

**DOES THE “QUALIFICATION” IN AN AUDITOR’S REPORT MATTER IN THE
PRESENCE OF GOING CONCERN UNDERTAINTIES?: EVIDENCE FROM
AUSTRALIA**

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Abstract

Research conducted on the information content of going concern “modified” reports in the United States and United Kingdom indicate that a modified audit report does not appear to have information content to users once the going concern contingency is disclosed in the notes to the financial statements. This raises the question as to whether any form of qualification is necessary since readers appear not to give additional credence to the auditor’s report once the going concern contingency is reported. In this study we provide evidence from Australia. We examine whether modification/ qualification by an auditor in Australia (an “emphasis of matter” and an “except for” report respectively) has information content to a user. The results indicate that, if the company is in a state of financial distress, the qualification, in either form, does not appear to significantly enhance either perceptions of risk or decision making. While the auditor’s report was perceived to be useful in that it helped loan officers to focus on matters raised in the report, the qualification appears not to have incremental information content. While one could expect the emphasis of matter report to not communicate any additional information (as the information addressed in the emphasis of matter section has already been disclosed as a note in the financial statements), a similar finding with respect to the except for report (which is issued due to lack of appropriate disclosure) is surprising. The conclusion is that, even in the presence of inadequate disclosure, if the numbers in the financial statements appear to indicate financial distress, the communication in the auditor’s report is not given additional credence.

Keywords: Going concern, financial distress, qualified auditor’s reports

INFORMATION CONTENT, AUDIT REPORTS AND GOING-CONCERN : AN AUSTRALIAN STUDY

1. Introduction

The majority of articles in the published literature conclude that financial statement users do not give additional credence to the qualification in the auditor's report. In this paper we examine this issue in an Australian context. It appears that the last published paper using Australian loan officers was by Houghton (1983). The format he examined and the standards in force at that time has now been superseded. Thus, it is timely to examine if, under the current standards, namely, AUS 702 and AUS 708, and the guidance given therein, whether the auditor's report in the presence of going concern uncertainties has incremental information to financial statement users and influences their decision making.

In Australia AUS 702 requires auditors to incorporate an "Emphasis of Matter" section in the auditor's report in the presence of going concern uncertainties, but the report is technically unqualified. The Emphasis of Matter paragraph draws the reader's attention to certain matters in the financial statements and serves to act as a red flag to them. If the auditor feels that there is lack of adequate disclosure, then the auditor is required to issue a qualified report that is referred to as an "Except for" report since the requisite paragraph commences with those words. In the Appendix we summarize guidance from AUS 702 and 708 relating to when each type of report is appropriate.

In the United States, in the presence of going concern uncertainties, Statement of Auditing Standards (SAS) No. 59 entitled *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, (AICPA 1988) requires the auditor to modify the report with a fourth explanatory paragraph detailing the going concern uncertainty. However, as in

Australia, the auditor's report is technically unqualified. Many European countries, for example Great Britain, adopt a similar approach to the United States and Australia in relation to going concern reporting. Furthermore, the International Federation of Accountants (IFAC) requires auditors to modify their report by adding "an emphasis matter paragraph" that highlights the going concern problem (IFAC, 1999). This approach too is very similar to Australia.

Research has been conducted on whether the explanatory paragraph in a modified report has information content. In the latest published research, Elias and Johnston (2001) found that, once the going concern contingency is described in the notes to the financial statements, the "modification" or the explanatory paragraph does not have incremental information content for the reader. The preponderance of evidence tends to support this view (Abdel-Khalik, et al., 1986; Houghton, 1983; Libby, 1979).

In this study we examine whether, in the presence of financial distress: (a) the Qualification paragraph as regards an "Except for" report format has information content and, in similar circumstances whether; (b) the "Emphasis of Matter" opinion has information content. The motivation for this study is to contribute to the extant literature by examining if: (a) a qualification paragraph (except for format) significantly influences perceptions and decisions of finance industry officers, and (b) highlighting the contingency (emphasis of matter format) significantly influences perceptions and decisions of finance industry officers. The purpose of this study is to provide further evidence about the signal that is conveyed by different formats of audit reports in the presence of financial distress.

2.0 Literature Review

Experimental studies in this area have frequently provided case situations to respondents manipulating one or more related variables. Overall, there have been ten published studies in this area. In one of the first studies, Libby (1979) investigated the loan decisions of experienced loan officers from four commercial banks. The objective was to examine the incremental information content of subject to qualified audit reports. He provided loan officers with financial statements that disclosed an uncertainty in the notes to the financial statements. The uncertainty related to one of a general nature rather than a going concern uncertainty. One group of respondents was provided with uncertainty contingency information in the financial statement notes, while the other group received the note description plus an audit report modified as to the uncertainty. He found that qualifying the report with a “subject to” paragraph that emphasized the contingency did not significantly accentuate the message once the disclosure had already been disclosed in the notes of the financial statements. Houghton (1983) conducted a similar experiment with Australian loan officers (again examining reactions in the presence of general uncertainties) and obtained similar results. Abdel-Khalik, Graul, and Newton (1986) conducted a similar study with Canadian loan officers. Their results further corroborated the findings of Libby and Houghton. In summary, the results of the study by Libby (1979), Houghton (1983) and by Abdel-Khalik et al. (1986) indicate that uncertainty qualifications are unnecessary if the contingency is properly reported in the notes to the financial statements. As regards the study in this paper, the relevancy to prior studies is that it could be argued that prior findings are (a) relevant to a different era; (b) involved a reporting format that has now been superseded (i.e., the subject to format) and (c) involved uncertainties of a general rather than going concern nature. However, more recent studies incorporating the current reporting

format used in most industrialized nations (i.e., modified report format) and testing for reactions in the presence of going concern uncertainties, find similar results (Elias and Johnston, 2001; LaSalle and Anandarajan, 1997).

It must be pointed out, however, that not all studies corroborate the above results. A minority of studies (four out of ten published studies focusing on this topic) find opposing results, namely, that auditor's reports do have information content. These include Firth (1979) who tested reactions and perceptions of British loan officers in the presence of going concern uncertainties, and Gul (1987) who conducted a similar test with loan officers from Singapore (the difference being the uncertainties were general and not going concern) and Bamber and Stratton (1997) who used American loan officers (again general rather than going concern uncertainties). Overall, the results indicated that loan officers who received reports in the subject to qualified format (Firth and Gul) and in the current modified format (Bamber and Stratton) perceived the company to be more risky. These findings indicate that the auditor's report has information content to users.

LaSalle and Anandarajan (1997) sought, among other things, to examine loan officers' reactions in the presence of both general and going concern uncertainties. They concluded that, in the presence of general uncertainties, the modification in an auditor's report significantly influenced subjects' perceptions of risk and decision to grant a loan; however, as the gravity of the uncertainty increased to going concern, the subjects in their study did not give additional credence to the auditor's report.

In the midst of conflicting evidence, this study adds to the extant literature by examining the information content of auditor's reports in the Australian context. The only published study using Australian loan officers was conducted more than two decades ago

using the now superceded subject to format. Further, the study examined reactions and perceptions in the presence of general uncertainties. The contribution of this study is to examine the issue of relevance of auditor's reports using current formats. This study differs from some of the main papers in this area (Libby, Houghton, and Abdel-Khalik et al.) because we test perceptions and reactions of finance industry officers in the presence of going concern uncertainties. The change of emphasis from loan officers to finance industry officers is not seen as significant in the study. The title "loan officer" in Australia is probably now not a relevant term given the change of titles and job descriptions that have pervaded the banking and finance industry.

Furthermore, studies examining the use, appropriateness and applicability of audit report, and indeed auditors, should be carried out given the spate and significance of corporate collapses around the world, including Australia.

3. Research question and hypotheses

In order to attain our objectives, we examine the two research questions stated below.

Question 1 : *In the presence of going concern uncertainties do reporting in the except for and emphasis of matter formats significantly reduce the probability of obtaining a loan?*

Question 2 : *In the presence of going concern uncertainties do reporting in the except for and emphasis of matter formats significantly increase finance industry officers' perception of risk?*

In order to test the first research question, the following hypothesis is tested:

H1: In the presence of going concern uncertainties, a finance industry officer's willingness to grant a loan will be significantly lower for an except for qualified report format relative to a standard report format.

H1A: In the presence of going concern uncertainties, a finance industry officer's willingness to grant a loan will be significantly lower for an emphasis of matter report format relative to a standard report format.

The hypotheses above are based on the theory generated by Gul (1987) and Bamber and Stratton (1997) who stated that redundant information in the form of additional disclosure (e.g., explanatory paragraph in addition to a note in the financial statements) may exacerbate the perception of risk. We postulate that in the case of the except for report, additional negative information is conveyed to the financial statement reader through the qualification. This may cause a reduction in the willingness to grant a loan (H1). In the case of the emphasis of matter report, despite the fact that the note is already disclosed, we postulate that the modification paragraph may make the going concern uncertainty more salient to the financial statement reader thus causing a reduction in the willingness to grant a loan (H1A).

In the second research question, we seek to examine whether the type of auditor's report influences subjects' perceptions of risk. The literature (Elias and Johnston, 2001; Gul, 1987; LaSalle and Anandarajan, 1997) indicates that; (a) the extra interest assigned to a loan above the prime rate, (b) perceptions of the ability of a company to service its debt obligations and (c) need for additional information are significant criteria underlying the investment decision. Each will be considered individually (in H2, H3 and H4).

The second hypothesis is based on the premise stated by Gul (1987). Gul noted that increased levels of disclosure about an uncertainty, including a going concern uncertainty,

may be expected to increase the estimated effect of the uncertainty on the results and position disclosed in the financial statements and hence on the variance of expected cash flows. Thus, more disclosure may result in a greater perception of risk. In such a scenario, finance industry officers will charge extra interest above premium to account for the extra risk.

Based on this, the second hypothesis to be tested is stated as follows:

H2 : In the presence of going concern uncertainties, finance industry officers' perception of risk (as measured by extra interest charged above prime rate) will be significantly higher for an except for qualified report format relative to a standard report format.

H2A: In the presence of going concern uncertainties, finance industry officers' perception of risk (as measured by extra interest charged above prime rate) will be significantly higher for an emphasis of matter report format relative to a standard report format.

The third hypothesis is based on the premise stated by LaSalle and Anandarajan (1997) who found that the method of disclosure of the going concern uncertainty in the auditor's report impacts users' (loan officers in their study) perception of a company's ability to service its debt. Based on this the third hypothesis to be tested, stated in the alternate form, is as follows:

H3 : In the presence of going concern uncertainties, finance industry officers' perceptions about a company's ability to service its debt will be significantly lower for an except for qualified report format relative to a standard report format.

H3A: In the presence of going concern uncertainties, finance industry officers' perceptions about a company's ability to service its debt will be significantly lower for an emphasis of report format relative to a standard report format.

Libby (1979) found that uncertainty qualifications cause users to search for additional information in order to estimate the effects of the uncertainty. Gul (1987) suggested that there might be an increase in information search by financial statement users with increasing levels of disclosure of the uncertainty. The theory is that redundant information in the form of additional disclosure (e.g., explanatory paragraph in addition to a note in the financial statements) may exacerbate the perception of risk. This, in turn, may stimulate user behaviour causing them to have a greater need to assess the financial impact of that uncertainty on the company. Based on this, the fourth hypothesis to be tested, stated in the alternate form, is as follows:

H4: In the presence of going concern uncertainties finance industry officers' need for additional information will be significantly greater for a qualified except for report format relative to a standard report format.

H4A: In the presence of going concern uncertainties finance industry officers' need for additional information will be significantly greater for an emphasis of matter format relative to a standard report format.

Based on the theory postulated by Libby and Gul that we discussed for H1, namely, that additional negative information is conveyed to readers through a qualification thus exacerbating perceptions of risk, we postulate that a finance industry officer's perception of the ability of the company to continue as a going concern should be significantly lower relative to when a standard report is issued. Based on this, the fifth hypothesis to be tested, stated in the alternate form, is as follows:

H5: In the presence of going concern uncertainties, finance industry officers' perception of the ability of the company to continue in operation will be significantly lower for an except for qualified report format relative to a standard report format.

H5A: In the presence of going concern uncertainties, finance industry officers' perception of the ability of the company to continue in operation will be significantly lower for an emphasis of matter report format relative to a standard report format.

The next hypothesis is designed to test to what extent finance industry officers depend on audit reports for their decision making and the extent to which qualified audit opinions actually impact decision making. The hypotheses, stated in the alternate form, are as follows:

H6 In the presence of going concern uncertainties, the effect (influence) of the auditor's report will be greater for an except for unqualified report relative to a standard report format.

H6: In the presence of going concern uncertainties, the effect (influence) of the auditor's report will be greater for an emphasis of matter report format relative to a standard report format.

4. Research methodology

4.1 Sample

Financial statement users comprise a wide spectrum that includes financial analysts, bankers, regulatory bodies, and shareholders among others. Studies in this area have used

many types of user groups. These include loan officers (Bamber and Stratton, 1997; Elias and Johnston, 1997; LaSalle and Anandarajan, 1997; among others), financial analysts (Bailey, 1988; Robertson, 1988) and students (Pringle, Crum and Swetz, 1990). Finance industry officers were chosen from the available groups of users in this study because they are the ideal participants for this research question. Finance industry officers constantly work with financial statements and read audit reports as routinely. More importantly, the decision to grant a loan and the charge for that loan is highly sensitive to the going-concern condition of a company. Hence, this group should a priori perceive equal concern among the disclosure formats unless the types of disclosures are believed by them to represent different thresholds of auditors' going-concern reservations.

We were seeking respondents who were in a position to make appropriate judgments on lending facilities and associated issues in relation to a loan application by Octanol Holdings Limited (see 4.3 below). Contact was made with the Australasian Institute of Banking and Finance (AIBF) which has a substantial membership base. The AIBF's cooperation in the research was obtained and we acknowledge the significant resources provided by them. The AIBF's membership base is coded into lengths of service, location, status/level and area of professional interest. We only selected Australian members from this list. In general, we selected members with varying lengths of service, but omitted academics. The members selected were those representing the interest areas of personal/retail financial services/mortgages, international banking and project/structured finance. These codes provided a total of 4,225 members¹.

¹ We used block selection sampling in this study. We acknowledge that this may not be representative of the population and may have an inbuilt bias.

Given that the completion of the survey was likely to take several hours, it was decided to send a letter of request to participate in the research to the identified AIBF members first. An initial batch of 500 request letters were sent to the first 500 alphabetically listed members. Those members who wished to participate advised us of their willingness via a reply paid envelope. This process was repeated five times (i.e., 3,500 members) until we felt that we had sufficient participation.

The participating members were sent one of the annual reports of Octanol Holdings Limited and the questionnaire. The “unqualified” report was sent to 122 participants, the “qualified” to 108 participants and the “emphasis of matter” to 102 participants. We received 36, 42 and 32 responses respectively providing us with an overall response rate of 33.1% on those who indicated that they were willing to complete the questionnaire². The responses were anonymous and it was impossible to connect a response with a respondent in the light of the number who accepted the invitation to participate. In this study, the mean age of the participating finance industry officers was approximately 41 years. The sample was predominantly male (87%) and the officers had an average of 13.7 years experience. They had authority to grant on average, loans of \$250,000 and above. The demographic details of the participants are shown in Table 2.

Insert Table 1 here

4.2 *Research Instrument and Task*

² Our response rate as a percentage of the total population is approximately 3 percent. This is because 230 out of 2,500 agreed to participate; only 78 of that number subsequently completed and sent in the questionnaires. We tested for non-response bias by testing for differences between the first 10 and last 10 responses received. There was no statistically significant differences with respect to demographic characteristics.

A search was conducted to locate an Australian company which received an audit qualification for going-concern since the introduction of AUS702 and 708. When found, the details of the identifying features of this company were then altered so that it became highly unlikely that the original company could be identified. The nature of these changes were qualitative only, in that they related to names, locations, financial periods etc. No changes were made to the financial data. The “new” company was called Octanol Holdings Limited. The main activity of the company was construction of residential and office buildings. Three versions of the annual report of Octanol Holdings Limited were prepared.

- 1) The first version or group one had the original qualified “except for” audit report;
- 2) The second version or group two had identical financial statements plus a note identifying the going concern issue together with the auditor’s report incorporating an “emphasis of matter”;
- 3) The third version or group three contained the original financial statements and a standard unqualified report.

The report formats are based on AUS 702 and 708. The issue of concern related to financial support for a project with which the company was involved. It was noted that without substantial financial support there is a significant uncertainty whether Octanol will be able to continue as a going concern. In summary, the research instrument comprised the following:

- A covering letter
- Descriptive information about a hypothetical company
- Auditor’s report
- Balance sheet (2 years)

- Statements of Income and Retained earnings (2 years)
- Statements of Cash flow (2 years)
- Notes to financial statements (This included the note highlighting the going concern problem in the “emphasis of matter version).

We first compared the decisions and perceptions of the first experimental group that had an except for qualified report (Group 1) with that of the control group (Group 3). We then compared the decisions and perceptions of the second experimental group that had an emphasis of matter report (Group 2) with that of the control group. The tests of our hypotheses were made by comparing the responses between experimental Groups 1 and 2 for each of the variables tested with that of the control group.

This study was conducted by means of a between-subjects as opposed to a within-subjects design. The between subjects design implied that the finance industry officers in this study had only one form of report available.

4.3 Survey Instrument and Case Studies

The survey instrument and case studies are shown in the appendix³. Questions 1 to 10 in the survey sought to obtain demographic information about the participants. Question 11 requested information to obtain an insight into the finance industry officers’ lending authorities. Questions 12 and 13 sought to obtain information about decision making by asking the finance industry officers the probability of them granting a loan.

5 Statistical tests and results

³ The case studies and survey instrument were pilot tested on 35 Executive MBA students prior to submitting to the finance industry officers.

We are examining the impact of audit opinion on several different response variables. Descriptive statistics relating to our sample is shown in Table 1. A correlation test, the results of which are shown in Table 2, indicated that some of these response variables are correlated.

Insert Table 2 here

A multivariate analysis of variance is used to examine differences between the experimental and control groups. We initially examined the multivariate normality of the two distributions. A statistical procedure named Calais was used to calculate Mardia's multivariate Kurtosis and skewness. No significant departure from normality was identified for the two groups.

After testing for normality we used multivariate analysis of variance (MANOVA) to test for differences between the groups. The MANOVA test indicated overall differences between the experimental groups and control group as measured by Wilk's Lambda and Pillai's trace. Pairwise comparisons were subsequently made to test for differences between the two groups at a more detailed level. We first discuss the results of pairwise comparisons between experimental group 1 and the control group.

5.1 Discussion of Results Comparing Responses of the "Except For" Qualified Report with that of the Control Group

The results are shown in Table 3.

Insert Table 3 here

The results indicate that willingness to grant the loan was not significant between the two groups (p value 0.63). While the willingness to grant the loan was 11.3% in the presence of a standard report, it was only 9.05% in the presence of a qualified except for report. As mentioned, the difference was not statistically significant. Hence, we conclude that there is insufficient evidence to support H1. (The results also indicate that the difference in the loan amount that the subjects were willing to grant was not significantly different between the two groups.) Similarly, the interest rate markup comparison between the standard report (2.02% + prime rate) versus the qualified except for report (2.17% + prime rate) was not statistically significant (p value 0.69). Thus, we conclude that there is insufficient evidence to support H2. While the perceived ability of the company to service debt was lower in the presence of the standard report (2.75 versus 2.35 for the qualified report), the difference was not statistically significant (p value 0.33). Thus, we conclude that there is insufficient evidence to support H3. The results indicate, that once the going concern uncertainty is disclosed, the qualification of the auditor's report, though drastic, does not have incremental information content for users.

When testing for H4, as shown in Table 3, respondents presented with an except for qualified report indicated a higher need (6.85) for additional information than in the presence of a standard report (4.88). Thus, we have sufficient evidence to support H4 (p value 0.01).

When testing H5, as shown in Table 3, we found that there was no significant difference in finance industry officers' perceptions of the ability of the company to continue in operation (3.55 in the presence of a standard report versus 3.21 in the presence of an except for qualified report). While the except for qualified report lowered perceptions, the

difference was not statistically significant (p value 0.49). The results indicate that the presence of a qualification does not significantly influence finance industry officers' perceptions of risk. This does not give credence to the theory that an audit report has more influence when it is qualified.

A pairwise test for overall influence of audit opinion effect was significant (p value < 0.001) as shown in Table 4. Hence, we conclude that we have sufficient evidence to support H6. The conclusion is that, while the except for qualified audit report does not significantly influence perceptions of risk and decisions, there is an overall audit opinion effect in that finance industry officers do place reliance on the audit report and focus attention on factors causing the qualification in the auditor's report.

5.2 *Discussion of Results Comparing Responses of the Emphasis of Matter Report with that of the Control Group*

The results of these tests are shown in Table 5.

Insert Table 5 here

The results indicate that willingness to grant the loan was not significant between the two groups (p value 0.99). While the willingness to grant the loan was 11.39% in the presence of an unqualified report, the probability was only slightly lower (11.33%) in the presence of an emphasis of matter report. Hence, we conclude that there is insufficient evidence to support H1A.

The interest rate markup difference between the standard report for the standard report (2.02% + prime rate) and the emphasis of matter report (2.36% + prime rate) was not

statistically significant (p value 0.45). Thus, we conclude that there is insufficient evidence to support H2A.

The perceived ability of the company to service debt was lower in the presence of the emphasis of matter report than for a standard report (mean score of 2.75 for the standard versus 1.96 for the emphasis of matter report), the difference was not statistically significant at the 5 percent level (p value 0.071). Thus, we conclude that there is insufficient evidence to support H3A.

When testing H4A, as shown in Table 5, we found that respondents presented with an emphasis of matter report indicated a higher need for additional information (5.86) relative to a standard report (4.88). But the difference was not statistically significant (p value 0.28).

When testing H5A, as shown in Table 5, we found that respondents presented with an emphasis of matter report had a lower perception of the ability of the company to continue in operation (2.37) relative to a standard report (3.55). The emphasis of matter report lowered perceptions and the difference was statistically significant (p value 0.02). This indicates that the presence of an emphasis of matter report combined with a note in the endnotes to the financial statements did lower perceptions. Considering that the numbers in the financial statements indicated financial distress, the low means are not surprising. However, what is surprising is that the except for report had a higher mean than the emphasis of matter report.

A pairwise test for overall influence of audit opinion effect was significant (p value < 0.001). We have sufficient evidence to support H6A.

The overall conclusion is similar to that of the except for qualified report, namely, that, while the emphasis of matter audit report does not appear to significantly influence

perceptions of risk and decisions, finance industry officers do claim to place reliance on the audit report.

5.3 *Additional Tests*

We also conducted a pairwise comparison of the results between the Emphasis of matter report and the Except for qualified report. The results are shown in Table 6.

Insert Table 6 here

In all cases the qualified except for report appears to influence finance industry officers' decision and perceptions of risk. The probability of obtaining a loan is lower in the presence of a qualified Except for report, but the results are not statistically significant (p value 0.65). In terms of the variables measuring perceptions of risk, there are no significant differences between the two experimental groups. This indicates that, in the presence of going concern uncertainties, the type of auditor's qualification does not significantly accentuate the signal to finance industry officers.

6. Discussion and implications

Currently only one study (Houghton 1983) examined the usefulness of audit reports in an Australian context. International research has provided conflicting results. The majority of published papers conclude that, once the information is disclosed in the notes to the financial statements, a modification to the auditor's report in the form of an explanatory paragraph does not provide the reader with incremental information. This study seeks to examine this issue in an Australian context. This study is different from the previous study by Houghton

in two respects. First, we examine finance industry officers' reactions in the presence of going concern uncertainties instead of general uncertainties and second we use the current report formats after AUS 702 and 708 came into effect. We have two objectives. Firstly, to examine the incremental information content of an except for qualified report (issued when disclosure of a going concern contingency is considered inadequate) and secondly, to examine the incremental information content of an emphasis of matter report (an unqualified report is issued when there is adequate disclosure of a going concern contingency in the notes to the financial statements). We found that an emphasis of matter report did not have incremental information content to the subjects in our study. This finding corroborates the general theory that once a going concern contingency is disclosed, the explanatory paragraph in the auditor's report does not convey new information to the reader. Surprisingly, we found that the same held for the except for report. In our case study, analysis of the financial statements would have revealed significant financial distress. It would appear that in the presence of financial distress the except for report did not significantly influence perceptions of risk and decisions of the subjects. We conclude that it is the substance in the financial statements rather than the content and presentation of audit report formats that influence investors.

The study's results and conclusions should be interpreted in light of an important limitation. Finance industry officers are only one of several groups using financial statements. Future researchers should examine bondholders' and financial analysts' reaction to the qualification in the auditor's report. In the Australian context, the findings give credence to the notion that a qualification is not necessary since it does not appear to significantly accentuate the message for a sophisticated and informed group such as finance

industry officers (once the going concern contingency is disclosed as for the emphasis of matter report, or even if inadequately disclosed as in the case of the except for report).

However, the qualification is still useful in that it makes finance industry officers focus on matters that give rise to the going concern uncertainty.

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Table 2
Correlation Test on Different response Variables

	Loan amount	Probability of loan being approved	Prime-Rate + Mark-up to be charged	Ability to service debt.	Reliance on audit report	Ability to continue as going-concern
Probability of loan being approved	0.312 **					
Prime-Rate + Mark-up to be charged	-0.021	-0.104				
Ability to service debt.	0.497 **	0.530**	-0.088			
Influence of audit report	-0.028	0.001	-0.018	0.021		
Ability to continue as a going-concern	0.442 **	0.322 **	-0.196 *	0.642 **	0.022	
Additional info. required.	0.242 **	0.011	-0.084	0.24 **	0.360 **	0.269 **

Correlations amongst the variables included in the study

* p < .05

** p < .01

Table 3
Pairwise Comparisons of responses to qualified and unqualified reports

	N	Standard Audit Report Mean	N	Except for Qualified Audit Report Mean	F-Value	P-value
Loan Amount	36	\$375,000	42	\$250,000	.32	.5716
Probability of loan being approved	36	11.39%	42	9.05%	.22	.6380
Prime-Rate + Mark-up to be charged	36	2.02%	42	2.17%	.16	.6907
Ability to service debt	36	2.75	42	2.357	.92	.3398
Influence of audit report	36	2.805	42	7.214	66.18	.0001
Ability to continue as going-concern	36	3.556	42	3.214	.48	.4920
Additional information required.	36	4.889	42	6.857	6.17	.0152

Using Tukey's Procedure to control for over Overall significance

Table 4
MANOVA Test Criteria and Exact F Statistics for the Hypothesis
of No Overall Audit Opinion Type Effect

Statistic	Value	F Value	Num DF	Den DF	Pr > F
Wilks' Lambda	0.55954794	4.72	14	196	<.0001
Pillai's Trace	0.45960655	4.22	14	198	<.0001
Hotelling-Lawley Trace	0.75292490	5.23	14	153.48	<.0001
Roy's Greatest Root	0.70432202	9.96	7	99	<.0001

Table 5

	N	Standard Audit Report Mean	N	Emphasis of matter Audit Report Mean	F-Value	P-value
Loan Amount	36	\$375,000.00	30	\$200,000.00	.43	.5155
Probability of loan being approved	36	11.39%	30	11.33%	.00	.9924
Prime-Rate + Mark-up to be charged	36	2.02%	30	2.36%	.56	.4582
Ability to service debt	36	2.75	30	1.966	3.35	.0718
Influence of audit report	36	2.80	29	6.586	35.05	.0001
Ability to continue as going- concern	36	3.556	29	2.379	5.47	.0225
Additional information required.	36	4.889	29	5.862	1.17	.2835

**Pairwise Comparisons of responses to Standard and Emphasis of Matter reports
Using Tukey's Procedure to control for over Overall significance**

Table 6
Pairwise Comparisons of responses to Emphasis of Matter and Except for qualified Audit Report Using Tukey's Procedure to control for over Overall significance

	N	Emphasis of Matter Audit Report Mean	N	Except for Qualified Audit Report Mean	F-Value	P-value
Loan Amount	30	\$200,000	42	\$250,000	.32	.8140
Probability of loan being approved	30	11.33%	42	9.05%	.21	.6505
Prime-Rate + Mark-up to be charged	30	2.36%	42	2.17%	.16	.6916
Ability to service debt	30	1.966	42	2.357	1.26	.2661
Reliance on audit report	29	6.586	42	7.214	.84	.3618
Ability to continue as going-concern	29	2.37	42	3.21	3.15	.0803
Additional information required.	29	5.86	42	6.857	1.37	.2450

APPENDIX
Circumstances that Result in a Modified Report and the Type of Report

	Material but not extreme	Extreme Cases
Disagreement with management (including inherent uncertainty not adequately disclosed) (AUS 702.44 to 702.50)	“Except for opinion”	Adverse opinion
Conflict between applicable financial reporting frameworks (AUS 702.58 and 702.59)	“Except for opinion”	Adverse opinion
Scope limitation (AUS 702.53 to 702.56)	“Except for opinion”	Inability to form an opinion
Additional disclosure with which the auditor concurs (AUS 702.58 and 702.59)	Unqualified opinion with an emphasis of matter paragraph	
Inherent uncertainty (going concern or other) that is adequately disclosed (AUS 702.60 to 702.62)	Unqualified opinion with an emphasis of matter paragraph	
Accompanying information is inconsistent with the audited financial report (AUS 702.63)	Unqualified opinion with an emphasis of matter paragraph	
Subsequent event creates new conditions which did not exist at reporting date and which render the going concern basis inappropriate, and this is adequately disclosed (AUS 702.64)	Unqualified opinion with an emphasis of matter paragraph	