

AUDIT SCOPE

DISCLOSURE PRACTICE AND IMPLICATIONS ON AUDIT PRICING AND AUDIT DELAY

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Audit scope: disclosure practice and implications on audit pricing and audit delay

Abstract

Using a sample of FTSE 100 firms spanning from 2019 to 2022, this study documents auditors' audit scope disclosure in practice after the introduction of revised auditing standards related to auditors' report in the UK. We provide evidence on actual disclosure of audit components and audit coverage benchmarks used. We further investigate variations in audit scope practices across different audit firms and industries and find that audit scope disclosure is generally compliant with auditing standards, however, auditors also apply their discretion when it comes to benchmark choice and extent of disclosure. Additionally, our regression analyses examine the implications of audit scope on audit process, proxied by audit fee and audit delay. The results show that the coverage of revenue achieved by auditors represents the level of audit complexity to some extent and has a significant negative association with both audit fee and audit delay. Collectively, our study for the first time reveals disclosure practice of audit scope and the relationship between audit scope and audit process.

Keywords:

Audit scope, audit process, audit fee, audit delay

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Contents

AUDIT SCOPE.....	1
1. INTRODUCTION.....	4
2. LITERATURE REVIEW.....	9
2.1. Audit Report and Expectation Gap.....	9
2.2. UK reporting standards and Consequences	9
2.3. Audit scope.....	10
2.4. Audit Fee.....	11
2.5. Lockdown Effect	12
3. HYPOTHESIS DEVELOPMENT	14
4. SAMPLE SELECTION.....	16
5. DESCRIPTIVE FINDINGS AND DISCUSSION.....	18
5.1. Overall audit components	18
5.2. Coverage of financial statements audited	20
5.2.1. Overall benchmarks	20
5.2.2. Audit firm variation	22
5.2.3. Industry variation	24
5.3. Word count of audit scope disclosure	25
6. REGRESSION ANALYSES	26
6.1. Descriptive statistics.....	26
6.2. Audit scope and audit pricing.....	27
6.3. Audit scope and audit delay	30
7. CONCLUSION.....	32
8. APPENDIX.....	34
9. REFERENCE	36

1. Introduction

This study investigates how auditors disclose the audit scope in a group context to reflect focused audit efforts and how the audit scope, as a summary, reflects the development of the audit strategy following the introduction of the revision to ISA (UK and Ireland) 700. The revision on ISA (UK and Ireland) 700 aims to enhance audit reporting with a standard form and requires auditors to provide a summary of the audit scope (FRC, 2013). Our research sheds light on documenting auditors' audit scope disclosure and examining the implications of audit scope on the audit process. Specifically, we focus on studying the specific coverage benchmarks, the various reporting components structured by auditors, and the overall context of the audit scope disclosed in the audit report. It further explores the differences in coverage benchmarks selection based on audit firms and industries. Additionally, this study employs regression analysis to explore the relationship between audit scope disclosure and both audit fees and audit delays. The regression aims to assess whether the scope of the audit is linked with changes in audit fees or variations in audit delays. Our research is grounded in the implementation of ISA in the UK as a foundational basis.

The motivation for our research stems from the following three aspects: Initially, there is a widespread concern about the audit expectation gap, which arises from differences in responsibility and expertise between auditors and the public (Chong & Pflugrath, 2008). The message conveyed from the audit report can lead to misinterpretation by the public (Monroe and Woodliff, 1993; Houghton et al., 2010). The Financial Reporting Council (FRC) initiates actions in 2013 to bridge the information gap by mandating more comprehensive disclosures in audit reports, specifically regarding materiality, key audit matters, and audit scope (FRC, 2013). Since then, there has been research on changes in materiality and key audit matters in audit practices. However, the audit scope remains an under-researched area. The disclosure of the audit scope provides additional insights from auditors, as extensive efforts are involved in determining the scoping (FRC, 2013). The components included in determining the scope of an audit are diverse, encompassing aspects such as assessments of materiality and risk, geographic factors, dependence on internal controls, and considerations related to potential fraud (PWC 2013). Since the disclosure of the audit scope can be more informative and valuable to external parties, we believe it would be insightful to explore this section and detail the practice involved in disclosing audit scope.

Secondly, we observed a consistent rise in audit fees from 2019 to 2022 (see table 1 and figure 1). Studies suggest that audit fees increased alongside reporting lags during the lockdown (Musah et al., 2023). However, if lockdowns were influencing audit fees, a decline would have been expected starting in 2022. Instead, audit fees continued to rise, presenting a possible gap that could be conducted further for investigation. It is widely proven that there is a strong relationship between audit fees and audit effort (Redmayne et al., 2010). However, numerous studies exist, most rely on surveys with invited

participants or on collecting internal billing records (Redmayne et al., 2010; Bedard & Johnstone, 2004; Anderson and Zéghal, 1994), which could introduce possible limitation and bias (Bedard & Johnstone, 2004). With the UK's introduction of the revision to ISA (UK and Ireland) 700, This study initially tries to examine whether auditors' disclosures in public company annual reports, specifically regarding the length of audit scope, could be a feasible method to act as a proxy for quantifying audit efforts.

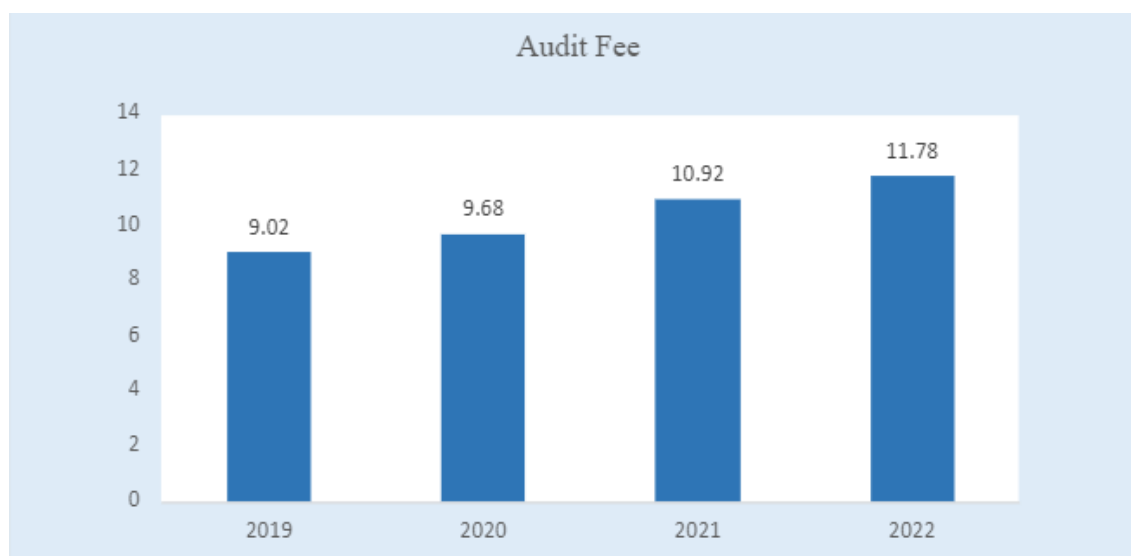


Figure 1. Audit fee

Table 1. Audit fee

GBP (Millions)	N	Mean	p25	Median	p75	Max	SD
2019	98	9.018	1.1	3.95	8.9	109.812	15.2
2020	98	9.685	1.593	4.45	10.3	120.369	16.168
2021	99	10.921	1.8	4.7	11.6	123.915	17.832
2022	100	11.785	2.2	5.571	13.15	121.412	17.768

Thirdly, audit delay is defined as the time between the firm's fiscal year-end and the date the audit report is signed (Pizzini & Ziegenfuss, 2015; Ashton et al., 1987). Research related to audit investigates this metric because the timeliness of the audit report's release might be associated with uncertainty in decision-making regarding the reporting information (Ashton et al., 1987). Given that audit scope disclosure requires auditors to clarify how they distributed their efforts and chose specific procedures, our objective is to investigate whether a heightened uncertainty in decision-making leads auditors to provide more detailed explanations, thus potentially extending the length of audit scope disclosures. Consequently, we are interested in exploring whether there is a relationship between the extent of audit scope disclosure and audit delay. This study aims to enrich

the understanding of auditors' practice in audit scope disclosure and whether the current disclosure of audit scope has any implication on audit fees or audit delay.

We initiate our research by examining the revision to ISA (UK and Ireland) 700 to understand the detailed requirements and examples for audit scope disclosure. This helps us comprehend the suggested structural format and the distinctions between different types of reporting component classifications. Our research employs descriptive analyses to study audit scope, collecting audit reports from the FTSE 100 to examine the current application by auditors in disclosing the audit scope, in line with the requirements of the revised ISA 700. The study finds that the most commonly used audit scope coverage benchmarks by auditors, from the income statement side, are revenue, profit before tax, and adjusted profit before tax, and from the balance sheet side, are total assets and total equities. However, there is significant variation in the length of disclosure and reporting components, which could lead to limited usefulness. Therefore, after collecting and organizing the data, this paper transforms the more consistently presented data within the audit scope into a quantifiable form to examine whether these disclosures are related to audit fees and audit delay. Specifically, the paper examines the relationship between the level of disclosure (length of disclosure), the percentage of coverage (benchmark percentage of revenue used), and audit fees and audit delay.

The recent upward trend on audit fees has been perceived in many countries. However, the reasons for choosing the UK as the subject of this study are as follows:

Firstly, the UK implemented the Revision to ISA (UK and Ireland) 700 with the effective date for audits of financial statements on or after October 2012, which made audit scope a mandatory item in the annual reports of public entities. As a result, the information about the audit scope is accessible and we can manually collect from the annual reports.

Secondly, in recent years, the news has had considerable discussion about the rising audit fees in the UK, particularly among listed firms. The total audit fees within FTSE 100 companies have hit a new high, with a recorded sum exceeding 1 billion British pounds. (Goss, 2022; O'Dwyer, 2022). The finance heads of FTSE 100 companies have jointly written letters, issuing a warning about the significant increase in audit fees from the Big Four accounting firms (O'Dwyer, 2022). CFOs of FTSE 100 companies state that audit firms should enhance their work efficiency instead of shifting the expected audit costs onto their clients (O'Dwyer, 2022). However, the auditors point out following points that CFOs might have overlooked: 1) with regulatory authorities intensifying enforcement against low-quality audits (O'Dwyer, 2022), the increased effort and time spent on audits have naturally led to higher audit costs, making it necessary for audit firms to raise their audit fees. The rise in workload due to regulatory requirements cannot be met simply by increasing efficiency. 2) in the past, audit firms often sold their auditing services at a discount to secure more profitable consulting contracts from the audited companies (Goss, 2022). However, following the EU's imposition of a rule limiting non-audit services to no more than 70% of the audit fees (European Commission, 2014), audit firms have had to

adjust their fee structures accordingly. Therefore, this research can use audit scope to partially examine whether the effort in auditing has increased as mentioned in the news and whether audit firms within FTSE100 in the UK shall be capable of increasing the audit fees.

Overall, this study observes four findings related to the practical application of audit scope following the revisions to ISA (UK and Ireland) 700. Firstly, among 395 annual reports manually collected from 2019 to 2022, we document that auditors strictly adhere to the guidelines of auditing standards regarding audit coverage disclosure. Secondly, despite their general adherence to standards for audit coverage disclosure, auditors also apply their professional judgment and adjust the benchmarks selection as needed to accommodate specific circumstances. Thirdly, there is a variation among different audit firms in selecting coverage benchmarks: for instance, firms like KPMG tend to stick to the suggested standards, while others such as Deloitte exercise more discretion. Lastly, the length of disclosures regarding audit scope has shown a year-over-year increase, with notable variations in the disclosure lengths across different auditors.

This regression analyses of this study also arrives at three findings, regarding the association between audit scope, audit fees, and audit delay. First, a positive relationship exists between the length of audit scope disclosures and audit fees. Second, “C_Revenue” which represents a percentage of revenue applied to audit coverage, is found to be negatively associated with audit fees. This suggests that a lower level of audit complexity, reflected by higher audit coverage, tends to be easier to audit, hence auditors can cover a larger portion of the financial statements in their work. Third, “C_Revenue” is also found to be negatively associated with audit delay, indicating that the simplicity of an audit is mirrored in shorter audit durations.

Our study contributes to literature in four aspects. First, we expand the audit scope literature by presenting empirical data on how auditors disclose audit scope in practice. Previously, there was limited research in audit scope domain. The most relevant research concerning audit scope was to use the measurement of time auditors allocated to work as an indirect indicator of the audit scope (Kannan et al., 2014). Our paper is the first to document the specific content revealed in the audit scope sections based on disclosures spanning from the year 2019 to 2022. In documenting the audit scope, we also categorize audit scope disclosures into 3 types of auditing components. We identify 13 coverage benchmarks and record the corresponding percentage that each benchmark covers, as well as the length of the audit scope disclosures. In addition to that, our research also examines whether there are variations in this content across different audit firms, industries, and over various years.

Second, our study contributes to the understanding of the implications of expanded audit reports. Unlike Gutierrez et al. (2018), who tested investor reactions and concluded that expanded auditor reports provide limited incremental value, our analysis does not cover the market reaction to investor on this aspect. Instead, we observe variations in the choice

of coverage benchmarks, suggesting that the disclosed audit scope is more than just a compliance measure for ISA (UK and Ireland) 700 standards; there is a reasoned rationale behind the selection. Therefore, for investors, although the impact may not directly reflect in stock market prices, understanding how auditors decide on the scope still holds informational value. However, we find auditors' reports of firms within FTSE 100 provide limited information regarding the rationale behind each coverage benchmark. Disclosures such as adjustments made due to the pandemic's impact on profits, which are included in the audit scope, illustrate this point. This finding suggests a direction for future research on audit scope, encouraging further exploration into the rationale behind these decisions. And we also acknowledged that there is still room for audit scope disclosure for future improvement.

Third, our regression results contribute to the audit fees literature by showing a positive relationship between the length of audit scope disclosure and audit fees. Additionally, we observe a negative association between the percentage level of revenue as audit coverage and the audit fees. We later discovered a relatively negative relationship between the complexity of the audited company and the extent of the audit scope covered by the auditor. This relationship suggests that audit coverage of revenue represents the level of complexity to some extent and is negatively associated with audit fees.

Lastly, our findings contribute to the audit process in relation to audit delays. While we do not observe its significant relationship with the length of audit scope disclosure, we do identify a negative association between the percentage of coverage and audit delays. This indicates that greater coverage of the audit scope corresponds to a shorter duration from the firm's fiscal year-end to the auditor's signature date, implying a faster audit process. This finding aligns with our results regarding audit fees, which demonstrate that higher coverage reflecting a lower level of complexity for auditors in performing assurance tasks, thereby shortening the audit process.

2. Literature Review

2.1. Audit report and expectation gap

The purpose of the audit report is to act as a communication tool. It primarily allows auditors to communicate with the users of financial reports using standardized language (Gutierrez et al., 2018; Chong & Pflugrath, 2008). Beyond issuing an independent opinion of the auditee in the first section, the audit report is also followed by the basis for the opinion, considerations about going concern, key audit matters, and the responsibilities for the financial statements (FRC, 2013). The extensive messages, in accordance with the applicable financial reporting framework, delivered by auditors explain whether sufficient audit evidence has been obtained, financial statements are prepared in all material respects, and reasonable assurance has been conducted (FRC, 2013). The information disclosed in the audit report is intended to provide external users with an understanding of the audit process.

However, due to distinct levels of professional expertise and differing objectives, there is an expectation gap for external users when reading audit reports and financial statements (Humphrey, 1993; Holt et al., 1990). Based on an investigation conducted in Australia, perception differences among senior-level external users are notably less pronounced than among junior-level external users (Monroe & Woodliff, 1994). Acknowledging the existence of audit expectation gap, Best et al (2001) provide evidence of the gaps through a different approach. Rather than employing a research methodology that segments individuals by professional level, the research evaluates the length of audit reports. The result supports that implementing detailed, long-form audit reports in Singapore is likely to narrow the expectation gap and enhance the decision-making process for users of financial statements (Best et al., 2001). A more detailed audit report can help to diminish the expectation gap to a certain degree. This conclusion implies that greater disclosure within the audit report leads to an increase in the information provided. When users have access to more information, there is likely to be less ambiguity in their perception. Indeed, we have observed changes in later standards regarding the required disclosures in audit reports. The movement towards more comprehensive and regulated disclosure aligns with the anticipated expansion in the length of audit reports.

2.2. UK reporting standards and consequences

To fulfill the responsibility of promoting high-quality corporate governance and reporting to enhance investment, the FRC requires in the International Standard on Auditing (UK and Ireland) 700 (Revised June 2013) specifically in section 19a that the audit report shall describe and address the following:

- 1) material misstatement

2) materiality application

3) an overview of audit scope

Reference paragraph a13c calls for a more comprehensive explanation and suggestions regarding the content within the audit scope. The standards demand that audit scope should be tailored to the specific context and reflect the impact of materiality, tackling the risks associated with significant misinformation. Additionally, the summary could incorporate the extent of coverage of key financial data, the number of locations auditors visit, and the nature of the involvement of group auditors in the component parts of the work. (FRC, 2013)

Following the revisions of standards since 2013, research on the implications of expanded audit reports has emerged. Studies have focused on whether such revisions have enhanced the informational value of audit reports. According to research conducted by Gutierrez et al. (2018), evidence covering data spanning two years before and after the new standard's adoption, does not find that investors' reactions to the release of auditors' reports significantly change. However, during the same research period, Reid et al. (2019) documents a notable decrease in abnormal accrual figures. This finding suggests a relationship between the new reporting standards and improved financial reporting quality. Nonetheless, Reid et al.'s (2019) research primarily examines the pre and post comparative effects following the standards' implementation, rather than assessing the specifics of Section 19a in ISA (UK and Ireland) 700.

In recent years, there has been an increase in research examining the implications of adhering to specific requirements within the revised ISA (UK and Ireland) 700 from 2013, particularly concerning audit materiality. Such studies typically explore this concept from both qualitative and quantitative perspectives. On the quantitative side, research collects materiality level directly in expanded audit reports, finding a negative association between FTSE 350 companies' year-end audit materiality thresholds in 2015 and audit fees (Dwyer et al., 2022). Meanwhile, qualitative research investigates auditors' practical application of materiality, offering insights into the benchmarks used and the underlying reasons for materiality choices (Quick et al., 2023). These diverse approaches to studying materiality have inspired our investigation into the audit scope section, prompting us to question whether there is a meaningful relationship between the percentage of coverage and audit fees and content of audit scope disclosures adds more informational value in terms of how auditors choose coverage benchmarks in practice.

2.3. Audit scope

The existing academic literature on audit scope is limited, and there is no consensus on a standard method of measurement. Early research has focused on the impact of a client's industry, ownership structure, and financial condition on audit scope, utilizing case studies and auditor decisions to explore how audit hours are designed and allocated across

different audit procedures (Walo, 1995). This method provides a robust measure of audit scope by closely examining the execution of audit plans. However, the approach faces predictable challenges, such as constraints on sample size and the limitation to only a few select line items within audit plans. As Walo's study (1995) confines its analysis to substantive tests of accounts receivable. Consequently, it is expected that expanding this method to assess the wider audit scope of consolidated financial statements, especially for larger firms, may increase the complexity of research and diminish the reliability of the findings.

Later research, such as the work by Kannan et al. (2014), has adopted Walo's (1995) approach by using audit hours to deduce audit scope. Although this approach simplifies the measurement process, the lack of public disclosure of audit hours continues to present a problem regarding data accessibility. Currently, with the FRC's revision of ISA (UK and Ireland) 700, the mandatory disclosure requirement of audit scope in the UK has been somehow standardized, making scope verifiable and measurable.

2.4. Audit fee

An audit fee, as compensation for assurance services provided for a company's financial statements, is composed of the unit price and the quantity of audit services demanded by audit firms (Simunic, 1980). Academically, audit fees have been used as a dependent variable to 1) serve as a proxy for audit effort when examining the relationship with office size (Francis & Yu, 2009), and 2) act as a proxy for audit quality in exploring the relationship with audit effort (DeFond & Zhang, 2014). Because audit fees are relatively easily obtainable and meaningful indicators, audit literature frequently investigates the connection between various independent variables and audit fees to further understand the impact of these variables on auditing practices.

Early studies discover a strong positive association between audit fees and factors like the size of the company and its level of business complexity (Anderson and Zéghal, 1994; Simunic, 1980). In 2006, a meta-analysis of audit fee research examines the combined impact of the most frequently used independent variables (Hay et al., 2006). This study also categorizes prior literature into 14 distinct categories and three major clusters of attributes: 1) client attributes such as size, leverage ratio, and complexity, 2) auditor attributes including reputation, tenure, and location, and 3) engagement attributes related to audit report lag, busy season, and audit feasibility, concluding that there is a significant relationship between well-established control variables like size, complexity, and risk with audit fees (Hay et al., 2006). However, the article does not analyze the factors affecting audit fees from the perspectives of unit price and quantity.

Based on prior literature, from the unit price perspective, subsequent research on audit fees has related to perceived risk and concluded that auditors may charge higher fees as compensation for bearing more perceived risk since auditors can face adverse

consequences, including damage to their reputation and greater resistance to shareholder ratification (Liu et al., 2009). From the quantity perspective, many studies have remained at the stage of manually collecting information about the costs incurred by companies in internal audit activities (Anderson and Zéghal, 1994) or using internal data for hours and billing rates to find that auditors increase the hours spent on the audit but not the billing rates (Redmayne et al., 2010; Bedard and Johnstone, 2004). However, internal data obtained through surveys raises the question of whether the willingness to reply to the survey might introduce additional bias, which arouses some debates.

Since the content within the audit scope can be quantified to some extent, our study can examine if audit scope has a relationship with audit fees via publicly disclosed data.

2.5. Lockdown Effect

Between 2019 and 2022, the COVID-19 pandemic is a pervasive and unignorable subject in the global landscape. In order to control the spread of the virus, governments across the world, including the United Kingdom, implement a series of stringent public health restrictions, such as lockdowns, quarantine and travel bans. These measures pose significant challenges to numerous industries, particularly those reliant on the physical presence of personnel and on-site operations.

The audit industry finds itself amongst the sectors profoundly affected by these restrictions. The lockdown policies-imposed constraints on auditors, impacting their ability to conduct fieldwork and engage in face-to-face meetings with clients. This, in turn, introduces heightened difficulties in fulfilling their audit responsibilities. Consequently, the period during the pandemic and its eventual subsiding prompt extensive research efforts aimed at comprehending the varied impacts of the pandemic and lockdown measures on the domain of auditing.

Studies from various global regions have converged on the same finding: lockdown measures during the pandemic have adversely affected audit processes, causing delays in audits and increasing audit fees (Musah et al., 2023; Monika et al., 2022; Harjoto & Laksmana, 2022).

During the initial wave of the pandemic, research analyzes data from audit client firms situated in 52 countries and audit firm offices located in 40 countries, noting that lockdown measures result in increased audit delays and fees (Harjoto and Laksmana, 2022). Employing multivariate regression analysis to study the severity of lockdowns, Hale et al. (2021) develop the COVID-19 Stringency Index based on nine distinct response indicators, such as stay-at-home mandates, workplace closures, and public transport restrictions.

Followed different response indicators to COVID-19 severity, Monika et al. (2022) observe that many audit firms, in response to the challenges posed by lockdowns,

implement 'working from home' (WFH) policies and further confirm the negative impact of these WFH policies on audit fees and the timing of audit report completion. Moreover, evidence from emerging economies shows that auditors faced delays in conducting audit tasks and issuing reports due to the pandemic (Anas et al., 2023). And study reveals that these audit delays are lessened when the audited entities have more effective internal audit functions (Musah et al., 2023; Anas et al., 2023).

Furthermore, it is worth noting that research finds that the impact of COVID-19 on the audit industry may not have been as extensive as initially anticipated. Hay et al. (2021) state that the actual effects of COVID-19 during the initial wave outbreak are less substantial than experts expect. Nevertheless, they anticipate forthcoming reforms within the auditing domain.

3. Hypothesis development

After collecting and analyzing the audit scope data, we aim to further investigate under the revised ISA (UK and Ireland) 700 whether there is additional information regarding audit scope added to the implications of the 2013 revision. However, based on our previous literature review, we have not found any studies that directly conducted quantitative research on the audit scope.

Textual analysis can be one of the approaches to conduct research, as suggested by Seebeck & Kaya (2022), Zeng et al. (2021), and De Franco et al. (2015). The rationale for evaluating document length, as explained by De Franco et al. (2015), is that lengthy documents suggest greater complexity from the auditee firms, or that longer reports are more complex to understand owing to rising information processing costs.

Subsequent literature also utilizes textual analysis on specific sections within the audit report. For instance, Zeng et al. (2021) examined the relationship between the length of the key audit matter section and audit quality. However, it is worth noting that these results contradict previous studies results that longer lengths imply greater complexity. Instead, the opposite result further implies that if auditors are aware of the complexity of a client's reporting, they tend to use fewer but more ambiguous words in disclosing information. (Zeng et al., 2021). From these previous approaches using textual analysis, it becomes evident that regardless of whether auditors are disclosing for regulatory reporting, the length of the disclosure seems to reflect the complexity or difficulty that auditors might expect. This is likely to have a relationship with the service fees charged (audit fees) and the duration of conducting the audit assurance (audit delay). Consequently, our first set of hypotheses is stated as follows:

H1a: Level of disclosure in audit scope is associated with audit fees

H1b: Level of disclosure in audit scope is associated with audit delay

Since there are disclosures about materiality in the same section 19a within ISA (UK and Ireland) 700, and since disclosures of materiality involve the selection of benchmarks and thresholds (Quick et al., 2023), which are similar to the format of audit scope disclosures, we also refer to the qualitative approach used in the study of audit materiality.

According to ISA 320, 'Materiality in Planning and Performing an Audit,' as referenced in Paragraph a7, the percentage applied to the chosen materiality benchmark requires the exercise of professional judgement (FRC, 2010). In the research conducted by Choudhary et al. (2019), it is found that a higher materiality threshold, interprets as fewer items exceeding the materiality benchmark, is inversely related to audit effort and audit fees. Observing the result of this inverse relationship in a sample of US firms, Dwyer et al.

(2022) chose the UK as their sample base. Based on the disclosed materiality information under the revised ISA (UK and Ireland) 700, the study arrived at the same conclusion: that a higher materiality threshold, seen as indicative of a looser approach in performing audit assurance, is negatively associated with audit effort and audit fees (Dwyer et al., 2022).

In our study of audit scope, the selection of the percentage requires the use of professional judgement as well. However, unlike the materiality threshold, which indicates that a higher threshold implying a looser audit assurance, the coverage percentage represents the overall range of the audit coverage. We speculate that audit coverage has two potential implications on audit fees and audit delay: 1) it reflects audit efforts and is positively associated with audit fees and audit delay; 2) it represents the level of audit complexity and higher audit coverage suggests the client is less difficult to audit, hence is negatively associated with audit fees and audit delay. As reflected in Hypothesis 2, although we cannot initially determine the direction of the relationship, we anticipate that the percentage of coverage should have an association with both audit fees and audit delays.

H2a: Percentage of coverage benchmark is associated with audit fees

H2b: Percentage of coverage benchmark is associated with audit delay

4. Sample Selection

We access auditor reports of listed firms in the FTSE 100 to investigate how auditors disclose audit scope in practice. Our empirical and regression analyses cover the period from 2019 to 2022. Because there are two companies that made their IPO after 2019, our total sample consists of 100 firms, totaling 395 observations over four years. For regression analyses, we exclude data with missing values for each variable in the models and resulted in 320 observations.

Table 2 shows how our total sample is distributed by audit firm and industry (GICS classifications). Financials and Industrials account for respectively 20.3% and 18.2% of total sample. And it might be because FTSE 100 constituents are large-size companies with complex business that 98.5% of their annual reports from 2019 to 2022 are audited by big-four audit firms.

To begin, we access the London Stock Exchange index information and retrieve the components of the FTSE 100 index as of the end of September 2023. We then collect annual report data for the constituents of the FTSE 100. We extract financial data from S&P Capital IQ, while we manually collect audit scope related data from annual reports of each firm. Due to variations in fiscal years among companies, we define the 2019 annual report as including all year-ends occurring on or after June 30, 2019, and before June 30, 2020. Similarly, the 2022 annual report include all year-ends occurring on or after June 30, 2022, and before June 30, 2023. This treatment allows us to capture the impact of macroeconomic and special events consistently within the same time frame.

During the manual data collection process, we gather the following five data points: the company's fiscal year-end date, the signing date for auditor, the auditing firm, audit fees, and the entire audit scope section. Specifically, 1) when collecting audit fees, some listed companies, due to their primary operations in the US or their products' association with commodities, report their financials in US dollars. Besides, there are also companies reporting in Euro. For these companies, we use annual average exchange rate from Sveriges Riksbank and convert all data into British pounds. 2) When collecting the entire audit scope section, we organize and categorize the data by reporting component types, the number of reporting components, coverage benchmark choices, and the percentage of benchmark coverage. Additionally, we count the number of words within the entire audit scope section.

Table 2. Sample distribution

Industry	N	%	Auditor	N	%
Financials	80	20,3%	KPMG	101	25,6%
Industrials	72	18,2%	Deloitte	102	25,8%
Consumer Discretionary	60	15,2%	PwC	103	26,1%
Consumer Staples	45	11,4%	EY	83	21,0%
Materials	38	9,6%	RSM	4	1,0%
Communication Services	28	7,1%	BDO	2	0,5%
Health Care	24	6,1%	Total	395	100,0%
Utilities	20	5,1%			
Real Estate	12	3,0%			
Energy	8	2,0%			
Information Technology	8	2,0%			
Total	395	100,0%			

5. Descriptive findings and discussion

As previously mentioned in the article, the revised standard ISA (UK&Ireland) 700 requires auditors to disclose the overview of audit scope and how they tailor the audit scope. To scope the group audit, auditors often take into account their understanding of the group and its environment, group-wide controls and risk assessment of material misstatement at a group level (Severn Trent Plc, Deloitte Auditors' Report 2022/2021). They also disclose that out of total reporting components or in-scope components, how many components are performed full-scope audit (full-scope component), audit procedures on specific account balances (specific-scope component) or specified risk-focused audit procedures (specified procedures component). For example, Prudential Plc 2022 KPMG Auditors' Report states with respect to the group audit scope: "Of the 13 reporting components scoped in for the group audit, we subjected 6 to full scope audits for group reporting purposes, 5 to an audit of account balances, 2 to specified risk-focused audit procedures..."

Besides, we find that auditors' reports disclose a variety of benchmarks that are employed to describe coverage of group financial statements audited. For instance, Imperial Brands Plc 2022/2021 EY Auditors' Report states with respect to the group audit scope: "The components where we performed full or specific audit procedures accounted for 91% of Profit before tax on an absolute basis, 83% of Revenue and 89% of Total assets."

Moreover, we also collect full text of audit scope related content in each auditors' report. As a simple measure of how much auditors have disclosed about audit scope, we get the word counts of audit scope related content in auditors' reports that disclose relevant information.

In this section, we provide a detailed description of different types of audit components, coverage of financial statements audited disclosed by the auditors' report of the FTSE 100 constituent companies from 2019 to 2022 and word counts of audit scope disclosure.

5.1. Overall audit components

As Table 3 shows, the percentages of auditor's report that disclose each type of audit component are fairly steady throughout these four years. We find that full-scope component is the most disclosed audit component by auditors. It accounts for around 75% (295 out of 395 auditors' reports) during the whole period. Meanwhile, 53% and 15% auditors' reports disclose the numbers of specific-scope components and specified procedures components audited. But it's worth noting that it doesn't mean that only 53% and 15% auditors' reports disclose corresponding information because some auditors just didn't include any specific-scope or specified procedures components. However, only about 50% (198 out of 395 auditors' reports) disclose total reporting components. That is, among the auditors' reports with information regarding audit components,

approximately 1/3 do not disclose the clients' total reporting components. Generally, auditors' reports that disclose audit components information always show how many components they identify as full scope, but there is one exception. WPP Plc 2022 Deloitte Auditors' Report only discloses the number of specified procedures components, but not other components. Hence, we exclude this observation when calculating in-scope components.

In terms of choosing among various types of components, auditors often identify those they consider to be of individual financial significance, or significant due to risk (British American Tobacco Plc, KPMG Auditors' Report 2022). The underlying rationale for not classifying certain components as any of the three types of in-scope components is typically explained in auditors' reports by stating that they are not financially significant. For example, Imperial Brands Plc 2022/2021 EY Auditors' Report states that: "Of the remaining 357 components that together represent 9% of the group's profit before tax on an absolute basis, none are individually greater than 1% of the group's profit before tax." We find the number of different components, particularly the total reporting components, varies significantly across auditors' reports. This variation is reasonable because FTSE 100 comprise of companies across 11 distinct industry sectors with diverse business structures and sizes. Besides, we observe that although the average number of each type of component, except for specified procedures components, shows a general downward trend, the average percentages of each type of audit component, including overall in-scope components within the total reporting components, remain relatively stable over the four-year period. We preliminarily speculate that auditors do not change much of their audit scope from the perspective of reporting components.

In conclusion, the disclosure practice of audit components fluctuates slightly but are stable as a whole during our sample period. As the total number of reporting components decreases, potentially due to adjustments in companies' reporting structures, auditors also change their considerations of audit components and manage to maintain a certain level of audit scope coverage at group reporting component level.

Table 3. Overall audit components

	Number of each type of components				%Total reporting components		
	N	%	Mean	Range	N	Mean	Range
2019							
Total reporting components	48	49%	97	3~565			
Full-scope components	73	74%	16	1~179	46	35%	0.7%~83%
Specific-scope components	48	49%	14	1~84	30	30%	1.4%~90%
Specified procedures components	15	15%	7	1~36	13	10%	1.4%~31%
In-scope components	73	74%	27	2~263	46	57%	1.6%~100%
2020							
Total reporting components	51	52%	112	2~521			
Full-scope components	74	76%	15	1~173	49	30%	0.6%~83%

Specific-scope components	52	53%	15	1~104	34	32%	1.4%~88%
Specified procedures components	16	16%	8	1~40	13	10%	1.3%~40%
In-scope components	74	76%	27	2~277	49	55%	1.5%~100%
2021							
Total reporting components	49	49%	105	2~530			
Full-scope components	73	74%	14	1~174	47	29%	0.6%~83%
Specific-scope components	54	55%	13	1~55	36	32%	0.4%~90%
Specified procedures components	14	14%	5	1~13	11	9%	1.9%~31%
In-scope components	73	74%	24	1~226	47	56%	1.5%~100%
2022							
Total reporting components	50	50%	95	2~427			
Full-scope components	75	75%	13	1~152	48	31%	0.9%~86%
Specific-scope components	55	55%	11	1~52	36	31%	0.4%~88%
Specified procedures components	16	16%	9	1~64	11	10%	0.2%~41%
In-scope components	75	75%	22	1~204	48	56%	1.3%~100%
Total							
Total reporting components	198	50%	103	2~565			
Full-scope components	295	75%	15	1~179	190	31%	0.6%~100%
Specific-scope components	209	53%	13	1~104	136	31%	0.4%~90%
Specified procedures components	61	15%	7	1~64	48	10%	0.2%~41%
In-scope components	295	75%	25	1~277	190	56%	1.3%~100%

Note: % represents the proportion of auditors' reports that disclose each type of audit component (N) in the total number of auditors' reports in the corresponding year.

2. In-scope components comprise of full-scope components, specific-scope components and specified procedures components.

5.2. Coverage of financial statements audited

5.2.1. Overall benchmarks

Table 4 provides a summary of the benchmarks of coverage of audited financial statements used. In our sample of 395 auditors' reports, there are 13 different benchmarks of audit coverage in total. We find revenue is the most common coverage benchmark used by auditors. It accounts for 84.8% (335 auditors' reports) from 2019 to 2022. Auditors' reports in our sample provide limited information regarding underlying rationales for the choice of coverage benchmarks. When it comes to materiality benchmark, "Thresholds based on total assets or revenue may be more stable from year to year than income-based thresholds" (Chewning & Higgs, 2002, p.69). Because "the evaluation of materiality and allocation of performance materiality" helps determine audit scope (Beazley Plc 2022 EY Auditors' Report), we speculate that stability is an important factor when selecting coverage benchmarks as well. At the same time, we find total assets ranks third as the benchmark of audit coverage. 53.4% (211 auditors' reports) of our full sample disclose

coverage of total assets. Hence, we think it's reasonable to infer that stability is one of the main considerations when auditors determine the benchmark of audit coverage disclosure.

After revenue, PBT, which is usually the most employed materiality benchmark (Quick et al., 2023), ranks as the second most frequently used benchmark. There are 227 auditors' reports (57.5% out of 395 auditors' reports) that use PBT for coverage benchmark. The rationale for choosing PBT as benchmark might be to align with materiality benchmark because materiality is one of the most important factors when auditors determine audit scope. We find there are also 83 auditors' reports that disclose audit coverage using adjusted PBT, which ranks fourth in disclosing audit coverage, as benchmark. Among these reports, 20 of them also disclose coverage of PBT. Items such as "one-off items" (Burberry Group Plc, Annual Report 2022/2021), "non-operational items" (DS Smith Plc, Annual Report 2021/2020) and "financial instruments" (Severn Trent Plc, Annual Report 2022/2021) are tended to be excluded to obtain the adjusted profit figures because those companies believe the adjusted measures are more appropriate for explaining underlying performance (SSE Plc, Annual report 2022/2021).

Our finding of top 4 frequently used benchmarks is consistent with auditing standard ISA 700 (UK&Ireland) which illustrates that the summary of audit scope might include, "for example, the coverage of revenue, total assets and profit before tax achieved". Hence, while we have speculations above about auditors' choice of coverage benchmarks, to comply with the guidance given by the auditing standard is the most likely reason. 91% (359 out of 395) auditors' reports disclose using at least one of the benchmarks (including adjusted PBT) given by standard. Besides, there are 43% (170 out of 395) auditors' reports that disclose using all three benchmarks (PBT or adjusted PBT and revenue as well as total assets). This finding is crucial for understanding auditors strictly adhere to the guidance of auditing standards in terms of audit coverage disclosure.

Net assets stands as the fifth most frequently used benchmark. There are 80 auditors' reports which use net assets as benchmark of audit coverage disclosure. Other benchmarks employed include profit measures such as operating profit, EBIDA and their related adjusted metrics, and capital measures like total liabilities, PPE and so on.

As table 4 shows, the audit coverage of revenue ranges from 66% to 100%; its arithmetic mean and median are 87.7% and 89% respectively. Audit coverage of PBT has quite similar figures, ranging from 66% to 100%, with an average of 88,1% and median of 90%. Coverage of total assets, adjusted PBT, and net assets all have an average and median around 90%. Interestingly, there is one auditors' report which discloses a coverage of adjusted PBT of 106% "as a result of losses elsewhere in the Group" (Whitbread plc, Deloitte Annual Auditors' Report 2021/2020). Similarly, there are two auditors' reports for one company with coverage of adjusted PBT greater than 100% because their PBT figures are "before considering the impact of intercompany eliminations" (Hargreaves Lansdown plc, PwC Auditors' Report 2022/2021 and 2021/2020).

When disclosing audit coverage percentage, auditors' reports normally use more than one benchmark and give more than 1 percentage. Out of 359 auditors' reports that have information regarding coverage of financial statements audited, merely 10 of them disclose audit coverage using only one benchmark (revenue:9; PBT:1). Out of the remaining 349 auditors' reports, 81 reports disclose using two benchmarks. The majority, consisting of 244 reports, utilize three benchmarks, while 19 reports use four benchmarks, and 5 reports employ five benchmarks.

Overall, we find that auditors strictly comply with the guidelines given by the auditing standard from the aspect of audit coverage disclosure. On the other hand, auditors are able to adjust the benchmarks according to the specific context and circumstances of the auditees, which is illustrated by the usage of adjusted PBT and other benchmarks.

Table 4. Overall benchmarks

	N	%	Mean	Median	Coverage
Revenue	335	84,8%	87,7%	89%	66%~100%
PBT	227	57,5%	88,1%	90%	66%~100%
Total Assets	211	53,4%	91,1%	93%	72%~100%
Adjusted PBT	83	21,0%	87,0%	91%	53%~108%
Net Assets	80	20,3%	92,1%	94%	73%~97%
Operating Profit	26	6,6%	87,9%	90%	69%~98%
Total liabilities	11	2,8%	93,7%	94%	88%~99%
EBITDA	9	2,3%	86,3%	86%	75%~100%
Adjusted Operating Profit	7	1,8%	76,9%	76%	69%~88%
Adjusted EBITDA	7	1,8%	81,0%	80%	74%~91%
PPE	5	1,3%	80,4%	76%	75%~99%
Gross written premium	3	0,8%	92,7%	97%	83%~98%
PPE, ROU assets and intangible assets excluding goodwill	1	0,3%	98,0%	98%	98%~98%

Note: % represents the proportion of auditors' reports that disclose each type of audit component (N) in the total number of auditors' reports from 2019 to 2022.

5.2.2. Audit firm variation

As we mentioned above, although most auditors strictly comply with auditing standard in terms of the selection of audit coverage benchmarks, it still depends on auditors' professional judgment and there exists certain level of flexibility and discretion. And we do find that the choice of coverage benchmarks including both type and count varies between different audit firms. As table 4 shows, revenue is the most frequently used benchmark that auditors used to disclose audit coverage. There seems to be a consensus among the audit firms in the use of revenue as audit coverage benchmark and its use increased slightly during these four years.

The application of other benchmarks seems to differ among audit firms. As table 5 shows, KPMG rigorously adheres to the references provided by the auditing standard. It evenly, consistently and centrally employs revenue, PBT, and total assets as benchmarks throughout the four-year period. And the only other benchmark KPMG has used is EBITDA in Smurfit Kappa Group Plc's and Entain Plc's auditors' reports. Deloitte and PwC use PBT as the second most common benchmark for disclosing audit scope while EY uses total assets more frequently. Interestingly, it seems that when determining the benchmarks of audit coverage, Deloitte tends to use more discretion compared to other audit firms, because it more frequently uses benchmarks outside the scope of references given by auditing standard. It uses net assets and other 7 different types of benchmarks, i.e., Deloitte employs all distinct types of benchmarks showed in table 4 apart from gross written premium. Meanwhile, there are only two companies, Frasers Group Plc and Endeavour Mining Plc, opt for non-Big-four audit firms, RSM and BDO respectively, to audit their financial statements. Their auditors' reports have all strictly stuck to three reference benchmarks except that Frasers Group Plc 2019 RSM auditors' report used net assets instead of total assets.

Besides, we find on average, KPMG uses 2.9 benchmarks per auditors' report to disclose their audit scope coverage, which is the most among Big-four audit firms, while PwC employs the least, 2.2, benchmarks per auditors' report.

Overall, audit firms' use of audit coverage benchmarks is stable as a whole from year to year. But different audit firms have different tendencies when determining the benchmarks of disclosing audit scope coverage: some firms like KPMG tends to use reference benchmarks given by auditing standard, while on the other hand, the choices of some firms such as Deloitte are inclined to be more discretionary.

Table 5. Audit firm variation – benchmarks of audit coverage of financial statements

	KPMG		Deloitte		PwC		EY		RSM		BDO	
2019	N	%	N	%	N	%	N	%	N	%	N	%
Revenue	20	83%	22	85%	21	78%	14	70%	1	100%		
PBT	20	83%	14	54%	14	52%	6	30%	1	100%		
Total assets	21	88%	5	19%	9	33%	12	60%				
Adjusted PBT	2	8%	3	12%	6	22%	8	40%				
Net assets	4	17%	15	58%	2	7%	2	10%	1	100%		
Others	2		10		6		2					
Total	69	2,9	69	2,7	58	2,1	44	2,2	3	3,0		
2020												
Revenue	24	92%	22	88%	20	83%	17	77%	1	100%		
PBT	22	85%	13	52%	11	46%	8	36%	1	100%		
Total assets	24	92%	2	8%	9	38%	17	77%	1	100%		
Adjusted PBT	2	8%	3	12%	7	29%	10	45%				
Net assets	4	15%	14	56%	1	4%	2	9%				
Others	2		9		3		3					

Total	78	3,0	63	2,5	51	2,1	57	2,6	3	3,0		
2021												
Revenue	24	92%	24	92%	22	85%	15	79%	1	100%	1	100%
PBT	22	85%	12	46%	14	54%	6	32%	1	100%	1	100%
Total assets	24	92%	6	23%	8	31%	15	79%	1	100%	1	100%
Adjusted PBT	1	4%	5	19%	10	38%	9	47%				
Net assets	3	12%	12	46%	2	8%	2	11%				
Others	2		9		3		2					
Total	76	2,9	68	2,6	59	2,3	49	2,6	3	3,0	3	3,0
2022												
Revenue	23	92%	23	92%	21	81%	17	77%	1	100%	1	100%
PBT	21	84%	13	52%	15	58%	10	45%	1	100%	1	100%
Total assets	23	92%	8	32%	6	23%	17	77%	1	100%	1	100%
Adjusted PBT			3	12%	7	27%	7	32%				
Net assets	2	8%	9	36%	3	12%	2	9%				
Others	1		10		3		2					
Total	70	2,8	66	2,6	55	2,1	55	2,5	3	3,0	3	3,0
Grand Total	293	2,9	266	2,6	223	2,2	205	2,5	12	3,0	6	3,0

Note: 1. % represents the proportion of auditors' reports that disclose each type of benchmark (N) in the total number of auditors' reports of the corresponding audit firm in the corresponding year.

2. N of "others" represents the sum of N of the remaining benchmarks.

3. "Total" of % represents the average of number of benchmarks per auditors' report signed off by corresponding audit firm.

5.2.3. Industry variation

Our analysis based on 11 industry sectors (GICS classifications) provides evidence of how auditors use different benchmarks based on the client's industry. As Appendix A shows, we find that revenue is the main benchmark used by auditors in determining benchmarks of audit scope coverage disclosure for firms in the non-financial sectors. Almost 100% of auditors' reports of firms in non-financial sectors except communication services and utilities industries disclose audit coverage of revenue. On the other hand, only 65% of auditors' reports of firms in financial sector use revenue as audit coverage benchmark. It's worth noting that we exclude auditors' reports that do not disclose any percentage of audit coverage when calculating "%" of each industry per benchmark. This is to avoid distortion caused by high percentage of non-disclosure of auditors' report of firms in financial and real estate industries (25% and 50% respectively). For firms in consumer staples and health care industries, PBT is their second most frequently used audit coverage benchmarks in their auditors' reports while firms in consumer staples, financials and real estate industries use total assets as benchmark more frequently. Besides, auditors also use benchmarks apart from three references given by auditing standard based on auditees' industry. For instance, for firms in financial industry, 33% of auditors' reports use net assets as benchmark, which might be because stakeholders pay close attention to net assets on account of minimum capital requirements for banks and

insurance companies. And there are 3 auditors' reports that use gross written premium as benchmark because their clients are insurance companies (Aviva Plc, PwC auditors' report 2019; Beazley Plc, EY auditors' report 2019 and 2020).

Overall, auditors' reports of firms in all industries except financial industry mostly use revenue as benchmark of audit coverage. And due to the distinct attributes of financial firms, auditors tend to use more discretion when selecting benchmarks for firms in financial industry. Besides, there are both similarities and differences in selection of benchmarks across different industries. Hence, our analysis offers the evidence that auditors use different benchmarks based on the client's industry.

5.3. Word count of audit scope disclosure

We also collect data of word counts of content regarding audit scope disclosure in each auditors' report. Table 6 displays word count of audit scope disclosure across four years in different audit firms' audit reports. We find, on average, that the length of audit scope content in auditors' reports increase gradually year by year. And we also find that length of audit scope disclosure varies between different auditors. EY tends to disclose more content regarding audit scope in their reports, while KPMG has the shortest audit scope disclosure among big-four audit firms, however, their length of disclosure increases significantly throughout the four-year period. All other firms' disclosure lengths of audit scope are relatively stable. Besides, we also examine the average word counts among different industries and one finding that rates a mention is that auditors' reports of firms in real estate companies disclose the least (291 words on average) regarding audit scope compared to firms in other industries.

Table 6. Word count of audit scope disclosure

	PwC		Deloitte		KPMG		EY		RSM		BDO		Total	
	N	Mean	N	Mean	N	Mean	N	Mean	N	Mean	N	Mean	N	Mean
2019	27	557	26	456	22	280	19	676	1	621			95	490
2020	24	563	25	467	25	361	21	786	1	576			96	534
2021	26	606	26	477	24	370	19	776	1	606	1	201	97	542
2022	26	575	25	479	23	611	22	763	1	627	1	202	98	598
Total	103	575	102	470	94	406	81	752	4	608	2	202	386	542

6. Regression analyses

After a detailed description of empirical evidence on how auditors disclose audit scope in auditors' reports in three aspects — audit components, coverage of audit scope and length of audit scope content, we also carry out regression analyses to examine the implications of audit scope disclosure on audit fee and audit delay. Considering the number of observations, we selected the audit percentage coverage of the most frequently used benchmark — revenue, and word counts of audit scope content in each auditors' report as independent variables.

6.1. Descriptive statistics

We performed our analyses based on a sample of 100 constituent companies in FTSE 100, leading to 395 observations due to 5 missing annual reports of two companies. We lose some observations each year because of missing disclosure of audit coverage of revenue and audit scope content, i.e., word counts of audit scope content, or missing number of employees values in S&P Capital IQ database. Finally, our regression sample consists of 320 observations.

The table 7 below reports the descriptive statistics for all the variables in our regression models. In our regression sample, the mean value of audit delay is approximately 60 days, indicating that on average, auditors release their audit opinion 60 days after auditee's fiscal year-end. The average figure of word count (Fulltext_Count) and percentage of audit coverage of revenue (C_Revenue) are respectively about 548 and 87.5%.

Table 7. Descriptive statistics

Variables	N	Mean	SD	25th Pctl.	Median	75th Pctl.
LN_Audit_Fee	320	1.543	1.199	.693	1.579	2.333
Audit_Delay	320	60.481	17.217	50.5	58	67
Fulltext_Count	320	548.144	255.681	342	526.5	719.5
C_Revenue	320	.875	0.096	.79	.89	.96
LN_TA	320	9.62	1.745	8.55	9.41	10.38
ROA	320	.081	0.211	.017	.05	.095
Leverage	320	1.12	1.163	.425	.85	1.335
LN_Employees	320	9.852	1.444	9.06	9.961	10.956
Intangibles_Ratio	320	.269	0.253	.037	.224	.431
Receivables_Ratio	320	.098	0.084	.032	.084	.132
Inventory_Ratio	320	.085	0.130	.003	.053	.121
PtoBV	320	5.262	10.732	1.497	2.543	5.871

Note: All variables are defined in the models in the following sections 5.2 and 5.3.

We next conduct Pearson correlation analysis. Appendix B displays the pairwise correlation for all variables in our regression models. The results reveal that *LN_AuditFee* has a significant negative weak correlation with *C_Revenue*, which indicates that larger coverage of revenue audited is associated with lower audit fee. This is against one of possible speculations that auditors make more efforts to audit a larger coverage of financial statements and hence acquire higher audit fee as compensation. The significant positive correlation between *LN_AuditFee* and *Fulltext_count* reveals that, generally, when auditors disclose more audit scope related content, they receive higher remuneration. *Fulltext_count* and *Audit_Delay* has no significant correlation. Meanwhile, small significant negative correlation between *Audit_Delay* and *C_Revenue* suggests that auditors' reports with a lower audit coverage of revenue generally release later, which might support the speculation that lower audit coverage indicates more complicated audit and auditors must take more time during the audit process. This is further investigated in our following regression analyses.

6.2. Audit scope and audit pricing

We first investigate whether and how auditors' audit coverage and length of audit scope disclosure relate to audit pricing. Our regression model is as follows:

$$\begin{aligned} LN_AuditFee_{i,t} = & \beta_0 + \beta_1 Fulltext_count_{i,t} + \beta_2 C_Revenue_{i,t} + \beta_3 LN_TA_{i,t} + \\ & \beta_4 ROA_{i,t} + \beta_5 Leverage_{i,t} + \beta_6 LN_Employees_{i,t} + \\ & \beta_7 Intangibles_Ratio_{i,t} + \beta_8 Receivables_Ratio_{i,t} + \\ & \beta_9 Inventory_Ratio_{i,t} + \beta_{10} PtoBV_{i,t} + \epsilon_{i,t} \end{aligned}$$

where

LN_AuditFee_{i,t} = natural logarithm of audit fee for firm *i* in year *t*,

Fulltext_count_{i,t} = word count of audit scope disclosure in auditors' report,

C_Revenue_{i,t} = percentage of audit coverage of revenue for firm *i* in year *t*,

LN_TA_{i,t} = natural logarithm of total assets at fiscal year end,

ROA_{i,t} = return on assets, net income over total assets,

Leverage_{i,t} = total debt over total equity,

LN_Employees_{i,t} = natural logarithm of total number of employees,

Intangibles_Ratio_{i,t} = intangible assets over total assets,

Receivables_Ratio_{i,t} = total receivables over total assets,

Inventory_Ratio_{i,t} = inventory over total assets,

PtoBV_{i,t} = market capitalization over book value of equity.

Our focus is the relationship between $C_Revenue_{i,t}$ and $Fulltext_count_{i,t}$, and $LN_AuditFee_{i,t}$. The other variables are all control variables and we referred to Hay et al. (2006) when selecting control variables. According to their classification of independent variables used in audit fee research, we select our control variables in different categories of client attributes: size — LN_TA , profitability — ROA , leverage — $Leverage$ (total debt over total equity), inherent risk — $Receivables_Ratio$, $Intangibles_Ratio$ and $Inventory_Ratio$, and complexity — $LN_Employees$ and $PtoBV$. Besides, we also include year, audit firm and industry fixed effects in different model specifications. Table 8 shows the results.

Among all the control variables, natural logarithm of total assets, natural logarithm of employee numbers and the percentage of receivables in total assets consistently have the greatest significance level and explanatory power (with greatest t-statistics). They are all positively correlated with $LN_AuditFee$ (natural logarithm of audit fee), which is in line with expected direction: financial statements of companies with larger-size, more employees and higher proportion of receivables are often more complex and risky, and hence auditors must take more efforts to acquire sufficient and appropriate evidence and require a higher audit services fee (Simunic 1980; Hay et al. 2006). Our results also reveal a consistent significant positive t-statistics for intangible assets over total assets, which is consistent with prior research that “firms with higher proportion of intangible assets are associated with higher auditor effort and higher litigation risk for auditors, manifesting in higher audit fee” (Datta, 2020, p. 123).

As for results for our research independent variables, in all three columns, we find that $Fulltext_count$ has a significant positive association with $LN_AuditFee$, which is consistent with significant positive correlation coefficient between the two variables in Appendix B. Specifically, with each additional word pertaining to audit scope disclosed in an auditor's report, there is a corresponding approximate increase of 0.033% in the audit fees. This suggests that auditors charge a higher audit fee as more detailed content of audit scope is disclosed in auditors' report. It might be because auditors tend to disclose a longer text of audit scope to reflect their more efforts put into audit work.

Meanwhile, we find that $C_Revenue$ has a significant negative association with $LN_AuditFee$ and this is also consistent with significant negative correlation coefficient in correlation table (Appendix B). Specifically, with the increase of 1% audit coverage of revenue, audit fee roughly decreases by 2.195%. This suggests that auditors require a lower audit remuneration when their audit covers a higher percentage of revenue in client's financial statements. To better interpret this result, we further investigate the Pearson correlation table of valuables in our regression model. We find that $C_Revenue$ is significantly negatively correlated with three previously mentioned significant measures of complexity and inherent risk of client — $LN_Employees$, $Intangibles_Ratio$, and $Receivables_Ratio$, all of which have a consistent significant positive association with $LN_AuditFee$ in our regression model. Clients with low

inherent risk and complexity also have low audit complexity. This suggests that high *C_Revenue* implies low audit complexity level. It's reasonable because clients with lower level of audit complexity are easier to audit, and auditors can cover a larger percentage of revenue in client's financial statements and charge a lower audit fee. In conclusion, *C_Revenue* to some extent represents the level of audit complexity and is negatively associated with audit fee.

Overall, our results regrading audit scope and audit pricing are consistent with our hypotheses H1a and H2a, i.e., percentage of revenue coverage and length of audit scope related disclosure in auditors' report are associated with audit fee.

Table 8. Results: audit scope and audit pricing

VARIABLES	LN_AuditFee		
	(1)	(2)	(3)
Fulltext_count	0.000467*** (4.193)	0.000449*** (3.056)	0.000330** (2.328)
C_Revenue	-2.523*** (-7.609)	-2.562*** (-7.363)	-2.195*** (-6.849)
LN_TA	0.548*** (23.98)	0.554*** (23.52)	0.542*** (16.09)
ROA	0.794*** (3.944)	0.751*** (3.632)	0.552*** (2.861)
Leverage	-0.0722*** (-2.806)	-0.0721*** (-2.779)	-0.0424 (-1.629)
LN_Employees	0.182*** (8.372)	0.178*** (7.784)	0.190*** (5.342)
Intangibles_Ratio	0.694*** (5.615)	0.715*** (5.574)	0.492*** (3.339)
Receivables_Ratio	1.868*** (5.278)	1.967*** (5.348)	1.756*** (4.646)
Inventory_Ratio	-0.428** (-2.018)	-0.432** (-1.991)	-0.315 (-1.294)
PtoBV	-0.0143** (-2.573)	-0.0128** (-2.252)	-0.0112** (-2.112)
Constant	-3.820*** (-9.203)	-3.417*** (-5.531)	-5.507*** (-7.691)
Observations	320	320	320
R-squared	0.868	0.872	0.900
Year FE	NO	YES	YES
Auditor FE	NO	YES	YES
Industry FE	NO	NO	YES

Note: 1. t-statistics in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

2. In column (1), we do not include any fixed effects. In column (2), we create audit firm indicators for each audit firm and include year-fixed effects. In column (3), we create industry (GICS classifications) indicators for each industry and include auditor- and year-fixed effects as well.

6.3. Audit scope and audit delay

We also examine whether and how audit scope, proxied by *Fulltext_count_{i,t}* and *C_Revenue_{i,t}*, relate to audit delay, which can affect the timeliness of accounting information releases (Ashton et.al, 1987) and implies extended audit work (Ettredge et al, 2006). Our regression model, similar to the one in 5.2, is as follows:

$$\begin{aligned} Audit_Delay_{i,t} = & \beta_0 + \beta_1 Fulltext_count_{i,t} + \beta_2 C_Revenue_{i,t} + \beta_3 LN_TA_{i,t} + \\ & \beta_4 ROA_{i,t} + \beta_5 Leverage_{i,t} + \beta_6 LN_Employees_{i,t} + \\ & \beta_7 Intangibles_Ratio_{i,t} + \beta_8 Receivables_Ratio_{i,t} + \\ & \beta_9 Inventory_Ratio_{i,t} + \beta_{10} PtoBV_{i,t} + \epsilon_{i,t} \end{aligned}$$

where

Audit_Delay_{i,t} = the number of days between firm i's fiscal year-end and the audit opinion signature date in year t.

Table 9 displays the results. All three columns have a low R-square, which means our audit delay model has limited explanatory power. And *Fulltext_count* is not significantly associated with *Audit_Delay*, which is consistent with non-significant correlation coefficient between the two variables in Appendix B and is against our H1b.

However, the results show that *C_Revenue* has a significant negative association with *Audit_Delay*. This is in line with both the significant negative correlation coefficient between *C_Revenue* and *Audit_Delay* in Appendix B and our H2b. Specifically, with the increase of 1% audit coverage of revenue, audit delay decreases by 0.413 days. It indicates that, generally, for financial statements with a higher audit coverage of revenue, auditors release auditors' report earlier. In general, the longer the audit delay suggests more extended audit work required for auditors (Ettredge et al, 2006) and hence higher level of audit complexity. We can reasonably infer financial statements with low audit complexity are easier to audit and auditors can cover a high percentage of revenue and also charge a low audit fee. The significant association between *C_Revenue* and *Audit_Delay* further support our conclusion in 5.2: high *C_Revenue* to some extent represents a low level of audit complexity and consequently negatively associated with audit fee and audit delay.

Table 9. Results: audit scope and audit delay

VARIABLES	Audit_Delay		
	(1)	(2)	(3)
Fulltext_count	-0.00411 (-0.969)	0.00473 (0.912)	0.00359 (0.667)
C_Revenue	-44.87*** (-3.553)	-41.73*** (-3.396)	-41.29*** (-3.396)
ln_TA	-1.699*	-1.024	-2.874**

	(-1.952)	(-1.231)	(-2.248)
ROA	-9.892	-13.02*	-14.29*
	(-1.290)	(-1.782)	(-1.954)
Leverage	-0.999	-1.331	-0.403
	(-1.020)	(-1.453)	(-0.407)
ln_employees	1.618*	0.382	1.320
	(1.955)	(0.474)	(0.980)
Intangibles_ratio	-13.34***	-12.50***	-6.223
	(-2.835)	(-2.758)	(-1.113)
Receivables_ratio	-19.04	-6.045	-10.42
	(-1.413)	(-0.465)	(-0.727)
Inventory_ratio	-4.430	-10.46	-9.069
	(-0.548)	(-1.363)	(-0.984)
PtoBV	0.172	0.263	0.169
	(0.813)	(1.310)	(0.839)
Constant	109.3***	125.7***	143.2***
	(6.914)	(5.762)	(5.271)
Observations	320	320	320
R-squared	0.074	0.225	0.303
Auditor FE	NO	YES	YES
Industry FE	NO	NO	YES

Note: 1. t-statistics in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

2. In column (1), we do not include any fixed effects. In column (2), we create audit firm indicators for each audit firm and include year-fixed effects. In column (3), we create industry (GICS classifications) indicators for each industry and include auditor- and year-fixed effects as well.

7. Conclusion

Current debates on making audit reports more informative fall into two major categories. The first is output-focused, which emphasizes the auditor's role in informing external users to facilitate the understanding of firm's financial reporting. The second is input-focused, concentrating on how the information about the audit process, disclosed within the audit report itself, can offer insights into the quality of the audit (PWC, 2013). Investors tend to be more output-focused as they believe auditors access to more information and by having better understand of how auditors addressing issue in annual report, investors shall have additional insight from auditors (PWC, 2013). To provide more information about audit process, the FRC revised ISA (UK and Ireland) 700 in 2013, mandating expanded audit reports to disclose additional sections to improve reporting quality. Among all the disclosure requirements in the revision, this study especially sheds light on audit scope disclosure.

With the focus on how auditors disclose the audit scope in FTSE 100 annual reports from 2019 to 2022, this study provides evidence of the current practices on how auditors employ in disclosing audit scope. Our findings indicate that, in terms of audit components, the number and allocation of components decisions for disclosure practices are generally stable with slight fluctuations. Variations in disclosures of components typically stem from the auditors' considerations of the financial significance and risk. For example, we observe that if the number of components decreases, auditors shall support with additional rationale, such as stating that certain elements are "no longer financially significant."

Our findings reveal that among the 395 audit reports collected, auditors strictly adhere to the auditing standards regarding audit coverage disclosure. Nonetheless, in certain contexts or circumstances, auditors retain the ability to exercise professional judgment. For instance, auditors might opt for adjusted PBT or other benchmarks as more coherent measures. Our observations indicate that while the audit coverage benchmark has remained relatively stable over the years, different audit firms exhibit varying preferences in selecting coverage benchmarks. For instance, KPMG tend to follow the reference benchmarks suggested by standards, whereas Deloitte exhibits more discretion. Additionally, we have noted that the average length of the audit scope section has expanded over the past four years.

The implications of audit scope disclosure are critical in evaluating whether expanded audit reports truly offer greater informational value. This study provides a detail insight into how auditors plan the audit by examining the full text disclosure of audit scope, as well as by investigating the relationship of revenue coverage percentage with audit fees and delays. Our findings suggest that there is a positive association between length of audit scope and audit fee. A plausible reason for audit fees associated with length of audit scope is that auditors may charge higher fees when they disclose more detailed audit scope content, possibly reflecting the increased effort they have invested in the audit work.

Our findings also provide a negative relationship between revenue coverage percentage in audit scope and audit fees. A possible explanation for this negative association is that higher scope coverage could indicate simpler auditee circumstances, thus leading to easier tasks for auditors and lower charges. Interestingly, we also find that there is a negative association between revenue coverage percentage and audit delay. This negative relationship aligns with the results related to audit fees, suggesting that simpler audit tasks might not only be reflected in lower fees charged but also demonstrate quicker completion times.

We acknowledge certain limitations in our study. Our research is based on sample of large, listed firms in the UK from the FTSE 100, which includes a relative proportion of broader financial sector, such as HSBC Holdings PLC, Prudential PLC, and Beazley PLC. Additionally, 98% of these companies are audited by the big-four audit firms. Auditing financial companies differs from auditing industrial companies, and there may be variations in audit scope disclosures among the big-four compared to other audit firms. Thus, our conclusions might be limited to large, listed firms and those audited by the big-four in the UK from 2019 to 2022.

During the process of documenting audit scope, we also realize the development of audit scope involves consideration of materiality. However, due to time constraints, we are unable to also manually collect data related to materiality disclosure from expanded audit reports. As a result, this study primarily focuses on how auditors disclose audit scope in practice, without further investigation into how disclosures in materiality could be related to audit scope disclosures. Moreover, while a partial purpose of the revision to ISA (UK and Ireland) 700 is to mitigate the information gap for external users, due to limited time, we did not explore further for market reactions in response to changes in audit scope.

In conclusion, our research offers insights into the practical disclosure of audit scope and how the content of such disclosure is associated with audit fees and audit delays. Our findings reveal that while scope disclosure generally adheres to auditing standards, variations exist across different firms and industries. Our regression analyses indicate that the audit coverage of revenue reflects the complexity of the audit to a certain degree and has negative relationship with audit fees and audit delay. By providing evidence on the disclosure practices of audit scope and its relationship with the audit process for the first time, we provide regulators, auditors, and users with an understanding of the implications of the revision to ISA (UK and Ireland) 700, especially concerning audit scope.

8. Appendix

Appendix A. Industry variation – benchmarks of audit coverage of financial statements

Industry	<u>Revenue</u>		<u>PBT</u>		<u>Total assets</u>		<u>Adjusted PBT</u>		<u>Net assets</u>		<u>Others</u>		<u>Total</u>	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%
Industrials	71	100%	40	56%	33	46%	14	20%	17	24%	10		185	2,6
Consumer Discretionary	52	100%	42	81%	28	54%	13	25%	18	35%	3		156	3,0
Consumer Staples	45	100%	32	71%	37	82%	11	24%	6	13%	7		138	3,1
Materials	37	100%	17	46%	18	49%	12	32%	5	14%	8		97	2,6
Health Care	24	100%	21	88%	11	46%	3	13%	4	17%	4		67	2,8
Communication Services	27	96%	16	57%	15	54%					10		68	2,4
Utilities	18	90%	11	55%	9	45%	11	55%	6	30%	7		62	3,1
Information Technology	8	100%	4	50%	3	38%	4	50%	4	50%			23	2,9
Energy	8	100%	2	25%	4	50%	4	50%			4		22	2,8
Financials	39	65%	40	67%	47	78%	11	18%	20	33%	12		169	2,8
Real Estate	6	100%	2	33%	6	100%					4		18	3,0

Note: 1. % represents the proportion of auditors' reports that disclose each type of benchmark (N) in the total number of auditors' reports that disclosed information regarding the audit coverage percentage for the corresponding industry.

2. N of "others" represents the sum of N of the remaining benchmarks.

3. "Total" of % represents the average of number of benchmarks per auditors' report that disclosed information regarding audit coverage percentage for corresponding industry.

Appendix B. Pearson correlation table

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
LN_Audit_Fee	1.000											
Fulltext_Count	0.561*** (0.000)	1.000										
C_Revenue	-0.263*** (0.000)	-0.260*** (0.000)	1.000									
LN_TA	0.733*** (0.000)	0.372*** (0.000)	0.126** (0.021)	1.000								
ROA	-0.314*** (0.000)	-0.196*** (0.000)	0.087 (0.111)	-0.374*** (0.000)	1.000							
Leverage	0.221*** (0.000)	0.053 (0.301)	0.115** (0.035)	0.337*** (0.000)	-0.139*** (0.006)	1.000						
LN_Employees	0.669*** (0.000)	0.332*** (0.000)	-0.178*** (0.001)	0.478*** (0.000)	-0.313*** (0.000)	0.231*** (0.000)	1.000					
Intangibles_Ratio	0.125** (0.013)	0.049 (0.341)	-0.489*** (0.000)	-0.273*** (0.000)	0.017 (0.730)	-0.124** (0.013)	0.090* (0.079)	1.000				
Receivables_Ratio	-0.056 (0.263)	0.006 (0.908)	-0.268*** (0.000)	-0.421*** (0.000)	0.194*** (0.000)	-0.152*** (0.002)	-0.022 (0.669)	0.168*** (0.001)	1.000			
Inventory_Ratio	-0.198*** (0.000)	-0.103** (0.044)	-0.064 (0.241)	-0.246*** (0.000)	-0.003 (0.947)	-0.165*** (0.001)	-0.065 (0.209)	-0.082* (0.104)	0.018 (0.719)	1.000		
PtoBV	-0.277*** (0.000)	-0.180*** (0.000)	0.081 (0.142)	-0.398*** (0.000)	0.805*** (0.000)	-0.006 (0.901)	-0.251*** (0.000)	0.108** (0.034)	0.279*** (0.000)	-0.067 (0.192)	1.000	
Audit_Delay	-0.055 (0.276)	-0.060 (0.236)	-0.169*** (0.002)	-0.092* (0.067)	-0.031 (0.538)	-0.065 (0.194)	0.097* (0.058)	-0.001 (0.981)	-0.006 (0.900)	0.079 (0.118)	-0.019 (0.712)	1.000

Note: p-values are in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

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