

User Perceptions and Misperceptions of the Unqualified Auditor's Report

Glen L. Gray
California State University, Northridge

Jerry L. Turner
The University of Memphis

Paul J. Coram
University of Melbourne, Australia

Theodore J. Mock
University of California, Riverside,
and University of Maastricht

August 30, 2009

User Perceptions and Misperceptions of the Unqualified Auditor's Report

SUMMARY: Auditing standard setters in the U.S. and internationally have expressed concern about financial statement user perceptions and misperceptions regarding the unqualified auditor's report. To explore this concern, a series of focus groups was conducted with stakeholders in the audit domain, including financial statement preparers (CFOs), users (bankers, analysts, and non-professional investors), and external auditors. Findings include that most users do not completely *read* the entire auditor's report and it is not clear to users, preparers, or auditors what the auditor's report is *intended* to communicate nor the *level of assurance* being provided by the report.

Stakeholders offered suggestions that might improve the auditor's communications to users, but they also recognized that those suggestions could change the auditor's risk profile and possibly increase audit fees. Future research is suggested to determine if expanded communications would benefit users and if any additional risks and costs outweigh the benefits.

Keywords: auditor's report; auditor disclosures; audit stakeholders; focus groups

User Perceptions and Misperceptions of the Unqualified Auditor's Report

INTRODUCTION

The purpose of this paper is to explore what information and perceptions the current form of auditor's report conveys to financial statement users. The results discussed here represent one portion of a larger study commissioned by the AICPA Auditing Standards Board (ASB) and the International Auditing and Assurance Standards Board (IAASB). The larger study not only examines how financial statement users interpret auditor's reports, but if and how those interpretations might influence user decision-making. Inherent in these questions is the issue of how the auditor's report is perceived.

On one hand, an unqualified auditor's report may be seen as just a certificate of completion and simply conveys that an audit has been performed and no problems were found. That is, the words have no real meaning to the user; instead it is just the inclusion of the auditor's report itself that has meaning. On the other hand, it may be that the auditor's report conveys many messages far beyond the intended message of the report. The research summarized in this paper had two overarching objectives:

- To identify intended and unintended communications that users perceive from an unqualified auditor's report;
- To identify potential changes to the auditor's report that could improve what the auditor's report communicates.

From 1948 through 1988, U.S. standards relating to the content of the auditor's report changed very little. There was a growing perception, however, that the financial statement users' interpretations of the auditor's report were different than that the auditor intended to convey

(Guy and Sullivan 1988). The differences between auditor intent and user interpretations came to be termed the ‘expectation gap.’ Two areas were of particular concern to auditors—communication of the differing responsibilities of the auditor and management, and the level of assurance the auditor was providing by issuing an audit opinion. To address these concerns, in 1978 the Cohen Commission evaluated the auditor’s report and identified several areas where communication from the auditor to the user could be improved. In addition to concerns about confusion over management and auditor responsibilities, the Commission also was concerned that the standardized language made the auditor’s report a “symbol” that was not carefully read (Strawser 1990). The National Commission on Fraudulent Financial Reporting (NCFRR), also referred to as the Treadway Commission, concurred in 1987 that the auditor’s report needed to be revised. They suggested that the auditor’s report should clearly indicate that the intent is not to provide absolute assurance of no material misstatements resulting from error or fraud in the financial statements and that the report should inform the user the extent to which the system of internal accounting controls had been reviewed and evaluated during the audit (Kneer et al. 1996).

In response, in 1988 the AICPA’s Auditing Standards Board (ASB) issued Statements on Auditing Standards (SAS’s) Nos. 53 through 61, collectively referred to as the ‘expectation gap standards,’ of which three were intended specifically to improve communications between auditors and financial statement users (Geiger 1988; Roussey et al. 1988; McEnroe and Martens 2001). One of the new standards, SAS No. 58, Reports on Audited Financial Statements (AICPA 1988), provided a new format for the auditor’s report and was issued primarily “to better public understanding of the auditor’s role” (Roussey et al. 1988). Specifically, the new format requires the auditor to address explicitly in non-technical terms the responsibility being assumed by the

auditor; the nature of procedures performed in conducting the audit; and the degree of assurance being provided. The SAS eliminated the option of “subject to” qualifications and replaced “examined” with “audited.”

SAS No. 58 also modified generally accepted auditing standards by modifying the second standard of reporting to read: “The report shall identify those circumstances in which such principles (GAAP) have not been consistently observed in the current period in relation to the preceding period.” This eliminated including an explicit opinion related to consistency, but requires addition of an explanatory paragraph to highlight an inconsistency if one should exist.

With only minor modifications, the standard auditor’s report included in SAS No. 58 has been in use for over twenty years. Until 2003, the SAS No. 58 standard auditor’s report applied to both issuers (U.S. listed, public companies) and non-issuers (private) companies. As a result of the Sarbanes-Oxley Act of 2002 (SOX), beginning in 2003 listed companies must be audited in compliance with Public Company Accounting Oversight Board (PCAOB) audit standards. Initially, the PCAOB adopted the existing set of ASB audit standards (including SAS No. 58), but soon modified and expanded the auditor’s report to develop their own standard auditor’s report, including elements related to the effectiveness of internal accounting controls over financial reporting.¹ To date, no research has examined the impact on user perceptions of adding an auditor’s opinion on internal accounting controls to the standard auditor’s report.

The remainder of this paper is organized as follows. The following section provides an overview of literature regarding the auditor’s report. The next section provides an overview of the research design. The following section then provides the research results in the form of a

¹ See PCAOB Audit Standards No. 5, paragraph 87 (PCAOB 2007) for an example of a modified and expanded auditor’s report.

synopsis of a series of focus groups with stakeholders in the financial audit domain. The final section provides concluding comments plus suggestions for future research.

BACKGROUND AND LITERATURE REVIEW

SAS No. 58 Deliberation

SAS No. 58 has been in place since 1988 with only a few minor interpretations so it can be said that SAS No. 58 has stood up to the test of time. As such, it is interesting to note that SAS No. 58 did not have unanimous support from the then-ASB members. Of the eighteen members, four assented with qualifications and three dissented in regard to issuance at all. Our communications with two of the then-Board members indicate that an important objective was to clarify the division of responsibilities between the auditor and client management. However, disclosed comments by then-Board members also indicate disagreement about issues such as the level of assurance provided by the auditor's report and the degree of disclosure about materiality. The AICPA no longer has a copy of the original exposure draft and did not retain minutes of ASB meetings during that time period so deliberations about these issues cannot be examined. Comments by the seven board members indicating reservations or disagreements were included with SAS No. 58 and will not be repeated in their entirety here. Most of the comments were about requirements for and contents of explanatory paragraphs. Two dissenters indicated they felt there was no compelling reason to revise the then-current auditor's report. Possibly the comment most closely related to the scope of our research (unqualified auditor's report) was the following from Mr. Kappel and Mr. Barna regarding materiality (AICPA 1988):

Mr. Kappel...also qualifies his assent because he believes that the standard report inappropriately describes the auditor's objective as obtaining reasonable assurance that the financial statements are free of material misstatement. In his opinion, the report should describe the objective as providing reasonable assurance that the financial statements are fairly presented in accordance with generally accepted accounting principles...

Mr. Barna dissents because he believes that the discussion of uncertainties and materiality is inadequate, simplistic, and misleading. In his opinion, the discussion of materiality should be more comprehensive and should be dealt with in the context of materiality taken as a whole, with materiality for uncertainties discussed in relation to this overall materiality consideration...

In addition, Mr. Temkin commented on not meeting the board's objectives:

Mr. Temkin, in addition to his belief that there are no compelling reasons to revise the current report, also dissents because he believes that the revised report does not achieve the board's objective of more explicitly describing the audit process, the auditor's responsibility, and the degree of assurance the auditor provides...

The SAS No. 58 Auditor's Report and the Expectation Gap

Even after issuance of SAS No. 58 a substantial amount of research points to a continuing misperception by financial statement users as to the degree of assurance provided by an unqualified auditor's report. In examining the perceptions of judges for example, Lowe (1994) finds that judges were uncertain as to financial statement responsibility. A misunderstanding of auditors' responsibilities for the financial statements may lead judges to hold auditors accountable for actions related to management. Some judges also perceive the auditor's role as that of a public watchdog or guardian, to the extent of expecting the auditor to actively search for the smallest fraud.

A number of studies explore the effects of the expanded auditor's report required under SAS No. 58. Several studies (Hatherly et al. 1991; Brown et al. 1993; Miller et al. 1993; Kneer et al. 1996) find that the new auditor's report did improve the users' ability to distinguish between auditor responsibility and management responsibility. Monroe and Woodliff (1994) used a survey to perform a similar analysis on the new Australian report required under AUP 3, and find that in some areas the gap was lessened by the changes, and in others the gap was widened. Also, their survey suggests that the gap is wider between unsophisticated users and auditors. Hatherly et al. (1991) find that the new auditor's report not only impacts user perceptions along

dimensions included in the report, but also changes user perceptions about things not mentioned in the report, such as the company's freedom from fraud.

Some studies, however, show less favorable results. An experiment by Pringle et al. (1990) finds that the changed wording does not affect users' ability to determine investment attractiveness and indicates that the new wording actually makes it more difficult for users to decipher the intended message of the report. A survey by Geiger (1994) shows that users are still dissatisfied with the report despite the changes, suggesting more changes are necessary. Dillard and Jensen (1983) examine different groups' reactions to proposed changes to the auditor's report. Their analysis suggests that different groups react differently to the changes. The authors conclude that in order to achieve a consensus of different group opinions, some ambiguity will inevitably be contained in the auditor's report.

Using a survey, Schneider et al. (1994) find that auditors perceive GAAP to be more credible than do preparers and users. Houghton (1997) also finds that FASB constituents differ in their perceptions of accounting concepts, and determined that less sophisticated users attach more simplistic meaning to accounting concepts.

Many studies explore how the wording of the auditor's report impacts user perceptions of auditor responsibility and the intended message of the report. De Martinis and Burrowes (1996) suggest that including disclosure about preparer and auditor materiality and risk judgments will help users understand the objectives and uses of financial reports, which will enhance usefulness and reduce the expectation gap. McEnroe and Martens (1998) compare the terms "presented fairly in accordance with GAAP" from the U.S. auditor's report and "true and fair view" from the United Kingdom auditor's report. The auditor's report users surveyed indicated that they had

more confidence in an audit opinion using the term “true and fair view” than reports using the U.S. term.

A literature review on the auditor’s reporting model by Church, et al. (2008) suggests the auditor’s report might be enhanced by additional information, but the value of this may be diminished if the wording remains “boilerplate.” They suggest that research is warranted to improve the content of the auditor’s report so users see something above simply a pass or a fail signal. They also note that some studies have evaluated the value of additional disclosures on materiality level as well as additional information on the auditor’s findings (e.g., Manson and Zamon 2001). Church et al. suggest that further studies examining the effect of different disclosures in the auditor’s report are warranted.

RESEARCH DESIGN

To elicit information regarding financial statement user’s perceptions regarding the auditor’s report, a series of focus groups were conducted with volunteers from various stakeholder populations including: preparers of financial statements (the CFOs); users of financial statements, which included bankers, financial analysts, and non-professional investors; and auditors of financial statements.² A total of 53 individuals participated in the focus groups and each category of stakeholders met separately. The auditor focus groups were scheduled after the other focus groups to solicit the auditors’ reactions to the comments of the other stakeholders.

Each focus group lasted two hours. At the beginning of each focus group, the facilitator (one of the researchers) would introduce himself; explain the objectives of the study and the

² The preparers were CFOs or equivalent and were volunteers from the Los Angeles and New York chapters of the Financial Executives International (FEI) while the analysts were from the New York chapter of the CFA Institute. The auditors were managers and partners from two large, anonymous international accounting firms, with one focus group held in Los Angeles and one held in New York City. Bankers were from an anonymous international bank and the non-professional investors were members of a private investment club.

broad agenda for the focus group. Participants were told that their responses would be synthesized with other focus group discussions and no quotes will be associated with a specific person or company. The participants then introduced themselves.

The facilitator then distributed copies of a standard unqualified auditor's report based on SAS No. 58. For each focus group, both the standard report and one a standard unqualified report with an additional paragraph related to going-concern issues was discussed. As will be seen in the focus group summaries, although the subject matter of focus groups was the SAS No. 58 auditor's report, much of what surfaced in these discussions would also apply to PCAOB-based audits.

RESULTS

The following is a synthesis of the focus group discussions focusing primarily on the CFOs, bankers, analysts, and auditors. In general, the auditor's report plays no role in the non-professional investors' investment decisions. In fact, the non-professionals said they never use the financial statements or the auditor's report in the annual report, 10-Ks, or 10-Qs published by the companies. Instead, they relied almost exclusively on secondary sources such as *The Value Line Investment Survey* or the Motley Fool and similar Web sites.

The discussions are organized around the following broad research questions:

RQ1: What are the general perceptions regarding the auditor's report?

RQ2: What are user's perceptions regarding the details of what the auditor's report communicates?

RQ3: What additional information would financial statement users like to have communicated in an unqualified auditor's report?

RQ1: What are the General Perceptions Regarding the Auditor's Report?

The general discussions fell into two broad areas: (1) the general value and signal that the auditor's report communicates, and (2) the Big 4 cachet.

Just an O.K. stamp?

All participants seemed to agree that an audit is valuable, although no one could quantify that value. That may be because the auditor's report has no meaningful purpose unless it accompanies a related set of financial statements, thus creating value for the combination of the two. This is demonstrated, for example, by bankers indicating they would not accept unaudited financial statements accompanying a commercial loan application. One banker said, "[Unaudited] financial statements would just be junk." An accompanying auditor's report can provide a necessary credibility to the financial statements, making the combined documents valuable to users.

None of the participants, including the auditors, assumed users actually read the auditor's report. When asked how they use the auditor's report, the most common response by users indicate they look at the third paragraph to see if there is an unqualified opinion and then they look to see which audit firm signed the report. If the report is unqualified and signed by a Big 4 firm, they do not consider the report again and move on to analyze the financial statements. If it is not signed by a Big 4 firm, they may or may not try to determine the qualifications or reputation of the audit firm. For example, a banker may be less concerned about the auditor if specific collateral was pledged for a loan.

Participants frequently stressed the point that an audit is a compliance issue. For public companies, an audit is required by the SEC, and for private companies, it typically is required by the organization providing financing to the company. The auditor's report indicates the

organization either passed or failed the audit. One auditor said the auditor's report gives the reader of the financial statements "comfort with the substance of the numbers." Another auditor said the report indicates the financial statements are fairly presented according to GAAP. A third auditor said users generally understand auditors are not looking at the details of every number; however, they are not going to understand any details about what the auditors did from the report. A fourth auditor suggested the report is a "legal liability releasing" document for the auditor, but it is not as effective in releasing liability as a contractual agreement would be. He said the auditor's report is a "concluding document" that tells the client the auditor has fulfilled its responsibilities in accordance with the appropriate pronouncements and describes the auditors conclusion. At its heart he said, "the auditor's report is something written by attorneys to limit or release liability."

Reflecting the standardized, nobody-reads aspects of the auditor's report, at least one participant in each focus group, including the auditor group, commented that a simple "OK" stamp could replace the unqualified auditor's report. An auditor added that the name of the audit firm and the standards under which the audit was conducted also should be included.

Big 4 cachet

To most participants, a Big 4 signature on the auditor's report automatically is considered a mark of quality. The participants indicated that Big 4 firms definitely have more cachet and a Big 4 audit does communicate something positive to the reader of financial statements. There were a few dissenters, but generally, participants indicated the perceived level of assurance provided by Big 4 firms was higher compared to non-Big 4 firms. In terms of reality versus perception, there were mixed beliefs among the participants as to whether the Big 4 lived up to

its cachet and as to whether the skills of auditors at second-tier firms, in particular, are not as good as those at the Big 4.

The participants suggested several reasons for the real or perceived superiority of the Big 4, including: (1) their extensive training programs; (2) bigger budgets, which means it's more difficult for a client to apply economic pressure; (3) a deeper talent pool; (4) adherence to different internal standards partly out of fear of not passing PCAOB reviews; (5) greater knowledge of GAAP and GAAS standards; (6) deeper pockets to share the liability; and (7) are a known quantity and supposedly provide the same standard worldwide.

As a follow-up, the facilitator asked the user groups if any of them require Big 4 audits. The bankers indicated they would not insist on a Big 4 firm, instead, the banker would use a phrase such as, "...an audit firm acceptable to the bank." However, according to some CFOs, some banks and other organizations frequently require Big 4 firms. In addition, one CFO from a very large company said his organization requires all "SAS 70 reports"³ submitted to them be prepared by Big 4 firms.

RQ2: What are User's Perceptions Regarding the Details of What the Auditor's Report Communicates?

After discussing the overall perspectives of the auditor's report under RQ1, the discussions shifted to the more detailed elements included in the auditor's report.

Level of assurance & materiality

One of the main concerns that led to the issuance of SAS No. 58 in 1988 was user's apparent misperceptions regarding level of assurance. A world-wide study commissioned by the

³ "SAS 70 report" is common way of referring to reports produced under the guidance of SAS No. 70, *Service Organizations* (AICPA 1993), where the auditor of a service organization prepares a report on the controls in operation at the service organization that is sent to a user organization.

IAASB found a great deal of variability in perceived levels of assurance even among the assurance providers themselves (Hasan et al. 2005). More than 20 years after publication of SAS No. 58, the ASB still seems concerned that some users believe the audit provides absolute assurance (MTGC 2009).

Regarding levels of assurance, two important concepts in the auditor's report are captured in the second sentence in the second paragraph which in part says: "...we plan and perform the audit to obtain *reasonable assurance* about whether the financial statements are free of *material misstatement*" [emphasis added]. None of the focus group participants, including the non-professional investors, seem to believe an independent audit provides absolute assurance. However, the participants did frequently express a concern that there are users who do believe that audits do provide absolute assurance.

Even though the participants did not believe that the auditors provided absolute assurance, level of assurance is still a fuzzy concept to the participants—even to the auditors. This was not a complete surprise since the standards do not attempt to operationalize or quantify reasonable assurance. Reasonable assurance is introduced in SAS No. 1 (AICPA 1972), where paragraph .02 starts with: "The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance..." SAS No. 104, Amendment to Statement on Auditing Standards No. 1, *Codification of Auditing Standards and Procedures*, has four paragraphs (AICPA 2006 ¶.10-¶.13) that discuss reasonable assurance in more details. Paragraph .10 indicates that *reasonable* assurance is *high* assurance, however, like *reasonable* in SAS No. 1, SAS No. 104 does not define *high* assurance.

Across all the focus groups, level of assurance generally was thought to be closely related to the concept of materiality but there was some debate as to exactly how they are related. Many auditors felt the level of assurance and materiality essentially are the same thing.

Financial statement user groups had very diverse perceptions of the concept of materiality although they all seem to understand that auditors do not audit transactions to the penny. However, non-auditor participant, guesses as to what the materiality levels actually are varied between the groups. One CFO said, “materiality levels are more secret than the Coca Cola formula,” however, CFOs seemed to have the best understanding of materiality because most had prior experience working as Big 8 auditors.

Participants were asked, “If we agree that financial statements are not absolutely accurate, then how accurate are they?” One auditor used the degree of restatement as a guideline, stating that at less than one percent [of net income] would mean don’t worry about it, at less than five percent, you are still okay, between five percent and ten percent, you are in a gray area, and over ten percent, you probably have some real problems. One banker said it would be a very small number such as plus or minus two percent. Another banker said it may be plus or minus five percent. A third banker said if specific collateral was pledged for the loan, then the bank might tolerate a larger materiality level, maybe even as high as plus or minus 20 percent. Other bankers questioned whether such large potential variation would be tolerable even if collateral was pledged. In general, analysts could not define a single percentage for net income. Instead, they said they would want to see plus and minus percentages for each line item, but they recognized it becomes a problem trying to aggregate the impact of all those pluses and minuses.

Sampling

The discussion then shifted to the next sentence of the auditor's report, which begins: "An audit includes examining, on a test basis..." All participants understood that auditors use sampling as part of the audit. However, as with materiality, sample sizes are not disclosed by the auditors and user perceptions surrounding sampling varied widely. Non-professional investors in particular thought sample sizes are much larger than those used by auditors. Some participants thought sampling is more "scientific" than some methods auditors actually use.

Internal controls and internal control audits

The participants generally indicated they do not assume an unqualified SAS No. 58 auditor's report implies anything about the quality of the internal controls. In fact, the bankers indicated they sometimes conduct their own internal control review of those parts of the company related to a loan, such as controls over pledged accounts receivables. Taking this point further, the bankers, CFOs, and analysts recommended that the quality of the internal accounting controls such as that required in PCAOB audits be explicitly included in the ASB's auditor's report.

One significant difference between the ASB and the PCAOB standards is that the PCAOB standard requires that the auditor express a separate opinion on the client's internal controls over financial reporting (ICFR). The CFOs believed that PCAOB-based audits are superior to ASB-based audits and one CFO indicated an unqualified opinion on internal control increases his confidence in the financial statements. He said Section 404 activities have significantly increased the amount of time auditors are at his company and there is more documentation, more testing, procedures are more rigorous, and more people are involved with a PCAOB-based audit. Analysts thought the internal controls opinion provides additional

information, including insights into corporate governance. Arguing the other side, an analyst said his colleagues did not believe that a PCAOB-based audit was better than an ASB-based audit, at least not in terms of their subsequent analysis of the financial statements.

One auditor mentioned he believed the initial financial statement numbers presented to them by their clients are now more accurate under PCAOB-based audits because the client knows any adjustments may result in adverse opinions regarding the internal controls. However, another auditor expressed a concern that private companies typically have weaker internal controls, particularly with segregation of duties. As such, internal control audits for private companies would always have some negative aspects to them, and it was not clear the value of these negative reports to financial statement users.

Fraud

An unqualified auditor's report does not explicitly say anything about fraud, however, the participants assumed the auditors looked for fraud and none was found. In addition, some auditors were concerned that some users believe the level of assurance or materiality level applied to the overall audit also applies to fraud testing or detection, which, according to the auditors, is not necessarily true.

Going concern

In general, there was a consensus among the participants that a going concern opinion provides an important signal. User groups assumed that if a going concern comment is not included in the auditor's report, a going concern analysis was performed and the auditor concluded it was not an issue. However, there were differences in perception between the auditor group and the user groups as to the degree of analysis performed. Auditors stressed their going concern analyses consist of forecasting cash flows and other key financial data for one year to

determine if the company had sufficient liquidity to operate through that year and that auditors do not evaluate management, the company's business model, or the quality or competitiveness of products as these relate to a client's likelihood of continuing as a going concern. In other words, auditors do not perform an analysis that might be performed by a Wall Street financial analyst to determine if a company is a good investment.

RQ3: What Additional Information Would Financial Statement Users Like to Have Communicated in an Unqualified Auditor's Report?

The most vocal and polarizing part of the focus groups were when the participants were asked to suggest ways to improve the auditor's report. As the following discussion illustrates, there are many suggestions to improve the auditor's report, but, as the discussion also illustrates, each of those suggestions has associated concerns regarding added risks to the auditor and added costs to the client. As will be discussed in the future research discussion at the end of this paper, these suggestion and associated concerns provide interesting research opportunities.

Disclose the letter to management on internal control

At least one participant in each focus group raised the idea of including the letter to management on internal controls (AICPA 2008) with the auditor's report. Some CFOs said that some third parties already require the management letter and the bankers confirmed they do sometimes request the management letter. One analyst said that even if the final contents of published management letter were "negotiated" between management and the auditor, it still would be better than no management letter because it would indicate areas management is currently working to improve.

An auditor said that management letters are going to be particularly sensitive issues for private companies because information in a management letter will include comments that may

be embarrassing to the client, but has nothing to do with the audit opinion. The auditor gave an example, “What if the accounting department is understaffed? The auditor can compensate for this in their audit procedures, but how will users of the financial statements interpret a comment in the management letter suggesting the accounting department could use a tax expert or additional higher-level accounting types?”

Disclose materiality

If standard setters want users of financial statements to not misinterpret the levels of assurance, then standard setters may need to make changes regarding the level of assurance being provided by an audit. As participants expressed a connection between level of assurance and materiality, disclosing materiality may be a potentially significant step toward closing the expectation gap regarding level of assurance.

User Perceptions about Disclosing Materiality. A minority of CFO's thought it was a good idea to disclose materiality information, arguing more information is better than less information. Most CFOs, however, were worried how disclosure of materiality would change the auditor's risk profile. As one CFO indicated, the auditor's report has evolved to its current state being subject to reviews by the courts for many years and any changes to the report may change the auditor's litigation risk. If so, auditors will have difficulty predicting how those changes will impact them in the courtroom.

Some CFOs stated it is going to be impossible to get a common definition because each firm has a different definition of materiality and materiality also includes a qualitative aspect. One CFO said, “It is a slippery slope—you're going to end up with a sixteen page audit report.” Another CFO said, as practical matter, people may not understand why the numbers are different for different companies. Another CFO added that if materiality levels were included in the

auditor's report, then some standardization would be needed to reduce any confusion of having companies using different percentages or different bases, such as net income and assets.

One banker was concerned that this additional information would “just get in the way.” He was also concerned that bankers, instead of the auditors, would start setting materiality levels. Another banker said users either feel comfortable with the financial statements as presented or they don't and the disclosed materiality level will have little or nothing to do with that comfort level. Another banker pointed out someone would have to include benchmark information so users would know if the auditor was varying from typical practices for a company of a particular size and industry. The bankers believed auditors would view these additional disclosures as increasing their risk and, therefore, would want to conduct additional auditing, resulting in an increase in the cost of the audit.

An analyst said her colleagues have asked why the auditors do not disclose the materiality level so the analysts could decide whether that is adequate for their analysis. Some analysts thought this disclosure was a good idea, however, one analyst expressed a concern that companies would try to “game the system” and, for example, keep any fraudulent activities below the disclosed materiality level. Another analyst said having more information, including materiality levels, might be good, but it is not a substitute for the analysts asking more questions. In other words, audited financial statements are the starting point that subsequently will generate follow-up questions for the company's management.

Auditor's Perceptions about Disclosing Materiality. Similar to an analyst's comments above, an auditor was concerned that the client would try to “game the system.” Another auditor was concerned that companies would go to auditors with the highest materiality levels. Another auditor added disclosing materiality levels would work only if the AICPA set materiality

standards and then the materiality level could be disclosed in a footnote such as: “the materiality level was 2 percent of assets in accordance with AICPA standards.” However, another auditor pointed out there could not be just one materiality standard because for some clients assets make the better base, but revenue might be a better base for other clients. Another auditor said it is going to confuse the users if they try to compare one company whose materiality was based on assets and another company whose materiality was based on revenue. Another auditor commented that if the auditor includes one materiality level in the auditor’s report, the user is going to assume every line item on each financial statement was tested to the same materiality level, which is not true.

One auditor said at the beginning of the audit there is a default value for materiality, but as the audit progresses there are qualitative and subjective aspects that also are associated with materiality. The auditor said significant professional judgment is associated with materiality numbers. As such, disclosing materiality numbers alone does not capture the full concept of materiality. Materiality disclosures would have to be accompanied by an explanation as to what the materiality level was and why there were any adjustments for things such as debt covenants or fraud matters.

One auditor said he liked the idea and suggested they could add another paragraph to the auditor's report that provided materiality information. However, he asked: if the disclosure said, “in our opinion, the accompanying income statement could be off by \$20 million, which we would not consider material,” how would that information change the views of the users of the financial statements?

Another auditor said audit standards would have to provide guidance as to what the materiality numbers should be and the trend probably would be to decrease the materiality levels

just to be safe or conservative. A third auditor agreed the reported materiality levels probably would decrease and the auditor likely would use a still lower internal materiality level.

Echoing these points, a fourth auditor expressed a concern that users of financial statements would not really know what to do with materiality disclosures. Other auditors agreed some kind education would be required so users would know what these materiality numbers meant.

Managing Expectations. Regarding disclosing materiality, one auditor brought up an interesting analogy. Public companies now provide guidance on key items such as earnings per share (EPS) as to what they expect future results to be. The auditor asked a client why they did that since there is risk associated with making these projections. The client said it was for defensive purposes because if they did not do so, analysts would be publishing their own projections. By publishing its internal projections, the company is managing the marketplace's expectations. Several times during the focus groups the point was made that the public has unrealistic expectations in terms of auditing to the penny, very tight materiality levels, and very large sample sizes. As such, if the auditors disclosed this information, the auditors then would be helping manage the public's expectations regarding the audit and thus likely lowering the expectation gap.

Add granularity to the auditor's report

One CFO suggested providing a disaggregated grading (e.g., A, B, C, D and F) to the unqualified auditor's report instead of merely pass/fail. The other CFOs seemed opposed to this idea and suggested several questions that would have to be addressed. What do those grades mean and how they will change the auditors' risk profile? What would the auditor's liability be

if they gave the client an A one year and a C the next year? How does the user compare a B from a Big 4 firm to an A from a third-tier audit firm?

Another CFO suggested another form of granularity—that the audit be divided into five to ten different aspects and the auditor provide a rating on each of those items as part of the audit opinion. Some areas could be management, revenue, and cost structure. However, another CFO argued this may be going too far beyond the purpose of the audit, which he suggested is to have an opinion on the accuracy of the financial statements.

A CFO said much of that granular information is captured already in the footnotes and other parts of the 10-K annual report and the auditor's report already indicates all that material is accurate. Another CFO argued that it is not obvious where it is and it would be useful if parameters particularly applicable to an industry were summarized in one spot so 10-K users would know what assumptions were made regarding estimates and costing. Another CFO said it also would be useful if the top five risks were summarized in one place.

Add footnotes or a synopsis to the auditor's report

A number of participants said they would like more information on how the auditors reached their opinion, discussions about issues that were discussed between the auditors and management, and what was the outcome of those discussions. For example, one banker suggested that auditors should disclose “highlights” of anything they thought was a significant change for the company whether the client disclosed it or not. The change could be presentation changes or changes in the numbers. Even if the client disclosed the changes in the financial statement notes, if the auditor thought it was significant, the auditor should also mention it in his disclosure. Another banker said, “More transparency is better.” However, another banker argued that if the client's notes are adequate, then the auditor would not need a separate disclosure, but,

the onus is on the auditors to ensure the client's disclosures are adequate. One analyst said he would prefer that the company just put all their notes about accounts with estimates in one place and explain the impact or sensitivity of those judgments. Another analyst said analysts also would like a similar discussion regarding client estimates from the auditor. For example, what did the auditor propose to the client as adjustments, why did they propose those adjustments, and if they were rejected by the client, why were they rejected?

On the other hand, another banker argued against any additional auditor highlights. Currently, he makes a quick check of the auditor's report and if it was an unqualified report, he moves on to the financial statement footnotes. He does not want to have to study a lot of details in the auditor's report and then study the financial statement footnotes.

An analyst mentioned that a Chartered Financial Analyst (CFA) survey indicates 84 percent of analysts would like this risk information. One analyst said any item in one of these auditor synopses probably would require 30 minutes of discussion on the analyst conference call and, as such, the company would want to manage the synopsis carefully. This led to a discussion as to whether the synopsis should be standardized in that the same risks are discussed for every company. Some analysts believed a standardized list would help them make year-to-year and company-to-company comparisons. However, other analysts said they would prefer to get a company-specific synopsis to help them focus their analysis. An analyst said a customized report would be particularly useful for diversified companies by indicating where risks may have shifted between subsidiaries.

One analyst arguing for a synopsis used an analogy: What would you prefer— knowing that a bonding rating analyst rated a bond A3 or *why* the bond rating analyst rated the bond A3? Arguing the other side, one analyst was concerned the clients could try to “game the system” by

conducting fraudulent activities outside the risk areas mentioned in the auditor's synopsis. She also was concerned that new disclosures eventually would also become boilerplate and "your eyes would glaze over reading all that material."

Another analyst compared this additional information to the comfort letter some underwriters request. She added she was not sure of the value of seeing a 20 page explanation of all the steps the auditor took to conduct the audit. A third analyst said what they want to see are the exceptions—changes to the audit approach, adjustments that were made and were not made, and exceptions to standards.

One auditor said auditor footnotes or synopsis would be like the auditor having their own discussion and analysis of the audit similar to the management discussion and analysis (MD&A) that accompanies the financial statements. Another auditor said the synopsis would be somewhat like the due diligence reports they prepare for specific, non-audit engagements that summarizes the firm's procedures and their conclusions. An auditor suggested that the audit cost would increase substantially because hundreds of hours would go into drafting and evaluating these additional reports. It probably would trigger more thorough audit procedures of anything in the report and there would be dedicated staff just to review those reports. The general counsel probably would review every report. Another auditor noted that currently all financial statements are the responsibility of company management and only the opinion comes from the auditor. If the financial statements are packaged with an auditor summary report, this would change the risk profile significantly for the auditor. It was noted that some of these things discussed already are included in the material presented to the audit committee by the auditors.

Another auditor said she did not know how this summary, which would be so cleaned up, would give the user any additional useful information for their analysis. Another auditor added

“less is more.” That is, because the auditor’s report is short, the going concern opinion, emphasis of the matter, etc. included in the current auditor’s report is going to pop out to the user. On the other hand, if the auditor’s report included additional materials, then these issues would be lost in the details.

Say something explicit about fraud

As said before, all non-auditor participants assume the auditors looked for fraud and if the auditor’s report is silent on fraud, then the auditor did not find any fraud. As such, to prevent any implied misinterpretations regarding fraud, some participants suggested the auditor’s report should be clear on that point and include a specific statement regarding fraud. In a similar statement, an auditor also suggested the auditor’s report should say something about fraud because the public believes the auditor’s job is to detect fraud. In addition to saying something explicit about fraud, another auditor suggested there also needs to be additional, stronger language regarding the limits of the audit and the subjective nature of the financial statements. However, another auditor had a contrary view in that even if the auditor’s report was 20 pages long with the stronger language, if the client failed, the auditors are going to be sued for that failure.

As a “radical idea,” one auditor suggested reviewing the last three years of e-mails should be a required part of each audit. This would be better at ferreting out fraud than SOX. He bases this suggestion on the comments he received from the fraud and forensic specialists within his firm who say the “skeletons” are always in the e-mails.

Say more about internal controls

Some participants suggested the ASB-based auditor’s report should include the auditor’s conclusion about their ability to rely on the client’s internal controls, their risk assessment, and

how they designed their audit procedures. They wanted to know the context by which the auditor established their audit procedures and test work. For public companies, much of this information is required by the PCAOB as communications to the audit committee, including critical audit areas, degree of reliance on internal control, and some of the issues that surfaced during the audit. For non-public companies, the AICPA could adopt similar reporting standards.⁴

Include the auditor's signature

The IAASB audit standards allow the engagement auditor partner to sign the auditor's report in addition to the firm's signature. Responding to that idea, one CFO said, "Since I'm paying a lot of money to the firm, I would rather see the firm's name on the auditor's report." Another CFO said he did not like the idea for a few reasons. First, the audit is the accumulated work of many people from the audit firm and users are relying on the reputation of the firm. Second, what is the impact if the partner conducting the audit was well recognized in the profession, but then retires and a new junior partner takes over the audit? Will that have a negative impact in the marketplace? A third concern is that if a partner puts his or her name on the auditor's report, then the auditor will want to do even more audit work because his/her personal reputation is on the line. Another CFO pointed out that if it added prestige to the audit to have the firm's industry expert on the audit, the auditor named would end up appearing on every audit for that particular industry, so then there would be some concern as to how much

⁴ Although the auditor's report in SAS No. 58 is silent on internal control, in a later interpretation, AU 9508 (Reports on Audited Financial Statements: Auditing Interpretations of Section 508), says that an auditor may add language to the auditor's report regarding their limited internal control procedures. The suggested sentence to include in the first paragraph is: *An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.*

time that partner was actually dedicating to each client. The hourly rate of that partner probably would increase significantly.

Like the CFOs, the bankers had a mixed reaction. Some bankers already have a close working relationship with the client and the CPA firm conducting the audit so they frequently know who the auditor partner is for a specific borrower. Other bankers thought it would be useful information as a contact point if they had follow-up questions. Another banker thought having the auditor's name on the report would improve perception of the audit's quality. One banker indicated he was unsure the value of having a “celebrity auditor” (the firm’s industry specialist) on an audit. He added that not every banker is going to know a particular auditor is an industry specialist.

One analyst said his colleagues discussed the idea of the audit partner signing the auditor’s report and they generally agreed they would have more comfort with the audit if the partner signed the report. Another analyst argued that if the partner signed the report, the report would become even more boilerplate because the auditor would want to make sure there was absolutely nothing controversial or exceptional in the report. A third analyst said she did not see any value in having the partner sign the report.

In terms of the value of a well-known partner signing the report, the analysts did not appear to have a strong opinion either positive or negative on this. They raised the concern that if this partner was doing a lot of speaking engagements, then how much time is he spending on the client's audit? However, some did see some value in having this senior-level person associated with a particular audit.⁵

⁵ A discussion regarding the engagement partner’s signature appeared in the U.S. Treasury’s Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury (U.S. Department of the

Although one auditor thought the idea was “cool” and it would increase his reputation; the majority of the auditors did not support this idea. Adding their name does not change their responsibility or liability because they already sign off internally on the audit. One auditor was concerned about the privacy issue associated with the partner’s name on the report. Another auditor said the audit was performed by a team and conducted according to firm procedures and standards, so it was more appropriate that the auditor's report include just the firm's name.

The auditors did not see having the firm’s industry specialist signature a significant difference and were concerned users might believe that audit was somehow superior. The auditors also were concerned that “star” auditors would be spread too thinly if they were assigned to all audits requested by clients. In addition, they probably would charge a higher hourly rate. The auditors also asked how newer, less-famous partners would be assigned to audits.

GAAP complexity

One auditor indicated the real issue was the growing complexity of GAAP and that simplifying GAAP would improve financial reporting. She said because of all the increasing required disclosures and language, it is very difficult to understand the footnotes. She said readers of financial statements assume the financial statements are prepared to the same set of standards even if they do not truly understand what the disclosures are saying. Another auditor suggested non-GAAP measures of interest to the investment community should be included in the financial statements and incorporated into the audit and the auditor's report.

Treasury 2008). Specifically, recommendation 6 (page VII:19) states: *Urge the PCAOB to undertake a standard-setting initiative to consider mandating the engagement partner’s signature on the auditor’s report.*

Making a similar suggestion, a CFO suggested clarifying some of the GAAP rules. It is very difficult to have an adequate in-house staff that has the skills to research and interpret all the complex GAAP rules. He said standard setters should relax the rules to allow accounting firms to provide more GAAP advice to their audit clients since accounting firms have the breadth of expertise in the different GAAP areas. Some GAAP rules are so complex the audit partners do not understand the rules and they have to consult their own in-house experts.

If auditors cannot provide this help because of independence issues, there should be a governing body companies can access for help with GAAP interpretations. As an example, the IRS provides this type of service for tax questions.

Should these suggested changes be implemented?

The first focus group was conducted with CFOs. Near the end of that focus group it was not clear which way the majority was leaning in terms of the suggested changes to the auditor's report in light of the expected increases in audit costs and the shifting auditor risk profile that would accompany any changes to the current auditor's report. Whenever one CFO argued for a change, another CFO argued against the change. To determine which way the group was leaning, the facilitator asked for a show of hands of those CFOs who thought the auditor's report was 'perfect' just the way it is currently implemented. Surprisingly, all the CFOs raised their hands, including those who had previously suggested changes to the auditor's report. The CFOs said they believed the auditor's report as it exists today satisfies the widest audience. Adding additional information to the auditor's report would be an additional burden, particularly to laypeople, to understand what the new information meant and how it would impact their decisions regarding the company.

The bankers also were specifically asked who thought the auditor's report as it exists today is adequate. Again, everyone raised a hand. According to the bankers, the key point in the question is the word *adequate*. The auditor's report is what it is and once the banker determines it is an unqualified opinion, they move on to their financial analysis. The bankers made the point they would like to have significant client financial changes highlighted, but not necessarily in the auditor's report. It is the client's responsibility to provide the disclosures and it is the auditor's responsibility to ensure the client has made all appropriate disclosures.

SUMMARY AND CONCLUSIONS

Considering that the current SAS No. 58 standard unqualified auditor's report has been in place for over 20 years, it was surprising the many different ways that users interpret or misinterpret that report. One surprising finding was the lack of consensus as to what is the *intended* communication of the report. Even the auditors had difficulty answering that question.

In general, the purpose of focus groups is to explore understandings, usages, issues, suggestions, expectations, and reactions related to some topic. The focus groups summarized in this paper clearly achieved that purpose. On one hand, the stakeholders provided rich discussions on their understandings regarding the auditor's report concepts and terminology, on how the reports are used, and how the reports could be improved. On the other hand, the stakeholders also provided concerns and problems that could be associated with those potential modifications. Some of the key points that can be gleaned from the focus group synopsis include:

- Stakeholders value the audit, but they have difficulty putting a value on the audit. That may be because the auditor's report has no meaningful purpose unless it accompanies a related set of financial statements, thus creating value for the combination of the two. One banker said, "[Unaudited] financial statements would just be junk." An accompanying auditor's report can provide a necessary credibility to the financial statements, making the combined documents valuable to users.
- Users generally do not read the auditor's report and auditors do not expect that they do.

- Users check the opinion paragraph to see if it is an unqualified opinion and see if it is signed by a Big 4 firm. If yes on both counts, that is the last time the user looks at the report. If not signed by a Big 4 firm, the user may do some research to determine the reputation of the assurance firm providing the auditor's report.
- The Big 4 have a strong cachet. However, a minority of preparers and users believe the Big 4 do not live up to that cachet, particularly, because of recent pressures to staff up for SOX. There are mixed feelings regarding the comparable quality and service levels of second-tier and third-tier firms.
- In the abstract, users know auditors do not provide absolute assurance. But the concepts of *level of assurance*, *'reasonable' assurance*, and *'high' level of assurance* are fuzzy to all the stakeholders, including the auditors.
- To varying degrees stakeholders link the concepts of level of assurance and materiality. Some stakeholders, including a number of auditors, believe the two concepts are strongly linked, even to the point that they are equivalent. To these people, materiality is the operationalization of level of assurance. For example, saying materiality is 1 percent of net income is interpreted to be the level of assurance the auditor is providing.⁶ Others argued that level of assurance and materiality are not the same concept, but had a difficult time explaining how the two concepts are different.
- Users have a basic understanding of materiality and sampling, but their guesses as to materiality levels and sample size vary considerably.
- If the auditor's report is silent on fraud and going concern, users believe these two issues were tested and there were no problems. However, user beliefs as to the level of fraud testing and the scope of going concern testing vary widely from what auditors may actually do.
- Users do not believe that in conducting an ASB-based audit, auditors are forming an opinion on the internal accounting controls.
- Most preparers, users, and auditors believe a PCAOB-based audit with its explicit requirement for an internal control opinion is superior to an ASB-based audit. Preparers and users believe the PCAOB auditors are more thorough. Auditors believe the "numbers" the client gives them are better because the client worries that "bad" numbers will lead to a negative opinion on the internal controls.

As reflected in the above summary, with only a few exceptions there is a general consensus among all the stakeholders regarding the current state of the auditor's report. In fact,

⁶ We recognize that GAAS does not define level of assurance this way, but this reflects how the stakeholders conceptualize the term—rightly or wrongly.

there was a relatively strong consensus that the current, highly-standardized, unqualified auditor's report could be replaced with an 'OK' stamp and indicated the applicable audit standards and the name of the audit firm. However, when it came to making recommendations to potentially improve the auditor's report, there were more spirited discussions of the pros and cons of each recommendation.

Directions for Future Research

A key point regarding focus groups is that are used to gather qualitative data from target groups of stakeholders. The research presented in this paper brought out many interesting and provocative ideas, concerns, and suggestions. However, the results are based on 53 volunteers from five different stakeholder groups. The next logical steps in future research could fall into two broad categories.

One category would be experimental. In the presented research, subjects expressed their opinions on many aspects of the audit and the auditor's report, but how would they actually behave if the audit or auditor's report were changed? For example, if users were given the management letter, would their behavior be any different than users given the auditor's report without the management letter? These are important questions because all of the suggested changes have associated risks and costs—why take on these risks and costs if no real benefits are going to be derived in terms of user behaviors?

The second category of research would be to collect data from a much large, more representative samples from stakeholder groups to obtain more quantifiable, generalizable results. With larger samples, statistical analysis could be performed and hypotheses tested.

REFERENCES

- American Institute of Certified Public Accountants (AICPA). 1988. *Reports on Audited Financial Statements. Statement on Auditing Standards (SAS No. 58)*. New York: AICPA.
- . 1993. *Service Organizations (SAS No. 70)*. New York: AICPA.
- . 2008. *Communicating Internal Control Related Matters Identified in an Audit (SAS No. 115)*. New York: AICPA.
- Brown, T., D. Hatherly, and J. Innes. 1993. The review report: An empirical investigation *Accounting and Business Research* 24 (93): 11-18.
- Church, B., S. Davis, and S. McCracken. 2008. The auditor's reporting model: A literature overview and research synthesis. *Accounting Horizons* 22 (1): 69-90.
- De Martinis, M., and A. Burrowes. 1996. Materiality and risk judgments: A review of users' expectations. *Managerial Finance* 22 (9): 16-34.
- Dillard, J., and D. Jensen. 1983. The Auditor's Report: An Analysis of Opinion. *The Accounting Review* 58 (4): 787-798.
- Geiger, M. 1988. SAS No. 58: Did the ASB Really Listen? *Journal of Accountancy* 166 (6): 55-57.
- . 1994. The new auditor's report. *Journal of Accountancy* 178 (5): 59-64.
- Guy, D., and J. Sullivan. 1988. The Expectation Gap Auditing Standards. *Journal of Accountancy* 165 (4): 37-46.
- Hasan, M., S. Maijoor, T. Mock, P. Roebuck, R. Simnett, and A. Vanstraelen. 2005. The Different Types of Assurance Services and Levels of Assurance Provided. *International Journal of Auditing* 9: 91-102.
- Hatherly, D., J. Innes, and T. Brown. 1991. The Expanded Audit Report - An Empirical Investigation. *Accounting and Business Research* 21 (84): 311-319.
- Houghton, K. 1997. Measuring Meaning In Accounting: Sharing Connotations of Underpinning Concepts. Report No. 97- 15, for Australia-wide, New Zealand and Singapore: The University of Melbourne.
- Kneer, D., P. Reckers, and M. Jennings. 1996. An empirical examination of the influence of the "new" US audit report and fraud red-flags on perceptions of auditor culpability. *Managerial Auditing Journal* 11 (6): 18-41.

- Lowe, D. 1994. The expectation gap in the legal system: perception differences between auditors and judges. *Journal of Applied Business Research* 10 (Summer): 39-44.
- Manson, S., and M. Zamon. 2001. Auditor communication in an evolving environment: Going beyond SAS 600 auditor's reports of financial statements. *The British Accounting Review* 33 (2): 113-136.
- McEnroe, J., and S. Martens. 1998. Individual Investors' Perceptions Regarding the Meaning of US and UK Audit Report Terminology: 'Present Fairly in Conformity with GAAP' and 'Give a True and Fair View'. *Journal of Business Finance & Accounting* 25 (3 & 4): 289-307.
- . 2001. Auditors' and investors' perceptions of the "expectation gap". *Accounting Horizons* 15 (4): 345-358.
- Miller, J., S. Reed, and R. Strawser. 1993. Bank loan officers' perceptions of the new audit report. *Accounting Horizons* 7 (1): 39-52.
- Mock, T., J. Turner, G. Gray, and P. Coram. (MTGC). 2009. The Unqualified Auditor's Report: A Study of User Perceptions, Effects on User Decisions and Decision Processes, and Directions for Future Research. A Report to the Auditing Standards Board and the International Auditing and Assurance Standards Board (June). New York, NY: 179 pages.
- Monroe, G., and D. Woodliff. 1994. An empirical investigation of the audit expectation gap: Australian evidence. *Accounting and Finance* 34 (1): 47-74.
- Pringle, L., R. Crum, and R. Swetz. 1990. Do SAS No. 59 format changes affect the outcome and the quality of investment decisions? *Accounting Horizons* 4 (3): 68-75.
- Public Company Accounting Oversight Board (PCAOB). 2007. Auditing Standard No. 5—An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements. (Available at http://www.pcaobus.org/Rules/Docket_021/2007-05-24_Release_No_2007-005.pdf).
- Roussey, R., E. T. Eyck, and M. Blanco-Best. 1988. Three New SASs: Closing the Communications Gap. *Journal of Accountancy* 166 (6): 44-51.
- Schneider, D., G. May, and D. Shaffer. 1994. On the credibility of GAAP: Do preparers, auditors, and users see eye to eye? *Journal of Applied Business Research* 10 (4): 77-87.
- Strawser, R. 1990. The new auditor's report: will it close the expectations gap in communications?. *The CPA Journal Online*. May. Available at <http://www.nysscpa.org/cpajournal/old/08526920.htm>.

U.S. Department of the Treasury. 2008. Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury (October 6). Available at <http://www.ustreas.gov/offices/domestic-finance/acap/docs/final-report.pdf>: Washington, DC.