



The measurement of compliance with ISA700

The case of audit reports published by the international accounting firms in Tunisia

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Abstract

Purpose – The purpose of this paper is to examine the form and content of auditors' reports published by international accounting firms in Tunisia.

Design/methodology/approach – Compliance measurement of auditor's report published by Tunisian auditors who represent international auditing firms with International Standard on Auditing 700 (ISA700).

Findings – Audit reports examined are not fully compliant with all elements of the report issued by the International Federation of Accountants (IFAC).

Originality/value – The paper provides empirical evidence for limitation of standardisation efforts on auditors' reports and discusses the implications for accounting firms and their clients.

Keywords Accounting standards, Auditors, International accounting, Accounting firms, Tunisia

Paper type Research paper

Introduction

The fast development of the international stock markets during the last years has provoked that corporations try to quote on foreign places in order to obtain resources. Because of this development, the network of relationships between the companies and their stockholders was enlarged. These investors see their power increasing and ask for more transparency in the financial information published by firms.

According to the extension of the use of the products of the accounting beyond only one country (Nobes and Parker, 2000), the need to verify information reliability has increased. In order to satisfy this need, auditing firms were designated to audit the disclosed financial statements. These firms try to fulfil the requirements of their customers and tempt to vary their offered services.

The audit report is the culminating step in the audit process followed by international auditing firms and expressing an audit opinion is the auditor's overriding goal (Konarth, 2002). During the past few decades, the demand for improving audit methodologies followed by such firms was increased. The exhaustive controls used for

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the full audit have been replaced by the risk approach, which considers the internal control of audited corporation. The instability of the economic environment has encouraged the modification and the improvement of the risk approach followed in audit. In this framework, since 1990 several international accounting firms have adopted a new methodology of audit based on the business risk (Lemon *et al.*, 2000). The adoption of this method was chosen in order to improve the audit quality which is attached to both competence and independence of auditor (Knapp, 1991; Moizer, 1997).

With the purpose of minimising the differences between approaches used by auditing firms in their missions of audit, the International Federation of Accountants (IFAC) elaborated several recommendations and instructions about ethics, formation of the accountants and audit reports. Among these recommendations, guideline No. 13: "The Auditor's Report on Financial Statements" was issued in 1983. The motivation for issuing the guideline was to promote the reader's understanding and help to measure uniformity in the form and content of auditor's report. After several years of revision works, the publication of the standard (International Standard on Auditing (ISA700)): "The Auditor's Report on Financial Statements" was approved in 1994.

In Tunisia, several independent auditors represent large firms of accounting. In 2002, the Tunisian Institute of Certified Public Accountants adopted the ISA700. Consequently, its members, who are affiliated to the big auditing firms, were obliged to comply with international standard on auditor's report. Their civil responsibility was appreciated, according to the respect of the professional standards.

Wallage (1993) assert that ISA700 has been influenced by American Statement of Auditing Standard No. 58 "Reporting on Audited Financial Statements" published by the American Institute of Certified Public Accountants (AICPA, 1988). However, the characteristics relating to both Tunisian and American contexts are different. These differences consist of:

- audit firm size;
- corporation size; and
- financial market development.

In this case, it would be important to analyse the compliance level of Tunisian auditors, who represent the big accounting firms, with the international ISA700.

The aim of this paper is to examine whether the international accounting firms, in Tunisia, prepare the audit reports according to the ISA700. To reach this goal, audit reports from several auditing firms are observed. In this work, we use as reference the basic elements of the audit report prepared according to the ISA700.

The structure of this paper is organised as follows: after the introduction, there is a brief summary of auditing harmonisation and presentation of the main elements of the auditor's report enumerated by ISA700. The third section provides a background discussion of the state and the framework of auditing in Tunisia. The fourth section describes the methodology, hypotheses to be tested, and the sample used in the empirical study. The fifth section present and analyse the results obtained. The sixth section discusses the implications of research findings and, lastly, the seventh part is devoted to drawing the main conclusions.

International Standard on Auditing “ISA700” and efforts in the harmonisation of auditor’s report

Harmonisation of audit reports can alleviate information asymmetries among users of the financial information. Additionally, search costs imposed by these asymmetries on all users of foreign corporate financial statements can be reduced (Gangolly *et al.*, 2002). Standardisation of the audit report by the IFAC was enrolled in order to realise this harmonisation.

Standardisation of audit report by the International Federation of Accountant

The IFAC issued the guideline No. 13 “The Auditor’s Report on Financial Statements” in October 1983. Its purpose was to “provide guidance to auditors on the form and content of auditor’s report issued in connection with the independent audit of the financial statements of an entity”.

After several years of changes and improvement, International Guideline 13 was transformed to standard ISA700 “The Auditor’s Report on Financial Statements”. This standard, published in 1994, requires audit reports to contain the following elements:

- title;
- addressee;
- opening or introductory paragraph: identification of the financial statements audited; a statement of the responsibility of the entity’s management and the responsibility of the auditor;
- scope paragraph (describing the nature of an audit): a reference to the international standards on auditing (ISA’s) or relevant national standards or practices; a description of the work performed by the auditor;
- opinion paragraph containing an expression of opinion on the financial statements;
- date of the audit report;
- auditor’s address; and
- auditor’s signature.

The introductory, scope and opinion paragraphs described by ISA700 show other elements that auditor’s report should consider. After our detailed study of ISA700, we found that it is necessary to consider all the 24 elements provided by this standard. These elements are relating to both form and content of the audit report. Table I shows the elements of the audit reports prepared according to the ISA700.

Literature review

International ISA700 has played an important role in harmonisation of the audit reports. Such harmonisation is important because the audit report is a primary tool that auditors use to communicate with financial statement users (Gangolly *et al.*, 2002). In order to examine the success of international standardisation of this tool, it would be important to analyse the conformity of IFAC’s member-countries’ standards to ISA700 (*de jure* harmonisation) and the compliance of IFAC’s member-countries’ reports to the same ISA (*de facto* harmonisation).

	ISA700 paragraph	Measurement of compliance with ISA700
<i>Elements of form</i>		
1 Title	6	
2 Identification of addressee	7	
3 Date of the report	23	
4 Name of specific location where the auditor maintains an office	25	
5 Auditor's signature	26	7
<i>Elements of content (introductory content)</i>		
1 Identification of the financial statements audited	8	
2 Entity audited identified	8	
3 Identification of the date of the financial statements	8	
4 Identification of the period covered by the financial statements	8	
5 Statement that financial statements are management's responsibility	9	
6 Statement that the auditor's responsibility is to express an opinion thereon	9	
<i>Elements of content (scope)</i>		
1 Identification of the relevant national auditing standards or practices	12	
Statement that the audit was planned to obtain reasonable assurance about		
2 whether the financial statements are free from material misstatement	13	
Statement that the audit was performed to obtain reasonable assurance about		
3 whether the financial statements are free from material misstatement	13	
Description of the audit as examining on test basis evidence to support the		
4 financial statement amounts and disclosures	14	
Description of the audit as assessing the accounting principles used in the		
5 preparation of the financial statements	14	
Description of the audit as assessing the significant estimates made by		
6 management in the preparation of the financial statements	14	
7 Description of the audit as evaluating overall financial statement presentation	14	
8 Statement that the audit provides a reasonable basis for the opinion	15	
<i>Elements of content (opinion)</i>		
1 Identification of the financial reporting framework	17	
Identification of the country when financial reporting framework followed is		
2 not the IASB framework	17	
Clear statement of opinion as to whether the financial statements give a true		
3 and fair view, or present fairly in all material respects	17	
Clear statement of opinion as to whether the financial statements are in		
4 accordance with the financial reporting framework	17	
Clear statement of opinion as to whether the financial statements comply with		
5 statutory requirements, if applicable	17	

Table I.
Elements of the audit reports prepared according to the ISA 700

De jure harmonisation of auditing report

Various studies in many countries (Archer *et al.*, 1989; Lin and Chan, 2000; Bychkova and Lebedeva, 2001; Gangolly *et al.*, 2002) compared national statements on auditing and international standards (ISAs). In this sense, Gangolly *et al.* (2002) consider that *de jure* harmonisation contributes to analyse the national standardisation efforts on audit report.

Many researchers found several international differences in auditing standardisation area. Archer *et al.* (1989) achieved a comparative survey among 16 European standards on audit reports and guideline No. 13: "The Auditor's Report on Financial Statements". They noticed that among these standards, only four standards, published in Ireland, Italy, Spain, and UK, are in perfect harmony with the international report. In the same case, the Fédération Européenne des Experts

Comptables (2000) elaborated a study dealing with comparison between European and international audit report's standards. This survey shows many differences regarding:

- scope paragraph of the auditor's report;
- addressee;
- opening or introductory paragraph;
- auditor's address; and
- auditor's signature.

On the other hand, Lin and Chan (2000) compared the elements of the ISA700 with Chinese standard of audit report, which is adopted by the China Institute Certified of Public Accountants. These authors found that content and structure of the Chinese audit reports are generally similar to international standards. Audit reports prepared under 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 ISA700, which provides guidelines on standardised wording, the language of the Chinese audit report is not standardised.

For the Russian context, a similar survey undertaken by Bychkova and Lebedeva (2001) showed that the IFAC and Russian standards concerning audit report are different. The Russian report is longer and contains several elements not prescribed by the IFAC.

More recently in the USA, Gangolly *et al.* (2002) proceed to an international comparative study among 50 national standards on audit report published in the world and ISA700. They conclude that 86 per cent of the standards examined is in general harmony with international reference.

Other studies such as Leung and Chau (1997), Needles (2000) and Radebaugh and Gray (2002) are limited to expose the elements of the audit report recommended by various local standards, without comparing them with IFAC model of audit report. These authors did not find any difference among the normative models published in Hong Kong, USA, UK, Australia, and Canada.

For the success of audit report harmonisation, it would be necessary to reach the rigorous application of IFAC audit report elements. Without respect of ISA700, the audit reports prepared by independent auditors could not be understood with clarity by users of financial statements. The practices of these auditors should consider all the recommendations proposed by the IFAC.

De facto harmonisation of auditing report

The analysis of the elements concerning the form and the content of audit reports determines the principles followed by the professionals and verifies the conformity degree of independent auditors with standard ISA700 (Gangolly *et al.*, 2002). The object of the harmonisation of the different national practices dealing with audit report is to reach the uniformity of the professional rules (Charron, 1997). This harmonisation may face many obstacles and require several adaptations in different contexts.

There are several studies which analyse whether auditors, who are members of the IFAC council, follow the ISA700 when they prepare the audit report (Hussein *et al.*, 1986; Archer *et al.*, 1989; Wallage, 1993; Bavishi, 1995; Jones and Karbhari, 1996; King, 1999; Zeghal *et al.*, 1999; Gangolly *et al.*, 2002). They consider numerous auditing practices and different accounting systems.

Hussein *et al.* (1986) were interested in identifying the differences and similarities in auditor's report between international auditing guideline (IAG13) and reports published by independent auditors of 27 countries, which are represented at IFAC. Their survey is based on the works developed by Seidler (1967), Frank (1979) and Lafferty (1981). They classified the countries observed into five groups: US group, UK group, Europe group, group four and group five.

- (1) The US group is composed of Brazil, Canada, Japan, Mexico, Philippines, Taiwan, Thailand, and USA.
- (2) The UK group is composed of Australia, India, Ireland, Malaysia, The Netherlands, Singapore, South Africa, and UK.
- (3) The Europe group is composed of Belgium, Denmark, Finland, France, Norway, Sweden, and Switzerland.
- (4) The group four is composed of Italy and Spain.
- (5) The 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 formed by the European group, Hussein *et al.* (1986)'s study found a moderate conformity level with the IAG13. The degree of adherence with IFAC audit report was weak for the fourth and the fifth group.

Based on extension of Hussein *et al.* (1986)'s work, Gangolly *et al.* (2002) analysed 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 auditor's reports (in financial reports) of 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-ISA13 reports and show reduced diversity of practices and standards involving the audit report since the issuance of ISA700.

Archer *et al.* (1989) examined 206 audit reports of European multinational firms. These authors adopted a comparative approach, which was based on the IAG13. The results found by Archer *et al.* (1989) detected harmonisation in auditing reports practices among European countries. The reports published in France, UK, and Holland were in perfect conformity with the international reference.

Additionally, King (1999) tried to measure the harmonisation in the form and content of the auditor's report in the European Union. This study attempts to determine the degree of harmonisation in the form and content of the auditor's report in the European Union. To realise this goal, audit reports from 1995 annual reports of the largest industrial companies in Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, The Netherlands, Portugal, Spain, Sweden, and the UK are analysed. The analysis uses the basic elements of the auditor's report listed in the ISA700. Comparability is tested using the χ^2 -statistic, which tests for equality the proportions of the various elements in the auditor's report across the member states. The results reveal that harmonisation exists in three of the five elements in the auditor report relating to form (appropriate title, the dating of the report and the listing of the location of the auditor's office). Harmonisation does not exist for the remaining two elements related to form, nor does it exist for any of elements related to content.

Wallage (1993) described the auditing approaches of the big accounting firms located in The Netherlands (The International Affiliation of Independent Accountants, Dunwoody Robson McGladrey & Pullen, Coopers en Lybrand, Ernest en Whinney, BDO, KPMG, Arthur Young, Moores & Rowland Int, Price Waterhouse, Touch Ross Int, Deloitte Haskins & sells, Horwarth & Horwarth Int). The objective of his study was to determinate the level of the international guidelines of auditing. The author followed the same methodology used by Cushing and Loebbecke. Wallage (1993)'s paper is based on the examination of auditing document of the large accounting firm. The results divided the big firms observed into three groups:

- (1) The first group (A) includes accounting firms whose auditing approaches are influenced by IFAC international guidelines of auditing.
- (2) The second group (B) is composed of the big firms that apply simultaneously The Netherlands and international guidelines.
- (3) The third group (C) is formed of accounting firms that apply only the auditing guideline of The Netherlands.

Thus, the results show that the first group considers the elements of IAG13. Regarding the second group, only 46 per cent of the firms observed is in totality compliance with IFAC audit report guideline. For the third group, 75 per cent of accounting firms does not apply rigorously the elements provided by IFAC.

Bavishi (1995) analyses the content and form of the audit reports prepared by the professionals of 47 countries. The results show that audit firm identification was not always clear, 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, different key words were used for unqualified audit reports, and references for auditing standards, which are followed, were not consistently made.

Zeghal *et al.* (1999) study the structure and the organisation of 90 audit reports published in nine countries. These reports were divided in two groups. The first represents the Anglo-American model, which is formed by Australia, Canada, the USA, and UK. Whereas the second group, which is concerned with the continental model, represents Germany, Belgium, France, Italy, and Japan. The authors note that the short form of audit report is preferred by German and French auditors. On the other hand, the Italian independent auditors publish the longest audit report. In contrast to the continental model, a large uniformity among the audit reports was found for countries influenced by the Anglo-American accounting model. However, Zeghal *et al.* (1999) think that others divergences remain between IAG13 and some auditing reports.

Limitations for rigorous application of ISA700 elements

Some studies stress the important differences between principles of preparation financial statements and their presentation (Van der Tas, 1988; Pope and Rees, 1992; Barth and Clinch, 1996; Street and Bryant, 2000). These gaps have been materialised by a dichotomy among the accounting systems. Salter and Doupnik (1992) believe that this dichotomy finds its origins in the opposition among legal systems.

In their article, Hussein *et al.* (1986) explain the reasons that can limit the extended application of the international guideline on auditing report (IAG13). Their research presents many differences among countries in terms of various environmental factors. These factors are summarised as follows:

- market value of stock;
- origin of legal systems;
- accounting standards setter;
- auditing standards codified;
- college degree required; and
- professional membership.

Lefebvre (1995) thinks that harmonisation of the audit practices, including those regarding preparation of the audit report, cannot be achieved completely because some domestic laws do not fix the same objectives for the financial statements audited. Besides, several local professional rules do not allow the application of some international auditing standards. Rochat and Walton (1997) agree with Lefebvre's (1995) opinion. They recognise diversity among national standards on auditing and accounting, which is justified by the heterogeneity among domestic economic systems.

Framework of auditing in Tunisia

Legal context of auditing

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. According to this law, Tunisian auditors can express only three kinds of opinions:

- (1) qualified opinion;
- (2) unqualified opinion; or
- (3) adverse opinion.

After the constitution of the Institute of Tunisian Certified Public Accountants in 1983, another law was promulgated in 1988. The objective of this law was to improve the function and work of Tunisian's auditors. It was referred to the opinion expressed in audit report. In this case, independent auditor should express opinion 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. It was transformed to the code of commercial companies. This modification entailed several innovations for the accounting profession. These innovations deal with:

- auditor's designation for all commercial companies;
- improvement of tools used by independent auditors in their mission; and
- date and presentation of auditor's report.

Implementation of international accounting firms

Since, 1985, several Tunisian's auditors represent many international accounting firms. These large companies include big four accounting firms (PriceWaterhouse Coopers (PWC), Ernst & Young (EY), Deloitte & Touch (DT) and KPMG Peat Marwick) and Second Tier Firms (Binder Dijker & Otte (BDO), Grant Thornton (GT), Kreston International (KI), Baker Tilly International (BTI), DFK international and Bedford International (BI)).

The implementation of these firms can contribute significantly to the improvement of audit market. It can also facilitate the encouragement of the foreign investments and the implementation of longer industrial companies.

On the other hand, the presence of international accounting firms in Tunisian auditing market contributes to the improvement of the auditor's formation level. In Table II, the number of Tunisian auditors that represent international accounting firms (Big Four and Second Tier Firms) is offered.

Hypotheses, methodology and sample

Hypotheses

In the international audit market several actors of the big accounting firms operate. These firms are constituted by regrouping of American and British accounting firms (Rochat and Walton, 1997; Béthoux, 2000).

International accounting firms offer many services regarding auditing, accounting, tax system and consulting. The respect of the international standards on accounting (IFRS) and ISA's guarantees the quality of these services. Many commentaries and suggestions made by such firms are considered by the International Auditing Practices Committee (IAPC), which has the load to publish standards and directives dealing with practices of auditing.

De Angelo (1981), Shockley and Holt (1983), Balvers *et al.* (1988), Palmrose (1988), Feltham *et al.* (1991), Knapp (1991) and Hogan (1997) argue that the size of accounting firm is a signal of quality. Their hypothesis is based on the fact that the big auditors have interest to offer a high quality of auditing service in order to maintain the relations established with their customers. Raffournier (1995), Haniffa and Cooke (2000), Choon *et al.* (2000) and Coulton *et al.* (2001) notice that the quality of external audit is in relation with auditor's size. This quality is maintained with rigorous application of auditing principles and rules.

Defond *et al.* (1999) observe that international accounting firms established in China are more compliant with auditing standards designed to increase auditor independence than the other Chinese firms. The data used by Gangolly *et al.* (2002) give evidence that the large accounting firms, with substantial stakes in the harmonisation efforts, issue auditor's reports closely to IAS 13.

For the audit reports issued by the Tunisian auditors who represent the international accounting firms, it is estimated that their auditor's reports respect

International accounting firms	Number of representatives
PWC (PriceWaterhouseCoopers)	4
EY (Ernst & Young)	2
DT (Deloitte & Touch)	1
KPMG Peat Marwick	1
BDO (Binder Dijker & Otte)	1
GT (Grant Thornton)	1
KI (Kreston International)	1
BTI (Baker Tilly International)	1
DFK international	2
BI (Bedford International)	1
Total	15

Table II.
Number of Tunisian auditors that represent international accounting firms

perfectly each elements enumerated by standard ISA700. Then, the following hypotheses are put forward:

- H_{01} . Auditor's reports published by the Tunisian auditors who represent international auditing firms are fully compliant with elements of form enumerated by ISA700.
- H_{02} . Auditor's reports published by the Tunisian auditors who represent international auditing firms are fully compliant with introductory paragraph elements enumerated by ISA700.
- H_{03} . Auditor's reports published by the Tunisian auditors who represent international auditing firms are fully compliant with scope paragraph elements enumerated by ISA700.
- H_{04} . Auditor's reports published by the Tunisian auditors who represent international auditing firms are fully compliant with opinion paragraph elements enumerated by ISA700.

Study sample

Data used in this study are extracted from audit reports of international auditing firms set up in Tunisia and published subsequently to the date of official ISA adoption. They covered the balance sheet on 31 December 2001, 2002, 2003, 2004 and 2005. The most important part of the data was obtained from the Tunisian council of financial market bulletin. In order to increase the study sample, several sources (banks, companies of leasing, and other corporations), which can provide auditor reports, were contacted. These contacts were achieved by letters written to each of the sources indicated requesting the version of the most recent auditing report.

Response to the mailing and the timeliness of the response varied by corporations. Usable observations from a total of 49 audit reports were obtained. These reports were issued to companies which are in three sectors of activities (manufacturing, financial industries and services industries). Table III summarises the number of audit reports included in the sample from each of the international auditing firms.

International accounting firms	Activities sector's of audited companies		
	Manufacturing	Financial industries	Services industries
PWC (PriceWaterhouseCoopers)	2	1	1
EY (Ernst & Young)	4	9	–
DT (Deloitte & Touch)	–	3	–
KPMG Peat Marwick	2	4	–
BDO (Binder Dijker & Otte)	3	–	1
GT (Grant Thornton)	–	4	1
KI (Kreston International)	6	–	–
BTI (Baker Tilly International)	2	–	–
DFK international	–	4	–
BI (Bedford International)	2	–	–
Total	21	25	3

Table III.
Number of auditor's
report from each auditing
firms included in the
sample

Study methodology and statistical test for the data

Before the choice of the relevant statistic test, the auditor’s reports included in the sample are analysed to determine the presence or absence of each of the 24 elements listed in Table I. If the element is present in the audit report, a value of “1” is assigned; if the element is absent, a value of “0” is assigned. The results for each element are summarized for each auditing firm. This summing up, which includes the observed scores for the respect of the ISA700, is compared to the normative scores (five for elements of form, six for elements of introductory content, eight for elements of scope and five for elements of opinion).

The hypotheses are verified using the one-sample *t*-test procedure which tests whether the mean of a single variable differs from a specified constant. For interpretation of results provided by this test, a low significance value (typically below 0.05) indicates that there is a significant difference between the test value and the observed mean. The analysis of the same results can be based on confidence interval for the mean difference. If this interval does not contain zero, this also indicates that the difference is significant.

In order to enrich the interpretation of results, the percentages and average values for reports conformity of international auditing firms were calculated. These elements were based on the scores observed for each of the 24 elements listed by standard ISA.

Presentation of results

Compliance level of auditors with elements related to form of the auditor’s report (hypothesis H₀₁)

The results of conformity to the whole of elements related to the form of the auditor’s report are analysed in Table IV. As can be seen from this table, a significance value (0.000) indicates that there is a significant difference between the test value (5) and the observed mean (4.1837). Hence, the first hypothesis of fully compliance with all form elements of the auditor’s report is rejected.

The observation of results summarised in Table V shows that the audit reports published by all auditors are in absolute conformity with elements related to date of the audit report and auditor’s signature. For three elements related to the form of the auditor’s report (title, identification of addressee and name of specific location where the auditor maintains an office), the belief of compliance equality among international auditing firms is not accepted.

The highest level of compliance with elements of form is found in the reports published by BDO (average of score compliance is equal to 5). These reports are in absolute conformity with all elements enumerated by IFAC. As can be seen from the

Normative score	N	Mean	One sample statistic for observed score		
			Std deviation	Std error mean	
5	49	4.1837	0.44128	0.06304	
The one-sample <i>t</i> -test procedure					
<i>Test value = 5</i>					
<i>t</i>	df	Sig (2 tailed)	Mean difference	95 per cent confidence interval of the difference	
				Lower	Upper
-12.949	48	0.000	-0.8163	-0.9431	-0.6896

Table IV.
One-sample test for
elements related to form
of auditor’s report

	KPMG (per cent)	DT (per cent)	BI (per cent)	GT (per cent)	KI (per cent)	EY (per cent)	BDO (per cent)	BTI (per cent)	DFK (per cent)	PWC (per cent)
1. Title	100	100	50	100	100	100	100	100	100	100
Compliance	0	0	50	0	0	0	0	0	0	0
Non-compliance	100	100	100	100	100	100	100	100	100	100
Total	100	100	100	100	100	100	100	100	100	100
2. Identification of addressee	100	100	50	40	100	84,61	100	100	75	100
Compliance	0	0	50	60	0	15,83	0	0	25	0
Non-compliance	100	100	100	100	100	100	100	100	100	100
Total	100	100	100	100	100	100	100	100	100	100
3. Date of the report	100	100	0	0	0	0	0	0	0	0
Compliance	0	0	0	0	0	0	0	0	0	0
Non-compliance	100	100	100	100	100	100	100	100	100	100
Total	100	100	100	100	100	100	100	100	100	100
4. Name of specific location where the auditor maintains an office	100	100	100	100	100	100	100	100	100	100
Compliance	0	0	100	100	0	46,15	100	0	0	0
Non-compliance	100	100	0	0	100	53,85	0	100	100	100
Total	100	100	100	100	100	100	100	100	100	100
5. Auditor's signature	100	100	100	100	100	100	100	100	100	100
Compliance	0	0	0	0	0	0	0	0	0	0
Non-compliance	100	100	100	100	100	100	100	100	100	100
Total	100	100	100	100	100	100	100	100	100	100

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Table V.
Percentage of conformity to elements dealing with form of auditor's report

Table VI, the results reveal that DFK has the less compliance degree with the same elements (average of score compliance is equal to 3.75). Reports published by this international firm do not specify the name of specific location where the auditor maintains an office.

Compliance level of auditors with elements related to introductory paragraph of the auditor's report (hypothesis H₀₂)

The results of compliance with elements related to the introductory paragraph of the auditor's report are summarised in Table VII. From this table, a significance value (0.000) indicates that there is a significant difference between the test value (6) and the observed mean (3.9184). Hence, the second hypothesis of perfectly compliance with all introductory paragraph elements of the auditor's report is not accepted.

The observation of results summarised in Table VIII shows that the audit reports published by all international accounting firms are not in perfect compliance with the six normative elements enumerated for introductory paragraph. Examination of such results cannot illustrate the auditor's conscience of the importance of international standardisation in this matter.

The highest level of compliance with introductory paragraph elements is found in the reports published by KPMG (average of score compliance is equal to 6). These reports are in absolute conformity with all elements enumerated by IFAC. As can be seen from the Table IX, the results reveal that BTI has the less compliance degree with the same elements (average of score compliance is equal to 1). Reports published by this firm do not consider five normative elements which cover:

- (1) identification of the financial statements audited;
- (2) entity audited identified;

Elements	KPMG	DT	BI	GT	KI	EY	BDO	BTI	DFK	PWC
1. Title	1	1	0.5	1	1	1	1	1	1	1
2. Identification of addressee	1	1	0.5	0.4	1	0.84	1	1	0.75	1
3. Date of the report	1	1	1	1	1	1	1	1	1	1
4. Name of specific location where the auditor maintains an office	0	0	1	1	0	0.46	1	0	0	0
5. Auditor's signature	1	1	1	1	1	1	1	1	1	1
Total	4	4	4	4.4	4	4.3	5	4	3.75	4

Table VI.
Average number of report agreeing with form elements

Normative score	N	Mean	One sample statistic for observed score			
			Std deviation	Std error mean		
6	49	3.9184	1.27208	0.18173		
The one-sample <i>t</i> -test procedure						
<i>Test value = 6</i>						
One-Sample Test for elements related to introductory paragraph	<i>t</i>	df	Sig (2 tailed)	Mean difference	95 per cent confidence interval of the difference	
					Lower	Upper
	-11,455	48	0.000	-2.0816	-2.4470	-1.7162

Table VII.
One-Sample Test for elements related to introductory paragraph

Elements	KPMG (per cent)	DT (percent)	BI (percent)	GT (percent)	KI (percent)	EY (percent)	BDO (percent)	BTI (percent)	DFK (percent)	PWC (percent)
1. Identification of the financial statements audited	100	100	100	60	0	0	25	0	0	0
Compliance	0	0	0	40	100	100	75	100	100	100
Non-compliance	100	100	100	100	0	0	100	100	100	100
2. Entity audited identified	100	66.67	100	80	100	84.61	100	0	100	100
Compliance	0	33.33	0	20	0	15.38	0	100	0	0
Non-compliance	100	100	100	100	100	100	100	100	100	100
3. Identification of the date of the financial statements	100	33.33	100	80	0	84.61	75	100	75	0
Compliance	0	66.67	0	20	100	15.38	25	0	25	100
Non-compliance	100	100	100	100	100	100	100	100	100	100
4. Identification of the period covered by the financial statements	100	100	50	0	0	0	25	0	25	0
Compliance	0	0	50	100	100	100	75	100	75	100
Non-compliance	100	100	100	100	100	100	100	100	100	100
5. Statement that financial statements are management's responsibility	100	66.67	100	100	100	100	75	0	100	100
Compliance	0	33.33	0	0	0	0	25	100	0	0
Non-compliance	100	100	100	100	100	100	100	100	100	100
6. Statement that the auditor's responsibility is to express an opinion thereon	100	66.67	100	100	100	100	75	0	100	100
Compliance	0	33.33	0	0	0	0	25	100	0	0
Non-compliance	100	100	100	100	100	100	100	100	100	100
Total	100	100	100	100	100	100	100	100	100	100

Table VIII.
Percentage of conformity to introductory paragraph elements

Table IX.
Average number of
report agreeing with
introductory paragraph
elements

Elements	KPMG	DT	BI	GT	KI	EY	BDO	BTI	DFK	PWC
1. Identification of the financial statements audited	1	1	1	0.6	0	0	0.25	0	0	0
2. Entity audited identified	1	0.66	1	0.8	1	0.84	1	0	1	1
3. Identification of the date of the financial statements	1	0.33	1	0.8	0	0.84	0.75	1	0.75	0
4. Identification of the period covered by the financial statements	1	1	0.5	0	0	0	0.25	0	0.25	0
5. Statement that financial statements are management's responsibility	1	0.66	1	1	1	1	0.75	0	1	1
6. Statement that the auditor's responsibility is to express an opinion thereon	1	0.66	1	1	1	1	0.75	0	1	1
Total	6	4.31	5.5	4.2	3	3.68	3.75	1	4	3

- (4) identification of the period covered by the financial statements;
- (5) statement that financial statements are management's responsibility; and
- (6) statement that the auditor's responsibility is to express an opinion there on.

Compliance level of auditors with elements related to scope paragraph of the auditor's report (hypothesis H₀₃)

The detail of the results dealing with conformity to elements related to scope paragraph is presented in Table X. From this table, a significance value (0.000) indicates that there is a significant difference between the test value (8) and the observed mean (6.8776). Hence, the third hypothesis of strict with international scope paragraph elements is rejected.

From the empirical evidence shown in Table XI, all Tunisian auditors who represent international auditing firms are not fully compliant with elements dealing with the following elements:

- (2) statement that the audit was planned to obtain reasonable assurance about whether the financial statements are free from material misstatement;
- (3) statement that the audit was performed to obtain reasonable assurance about whether the financial statements are free from material misstatement;
- (4) description of the audit as examining on test basis evidence to support the financial statement amounts and disclosures;
- (5) description of the audit as assessing the accounting principles used in the preparation of the financial statements;
- (6) description of the audit as assessing the significant estimates made by management in the preparation of the financial statements;
- (7) description of the audit as evaluating overall financial statement presentation; and
- (8) statement that the audit provides a reasonable basis for the opinion.

The highest level of compliance with scope paragraph elements is found in the reports published by KPMG and EY (average of score compliance is equal to 8). These reports are in absolute conformity with all elements enumerated by IFAC. As can be seen from the Table XII, the results reveal that BTI has the less compliance degree with the same elements (average of score compliance is equal to 1). Reports published by this firm do not consider six normative elements.

Normative score	N	Mean	One sample statistic for observed score		
			Std deviation	Std error mean	
8	49	6.8776	1.94329	0.27761	
The one-sample t-test procedure					
<i>Test value = 8</i>					
t	df	Sig (2 tailed)	Mean difference	95 per cent confidence interval of the difference	
-4.043	48	0.000	-1.1224	Lower -1.6806	Upper -0.5643

Table X.
One-Sample test for elements related to scope paragraph

Table XI.
Percentage of conformity
to elements dealing with
scope paragraph

Elements	KPMG per cent	DT per cent	BI percent	GT percent	KI percent	EY percent	BDO per cent	BTI per cent	DFK per cent	PWC per cent
1. Identification of the relevant national auditing standards or practices	100	100	100	100	100	100	100	100	100	100
Non-compliance	0	0	0	0	0	0	0	0	0	0
Total	100	100	100	100	100	100	100	100	100	100
2. Statement that the audit was planned to obtain reasonable assurance about whether the financial statements are free from material misstatement	100	66.67	100	20	0	100	75	0	100	0
Compliance	100	100	100	100	100	100	100	100	100	100
Non-compliance	0	33.33	0	80	0	0	25	0	0	0
Total	100	100	100	100	100	100	100	100	100	100
3. Statement that the audit was performed to obtain reasonable assurance about whether the financial statements are free from material misstatement	100	66.67	100	80	100	100	75	0	75	100
Compliance	100	100	100	100	100	100	100	100	100	100
Non-compliance	0	33.33	0	20	0	0	25	0	25	0
Total	100	100	100	100	100	100	100	100	100	100
4. Description of the audit as examining on test basis evidence to support the financial statement amounts and disclosures	100	100	100	80	100	100	75	0	100	100
Compliance	100	100	100	100	100	100	100	100	100	100
Non-compliance	0	0	0	20	0	0	25	0	0	0
Total	100	100	100	100	100	100	100	100	100	100
5. Description of the audit as assessing the accounting principles used in the preparation of the financial statements	100	100	100	20	100	100	75	100	100	100
Compliance	100	100	100	100	100	100	100	100	100	100
Non-compliance	0	0	0	80	0	0	25	0	0	0
Total	100	100	100	100	100	100	100	100	100	100

(continued)

Elements	KPMG per cent	DT per cent	BI percent	GT per cent	KI percent	EY percent	BDO per cent	BTI per cent	DFK per cent	PWC per cent
6. Description of the audit as assessing the significant estimates made by management in the preparation of the financial statements	100	66.67	100	80	100	100	75	0	100	100
7. Description of the audit as evaluating overall financial statement presentation	0	33.33	0	20	0	0	25	100	0	0
8. Statement that the audit provides a reasonable basis for the opinion	100	100	100	100	100	100	100	100	100	100
Compliance	100	66.67	100	20	100	100	75	0	100	100
Non-compliance	0	33.33	0	80	0	0	25	100	0	0
Total	100	100	100	100	100	100	100	100	100	100
Compliance	100	66.67	50	80	50	100	75	0	100	100
Non-compliance	0	33.33	50	20	50	0	25	100	0	0
Total	100	100	100	100	100	100	100	100	100	100

Table XI.

Table XII.
Average number of report agreeing with elements dealing with scope paragraph

Elements	KPMG	DT	BI	GT	KI	EY	BDO	BTI	DFK	PWC
1. Identification of the relevant national auditing standards or practices	1	1	1	1	1	1	1	1	1	1
2. Statement that the audit was planned to obtain reasonable assurance about whether the financial statements are free from material misstatement	1	0.66	1	0.2	0	1	0.75	0	1	0
3. Statement that the audit was performed to obtain reasonable assurance about whether the financial statements are free from material misstatement	1	0.66	1	0.8	1	1	0.75	0	0.75	1
4. Description of the audit as examining on test basis evidence to support the financial statement amounts and disclosures	1	1	1	0.8	1	1	0.75	0	1	1
5. Description of the audit as assessing the accounting principles used in the preparation of the financial statements	1	1	1	0.2	1	1	0.75	1	1	1
6. Description of the audit as assessing the significant estimates made by management in the preparation of the financial statements	1	0.66	1	0.8	1	1	0.75	0	1	1
7. Description of the audit as evaluating overall financial statement presentation	1	0.66	1	0.2	1	1	0.75	0	1	1
8. Statement that the audit provides a reasonable basis for the opinion	1	0.66	0.5	0.8	0.5	1	0.75	0	1	1
Total	8	6.3	7.5	4.8	6.5	8	6.25	1	7.75	7

Compliance level of auditors with elements related to opinion paragraph of the auditor's report (hypothesis H₀₄)

The analysis test of compliance with elements related to opinion paragraph of the auditor's report is summarised in Table XIII. As can be seen from this table, a significance value (0.000) indicates that there is a significant difference between the test value (5) and the observed mean (4.1633). Hence, the fourth hypothesis is not verified.

From the empirical evidence found, auditor reports published by the Tunisian CPA who represent international auditing firms are not completely compliant with elements dealing with:

Table XIII.
One-sample test for elements related to opinion paragraph

Normative score	N	Mean	One sample statistic for observed score		
			Std deviation	Std error mean	
5	49	4.1633	1.34392	0.19199	
The one-sample t-test procedure					
<i>Test value = 5</i>					
t	df	Sig (2 tailed)	Mean difference	95 per cent confidence interval of the difference	
-4.358	48	0.000	-0.8367	Lower -1.2228	Upper -0.4507

- (1) identification of the financial reporting framework;
- (2) identification of the country when financial reporting framework followed is not the IASB framework;
- (4) clear statement of opinion as to whether the financial statements are in accordance with the financial reporting framework; and
- (5) clear statement of opinion as to whether the financial statements comply with statutory requirements, if applicable (Table XIV).

The highest level of compliance with opinion paragraph elements is found in the reports published by KPMG, KI, EY and PWC (average of score compliance is equal to 5). These reports are in absolute conformity with all elements enumerated by IFAC. As can be seen from the Table XV, the results reveal that BTI has the less compliance degree with the same elements (average of score compliance is equal to 1). Reports published by this firm do not consider four normative elements (identification of the financial reporting framework, identification of the country when financial reporting framework followed is not the IASB framework, clear statement of opinion as to whether the financial statements are in accordance with the financial reporting framework and clear statement of opinion as to whether the financial statements comply with statutory requirements, if applicable).

Implications of the findings

The results of the survey provide empirical evidence about different degrees of conformity to enumerate elements in international audit report among those who represent big accounting firms in Tunisia. It implies some weakness of informative content of the observed audit report, which means that they do not conform exactly to ISA. Such implication narrows the auditor's reputation.

Implication for the clients of the international accounting firms

Clients of accounting firms, who use the audited financial statements, need to know the sincerity of all accounting and financial indicators related to business activity of their corporation. If auditors do not compliance with ISA700 when they elaborate audit reports, users are not able to identify perfectly the function of the auditor in the performance of audit. This identification would support the best comprehension of general framework of audit procedures and the issuance of the audit opinion.

The disconformities to standardise international auditors report imply the enforcement of liability of the expectation gap between what auditors perceive they are doing and what users perceive auditors are doing, based on an audit report. In a study, which examines the perceptions resulting from different French audit reports, Gonthier (2001) finds that the adoption of audit reports standardised in ISA700 enhances user's understanding of the audit purpose.

The communicative role of the audit report can minimise the level of asymmetric information between preparers of audit report and readers of audited financial statements. The lack of compliance with elements enumerated by ISA700 contributes to raise this asymmetry and limit the extent of knowledge about performance and circumstance of independent verification of financial statements.

The restriction of the level of compliance with ISA700 limits the satisfaction of audited company and users, in general, on accounting information. It reduces the

Table XIV.
Percentage of conformity
to elements dealing with
opinion paragraph

Elements	KPMG per cent	DT per cent	BI percent	GT percent	KI percent	EY per cent	BDO per cent	BTI per cent	DFK per cent	PWC per cent
1. Identification of the financial reporting framework	100	33.33	50	80	100	100	0	0	100	100
Non-compliance	0	66.67	50	20	0	0	100	100	0	0
Total	100	100	100	100	100	100	100	100	100	100
2. Identification of the country when financial reporting framework followed is not the IASB framework	100	0	0	20	100	92.31	0	0	75	100
Non-compliance	0	100	100	80	0	07.69	100	100	25	0
Total	100	100	100	100	100	100	100	100	100	100
3. Clear statement of opinion as to whether the financial statements give a true and fair view, or present fairly in all material respects	100	100	100	100	100	100	100	100	100	100
Non-compliance	0	0	0	0	0	0	0	0	0	0
Total	100	100	100	100	100	100	100	100	100	100
4. Clear statement of opinion as to whether the financial statements are in accordance with the financial reporting framework	100	33.33	50	80	100	100	0	0	100	100
Non-compliance	0	66.67	50	20	0	0	100	100	0	0
Total	100	100	100	100	100	100	100	100	100	100
5. Clear statement of opinion as to whether the financial statements comply with statutory requirements, if applicable	100	66.67	100	100	100	92.31	100	0	100	100
Non-compliance	0	33.33	0	0	0	07.69	0	100	0	0
Total	100	100	100	100	100	100	100	100	100	100

Elements	KPMG	DT	BI	GT	KI	EY	BDO	BTI	DFK	PWC	Measurement of compliance with ISA700
1. Identification of the financial reporting framework	1	0.33	0.5	0.8	1	1	0	0	1	1	25
2. Identification of the country when financial reporting framework followed is not the IASB framework	1	1	0	0.2	1	1	0	0	0.75	1	
3. Clear statement of opinion as to whether the financial statements give a true and fair view, or present fairly in all material respects	1	1	1	1	1	1	1	1	1	1	
4. Clear statement of opinion as to whether the financial statements are in accordance with the financial reporting framework	1	0.33	0.5	0.8	1	1	0	0	1	1	
5. Clear statement of opinion as to whether the financial statements comply with statutory requirements, if applicable	1	0.66	1	1	1	1	1	0	1	1	
Total	5	3.32	3	3.8	5	5	2	1	4.75	5	Table XV. Average number of report agreeing with elements related to opinion paragraph

satisfaction of many stockholders on the same matter. Such reduction led several managers of audited company to search new audit firms and choose the certified public accountants which are able to follow the full guidelines and handbook of ISAs.

Implication for the international accounting firms

From a professional perspective, the disconformities with auditing standards that contain principles of the issuance of the audit report damage the quality of the audit process and make difficult the achievement of the auditor's overriding goal. Incompliance with audit guidelines disturbs the auditor's finding and largely limits the competitiveness of accounting firms in the auditing market.

Inconsistencies with all auditing directives hold the auditors responsible for negligence and incompetence to perform auditing work. This responsibility can expose certified public accountants to several penalties for adoption of improper or unethical professional conduct. These penalties damage significantly the auditor's reputation and audit firms' credibility.

Many American researches stress the importance of penalties imposed by Securities and Exchange Commission (SEC) against auditors who are found to have engaged in inappropriate or unethical professional behaviour, or to have wilfully violated or aided in the violation of federal securities law. Under these penalties, the SEC can prohibit individuals from practicing before the commission, mandate a peer review of audit procedures, or even prohibit an audit firm from accepting most new client for a specified period of time (Wilson and Grimlund, 1990).

In Tunisia, the violation of law, professional rules and standards incite the disciplinary chamber of Institute of Tunisian Certified Public Accountants to pronounce several penalties that can be imposed to CPA. The inflicted sanctions for individual CPA and audit firms that do not conform exactly to ISA cover the following punishments: warning, written blame addressed to the interested party, the suspension

from performing audits about one to five years and the removal from the table of the Tunisian Institute of CPA.

After official recognition of ISAs by the Tunisian professional body, all CPA were invited to completely follow the ISA700 in order to escape similar penalties. These external accountants were interested in carrying out their work in compliance with IFAC handbook (*Section Auditing*). Such compliance was necessary to increase the credibility of independent accountants and conserve the top of reputation required by domestic and strangers corporations. These qualities consolidate the strength of the audit profession and reinforce the retention of the audited corporation, the attraction of new client and the share of market of the Certified Public Accountants.

Conclusion

An attempt is made in this paper to examine the respect level of auditor report ISA700 by Tunisian auditors who represent international accounting firms. The choice of this standard has been motivated by its adoption in 2000 by the Tunisian Institute of Certified Public Accountants.

The disconformities observed with several report ISA elements reveal that Tunisian auditors were not conscious of the importance of ISA700 in the improvement of the communication between those who perform the audit and those who use financial statements. Such improvement reinforces the informational power of the audit report and limits the informational asymmetry that can exist between the shareholders and the stockholders.

Since, its issuance, ISA13 has been revised in several years. These revisions were performed in order to limit the expectation gap that can exist between all users of such reports. In addition, such modification could contribute to the improvement of the quality of the audit opinion and provides the necessary clarifications of the elements related to content of auditor's report.

The results of this paper cannot be interpreted without some implications for accounting firms and their clients. The inconsistency with international standard on audit report damages the quality of independent audit and the auditor's reputation and limits the communication of information that all users of financial statements need.

The research findings cannot be considered without limitations. Firstly, only 49 auditor's reports from the largest auditing firms in Tunisia are examined. The companies considered by these reports do not cover all sectors of activities in the Tunisian context. Therefore, the results may not be generalized to the form and content of the auditor's report expressed for companies which belong to the sectors of activities that are not kept by the sample of the survey. Secondly, all reports examined are written in French. In order to accomplish the empirical study, these reports were translated into English. Such translation could disregard some elements related to content of the auditor's report that can be present in the French version.

The measurement of compliance with International standard ISA700 in Tunisia proposes several opportunities for future researches. Examination of whether all Tunisian auditors are perfectly compliant with elements enumerated by auditor report ISA is important. It contributes to verify the quality of auditing and determine the assimilation of elements required by ISA700. Besides, the analysis of reasons that can limit the strict application of ISA prepared by IFAC is required to determine the necessary improvement of practices and principles followed in auditor's mission.

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