

Examining the Expectations Gap for No-Assurance Services

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ABSTRACT

Standards for Accounting and Review Services (SSARS) Number (No.) 1, “Compilations and Review Services,” (AICPA 1979) provides guidance for public accountants associated with unaudited financial statements through compilations and reviews. SSARS No. 8, “Amendment to SSARS No. 1, Compilation and Review of Financial Statements,” (2000) extends this guidance to *plain paper statements*. Unlike traditional compilations, plain paper statements are intended only for the use of informed members of management.

To examine the effects of SSARS No. 8, we surveyed practicing CPAs and bank loan officers to measure their perceptions of what constitute “submitted financial statements,” “third parties,” “informed members of management” and other key terms that aroused concerns described in SSARS No. 8 comment letters. We find that several years after the issuance of SSARS No. 8, CPAs, even those somewhat familiar with SSARS No. 8, and bankers who have experience with plain paper statements do not fully understand the definitions and applications of SSARS No. 8. In addition, several of the concerns cited in the statement’s Exposure Draft comment letters linger. The results suggest the need to either better educate plain paper statement users or revise the standards, perhaps prohibiting a CPA’s association with plain paper statements. We also identify future research questions.

Data and Survey Availability: Data results and survey instrument are available upon request.

Examining the Expectations Gap for No-Assurance Services

In the late 1970's, the CPA profession began focusing on improving the public understanding of the CPA's relationship with financial statements. In 1974, the American Institute of Certified Public Accountants (AICPA) established the Commission on Auditors' Responsibilities (Cohen Commission) to study if a gap existed between reasonable public expectations and auditors' performance of an audit of financial statements. The Commission identified several possible deficiencies in the auditor's report that impaired communications between auditors and financial statement users and suggested that auditors clearly communicate the purpose of any service.

During the same time period, the profession noted that a gap in understanding of CPA services also existed for unaudited financial statement services such as reviews, compilations and plain paper statements. Research showed that users of CPA-reviewed or compiled financial statements placed more reliance and confidence in these financial statements than what the CPA service actually provides (e.g., Bainbridge 1979; Reckers and Pany 1979). To address this misunderstanding, the AICPA issued the first Statement of Standards for Accounting and Review Services (SSARS). SSARS No. 1, "Compilations and Review Services," (AICPA 1979) offered guidance for public accountants associated with unaudited financial statements for nonpublic entities. However, SSARS No. 1 prohibited CPA association with plain paper statements. Plain paper statements are assembled financial statements intended for *informed members of management* only, i.e., those who have knowledge of the company, who can put the company's financial information into context, and who understand the limitations of the financial information.

As the competition for financial services expanded in the 1980's and 1990's, more non-CPA firms (e.g. American Express Financial Services) entered the market, offering accounting and non-audit services. In order to compete with these non-CPA bookkeeping and financial services firms, small to midsized CPA firms argued against SSARS No. 1's ban on association with plain paper financial statements (e.g., Guy, Israeloff and Hepp 1990).

Two concerns emerged early in the plain paper debates: clients incorrectly expecting CPA assurances with plain paper statements and fears that bankers and other unauthorized parties might improperly receive and rely on such financial statements. A more recent concern is ascertaining proper procedures when clients and CPAs make changes to financial statements on personal computers and transmit them, as well as source documents, over the Internet.

To address the market demand for and the profession's concerns over plain paper financial statements, the AICPA issued Standards for Accounting and Review Services No. 8, "Amendment to SSARS No. 1, Compilation and Review of Financial Statements" (AICPA 2000). The Statement provides guidance for the preparation and submission of plain paper statements, which are intended for internal management only.

Reinstein et al. (2006) tested CPA's and banker's levels of confidence in and reliability on assembled, compiled and plain paper statements under six no-assurance engagement scenarios. They found that despite warnings that such statements were "for internal use only," bankers placed some reliance on plain paper statements, and CPA's and bankers placed moderate levels of confidence in and reliability on no-assurance statements, especially when the CPA was known to be even minimally associated with the assembled, compiled or plain paper statements, evidenced by an accountant's report or letter. The CPA's association with the statements appeared to add value and inspired user confidence. The 2006 study examined user's faith in the

statements and their perceptions of the usefulness of no-assurance statements. The fact that bankers misunderstood the specific wording of plain paper financial statements and consequently approved loans based on reading the associated financial statements indicates that a gap exists between the expected and actual content of these statements and that their use is misconstrued.

Unlike the prior paper, this new study examines both CPA and banker *perceptions of concepts and definitions used to apply SSARS No. 8* in practice. It examines a continuing misunderstanding of SSARS No. 8 concepts, although the standard has been in effect for several years. We focused on perceptions surrounding key standard concerns described in SSARS No. 8 comment letters—such as what constitute “submitted financial statements,” “third parties” and “informed members of management.” We find that even CPAs somewhat familiar with SSARS No. 8, and bankers who have some level of experience with plain paper statements do not fully understand the definitions and concepts critical to the applications of SSARS No. 8. The results suggest the need to either better educate plain paper statement users or revise the standards, rescinding SSARS No. 8 or limiting a CPA’s association with plain paper statements.

Five years had passed between the issuance of SSARS No. 8 and our initial survey, so CPAs and users had time to learn the Statement’s provisions. Our study focused on three questions: (1) What are CPAs’ and users’ levels of understanding of the Statement’s definitions, issues and limitations? (2) Can CPAs and users properly distinguish between informed management and third parties as defined in the Statement? and (3) Can CPAs and users properly determine what constitutes submitted financial statements as defined in the Statement?

Using content analysis on the SSARS No. 8’s exposure draft (ED) comment letters, we developed a survey based on the concerns cited and distributed the survey to small, medium and large CPA firms and to small, medium and large banks in a large, Midwestern city. We find that

even after five years, CPAs and bankers do not fully understand the definitions and applications of SSARS No. 8. In addition, several of the concerns cited in the Statement's ED comment letters continue to cause problems. For example, while the statements are clearly marked for internal management use only, 68% of the bankers reported contact with plain paper statements.

The paper is organized as follows. The first section summarizes the history of authoritative standards relating to compilations, reviews and plain paper statements and discusses the relevant research. The next section describes the study's research questions and methodology. The following section presents results and analysis of the data collected through content analysis of the comment letters and administered survey. The last two sections identify the study's limitations and present our conclusions and suggestions for future research.

PRIOR RESEARCH

Professional History

Besides the Cohen Commission study of whether a gap¹ existed between public expectations and auditors' performance, early research focused on closing this gap for audited financial statements. Practitioner journals concurrently noted another gap between user perceptions and CPAs' associations with unaudited financial statements. For example, Bainbridge (1979) found that 51% of CPAs and 64% of bankers incorrectly believed that unaudited financial statements provided sufficient evidence to ascertain that the clients' internal control system performed as prescribed. To reduce the gap found by this research and in response to the *1136 Tenants'* (1971) matter in which the court found the CPA responsible for not detecting a financial fraud in unaudited financial statements, the AICPA (1979) issued SSARS No. 1 to provide guidance for CPA association with compilation and review

¹ The term "expectations gap" came into vogue in the late 1980s, with the issuance of SAS nos. 53-61.

engagements for nonpublic entities. Many CPAs long believed that the new standard improved the profession (Reed, Murray and Murray 1989).

Prior academic studies have examined the gap between the purpose and perception of both reviewed and compiled financial statements. Most studies focused on perceived levels of assurance and financial statement reliability. Reckers and Pany (1979) and Pany and Smith (1982), for example, examined the effect of the extent of auditor involvement on the perceived reliability of an entity's interim financial statements, reporting that financial analysts found no significant differences in perceptions of reliability between audit and review engagements. Strawser (1991) found some user uncertainty about the nature of review reports, the level of assurance offered, and confidence in audits and review engagements. Similar studies, using bankers as surrogate statement users (Johnson et al. 1983; Pillsbury 1985; Nair and Rittenberg 1987) showed similar results. While users of compiled statements perceived some level of assurance that the statements conformed to GAAP and contained no errors, Yardley (1989) predicted that such perception gaps should diminish over time as users gain experience.

Prior Academic Research

Liggio (1974) first suggested that expectation gaps led to unwarranted increases in CPAs' responsibilities and additional lawsuits against accountants and recommended that the profession clarify its actual responsibilities to financial statement users, including that audit reports do not "guarantee" the accuracy of financial statements. Solomon et al. (1983) extended the warning that ambiguous compilation standards would increase CPA liability. While little recent evidence exists that CPAs suffered losses due to compilation-related lawsuits, the costs of out-of-court settlements are not publicly available (Anderson and St. Pierre 1984). While increased CPA responsibilities and potential litigation led the AICPA to attempt to reduce the expectation gaps

by using auditing standards, academic research finds the standards have had mixed results.

Baron et al. (1977) found that small-firm CPAs, large-firm audit partners, corporate financial managers, bankers and financial analysts thought Statements on Auditing Standards (SAS) Nos. 16 and 17 inadequately clarified the CPAs' responsibilities for detecting and reporting on clients' deliberate material falsifications, other material misstatements and non-material illegal acts. Gaps between users' understanding of service provided and actual service level creates the potential for legal liability. Data may be limited on actual liability damages due to out-of-court settlements, and legal actions involving private companies who use non-assurance services. But Miller et al. (1990) found that large and small bank loan officers could identify both management and auditor responsibilities under the new SAS No. 58 audit report. They characterized the standard as producing a report that was more understandable and of greater value than the prior report. Humphrey, Moizer and Turley (1992) also noted that the expectation gap has not changed much in the US (or UK) since the onset of company audits in the nineteenth century.

Other academic research examined various users' ability to understand the differing levels of assurance that various CPA reports and associations provide. Again, mixed results arise. Libby (1979) examined auditor/banker perception gaps for various forms of auditor reports, using a series of audit report examples, and found no significant differences between CPA and user perceptions. However, post-SSARS No. 1, Pany and Smith (1982) surveyed financial analysts' perceptions of various degrees of auditor association with quarterly data. Unlike Libby (1979), they found that financial statement users could not recognize differences in levels of CPA association between audit and review engagements. Johnson et al. (1983), considering compilation engagements and different aspects of reliability, found that bank loan officers' perceptions of levels of assurance for audits greatly exceeded those for reviews and

other limited assurance engagements, and they were generally unable to distinguish among different types of limited assurance engagements. Yet Pillsbury's (1985) study of bankers and auditors found that bankers perceived that a review of interim financial statements provided an appreciably higher level of assurance than auditors perceived, with bankers mistakenly believing that auditors performed many same year-end audit procedures for interim reviews and financial statement audits. This result indicates that users may misunderstand the nature of limited assurance engagements and place too much reliance on such engagements. Sampling bank loan officers and audit partners, Pillsbury (1985) extended Pany and Smith's work by viewing eight different types of CPA professional services.² While finding that bankers and auditors hold consistent perceptions of assurances provided by most types of CPA-associated financial statements and services, significant differences existed for financial forecasts and reviews of interim financial statements. Nair and Rittenberg (1987) also examined user perceptions of alternative types of CPA-associated reports, but they found differences for review and compilation terms and concepts, as well as some differences between bankers' and CPAs' perceptions of audit reports. Bankers placed more responsibility for financial statements on auditors (rather than on management) than did CPAs.

A potential solution to reducing expectation gaps is improved communication among clients, CPAs and users. Schneider (1995), Yardley (1989) and others suggests that changes in current audit reports and better client communications, such as engagement letters, may reduce such gaps. But Sumners, White and Clay (1987) found that smaller firms were less likely to use

² The eight CPA professional services were interim reviews of public entities, compilations of non-public entities, contract compliance, supplementary information, standard audits, condensed financial statements, agreed-upon procedures and reviews of financial forecasts.

engagement letters for audits, reviews and compilations.³ This result is important since smaller firms are more likely than large firms to provide plain paper statements for smaller clients. Mixed support exists for increased communication. Strawser (1991) warns that the accountants' report may fail to influence user decisions because users often do not consider the communicated report as information; however, Hian and Woo (1998) and McEnroe and Martens (2001) find that public education and additional CPA disclosures could reduce the auditing expectation gap.

Golen, Margheim and Pany (1998) extended prior research to include assembled plain paper financial statements. Examining bank loan officers' loan application decisions, they report that while placing more confidence in CPA firm-assembled statements than those that national financial services providers prepared, *who* assembled the financial statements did not affect their opinions of whether the related financial statements were free of intentional or unintentional misstatements. Reinstein et al. (2006) show that financial statement users place some reliance on plain paper financial statements, regardless of the accountants' express statements to assign no assurance and that these statements are for "internal [management] use only." We extend these studies on plain paper statements by examining financial statement users' understanding of SSARS No. 8's crucial application definitions, particularly on what constitutes "informed management" and "submitted financial statements." With the standard in effect since 2000, we also extend prior research by assessing whether, over time, standards improve understanding of the proper uses and limitations of plain paper financial statements, as Yardley (1989) predicted.

RESEARCH METHODOLOGY AND RESPONDENTS' DEMOGRAPHICS

We developed a survey to examine and compare bank loan officers' use and understanding of plain paper statements with those of local, regional and national CPA firm

³ This practice may well soon change, in light of the issuance of SAS No. 108 (2006) that now requires all practitioners to issue engagement letters or similar contracts for all audits.

practitioners. Survey questions focused on concerns cited in the SSARS No. 8 comment letters on the AICPA's 1999 Exposure Draft (ED), and Young and Madray's (2001) examples of "informed" members of management and "submitted financial statements." Our survey focuses on CPA and bank loan officer perceptions of definitions and concerns.

Using content analysis, we examined the 85 letters commenting on the SSARS No. 8 ED. The letters represented opinions of all "Big" CPA firms, many smaller firms and academics. We first analyzed a random sample of 25 of the 85 comment letters, in order to identify "concern" variables to classify during the analysis process. The 25 random letters produced nine consistent content analysis categories: *vague guidance, need for a new standard, what constitutes third parties versus informed management, insuring statements are for "Management Use Only," accountant's level of responsibility for plain paper statements, defining "submitted financial statements," reporting versus non-reporting situations, understanding with the client (the need for engagement letters), and the level (assurance) of service being offered.* We then read the entire population of 85 comment letters, classifying concerns according to the content analysis coding categories. To help increase our instrument's validity, each researcher independently categorized these items, and then we reconciled any differences (which were minor). We found a high degree of reliability for the coded categories throughout the 85 comment letters, with each coder successfully classifying the comment letter concerns within these nine categories. After developing the survey, we pre-tested the instrument with 20 local, regional and international CPA practitioners, users (i.e., bankers), accounting professors and professional survey instrument developers. Table 1 reports these ED concerns in descending order of frequency.

[PLEASE INSERT TABLE 1 HERE]

While most (60 out of 85) ED comment letters offered either unqualified support for SSARS No. 8, or support with concerns, 25 (30%) letters generally opposed allowing CPAs to be associated with plain paper statements. Comments letters sought usually to limit a CPA's responsibility; define whom to consider "informed management"; what constitutes submitted "plain paper statements"; and clarify the need for an Accountant's Report. While "vague guidance" appeared in nine percent of the comment letters, all other categories of concern desired both concise and limiting definitions, while questioning key concepts relating to plain paper engagements. Examples of comment from the opposition letters include:

I feel it may not be a wise decision by some CPA's to provide this level of service. We believe the proposed statement creates greater potential for misunderstanding, What a mess. Good bye client and hello law suit. The changes are not in the best interest of the profession. This amendment may create as many problems as it solves. The Committee in general is opposed to "plain paper financial statements." The sentiment was, "if you are going to do a compilation, do a compilation report." I am philosophically opposed to the issuance of "plain paper" financial statements under any circumstances. I strongly disagree with amending SSARS 1 to allow management use only compiled financial statements.

The most common ED concern was "defining submitted financial statements" (40%). Comments and questions referenced types of CPA firm services that could fall under SSARS No. 8, as well as electronic forms of information. Respondents wanted to limit what could be viewed as plain paper statements. The following is an example of a comment coded as "defining submitted financial statements":

Are we really talking about a traditional set of financials compiled by the outside accountant, or can less than this be construed as submitted financial statements? If we remotely make a single AJE and the client pulls F/S from their system based on our AJE are these submitted F/S? What about write-up work? The standard is not current with technology. Is there a difference between 'submitted' and 'generated'? What about personal F/S?

“What constitutes third parties or informed management” was cited in 38 percent of the comment letters. Concerns generally focused on defining informed management, as opposed to identifying third parties. Given the potential litigation, comments and questions were asking for clarification of who would be defined as informed management. Again, respondents tried to limit those who fall under SSARS No. 8 and to whom they are responsible. The following is an example of comments coded as “what constitutes third parties or informed management”:

However, in creating financial statements for “management only” we first need to define management and assure the statements’ restricted use. No one is convinced that the financial statements will only be used by management. There needs to be a distinction between third parties and management. Are these statements meant for management or just those who lack independence? Do we need to expand the definition of management?

Thirty-three percent of respondents questioned the level of service plain paper statements offered. ED respondents were concerned with offering a lower quality engagement in order to compete with non-CPA services. Does price competition with non-CPAs drive the acceptance of plain paper statements? Below is an example of a comment coded as “level of service concerns”:

The amendment eliminates the distinction between CPAs and non-CPAs by reducing the quality of work to a less than professional level. But, we are offering a less expensive product to compete with those in related areas. Have we created “assembled” financial statements without using the term assembled? Is this a new (lower) level of service? Is this form of compilation a lower level of service (for management only)? Are we sacrificing reliability for timeliness?

We focus on the concerns that at least one-third of the comment letter respondents mentioned. Of the remaining concerns, 27 percent focused on defining situations requiring an Accountant’s Report, and 18 percent cited a need to “assure an understanding with the client.” Less frequently mentioned were the need for a new standard (15%), ensure “for Management Use Only” (14%), accountant’s responsibility (11%) and the ED offering vague guidance (9%).

The most frequent concerns cited in comment letters for the AICPA 1999 ED were defining “submitted financial statements” and “informed management,” while questioning the future standard’s key concepts. As in other studies, bankers served as surrogates for statement users--as bankers often use financial statement information for decision making purposes.

Relying on these results and prior research, we asked three research questions:

- (1) What are bank loan officers’ and CPAs’ levels of familiarity with SSARS No. 8’s definitions, issues and limitations?
- (2) Can bank loan officers and CPAs properly identify parties as either members of informed management or third parties?
- (3) Can bank loan officers and CPAs properly identify what constitutes submitted financial statements?

At two “small practitioner” professional meetings (e.g., monthly or annual Continuing Professional Education [CPE] meetings of a state CPA Society) in a large metropolitan area, we surveyed participants who had vested interests in these issues. We obtained 111 responses from members of small, medium and large CPA firms (“Public Accountants”), of which the vast majority worked for small or mid-sized CPA firms—and would most likely have experience and familiarity with no-assurance statements. Surveys were also sent to contact persons (usually vice presidents) from seven various sized banks who were asked to distribute the survey to their loan officers (“Bankers”). Loan officers could either send their completed surveys to their contact person (who then sent them to the researchers) or mail them directly to us. Respondents who initially returned their surveys to a contact person did so in sealed envelopes.⁴ We obtained another 48 surveys from bank loan officers. In total, we obtained 159 responses, of which 111 (70%) are male, 35 (22%) have an advanced degree above the bachelor level and 99 (62%) are CPAs. While none of the bankers are CPAs, a greater percentage (35.42% versus 18.95%) of

⁴ A copy of the survey instrument is available from any of the authors upon request.

bankers have graduate degrees. The public accountants report an average of 24.8 years of public accounting experience, ranging from less than one to 55 years, and an average of 8.0 years of non-public accounting experience, ranging from one to 27 years. The bankers report an average of 14.8 years of banking experience, ranging from two to 45 years.

[PLEASE INSERT TABLE 2 HERE]

Respondents' areas of experience and familiarity with plain paper statements and SSARS No. 8 are presented in Table 2.⁵ Public accountants were primarily involved in tax work (29%), compilations (38%) and other services (33%), spending 6% of their time working with plain paper statements. Bankers' reported using compilation statements (58%), plain paper statements (17%) and other public accounting services (25%).

When directly asked about their experience with plain paper statements, CPAs report very little experience (20%) and 75% report none. Most bankers report "lots or some" experience (63%), while a third (32%) report none. Ironically, while bankers reported some experience with plain paper statements, they noted no familiarity with SSARS No. 8 (100% reported "none"). The disparity between banker's level of exposure to plain paper statements (68% have various levels of exposure to the statements) and their familiarity (0%) with SSARS No. 8 may be the most important factor that evidences a gap between our users' perception of the standard's application concepts and its intent. No familiarity with SSARS No. 8 could explain why two-thirds of bankers report using plain paper statements, or they may perceive a cost benefit from using these no assurance statements. However, external decisions based on financial statements intended for internal management use may lead to users' unsupported actions.

Similarly, only 25% of public accountants noted some level of familiarity with SSARS No. 8. The reported mismatch between use/experience and standard familiarity may be one

source of expectation gaps. To examine this issue, we divided our CPA sample into two groups: (1) Experienced (Exp) CPAs – 26 subjects reporting “little,” “somewhat,” or “very” familiar with SSARS No. 8; and (2) Non-Experienced (Non-Exp) CPAs – 70 subjects reporting no familiarity with SSARS No. 8. Since all of the bankers reported no familiarity with SSARS No. 8, these 45 subjects form the third comparison group.

RESULTS AND ANALYSES

Research Question (1): Definitions and Concerns

Part 2 of our survey asks bankers and CPAs to rate their level of agreement or disagreement (on a 7-point Likert scale where 1 = strongly disagree and 7 = strongly agree with the statement) with several statements concerning SSARS No. 8 in general, its specific effects on financial statements, and its effects on the accounting profession.⁶ Table 3 summarizes the means and standard deviations of the ratings and tests of differences between experienced CPAs, non-experienced CPAs and bankers. Significant between group differences appear in bold.

Our first research question compares bank loan officers’ and CPAs’ understanding of SSARS No. 8’s definitions, concepts and related issues. CPAs with some familiarity with SSARS No. 8 understand the purpose and effects of the statement more than CPAs and bank loan officers with no familiarity with SSARS No. 8. However, these experienced CPAs do not completely understand the definitions in SSARS No. 8, as evidenced in their response to the definition of “submitted” financial statements (Q8).

[PLEASE INSERT TABLE 3 HERE]

⁵ In some cases, both CPAs and bankers reported more than one area of experience.

⁶ While not combining these statements into one scale measure, we tested their internal reliability using the coefficient alpha reliability index (Cronbach 1951). The .88 coefficient alpha measure exceeds the generally accepted measure of .70 (Nunnally 1978, p. 245).

We find that CPAs more than bankers (p value = .04) agree that users already had difficulty understanding the levels of CPA-provided assurances, even before SSARS No. 8 (Q13). Non-experienced CPAs and bankers slightly agree that SSARS No. 8 creates a new and unnecessary rule (Q6), while experienced CPAs are neutral on this issue, but all three groups do not significantly differ from each other on this issue (p value = .24).

Next, concerning the potentially negative effects for CPAs and users arising from issuing SSARS No. 8, we find the following differences. Bankers perceive more significantly than CPAs (p value = .03) that firms will engage CPAs to issue plain paper statements due to the service's lower cost (Q12), but issuing plain paper statements will negatively impact the CPA's role as a certified professional (Q2; p value = .00) and the overall effectiveness and quality of financial statements (Q5; p value = .01), and could lead to deceptive reports and to poor user decision-making (Q3; p value = .01). Bankers also perceive more significantly than CPAs (p value = .00) that SSARS No. 8 allows non-CPAs to issue plain paper statements, thereby bringing substandard work to the client and to the public (Q1).

Non-experienced CPAs are neutral and experienced CPAs disagree with these negative issues. Experienced more than non-experienced CPAs significantly disagree that plain paper statements will bring substandard work to the client and public (Q1), could result in deceptive reports and poor decision-making (Q3), and will negatively affect the CPA's role as certified professional (Q2) (p values = .00). Although not significantly different, experienced CPAs disagree more than non-experienced CPAs that plain paper statements will negatively affect the financial statements' overall effectiveness and quality (Q5). Thus, those most experienced with SSARS No. 8 do not perceive that plain paper statements will negatively affect CPAs.

Regarding the more specific attributes of SSARS No. 8, bankers and CPAs tend to agree that: (1) plain paper statements will end up in the hands of third parties (Q4); (2) the stamp “for management’s use only” or the CPA’s letterhead on the statements will inappropriately associate the CPA with the statements (Q9); (3) clients may place unwarranted reliance on plain paper statements (Q11); and (4) plain paper statements should be limited to interim reporting only (Q10). These responses mimic the major concerns listed in the ED comments. In addition, bankers and non-experienced CPAs tend to agree, inaccurately, that all material modifications to financial statements constitute “submitted” financial statements (Q8). Despite their familiarity with SSARS No. 8, experienced CPAs are more neutral and only slightly disagree (mean = 3.87) with this statement, indicating their insufficient knowledge of “submitted” financial statements.⁷

Research Question (2): Informed Management

Our second research question asks whether bankers and CPAs can correctly classify client members as third parties or informed management per SSARS No. 8—the second most frequently identified concern in the SSARS No. 8 comment letters found in Table 1. The answer is “it depends.” CPAs familiar with SSARS No. 8 can adequately classify knowledgeable members of management and owner/managers. Bank loan officers and CPAs unfamiliar with SSARS No. 8 can also classify knowledgeable members of management and owner/managers fairly accurately. But, all CPAs and bankers are less successful at properly classifying board members, shareholders and management who lack financial knowledge.

We developed Part 3 of our survey from Young and Madray’s [Y & M] (2001, p. 49) examples of third parties and informed management. Subjects rated 11 client individuals (six scenarios) on a 7-point Likert scale where 1 = third party, 7 = informed management and 4 = either. Items 2, 3, 5 and 6 on the scale indicated a degree of strength of opinion of whether the

⁷ We discuss the issue of defining submitted financial statements in more detail in a later research question.

described individual was a third party or informed management. Table 4 summarizes the means, standard deviations and ranges of these ratings, plus Y & M's correct answers, highlighting significant between-group differences in bold.

[PLEASE INSERT TABLE 4 HERE]

Table 4's most notable finding is that all three subject group means are in the same direction for all 11 clients and not significantly different from each other except for four client ratings. Responses regarding "members in management" (scenarios 1 – 4) are in the correct direction, i.e., closer to 1 for third party or closer to 7 for informed management, with experienced CPAs' mean ratings being the closest to the correct answer. But responses for "board members" (scenario 5) and "managing shareholders" (scenario 6) are not in the correct direction, since all bankers and CPAs rated these members as "either" (close to 4) when SSARS No. 8 defines these members as third parties or informed management.

For scenarios 1-3, (experienced) CPAs familiar with SSARS No. 8 understand the differences between third parties and informed management. Their mean responses are not only close to the correct answer, but their standard deviations and range of responses also indicate understanding the definitions.⁸ However, while non-experienced CPAs' and bankers' mean ratings are in the correct direction and fairly close to the correct answer, their range of responses and standard deviations raise questions as to how many subjects understand the definitions.

Scenarios 4 (Sales Manager), 5 (Board Members) and 6 (Shareholders), though not significant between groups, indicate uncertainty. For these scenarios, the responses extend over the entire range from (1) third parties to (7) informed management. The resultant 1.5 through 2.5 standard deviations indicate a large spread of responses within each sub-sample.

⁸ Smaller standard deviations represent less variation in responses. Likewise, smaller ranges indicate less variation because responses use only part of the measurement scale, not the whole scale.

To examine further the ratings distribution, we calculated the percentage of responses and resulting distributions for each scale measure (1 through 7) by subject group. Table 5 shows that all subjects, particularly those familiar with SSARS No. 8 (experienced CPAs), can more accurately classify members of management (scenarios 1, 2 (Jane) and 3). The classification ratings for sales manager (scenario 4), board members (scenario 5) and shareholders (scenarios 2 and 6) are distributed over the entire measurement scale, indicating no clear understanding of SSARS No. 8 definitions of third parties and informed management. Even those familiar with SSARS No. 8 could not classify these clients per the statement's definitions.

[PLEASE INSERT TABLE 5 HERE]

Research Question (3): Submitted Financial Statements

What constitutes “submitted” financial statements is the most frequently cited concern in SSARS No. 8 comment letters (see Table 1). Our third research question asks if bankers and CPAs can correctly classify how SSARS No. 8 defines “submitted” financial statements. The answer is primarily yes for CPAs and no for bankers. Most bankers viewed all seven scenarios as submitted statements, although physical financial statements were not handed to the client in four of the scenarios. In contrast, CPAs viewed only three of the scenarios as submitted, all of which involve handing clients a physical copy of financial statements. Bankers were generally correct in one of seven scenarios, while CPAs were correct in four of them. Interestingly, CPAs familiar with SSARS No. 8 performed no better than the CPAs unfamiliar with it.

We developed Part 4 of our survey from Y & M's (2001, p. 47) examples of submitted financial statements. Subjects classified seven scenarios as “yes” or “no,” where “yes” means financial statements as described in the scenario are “submitted” and “no” means financial statements are not “submitted” as defined in SSARS No. 8. SSARS No. 8 broadens the

definition of *submitted statements* to “presenting to a client or third parties financial statements the accountant has prepared either manually or through the use of computer software.”

Table 6 summarizes the frequency and percentages of bankers’ and CPAs’ ratings of “yes” and “no,” plus the Y & M’s correct answers. The subject groups that correctly classify the scenario are highlighted in bold. Asterisks indicate any scenarios with significant differences between experienced CPAs, non-experienced CPAs and bankers.

[PLEASE INSERT TABLE 6 HERE]

To test for correct classification, we adopted Y & M’s (2001) criteria, viewing an answer as correct if more than 75%⁹ of the subjects in the group classify the scenario. We use a cut-off rule to mitigate any potential bias created by Y & M’s “yes” or “no” answer format. All subjects correctly classified two scenarios – 1 and 4. Scenario 1 – the CPA prepares financial statements for the corporate tax return and does not give the statements to the client – is correctly classified as not submitted financial statements, and scenario 4 – the CPA prepares financial statements for the corporate tax return and gives the statements to the client – is correctly classified as submitted financial statements.

Slightly over half (53% to 62%) of experienced and non-experienced CPAs classified correctly scenarios 3 and 5, and are the only two scenarios where CPAs and bankers significantly differed (p value < .05); slightly over half (60% and 69%) of the bankers incorrectly classified the scenarios. In both scenarios, the CPA modifies the client’s accounting database via data stored on a disk (scenario 3) or by modem access (scenario 5). SSARS No. 8 views both scenarios as not submitted financial statements.

⁹ We considered several cutoffs for the correct answer. A 50% cutoff has the potential for half of the respondents’ answers being wrong, while 100% was an unreasonable absolute. We compromised at 75%.

Scenario 7, where the CPA prepares the financial statements for use in the corporate tax return and gives the client the statements, adjusting entries and tax return, does not represent submitted financial statements; however, the responses of the three subject groups are mixed. Experienced CPAs slightly choose the correct response (60%); non-experienced CPAs are 50/50; and bankers slightly choose the incorrect response (66%).

All three subject groups also largely classify scenarios 2 and 6 incorrectly as submitted financial statements when they are not per SSARS No. 8. In both scenarios, at the client's office, the CPA makes material adjustments to the client's accounting database, prints the statements, and keeps the statements (scenario 2) or gives the statements to the client (scenario 6).

LIMITATIONS

Our current study has several limitations. Our sample was limited to attendees at CPE meetings and responses from bank offices concentrated in one area of a Midwestern state. The non-random sample impairs our ability to generalize the sample results. However, several reasons support our sample as representative of the population. First, the conferences were held in a large Midwestern city; the assembly represented a wide variety of CPAs and banking firms. Second, our CPA respondents represent mostly regional and local firms, who would most likely have exposure to engagements relating to no-assurance engagements. However, the banker respondents represent a variety of small, medium and large institutions. The conference setting also ensured a nearly 100% response rate, reducing potential non-response bias.

Another limitation is our moderate sample size, especially bankers (n = 48) representing our bank loan officer group; but prior studies used only 25 banker respondents. A moderate sample size could limit the power of our statistical tests, biasing against significant results.

SUMMARY, CONCLUSIONS AND IMPLICATIONS

The accounting profession believed that time and experience would diminish the expectation gap for limited and no assurance engagements. Despite Yardley's (1989) prediction, our results indicate continuing, conceptual misunderstandings and improper use for plain paper financial statements. Evidence supports this conclusion even though many years have elapsed since SSARS No. 8's effective date. SSARS No. 8 ED comment letters formed the basis for the survey instrument used to collect the data from CPAs and bank loan officers. The comment letters identified concerns regarding what constitutes informed management, third parties and submitted financial statements, as well as familiarity with the standard's conceptual definitions and limitations. We asked whether bank loan officers and CPAs understand SSARS No. 8's concepts and can properly apply key definitions of informed management, third parties and submitted financial statements. Our respondents were CPAs with some or with no familiarity of SSARS No. 8, and bankers, who all reported no familiarity with SSARS No. 8.

CPAs familiar with SSARS No. 8 do not perceive the standard as negatively affecting CPAs, the profession, or statement users. Our results indicate that such CPAs can distinguish between third parties and informed management better than the other CPAs and bankers, and they can also better determine submitted financial statements than CPAs unfamiliar with the provisions of SSARS No. 8 and bankers. Bankers perceive the most negativity in SSARS No. 8; are able to distinguish between third parties and informed management better than non-experienced CPAs; and are the worst at identifying submitted financial statements. These findings support the concerns raised in the ED comment letters. Identifying "submitted" financial statements as defined in SSARS No. 8, and properly classifying individuals as either "third parties" or "informed management" were the most cited concerns in the comment letters.

We also find support that bankers and CPAs unfamiliar with SSARS No. 8 expect CPAs to now provide more plain paper statements (due to lower cost) that may end up in bank loan or other third party files. This finding may affect negatively on the CPA, the profession and the public. These results support the third most cited concern in the ED comment letters (33%) – what reliability level of service are we providing with these plain paper statements? With plain paper statements in their hands (see question 4 in Table 3), bankers may be persuaded by the information even when CPAs explicitly deny any attestation role. Relying on SSARS No. 8 reports and other no-assurance engagements may lead to their improper use and incorrect decisions, putting capital provider’s resources at risk.

Our results support that even after five years plain paper statement users and preparers may not understand fully SSARS No. 8’s definitions and provisions. These results imply that CPA and user education is needed to increase understanding and application of SSARS standards. While CPA respondents somewhat familiar with SSARS No. 8 understood some of the Standard’s definitions and provisions, they could benefit from more education. Both the AICPA and American Bankers Association can make significant contributions to this education effort. CPAs should also establish a clear understanding (e.g., by using proper engagement letters) with their clients in all limited and no assurance engagements. Future research could study how to best increase CPAs’, bankers’ and other key users’ understanding and use of plain paper statements.

Our results also provide evidence that either the SSARS No. 8 standard is not reaching the affected parties or they do not see the benefits outweighing the costs of the standard. Future research can examine (1) why plain paper financial statements’ users and preparers are unfamiliar with SSARS No. 8; (2) whether some issued standards, such as SASs, receive more

attention than others, such as SSARSs; and (3) why auditing standards seem to be understood sooner after adoption than SSARS standards. Each question leads directly to the relative effectiveness of various sources of standards. While standard setters may draft a statement meant to correct and clarify an issue, if users and preparers do not fully understand the concept definitions and provisions, the statement is rather useless.

Our results suggest that SSARS No. 8 may not have achieved its intended effect. In a worst case scenario, the standard may have created an uncontrollable engagement product. Further empirical research on SSARS No. 8 and other standards could help standard setters develop, clarify and disseminate more effective future guidance for reviews, compilations, plain paper statements and other limited or no assurance engagements. Even if all concepts and definitions were applied properly, plain paper statements may still reach third party users' hands for decision making, as noted by several banker respondents as occurring. Therefore, researchers and standard setters may wish to examine mechanisms that ensure limited use statements do not go beyond informed management. If no mechanisms exist, then one unfortunate solution may be to no longer allow CPA association with plain paper statements.

Table 1

Content Analysis of SSARS No. 8 Comment Letters

Identified Issue	Frequency of Concern n= 85
What constitutes submitted financial statements?	40%
What constitutes third parties or informed members of management?	38%
What reliability level of service are we offering?	33%
When are there reporting vs non-reporting situations? (Accountant's Report)	27%
How do we assure an understanding with the client? (the need for engagement letters)	18%
Why do we need this new standard?	15%
How do we insure "For Management Use Only"?	14%
What is the public accountant's responsibility level for plain paper statements?	11%
Is the guidance too vague?	9%

Table 2
Subject Demographics:
Average Percentage of Time Worked in Accounting Areas,
Experience with Plain Paper Statements and Familiarity with SSARS No. 8

Subject Group	CPAs and Bankers Experience with Each Accounting Area*							Experience with Plain Paper Statements				Familiarity with SSARS No. 8 Rules			
	Audit	Tax	Con-sulting	Reviews	Comp-ulations	Plain Paper Statements	Other	None	Little	Some	Lots	None	Little	Some	Very
CPAs	6%	29%	4%	10%	38%	6%	7%	79	12	10	5	80	18	7	2
								75%	11%	9%	5%	75%	17%	6%	2%
Bankers	3%	4%	NA	15%	58%	17%	3%	14	2	13	15	47	0	0	0
								32%	5%	30%	33%	100%	0	0	0

Total number of subjects = 159

Total number of CPAs = 111

Total number of Bankers = 48

NA – information not available from survey

* Represents each subject group’s average percentage experience for their respective areas.

Table 3
Group Means and Between Group Comparisons for SSARS No. 8 Definitions, Concepts and Issues

Question	Group Means ¹ [Standard Deviation] (Number of Subjects)			Univariate Tests		Significant Group Differences
	Exp CPAs	Non-Exp CPAs	Bankers	F Value	p value	
Q1: SSARS No. 8 allows non-CPAs to issue plain paper statements, thereby bringing substandard work to the client and to the public.	2.77 1.74 22	3.90 2.07 68	4.36 1.35 45	5.67	0.0043	Exp vs Non-Exp CPAs Exp CPAs vs Bankers
Q2: A CPA issuing plain paper reports will negatively affect the CPA's role as certified professional (as opposed to non-CPAs).	3.09 1.65 23	4.21 2.07 70	4.72 1.36 46	6.32	0.0024	Exp vs Non-Exp CPAs Exp CPAs vs Bankers
Q3: Allowing plain paper reports could be deceptive and lead to poor decision-making.	3.27 1.52 22	4.21 1.91 70	4.72 1.47 46	5.28	0.0062	Exp vs Non-Exp CPAs Exp CPAs vs Bankers
Q4: Plain paper reports will end up in the hands of third parties (e.g. bank loan files, uninformed members of management, and the public).	4.91 1.41 22	5.38 1.54 69	4.87 1.77 46	1.63	0.1999	
Q5: A CPA issuing plain paper reports will negatively affect the overall effectiveness and quality of financial statements.	3.24 1.64 21	4.09 2.02 70	4.70 1.53 46	4.78	0.0099	Exp CPAs vs Bankers
Q6: SSARS No. 8 creates a new and unnecessary rule since the profession already has the tools needed to prepare such "internal-use" statements.	3.90 1.51 21	4.60 1.86 68	4.55 1.45 44	1.44	0.2413	

¹ Responses were reported on a 7-point Likert scale with 1=strongly disagree and 7=strongly agree with the statement.

Bold represents significant difference at a .05 significance level.

Table 3 (continued)
Group Means and Between Group Comparisons for SSARS No. 8 Definitions, Concepts and Issues

Question	Group Means ¹ [Standard Deviation] (Number of Subjects)			Univariate Tests		Significant Group Differences
	Exp CPAs	Non-Exp CPAs	Bankers	F Value	p value	
Q7: Allowing CPAs to issue plain paper reports brings “inconsistency” to the profession.	3.87 1.82 23	4.53 2.03 70	4.67 1.60 45	1.48	0.2311	
Q8: All material modifications of financial statements constitute “submitted” financial statements.	3.89 1.24 19	4.75 1.48 67	4.44 1.31 43	2.86	0.0611	Exp vs Non-Exp CPAs (p value = .0204)
Q9: CPAs stamping the report “for management’s use only” or issuing any financial statement on their letterhead associates themselves with such reports, e.g. an unknowing bank clerk will focus only on the CPA’s name as an adequate basis to process a loan.	4.70 1.58 23	4.80 1.81 70	4.82 1.27 45	0.05	0.9515	
Q10: Plain paper reports should be limited to interim reporting only.	4.67 1.53 21	4.64 1.80 70	4.63 1.69 43	0.00	0.9964	
Q11: Clients may place unwarranted reliance on plain paper financial statements.	5.05 1.12 21	5.04 1.62 69	5.12 1.42 43	0.03	0.9667	
Q12: Firms will regularly engage CPAs to issue plain paper statements, since compilations, reviews and audits are too expensive.	4.19 1.36 21	4.43 1.77 70	5.13 1.27 45	3.76	0.0258	Bankers vs Exp CPAs Bankers vs Non-Exp CPAs
Q13: Users of financial statements already have much difficulty understanding the level of assurance CPAs provide before the issuance of SSARS No. 8.	5.00 1.48 21	5.38 1.56 69	4.64 1.50 44	3.18	0.0449	Bankers vs Non-Exp CPAs

¹ Responses were reported on a 7-point Likert scale with 1=strongly disagree and 7=strongly agree with the statement.

Bold represents significant difference at a .05 significance level.

Table 4
Classifying Third Parties versus Informed Management
Comparison of Mean Responses Between Groups

Classification Scenario	Published Answer ¹	Experienced CPAs		Non-Exp. CPAs		Bankers		Between Groups F value p-value
		Mean ² (Std. Deviation) ²	Range ² (# of subjects)	Mean ² (Std. Deviation) ²	Range ² (# of subjects)	Mean ² (Std. Deviation) ²	Range ² (# of subjects)	
1. ABC Co. is owned and managed by its sole shareholder, John. John has adequate accounting and business knowledge of his business. Classify John.	7.00	6.92* (0.27)	6.0 – 7.0 (26)	6.64 (0.86)	3.0 - 7.0 (69)	6.38* (0.72)	5.0 – 7.0 (45)	4.63 0.0113
2. KML Co. is managed by one of its 10 shareholders, Jane. The other nine live out of state and are not involved in the managing of the business. Jane has adequate knowledge of the business. Classify Jane.	7.00	6.79* (0.59)	5.0 – 7.0 (24)	6.22 (1.23)	1.0 – 7.0 (64)	5.91* (1.00)	4.0 – 7.0 (43)	5.34 0.0059
Classify the other nine shareholders	1.00	2.43 (1.42)	1.0 – 6.0 (26)	2.87 (1.65)	1.0 – 7.0 (67)	2.67 (1.34)	1.0 – 5.0 (43)	0.83 0.4393
3. The XYZ Co. management team consists of a president, Joe; controller, Mary; and operations manager, Sue. All 3 are involved in the company's financial operations and are knowledgeable about the accounting principles and practices being used. Classify Joe.	7.00	6.88* (0.44)	5.0 – 7.0 (25)	6.61 (0.75)	2.0 – 7.0 (69)	6.42* (0.75)	3.0 – 7.0 (45)	3.38 0.0368
Classify Mary.	7.00	6.88* (0.44)	5.0 – 7.0 (25)	6.57 (0.88)	2.0 – 7.0 (69)	6.38* (0.75)	4.0 – 7.0 (45)	3.36 0.0378
Classify Sue.	7.00	6.58 (0.86)	4.0 – 7.0 (26)	6.07 (1.23)	2.0 – 7.0 (69)	6.09 (0.90)	3.0 – 7.0 (45)	2.30 0.1042

¹Published Answer comes from the article “An End to the Plain paper Debate?” by G. Young and J. Madray (JOA, Jan. 2001, pp. 45-53)

²Means, Standard Deviations and Ranges are based on a 7 point Likert scale where 1 = Third Party, 4 = either, and 7 = Informed Management.

*Difference between groups is significant at the .05 significance level.

Table 4 (continued)
Classifying Third Parties versus Informed Management
Comparison of Mean Responses to Published Answers and Between CPAs and Bankers

Classification Scenario	Published Answer ¹	Experienced CPAs		Non-Exp. CPAs		Bankers		Between Groups F value p-value
		Mean ² (Std. Deviation) ²	Range ² (# of subjects)	Mean ² (Std. Deviation) ²	Range ² (# of subjects)	Mean ² (Std. Deviation) ²	Range ² (# of subjects)	
4. The XYZ Co. management team consists of a president, Joe; controller, Mary; operations manager, Sue, and sales manager, Jim. Jim has no finance background and is not involved in financial decisions. Classify Jim.	1.00	2.68 (1.63)	1.0 – 6.0 (25)	3.01 (1.65)	1.0 - 7.0 (70)	2.80 (1.60)	1.0 – 7.0 (45)	0.48 0.6217
5. A 3-member Board of Directors manages MLC CO. The chairman of the board, Tom, was an engineer for MLC Co., but no longer works for MLC Co. Classify Tom.	1.00	4.28 (2.21)	1.0 – 7.0 (25)	3.60 (1.98)	1.0 – 7.0 (68)	3.39 (1.99)	1.0 – 7.0 (44)	1.60 0.2058
Another board member, Bill, also works at a financial brokerage firm. Classify Bill.	7.00	3.85 (2.09)	1.0 – 7.0 (26)	3.97 (1.86)	1.0 – 7.0 (67)	3.78 (1.85)	1.0 – 7.0 (45)	0.14 0.8662
The third board member, Barb, works in sales at MLC Co. Classify Barb.	1.00	3.88 (2.09)	1.0 – 7.0 (24)	4.22 (1.74)	1.0 – 7.0 (68)	4.47 (1.70)	1.0 – 7.0 (45)	0.86 0.4257
6. GHI Co. is managed by 10 of its 250 shareholders. None of the 10 shareholders have a financial background. Classify the 10 shareholders.	1.00	4.42 (2.18)	1.0 – 7.0 (26)	4.39 (2.04)	1.0 – 7.0 (70)	4.09 (1.91)	1.0 – 7.0 (44)	0.34 0.7090

¹Published Answer comes from the article “An End to the Plain paper Debate?” by G. Young and J. Madray (JOA, Jan. 2001, pp. 45-53)

²Means, Standard Deviations and Ranges are based on a 7 point Likert scale where 1 = Third Party, 4 = either, and 7 = Informed Management.

*Difference between groups is significant at the .05 significance level.

Table 5
Comparison of Scale Responses by Group to Scenarios

Classification Scenario ¹	Published Answer ²	% of Subjects Responding Scale is 1 to 7 ³							Subject Group
		7	6	5	4	3	2	1	
1 – John	7	92	8	-	-	-	-	-	Experienced CPAs
		81	12	3	3	1	-	-	Non-Experienced CPAs
		53	33	14	-	-	-	-	Bankers
2 – Jane	7	88	4	8	-	-	-	-	Experienced CPAs
		64	14	14	6	1	-	1	Non-Experienced CPAs
		32	37	19	12	-	-	-	Bankers
2 - Shareholders	1	-	4	-	23	19	15	39	Experienced CPAs
		1	1	13	28	7	12	36	Non-Experienced CPAs
		-	-	12	21	12	37	18	Bankers
3 – Joe	7	92	4	4	-	-	-	-	Experienced CPAs
		73	24	1	1	1	-	-	Non-Experienced CPAs
		54	42	2	-	2	-	-	Bankers
3 – Mary	7	92	4	4	-	-	-	-	Experienced CPAs
		73	22	1	3	-	1	-	Non-Experienced CPAs
		52	42	2	4	-	-	-	Bankers
3 – Sue	7	77	8	11	4	-	-	-	Experienced CPAs
		54	20	14	9	-	3	-	Non-Experienced CPAs
		33	52	9	4	2	-	-	Bankers
4 – Jim	1	-	8	4	20	20	12	36	Experienced CPAs
		4	3	10	22	20	17	24	Non-Experienced CPAs
		5	-	13	13	11	40	18	Bankers
5 – Tom	1	16	20	20	16	-	4	24	Experienced CPAs
		10	9	15	23	6	15	22	Non-Experienced CPAs
		11	5	11	25	7	20	21	Bankers
5 – Bill	7	12	15	15	15	8	15	20	Experienced CPAs
		12	8	24	21	9	13	13	Non-Experienced CPAs
		9	7	20	33	2	13	16	Bankers
5 – Barb	1	17	8	8	29	8	8	22	Experienced CPAs
		13	10	18	30	9	10	10	Non-Experienced CPAs
		13	13	20	31	6	9	6	Bankers
6 – Shareholders	1	23	15	12	23	4	4	19	Experienced CPAs
		19	17	14	20	7	6	17	Non-Experienced CPAs
		9	25	11	21	9	16	9	Bankers

¹Scenario details are in Table 4.

²Published Answer comes from the article “An End to the Plain paper Debate?” by G. Young and J. Madray (JOA, Jan. 2001, pp. 45-53)

³Scale is 7 point Likert scale where 1 = Third Party, 4 = either, and 7 = Informed Management.

Table 6
Comparisons between CPAs and Bankers
What Constitutes Submitted Financial Statements?

Scenario	Published Answer ¹	Exp CPAs ²		Non-Exp CPAs ²		Bankers ²	
		Yes	No	Yes	No	Yes	No
1). Using client information, the CPA prepares financial statements in the CPA's office for use in preparing a corporate income tax return, and the financial statements are not given to the client.	No	5 19%	21 81%	15 21%	57 79%	9 20%	36 80%
2). At a client's office, the CPA makes material adjustments to the clients accounting database, prints the adjusted financial statements and takes the financial statements with him or her to the client's office.	No	21 81%	5 19%	50 69%	22 31%	35 78%	10 22%
3). The client sends the CPA a disk containing the information from the client's accounting database. The CPA makes adjustments to the disk and returns it to the client.	No*	11 42%	15 58%	34 47%	38 53%	31 69%	14 31%
4). Using client information, the CPA prepares financial statements in the CPA's office for use in preparing a corporate income tax return, and the CPA gives the client a copy of the financial statements along with the income tax return.	Yes	26 100%	0 0%	64 89%	8 11%	41 93%	3 7%
5). The CPA accesses the client's accounting database by modem and makes material modifications to the database.	No*	10 38%	16 62%	30 43%	40 57%	27 60%	18 40%
6). At a client's office, the CPA makes material adjustments to the clients accounting database, prints a copy of the financial statements and presents them to the client.	No	22 88%	3 12%	63 88%	9 12%	39 89%	5 11%
7). Using client information, the CPA prepares financial statements in the CPA's office for use in preparing a corporate income tax return, and the CPA gives the client a copy of the adjusting journal entries and trial balance with the income tax return.	No	10 40%	15 60%	36 50%	36 50%	29 66%	15 34%

¹Published Answers come from the article "An End to the Plain paper Debate?" by G. Young and J. Madray (JOA, Jan. 2001, pp. 45-53)

²Percentage frequency of respondents within each group

Total number of subjects varied by scenario: 25-26 Exp CPAs; 70-72 Non-Exp CPAs; 44-45 Bankers

Bold – scenarios the subjects correctly classified.

*Represents significant difference (at a 10% significance level) between group responses ($p < .10$). Chi-square values for logistic analysis from categorical data modeling procedure.

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