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Symbolism and Communication in the Auditor's Report

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The 1975 annual report of Arthur Andersen & Co. indicated that 6.6% of the firm's total revenue was received from five clients.¹ Simple arithmetic applied to the total revenue figure leads to the conclusion that Arthur Andersen had five clients whose annual fees average about \$5.1 million each. Using other averages given, the audit fee portion of the total was about \$3.4 million for each client. Additional analysis of the data provided in the report suggests that \$3.4 million of auditing fees would represent about 95 man years or 128,000 hours of work. Obviously, the precision of these manpower estimates is subject to some doubt, but even with a wide range of possible inaccuracy it is obvious that \$3.4 million worth of auditing represents a prodigious expenditure of skilled accounting labor.

Arthur Andersen did not indicate the particular clients that were the beneficiaries of this lavish scrutiny. One might assume that the group includes International Telephone and Telegraph Corporation, and Texaco, Inc., two of the largest corporations in the world that are AA clients. Additional candidates among Arthur Andersen clients, considering size and complexity, might be UAL, Inc. (United Airlines), General Telephone & Electronics, and Occidental Petroleum.²

Let us assume, for purposes only of a simple but significant point, that the above five corporations are, indeed, the five large clients referred to in the Arthur Andersen & Co. annual report. Then, approximately 17 million dollars, 475 man years, or about 640,000 man hours were expended in their audits.

The Audit Reports to Five Largest Clients

A brief, but rigidly conducted empirical study indicates that the audit reports to the shareholders of these five companies for the year 1974 (the audits most likely to have been performed in the Andersen fiscal year ended August 31, 1975), include a total of 875 words, or an average of 175 words each.³

Now consider the significance of this arithmetic. Arthur Andersen & Co. was required, within the confines of present, conventional practice, to communicate to tens of thousands of shareholders and other users, the nature, intent, scope, quantity and results of the equivalent work of 95 professionals laboring for a year, in about 175 words—and no pictures.

This, then, is the nub of the problem. Tradition, conventional usage, and ultimately the pronouncements of the American Institute of Certified Public Accountants have developed a scheme whereby the auditor confines the report of

the results of an examination to a few dozen words; a few hundred if unusual complexities or exceptions manifest themselves.

Audit Reports in Evolution

Audits, as they commenced around the start of the 20th century, involved a fairly simple and straightforward verification of the existence of the company and its assets along with some assurance that substantial proportions of the wealth of a usually small number of shareholders had not been misappropriated by untrustworthy stewards. Since then, the corporations being audited have grown to staggering complexity and the auditor is now expected to attest the accuracy of the measured performance of management's attempts to maximize the wealth of hundreds of thousands of generally uninformed and disinterested investors.

One might have expected that the vehicle for the auditor's communication of audit results would have undergone some comparable evolution, but that does not seem to be the case. Early audit reports issued in the United States (from 1900 until after World War I) tended to be relatively brief:

We have audited the books and accounts of the XYZ company for the year ended December 31, 1915, and we certify that, in our opinion, the above balance sheet correctly sets forth its position as of the termination of that year, and that the accompanying profit and loss account is correct.⁴

It appears that some "long" or descriptive "certificates" were issued in the 1920's. D. R. Carmichael gives two examples: 1924 reports on American Locomotive Company and General Electric Company.⁵ The report of American Locomotive includes a number of statements which essentially describe the valuation practices employed in the financial statements and provide an indication that proper accruals have been made. The General Electric report includes not only some valuation practices, but also a listing of many of the audit steps performed.

Nevertheless, as described in an unpublished background paper prepared for the Commission on Auditors' Responsibilities by Terry Aranoff, despite a number of wording changes, the opinion remained a brief, substantially unchanged document.

References to conformity to generally accepted accounting principles and to generally accepted auditing standards were both included by 1941. The "short form" opinion probably reached a maximum modern length in 1941, when it also included a reference to a review of the system of internal control. Thereafter, the report evolved to the present standard opinion, accompanied by such critical debate as to the number of paragraphs which should be used.

The Communication Issue

Having established, or at least described, the massive communication problem that faces the auditor, I promptly disclaim any attempt in this paper to "solve" or offer a "solution" to that problem. This reluctance to grapple with the major problem stems not from limitations of space or time, but of knowledge. I would have preferred to offer a comprehensive approach to the communication issue. The staff of the Commission on Auditor's Responsibilities has developed several background papers that relate to the subject, including a long work on the history

of the auditor's opinion. The Commission has discussed the problem at length and a tentative paper has gone through several drafts.

Notwithstanding this impressive volume of work and thought, there are few really new insights into either the problem or the solution. In short, I do not know the answer, and hence I cannot write a paper that provides one.

However, some of the work of the Commission (that of one researcher in particular) and a modest amount of informal inquiry by the writer suggest that one element of the problem may have been missed in the past, or at least, not explored in enough detail. That element lies essentially in the description—and therefore nature—of the auditor's communication device. The auditor's message to the reader of audited financial statements has variously been styled as the "opinion," the "report," or the "certificate." The last appellation appears to be in some present disrepute, probably because of the degree of certainty it implies.

The hypothesis of this paper is simple. The present auditor's report is not a certificate, a report, nor an opinion; it is a symbol. It is a symbol not only to the so-called unsophisticated user, but to the informed, professional investor as well.

The Report as a Symbol

The mere observation that the auditor's report is a symbol, or at least the implicit suggestion that the report functions in a symbolic manner is not novel. However, it appears that intimations that an auditor's report is a symbol are generally taken as a negative factor in the communication problem. There also appears to be a prevailing opinion that if the auditor's report is not carefully read by each user, it cannot convey the complex message that it contains.

I suggest that if the auditor's report is essentially a symbol, then these limiting interpretations do not follow. To the contrary, if users do perceive the auditor's report largely as a symbol, then it can indeed convey the highly complex message that must inevitably result from the previously described enormous labors of the auditors.

The Nature and Use of Symbols

The classic 11th edition of *Encyclopedia Britannica* defines a symbol as ". . . a visible object representing to the mind the semblance of something which is not shown but which is realized by association with it."⁶

Modern analysis of symbols, signs and dreams, and the vastly increased use of symbolic logic in the sciences appear to have outdated both the "visible object" element of the definition, and even the ability of *Britannica* to provide a brief discussion of the subject. The current edition prefers to discuss "symbol" under a number of different subject areas, but not under its own.

Freud and some of his interpreters, however, broadened the concept of symbols enough to permit themselves, at least, a brief definition. Erich Fromm suggests that a symbol might simply be, "something that stands for something else."⁷

A symbol may merely be a visual abbreviation of a more complex object. Thus, the stick figures drawn by children serve to represent the full human figure. More commonly, and certainly of greater significance, a symbol may be a visible representation of an object, idea or concept which bears no clear resemblance to the physical appearance of the symbol. In chemistry, alphabetical symbols represent

the elements. In mathematics, symbols may be used to represent that which cannot otherwise be conventionally represented; such as π or ∞ .

Symbols, of course, are a major element in religion. The Greeks and Romans made direct representations of their Gods. The serpent represented evil in the first verses of Genesis and continues as such a representation to the present day. St. Peter is represented by keys; St. Paul by the sword. The principal symbol of Christianity, the cross, demonstrates the extraordinary power of a simple symbol to convey several different and sometimes extraordinarily complex messages. It may serve as the identification of a believer, as a protection against evil or the devil, and ultimately, as instant representation of an entire set of beliefs and teachings.

Symbols play a major role in the modern world. The red star of Communism carries a vivid message to millions; a message that tends to contradict the symbol of Uncle Sam. However, while the rigidity of the five pointed red star largely defies artistic manipulation, the American symbol, Uncle Sam, is more flexible. He looks sternly demanding on the classic U.S. Army recruiting poster; slightly confused in Bob Grossman's liberal cartoons in *New York Magazine*; and threateningly sinister in his *Pravda* version.

Thus, the same symbol may carry substantially different messages to different viewers. Actual alteration is not necessary. The red star means one thing to a member of the Russian Communist party, another to a member of the U.S. Republican party. Undoubtedly, a late 15th century Christian perceived a somewhat different message in the symbol of the cross than did a non-believer of the same period, being subjected to the not so tender recruiting techniques of the Inquisition.

These differences in perception of the identical symbol stem from essentially different attitudes towards the underlying meaning of the symbol. The symbol is understood but its message is valued differently.

Differences in the meaning of a symbol may also occur because of misunderstanding or confusion about the symbol. A red traffic light is a symbol indicating "Stop" to most drivers. The symbol may not exist to the color blind driver who misses the message. In this case, the difference in perception of the symbol is the fault of the viewer. One assumes that the issuer of the symbol would prefer that all viewers make the same, unambiguous interpretation.

In a contrary vein, different symbols may be perceived to be the same symbol. Certainly a major component of many advertising campaigns is the hope that just such confusion will occur. For example, it seems clear that some automobile designers believe that consumers perceive the unique front grill design of the Mercedes automobile to be a symbol of the quality of the car. Therefore, it apparently is no coincidence that both the new Ford and Chrysler "quality" compact cars sport grills that are almost identical to that of the Mercedes.

Symbol Recognition

Logic suggests that visual complexity plays a role in increasing or decreasing the possibilities of correct *recognition* of a symbol. Thus, a circular symbol would rarely be confused with a square one. However, symbols based on six-sided polygons might well be confused with octagonal symbols. The current economic and legal perils of such confusion of similar, but different symbols were recently demonstrated and well publicized when the highly paid creative staff of the

National Broadcasting Company labored and brought forth, at great expense, a television identification symbol that was almost identical to that generated at virtually no cost by the Nebraska educational television organization.

The problem of uniform symbol *recognition* is quite different, however, from the problem of *understanding* or *interpretation*. Thus, virtually all drivers will recognize a "Drive Safely" sign; they may interpret and implement the message in quite different fashion.

Developing Symbols

The previous illustration leads to another basic point; symbols are not confined to figures, signs or shapes. A language is essentially an aggregation of symbols. Each word is a symbol for a thing (noun), an action (verb), or a quality (adjective or adverb). However, the use of symbols as language is a conventional or neutral usage. There is no linkage between the form of the word-symbol and the object, action or quality represented. Thus, the letters b-o-o-k are merely the conventional representation of the object, book. Other than for purposes of reducing confusion (of which there is a good deal in the English language), there is no particular reason to prefer one word symbol over another, as representations of the same object.

Outside of their general use as language, words may acquire almost a universal symbolism. The conventional "STOP" sign is essentially a word symbol in many languages, reinforced by its being pointed on a red, octagonal sign. In New York, Chase Manhattan Bank has spent a great deal of money to popularize a simple geometric symbol. First National City Bank, however, abandoned a rather complex symbolic representation of the globe and is, instead, using its new official name, Citibank, as a word symbol.

Language or written symbols need not be confined to one word. The conventional disclaimer that identifies a preliminary prospectus as a "red herring" is five lines of small print. The symbolic content of the message is undoubtedly enhanced by the use of red ink, but it remains essentially a series of words. Once a novice investor discovers that the words are identical on every red herring, one doubts that the message is ever read again. The symbol makes the point.

Written symbols need not be confined to relatively short messages. The Declaration of Independence (about 1,400 words) is the most important of all American historical documents. It is essentially a partisan document; a justification for the American revolution. Yet, its unique combination of general principles and abstract theory of government coupled with a specific enumeration of the conditions of freedom have made it one of the great Western political documents. Query, does the viewer of a framed reproduction of the original parchment on a wall review all these complexities? Of course not; it is but a symbol of American democracy, and whatever democracy means to that viewer.

As with so many symbols, the accuracy of representation and interpretation is not always perfectly clear. We celebrate July 4, the date on that document, as the symbol of Independence Day; the resolution itself was voted on July 2. It was not signed until several days later; no signatures were applied on the 4th. Far more important, of course, is the degree of comprehension of the philosophical content. It is apparent that the Declaration was viewed as almost officially binding

for some time; the Constitution of the United States and of many individual states clearly reflect the social contract it specified.

Today, its influence and clarity may be somewhat different. Although reproductions on the wall are honored, we are all familiar with occasional stories in the press of how enterprising "inquiring reporters" are unable to convince unsuspecting people to sign or endorse verbatim extracts from the Declaration of Independence.

Interpreting Symbols

Clearly, this long and detailed English language document has become a symbol whose actual original content is not known to many who pay it homage. Only at certain critical or celebrated times do people seem to refer back to the original symbol. Thus Watergate and the bicentennial celebration appear to have produced a good deal of rereading of two key symbols, the Declaration of Independence and the Constitution.

Sometimes rereading or reexamination may lead to "agonizing reappraisal." Arthur Schlesinger, for example, in *The Imperial Presidency* confesses to current disenchantment with that former symbol of (modern) liberal dogma, the strong presidency. Thus, the same symbol may have different meanings to the same person, at different times, as experience tempers interpretation.

A symbol need not have a tangible existence or even be visible in any way. As Fromm noted, man constantly engages in *actions* which are essentially symbolic, from the simple removing a hat as a symbol of respect for a woman, to shaking hands as a symbol of friendly feelings, to the biblical rending of garments as a sign of mourning.⁸

Of course, the Freudians consider dreams as symbols; complex symbols that require intense probing to determine their real meaning. However, the concept of a dream as a symbol, albeit interesting, leads to aspects that are not particularly fruitful in this discussion, for we are interested in the symbol as a vehicle for communication *between* people, not for the self revelation of one person.

Herman Wouk points out the extraordinary complexity of the Old Testament symbol of Sabbath observance.⁹ The Sabbath strictures against work appear, at least superficially, as merely a rigorous means of enforcing a day of healthy rest for overworked farmers and merchants, seemingly reflecting the biblical rest of the Lord. However, the Sabbath observance rules prohibiting work are not to be interpreted literally. Indeed, in many cases the "work" required to obtain the literal rest of the Sabbath may exceed any concept of leisure and relaxation. However, the biblical concept of work is any interference by man, be it constructive or destructive, with the physical world. "Rest" is a state of peace between man and nature. Thus, reading of the scripture, which is "work" in a modern sense, is the "rest" of the sabbath, since it helps to achieve a state of peace between man and his God. The symbol "the Sabbath" may be interpreted on one level by orthodox intellectuals such as Wouk, and on a much lower, virtually automatic level, by ordinary believers, who simply light the candles, etc. at the right hour.

Is the Auditor's Report a Symbol?

Unfortunately, not a great deal is known about the way or ways in which

investors, creditors and others use the auditor's report, nor about the message(s) they derive from it.

One starting place for consideration of the nature of the auditor's report is the reader of this paper. It is likely that the readers of this work will consist of persons reasonably familiar with annual financial statements and auditors' reports; indeed most are habitual readers of annual reports.

Undoubtedly, during the course of reading an annual report (hopefully early in the reading) you examine the auditor's opinion. Now, consider just how you examine the auditor's opinion. Do you read every word, savoring each carefully constructed phrase until the full flavor of the delicious prose of the one or two paragraphs is clearly communicated? Of course not! You glance quickly, measuring length and shape, at the same time noting the *absence* of several possible phrases such as, "except for" or "subject to." Probably one positive, searching element of your scrutiny will be absorbing the name of the auditing firm affixed to the report.

Assuming that the troubling phrases are not detected and that the firm name does not connote any extreme reaction, you, as one of the better educated readers of financial statements, may then be completely finished with the auditor's report. Hundreds of thousands, possibly millions of dollars have been spent to obtain that report, and you complete your viewing in seconds.

Was your speed of viewing due to any distaste for the wording, or to a belief that the report was unimportant? You will undoubtedly spend many multiples of the time devoted to the audit report on the notes to the financial statements; are they that much more important?

The answer, of course, is obvious. You know the words in the auditor's report; indeed, if you are a practitioner or a teacher of accounting you probably know them by heart. You also know what you believe the words mean, although some searching would demonstrate that there are wide variations in the perceptions of that meaning, even among "experts." Only if the auditor's report looks "different"—that is, if it contains an exception, will you devote any significant time to studying it. The auditor's report, at least in its most common form of a clean opinion, is a symbol.

Unfortunately, such little exercises in personal exploration do not make the stuff of solid research conclusions. And equally unfortunately, there has been little formal research devoted to careful study of user perceptions of the auditor's report.

Researching the Audit Report

An elaborate opinion research study conducted for Arthur Andersen & Co. inexplicably focused comparatively little attention on the auditor's report. One question did indicate that approximately half of all shareholders read the auditor's report most or all of the time. The other half indicated that they sometimes, rarely, or never read the auditor's report.¹⁰ The Andersen publication also contained a series of individual responses received in reply to the query, "What in particular do you look for in the auditor's report?"¹¹ The number of responses reproduced is too small to permit any real analysis, but they do appear to be divided about equally between those who:

1. Were not clear what the auditor's report is (for example, versus the financial statements).
2. Looked only to see if there were exceptions in the report.

Respondents who had indicated that they rarely or never read the auditor's report were asked for their reasons. Virtually all the responses indicated ignorance of what the survey meant by the term "auditor's report."¹² While this would be the expected response, explanations of reasons for negative action or inaction are rarely meaningful or useful. On the other hand, those who responded that they were only searching for exceptions would appear to be following the same symbol reading process that was described above.

Marc Epstein's study on shareholder views of the annual report provided somewhat more interesting data.¹³ His study contains several unpleasant conclusions. Perhaps most upsetting was the indication that the annual report, the repository of the auditors report, was quite low on the scale of information sources preferred by investors. Almost half of the respondents considered "Broker's advice" to be the most preferred source of information. If broker's advice as a source is combined with those who indicated investment service and financial periodicals, fully 85% of the recipients preferred the use of a completely secondary source. Only 15% indicated the annual report as a preferred information source.¹⁴

An additional 10% of the respondents indicated that they used "technical analysis." The use of this term was unfortunate, since it carries two different and quite contradictory meanings. To some it may connote conventional techniques of financial analysis. However, to many others, it undoubtedly means one or more of the chartist approaches, such as the Dow theory, which are in direct opposition to financial analysis.

Attempts to draw strong conclusions from Epstein's results must consider the substantial proportion of his respondents who were unconcerned with the annual report, and hence, may be presumed to have no valid position (other than apathy) regarding the auditor's report.

Nevertheless with this caveat, and helped by the reasonably large sample, some insight may be gained.

On questions related to the reading and usage of the auditor's report, Epstein's respondents gave results which he correctly labeled as "paradoxical."¹⁵ Relative to investment decisions, the auditor's report ranked lowest in "usefulness" (p. 41), compared to all other parts of the annual report, including the "president's letter." The auditor's report also ranked lowest in "thorough" readership, as compared to all other parts of the annual report (p. 40). In a comparison of the responses of sophisticated and unsophisticated users of financial statements, the utility of the auditor's report was about the same to both groups (p. 52).

Epstein attempted to derive a relationship between readership of an item and its apparent utility to the reader. For the auditor's report, the results were again "paradoxical."

... while the probability is close to one-half that a cursory reading (of the auditor's report) would be just as useful as a thorough one, the odds are 8 to 1 that a thorough reading would yield more useful information than a cursory one in the other 50% of the cases. (p. 46)

The confusion was compounded by an indication that most respondents did *not* want additional information or explanation about the auditor's report.

Epstein's results are indeed somewhat confusing, *if* the auditor's report is considered as an element of the annual report which contains what might be called "variable" information; that is, if the auditor's report contains information that would often be new and different when read by a user.

However, if the auditor's report is a symbol to the reader, then Epstein's results are quite logical. Most viewers of symbols do not read them at length; they glance at them. This explains the low readership. However, if the symbol is unambiguous and easily comprehended, all readers should be able to gain the desired information in the same brief glance. Hence the similarity of apparent utility to sophisticated and unsophisticated investors; both get the same message quickly and easily. But, what about the supposed low utility of the auditor's report to both groups? Consider the symbol referred to earlier of a reproduction of the Declaration of Independence on the wall of an office or school room. Does that symbol—the reproduction—have any great utility? No. It is the concept, the existence of the democratic institutions underlying the Declaration of Independence that gives value and symbolism to the reproduction. The reproduction itself is of no importance, other than a reminder of the existence of the reality.

The auditor's opinion is also only a reminder of the fact that an audit was performed. If the opinion is "clean," the audit itself is largely irrelevant to the reader, at least as far as investment decisions are concerned. Thus, the clean opinion has little apparent utility in investment *decisions*, so long as it is there. Unfortunately, Epstein did not (and probably could not) test the utility of the audit report against the situation where the audit report was not there; that is, the utility of audited financial statements versus unaudited statements.

Note too, that the symbolic concept also explains the results quoted above: that in one-half of the cases, a cursory reading is as valuable as a thorough one, and that in the other half of the cases, a thorough reading might carry much more value. Epstein did not distinguish between clean and qualified opinions. One can easily hypothesize that a clean opinion yields the same information in any type of reading, while the opinion with exception provides more information to the thorough reader.

In sum, portions of the paradoxes suggested by Epstein could be explained if the auditor's report *is* perceived to be a symbol by most readers.

If the Auditor's Report Is a Symbol

There appears to be reasonable evidence, along with common sense perception, that many readers of many auditors' opinions do, indeed, regard the report essentially in the nature of a symbol. If the opinion is a symbol, what then are the implications for the communication problem?

One obvious consideration would involve a determination of the message, or messages now being drawn by users from the symbol. As we noted earlier, the same symbol may well produce substantially different messages to different viewers. For the seasoned auditor, the "clean opinion" probably conjures up a variety of images, possibly varying depending on personal experiences with clients. An auditor whose experience has been limited to "clean" audits may well perceive

the opinion in the light of these pleasant jobs. An auditor with a more varied client base may well be reminded of less than satisfactory resolutions of difficult problems. By imputing personal experiences to auditors' reports in general, the view might be quite skeptical.

Auditors, of course, constitute only a small fraction of the total audience for auditors' reports; the reactions of investors and creditors are of far greater interest and importance. Unfortunately, as suggested by the earlier discussions, little is known about the messages received by users of audited financial statements. The comments given by respondents to the Epstein study suggest that at least some investors—with no apparent distinction between sophisticated and non-sophisticated—seem to view the clean opinion as a "Good Housekeeping Seal."

Given the lack of information about the symbolic message(s) users received from the auditor's report, there appears to be little value in additional guessing in this area. Clearly, however, research to determine the nature of the message(s) received by users should have high priority.

For purposes of this paper, let us hypothesize that users of audited financial statements do receive a message from (clean) opinions that is essentially a seal of approval. Let us also hypothesize that it is agreed that users ought to receive some other message, not merely one which connotes "approval." This hypothesis begs the very real question of whether or not a simple message of "approval" is the appropriate information that should be derived from the auditor's report. Mautz and Sharaf suggest an audit report that states:

We have examined with due audit care the data found in (name of statement or statements) and find that they present fairly (the purpose of the statement).¹⁶

Thus, they appear to be sanctioning just such a message. Nevertheless, let us assume that it is desired that the auditor's report carry some other message than the one(s) presently conveyed to users.

Small Changes in a Symbol Are Useless

A great deal of effort has been expended by members of the accounting profession in devising rather minute changes in the wording of the standard form opinion. The differences between the usage of "presents fairly" and "true and correct" (by the British) produced many articles and an almost fundamental schism between the U.S. and the British professions. Today, the accounting profession continues to consider small changes in the wording of the report.

A basic point in symbol perception is that small differences in complex symbols are not readily perceived. Slight modifications in the wording of the opinion, although possibly perceived to be of great import to the accounting profession, are likely to go unperceived by users of auditors' reports.

It is possible that a small difference in the wording of the opinion would have an effect in a court case, but it is doubtful. While accountants and others are fond of ridiculing the lawyers' preoccupation with fine differences of wording, there appear to be few, if any, court cases where the decision has hung on a few words in the opinion. On the other hand, there are many court cases where the total (symbolic) impression created by the opinion was the central focus.

Thus, the first conclusion to be drawn, if the auditor's report is a symbol, is that small wording changes in the opinion are probably futile exercises. The opinion will be viewed as a whole, as a symbol. Slight changes in the symbol will not be noticed, examined, or internalized by users.

It follows, then, that any changes in the auditor's opinion to be meaningful should be significant changes, both in substance and in *form*. The user of the report must quickly perceive that a different symbol is present. That perception will be necessary to force a further investigation of the new symbol.

Is Education the Answer?

A related conclusion concerns efforts at "education" of the users of financial statements. It has frequently been asserted that since the user of the auditor's report does not appear to understand what the report connotes, the user must be educated. A number of persons appearing before the Commission on Auditors' Responsibilities suggested the development of a booklet or other device that would inform users about the meaning of the auditor's report.

While such educational efforts would probably not be harmful, their effectiveness, alone, is doubtful. First, there is now no shortage of auditing textbooks that clearly explain what auditors do. More important, however, is that in the absence of a significant change in the symbol—the auditor's report—the educational effort will most likely be wasted. Users already have perceptions of the meaning of the symbol. It is extremely difficult to *explain* to them that the symbol means something else. Indeed, it is much easier to change the symbol, for a new symbol will be perceived as potentially meaning something else.

Note that business organizations have grasped that concept. When corporations attempt to change their "image," they inevitably change the visual symbol, sometimes even the name of the corporation, in order to produce a quickly understood message. It is apparently of little use merely to "explain" that there has been a change; a symbolic indication appears necessary.

Thus, any intended changes in the meaning of the auditor's report should be accompanied by a clearly visible change in the size, form or other make-up of the report.

This conclusion suggests a corollary with regard to opinions with exceptions. Since it seems clear that readers regard the clean opinion as a symbol, efforts should be made to assure that the different symbol, namely an opinion with an exception, can be noted quickly and easily. This again suggests some substantial difference in form, rather than a small wording change, to indicate an exception. This difference could be accomplished in several ways. All clean opinions could be written in single paragraph form, with a two or three paragraph form used for opinions with exceptions. Alternatively, or in addition, the entire exception could be included in the opinion, rather than as is currently common, by making a brief reference to a footnote that describes the exception in detail.

Symbols Can Carry Simple or Complex Messages

As noted early in this paper, there appears to be a persistent tendency among auditors to shorten the conventional standard form opinion. There are obviously

several reasons for this tendency, one of which is the probably misguided belief that a shorter opinion reduces potential legal problems.

Another element of the tendency towards brevity, however, appears to be the feeling that the opinion cannot be made to carry a complex message. Stated another way, the current readership of the opinion appears to be cursory (as explained above). Therefore, if a longer explanation of the auditing process were included in the opinion, it too would not be read.

If the lack of interest of readers of the present short-form report were due to a general lack of interest in the audit and the audit report, then the previous logic would indeed follow. However, as has been suggested earlier, it is more logical to suppose that users do not now read the short form report because they do not have to; it is a symbol and they think they understand it without reading it again and again.

It was earlier noted, however, that symbols need not be brief or simple in meaning. Some symbols convey simple messages; some convey complex messages, and *some convey both simple and complex messages, depending upon the reader.* There is no logical reason for believing that the auditor's report cannot be made to convey a complex message. In addition, it might be possible to convey, at the same time, a simpler message.

Consider, for example, the possibility of substantially enlarging the current short form opinion to include a brief description of the principal assumptions of auditing—testing, sampling, evidentiary limitations, etc.—along with a brief summary of the principal audit steps. Certainly, some of the present beliefs by many users (as expressed in many court cases) in the apparent infallibility of auditors and the audit process (and even the accounting process) might be dispelled.

Would users read such an expanded version of the audit report? Epstein's study seems to suggest that users read that part of the annual report that they believe contains new or variable information. If the opinion were substantially expanded, readers would find a new symbol. It seems logical that if the new symbol appeared sufficiently different from the old, then users would be virtually forced to attempt to understand the new symbol. That process would involve a reading of the new, long report and attempts to comprehend its meaning and import.

Assuming that such comprehension were eventually achieved, through either repeat reading or other sources, the new, longer report would once again become another (usually) unread symbol. But, the message of the symbol would have been changed and presumably understood (or misunderstood) by users.

Note, that this analysis also suggests the possibility of "two tier" disclosure, which has been advocated frequently by the SEC. The longer audit report could well convey one important message to certain readers, such as the courts, while at the same time, it could provide a simpler message of approval to the ordinary investor.

The key point, however, is that if the opinion is a symbol it does not follow that it must be simple or brief. To the contrary, a symbolic interpretation suggests substantially greater possibilities for complexity.

Of course, the concept of the report as a symbol could also be used to support a shortening of the current, standard form report. As cited above, Mautz and Sharaf suggested a shorter form. However, if the clean opinion is only a symbol

of approval, then, in its simplest and most readily comprehended form, it might merely state:¹⁷

CLEAN OPINION

Footnotes

1. Arthur Andersen & Co., *Annual Report to Our World Wide Organization*, August 31, 1975, "Report of the Public Review Board," p. 4. This information was apparently given in an attempt to provide disclosure of customer information comparable to that demanded of public companies by the Securities and Exchange Commission.

2. The guess as to the largest AA client is based on a comparison of firm clients with the Fortune 500 list. It is possible that the many troubles of Mattel, Inc., another but considerably smaller AA client, could have resulted in an unusually large audit fee. Other very large AA clients are Tenneco and Kraftco.

3. Three of the opinions (UAL, ITT and GT&E) were "clean." Texaco's opinion included an exception for a change from FIFO to LIFO, while that of Occidental Petroleum included mention of changes in accounting for inventory and research and development expenditures.

4. From George Cochrane, "The Auditor's Report: Its Evolution in the U.S.A.," *The Accountant*, November 4, 1950, pp. 448-460.

5. D. R. Carmichael, *The Auditor's Reporting Obligation*, American Institute of Certified Public Accountants, 1972, pp. 13-14.

6. *Encyclopedia Britannica*, 11th ed. (1911), Vol. XXVI, p. 284.

7. Erich Fromm, *The Forgotten Language*, Grove Press, New York, 1951, p. 12.

8. *Ibid.*, p. 242.

9. Herman Wouk, *This is My God*, Doubleday, 1959.

10. Arthur Andersen & Co., *Public Accounting in Transition*, 1974, p. 38.

11. *Ibid.*, p. 192.

12. *Ibid.*, p. 193.

13. Marc Epstein, *The Usefulness of Annual Reports to Corporate Shareholders*, California State University, Los Angeles, 1975.

14. *Ibid.*, p. 34.

15. *Ibid.*, p. 46.

16. R. K. Mautz and Hussein Sharaf, *The Philosophy of Auditing*, American Accounting Association, 1961, p. 203.

17. As suggested by Lynn Seidler, the writer's wife and co-author.