatory, it is necessary to limit the responsibility of an auditor through the revision of the Foreign Audit Act.

Bailey (2010) discussed the groups that would benefit from paying for the avail of publicly disclosing the name of the engagement partner in the audit report. According to the results of the study, the transparency of information is evolved through the disclosure of the engagement partner’s name so that the information user avails. There is no impact on the audit quality and the range of responsibility for the engagement partner.

Carcelo and Li (2013) analyzed the benefits (audit quality) and costs (audit fee) of engagement partners with respect to the UK case. In the first year of the name publication of engagement partner in the audit report, the quality of audits was refined, the proportion of modified audit opinions were enriched and the audit fees experienced a run-up after the implementation of the policy. However, this study enables different legal liability limits in the United Kingdom and the United States which they do not consider.

Jaeun Lee (2015) insisted that it is necessary to revise related regulations in order to compulsorily divulge the name of the engagement partner. In addition, they pinpointed that a plan should be prepared for the auditor to respond when the auditor encounters in a threat such as a personal change. It is necessary to introduce an alternative disclosure method instead of divulging the name of the engagement partner.

Kwangyoon Kim (2016) cited that the name of the engagement partner is negatively recognized in the audit report whilst audit quality will not be improved due to such statements. It was also suggested that it is necessary to exclude the full name disclosure of business director through the enactment of laws and regulations in the country.

## **RESULTS**

In this study, the questionnaire was fulfilled and sent to the registered CPA in Uzbekistan by e-mail in which a total of 128 certified public accountants answered.

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Respondents' career years range from a minimum of 3-20 years of experience, precisely, the average career is 8.563 years with experienced accountants taking part in the survey. The survey was conducted on a Likert 5-point scale, measuring how much respondents endorse with the sentence presented, from 1 to 5 points. One point is 'Not at all', two points are 'Not', three points are 'Normal', four points are 'Yes', and five points are 'It really is. Yes'.

Table 1 below summarizes the descriptive statistics. The survey content of five items related to New ISA (20 items in detail) are as follows.

Initial questions relate to the key audit matters (New ISA 701). Q1-1, including key audit matters in the audit report, improves audit quality by providing auditors with greater transparency. Q1-2, including key audit matters in the audit report, raises the company management's concern for transparency, improving the quality of financial reporting. Q1-3, reporting key audit matters, could compromise the auditor's responsibility to keep the information confidential. Q1-4, since the revised International Audit Reporting Standard applies the principle-based approach to the selection of key audit matters, there are no specific regulations as a result of which domestic practical guidance is required.

Secondary questions relate to ongoing concerns (New ISA 570). Q2-1, the distinction between management and auditor's responsibilities for a preceding concern, can prevent information users from misunderstanding that the auditor is working on behalf of the manager's reporting responsibilities. Q2-2, if the audit report states in a separate paragraph, "an important uncertainty relating to a going concern," the information value perceived by the information user is elaborated. Q2-3, if the uncertainty relating to a going concern is stated in a separate paragraph in the audit report, it is likely that information users will misunderstand this in a separate opinion from the audit opinion. Q2-4, events or situations have been identified that could lead to significant questions about the ability to continue as a going concern, but management and auditors may conclude that significant uncertainty does not exist, considering management plans to address these events or situations. Reporting of this situation (close call) in conjunction with key considerations improves the value of information perceived by information users. Q2-4, the New International Audit Reporting Standard presupposes that the judgments of continuing entities and the close call situation are professional judgments of auditors. Therefore, specific domestic practical guidelines are needed.

Third are the questions concerning other information (New ISA 720). Q3-1, the New International Audit Reporting Standard applies the principle-based approach, so there are no specific provisions for follow-up actions that auditors should take when they find material inconsistencies. Therefore, domestic practical guidance is required. Q3-2, in Uzbekistan, the audit report date is ahead of the project report date. Hence, provision is called for enforcing auditors' verification prior to the publication of the project report. Q3-3, as it is mandatory to list the contents of the business report as 'other information paragraphs' in the audit report, the auditor's legal responsibilities may be extended under Article 17 of the External Audit Act. Thereupon, it is crucial to limit the auditor's responsibility through amendments to the Foreign Investment Law. Q3-4, it is necessary to establish relevant criteria or guidelines that specify that an auditor's role in verifying the accuracy of a business report may create a risk of independence. Q3-5, the audit time will increase according to the auditor's verification procedure for the business report. Q3-6, audit fees will increase according to the auditors' verification procedures for the business report.

Fourth are the questions related to the disclosure of engagement partners' statements (New ISA 700). Q4-1, the name of the executive director is to be included in the audit report. Q4-2, if

the name of the executive director is listed in the audit report, the quality of the audit will be amended by improving the audit transparency and personal responsibility. Q4-3, according to the New International Audit Reporting Standards, it is possible to omit the disclosure of the executive director's name through legislation in the country concerned. Considering the domestic environment, it is needed to exclude the disclosure of the executive director's name through legislation.

## RESULTS

Table 1 summarizes the descriptive statistics of the survey. Looking at the average value, the lowest is 2.000 (Q4-1, Q4-2) and the maximum is 3.852 (Q1-3). In other words, all respondents object to the statement of the executive director in the audit report and recognize that it is necessary to limit the auditor's responsibility for obligating other information paragraphs.

**Table 1.** Descriptive Statistics

| Classification   | Question | Min | Median | Max | Average | S.D.  | Variance |
|--|----------|-----|--------|-----|---------|-------|----------|
| The Key Audit Matters (New ISA 701)                            | Q1-1     | 2   | 4      | 5   | 3.531   | 1.082 | 1.171    |
|  | Q1-2     | 1   | 4      | 5   | 3.656   | 1.135 | 1.288    |
|  | Q1-3     | 2   | 4      | 5   | 3.852   | 1.054 | 1.111    |
|  | Q1-4     | 2   | 3      | 5   | 3.352   | 1.190 | 1.415    |
| Going Concerns (New ISA 570)                                   | Q2-1     | 2   | 3      | 5   | 3.211   | 1.170 | 1.370    |
|  | Q2-2     | 2   | 3.5    | 5   | 3.398   | 1.240 | 1.537    |
|  | Q2-3     | 1   | 3      | 5   | 3.219   | 1.243 | 1.546    |
|  | Q2-4     | 2   | 4      | 5   | 3.484   | 1.225 | 1.500    |
|  | Q2-5     | 2   | 3      | 5   | 3.328   | 1.213 | 1.470    |
| Other Information (New ISA 720)                                | Q3-1     | 2   | 3      | 5   | 3.109   | 0.850 | 0.722    |
|  | Q3-2     | 1   | 4      | 5   | 3.703   | 1.107 | 1.234    |
|  | Q3-3     | 2   | 3      | 5   | 3.313   | 1.197 | 1.445    |
|  | Q3-4     | 2   | 4      | 5   | 3.539   | 1.198 | 1.447    |
|  | Q3-5     | 2   | 4      | 5   | 3.484   | 1.205 | 1.464    |
|  | Q3-6     | 1   | 4      | 5   | 3.789   | 1.058 | 1.128    |
| The Disclosure of Engagement Partners Statements (New ISA 700) | Q4-1     | 2   | 3      | 5   | 3.273   | 1.164 | 1.366    |
|  | Q4-2     | 1   | 4      | 5   | 3.875   | 1.046 | 1.102    |
|  | Q4-3     | 2   | 4      | 5   | 3.789   | 1.080 | 1.176    |
|  | 5-1.     | 3   | 8      | 20  | 8.617   | 4.457 | 20.018   |

In this study, reliability analysis is conducted to confirm the reliability of the questionnaire questions. The reliability factor commonly used in reliability analysis is the Cronbach ' $\alpha$ ' coefficient. This alpha ( $\alpha$ ) coefficient represents the internal consistency of the test and indicates whether or not the questionnaire consists of homogeneous elements based on the mean correlations between the variables in the survey. In general, if it is 0.6 or more, there is no

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problem in the reliability of the measurement items, so it is regarded as having internal consistency for the measurement items. In the reliability analysis performed on the samples used in this study, the Cronbach alpha ( $\alpha$ ) coefficient was 0.628, which indicates that the survey results are acceptable.

Q1-1, including key audit matters in the audit report improves audit quality by providing auditors with greater transparency. Respondents replied that the quality of audits improved when key audit matters were included in the audit report. Auditors can expect that the audit quality will ameliorate as they are performed to provide greater transparency. Auditors seem to recognize that audit quality can be anticipated to improve as the audits are undertaken to provide greater transparency.

Q1-2, including key audit matters in the audit report raises the company's management's concern for transparency, improving the quality of financial reporting.

The average of respondents in Table 1 is 3.656, "Yes". In order to select key audit matters, auditors must communicate with the governing body, so management and the governing body can pay more attention to the matters mentioned in the audit report. Therefore, if management pays more attention to the transparency of financial reporting, the quality of financial reporting can be improved.

Q1-3, reporting the key audit matters could compromise the auditor's responsibility to keep the information confidential.

The average of respondents in Table 1 is 3.852, "Yes". According to the New ISA, the key audit matters that are expected to bring adverse consequences to the company may be excluded from the key audit matters. According to the New ISA criteria, sensitive matters that are expected to bring adverse results to the company may be excluded from the key audit matters. Despite the sensitivity, it is possible that the auditor's responsibility for confidentiality may be raised if the auditor is not sensitive and published in the audit report. From this point of view, respondents are believed to have recognized that the reporting of the key audit matters could undermine the auditor's responsibility for confidentiality.

Q1-4, since the revised International Audit Reporting Standard applies the principle-based approach to the selection of key audit matters, there are no specific regulations. Therefore, domestic practical guidance is required.

The average of respondents in Table 1 is 3.352, "Common". Respondents did not take this seriously, although specific regulations are needed, as reports of key audit matters may increase the risk of auditors being exposed to litigation risks. Respondents from the previous study, in Korea, represented a difference from those who indicated that specific domestic practical guidance was required.

## CONCLUSION

Since the financial crisis in 2008, the IAASB has undertaken a project to alleviate the expected differences between auditors who audit financial statements and users of accounting information and refine audit report value. As part of this effort, the New ISA was announced in 2015. In this study, in order to predict the effect of the new ISA on the domestic audit environment in Uzbekistan and prepare an against countermeasure, a questionnaire survey was conducted for the current certified public accountants in Uzbekistan. The research results are as follows.

First, the audit report stated that the quality of the audit and financial reporting would be improved even if the key audit matters were listed, and that the auditor's obligation to maintain confidentiality could be compromised by reporting the key audit matters. In addition, the revised international audit reporting standards take a principle-oriented approach. Since the key audit matters are selected concerning the law, it appears that specific regulations are needed through the domestic working guidelines but are not recognized as important.

Second, whether or not it is positive to distinguish between management and auditor responsibilities for continued enterprises, and whether the information value recognized by the information user will be improved if the information user recognizes the important uncertainty associated with the continued enterprise in a separate paragraph, even if the information user recognizes the situation will be greatly improved, in all the questions about whether the specific domestic working guidelines for the breathtaking situation are needed, the respondents answered "Common". It is believed that these results did not provide an accurate answer because there was no accurate information on this.

Third, when significant discrepancies were found in other information, the auditor said that the specific follow-up regulations to be taken were not known about the need for action. In addition, it is necessary to limit the responsibility of the auditor stipulated by the revision of the relevant laws, as there is a possibility that auditor responsibility will be extended if other information paragraphs are mandatory. On the other hand, regulations that commence the verification of the auditor's other information before the publication of the business report appear to recognize the need for relevant guidelines when considering the working situation. It is not known whether the audit time will multiply if the auditor's other information verification procedures are strengthened. Yet, they said it is highly likely that this will lead to an increase in audit fee.

Fourth, although they said they were unsure whether or not the quality of the audit would improve if the name of the executive director was divulged, the disclosure of executive director's name was said to improve the quality of the audit. However, it was necessary to exclude the obligation to disclose the name of the executive director through the enactment of domestic laws. This study proposes the following items in preparation for the implementation of the New ISA.

First, the key audit matters of premise presuppose active communication with the governing body. In Uzbekistan, active communication is not possible because the scope and definition of the governing body is not clear. Therefore, it is necessary to clearly define the governing body prior to the implementation of the New ISA through the establishment and revision of relevant laws and regulations.

Second, auditors are liable to damages to third parties, so they may be bound to excessive responsibility and thus may be exposed to risks more than necessary. Therefore, specific domestic guidelines for the selection of key audit matters of awareness are needed.

Third, in the case of insufficient experience, there is a possibility that voluntary judgment may be involved in practice when considering the description of a dangerous situation. Therefore, detailed domestic practice guidelines are needed in relation to this situation.

Fourth, the auditor's responsibility is likely to expand as the review of the auditor is expanded due to the mandatory compulsory entry of other information. In addition, if the verification of the accuracy of other information is compelled, there is a high risk of independence being compromised by requiring the auditor to act as a proxy. Therefore, it is necessary to rearrange the regulations related to independence in order to limit the responsibility

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for auditing through the establishment and amendment of relevant laws and regulations, and to prevent the preparation agency in advance.

Fifth, it is necessary to exclude the disclosure of the names of non-engagement partners through the enactment of laws and regulations in view of the often domestic situation where there is a new threat of auditors.

This study surveyed certified public accountants on the key content of the New ISA and looked at them from an auditor's perspective. In particular, there is a contribution to this study in that the New ISA sifts through the impact of audit quality, financial reporting quality, information value, etc. on the audit environment and provides prior knowledge of the problems that may arise after implementation.

Proactive recognition of the New ISA may vary depending on the auditor's organization. For example, for the Big 4 and Non-Big 4 the perception may be different. However, in this study, the number of samples belonging to the Big 4 registered to be small. The difference between the Big 4 and non-Big 4 could not be performed. In addition, this is a further improvement as a limitation of this study. Also, with the introduction of the New IS interviews with some respondents without seeing their responses through separate surveys, there is a limitation that was presented through reasoning. And it has a limit of not using a large number of questionnaires.

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