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THE ROLE AND IMPORTANCE OF IMPROVED AUDIT QUALITY IN PREVENTING FINANCIAL CRISIS

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CONTENTS

ABSTRACT

Audit quality is broadly researched topic but remains a complex concept that is difficult to quantify, which is why it has developed several different proxy measurements. Research on the impact of the financial crisis on audit quality has also been limited. This study shows that both financial crises can have a positive impact on the quality of the audit.

The global financial crisis hit the market in 2007, causing many financial institutions to collapse. By reforming the auditing regulatory regime, the International Auditing and Assurance Standards Board ("IAASB") responded to this crisis. The IAASB revised the International Auditing Standards ("ISAs") in 2009. However, it remains unknown whether the changes to the ISAs are suitable for the purpose. Tesco suffered a severe financial crisis in 2014, followed by substantial changes in 2015 by the Financial Reporting Council ("FRC") to propose auditor reporting reforms, with a focus on providing more useful information to stakeholders, especially financial market investors.

This research uses the Tesco auditor report to examine new changes in the audit report and reflect on them. This research then uses the analysis of the new audit report by the FRC, focusing on the audit risk and the audit scope of the new audit report, to discuss whether the changes in the audit report are appropriate in order to avoid future audit failures.

This research concludes that the new audit report is satisfactory enough for users of companies and financial statements, and examines and analyzes the company's situation and business status. The auditors were also given recommendations relating to their audit work and audit standards.

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INTRODUCTION

Eilifsen (2010) defined this audit as "a systemic process by which evidence of assertions on economic activities and happenings is objectively obtained and evaluated in order to determine the degree of correspondence among the assertions and criteria defined and to report the results to stakeholders." PwC (2015) simplifies the definition of the audit as the assessment of the financial report, including the balance sheet, income statement, cash flows, statement of changes in equity and notes containing a summary of the accounting policies and other explanatory notes, that are included in every company's annual report. The auditors in the UK must comply, when carrying out audits of the financial statements, with the International Auditing Standards (ISAs) established by the Financial Reporting Council (FRC). The purpose of an audit is to ensure that the financial statements contain details without material misstatements. After the auditors complete their work, the audit report is prepared to report on their performances and give their views on the conclusions of their review.

Audit quality is a complex concept and hence is difficult to define. Audit quality is a continuum of very low quality to very high quality which is high if an audit report is conducted and low, in contrast to the binary audit quality view where the audit quality is inappropriate. Audit quality study is important not only to evaluate the correct audit opinion but also to determine if the purpose of an audit is to resolve properly the agency's ownership and management problem.

External auditors work on behalf of shareholders for independent enterprises and supervise the management of the company. External auditors conduct independent financial statements examinations to express their views on corporate financial status. They are therefore confident in reporting the extent of truth and fairness in the enterprise to the stakeholders. As a 'trust engineering technology,' external auditors have been promoted to promote specific types of social orders (Power, 1997). In addition, external auditors must assure stakeholders that the technology "provides external and objective inspection of how the financial statements are prepared and presented and that it is a vital component of the inspections and balance sheets required." Auditors' confidence has lead them to consolidate their status by claims, for which they can establish an independent and objective review of the financial situation of businesses with their expertise. The unexpected collapse, fraud and the financial crisis of 2008 have often undermined these claims. This incidence caused suspicion that auditors were actually effective, which showed that before the 2008 financial crashing, auditors had not warned the financial market. In addition, the financial institutions collapsed during the financial crisis of 2008 did not indicate any financial problem in their reports. The auditing standards have now been reformed comprehensively and the role of auditors in contemporary society has been rethought

The financial crisis hit in 2007. Many companies and banks have collapsed, such as Lehman Brothers in America and Northern Rock in the UK. In the UK, by issuing strict regulatory reform, the IAASB has responded to these collapses and to the need to revise ISAs. In October 2009 the IAASB revised and implemented the International Auditing Standards (ISAs) on 15 December 2010. The financial distress of firms continued and more audit failures took place after the 2008 financial crisis and after IAASB had revised the ISAs. In 2014, Tesco overestimated its profits, leading to severe financial difficulties for them. Therefore, in 2015, the IAASB issued a new revision of ISAs, particularly the ISA 700, to improve the reporting standards of auditors. The ISA 570 was considerably revised and a new ISA was issued – ISA 701 in 2016. These IAASB responses have followed the financial problem of Tesco, indicating that the audit report standards was considerably weak. For the other ISAs focused on audit reports such as ISA 540, ISA 550 and ISA 600, this change was also important.

In response to many stakeholders, the newly revised standards in 2015 revealed that the auditors' reports did not give sufficient information in the course of their audit work.

This research is structured as follows in light of these issues:

Firstly, this research explores, in particular, the role of the 'Big Four' auditing firms (Ernst & Young (EY), PricewaterhouseCoopers (PwC), Klynveld Peat Marwick Goerdeler (KPMG), and Deloitte and Touche) on specific events in the 2008 financial crisis and examines auditors' role of during the crisis. We will examine then, the problems that arose during the financial crisis tend to focus on the audit market and the rotation of the audit firm. The research will finally discuss criticisms of the House of Lords about their role and the reaction of external auditors to these criticisms during the financial crisis.

In the second part of the study, the problems that led the IAASB to reform and review of audit standards in the United Kingdom will provide background explanations. In addition, this research will provide background on the 2009 IAASB revision covering ISA 540, ISA 550 and ISA 600. This research will also examine the new changes in 2015, which focus on ISA 570 and ISA 701, from the FRC on the auditors' reports. The changes enacted under the new audit report standards will then be examined. The research will then examine Tesco's specific financial issues and examine the audit failure that took place following the 2008 financial crisis and the review of the ISAs in 2009. This research will look at changes made to the audit report by Tesco and will review the new audit report with the FRC (graphs and diagrams). Furthermore, this research will include a number of parts of audit reports from audit firms to show how the new audit report effectively presents company-related risks and how the auditors intended to address them. The research then discusses and reflects on new changes in a new version of the audit report, which seek to prevent future collapse, to be significantly clarified.

Finally, findings will conclude this study by reflecting on the auditors' role in the crisis. A recommendation will be made for future auditing to enable further contributions to this field.

The purpose of this research - is to examine the suitability of the changes in the ISAs to prevent a future financial crisis.

The tasks of this research:

- Identifying changes in the UK in ISAs 2009 and 2015, aimed at preventing future scandals in accounting and auditing.
- Identifying changes in auditing reports of the United Kingdom.
- Evaluating changes to the audit standards, are appropriate for this purpose or not, in particular as regards the new audit reports.

The object of this research - is to show the changes to the International Standards on Auditing (ISA) following the 2008 financial crisis.

The predmet of this research - is to identify the effectiveness of the new audit report, using the financial problem a company as an example following the financial crisis.

The method of this research - is to discuss the status of the ISAs before and after the 2008 global financial crisis and to examine critically if these changes are appropriate for future audit objectives. The research has selected ISA 540, ISA 550, ISA 570, ISA 600, and ISA 701 because the problems that arose in the financial crisis of 2008 and financial problem of Tesco have related to these standards. This research looked at the changes in the ISAs by comparing the ISAs from 2004 to the ISAs from 2009. The financial issue of Tesco was undertaken to assess the adequacy of the 2009 ISAs to prevent a future crisis. This research has concluded that the ISAs for 2009 are not sufficient to provide accurate information in the audit reports that led the IAASB by revising the ISA 570 and issuing a new ISA, named ISA 701 to improve the audit report in 2015.

As an information source, public sources available on the websites of accounting and auditing regulations, public journals, articles have been used.

CHAPTER 1. AUDIT QUALITY AND FINANCIAL REPORTING QUALITY AND CONTRIBUTION OF AUDITING DURING GLOBAL FINANCIAL CRISIS

1.1 Audit quality and financial reporting quality

What is the quality of the audit? There has been extensive discussion of audit quality and its determinants. The Financial Reporting Council and Bonner (2006 and 2008, quoted in Francis, 2011, p. 127) state that defining audit quality is not easy because it is a complex concept and therefore a simple definition is not going to be enough. There is no single way of measuring the quality of the audit. Francis (2011, p. 127) sees audit quality as a continuum that we share in the view that audit quality can range from very low to very high quality. On the other hand, the legal view of audit quality refers to the appropriate issuance of the audit report on the client's financial statements under General Accepted Accounting Principles (GAAP), a binary view of audit quality as either good or bad (Francis, 2011, p. 127). DeAngelo (1981, p. 186) defines audit quality as "the joint probability assessed by the market that a given auditor will both detect a breach in the accounting system of a client and report the breach." Sungren and Svanström explain that outright audit failures occur in the low range of audit quality. Audit failures are divided into two categories. The first occurs when GAAP is not enforced by the auditors and the second occurs when the auditors issue a clean audit report while the clients' financial statements are materially misrepresented. Francis (2004, p. 346) argues that there is certainly an audit failure at the lower end of continuum quality. He adds that it is necessary to think about what the rate of outright audit failure is to understand the quality of the audit.

What factors drive the quality of the audit? Somewhat different audit quality drivers come up with different authors. Francis (2011, p. 126) presents six analytical levels that affect the quality of the audit. They are audit input, audit process, accounting firms, audit industry, audit market, institutions, and economic consequences of audit outcomes. On the contrary, the Financial Reporting Council (FRC, 2008, quoted in Knechel et al., 2013, p. 388) proposes five audit quality drivers; the audit firm's culture, the skills and personal qualities of audit partners and staff, the effectiveness of the audit process, the reliability and usefulness of audit reporting and factors beyond audit quality control. Knechel el al. (2013, p. 390) also mentions four audit quality indicators which are inputs, processes, outcomes, and context.

Planning for a good quality audit depends on evaluating each client's uniqueness and risk. That is why auditors need to consider suitable inputs for their audit process in order to ensure good audit quality. Incentives are one of the inputs that may adversely affect audit quality. Gramling (1999, p. 117-135) conducts an audit manager experiment in one of the Big Four audit firms on the effect of audit fees on the independence of auditors, an audit quality measure. The study suggests some concerns about the impact of a high fee on the independence of the auditor. Auditors receiving a high fee from their client are likely to rely more on the internal audit function, which can affect the quality of the audit. A. Houston study (1999, p. 70) supports the finding of Gramling. He studied the budgeted audit hours of senior auditors and their inherent risk assessments and found that they are less responsive to increased risk due to the presence of pressure on audit fees and this is due to the economic bond between auditors and clients. Another finding is that audit quality can be reduced to maintain short-term profitability due to a decrease in the budgeted audit hours. In addition to incentives, a further important input to audit quality is professional skepticism. Shaub and Lawrence (1996, pp. 124-157) studied the relationship between audit quality and professional skepticism of auditors on 156 auditors from 56 different audit firm offices among the Big Four and found that increased professional skepticism may be due to prior business problems of clients or inaccuracy of financial information. In return, this increased professional skepticism may increase the quality of the audit. Knowledge and expertise and firm pressure are two additional inputs that are important to consider.

The audit process includes risk assessment, evaluation, testing and review of internal control. Auditors also need high-quality professional judgment to maintain a high-quality audit process. Auditors with a high level of expertise and familiarity tend to be less susceptible to bias, according to Smith and Kida (1991, p. 479). Risk assessment plays a major role in determining the quality of the audit. However, different risk assessment approaches may result in different assessments and the decomposition of the audit task into smaller components may be the key approach to properly assessing audit risk.

Francis (2011, p. 140-141) mentions that the institutional setting, referring to the legal framework under which an audit is conducted, may have an impact on the quality of the audit. The International Accounting Standards Board (IASB) is a major international institution mentioned by the author. Furthermore, the author explains that the legal framework affects the quality of the audit by defining what an audit failure is and what the consequences are for this failure and who can take action when this happens. He also mentions that contextual factors such as governance mechanisms can influence audit quality, such as the audit committee and boards of directors. A study by DeFond et al. (2005, p. 153) found evidence that the hiring of higher-quality auditors is complemented by financial experts appointed to boards. The audit markets and the auditing industry that accounting and auditing firms constitute are other contextual factors of importance for audit quality.

Audit and audit quality literature extends the audit quality research area. It was noted that differences in which country, region and city are based on an audit firm's office may result in different audit quality regardless of audit firms. Large audit firms, investing heavily in building brand name and reputation, are trying to maintain their homogeneous level of audit performance and quality across all offices around the world. In a study conducted by Choi et al. (2010, p. 94), a large sample of U.S. audit clients from 2000 to 2005 was investigated to see if there was an association between audit office and audit quality. They conclude that the size of the audit office and the quality of the audit office are positive. This means that the higher the quality of the audit they provide, the larger the local audit office is. However, Francis and Yu (2009, p. 1521) find that there is no unacceptably low audit quality provided by smaller audit offices. Results from their 2003-2005 study of 805 Big Four office days in the United States show that clients whose financial statements have been audited by larger offices have lower abnormal accruals. This result supports the assumption that higher audit quality is provided by larger audit offices. These studies focus on both public and private firms.

There is a difference between public firms and private firms in the demand for information in the form of financial reports. Private companies complain about accounting practices that do not apply to them, but to public companies. They criticize being too burdensome for their financial situation and not relevant. However, their study does not discuss whether accounting standards are more applicable to public firms than private firms, but only discusses evidence that financial information provided by public firms is greater than private firms due to high demand and expectations of information from external users and markets. The demand for high-quality information is undeniable among public companies. On the other hand, private firms' demand for financial reporting is aimed at tax reporting, dividend policy and other goals rather than financial information that needs to be available to the public to seek external capital.

The quality of financial reporting is threatened by management manipulation. Opportunistic management manipulates financial information to achieve specific goals either for itself or for the company. Management has the incentives to manipulate financial information to meet these goals due to pressures from the financial markets. Because business management's economic benefits may be linked to the company's stock price they work for they have the incentive to maintain a preferred stock price. Degeorge et al. (1999, p. 1) refers to the management of companies using earnings management to influence investor perceptions. Dye (1988, 8 p. 195) presents two reasons for the management of earnings. The first is to increase executive remuneration, while the second is to go hand in hand with the wishes of shareholders, such as increasing share value.

What are the threats to the audit quality?

1. Auditor tenure and audit quality. Does audit quality increase or decrease in the long-term relationship between incumbent auditors and clients? Because incumbent auditors have a long-term relationship with clients, they become less challenging in applying innovative auditing tools and auditing procedures, and they become even less skeptical. Instead, investors and intermediaries in financial information perceive increased audit tenure as leading to improved audit quality. In other words, the study of the relationship between the tenure of the auditor and the quality of the audit has mixed results. However, there is insufficient evidence to support the fact that having the same auditor over a long period of time improves the quality of the audit. Conversely, a study in the Indonesian context shows a significant negative impact on the propensity to issue irrelevant audit reports as the tenure of auditors increases (Junaidi et al., 2012, p. 313). Carey and Simnett (2006, p. 656) argue, however, that little evidence exists of a strong relationship between tenure of the audit partner and quality of the audit.

2. Audit partner tenure and audit quality. Carey and Simnett (2006, p. 653) use data from Australia data to study the relationship between the tenure of the audit partner and the quality of the audit and conclude that in Australia, where the rotation of the audit partner is not mandatory as tenure increases, there is a decrease in the propensity to issue an opinion on the subject, which is a sign of a deterioration in the quality of the audit. Similarly, empirical evidence from a study by Chi and Huang in Taiwan (2005, p. 65) shows that while familiarity helps to improve the quality of earnings, excessive familiarity deteriorates the quality of audit due to long-term relationships between auditor partners and clients. Furthermore, as audit firm rotation is mandatory, the study finds that audit quality decreases with non-Big Four auditors due to a lack of ability to keep knowledge familiar with clients. Evidence from a US study points to an increase in audit quality when the tenure of the audit partner increases based on data from three major international audit firms (Manry et al., 2008, p. 553). Evidence from a US study points to an increase in audit quality when the tenure of the audit partner increases based on data from three major international audit firms (Manry et al., 2008, p. 553).

3. Independence of auditors. Each auditor must conduct audits in accordance with audit standards to ensure minimum audit quality requirements. Auditor independence is used by DeAngelo (1981, p.183-199) as a measure of audit quality. In her paper, she explains that large audit firms, the Big N, tend to be more financially independent than small audit firms because they are not dependent on a single source of finance and have a reputation to lose in order to maintain their independence in order to avoid losing that reputation and involve themselves in litigation. Becker et al. (1998, pp. 1-24) found that for Big Four accounting firms' clients, audit quality is higher in terms of discretionary accruals. Francis and Wilson (1988, p. 663) support these findings by arguing that large audit firms have long built their brand name. Consequently, they tend to offer higher audit quality than smaller companies. Moreover, according to Lennox

(1999, p. 226), large audit firms are able to withstand pressure from the management of the company and issue irrelevant audit reports to financially distressed firms and clean reports to financially healthy firms. His study focused between 1987 and 1994 on publicly listed companies in the UK.

In 2011, European Commission Commissioner for Internal Markets Michael Barnier recommended that "obligatory audit firm rotation would boost audit quality, shattering the perverse pressure on partners not to lose long-standing customers" (Orlik, 2011, p. 1). In the U.S., however, audit firm rotation is not required, which is why auditor rotation research is limited and some studies are limited to voluntary audit rotation. While there is limited research on the compulsory rotation of auditors in the U.S., there are many studies in other countries such as Australia, China, Korea, Spain, and Taiwan (Jenkins & Vermeer, 2013, p. 78). A study in Korea found that discretionary accruals for companies with the mandatory rotation of auditors are significantly lower compared to companies with the voluntary rotation of auditors. (Kim & Yi, 2009, p. 207) On the other hand, evidence from a study measuring the propensity of auditors to issue qualified audit opinions in China shows that, in less developed regions, mandatory audit change has limited impact on audit quality (Firth et al., 2012, p. 109).

4. Audit quality and non-audit services. Since Enron's collapse, the topic of non-audit service and audit quality has been discussed critically. Arthur Anderson's impaired audit quality of the Enron audit, which resulted in the collapse of both firms, was partly due to the compromised independence of the auditors, as they also provided Enron with non-audit consulting services, which meant that the auditors had a significant financial incentive to comply with the wishes of the management and to hide material financial information concerning additional liabilities not mentioned in the annual report. In a larger study by Frankel et al. (2002, p. 98-100), a negative relationship between non-audit service fees and audit quality was also found in terms of discretionary accruals. However,

this finding has been denied because of incorrectly specified models, and most public firms studies have found that audit quality increases when the same client receives larger amounts of non-audit service. An explanation for this is that there is a great potential for spillover of knowledge when the same auditor provides both audit services and non-audit services. His study is supported, for example, by Antle et al. (2006, p. 235), who from 1994 to 2000 used audit fee data in relation to non-audit fees in the UK and found evidence of potential spillovers of knowledge from the provision of non-audit services to the same audit clients. Similarly, firms purchasing tax services provided by auditors are fully reserved for IRS disputes, while firms that are not required to have tax reserves for IRS disputes.

5. Audit quality and audit fee. Is there a threat to audit quality from higher audit fees? Results from a study in the United States and the United Kingdom show that high audit fees result in increased acceptance of abnormal accruals (Antle et al., 2006, p. 238). Eshleman and Guo (2014, p. 120) argue that "higher audit fees than those justified by audit workload can cause the auditor to lose his independence and allow the client to engage in more questionable accounting practices." Trompeter (1994, quoted in Eshleman & Guo 2014, p. 120) mentions that since audit commitments are carried out by audit partners rather than the audit firm, audit partners enjoy the vast majority of additional client revenue and take risks by going along with them irrespective of the reputation risk for the entire audit firm. Investors interpret abnormally high audit fees as an indicator of high earning quality for companies, which is why they invest more inexpensive audit services. On the other hand, the higher the audit fee, the auditors will put more effort into audit commitments. Blankley et al. (2012, p. 93) found a negative relationship between audit fees and future re-establishment of audited financial statements. Therefore, it is difficult to judge whether abnormally high audit fees threaten audit quality based on previous studies.

6. Audit quality and size of the client. Reynolds and Francis (2000, pp. 375- 376) suggest that auditors may jeopardize their independence from the economic dependency of large clients. However, they can not find evidence to support whether auditors are compromising their independence in order to retain valuable large clients. They still argue, however, that if the auditors have more than one client, they will be less financially dependent than having a single client. That's why DeAngelo (1981, p. 189) uses the size of the auditor to measure audit quality because she believes that larger accounting firms have more clients than smaller accounting firms and are therefore less economically dependent on large client companies. Large clients can pose potential audit risk to auditors in addition to economic dependence. Auditing firms may have a greater risk of losing their reputation and face a greater threat to litigation, and individual auditors face a greater risk of being sanctioned if they fail to perform audit services properly to those larger clients compared to smaller, less visible clients. Therefore, in both directions, there is evidence and theories as to how the size of the client affects audit quality.

A study by Madhogarhia (2009, p. 1767; 1770-1771) investigated whether a relationship exists in the quality of earnings, as measured by discretionary accruals, and whether a business was a growth or a value firm. They conclude that growth firms are both upward and downward in their earnings management compared to value firms because growth firms are penalized higher in terms of stock price when reporting earnings that are lower than expectations. This result leads us to believe that companies with higher growth rates also in our sample will have higher levels of discretionary accruals. Furthermore, Manry et al. (2008, p. 553) are studying the association between the quality of audit and tenure of the audit partner. They include client size growth, asset growth as their control variable, but find no link between audit quality and asset growth in their model.

1.2 Contribution of auditing during the Global Financial Crisis

Western economies faced a financial and banking crisis later in 2007, resulting from banks' practices of subprime lending. Banks had limited credit availability, leading to what they now call a "credit crunch." The roots of the banking crisis in the UK lie in the housing bubble of the U.S. and the development of risky lending practices by U.S. banks. In the mid-2000s, there have been signs of changes in the US market. Banks began issuing large numbers of mortgages, and housing prices rose dramatically as a result of the easy acquisition of mortgage loans driving demand for new housing. Ultimately, the housing bubble led to the US financial crisis spreading to the UK. Regulators like the FRC commented that one of the causes of the financial crisis was the off-balance sheet accounting practices.

It is impossible to estimate the social cost of the financial crisis of 2008. Massive amounts of public money were issued to rescue the financial system and financial undertakings in distress. Large amounts to stimulate "liquidity of banks" were not sufficient to rescue banks from the financial crisis. The UK government has therefore issued £500 billion to save the affected UK banks, improve the financial system, and regain trust in the financial market. The UK government also closed many banks, like the London Scottish Bank, and the Northern Rock Bank was also nationalized. However, Freddie Mac, Fannie Mae, and Bear Stearns were rescued by the US government. The U.S. government provided about $700 billion in bailout funds to buy a stake in distressed U.S. banks (Gosselin, 2008). The U.S. government has invested $8.5 trillion in the financial market to restore the confidence of investors and improve their financial system. The ECB provided €467 billion to help banks collapse and improve the financial market. Germany has issued $400 billion to rescue malicious banks. To make these financial decisions, regulators and investors relied on companies' financial statements, which became problematic. Despite a large number of accounting regulators, banks had $5,000 billion in off-balance sheet assets and liabilities; for example, Citigroup had $1.3 trillion of non-ba-lance sheet assets (Sikka, 2009).

This indicated that the auditors did not pay attention to banks' financial statements and did not warn them of the financial distress they were likely to encounter.

These collapses and failures in financial institutions and banks damaged financial market confidence and led to the greatest financial crisis since the 1930s Great Depression. Despite governments' rescue from injecting liquidity and nationalizing financial firms and banks globally, public efforts were not sufficient to restore financial market confidence. In 2008, stock exchanges lost half of their value. An important step to be taken was a notable change in auditing standards by the FRC.

Lazard Ltd's chief executive, Bruce Wasserstein, warned on October 30th, 2008 that the financial crisis would get much worse and that the losses of consumer credit and commercial real estate would just start. Wasserstein said the misleading accounting rules, banks' unwillingness to lend money, and ineffective regulation created new financial market pessimism. Stephan Schwarz-man, one of the world's largest private equity investments and CEO of the Blackstone Group, said that accounting rules and their development as a new "creative fiction exercise" were essential to the problem, enabling banks to inflate their asset values (Giannone and Davies, 2008). Schwarzman also noted that banks carry many valueless assets labeled by Schwarzman as "sludge assets," which obstructed balance sheets and hampered the ability to boost economic growth. Schwarzman also adds that banks have failed to use US treasury bailout funds to respond to the banking crisis with the purpose of stimulating the economy with new loans. For instance, during the financial crisis of 2008, Blackstone had billions in cash that could have been used in buyouts, but the business deal was slowed down due to a lack of bank funding. Schwarzman commented that the separation of the regulatory system from the market to model rules in the world had contributed to exacerbating the global financial crisis. He also added that during the financial crisis, regulation did not respond correctly. (Giannone and Davies, 2008) Ojo (2010) discussed reasons that contributed to the inconsistent application of auditing standards, including the finding that some components of financial reports require some degree of independent judgment, which, being subjective, leads to further distortion of the audit expectations gap. The expectation gap is the difference between what the stakeholders believe to be the responsibilities of the auditors, what the responsibilities of the auditors actually are, and what the auditors themselves believe to be their responsibilities. Some elements, such as accounting accruals (provisioning, fair value measurement), together with the absence of a single set of accounting rules used as guidance for measuring fair value, contribute to the difficulty of consistent application and therefore compatibility. In addition, Ball (2006) expressed doubts about developing a common global accounting standard, which is difficult due to the difficulties of applying consistent accounting standards across national boundaries. He referred to specific factors that require a certain degree of subjective elements and fair value measurement, such as accounting rules. For example, fair value measurements vary over time according to International Accounting Standards (ISAs) 36 and 38, allowing auditors and managers to investigate the corporate portfolio to identify "economically weak assets" with the same level of diligence in all countries that use international financial reporting standards (IFRS) (Ball, 2006:6).

During the financial crisis, the focus on auditors emerged due to the widespread belief that receiving "green light" from auditors means the company is in good condition. The financial crisis has shown that this view of the state of the economy is indeed a falsity. Figure 1 lists UK banks that they were affected by the financial crisis and on their financial reports received an unqualified audit opinion. Those banks suffered financial problems within a few days of receiving the unqualified audit opinions. Some of the most prominent global auditing firms — KPMG, PwC, Ernst & Young (EY), and Deloitte Touche (D&T) — generally provided these opinions.

Auditors and distressed Banks							
Company	Country	Year end	Auditor	Date of audit report	Audit opinion	Fee (millions)	
						Audit	Non-audit
Abbey National	UK	31-Dec-07	D and T	04-Mar-08	Unqualified	£2.8	£2.1
Alliance and Leicester	UK	31-Dec-07	D and T	19-Feb-08	Unqualified	£0.8	£0.8
Barclays	UK	31-Dec-07	PwC	07-Mar-08	Unqualified	£29	£15
Bradford and Bingley	UK	31-Dec-07	KPMG	12-Feb-08	Unqualified	£0.6	£0.8
HBOS	UK	31-Dec-07	KPMG	26-Feb-08	Unqualified	£9	£2.4
Lloyds TSB	UK	31-Dec-07	PwC	21-Feb-08	Unqualified	£13.1	£1.5
Northern Rock	UK	31-Dec-06	PwC	27-Feb-07	Unqualified	£1.3	£0.7
Royal Bank of Scotland	UK	31-Dec-07	D and T	27-Feb-08	Unqualified	£17	£14.4

Fig. 1. Auditors and banks in distress

Source: (Sikka, 2009:870)

Financial ratios played a part in the UK's banking crisis. Listed companies (FTSE 100) received an 11:1 to 83:1 leverage ratio. The generally high leverage ratios increased liquidity risk and put bank survival in jeopardy (Gros and Micossi, 2008). The US Security and Exchange Commission (SEC) report, for example, showed that Bear Stearns had a leverage ratio before collapsing around 33:1 (US Securities Exchange Commission, 2008). Experts told the Oversight and Governance Reform Commission of the United States House of Representatives that the Lehman Brothers had a leverage ratio of around 30:1. With this exorbitant leverage level, if asset values dropped by just 3.3 percent, the drop would wipe out the bank's entire equity value and bankrupt the bank (U.S. House of Representatives, 2009).

United Kingdom auditing standards align with international auditing standards. The Board of Accounting Practice (APB) (2009) stated that the audit procedure should be designed to consider the company's ability to continue its operations in the future. In view of this, consideration must be given to the current and potential future circumstances and the environment in which it operates its business (Auditing Practices Board, 2004a:8). Auditors are required to conduct audit procedures to obtain sufficient audit evidence that all of the company's events are up-to-date and to identify issues that may require adjustment or disclosure in the accounts under scrutiny. (Auditing Practices Board, 2004b:3)

Auditors were satisfied that by relying on auditing standards, the banks were healthy. The banking crisis, however, occurred a few days after an unqualified audit opinion was received by the financial institutions at issue (Figure 1). For example, on January 28, 2008, Lehman Brothers received an unqualified audit opinion on their annual reports, and Lehman Brothers received on their quarterly accounts a clean bill of health. Lehman Brothers experienced financial troubles by August, and Lehman went bankrupt on September 14. Another example is Bear Stearns, who received Deloitte's unqualified audit opinion on 28 January but also began to experience financial difficulties on 10 March (US Securities Exchange Commission, 2008).

Prominent audit firms frequently provided non-auditing services, leading to substantial post-crisis questioning of the realistic independence of auditors from the institutions for which they provided their core auditing services. The United Kingdom House of Commons Treasury Committee commented on a conflict between the auditors' legal role and the other work they were auditing for financial firms. For example, in 2006 PwC received £700,000 from Northern Rock's non-auditing services (Figure 1), consisting primarily of insurance fees (UK House of Commons Treasury Committee, 2008). The table (Figure 1) shows that these clients received significant revenue from the Big Four auditing firms on their auditing service. According to Sikka, price dependence and related advancement of auditors ' careers, all of whom are members of the same financial industry in which their clients operate, may be a conflict of interest (Sikka, 2009).

During the financial crisis, commentators had many concerns about audit practices. Brian Cowen, Ireland's former prime minister, criticized and labeled auditors as "witticism" and "waste of time" (O'Halloran, 2008).

The banking crisis in the UK in 2008 showed that the unqualified audit reports from the major auditing firms did not comfort the financial market. On

June 30, 2007, PwC received unqualified audit opinion from the fifth largest mortgage provider, Northern Rock, and a few months later, in August, the bank went bankrupt. This was because there was no audit evidence available to the public, resulting in little knowledge of the credibility of the bank. Sikka (2009) stated that "[i]t would be useful to explore the eroding of confidence in auditing and the circumstances that persuaded significant others to ignore assurances from auditors."

In 2015, the IAASB issued new revisions to its ISAs to improve the financial market and enhance confidence in financial companies. The new ISAs formalize information exchange between auditors and regulators. They also require auditors to inform regulators if, during their audit procedure, they are suspicious of anything that might affect the functions of regulators, customer protection, or financial market confidence (The Auditing Practices Board, 2010).

The financial market was not assured of an unqualified audit opinion and many banks and financial firms collapsed within a short period of receiving unqualified audit opinion. The financial crisis of 2008 was a lesson for auditors and regulators, particularly with regard to the audit report's insufficiency in presenting information to stakeholders. These lessons were an opportunity to mediate by revising the auditing standards and ethics codes and changing the ISAs to make them more stringent on the need to issue comprehensible audit reports that could help prevent future collapses.

Issues since the financial crisis has received significant consideration. The finding and analysis section of this research will examine the improvement in the ISAs and the changes made in 2009 and 2015. This section will focus on issues of audit, including high concentration and rotation of the audit firm.

High audit market concentration. The audit market is dominated by the Big Four auditing firms (PwC), Deloitte and Touche (D and T), Ernst & Young (EY), KPMG that maintain large clients worldwide. In the UK, 99 of the FTSE 100 companies are audited by these four firms, along with 240 of the FTSE 250 firms in the UK. The House of Lords and the EC Green Paper also focused on this domination.

"Systematic risk" would be posed in the condition of high concentration on the audit market if one of the big four firms collapsed, forcing the audit market to move from four giants to three, or in the worst case scenario, to two big monopoly competitors. If this were to happen, there would be major consequences for the audit market. According to the ACCA (2011), such issues include financial market stability and confidence that would be undermined and the quality of the audit would be reduced. Therefore, market dominance by these four companies poses a distinct problem. To enhance the health of the national regulatory apparatus as it relates to audits, the role of the Big Four must be reduced, improving market competition to prioritize audit quality. (ACCA, 2011)

Audit the rotation of the firm. The auditors' role is to ensure that the financial statements presented by private firms and institutions are true and reflect their true financial health. Conflict may arise between the auditors and the client, however. In this case, auditors may appreciate their clients' pleasure and tell them what to hear in order to maintain their good graces and customer relationship, rather than serving shareholders and other interests of the company's stakeholders. Audit firm rotation has been suggested to avoid this issue. Nevertheless, it was objected that such rotation of the audit firm could reduce the quality of the audit because auditors need to obtain important information and knowledge about the operation of the business in order to analyze the company's financial reporting, which could overburden each audit firm institutionally and limit their specialization and interaction with each company individually. Such a rotation system would require audit firms to invest sufficient time to engage the entity undergoing the audit in an effective audit relationship. When the auditors are rotated, however, new auditors also need spare time to collect the relevant business operation information. Every time the audit firm rotated, this process would repeat. As a result of this process, the rotation of the audit firm may impair the auditors' quality and interrupt the audit work.

In addition, some argue that in a short-term relationship between auditors and their clients, the quality of financial reporting is lower than in a long-term relationship (Johnson et al., 2002). Carcello and Nagy (2004) found that in the first three years of the audit and client relationship, most fraudulent practices by employers of companies occurred (Carcello and Nagy, 2004). Moreover, it is evident from US statistics that in the first two years of the audit engagement, many audit failures occurred (Kandemir, 2013). Finally, it is hard to say that the quality of the audit is lower if the tenure of the auditor is longer.

If the auditor voluntarily resigns from the investor's perspective, it is considered a warning to the company and the financial market. The compulsory rotation has been suggested to prevent intimidation of voluntary rotation. According to the 2006 audit directive, the maximum appointment of auditors in Europe is seven years and a two-year gap must exist before the same auditors can be appointed after the maximum seven-year period (Directive 2006/43/EC, Article 42(2)). The new audit directive proposal statute stated that the maximum appointment period for auditors is six years, allowing the joint audit system to be appointed for a maximum of nine years (EUROPEAN COMMISSION, 2011). All this was a controversial topic until the US and EU regulators addressed the negative rotation of the audit firm by adopting rotation of the audit partner instead of rotation of the audit firm. In addition to the benefits of a renewed audit team, audit partner rotation could provide endurance in analyzing financial reports.

This research focused on the revised ISAs and how, by issuing new requirements and guidance, it improved the audit performance. In addition to the revision of the "Long Association with the Audit Engagement" of the APB Ethical Standards 3 (Revised 2016), this research showed the new revision that ISA 550 and ISA 600 focused on improving the audit work by requiring more understanding of the environment and operation of companies.

Auditing criticism following the financial crisis. The House of Lords criticized the UK's Big Four auditing firms for their role in the UK banking crisis, and the Lords' report called for a substantial investigation into the UK audit market's limited competition. It charged auditors of banks with being "disconcertingly complacent" about their role in the banking crisis in the UK.

In addition, the House of Lords criticized KPMG and Deloitte for their performance in UK bank audits and criticized PwC for not drawing attention to the potential risks of the business model that Northern Rock followed. Ernst & Young (EY) has not been active in the auditing of UK banks.

The House of Lords required the Fair Trading Office to conduct a comprehensive investigation into the dominance of the four major auditing firms. The call was due to the concentration of the UK industries that restricted choices and competitions. This situation would be prone to worsen if, in the manner of Enron's auditors, the regulator or litigation caused a collapse in the big four.

In many cases in the run-up to the crash, the auditors should have given banks "going concern" warnings. The House of Lords said auditors should communicate more about their bank concerns to regulators following the disintegration of the communication after the Financial Services Authority assumed regulatory control in 1997. The House of Lords also recommended that FTSE 350 companies rotate auditors regularly and restrict the non-audit work for clients by the audit firms. Auditors should have expressed their concerns about whether or not banks could continue to operate their business. The House of Lords has also commented that they do not accept the defense that auditors have completed as required the entire bank audit. The committee criticized auditors for failing to informally share sufficient information with them before the financial crisis. His reports said "[w]e don't accept the defense that bank auditors have done everything they needed. That defense appears disconcerting-ly complacent in the light of what we now know." (Jones, 2011). It may be that the audit firms have done their job in a narrow sense, but they have not done that job properly in the broader sense. The House of Lords claimed that auditors and regulators were guilty and condemned their work as a "dereliction of duty" by not sharing sufficient informal information prior to the UK banking crisis. The House of Lords said auditors were "guilty of the rising danger" in banks, as well as being at fault for failing to share their concerns with their supervisors. The complacency of auditors was a "significant contributing factor" in the UK banks' collapse. In addition to recommending necessary re-tendering, the House of Lords required second-tier auditors to become more exposed to financial services by acting as advisors to the new "risk committee" in banks and financial firms. In addition, the House of Lords said that the IFRS International Financial Reporting Standards played a role in the UK banking crisis that UK companies moved to the IFRS in the middle of the last decade, criticizing "the rules promote volatility and helped to inflate the banking bubble through their association with fair value accounting" (Hawkes, 2011). Jones (2011) stated that "[t]he peers also criticized the IFRS accounting system on the grounds that it created a more box-ticking approach to auditing to the extent that prudence had to be reaffirmed as an auditors' guiding principle."

Auditors' response to criticism. Hawkes (2011) quoted senior PwC partner Ian Powell, who denied the complaint of complacency, saying, "I am surprised by the committee's claim that there was a 'dereliction of duty' in view of their claim that auditors were fulfilling their legal duties." PwC also added that they support the quality of their Northern Rock audit performance. However, PwC also said there are lessons learned during the UK banking crisis as they are a firm like other financial market participating companies, and that they have implemented a number of measures to reinforce the audit's relevance. Deloitte supported Lord's report's recommendations but added that they refused to be criticized for "complacency" or "duty delay" (Jones, 2011).

Another response from auditors was to re-evaluate accounting standards such as market accounting, fair value accounting, and existing lax auditing practices. A study by Kousenidis et al. (2013:351) in the UK and Europe found that earning quality increased during the financial crisis in terms of timeliness, value relevance, smoothing, conditional conservatism, management, persistence, and predictability.

CHAPTER 2. CRITICISM OF AUDITING AFTER THE FINANCIAL CRISIS

2.1 The impact of the Global Financial Crisis on auditing

The new ISAs were revised and clarified by the IAASB in October 2009 after the 2008 financial crisis and implemented for the accounting period ending on or before 15 December 2010 during the audit work of the financial statements. (Icaew, 2009) The FRC issued new changes in 2015 related to the report of the auditors. In the new audit report, the new regulatory reforms require further disclosure. (ACCA, 2016)

The IAASB's "clarity project" was needed to improve the readability and understandability of the revised ISAs' new structure, each of which includes the following:

- A description of the objectives of each ISA;
- An explanation and clarification of the obligations required by auditors in accordance with the revised and new requirements of the ISAs;
- A reduction in the complexity of the ISAs by issuing new standards and requirements not present in the older versions of the ISA;
- And an improved audit report.

Implementing the new ISAs raised concerns among practitioners about the lengthening of the new ISAs compared to the old version. Two new standards have been introduced, the ISA 265, which focuses on reporting decencies in internal control (ISA 265, 2009), and the ISA 450, which focuses on assessing the material financial statements misstatement (ISA 450, 2009). Twelve standards have also been revised and clarified.

The requirements in the new ISAs have become more stringent, the number of pages has increased, and the new audit reports cover more company risk-related information and how auditors respond to those risks. In addition, some material has now been elevated to requirements in the old versions of the ISAs that had previously been included as present tense guidance. The ISAs revisions that had the most significant impact on the financial statements audit work efforts are the revised ISA 540, ISA 550, ISA 600, ISA 701 (applied in 2016) and ISA 570 (revised in 2015).

The FRC (2016) states that if the auditors were not satisfied with the audit committee's report on the issues communicated to the audit committee by the auditors, the external auditors would be obliged to include additional information in the audit report (ISA 700, 2016). In addition, external auditors should discuss in their report their assessment of a company as well as the process by which the auditor is appointed or reappointed (ACCA, 2016).

When the ISA 700 was revised in June 2015, the FRC made changes to the new audit report. In its new audit report (ISA 700, 2016), ISA 700 instructs auditors to increase the discussion and explanation of the assessed risk of material error, materiality and scope of the audit.

The impact on the audit work of the new ISAs was not as big as the change from the adoption of the old ISAs. Audit risk is more focused. The new ISAs adaptation requires the auditors to do more evaluation and assessment on the areas that require more attention during the audit work.

The revised ISAs confirmed that the audit engagement team's primary focus is on adopting a risk-based approach to audit work, requiring auditors to exercise professional judgment and maintain professional skepticism during the audit (ACCA, 2010). To this end, each standard under the clarified ISAs has identified specific objectives, requirements, a separate application, and explanatory material to guide auditors in identifying and assessing the risk of material misrepresentation of the financial statements, in obtaining adequate and appropriate audit evidence by responding to the risk assessed, and in carrying out an audit. (ISA 540, 2016; ISA 550; ISA 600, 2016)

International Standard on Auditing (ISA) 540 for Auditing Accounting Estimates. The new ISA 540 revision was issued due to changes in the accounting framework, which included more estimates of amounts than when the ISAs were originally issued, and due to aggressive management earnings in their decision to carry a value of assets and liabilities to increase their earnings. There has been widespread use of fair value within and beyond the financial sectors during the UK banking crisis. The fair value of traded securities has also been used by some companies and the complexity of financial instruments has increased. (Icaew, 2009)

ISA 540 focuses on developing accuracy and increasing auditor skepticism in auditing accounting estimates and linking this approach to risk-based risk assessment and fraud standards. ISA 540 also focuses on the determinations of auditors and material misstatement documentation and the possibility of bias in the management of individual estimates. The new requirements and gaudiness on accounting estimates auditing have been focused on the area of estimation, uncertainty, and risk. The audit fair value requirements and guidance aligned with the audit risk model. (ISA 540, 2016)

Procedures for auditing estimates apply the fair value to audits. It is difficult to distinguish between the meaning of the estimate of the amount and the fair value, which is why the IAASB decided to incorporate the ISA 545 "Auditing Fair Value Measurements and Disclosure" into the ISA 540. The most important changes to these standards are as follows:

- Auditors must have the information necessary to carry out transactions, conditions and company events. They should be thorough in their estimates and risk assessment. (Paragraph 8)
- In order to make decisions on current records, auditors must look at previous records. (paragraph 9)
- Auditors should assess estimates that may pose a threat to a company due to uncertainty. (paragraph 10-11)
- New requirements need to be met by auditors:
  - Have a close look at the accounting estimates and how they were addressed by management. (paragraph 15(a))

- o Auditors should have sufficient evidence as to whether the estimates were properly handled by the management. (paragraph 17)
- Auditors should assess and review the management's bias. (paragraph 21)

International Standard on Auditing (ISA) 550 Related Parties. Related Parties and their objectives. What is a related party? The FRC defined the related party as "a person or other entity which, directly or indirectly through one or more intermediaries, has control or significant influence over the reporting entity." (ISA 550, 2016:5)

The previous collapse of financial corporations has highlighted the fraudulent financial reporting resulting from "related parties" involvement. Following the audit risk standards, the IAASB recognized the need to develop the scope of ISA 550 to increase the focus on identifying and evaluating misrepresentations of risk material and to design a procedure to address such risks. Furthermore, the review was important to increase the focus on the risk-based approach to the consideration of related parties and to enhance the performance of auditors with complex tasks related to the identification of relationships between related parties and transactions not disclosed by management. This is a challenging area with a high risk of material mistake and often leading to fraud risk indicators being identified.

The auditors' objective is to gain an understanding of the relationship and transactions of the related parties in order to evaluate fraud risk indicators and to determine whether the accounting treatment and disclosure applied in the relationship and transactions of the related parties is appropriate. The ISA 550 highlights the significant value of maintaining professional skepticism while conducting an audit to the parties involved. The ISA 550 requires a risk-based approach to identify the related party relationship and transactions (ISA 550, 2016) in order to identify the related party relationship and transactions.

The New Revision of the ISA 550 (ISA 550, 2016):

- ISA 249 and ISA 315 require that the uncertainty of financial statements be specifically understood and considered. (paragraph 12)
- Auditors should have sufficient knowledge of their management and their relationship with the transactions. (paragraph 14) Based on what the auditor understands, the auditor is required to collect the necessary transaction information. (ACCA Global, 2011)
- ISA 315 requires auditors to know and determine the relationships of material misstatement associated with any party concerned. (paragraph 18)
- Auditors should assess the fraudulent activities of the parties involved in such activities. (paragraph 23)

The ISA 550's new revision focuses on auditors' attention to the risk of material mistake that could result from a related party relationship and related transactions. The ISA 550 emphasizes that during the planning and performance of audit work, especially during the risk assessment, these issues need to be reviewed. To ensure that they have met these requirements, audit firms must review their current audit work. Lastly, ISA 550 provides clear guidance on this potentially challenging and particularly important area's audit.

International Standard on Auditing (ISA) 600 for Special Considerations. This research previously discussed issues related to a highly concentrated audit market, focusing on the fear of moving the audit market from the large four audit firm to the big three or big two. According to Kandemir (2013), listed companies in France are required to select two different audit firms to work together to audit the firm and sign the audit report together; this helps break the financial market barriers and allows midtier audit firms to conduct audits for large firms. Joint audit firms can improve audit quality because an audit report is issued by more than one company. This may, however, give rise to issues related to conflicting evaluations among auditors.

Group Audit and its objectives. What is the group audit? The group audit is responsible for audits and provides an audit opinion on the components of the group of financial statements. These components include subsidiaries, partners, joint ventures, and branches. In addition, other audit firms are known as "component auditors" or "other auditors" could audit the company. The aim of this standard is to collect sufficient audit evidence from group auditors to obtain an opinion on financial statements consolidation (ISA 600, 2016).

The New Revision of the ISA 600. The International Auditing and Assurance Standards Board (IAASB) revived and implemented the ISA 600 in 2009 to solve this problem. The revision was necessary to respond to several bodies' request for guidance on auditing group financial statements, including the International Securities Commissions, the European Commission, the International Accountancy Development Forum, and the former US Audit Effectiveness Panel. The new ISA 600 revision set out new requirements and guidance related to the "audit of group financial statements."

The new ISA 600 revision included requirements and guidance that the auditors must take in particular when the group audit is in progress. In the previous version of ISA, these new requirements were not available. In conclusion, to achieve greater consistency, it will be important to increase the specification of group audit procedures and improve the audit practice and involvement of the auditor in the work of audit group financial statements.

New Requirements (ISA 600, 2016):

- Auditors should have sufficient knowledge of ISA 300 financial statements. (paragraphs 15-16)
- Auditors should be sufficiently familiar with the company they work on. (paragraph 17-18)
- These standards (paragraphs 2-23) are essential because, according to the IAASB, ISA 320 does not deal with the materiality of group auditing.

- Group engagement team shall design the audit procedure to be carried out in the process of consolidation. The process of consolidation will be complex in some areas and will require some degree of judgment. The ISA 600 required the following to reduce the audit risk (paragraphs 32-37):
    - Auditors must verify that the figures taken into the consolidation process were accurately obtained from the financial statement component.
    - Auditors must evaluate the component group classification whether they have been correctly identified and managed as subsidiaries, partners or joint ventures.
- The evidence required for the component audits must meet the objectives set out above. (paragraph 32-37) In addition, group auditors must communicate with the component auditors about the evidence gathered during the audit planning stage. (ACCA Global, 2016)
- When auditing the group financial statements, group auditors must identify the component that occurs between the financial information dates and the audit report dates. They then have to disclose it to the group financial statements or adjust it to them. In addition, if group auditors are suspicious of any subsequent events, they must notify the group engagement team of this event and disclose it or adjust it to the group financial statements (paragraph 38-39)

From this point of view, after the financial crisis, these changes were significant because they will help to solve the problem of the financial statements' material misstatements.

Because it requires more than one auditor to audit the component of the financial statements, and since each auditor is not allowed to rely on the opinion of the financial statements of another auditor, it improves the audit report's efficiency and audit practices.

In addition, group auditors are required to review the overall audit strategy made on the component of the financial statements by other auditors and to highlight any issues that may arise with the review and issue a questionnaire to be completed by the other auditors. Following the review, further action must be taken by the other auditor to ensure that the financial statements are free of material mistakes. Finally, the group audit must ensure that by communicating with other auditors the audit was done accurately. The auditors must collect two types of evidence: audit evidence of the group's individual component collected through the joint audit arrangements and evidence related to the consolidation process. (ACCA Global, 2016)

Change in the United Kingdom' Reporting Regime. International Standard on Auditing (ISA) 701 (Revised in June 2016, UK) for Communicating Key Audit Matters in the Independent Auditor's Report. The IAASB has completed the auditor reporting project and has issued new and revised auditor reporting standards and requirements, as well as ISA 570 Going Concern, and some other new standards as a result of this project. In 2015, in the Independent Auditor's Report, the IAASB issued ISA 701 Communication Key Audit Matters, which is applied to all listed companies in the UK. The objective of this standard is to determine the audit issues that are to be considered as "KAM" in the auditor's report and to communicate about them in the report. In ISA 701 (2016), the term "KAM" was defined as "[t]hose matters that, in the professional judgment of the auditor, were of the greatest importance in the audit of the current period's financial statements. Key audit issues are selected from issues communicated with those responsible for governance. "(ISA 701, 2016:3) (Paragraph 8)

Determination of KAM. According to the definition of KAM in ISA 701 in paragraph 8, it is stated that KAM is selected from matters that are communicated with the people responsible for governance. Those issues that are discussed with those charged with governance are then evaluated and evaluated by the auditors to determine which issues during the audit work must be of considerable auditor attention. There are three issues that must be considered in making the determination according to ISA 701:

- Areas expected to pose a high risk of material misstatement of financial mistakes or considered to be a "significant risk" in accordance with ISA 315 "Identifying and Assessing the Risks of Material Misstatement by Understanding the Entity and its Environment" standard.
- Significant auditors' judgment on areas of financial statements which included substantial management judgment. This could involve accounting estimates that the auditors of the financial statements have identified as having a high degree of uncertainty in their estimation.
- Impact on the audit during the period of events and transactions.

The auditors must select the most important matters in the audit of the financial statements, and these will be considered as a KAM.

Communicating of KAM. Once the auditors determine the matters included in the KAM, they must communicate and ensure that these matters are properly described, including why each subject matter has been identified as one of the most important matters and how these matters were addressed in the audit.

International Standard on Auditing (ISA) 570 (Revised in June 2016, UK) for Going Concern. The new ISA 570 revision has been developed and enhanced, revised and clarified with regard to the requirements of the standard and additional guidance that have been added in relation to the disclosure of appropriateness when there is material uncertainty. (ACCA, 2016) The old version of ISA 570 stated that if the auditors concluded that the going concern of accounting was appropriate but that the material uncertainties existed and were disclosed by the management in a company's financial statements, the auditors would include, after the "Opinion" paragraph, the "Emphasis of Matters," which would refer to the disclosure note of the company's financial statements. In addition, they would also insist that their opinions on material uncertainties are not modified (ISA 570, 2016).

In the new revision of the ISA 570 (Revised 2016), it is stated that the auditors must continue to issue unmodified audit opinion in their audit report if the use of the going concern accounting basis is appropriate but the material uncertainties have existed and disclosed by the management. They must also include a separate section under the heading "Material Uncertainty Related to Going Concern" in order to draw attention to the audit note in the financial statements that the material uncertainty disclosed in the financial statements increases the material uncertainty, stating that the events of a company — which indicated that the material un-certainty existed — will increase the material uncertainty.

The 'Material Uncertainty Related to Going Concern' section is included immediately after the Opinion paragraph but before the KAM section. It should be noted that if the uncertainty is not sufficiently disclosed in the financial statements, the auditor will continue to modify the audit opinion in accordance with ISA 705, "Modifications to the Opinion in the Report of the Independent Auditor."

Companies collapse from this point of view, as can be seen from the above standards (ISA 570 and ISA 701) following the financial crisis. The issues identified in ISA 570's revised reporting requirements regarding the going concern of accounting are now interacting with ISA 701's revised requirements. The issues identified by the auditors related to the going concern will be considered and communicated in the audit report by their nature. Where the auditors have identified some events that have raised substantial doubts about the going concerns of companies, the audit evidence confirmed that there are no material uncertainties. This "close call" may be disclosed in accordance with ISA 701 because when auditors conclude that there are no material uncertainties, they may identify one or more key matters related to their finding that are key audit matters.

In conclusion, if the confirmed material uncertainties have existed, they must be disclosed in accordance with ISA 570, and where there is a close call about going concern — which has identified as KAM by the auditors — it will be disclosed in relation to ISA 701.

2.2 Effectiveness of post-crisis changes in auditing

During the financial crisis, when the financial institutions that underwent recent audits collapsed, auditors' role was discussed for a long time. The House of Lords criticized auditors for their role in bringing about the financial crisis, followed by strict changes to the requirements and guidance of the ISAs, both during and after the 2008 financial crisis, as discussed in this research. This research will focus on the impact of the financial crisis and the financial problem of Tesco in the auditing standards of the United Kingdom in this section. Following this section, this research will answer the question as to whether the new auditing standards are appropriate for the purpose and whether the new audit report can prevent future audit market failures. Following this section, this research will answer the question as to whether the new auditing standards are appropriate for the purpose and whether the new audit report can prevent future audit market failures. However, it is not necessary to take the role of the auditors in this matter regardless. From the literature review in this research, it can be argued that auditors have misrepresented transactions through their role of professional skepticism. ICAEW (2013) defined professional skepticism as "an attitude that includes questioning, alert to conditions that may indicate possible error or fraud, and critical audit evidence assessment." The ISA 240 stated that auditors are "responsible for obtaining reasonable assurance that the financial statements as a whole are free of material misstatement, whether due to fraud or error." (ISA 240, 2016:3) Furthermore, the ISAs have emphasized that the auditors can not provide assurance on the financial statements that they are error-free, but could perform audit work on the grounds of professional skepticism.

Lehman Brothers, for example, had repurchased an agreement to improve their balance sheet at the end of the year, and their independent auditors Ernst & Young were silent. Auditors must ensure that a company's financial reports to the financial market are reliable. As the auditors of Lehman Brothers had neglected their professional skepticism duties, they were unable to distinguish between the corrupt financial statements and the financial entity's actual situation. Consequently, defining the actual situation of the financial company was difficult for the supervisory authority because the auditors did not do their job as a watchdog.

This research will go through the financial problem of Tesco in the following sections after the financial crisis of 2008 and after the revision of the new ISAs in 2009. This financial problem in Tesco highlighted the weakness of the 2009 ISAs revision, in particular, the standards of the audit report, and highlighted the significant changes that were made to the new 2016 audit report as an impact of the financial problem of Tesco. This research will compare the 2014 Tesco audit report and the 2016 audit report to present the new changes made to the new audit report; it will then go through an audit risk analysis and the new audit report audit scope.

Financial problem of Tesco. The Tesco accounting scandal shows the lack of role of the audit report in warning Tesco of the financial problem they faced in 2014. These disorders led to many discussions about the audit report's effectiveness. Tesco's financial issues led to an investigation into Tesco's 2014 accounting scandal and PwC's role in auditing the company's financial statements. The investigation scrutinized Tesco's internal accounts and PwC's audit work on "preparing, approving, and auditing the financial statements" for the years ended in 2012, 2013, and 2014.

Tesco is the UK's largest retailer and has become the UK's "high street"'s largest and strongest shape over the past two decades (Tesco PLC, 2016). Tesco's auditor is PwC, one of the world's leading financial services auditing firms' league, and advises countless private and public sector tranches in the UK. PwC assures and advises large sections of the public and private sectors of the United Kingdom. PwC was the UK's largest audit firm and globally until Deloitte surpassed PwC in 2016 as the world's largest audit firm (ICAEW Economia, 2017). Tesco was estimated to earn profit for the year 2014 at around £1.1 billion, according to Tesco's estimate of 2014. In September 2014, Tesco admitted that they had exaggerated their profit projections by £250 m. Tesco received a clean health bill for their financial statements three months before their financial difficulties, issued by Tesco's auditor PwC in May 2014, according to the audit report. PwC does not seem to have warned Tesco of its severe financial status. PwC's audit report stated that Tesco's financial reports "give a true and fair view of the Group's state of affairs as of 22 February 2014 and of the Group's profit and cash flows for the 52 weeks after that." (PwC, 2014:65) From the audit report, this research highlights that Tesco's auditor had no doubt about the company's ability to continue as a going concern for at least 12 months. This gave rise to debate and discussion — why did not the auditors warn the company before it fell into financial distress?

Deloitte conducted an internal investigation when Deloitte took over Tesco's audit work and found that there was a small group on Tesco's board that misled auditors and accountants to enhance Tesco's financial results. In Tesco's 2013 annual report, PwC warned that their revenue was "risk of manipulation." Because they noticed suspicious activity related to Tesco's estimates but did not discuss or communicate this concern on their audit report, Tesco's situation indicates a clear audit problem in the ISAs, especially with regard to audit reporting standards.

Results. The above evidence concerns the auditors' failure to prevent the financial distress of Tesco. Our point of view is that the long-term auditing of a company makes it easier for the board members of a company to manipulate an audit firm's results, as was the case with Tesco. Such members of the company know the techniques of auditors in auditing financial statements and issuing the audit report. "PwC has been Tesco's auditor for more than three decades," the Guardian (2014) said. Furthermore, Ficenec (2014) stated that a small group in Tesco had understood the techniques used by PwC to manipulate auditors and recognize their cash payment from their suppliers to increase their sales figure and profit. Tesco paid £10.4 million for the auditing services and £3.6 million for the consultancy work in 2013. (The Guardian, 2014) This indicates a relationship between Tesco and PwC that presents concerns about conflict of interest and a possible reason for PwC's lack of focus on investigating the suspicious results found in 2013 it might have wanted to maintain its customer relationship for other advantages.

Given the new ISAs review and the issues discussed in Tesco's audit, it can be said that there was a weakness in the 2009 ISAs, especially as they relate to the issuance of the audit report, which turned out to be ineffective. If the new audit report standards were applied in the audit work of Tesco, Tesco could have restructured its operations in order to avoid major financial problems. Instead, according to this research, these audit results were manipulated in the board of the Tesco by a small group of people. This indicates that either PwC did not understand Tesco's operations environment, or rather did not choose to communicate audit issues such as suspicions about Tesco's profit estimates.

Tesco estimated a profit of around £ 1.1 billion in the first half of 2014, as mentioned earlier. In this case, PwC did not investigate to evaluate Tesco's management estimate of its profit by gaining an understanding of the knowledge required of Tesco's operation to understand how the management estimated those results, which is now required by the new 2016 revision in ISA 540, paragraph

8. Tesco assigned Deloitte to audit their accounts in May 2015 following the financial struggles faced by the failure of Tesco and PwC to prevent it. According to ACCA Global (2015), "Deloitte completed its investigation and found that profits in the first half of 2015 were overestimated at £ 118 million, £70 million in the financial year 2013–14 and £ 75 million before that." It is clear from the above evidence that PwC carried out the audit work in the legal sense, but when they found something suspicious in the 2004 profit estimates of the management, they did not conduct a wider investigation. From the point of view of this research, the Tesco points out that two problems occurred in this specific case and in the financial community as a whole: the weakness of the auditing standards and a relationship between the auditor and the audited company with conflict of interest concerns that ultimately inhibited a thorough audit completion.

The lesson has been learned lessons from Tesco and the company's scandal has led to significant changes in the reporting standards of the auditors, in particular, ISA 570 and ISA 701. The new revision of ISA 701 requires auditors to communicate the key audit matters in the audit report in order to improve the understanding of the environment of the audited companies and enhance the responsibility of auditors in issuing an audit opinion on audit reports. Ficenec (2014) states that "In last year's annual report, PwC warned that revenue from the company was at risk of manipulation." This indicates the importance of the new revision of standards for auditing reports, in particular, ISA 701, which includes KAM in the independent audit report, a necessary solution to the problems found in Tesco by including matters considered during the audit work to be communicated. Auditors will also focus on how these matters have been addressed and the related disclosure has been referenced. The new ISA 701 is a rigorous standard that will be able to avoid any future problems.

The recent changes in the new audit report. Comparison of Tesco’s old and new audit (Tesco PLC, 2014; Tesco PLC, 2016):

- The audit report was only one page in 2014; it did not cover any risk that could have an impact on the audit strategy. They wrote their opinion without any description of the risks that could affect the audit strategy and the engagement team, but in 2016 the new audit report included eight pages covering the "Risk Assessment of Material Misstatement," the description of the risk and the scope of the audit. (how they responded to those risks)
- Audit risk - The audit report did not include the risk assessment of material misstatement by the auditor in 2014. The audit report of the company did not indicate the various risks the company took. This way, it's hard to conclude comprehensively on what led the company to major losses. However, on page one of the new audit report, the auditors identified the risks that need to be addressed in order to enhance the audit strategy and the engagement team's work; which was one of the new audit report's most powerful aspects, had a significant impact on the engagement strategy developed and on the resources deployed. From page 2–6, each risk was described by the auditors; the value of the investors' analyzes had significantly improved as the description of the risk is clear, understandable and related to the company's specific context. The risks evaluated were clear and showed the company's way forward. The amount of investments in foreign countries was clearly highlighted with the new administration in place. Despite being a risky affair, it clearly showed the company's way forward. The key risk was how the company is customer-related. They were not listening at first, which cost them a lot. They're going to be good listeners right now. Other risks are affecting the store. To ensure that their impairment ends, the stores must be reviewed. The company also considers the risk of complying with all market rules and regulations. Although expensive,

they will boost the confidence of shareholders, followed by other risks such as Tesco bank reserve provisions.

- Materiality – The section on materiality was not covered by the old audit report. Influencing investors' decisions would be very important. The auditors added the section "Our use of materiality" in the new audit report and defined it as "the magnitude of mistake in financial statements that makes it likely that a reasonably knowledgeable person's economic decisions would be changed or influenced." The section on materiality is very important to the auditors as it helps them plan their response to the risks identified on the first page of the audit report and assess the results of their audit work. It is necessary to evaluate the risks that occurred and were recorded on the first page. This allows the audit report to provide recommendations as to which risks should be increased or reduced. The report showed the scope of the different risks taken and their materiality from Tesco's audit report in 2016. This gives management a clear understanding of what each risk means and how the auditing period has affected the business. A good section on materiality is very useful to manage as it helps them to understand where they went wrong and so correct. The report's risks included impairment risk, compliance with regulations and laws, and other well-developed risks; management was given the recommendation. This allows the management to decide in the future to increase or decrease the risk based on the recommendation from the audit committee's risk assessment and the report they publish.

Audit Risk. The audit report presented above is effective and most organizations have approved it. The audit is detailed as it provides the company with a deeper understanding of the organization's different activities and projects. The report details the risk of auditing, scope, and analysis of materiality. However, it can improve the audit report and make it more comprehensive. This will reduce the under information issue described in the previous report. The 2014 report was flawed as it failed to prove and demonstrate what happened to Tesco Company. (FRC, 2016) The report did not elaborate on the risks taken to remedy the effects, nor did it explain the performance of the company. The new report, however, following the new international audit standards, gives meaning to the organization's financial status. A good audit report should highlight an organization's weaknesses and strengths. This allows the organization to understand where they went wrong. It also prepares them to work hard in the coming financial year to enable them to do better than they have done in previous years. The following points show the various steps that have been taken to create the new audit report and the improvements that have made the report more comprehensive and useful to organizations.

Many improvements have been made in the new audit report; there are changes to the audit report of some companies:

- National Grid auditors classified the risks as "event-driven" or "recurring" in the new audit report (National Grid plc, 2015) [PwC Independent Auditor's Report, March 28, 2015].
- Marks and Spencer's auditors received praise from The Investment Association Auditor Report awards for clear organization and material misstatement risk presentation (FRC, 2016) [Deloitte Independent Auditor's Report, March 28, 2015].
- BG Group's new audit report added a new section in its audit outlining what the audit team reported to the audit committee about each risk they reported at the audit conclusion (BG Group Limited, 2015) [EY Independent Auditor's Report, December 31, 2014]. They also won the Investment Association award for the clarity in the risk section reporting in the new Evraz PLC audit report because they described what had changed since the previous year and the use of arrows to show whether

individual risks were more or less of a concern in the current year (FRC, 2016).

- Rolls-Royce's auditors continued to provide additional information on the findings of each identified risk in the new audit report and to present and describe those risks and the response of the auditor in a transparent and communicative manner (Rolls-Royce Holdings plc, 2015) [KPMG Independent Auditor's Report, December 31, 2015].

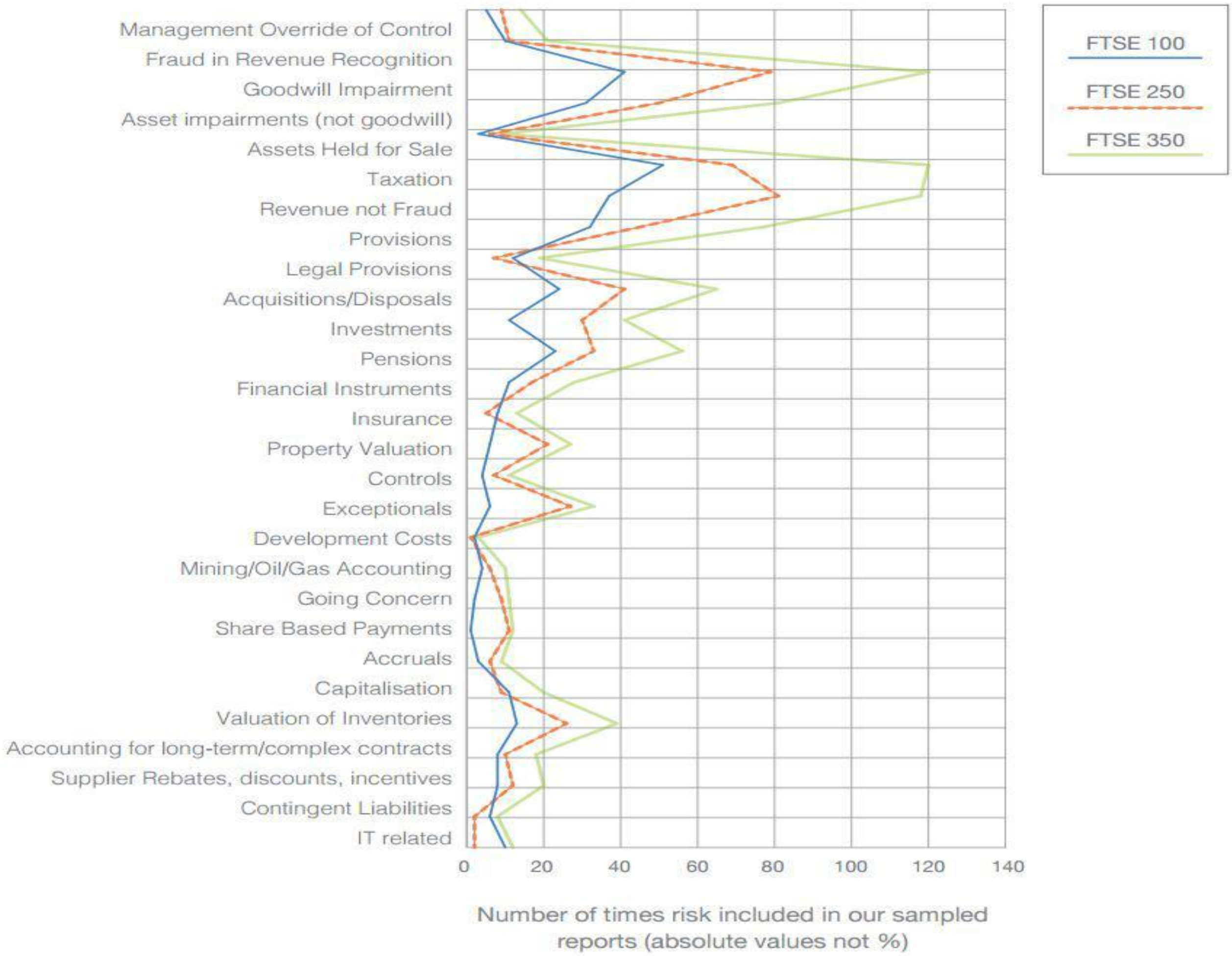

Fig. 2. Risk types covered in the 2015 audit report.

Source: (FRC, 2016, p. 14)

Figure 2 indicates the wide range of risks that have been identified and described in the new audit report, disaggregated between FTSE 100, FTSE 250, and the next largest FTSE 350.

The risk is small for FTSE 100 companies compared to FTSE 250 and FTSE 350. This shows that the number of times they take risks is reduced because the top 100 companies are smaller in size. FTSE 100 companies, however, took more risks in some areas than the remaining companies. FTSE 100 companies, for example, had more risks on insurance than FTSE 250 companies. This shows that because of the large profits involved, the top 100 companies are willing to take risks on insurance. However, top companies did not take notable risks in other respects, such as share-based payments. Compared to other risk areas, the firms took large tax risks for the FTSE 350. All groups appear to have taken the least possible risks for development costs (FRC, 2016). The figure shows various variations in the types of risks taken by different corporate groups. FTSE 350 companies took large amounts of risk for impairment of goodwill. The figure details how, and how often, different groups of companies view risks. Compared to larger firms, smaller firms tend to take more risks in areas.

Critically, there are different bases for various organizations to take risks. In the figure above, FTSE 100 represents the top 100 companies listed in the stock exchange on the UK market. These companies are, as can be seen, interested in the issues they take risks for. The aforementioned detailed figure shows the highest number of times these firms took tax and goodwill risk. This also applies to other businesses. The reason these companies risk, for example on taxation, is because non-tax compliance prevents companies from being closed by the government. All companies involved take a little risk for share-based payments and development costs. This may be due to the seriousness of the company facing these issues. Risk of investing or paying shares may result in severe losses for an organization, which explains why organizations have lower risk rates in these areas. Asset impairment, unlike goodwill, also experienced lower risk rates. The lower the risks a business takes on an issue, the more serious the issue tends to be for the business. However, these companies are willing to take risks frequently for non-issues, which have higher returns to the company, such as insurance.

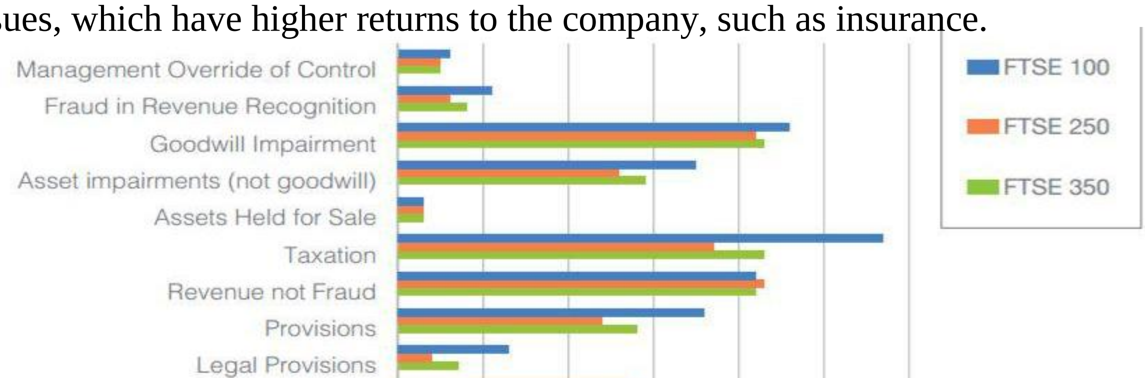

Fig. 3. Sample percentage that addresses specific risk

Source: (FRC, 2016, p. 15)

The graph above shows that, as mentioned in the literature review of this research, the new audit reports covered the most common issues found in the financial crisis and also in the financial problem of the Tesco. These risks relate to impairment of goodwill (44 %), taxation (43 %), non-fraud revenue (43 %). These risks are critical areas of judgment in management and professional skepticism and are important to a company's valuation.

It is possible to evaluate different companies based on their risks. The table above, showing the particular risk data of the top 350 companies listed on the UK stock market, shows how the different risks are being sampled. From the samples above, the highest percentages for taxation across the three groups are the lowest for development. Taxation, goodwill, revenue not fraud, and not goodwill are the risks with the highest percentages across the three groups. This is because they tend to be less risky in these areas. Organizations can afford to take risks without losses in these particular parts. This was the case with Tesco, one of the UK's largest companies. The company details their risk scope and how they deal with the risks in Tesco's report. The areas where organizations take higher risks are, as can be seen, the areas where they can make higher profits. It is clear from all the cases shown in Figure 3 that the highest is the sampled risk data for the top 100 companies in the FTSE 100 group. It is also evident that the sampled data is the lowest for the FTSE 350. This shows that bigger companies take more risks than smaller ones. This can be attributed to the fact that such risks would not affect larger firms to the same degree as smaller firms even when risks turn negative. The effect of risks can be devastating on small businesses. In some areas, however, both large and small businesses take risks very carefully. This can be attributed to the consequences of not taking such risks. Return from risk is sometimes minimal, which is why areas such as development costs and assets held for sale, among others, have minimal percentages of sampled risks.

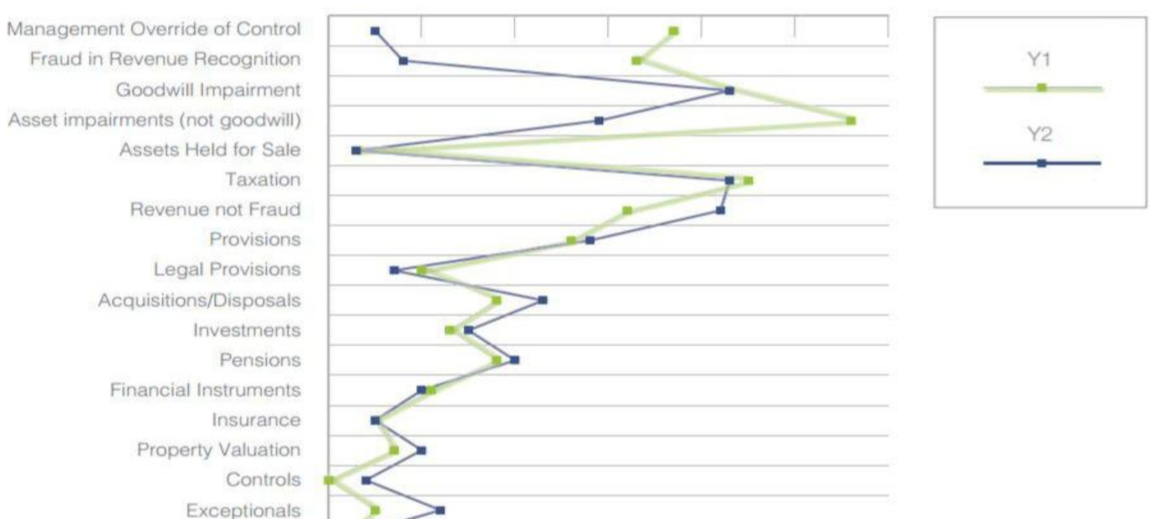

Fig. 4. Comparison year on year

Source: (FRC, 2016, p. 16)

Figure 4 data shows a two-year comparison. By comparison, in the samples collected over the course of two years, a number of variations occurred on different risks. The first year is the time when the new audit procedures have not been applied, while the second shows when the new reports have been audited using the new international audit procedures. In areas such as income recognition fraud, asset impairment (not goodwill) changing rules has resulted in drastic reductions in the number of risks the organizations are taking. This is after the organizations had a good understanding of the effects of the risks and how they would affect their business. However, the remaining risks, apart from those whose effects were found to be less significant, were not affected. This led to their percentages being increased. Contingent liabilities, share-based liabilities, among many others, are a good example of this. The number of risks has increased since the previous years because it is clear from the report that these types of risks would benefit the organizations and thus increase their values. This shows that the new changes have had a major impact on the risks taken, all to the organization's advantage.

Audit Scope.

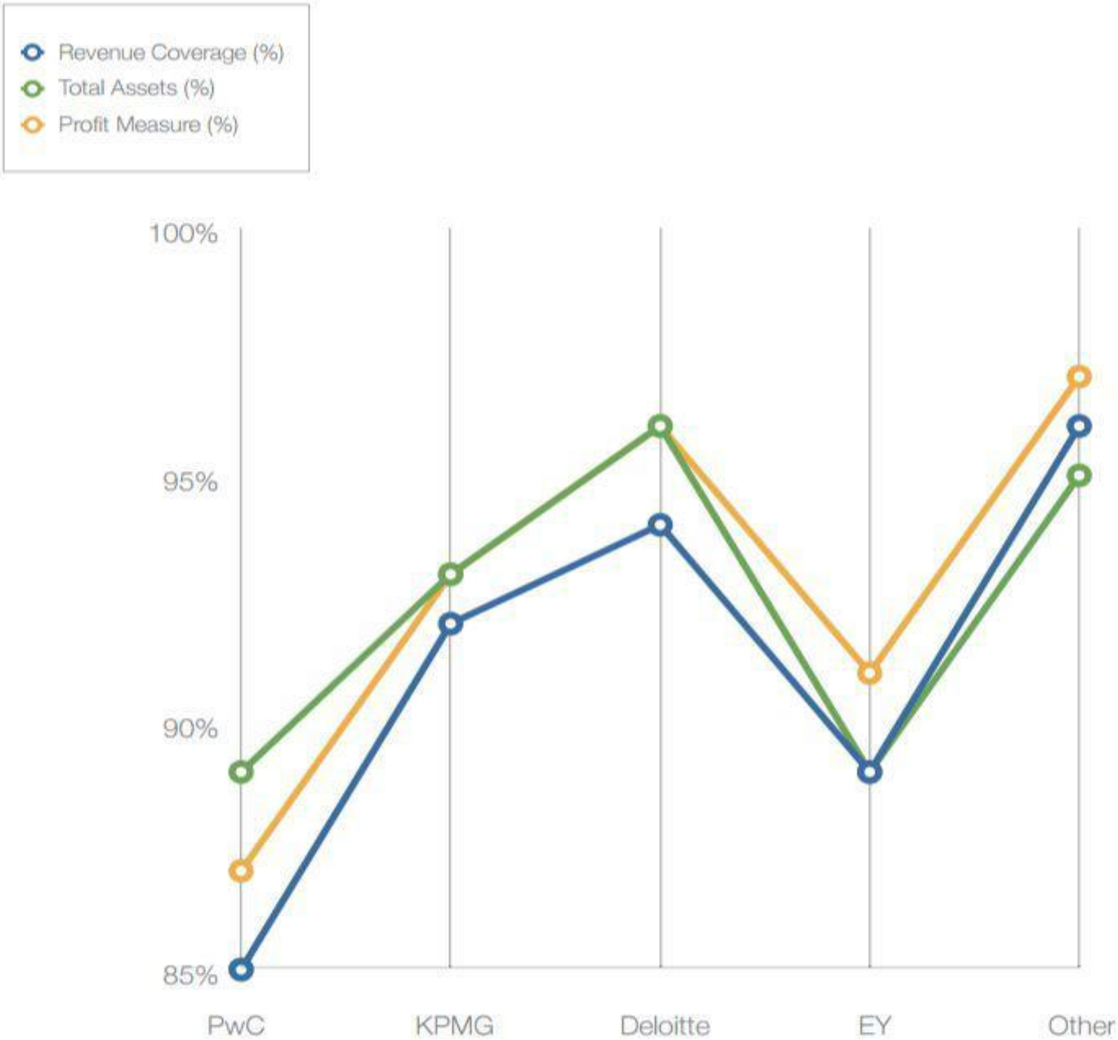

Fig. 5. Audit scope: average coverage by the measure of profit, total assets and income

Source (FRC, 2016, p. 42)

Figure 5 shows the relationship between different companies between revenue, assets and profits and how it is close to each other. The percentages range from 85% to 97%, as can be seen from the vertical scale. This shows that there are minimal variations. Generally speaking, apart from PWC and KPMG, the profits are higher than the assets and the revenue collected for the rest of the companies. The profits must always remain high in order for a company to remain in the course of its formation, otherwise, the company could collapse. The revenue coverage, on the other hand, is supposed to be lower than the other percentages. The blue line that appears below the rest, which is present in most companies, is clearly shown by the table. On the contrary, assets are in between the two values. For its survival and long-term earnings, a company needs significant amounts of assets.

As shown in the above table, Deloitte has the highest percentages of assets, profits, and revenue, whereas PWC has the lowest. This shows that as the number of assets increases, the revenue collected also increases, resulting in higher profits. The value of assets and profits is the same for KPMG and Deloitte. The profits are higher for other companies than the assets and income collected. Furthermore, the table shows how these values vary from business to business. The more assets and revenue a business has, however, the more profits it makes. Thus, firms that invest more in increasing their assets are likely to make more profits than those firms that don't. The new report is therefore detailed and gives a clear picture of the relationship between the different values of profits, assets, and income and how they relate from one company to another.

Is the new audit report fit or not? In January 2015, the IAASB revised the ISA 700 and was ready to be applied as of 15 December 2016 in the audit work. It has been revised to improve auditors' communication, provide users with relevant information on auditing financial statements to help them make decisions, and enhance engagement between auditors and their clients (ISA 700, 2016). In addition, the revised standard improved the audit opinion by addressing the auditors' responsibilities in issuing an audit opinion on the audit report they issued after auditing a company's financial statements.

There have been many improvements in the audit report. There are mandatory improvements in the audit of financial statements, which includes the new section that includes communication of the major audit issues arising from the auditing practices that must be included in the new section, "Key Audit Matters" (KAM). There are also other improvements for all audits; for instance, the opinion of auditors must be first presented in the audit report, asserting statements on the independence of auditors and their achievement of relevant ethical responsibility, and improving the description of the responsibilities of auditors and the key features of an audit.

The enhancements focus on KAM and ISA 570 communication; which is important to solve the auditors' fraud and manipulation problems.

From the above evidence from the FRC and other researchers such as Reid, Carcillo, and Neal and from the point of view of this research, the new audit report is fit for purpose and there are advantages that can be seen from the new ISAs review on the audit report as follows:

- The value of users of the financial statements is improving.
- Better interaction exists between the auditors, the audit committee, and the audit approach management.
- Management is paying more attention to KAM, which has enhanced public disclosures.
- Professional skepticism is increasing and users' perception of the value of the audit is improving.

The new revision of audit reporting standards has made it clearer to the management that they are responsible for the financial statements throughout the audit process and the auditors are solely responsible for the audit work. Several organizations have concluded with the new audit procedure that the new audit method works for them. Tesco is a good example to discuss here. The company was able to emerge from its financial crisis in 2014 with the application of the new auditing methods, and to gain higher profits in 2016. Good audit report assists management in understanding their weaknesses and finding the business loopholes. The company returns to profitability once these loopholes are sealed. The majority of firms audited using the new international standards are more satisfied with the results. The audit takes into account the risks taken, thus customizing the accounts established by strict professionalism, which does not take into account the human factor in the business. A good audit report should be both useful and informative for the organization and the people concerned. The relationship between the audit committee and management has improved with many companies using the new standards. This will help to avoid the possibility of what happened in the economic crisis of 2008. In addition, the new revision has made investors more information available. There is a study that looked at the patterns of trading activity for companies applying the new ISAs, especially ISA 701. It was found that "companies with low coverage of analysts are associated with a significant increase in the abnormal volume of trade. In other words, as the information environment weakens (i.e. analyst after declines), as a result of additional disclosures from the Auditor and Audit Committee, there is a greater increase in the usefulness of the reports." (Reid et al., 2015:25)

Increased audit work transparency goes a long way to ease investors' concerns about audit practice. Umar Saleem, Maven Investment Partners' co-founder and partner (Saleem, 2017) stated that "most savvy investors will dig deeper and not just look at the pass or fail audit report without asking questions; they will arrange a meeting to gain insight into the financial performance of the company and future plans if they are a serious investor" (ICAEW, 2016:7).

The previous audit reports only told the organization if the auditing process failed or passed without giving more information about why the organization fails. With this new auditing and reporting, apart from losing and winning, the audit report looks for other information. For several reasons, the new audit report is more useful than the previous one. The audit report finds out the details of the failure or passage of the organization. These details range from risk assessments, whereby the report takes into account the management's various risks and how they played out after the evaluation process. Such an audit provides details on the business effects of different risks. The new audit also provides the risk scope. It clearly shows whether the areas are fully or partially audited. This helps to minimize the auditing process costs. In the scope, areas with major differences are isolated, giving detailed analysis on their own as opposed to auditing the company as a whole. This helps speed up the process of auditing, whereas there is no compromise on report quality. The audit report also includes the group's materiality, which helps the company understand the impacts of the organization's various projects. The new audit report is therefore very useful in a number of ways. The information contained in the report can be used by the organization in the coming years to correct their errors. This way they can learn from their mistakes and improve their assets, income, and consequently the profits they have earned. The organization can compare its performance with other companies with the new audit, which can enhance its services. The audit reports also use charts, tables, and graphs to improve clarity and allow results to be compared. Clear data is easier to understand and helps understand the current audit status of the organization. This helps them with a good understanding of the risks that should be increased or decreased in preparing for another season.

In addition, the revision of ISA 701 has become part of the company's annual report, providing investors with an excellent focus on what auditors consider to be a key audit issue.

CONCLUSION

Auditing is important for sound corporate governance and financial market function. The audit ensures that a company's financial statements are free of material uncertainty and also enhances investors' confidence in the financial market. Ten years have passed since the failures of the auditors during the financial crisis of 2007/08, and the auditors are still on the first page of charges following the financial problem of Tesco.

In the UK, the IAASB targeted to strengthen the post-financial crisis audit mechanism through public oversight and ISAs revision. However, from the point of view of the similar problem that occurred in the financial crisis, which is the failure of the auditors to issue the going concern reports for the financially distressed entities, the financial problem of the Tesco had also occurred.

Going concern reports is not only important for the accuracy of a company's financial reports, but it is also important to provide a perspective on a company's future ability to continue as a going concern. Most importantly, it is the directors of the companies that are responsible for issuing the financial reports on the basis of the going concern; and auditors are solely responsible for modifying those reports if they have any suspicion that the company may not be able to continue its operation as a going concern.

From the point of view of the financial crisis of 2008, not only the external auditors, the big four, in particular, failed to issue the going concerns reports, but also the directors of the companies failed to keep up with the uncertainties and risks that the financial market was exposing. External auditors have failed to demonstrate their suspicions and doubts about the director's going concern assessment and have also failed to express professional skepticism about those reports. As mentioned in this research earlier, this negligence occurred due to the relationship between the auditors and their client, which they were not independent of a company's management. The auditors were influenced by the audited companies' high fees, and that's why they were negligent because they didn't exercise enough professional skepticism.

From the point of view, all these regulatory reforms and the new post-financial crisis ISAs revisions were aimed at improving audit quality and stopping future collapses. The financial problem of companies like Tesco has continued; this may indicate that the financial firms that collapsed in the financial crisis of 2008 and Tesco's financial problem were unable to understand or control the natural risk.

The new ISAs revision has been discussed worldwide, in particular, the new audit report; which from the point of view, additional disclosers of auditors are useful to investors by providing them with the information that is important to their decision-making process. An abnormal volume of trading increased more for firms with weaker information environments, suggesting that new disclosures benefit investors in these firms in particular."

The following recommendations will be focusing on the audit work and the standards of auditing.

- To enhance the understanding of a business environment by the auditors, it would be beneficial to meet a company's managers to discuss a company's environment, how they operate, and what the managers are most concerned about the risks.
- High audit work fees do not provide high quality from the point of view; the fees for external auditors must be limited. Tesco paid PwC high fees for the audit work, which led PwC to ignore the suspicious profit estimate as stated in this research; it was due to Tesco's good advantages.

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