

SESSION 1: AUDIT
DATE: THURSDAY, FEBRUARY 22
TIME: 3:30 – 5:00 PM

Audit Reports: Integrated or Separate? Does It Matter?

James H. Thompson
Washington State University

Jared M. Hamburg
Washington State University

ABSTRACT: The Public Companies Accounting Oversight Board (PCAOB) issued Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*. The Standard was designed to facilitate an integrated audit of financial statements with internal controls. Specifically, this Standard revises the form and language used in the auditor's standard report and requires the auditor to express an opinion on internal controls as well as on the financial statements. In addition, the Standard requires greater accountability by management of public companies and by accounting firms that audit those companies and improves communication of audit findings with users of financial statements.

In spite of these changes, some auditors have acknowledged that they did not fully achieve integrated audits. In addition, anecdotal evidence shows that some audit reports reflect format and language that vary from the "standard report" model provided in Auditing Standard No. 2. These reports suggest that the implementation of Auditing Standard No. 2 may not have been as effective as desired. This paper discusses some possible reasons for recent changes in audit reports and provides empirical evidence regarding the implementation effectiveness of Auditing Standard No. 2.