

University of Mississippi

eGrove

---

Proceedings of the University of Kansas  
Symposium on Auditing Problems

Deloitte Collection

---

1-1-1976

## Discussant's response to symbolism and communication in the auditor's report

Charles W. Lamden

Follow this and additional works at: [https://egrove.olemiss.edu/dl\\_proceedings](https://egrove.olemiss.edu/dl_proceedings)



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

### Recommended Citation

Auditing Symposium III: Proceedings of the 1976 Touche Ross/University of Kansas Symposium on Auditing Problems, pp. 045-048;

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Proceedings of the University of Kansas Symposium on Auditing Problems by an authorized administrator of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

## **Discussant's Response to Symbolism and Communication in the Auditor's Report.**

**Charles W. Lamden**

Peat, Marwick, Mitchell & Co.

Professor Seidler's analysis of symbolism as a major factor in the auditor's report is most perceptive. Intuitively, I have felt for some time that the standard wording of the audit report should be retained. However, the arguments that the auditor's report should be expanded or contracted, clarified, simplified, or whatever it was felt was necessary to improve communication also sounded reasonable. The concept of the audit report as a symbol resolves my dilemma.

### **Changes in the Wording of the Auditor's Report to Improve the Symbol**

It is a fact that the standard wording of the auditor's report has been adopted, utilized and well recognized. Except for those trained in accounting, who understand the overall scope of the examination and the background and meaning of the terms "auditing standards," "accounting principles," and "opinion," the only way to understand the general use and acceptance of the audit report is as a symbol.

Upon reflection, as Professor Seidler points out, even those who have the background and knowledge to understand the technical meaning of the words do not concern themselves with the standard words, but rather look only for the exceptions. The standard wording is a symbol also for the technicians.

It becomes quite clear, then, that changing a few words or adding explanatory comments in the standard audit report are not the answer for improving communication in the auditor's report.

The communication problem results from the fact that the same symbol may carry different messages to different viewers. For example, certain users of the audit report interpret it as a guarantee rather than an expression of opinion as to overall fairness of the presentation of the financial statements. Some may argue that an explicit statement such as "This is not a guarantee as to the value of the assets included in the financial statements" would improve the communication. But even this explanatory comment could convey different messages to different readers. Knowledgeable readers would say "Of course the auditor is not a guarantor." But others could interpret such a comment as an adverse statement.

Nor would listing the auditing standards or the detailed procedures followed in the audit necessarily increase the effective communication for most users. As indicated by the studies to which Professor Seidler referred, ". . . most respondents did *not* want additional information or explanation about the auditor's report." Moreover, the listings would tend to become repetitious, and users looking for a symbol of credibility would be concerned only with any exceptions. This has

already been demonstrated historically with the decline in the use of the auditor's long form report. The concepts embodied in the phrases "generally accepted auditing standards" and "the procedures necessary in the circumstances" convey the message adequately.

### **Psychological Impact of the Auditor's Report**

If one accepts the proposition that the audit report is a symbol and changes in wording will have little or no effect on improving the communication between issuers and users of the report, this still leaves the question as to what message the symbol should convey. The issuer, in general, wants to indicate the scope of the examination, that the examination has been made in accordance with generally accepted auditing standards, that tests of the accounting records and other audit procedures were those considered necessary in the circumstances, and that the opinion attests to the fairness (in accordance with generally accepted accounting principles) of the financial statements that were examined. The issuer also wants the message to indicate that generally accepted accounting principles have been consistently observed in the current period in relation to the preceding period, that the informative disclosures are reasonably adequate, and that the degree of responsibility being taken is clearly shown.

The reference to "generally accepted auditing standards" connotes the entire professional background of the auditor and the methodology of conducting an audit which takes years of education and experience to acquire and adequately comprehend. The issuer of the reports uses the standard wording to convey this message. Consciously or sub-consciously the issuer must recognize that the words used are only a symbol for the message intended to be conveyed. The psychological impact of the issuer's background and training make it possible for the issuer to be satisfied that the message is being conveyed.

While some critics of the report may be dissatisfied with the adequacy of the message, the consensus is certainly that a message is being conveyed. This consensus may be even more pervasive if the audit report is recognized as a symbol.

The psychological impact of the symbol to the user of the report would seem to be even more evident. Seidler makes the point well when he says, ". . . if users do perceive the auditor's report largely as a symbol, then it can be used to convey the highly complex message that must inevitably result from the previously described enormous labors of the auditors." In any event the psychological impact both for the issuer and the user of the audit report is reflected in the fact that the independent auditor's attestation to the credibility of financial statements is generally accepted.

### **Some Limitations to the Symbol Concept**

If all opinions were unqualified, the basic hypothesis that the auditor's report is a symbol would be even more meaningful. However, the fact that there are qualified opinions, disclaimers, and adverse opinions gives rise to degrees of credibility. When there is a modification of the standard wording due to a qualification of the auditor's report, it then becomes important to read the auditor's report carefully. Further, various types of "special reports" require careful reading, since the standard wording and, accordingly, the basic symbol are not applicable.

One cannot dispute Seidler's observation that ". . . 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." But that is the main point—SO LONG AS IT IS THERE. Other audit reports such as qualified opinions, disclaimers of opinions related to unaudited financial statements, and "special reports" cannot be classified as covered by the basic symbol. Accordingly, the basic symbol concept can be utilized only for "clean" opinions.

It is quite evident that minor changes in the wording in the basic symbol (the clean opinion) will not be effective. No matter how important such wording changes are to the auditor who prepares the report, they will probably have little or no effect on the user. Accordingly, if the intention is to utilize a different symbol (e.g., an opinion with an exception), then an overt effort must be made to distinguish between the basic symbol and a new symbol. Seidler makes it clear that the new symbol must be significantly different in both *substance* and *form*.

This can be implemented, for example, if a Statement on Auditing Standards were issued which would require that all unqualified (clean) opinions be written in a single paragraph, whereas qualified opinions, adverse opinions, disclaimers of opinion or "special reports" must be in a format of two or more paragraphs. These "one:two" symbols would be more readily differentiated than today's "two:three" symbols.

While one can concur, substantially, with the thesis that the standard short form report is a basic symbol, it is not necessary to agree with the idea that the symbol can be reduced to just the two words, "Clean Opinion." As indicated earlier, especially from the viewpoint of the preparer of the audit report, there is merit in stating the scope of the examination and repeating in each report the reference to "generally accepted auditing standards," "generally accepted accounting principles," "fair presentation," and "consistency."

### **The Impact of the Symbol on the Issuer of Financial Statements**

In his presentation, Professor Seidler refers primarily to the communication between the auditor and the third party user of the financial statements. In discussing communication as related to the auditor's report, it is also appropriate to recognize the communication involved between auditor and client (the issuer of the underlying financial statements). While much of this communication is conducted through other media (e.g., the "letter to management"), the psychological impact of the "clean opinion" symbol on the issuer of the financial statements should not be overlooked. It is important to the issuer of the financial statements (the client) to have an auditor's report symbolic of a "seal of approval." Accordingly, the client will adapt recording procedures, presentation, valuation of assets or liabilities, or disclosures in order to receive an unqualified opinion.

### **Some Considerations Related to the Future**

Accepting the hypothesis that the present standard short form unqualified auditor's report is a symbol, does not, as Seidler recognizes, solve the massive communication problem that currently faces the auditor. The search for a solution of that overall problem is left to the Commission on Auditors' Responsibilities.

Even as the Commission grapples with the problem, the complications increase. Auditors are now called upon to report on interim financial statements and footnotes related to "replacements costs," neither of which is encompassed by the basic symbol. Moreover, the future portends new types of disclosures and the reporting and attestation to many new types of information. For example, reporting on such matters as forecasts, systems quality, and social accounting information will not only require considerably more knowledge and skill for the auditor, but will also have a significant impact on communication and the nature or types of symbols that can or should be used.

Auditors functioning as reviewers of and attestors to new types of information will undoubtedly face great obstacles in attempting to communicate with users. The new information will reflect many unfamiliar concepts, judgments and imprecisions. Moreover, much of the new data will be more subjective and less quantifiable than the data underlying current financial statements.

In summary, the recognition of the auditor's report as a symbol is significant in giving an important perspective to the communication between the auditor and the users of the audit report. But the overall solution of the auditor's communication problems—both in the present and in the future—leaves a fertile field for exploration, research and analyses by auditors, researchers and educators.