

**The impact of the new harmonization by the International Federation of Accountants:  
an empirical study of the informational value of Tunisian auditors' reports on annual  
financial statements \***

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## **Abstract**

**Purpose** – This paper examines the impact of the new, revised International Standard on Auditing (Revised ISA700) in terms of the wording characteristics of Tunisian auditors' reports.

**Design/methodology/approach** – measurement of the compliance of auditors' reports issued by Tunisian auditors with the new revised International Standard on Auditing (Revised ISA700)

**Findings** – the audit reports examined are not fully compliant with all the elements enumerated by the new standard issued by the International Federation of Accountants (IFAC)

**Originality/value** – This paper provides new empirical evidence about the level of compliance with the revised ISA700. It discusses the limits on standardisation efforts for national auditors' reports, and the implications for accounting firms and their audit clients.

**Key words** Harmonization, IFAC, Revised ISA700, Compliance, Auditors' report, Stakeholders, Auditing in Tunisia

**Paper type** Research paper

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## **Introduction**

The audit report is the major tool used by auditors to communicate with internal and external financial statement users. The report integrates the communication of economic information and aims to underpin the credibility of the financial information prepared by management (Curtis, 1986). The accounting literature confirms this informational value and shows that the auditor's report is almost the only formal means used both to educate and inform various stakeholders about the audit function.

The presentation of the audit report, which is the ultimate step in the audit process, specifies the informative task of the independent auditor and emphasises the importance of controls. The auditor confirms the fairness of accounts and certifies compliance with local (or international) rules and regulations on the financial statements.

The International Federation of Accountants (IFAC) and the authorities of the European Union have played a fundamental role in the harmonization of audit and the professional rules governing external control. Their mission is to support the development of the accounting profession by proposing uniform, high quality professional services in the public interest. This achievement covers a series of standards and directives intended for a population of certified public accountants worldwide.

At present, ISA700 (Revised) "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" guides the standardisation of organisational rules and assists auditors in modelling and maintaining the informational function of the auditing information system. It informs the national reference frames about the final results of the audit technology. These are consigned in the revised versions that result from international normative reforms. Recently, the text of these standards has seen significant changes, which have been made to develop the wording of the audit report. These modifications suggest several new elements in the drafting of the opinions expressed by auditors..

In Tunisia, changes and amendments in the accounting and financial fields include the promulgation of the National Accounting Standards (NSCE), the promulgation of the Commercial Companies' Code and the adoption of International Standards on Auditing. These changes require improvements in the content of the auditor's report in order to satisfy all internal and external stakeholders. On the basis of these requirements, the wording of the auditor's message should play an efficient communicative role for all the users of the audited financial statements (customers, suppliers, employees, short-term and long-term creditors). The informational value of the report is to be maintained, meanwhile, by respecting the new revised international standards on the auditor's report, which should reduce the informational asymmetry between the stakeholders of the company audited.

After several decades of international work in the modelling of auditing communication methods, it is important to consider the value and the results of the new audit reporting harmonization process. Within this framework, it may be of interest to inquire into the contributions made by the last revision of ISA700 to the Tunisian accounting community. More specifically, we may ask at what level the new international standards contribute to the consolidation of the informative contents of the audit opinion on financial statements; and what are the possible negative effects on the informational balance between stakeholders in the event of persistent communicative weaknesses in Tunisian reporting?

The present research discusses the innovations of the last revision of the international standard on audit reports and considers its impact on Tunisian accounting and auditing practice. This paper also undertakes a critical evaluation of the current level of satisfaction

with accounting information among the majority of financial statements users (internal and external stakeholders) in Tunisia.

### **Reasons for the international standardisation of audit reports**

The term *harmonization* is the subject of several definitions suggested by research, which specify the aims of the harmonisation process. It indicates the process followed to increase the compatibility of accounting practices, limit variability (Nobes and Parker, 2000) and facilitate comparison of the financial statements of different domestic corporations (Colasse, 2000). The concept also embodies a reconciliation between various positions, such as the flexibility of accounting choices (Tay and Parker, 1990), and the absence of contradiction and conflict between local standards (Choi and Mueller, 1984).

Based on these definitions, the harmonization of audit reports is identified as the process that aims to reduce diversity in audit practices and ensure their convergence in terms of the means of audit communication through the audit report. It aims to minimize divergences between the national regulations that govern communication between the auditors and other stakeholders.

The accounting literature enumerates a range of arguments in favour of the harmonization of audit reporting. According to Gangolly et al. (2002), the importance of the audit harmonization is evident in the reduction of information asymmetry, and the reduction of information search costs and the cost of standards development.

#### *Reduction of costs incurred in financial information searches*

Audit harmonization and its role, which consists of reducing the costs of obtaining data, needs to be understood in a setting of information asymmetry between the different users of financial statements. This asymmetry is greater among the partners of multinational firms, whose levels of knowledge vary significantly.

The audit harmonisation of letters and accountants' reports offers a common repertoire and a uniform reference for all local accountants. It allows audit information to be confined to comprehensible messages addressed to various partners worldwide. Such legibility would facilitate quick comprehension of information about the results of review procedures in subsidiary companies. It also allows minimization of:

- the costs of research and analysis of accounting data
- investments and efforts made to interpret the conclusions drawn from control work
- the additional expenditure of energy to decode messages,
- the financial burden inherent in the collection of information,
- the time required to obtain indicators.

#### *Reduction of the cost of accounting standardization*

Whether the approach is public or private, the development of audit standards involves significant investment and budgets. The standardization process requires addressing a number of different factors to ensure adequate normative realization (expert consultations, revision of draft standards, etc). These factors require significant financing to support the issue of normative pronouncements.

From an economic standpoint, several countries, and in particular developing nations, do not have the necessary financial means to ensure the success of standardization work. This is because they lack the technical infrastructure and scientific staff to create their own frameworks and normative references for auditing. Meanwhile, the adoption of international standards reduces the resources allocated to standardization work and creates additional financial needs for strategic investments and development project financing.

However, adaptation to IFAC requirements allows other countries that are equipped with audit standards to follow developments in their revision technologies. Their professionals are familiar with the contributions of the harmonization, and they have acquired an international reputation and good technical training.

### **The initiators of international auditing standardisation**

Auditing harmonization is the work of supranational organizations, which follow a process that aims to align current audit practices and limit any total, rigid and absolute standardization of the existing revision rules.

In Europe, the Council of Ministers leads the process of statutory audit harmonization. This process is performed by other institutions with specific roles and missions, which complement the organization the performance of the statutory audit of a company's accounts (European Commission and Committee of European Audit). In accordance with the Treaty of Rome, the Council is empowered to take measures concerning those fields that are not covered by the competences of the European Commission's. It manages a mechanism of legal harmonization which develops the legal directives that the Member States must apply.

IFAC currently brings together national professional organizations of accounting experts and relies on other regional organizations. It was founded in October 1977 following an agreement signed by 63 accounting organizations, which represent 49 countries. Its objective is to develop and reinforce the profession of accountancy through harmonized standards. To achieve this goal, the council of the International Federation of Accountants set up the International Auditing Practices Committee, which was subsequently replaced by the International Auditing and Assurance Standards Board.

### **IFAC's achievements in terms of the standardisation of auditing**

The efforts made to achieve international harmonization of the audit report, which led to the publication of the International Standard (ISA 700, previously IAG 13) bear witness to the successful pursuit of an international consensus in auditing opinion.

The international standard for audit reporting initially appeared in October 1983 in the form of an international recommendation for audit (IAG13). Its objective was to make recommendations for a model audit opinion (IFAC, 1983). The publication of this standard was intended to harmonize the audit approach and set a common point of reference for accountants' work (Charron, 1997).

The standard report recommended by IAG13 was not long and comprised several formal elements. The international recommendation stipulates that the opinion expressed by the certified accountant may be unqualified, qualified, or unfavourable, or it may take the form of a disclaimer of opinion. After several years of changes and improvement, International

Guideline 13 was transformed into the ISA700 standard “The Auditor’s Report on Financial Statements”. Charron (1997) and Wallage (1993) assert that the codification of ISA700 was influenced by the American Statement of Auditing Standard No. 58 “Reporting on Audited Financial Statements” published by the American Institute of Certified Public Accountants.

The International Standard on Auditing 700 (ISA 700) enumerates various elements related to the wording of the auditor’s report on financial statements. Five elements dealing with the form of the same report are identified, covering the title of the auditor’s report, the addressee, the date of the audit report, the auditor’s address and the auditor’s signature. In addition to form, ISA 700 prescribes 19 elements that relate to content. These elements serve to write the opening (or introductory) paragraph, the scope paragraph and the opinion paragraph. In spite of the importance of its achievements and its standardization efforts, IFAC estimates on the basis of conformity research that its doctrines and audit report standards are not fully recognized by the international professional community. This limitation, which hampers the success of audit harmonization, can be examined through the analysis of *de facto harmonization* and *de jure harmonization*.

The phenomenon of auditing standards harmonization has been examined in numerous studies undertaken in various contexts. Gangolly et al. (2002) consider that the study of the level of harmonization contributes to the study of the IFAC members’ reactions to the full application of ISA700. Most of the research that has sought evaluate the normative harmonization of audit reports underlines the existence of the significant variations between several countries.

Various studies carried out in many different countries (Archer et al., 1989; Bychkova and Lebedeva, 2001; Gangolly et al., 2002; Lin and Chan, 2000) have compared national statements on auditing and international standards (ISAs). In this regard, Gangolly et al. (2002) consider that *de jure* harmonisation contributes to the analysis of national standardisation efforts for audit reports.

Many researchers have found international differences in the auditing standardisation area. Archer et al. (1989) performed a comparative survey of sixteen European standards on audit reports and guideline No. 13: “The Auditor’s Report on Financial statements”. They found only four of these standards (published in Ireland, Italy, Spain and the UK) are in perfect harmony with the international report. In the same case, the Fédération des Experts Comptables Européens (2000) carried out a study dealing with the comparison between European and international audit report standards. This survey showed many differences regarding the scope paragraph of the auditor’s report, the addressee, the opening paragraph, the auditor’s address and the auditor’s signature.

Meanwhile, Lin and Chan (2000) compared the elements of ISA700 with the Chinese standard for audit reporting adopted by the China Institute of Certified Public Accountants. These authors found that the content and structure of the Chinese audit reports are generally similar to the international standards. Audit reports prepared under the Chinese standards and IFAC guidelines are similar in format. However, there are some differences in the terminology used (e.g. audit report title) and in the details of the guidelines provided. Unlike ISA 700, which provides guidelines on standardised wording, the language of the Chinese audit report is not standardised.

In the Russian context, a similar survey undertaken by Bychkova and Lebedeva (2001) showed that the IFAC and the Russian standards for audit reports are different. The Russian report is longer and contains several elements that are not prescribed by the International Federation of Accountants. More recently, in the USA, Gangolly et al. (2002) undertook an international comparative study of 50 national standards on audit reports published around the world and ISA700. They concluded that 86% of the standards examined are in general harmony with the international requirements. Other studies such as Leung and Chau (1997), Needles (2000) and Radebaugh and Gray (2002) are confined to a description of the elements comprising the audit report recommended by various local standards, without comparing them with the IFAC model of audit reporting. These authors did not find any difference between the normative models published in Hong Kong, the US, the UK, Australia and Canada.

### *The failure of ISA700 to achieve full harmonization*

The analysis of the form and content of audit reports determines the principles followed by the professionals and verifies the independent auditors' level of conformity with standard ISA700 (Gangolly et al., 2002). The objective behind the harmonisation of the different national practices in audit reports is to achieve uniformity of professional rules (Charron, 1997). This harmonisation may face many obstacles and requires adaptation in different contexts. A number of studies analyse whether auditors who are members of the IFAC council follow ISA700 when they prepare the audit report (Archer et al., 1989; Bavishi, 1995; Gangolly et al., 2002; Hussein et al., 1986; Jones and Karbhari, 1996; King, 1999; Wallage, 1993; Zeghal et al., 1999). They consider numerous auditing practices and different accounting systems.

Hussein et al. (1986) compared the international standard auditor's reports under the International Auditing Guidelines (IAG13) with the reports published by independent auditors in 27 countries represented on IFAC's Council. Their survey was based on the works developed by Seidler (1967), Frank (1979) and Lafferty (1981). They classified the countries observed into five groups: the US group, the UK group, the European group, group four and group five.

- The US group is composed of Brazil, Canada, Japan, Mexico, Philippines, Taiwan, Thailand and the USA
- The UK group includes Australia, India, Ireland, Malaysia, Netherlands, Singapore, South Africa and the UK
- The Europe group comprises Belgium, Denmark, Finland, France, Norway, Sweden and Switzerland
- Group four consists of Italy and Spain
- Group five is composed of Austria and Germany.

The results obtained showed that the first two groups complied perfectly with the international report model. For the third category, composed of the European group, Hussein et al.'s (1986) study found a moderate conformity level with IAG13. The degree of adherence to IFAC audit reports was weak for the fourth and fifth groups.

Archer et al. (1989) examined 206 audit reports on European multinational firms. These authors adopted a comparative approach, which was based on IAG13. The results found by

Archer et al. (1989) detected harmonisation in audit report practices among European countries. The reports published in France, the UK and Holland were in perfect harmony with international requirements.

Additionally, King (1999) tried to measure harmonisation in the form and content of the auditor's report in the European Union. To achieve this goal, he analysed audit reports from 1995 annual reports on the largest industrial companies in Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain, Sweden and the UK. The analysis used the basic elements of the auditor's report set out in ISA700 (IFAC, 1994). Comparability was tested using the chi-square statistical test, which tests the equality of proportions of various elements in the auditor's report across the member states. Results revealed that harmonisation exists in three out of five elements in the auditor's report. In relation to form, the title, dating, and listing of the location of the auditor's office were appropriate. Harmonisation was not identified for the remaining two elements of form, nor did it exist in any of the elements of content.

Wallage (1993) described the audit approaches of the big accounting firms located in the Netherlands (The International Affiliation of Independent Accountants, Dunwoody Robson McGladrey & Pullen, Coopers and Lybrand, Ernest and Whinney, BDO, KPMG, Arthur Young, Moores and Rowland Int., Price Waterhouse, Touche Ross Int., Deloitte Haskins and Sells, Horwarth and Horwarth Int.). The objective of this study was to determine the level of international auditing guidelines. The author followed the methodology used by Cushing and Loebbecke (1986). Wallage's (1993) paper is based on the examination of auditing documents issued by the large accounting firms. The results classified the large firms observed in three groups:

- the first group (A) includes accounting firms whose auditing approaches are influenced by IFAC international auditing guidelines.
- the second group (B) is composed of the big firms that simultaneously apply Dutch and international guidelines.
- the third group (C) encompasses accounting firms that apply only Dutch auditing guidelines.

Thus, the results show that the first group has takes the elements of IAG13 into consideration. Meanwhile, only 46% of the firms observed in the second group are in full compliance with IFAC audit report guidelines. In the third group, 75% of accounting firms do not rigorously apply the elements established by IFAC.

Bavishi (1995) analysed the content and form of the audit reports prepared by professionals in 47 countries. The results show that audit firm identification was not always clear and specific statements audited were not identified (although the majority audited the income statement, balance sheet, statement of changes in financial position and cash-flow statement). Meanwhile, different key words were used for unqualified audit reports and references to the auditing standards followed were not made consistently.

On the basis of an extension of Hussein et al.'s (1986) work, Gangolly et al. (2002) examined whether ISA700 resulted in greater international harmonisation of audit reports. The level of harmonisation was assessed both by examining the extent to which countries adopted ISA700 and by the extent to which the content of the auditor's report changed. The authors compared the auditors' reports contained in the annual financial reports published by 450 companies in 33 IFAC member countries on two different dates (a pre-ISA700 date and a post-ISA700 date). The results suggest a higher degree of conformity with the standard for the post-ISA 13



reports and show a reduced diversity in the practices and standards affecting the audit report since the issue of ISA700.

Fakhfakh and Pucheta-Martínez (2007) examined the form and content of the audit reports issued by Tunisian auditors who represent international auditing firms. The results demonstrate that audit reports issued by the international auditing firms are not fully and equally compliant with five out of the twenty-six elements enumerated by the International Federation of Accountants (IFAC). They found certain gaps that are likely to weaken the substance of reports' communicative value.

Within the same framework, a more extensive study by Fakhfakh and Fakhfakh (2007), examines the wording of audit reports published by Tunisian Certified Public Accountants. It measures the conformity of these reports with elements listed by the International Standard on Auditing (ISA700). To achieve this aim, empirical research was conducted based on an analysis of 71 audit reports published by independent auditors. The results show that Tunisian audit reports do not conform fully with the content and structure of reports as standardised by the International Federation of Accountants (IFAC). This difference of conformity from international reports can be explained by the characteristics of the Tunisian accounting and auditing environment, which may induce auditors to ignore some standard elements of audit reports.

#### *The contribution of the new reform of the international auditor's report*

At the instigation of its member professional bodies, IFAC proceeded to a basic revision of the textual elements of its standardised report. This reform was not separated from the reinforcement of the informational value allotted to the accountant's report.

The last revision of the wording of the international auditing report shows several innovative aspects of the international standardisation approach. This innovation is the result of the interaction of the different accounting cultures represented on the council of the International Federation of Accountants.

#### *The improvement of the normative content of international report wording*

The IFAC permanently revises its standards of audit and works out new standards in order to fulfil the requirements of the accounting profession. The revision of ISA700 by the IAASB was carried out in order to increase the transparency and international comparability of auditors' reports. It follows a series of changes made to the standards for the auditor's report.<sup>1</sup>

The arrangements resulting from the standard ISA700 revision apply to auditors' reports issued after December 31, 2006. They modify the content of the certified public accountant's report in order to better explain the role of audit to financial statements readers. The wording

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<sup>1</sup>Such as the drafts for ISA 701 (The Independent Auditor's Report on Other Historical Financial Information), ISA 800 (The Independent Auditor's Report on Summary Audited Financial Statements), ISA 705 (Modifications to the Opinion in the Independent Auditor's Report) and ISA 706 (Emphasis of Matter Paragraphs in the Independent Auditor's Report).

suggested by the revised auditor’s report takes into consideration the new standards relating to the audit mission risk. It is composed of 38 elements of form (title, addressee, auditor’s signature, date of the auditor’s report and auditor’s address) and content (introductory paragraph, management’s responsibility for the financial statements, auditor’s responsibility, auditor’s opinion and other reporting responsibilities).

The new arrangements resulting from the wording extension describe the respective responsibilities of management and the auditor in detail. They report the accounting control process with more precision and inform on the extent of professional responsibilities for the internal control system (Appendix).

*The application of an evolutionary approach to the structural standardization of auditing*

The elements of the new revised wording represent certain evolutions compared to the original ISA700 standard report. These evolutions may arouse debate on the informative contents of the audit report. They may enrich research on the communicative capacity of the IFAC’s reports, and on the adaptations made in order to consider the specificities of the national legal framework. According to the French National Board of Auditors (1995), the consideration of the communicative performance of audit reports is justified by the need to meet the expectations of financial statements users. The informational requirements of these users are marked by an unquestionable evolution bound up with changes in the economic, financial and legal environments.

The new structure of the international report wording differs significantly from that recommended by the old reference (ISA 700). It proposes a longer text enriched by explanatory and descriptive paragraphs referring to the auditor’s work (see table 1).

**Table I.**  
**The evolution of the Structure of the international auditor’s report**

<b>report structure</b>	<b>IAG 13</b>	<b>Old ISA 700</b>	<b>ISA 700 R</b>
Number of pages	1	1	2
Number of paragraphs	6	8	18
Number of lines	10	27	55
Number of words	62	214	428

*Elements of interest for corporate governance*

The newly revised international standard for the auditor’s report aims to achieve alignment with the requirements of ISA 260, which specifies that the auditor should communicate with those in charge of corporate governance about the auditor’s views on accounting issues (such as significant qualitative aspects of the entity’s practices, accounting policies and accounting estimates). The accounting communication can cover several subjects related to material weaknesses in the design, implementation or operational effectiveness of internal controls.

In order to specify the auditor’s responsibility, the audit report should describe the audit by stating that in assessing the risks of material misstatement in the financial statements, the auditor considers internal control relevant to the entity’s preparation of the financial statements as a basis for designing audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The new ISA 700 paragraph proposes more details to clarify the issues related to management's responsibility for certain matters which are of interest for corporate governance. The auditor's report should state that management's responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **An empirical study of the impact of revised ISA 700 on reported activities: The Tunisian auditing case**

In Tunisia, the auditor's mission was organised by the code of commerce published in 1959. In order to improve the quality of the audits, several laws were promulgated in 1982, 1988 and 2000. The law of 1982 regulates the auditor's function. Accordingly, Tunisian auditors can express only three kinds of opinion. After the foundation of the Institute of Tunisian Certified Public Accountants (OECT) in 1983, another law was promulgated in 1988, which was intended to improve the role and vocation of Tunisian auditors. It referred to the opinion expressed in the audit reports.

In this case, independent auditors should express opinions on whether financial statements present fairly the financial position of the audited company. The Code of Commerce, which was issued in 1959, was modified in 2000 to become the Code of Commercial Companies. This modification entailed several modernizations for the accounting profession (including the extension of mandatory appointment of auditors to all commercial companies, the improvement of the technical methodology used by independent auditors in their mission, the regulation of the date and the presentation of auditor's report).

Several Tunisian accounting firms have been registered in the table of the Tunisian Institute of CPA. At present, these firms are obliged to comply with international standards on Auditors' Reports. Their civil responsibility is in terms of respect for professional standards. In addition to the presence of local accounting firms, several independent auditors represent international auditing firms. These large companies include the 'big four' and 'second tier' firms. The existence of these firms in Tunisian auditing markets may contribute to the improvement of auditing services. It may also facilitate foreign investment and the establishment in Tunisia of major industrial corporations. In addition to these advantages, the level of auditors' training may improve.

Before discussing the new revised ISA700, it is important to indicate that International Standards on auditing are considered in the courses of study followed by future Certified Public Accountants. In 2000, the Tunisian Institute of Certified Public Accountants adopted ISA700. Consequently, its members were obliged to comply with International standards on Auditor's Reports. The recognition of ISA700 was pronounced in order to improve the quality of audit work and to satisfy the informational needs of stakeholders. It was motivated by the ambition to follow the auditing standardisation evolution, the enhancement of national accounting rules and the enrichment of the national auditing handbook. The analytical examination of the impact of the revised ISA700 on the reported activities of Tunisian certified public accountants should throw light on the progress of the work of the IFAC and the new challenges posed by the most recent international normative reform.

### *Research methodology*

The methodology used in the analysis of Tunisian audit report practices and the empirical study of the reports' informative contents consists of a comparative examination based on the wording of revised ISA 700 to locate the elements that contribute to the reinforcement of the audit informational value, the improvement of practices followed by the accountants, and the homogeneity of the principles retained for the presentation of the audit results.

### *Sample*

The impact study of the publication of the Revised ISA 700 requires the analysis of financial and accounting data published prior to and subsequent to the financial year 2006. The majority of the observations are extracted from the reports of local firms and from the documentation provided by the regulatory authorities. Other supplementary information sources (Financial Bulletins, Internet websites, economic newspapers) were also consulted to maintain the representativeness of the study sample. Translation work was imposed on several French reports in order to ensure the comparability of the audit language. In table II shows the study sample, which is composed of 149 audit reports signed by certified public accountants in three financial years (2004, 2005 and 2006).

**Table II.**  
**Study sample**

<b>Financial year</b>	<b>Number of auditors' reports published by representatives of Big 4</b>	<b>Number of auditors' reports published by non-representatives of Big 4</b>	<b>Total</b>
2004 (Pre-Revised ISA700)	10	29	39
2005 (Pre- Revised ISA700)	7	29	36
2006 (Post- Revised ISA700)	31	43	74
<b>Total</b>	48	101	149

### *Statistical analysis of the data collected*

This study of the potentiality of information in national audit reports (which is considered as a first appreciation level of ISA 700's success) needs to consider the current level of conformity to the arrangements established in the revised international standard on audit reports.

To achieve, a comparison with international auditing doctrine was performed, based on a selection of basic elements of the audit report prepared according to the International Standard on Auditing. All these elements are summarized by a score of 38 points indicating the form and the contents of the independent auditor's report (Table III and Appendix).

The examination of the degree of international elements makes it possible for the audit report to establish the conformity with the international audit principles that are generally accepted by the IFAC. It also contributes to the detection of governance system anomalies in audited companies. Similarly, it helps measure the informational satisfaction needs of stakeholders in terms of financial information.

The analysis of the data used in the evaluation of the current informative contents of national auditor's reports is assisted by the statistical One-Sample Test for the analysis of the degree of

conformity with ISA700R. This parametric test is adopted when the examination aims to determine if the expectation (theoretical mean) of a given sample is significantly different from a reference value.

**Table III.**  
**Normative scores recommended by ISA 700R**

Elements of Revised ISA700		Individual scores	Aggregate score
Elements of form	Title	5	38
	Addressee		
	Auditor's Signature		
	Date of the Auditor's Report		
	Auditor's Address		
Elements of content	Introductory paragraph	7	
	Management's responsibility for the financial statements	8	
	Auditor's responsibility	14	
	Auditor's opinion	3	
	Other reporting responsibilities	1	

The present paper seeks to evaluate the impact of ISA 700R on the improvement of the informative contents of auditor's reports. The assessment of the enhancement of compliance with the IFAC's doctrine (subsequently to the publication of ISA 700R) will be studied by the test of percentage comparison between financial year 2006 and previous fiscal years (2005 and 2004). This comparison carries out a z test suited to cases with two proportions by approximating the binomial distribution using the normal distribution.

The analysis of the impact of revised ISA 700 on the homogeneity of auditors' practices and the accounting report uniformity is based on the comparison of the message wording prepared by the independent auditors affiliated to international audit firms and other domestic auditing firms. It is assisted by the Two-Samples t-Test and the Two-Samples Comparison of Variances.

*The informational reinforcement ability of Tunisian audit reports on annual financial statements (Tests of conformity with ISA 700R)*

In terms of the whole normative arrangements envisaged by the ISA 700R, the conclusions of this study do not confirm the full and perfect application of the international principles (Table X.I). The empirical results stress that the total score observed (26.00) is statistically different from the score recommended by the ISA700R (38). The failure to comply with ISA 700R limits the relevance of financial communication between national certified accountants and stakeholders.

*Formal characteristics of the auditors' reports*

In terms of form, some normative elements are not retained in the presentation of the report texts studied. The statistical results which are displayed in Table X.II show a significant difference between the normative score (5) and the average observed scores (4.60). Consequently the supposition of complete conformity with all the form elements of the

international revised auditor's report is rejected. This observation reduces the perfect presentation of the auditing results.

The empirical results summarised in Table XI.I and Table XII.I show that the total elements of form are not uniformly applied by the certified accountants. The audit reports published in Tunisia are not in absolute conformity with elements related to Title, Addressee, Date of the Auditor's Report, and Auditor's Address. For the remaining element (auditor's signature), the hypothesis of full compliance with international accounting principles is accepted.

Compared to the other international elements of the IFAC (Introductory paragraph, management's responsibility for the financial statements, auditor's responsibility, auditor's opinion and other reporting responsibilities), the level of conformity of form elements differs significantly. On a statistical level, at the degree of significance  $\alpha=0,050$  the decision is to reject the null hypothesis of equality of the proportions (Table IV).

**Table IV.**  
**Comparison of the degree of compliance between elements of form and other remaining elements**

Test of comparison of two proportions					
Elements of ISA 700R	Level of conformity	Number of reports	Z test for 2 Proportions / Right-tailed test		
			Z (observed value)	Z (critical value)	One-tailed p-value
<b>Elements of form</b>	Compliance	50	4.22	1.96	< 0.0001
	Non-compliance	24			
	Total	74			
<b>Other remaining elements</b>	Compliance	151	4.22	1.96	< 0.0001
	Non-compliance	219			
	Total	370			

*Conformity with introductory paragraph requirements*

The results of the test of compliance with elements related to the introductory paragraph are summarised in Table X.III. The single sample T test confirms the assumption of difference between the average observed (4.08) and the specified score (7). No element required in the development of the introductory paragraph is perfectly respected by the independent accountants in charge of auditing. The examination of such results demonstrates that the new international standardisation was not respected by all auditors.

Based on Table XI.II, the assumption of homogeneous conformity to the elements of the introductory paragraph is rejected. The accounting texts observed reflected the highest level of compliance with elements related to the statement that the auditing task was performed. They have the least degree of conformity with elements which refer to the summary of significant accounting policies and other explanatory notes.

The percentage of respect for the introductory paragraph elements differs significantly from that of the other elements enumerated by ISA 700R (Form elements, management's responsibility for the financial statements, auditor's responsibility, auditor's opinion and other reporting responsibilities). On the statistical level, at the level of significance  $\alpha=0,050$  the decision is to reject the null hypothesis of equality of the proportions (Table V).

**Table V.**  
**Comparison of compliance degree between elements of the introductory paragraph and other elements**

Test of comparison of two proportions					
Elements of ISA 700R	Level of conformity	Number of reports	Z test for 2 Proportions / Right-tailed test		
			Z (observed value)	Z (critical value)	One-tailed p-value
<b>Introductory paragraph</b>	Compliance	10	-6.01	1.96	< 0.0001
	Non-compliance	64			
	Total	74			
<b>Other remaining elements</b>	Compliance	191			
	Non-compliance	179			
	Total	370			

*Conformity with requirements for management's responsibility for the financial statements*

The requirements concerning the paragraph on *management's responsibility for the financial statements* were not faithfully applied by the Tunisian certified accountants. The results of this item investigation do not indicate the ultimate recognition of international standardization work (Table X.IV).

The auditing texts studied reflected the main level of compliance with the first element related to the statement that management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework. According to the statistics displayed in tables XI.III and XII.III, the postulation of the heterogeneous conformity with the elements related to the recognition of management's responsibility for the financial statements is confirmed. The small degree of recognition of international standardization work is checked for two elements related to the statement that the management's responsibility includes selecting and applying appropriate accounting policies.

The proportion of respect for the elements related to the management's responsibility differs significantly from that of the other elements enumerated by the ISA 700R (Form elements, introductory paragraph, auditor's responsibility, auditor's opinion, and other reporting responsibilities). In statistical terms, at the level of significance  $\text{Alpha}=0,050$  the decision is to reject the null hypothesis of equality of the proportions (Table VI).

**Table VI.**

**Comparison of compliance between elements of management’s responsibility for the financial statements and other elements**

Test of comparison of two proportions					
Elements of ISA 700R	Level of conformity	Number of reports	Z test for 2 Proportions / Right-tailed test		
			Z (observed value)	Z (critical value)	One-tailed p-value
<b>Management’s responsibility for the financial statements</b>	Compliance	6	-7.03	1.96	< 0.0001
	Non-compliance	68			
	Total	74			
<b>Other remaining elements</b>	Compliance	195			
	Non-compliance	175			
	Total	370			

*Conformity with auditor’s responsibility requirements*

Comparative analysis of the informational characteristics of the paragraphs which determine the auditor’s responsibility reveals a significant difference between the normative score resulting from the international accounting principles (14) and that followed by the audit experts (Table X.V). In this respect, we may note that only one standard element of the auditor’s report is rigorously adopted (Table XI.IV). This observation puts at stake the ability of the national auditors’ reports to transfer all the necessary information concerning the auditing scope.

Table XI.IV shows that the supposition of heterogeneous compliance with the elements of the introductory paragraph is accepted. The highest level of conformity with the elements of the paragraph on the auditor’s responsibility is found in the accounting reports which state that:

- The responsibility of the auditor is to express an opinion on the financial statements based on the audit;
- The auditor plans the audit to obtain reasonable assurance that the financial statements are free from material misstatement;
- An audit involves performing procedures to obtain audit evidence about disclosures in the financial statements;
- An audit also includes evaluating the reasonableness of accounting estimations made by management.

As can be seen from the statistics displayed in Table XI.IV, the last two elements of the auditor’s responsibility paragraph (Statement that the auditor believes that the audit evidence obtained by the auditor is sufficient and appropriate to provide a basis for the auditor’s opinion) are not respected by the majority of certified accountants (the percentage of compliance is equal to 24.32). The results summarised in Table VII show that the proportion of application of all requirements related with the auditor’s responsibility is not equal to the same proportion for the remaining elements (i.e., Elements of form, introductory paragraph, management’s responsibility for the financial statements, auditor’s opinion and other reporting responsibilities).



**Table VII.**  
**Comparison of compliance degree between elements of auditor’s responsibility and other elements**

<b>Test of comparison of two proportions</b>					
<b>Elements of ISA 700R</b>	<b>Level of conformity</b>	<b>Number of reports</b>	<b>Z test for 2 Proportions / Right-tailed test</b>		
			<b>Z (observed value)</b>	<b>Z (critical value)</b>	<b>One-tailed p-value</b>
<b>Auditor’s responsibility</b>	Compliance	17	-4.22	1.96	< 0.0001
	Non-compliance	57			
	Total	74			
<b>Other remaining elements</b>	Compliance	184			
	Non-compliance	186			
	Total	370			

*The respect of the auditor’s opinion requirements*

The statistical results presented in Table X.VI confirm the lack of the normative elements required in the formulation of the auditor’s report opinion. A low significance value (typically below 0.05) indicates that there is a significant difference between the test value (3) and the observed mean (3). On the basis of the data in tables XI.V and XII.V, we may conclude that the homogeneous compliance with the elements of the auditor’s opinion is not respected. The entire opinion paragraphs inserted in the reports to express an unqualified opinion state the auditor’s belief that the financial statements give a true and fair view of the financial position of companies.

Examination of the statistics presented in table VIII shows that the percentage of respect for the elements required for the expression of the auditor’s opinion is not equal to that related to other elements (Elements of form, introductory paragraph, management’s responsibility for the financial statements, *auditor’s responsibility* and other reporting responsibilities).

**Table VIII.**  
**Comparison of the degree of compliance between elements of the auditor’s opinion and other elements**

<b>Test of comparison of two proportions</b>					
<b>Elements of ISA 700R</b>	<b>Level of conformity</b>	<b>Number of reports</b>	<b>Z test for 2 Proportions / Right-tailed test</b>		
			<b>Z (observed value)</b>	<b>Z (critical value)</b>	<b>One-tailed p-value</b>
<b>Auditor’s opinion</b>	Compliance	50	4.22	1.96	< 0.0001
	Non-compliance	24			
	Total	74			
<b>Other remaining elements</b>	Compliance	151			
	Non-compliance	219			
	Total	370			

*Conformity with other requirements related with reporting responsibilities*

Compared to the international doctrine proposals, 6 analysed auditors' reports do not display additional responsibilities such as reporting on other matters that are supplementary to the auditor's responsibility of expressing an opinion on the financial statements. The present study checks the acceptance of the hypothesis which assumes that the average (0.91) is lower than the normative value (table X.VII). The recognition percentage of elements dealing with other reporting responsibilities is significantly different from that which covers the remaining international elements (table IX).

**Table IX.**  
**Comparison of the degree of compliance between elements of other reporting responsibilities and other elements**

<b>Test of comparison of two proportions</b>					
<b>Elements of ISA 700R</b>	<b>Level of conformity</b>	<b>Number of reports</b>	<b>Z test for 2 Proportions / Right-tailed test</b>		
			<b>Z (observed value)</b>	<b>Z (critical value)</b>	<b>One-tailed p-value</b>
<b>Other reporting responsibilities</b>	Compliance	68	8.82	1.96	< 0.0001
	Non-compliance	6			
	Total	74			
<b>Other remaining elements</b>	Compliance	133			
	Non-compliance	237			
	Total	370			

**Table X.**  
**One-Sample T Test procedure (Audit reports on annual financial statements)**

<b>Table X.I. One-Sample Test for all elements of the audit reports prepared according to the Revised ISA 700</b>										
One sample statistic for observed score					The One-Sample T Test procedure					
N	Mean	Std deviation	Min	Max	Test value	T (Observed value)	T (Critical value)	Df	Sig (2 tailed)	Mean difference
74	26.00	7.90	8.00	38.00	38	-13.05	-1.66	73	< 0.0001	12
<b>Table X.II. One-Sample Test for elements related to the form of auditors' reports</b>										
One sample statistic for observed score					The One-Sample T Test procedure					
N	Mean	Std deviation	Min	Max	Test value	T (Observed value)	T (Critical value)	Df	Sig (2 tailed)	Mean difference
74	4.60	0.61	3.00	5.00	5	-5.47	-1.66	73	< 0.0001	0.4
<b>Table X.III. One-Sample Test for elements related to introductory paragraph</b>										
One sample statistic for observed score					The One-Sample T Test procedure					
N	Mean	Std deviation	Min	Max	Test value	T (Observed value)	T (Critical value)	Df	Sig (2 tailed)	Mean difference
74	4.08	1.68	1	7.00	7	-14.89	-1.66	73	< 0.0001	2.92
<b>Table X.IV. One-Sample Test for elements related to management's responsibility for the financial statements</b>										
One sample statistic for observed score					The One-Sample T Test procedure					
N	Mean	Std deviation	Min	Max	Test value	T (Observed value)	T (Critical value)	Df	Sig (2 tailed)	Mean difference
74	3.83	2.73	0.00	8.00	8	-13.11	-1.66	73	< 0.0001	4.17
<b>Table X.V. One-Sample Test for elements related to auditor's responsibility</b>										
One sample statistic for observed score					The One-Sample T Test procedure					
N	Mean	Std deviation	Min	Max	Test value	T (Observed value)	T (Critical value)	Df	Sig (2 tailed)	Mean difference
74	10.02	3.77	1.00	14.00	14	-9.06	-1.66	73	< 0.0001	3.98
<b>Table X.VI. One-Sample Test for elements related to auditor's opinion</b>										
One sample statistic for observed score					The One-Sample T Test procedure					
N	Mean	Std deviation	Min	Max	Test value	T (Observed value)	T (Critical value)	Df	Sig (2 tailed)	Mean difference
74	2.52	0.74	1.00	3.00	3	-5.46	-1.66	73	< 0.0001	0.48
<b>Table X.VII. One-Sample Test for elements related to other reporting responsibilities</b>										
One sample statistic for observed score					The One-Sample T Test procedure					
N	Mean	Std deviation	Min	Max	Test value	T (Observed value)	T (Critical value)	Df	Sig (2 tailed)	Mean difference
74	0.91	0.27	0.00	1.00	1	-2.53	-1.66	73	0.007	0.09



**Table XI.**  
**Tests on Contingency Tables for elements of revised ISA 700**

<b>Table XI.I. Tests on Contingency Tables for elements of form</b>						
<b>Elements of Revised ISA 700</b>	<b>Compliance</b>	<b>Non-compliance</b>	<b>Total</b>	<b>Chi-square (observed value)</b>	<b>Chi-square (critical value)</b>	<b>One-tailed p-value</b>
Title	73	1	74	33.44	9.48	< 0.0001
Addressee	58	16	74			
Auditor's Signature	74	0	74			
Date of the Auditor's Report	65	9	74			
Auditor's Address	71	3	74			
<b>Table XI.II. Tests on Contingency Tables for elements of introductory paragraph</b>						
<b>Elements of Revised ISA 700</b>	<b>Compliance</b>	<b>Non-compliance</b>	<b>Total</b>	<b>Chi-square (observed value)</b>	<b>Chi-square (critical value)</b>	<b>One-tailed p-value</b>
Identification of the entity whose financial statements have been audited	70	4	74	175.92	12.59	< 0.0001
Statement that the financial statements have been audited	71	3	74			
Title of each of the financial statements that comprise the complete set of financial statements	32	42	74			
Reference to the summary of significant accounting policies	15	59	74			
Reference to other explanatory notes	18	56	74			
Specification of the date covered by the financial statements	54	20	74			
Specification of the period covered by the financial statements	42	32	74			
<b>Table XI.III. Tests on Contingency Tables for elements of management's responsibility</b>						
<b>Elements of Revised ISA 700</b>	<b>Compliance</b>	<b>Non-compliance</b>	<b>Total</b>	<b>Chi-square (observed value)</b>	<b>Chi-square (critical value)</b>	<b>One-tailed p-value</b>
Statement that management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework	70	4	74	139.14	14.06	< 0.0001
Statement that management is responsible for the fair presentation of	21	53	74			

the financial statements in accordance with the applicable financial reporting framework						
Statement that this responsibility includes designing internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error	42	32	74			
Statement that this responsibility includes implementing internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error	42	32	74			
Statement that this responsibility includes maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error	42	32	74			
Statement that this responsibility includes selecting appropriate accounting policies	13	61	74			
Statement that this responsibility includes applying appropriate accounting policies	13	61	74			
Statement that this responsibility includes making accounting estimates that are reasonable in the circumstances	41	33	74			
<b>Table XI.IV. Tests on Contingency Tables for elements of auditor's responsibility</b>						
<b>Elements of Revised ISA 700</b>	<b>Compliance</b>	<b>Non-compliance</b>	<b>Total</b>	<b>Chi-square (observed value)</b>	<b>Chi-square (critical value)</b>	<b>One-tailed p-value</b>
Statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit	70	4	74	294.13	22.36	< 0.0001
Statement that the audit was conducted in accordance with International Standards on Auditing	74	0	74			
Explanation that those standards require that the auditor comply with ethical requirements to obtain reasonable assurance whether the financial statements are free from material misstatement	42	32	74			
Explanation that those standards require that the auditor plan the audit to obtain reasonable assurance whether the financial statements are free from material misstatement	66	8	74			
Explanation that those standards require that the auditor perform the	64	10	74			

audit to obtain reasonable assurance whether the financial statements are free from material misstatement						
Describe an audit by stating that an audit involves performing procedures to obtain audit evidence about the amounts in the financial statements	44	30	74			
Describe an audit by stating that an audit involves performing procedures to obtain audit evidence about disclosures in the financial statements	66	8	74			
Describe an audit by stating that the procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error	41	33	74			
Describe an audit by stating that in making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control	46	28	74			
Describe an audit by stating that an audit also includes evaluating the appropriateness of the accounting policies used	64	10	74			
Describe an audit by stating that an audit also includes evaluating the reasonableness of accounting estimates made by management	66	8	74			
Describe an audit by stating that an audit also includes evaluating the overall presentation of the financial statements	63	11	74			
Statement that the auditor believes that the audit evidence the auditor has obtained is sufficient to provide a basis for the auditor's opinion	18	56	74			
Statement that the auditor believes that the audit evidence the auditor has obtained is appropriate to provide a basis for the auditor's opinion	18	56	74			
<b>Table XI.V. Tests on Contingency Tables for elements of auditor's opinion</b>						
<b>Elements of Revised ISA 700</b>	<b>Compliance</b>	<b>Non-compliance</b>	<b>Total</b>	<b>Chi-square (observed value)</b>	<b>Chi-square (critical value)</b>	<b>One-tailed p-value</b>
When expressing an unqualified opinion, the opinion paragraph of	74	0	74	29.37	5.99	< 0.0001

the auditor's report should state the auditor's opinion that the financial statements give a true and fair view or present fairly, in all material respects						
Statement that the financial statements are in accordance with the applicable financial reporting framework	63	11	74			
When International Financial Reporting Standards or International Public Sector Accounting Standards are not used as the financial reporting framework, the reference to the financial reporting framework in the wording of the opinion should identify the jurisdiction or country of origin of the financial reporting framework	50	24	74			
<b>Table XI.VI. Tests on Contingency Tables for elements of auditor's opinion</b>						
<b>Elements of Revised ISA 700</b>	<b>Compliance</b>	<b>Non-compliance</b>	<b>Total</b>	<b>Chi-square (observed value)</b>	<b>Chi-square (critical value)</b>	<b>One-tailed p-value</b>
Other reporting responsibilities	68	6	74	-	-	-



**Table XII.**  
**Levene's test of equality of variances**

<b>Table XII.I. Levene's test of equality of variances (elements of form)</b>								
<b>Elements of Revised ISA 700</b>	<b>Frequency</b>	<b>Mean</b>	<b>Variance</b>	<b>F (Observed value)</b>	<b>F (Critical value)</b>	<b>DF 1</b>	<b>DF 2</b>	<b>p-value</b>
Title	74	0.98	0.01	45.81	2.82	4	365	< 0.0001
Addressee	74	0.78	0.17					
Auditor's Signature	74	1.00	0.00					
Date of the Auditor's Report	74	0.87	0.10					
Auditor's Address	74	0.95	0.03					
<b>Table XII.II. Levene's test of equality of variances (Introductory paragraph)</b>								
<b>Elements of Revised ISA 700</b>	<b>Frequency</b>	<b>Mean</b>	<b>Variance</b>	<b>F (Observed value)</b>	<b>F (Critical value)</b>	<b>DF 1</b>	<b>DF 2</b>	<b>p-value</b>
Identification of the entity whose financial statements have been audited	74	0.94	0.05	63.86	2.43	6	511	< 0.0001
Statement that the financial statements have been audited	74	0.95	0.03					
Title of each of the financial statements that comprise the complete set of financial statements	74	0.43	0.24					
Reference to the summary of significant accounting policies	74	0.20	0.16					
Reference to other explanatory notes	74	0.24	0.18					
Specification the date covered by the financial statements	74	0.73	0.20					
Specify of the period covered by the financial statements	74	0.56	0.24					
<b>Table XII.III. Levene's test of equality of variances (Management's responsibility)</b>								
<b>Elements of Revised ISA 700</b>	<b>Frequency</b>	<b>Mean</b>	<b>Variance</b>	<b>F (Observed value)</b>	<b>F (Critical value)</b>	<b>DF 1</b>	<b>DF 2</b>	<b>p-value</b>
Statement that management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework	74	0.94	0.05	55.41	2.30	7	584	< 0.0001
Statement that management is responsible for the fair presentation of	74	0.28	0.20					

the financial statements in accordance with the applicable financial reporting framework								
Statement that this responsibility includes designing internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error	74	0.56	0.24					
Statement that this responsibility includes implementing internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error	74	0.56	0.24					
Statement that this responsibility includes maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error	74	0.56	0.24					
Statement that this responsibility includes selecting appropriate accounting policies	74	0.17	0.14					
Statement that this responsibility includes applying appropriate accounting policies	74	0.17	0.14					
Statement that this responsibility includes making accounting estimates that are reasonable in the circumstances	74	0.55	0.25					
<b>Table XII.IV. Levene's test of equality of variances (auditor's responsibility)</b>								
<b>Elements of Revised ISA 700</b>				<b>F (Observed value)</b>	<b>F (Critical value)</b>	<b>DF 1</b>	<b>DF 2</b>	<b>p-value</b>
	<b>Frequency</b>	<b>Mean</b>	<b>Variance</b>					
Statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit	74	0.94	0.05	47.11	1.91	13	1022	< 0.0001
Statement that the audit was conducted in accordance with International Standards on Auditing	74	1.00	0.00					
Explanation that those standards require that the auditor comply with ethical requirements to obtain reasonable assurance whether the financial statements are free from material misstatement	74	0.56	0.24					
Explanation that those standards require that the auditor plan the audit to obtain reasonable assurance whether the financial statements are free from material misstatement	74	0.89	0.09					
Explanation that those standards require that the auditor perform the	74	0.86	0.11					

audit to obtain reasonable assurance whether the financial statements are free from material misstatement								
Describe an audit by stating that an audit involves performing procedures to obtain audit evidence about the amounts in the financial statements	74	0.59	0.24					
Describe an audit by stating that an audit involves performing procedures to obtain audit evidence about disclosures in the financial statements	74	0.89	0.09					
Describe an audit by stating that the procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error	74	0.55	0.25					
Describe an audit by stating that in making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control	74	0.62	0.23					
Describe an audit by stating that an audit also includes evaluating the appropriateness of the accounting policies used	74	0.86	0.11					
Describe an audit by stating that an audit also includes evaluating the reasonableness of accounting estimates made by management	74	0.89	0.09					
Describe an audit by stating that an audit also includes evaluating the overall presentation of the financial statements	74	0.85	0.12					
Statement that the auditor believes that the audit evidence the auditor has obtained is sufficient to provide a basis for the auditor's opinion	74	0.24	0.18					
Statement that the auditor believes that the audit evidence the auditor has obtained is appropriate to provide a basis for the auditor's opinion	74	0.24	0.18					
<b>Table XII.V. Levene's test of equality of variances (auditor's opinion)</b>								
<b>Elements of Revised ISA 700</b>				<b>F (Observed value)</b>	<b>F (Critical value)</b>	<b>DF 1</b>	<b>DF 2</b>	<b>p-value</b>
	<b>Frequency</b>	<b>Mean</b>	<b>Variance</b>					
When expressing an unqualified opinion, the opinion paragraph of the auditor's report should state the auditor's opinion that the financial statements give a true and fair view or present fairly, in all material	74	1.00	0.00	118.39	3.75	2	219	< 0.0001

respects								
Statement that the financial statements are in accordance with the applicable financial reporting framework	74	0.85	0.12					
When International Financial Reporting Standards or International Public Sector Accounting Standards are not used as the financial reporting framework, the reference to the financial reporting framework in the wording of the opinion should identify the jurisdiction or country of origin of the financial reporting framework	74	0.67	0.22					

*Improvement of the informational reinforcement ability of Tunisian audit reports on annual financial statements*

In terms of all of the normative arrangements envisaged by ISA 700R, the null hypothesis of no difference between the total percentages of the two regimes cannot be rejected (Z test for 2 Proportions = 0.44, p-value = 0.67). In order to limit the degree of compensation impact among the various elements of ISA 700R, it may be relevant to compare the differences between the two regimes for each audit element.

Regarding the elements of the introductory paragraph, the empirical results show a statistical difference which means the improvement hypothesis with regard to the informational reinforcement ability of the audit reports observed cannot be accepted. The data in table XIII.III rejects the hypothesis that the compliance proportion with the international introductory paragraph (Pre-RISA 700 regime) is lower than the same proportion for the Post-RISA 700 regime.

According to the results of the statistical tests related to the issuance impact of RISA 700 on other remaining international elements (form of auditors' reports, scope paragraph and other elements of content), the decision is to accept the expectation of an improvement of the informational value of auditor's reports. Tables XIII.II and XIII.IV present the statistical values which prove the significant difference of conformity with the Pre/Post-RISA 700 regime.

**Table XIII.  
The enhancement of informative contents of auditor's reports (Pre/Post Revised ISA700)**

<b>Table XIII.I. All elements of the audit reports prepared according to the Revised ISA 700</b>					
<b>Financial years</b>	<b>Level of conformity</b>	<b>Number of reports</b>	<b>Z test for 2 Proportions / Right-tailed test</b>		
			<b>Z (observed value)</b>	<b>Z (critical value)</b>	<b>One-tailed p-value</b>
2004 and 2005 (Pre-Revised ISA700)	Compliance	3	0.44	-1.64	0.67
	Non-compliance	72			
	Total	75			
2006 (Post- Revised ISA700)	Compliance	2	0.44	-1.64	0.67
	Non-compliance	72			
	Total	74			
<b>Table XIII.II. Elements related to the form of auditors' reports</b>					
<b>Financial years</b>	<b>Level of conformity</b>	<b>Number of reports</b>	<b>Z test for 2 Proportions / Right-tailed test</b>		
			<b>Z (observed value)</b>	<b>Z (critical value)</b>	<b>One-tailed p-value</b>
2004 and 2005 (Pre-Revised ISA700)	Compliance	39	-1.93	-1.64	0.02
	Non-compliance	36			
	Total	75			
2006 (Post- Revised ISA700)	Compliance	50	-1.93	-1.64	0.02
	Non-compliance	24			
	Total	74			
<b>Table XIII.III. Elements related to introductory paragraph</b>					
<b>Financial years</b>	<b>Level of conformity</b>	<b>Number of reports</b>	<b>Z test for 2 Proportions / Right-tailed test</b>		
			<b>Z (observed value)</b>	<b>Z (critical value)</b>	<b>One-tailed p-value</b>

2004 and 2005 (Pre- Revised ISA700)	Compliance	9	-0.27	-1.64	0.39
	Non-compliance	66			
	Total	75			
2006 (Post- Revised ISA700)	Compliance	10			
	Non-compliance	64			
	Total	74			
<b>Table XIII.IV. Elements related to other remaining paragraphs</b>					
Financial years	Level of conformity	Number of reports	Z test for 2 Proportions / Right-tailed test		
			Z (observed value)	Z (critical value)	One-tailed p-value
2004 and 2005 (Pre- Revised ISA700)	Compliance	19	3.96	-1.64	1.00
	Non-compliance	56			
	Total	75			
2006 (Post- Revised ISA700)	Compliance	2			
	Non-compliance	72			
	Total	74			

#### *The homogenisation of national practices in reported activities*

On the basis of the results obtained from the statistical tests, this empirical work bears witness to a national accounting reality. It was proved that independent auditors do not share the same perceptions of the importance and the informational utility of the new revised ISA 700 elements.

The two sets of national accounting reports (those published by big accounting firms and those by other domestic firms) do not uniformly apply the wording requirements of the international standard report. The comparison of global scores rejects the assumption of harmony among the national auditing messages (table XV.I.). The Levene test confirms the same idea and corroborates the conclusion of the significant inequality of the total scores variance (table XIV.I.II).

#### *The uniformity of national auditing practices on elements of form*

The accounting reports published by the domestic auditors and by the representatives of the big accounting firms do not reflect equal respect for the international requirements in terms of the form of reports. Their presentation is strongly divergent (table XV.II) and their heterogeneity is significant (tables XIV.II.I and XIV.II.II). From the descriptive statistics, it can be concluded that the Tunisian auditors who represent the big accounting firms are more compliant with elements dealing with the addressee, date of the auditor's report and auditor's address.

#### *The uniformity of national auditing practices in introductory paragraphs*

The auditing messages prepared by the auditors who represent the big accounting firms are the most respectful of international principles in terms of introductory paragraphs (table XV.III). This compliance gap is related to the following elements:

- Identification of the entity audited;
- Statement that the financial statements have been audited;

- Title of each of the financial statements that comprise the complete set of financial statements;
  - Specification of the date covered by the financial statements.
- According to the statistical data summarised in tables XIV.III.I and XIV.III.II, the homogeneity hypothesis among national and international accounting firms cannot be rejected.

*The uniformity of national auditing practices in management's responsibility*

The auditing messages prepared by professionals from the domestic auditing firms are the most disregarded of international accounting rules governing the inclusion of a paragraph explaining management's responsibility (Table XV.IV). This non-compliance limits the level of the statement:

- that management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework;
- that the management's responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- that the management's responsibility includes making accounting estimates that are reasonable in the circumstances.

The interpretation of the results shown in tables XIV.IV.I and XIV.IV.II confirms the uniformity of auditing practices related to the presentation of management's responsibility. All auditors express the same agreement on the new explanatory proposals regarding management obligations.

*The uniformity of national auditing practices on auditor's responsibility*

The examination of the results summarised in Table XIV.V.II shows that not all the communicative messages required in audit reports are equally compliant with the international elements which describe the auditor's obligation. Except the statement that the audit was conducted in accordance with International Standards on Auditing (compliance percentage is equal to 100% for both auditors' groups), the remaining items which clarify the auditor's responsibility are not uniformly recognized by the statutory auditors.

*The uniformity of national auditing practices in auditor's opinion and other reporting responsibilities*

The results of the comparison of the opinion paragraph show a significant heterogeneity between the two groups of independent auditors (tables XIV.VI.I and XIV.VI.II). The highest level of compliance with opinion paragraph elements is found in the reports published by the representatives of the international accounting firms (the average compliance score is equal to 2.77). These reports, like those prepared by the professionals of domestic auditing firms, are in absolute conformity with items which state the opinion that the financial statements give a true and fair view or present fairly, in all material respects.

The same conclusion of heterogeneity can be corroborated for the remaining elements that deal with other reporting responsibilities. Table XIV.VII.I displays the statistical values which

reject the homogeneity hypothesis between national practices on accounting and auditing matters.



**Table XIV.**  
**Two-Samples t-Test and Two-Samples Comparison of Variances**

<b>Table XIV.I.I. Two-Samples t-Test (All elements of ISA 700R)</b>				<b>Table XIV.I.II. Two-Samples Comparison of Variances (All elements of ISA 700R)</b>				
t (Observed value)	t (Critical value)	DF	p-value (Two-tailed)	F (Observed value)	F (Critical value)	DF 1	DF 2	p-value
1.41	1.99	72	0.16	2.70	1.99	42	30	0.00
<b>Table XIV.III.I. Two-Samples t-Test (Form of auditors' reports)</b>				<b>Table XIV.III.II. Two-Samples Comparison of Variances (Form of auditors' reports)</b>				
t (Observed value)	t (Critical value)	DF	p-value (Two-tailed)	F (Observed value)	F (Critical value)	DF 1	DF 2	p-value
2.43	1.99	72	0.01	3.05	1.99	42	30	0.00
<b>Table XIV.III.I. Two-Samples t-Test (Introductory paragraph)</b>				<b>Table XIV.III.II. Two-Samples Comparison of Variances (Introductory paragraph)</b>				
t (Observed value)	t (Critical value)	DF	p-value (Two-tailed)	F (Observed value)	F (Critical value)	DF 1	DF 2	p-value
0.76	1.99	72	0.44	1.58	1.99	42	30	0.18
<b>Table XIV.IV.I. Two-Samples t-Test (Management's responsibility)</b>				<b>Table XIV.IV.II. Two-Samples Comparison of Variances (Management's responsibility)</b>				
t (Observed value)	t (Critical value)	DF	p-value (Two-tailed)	F (Observed value)	F (Critical value)	DF 1	DF 2	p-value
0.17	1.99	72	0.86	1.82	1.99	42	30	0.08
<b>Table XIV.V.I. Two-Samples t-Test (Auditor's responsibility)</b>				<b>Table XIV.V.II. Two-Samples Comparison of Variances (Auditor's responsibility)</b>				
t (Observed value)	t (Critical value)	DF	p-value (Two-tailed)	F (Observed value)	F (Critical value)	DF 1	DF 2	p-value
1.45	1.99	72	0.14	2.34	1.99	42	30	0.01
<b>Table XIV.VI.I. Two-Samples t-Test (Auditor's opinion)</b>				<b>Table XIV.VI.II. Two-Samples Comparison of Variances (Auditor's opinion)</b>				
t (Observed value)	t (Critical value)	DF	p-value (Two-tailed)	F (Observed value)	F (Critical value)	DF 1	DF 2	p-value
2.51	1.99	72	0.01	2.10	1.99	42	30	0.03
<b>Table XIV.VII.I. Two-Samples t-Test (Other reporting responsibilities)</b>				<b>Table XIV.VII.II. Two-Samples Comparison of Variances (Other reporting responsibilities)</b>				
t (Observed value)	t (Critical value)	DF	p-value (Two-tailed)	F (Observed value)	F (Critical value)	DF 1	DF 2	p-value
2.61	1.99	72	0.03	-	1.99	42	30	-

**Table XV.  
Descriptive statistics**

<b>Table XV.I. Descriptive statistics : All elements of ISA 700R</b>									
Frequency	Mean	Variance	Std deviation	Standard-error	Minimum	First Quartile	Median	Third quartile	Maximum
31	27.51	30.92	5.56	0.99	16.00	23.00	29.00	32.00	36.00
43	24.90	83.61	9.14	1.39	8.00	19.00	29.00	32.00	38.00
<b>Table XV.II. Descriptive statistics : Form of auditors' reports</b>									
Frequency	Mean	Variance	Std deviation	Standard-error	Minimum	First Quartile	Median	Third quartile	Maximum
31	4.80	0.16	0.40	0.07	4.00	5.00	5.00	5.00	5.00
43	4.46	0.49	0.70	0.10	3.00	4.00	5.00	5.00	5.00
<b>Table XV.III. Descriptive statistics : Introductory paragraph</b>									
Frequency	Mean	Variance	Std deviation	Standard-error	Minimum	First Quartile	Median	Third quartile	Maximum
31	4.25	2.13	1.46	0.26	2.00	3.00	4.00	5.00	7.00
43	3.95	3.37	1.83	0.28	1.00	3.00	3.00	5.50	7.00
<b>Table XV.IV. Descriptive statistics : Management's responsibility</b>									
Frequency	Mean	Variance	Std deviation	Standard-error	Minimum	First Quartile	Median	Third quartile	Maximum
31	3.90	5.09	2.25	0.40	1.00	1.00	5.00	6.00	7.00
43	3.79	9.31	3.05	0.46	0.00	1.00	5.00	7.00	8.00
<b>Table XV.V. Descriptive statistics : Auditor's responsibility</b>									
Frequency	Mean	Variance	Std deviation	Standard-error	Minimum	First Quartile	Median	Third quartile	Maximum
31	10.77	7.84	2.80	0.50	4.00	8.00	12.00	12.00	14.00
43	9.48	18.39	4.28	0.65	1.00	8.00	12.00	14.00	14.00
<b>Table XV.VI. Descriptive statistics : Auditor's opinion</b>									
Frequency	Mean	Variance	Std deviation	Standard-error	Minimum	First Quartile	Median	Third quartile	Maximum
31	2.77	0.31	0.56	0.10	1.00	3.00	3.00	3.00	3.00
43	2.34	0.66	0.81	0.12	1.00	2.00	3.00	3.00	3.00
<b>Table XV.VII. Descriptive statistics : Other reporting responsibilities</b>									
Frequency	Mean	Variance	Std deviation	Standard-error	Minimum	First Quartile	Median	Third quartile	Maximum
31	1.00	0.00	0.00	0.00	1.00	1.00	1.00	1.00	1.00
43	0.86	0.12	0.35	0.05	0.00	1.00	1.00	1.00	1.00

## **Discussion of the impact of the new auditor's report harmonization**

The variability of businesses environments encouraged the heterogeneity of national accounting practices. Given the diversity of professional rules, the new auditing practices harmonization could not lead to the alignment of methodologies in external accounting control. Specifying the role and legitimacy of the international standardization organizations, Gangolly et al. (2002) consider that the harmonization deficiency in accounting and auditing means information asymmetries between financial statements cannot be reduced, but exacerbates the knowledge variability between foreign firm financial statements' users and the local users (Archer et al., 1989).

The new report wording does not contribute to the reduction of the possible informational difference between the companies' accounts users. This inability:

- cannot raise the value and the reputation of the international money markets;
- does not improve the quality and the performance conditions of commercial and economic transactions;
- hampers the effectiveness and the efficiency of the allocation of funds by the stock markets.

In the current situation, the entire revision of the international reports does not offer a common reference to all the local accountants to ensure their external audit missions. This failure impedes the comprehension of audit information included in messages addressed to various stakeholders worldwide. The absence of such comprehension could not hinder the process obtaining information on the financial audit results and the subsidiary companies. Also, it does not lead to a reduction in the:

- costs of research and study of the accounting data;
- efforts made in the interpretation of the financial audit results;
- energy expended in the translation of audit messages;
- investment load for obtaining the economic information.

Informational asymmetry increases the Expectation Gap which results from the misunderstanding of the significance and the direction of the audit opinion formulations. This misunderstanding was empirically confirmed by several studies. These underlined the heterogeneity of interpretations of the accounting reports by internal and external stakeholders (Holt and Moizer (1990), Hatherly et al (1997) and Gonthier (1996)).

## **Conclusion**

This research offers empirical evidence on the characteristics of the national structure of accounting texts. The constraints which limit the perfect adoption of the audit reports harmonization confirm the insufficient standardization of accounting control practices. The IFAC's work has not yet been established as a pillar for the ideal design of international accounting models. This limitation stimulates the permanent improvement of the modelling process for the auditing information system, as well as the contributions of international accounting networks like international auditing firms and other large accounting corporations.

In addition to the theoretical and descriptive analysis of the international normative achievements, the study of the audit harmonization phenomenon and of the challenges it faces requires further, and more thorough, analytical research. Such research would offer a new measure for the acceptance variability of accounting models among the communities of accountants. Continuous studies on the origin of differences in international auditing

principles and in national accounting practices constitute an open field of research. Future studies may consider the cultural variables which affect accounting behaviour and the satisfaction of the stakeholders' informational needs.

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**Appendix.**  
**Evolutionary approach of IFAC in terms of auditor's report standardization**

Elements of international auditor's report		References	
		Old ISA 700	New revised ISA 700
1.0	Title	ISA 700-6	ISA 700R-18
2.0	Addressee	ISA 700-7	ISA 700R-19
3.0	<b>Introductory paragraph</b>		
3.1	This paragraph should identify the entity whose financial statements have been audited	ISA 700-8	ISA 700R-22
3.2	This paragraph should state that the financial statements have been audited	ISA 700-8	ISA 700R-22
3.3	This paragraph should identify the title of each of the financial statements that comprise the complete set of financial statements	ISA 700-8	ISA 700R-22-a
3.4	This paragraph should refer to the summary of significant accounting policies	-	ISA 700R-22-b
3.5	This paragraph should refer to other explanatory notes	-	ISA 700R-22-b
3.6	This paragraph should specify the date covered by the financial statements	ISA 700-8	ISA 700R-22-c
3.7	This paragraph should specify the period covered by the financial statements	ISA 700-8	ISA 700R-22-c
4.0	<b>Management's responsibility for the financial statements</b>		
4.1	The auditor should state that management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework	ISA 700-9	ISA 700R-700-28
4.2	The auditor should state that management is responsible for the fair presentation of the financial statements in accordance with the applicable financial reporting framework	-	ISA 700R-700-28
4.3	The auditor should state that this responsibility includes designing internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error	-	ISA 700R-28-a
4.4	The auditor should state that this responsibility includes implementing internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error	-	ISA 700R-28-a
4.5	The auditor should state that this responsibility includes maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error	-	ISA 700R-28-a
4.6	The auditor should state that this responsibility includes selecting appropriate accounting policies	-	ISA 700R-28-b
4.7	The auditor should state that this responsibility includes applying appropriate accounting policies	-	ISA 700R-28-b
4.8	The auditor should state that this responsibility includes making accounting estimates that are reasonable in the circumstances	-	ISA 700R-28-c

5.0	<b>Auditor's responsibility</b>		
5.1	The auditor should state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit	ISA 700-9	ISA 700R-32
5.2	The auditor should state that the audit was conducted in accordance with International Standards on Auditing	ISA 700-12	ISA 700R-34
5.3	The auditor should also explain that those standards require that the auditor comply with ethical requirements to obtain reasonable assurance whether the financial statements are free from material misstatement	-	ISA 700R-34
5.4	The auditor should also explain that those standards require that the auditor plan the audit to obtain reasonable assurance whether the financial statements are free from material misstatement	ISA 700-13	ISA 700R-34
5.5	The auditor should also explain that those standards require that the auditor perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement	ISA 700-13	ISA 700R-34
5.6	The auditor should describe an audit by stating that an audit involves performing procedures to obtain audit evidence about the amounts in the financial statements	-	ISA 700R-37
5.7	The auditor should describe an audit by stating that an audit involves performing procedures to obtain audit evidence about disclosures in the financial statements	ISA 700-14-a	ISA 700R-37-a
5.8	The auditor should describe an audit by stating that the procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error	-	ISA 700R-37-b
5.9	The auditor should describe an audit by stating that in making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control	-	ISA 700R-37-b
5.10	The auditor should describe an audit by stating that an audit also includes evaluating the appropriateness of the accounting policies used	ISA 700-14-b	ISA 700R-37-c
5.11	The auditor should describe an audit by stating that an audit also includes evaluating the reasonableness of accounting estimates made by management	ISA 700-14-c	ISA 700R-37-c
5.12	The auditor should describe an audit by stating that an audit also includes evaluating the overall presentation of the financial statements	ISA 700-14-d	ISA 700R-37-c
5.13	The auditor should state that the auditor believes that the audit evidence the auditor has obtained is sufficient to provide a basis for the auditor's opinion	-	ISA 700R-38
5.14	The auditor should state that the auditor believes that the audit evidence the auditor has obtained is appropriate to provide a basis for the auditor's opinion	-	ISA 700R-38
6.0	<b>Auditor's opinion</b>		



6.1	When expressing an unqualified opinion, the opinion paragraph of the auditor's report should state the auditor's opinion that the financial statements give a true and fair view or present fairly, in all material respects	ISA 700-17	ISA 700R-40
6.2	When expressing an unqualified opinion, the opinion paragraph of the auditor's report should state the auditor's opinion that the financial statements are in accordance with the applicable financial reporting framework	ISA 700-17	ISA 700R-40
6.3	When International Financial Reporting Standards or International Public Sector Accounting Standards are not used as the financial reporting framework, the reference to the financial reporting framework in the wording of the opinion should identify the jurisdiction or country of origin of the financial reporting framework	ISA 700-17	ISA 700R-41
7.0	Other reporting responsibilities	-	ISA 700R-48
8.0	Auditor's Signature	ISA 700-26	ISA 700R-50
9.0	Date of the Auditor's Report	ISA 700-23	ISA 700R-52
10.0	Auditor's Address	ISA 700-25	ISA 700R-57

