

EXTENDED AUDIT REPORTING.
AN INSIGHT FROM THE AUDITING PROFESSION IN POLAND

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ABSTRACT

The audit-reporting model has been on the agenda of researchers and regulators for a long time. The recent regulatory proposals, consultation papers, discussion and research reports on audit reporting have intensified the discussion whether the current standard audit report communicates the appropriate information to the users of the report. As a result the new regulation proposed in the EU but also in the US aims at decreasing not only the expectation but also the information gap between in the auditors and the users of the report.

The Polish auditing model is an interesting case to study in the context of audit reporting. Poland already has experience in the preparation of an additional report, which is aimed to provide more information to all stakeholders. The requirement of the presentation of not only of a short-version, standard audit report but also an extended version of the audit report was introduced for the first time in 1991 and has been preserved in the later versions of the Auditing Act and the Accounting Act.

The paper seeks to address two questions. The first one is to what extent the Polish extended audit report contribute to the reduction of the expectation and information gap and the second question is about possibilities of improvements of the audit report in general.

Based on our interview findings we conclude that the auditors perceive the audit report to be generally useful for its users. However, the analysis of data provides mixed evidence with regard to the extended audit report. Auditors acknowledge the usefulness of the extended audit report to report on additional issues and concerns, but at the same time the standard form of the extended audit report as prescribed in the Polish Auditing Standards is found to have little information value to its users.

Keywords: auditing, audit reporting model, extended audit report, Poland

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1. INTRODUCTION

The audit report has been on the agenda of researchers and regulators for a long time. The Enron collapse and the audit failures around the time of the Enron case resulted in decreased confidence in the quality of audits and the independence of auditors. This has triggered a discussion about the lack of transparency within that which the auditors are doing.

There are two main avenues of discussion related to the usefulness of the audit report. The first one is related to the scope of information provided by an auditor in a standard audit report and the discussion of what additional disclosures would help reduce the information gap created by the current reporting framework. The other path relates to the form of disclosures, thus the format of the audit report.

The current standard audit report is criticized for three reasons. The IOSCO consultation report published in 2009 on auditor communications enumerates three reasons why the current standard of the audit report is criticized (IOSCO, 2009, p. 8). According to the consultation document, the standard audit report: (1) expresses an opinion that is binary in nature (i.e., “pass/fail”), (2) contains “boilerplate” and technical language, and (3) does not reflect the level of effort and judgment inherent in an audit, thereby exacerbating the gap in expectations.

The UE efforts to increase the transparency of the audit report aimed at gaining the trust in the audit profession after the corporate scandals of the 21st century and the financial crisis of 2008 led to the preparation of a new proposal for a regulation of the European Parliament and of the Council on specific requirements regarding the statutory audit of public-interest entities (UE, 2011). This proposal also sets new requirements related to the audit report. Chapter 4 of the document (EU, 2011, p. 41-47) identifies a number of additional disclosures required beyond the current audit report. The proposal requires also a preparation of a separate report to the audit committees, which would contain additional disclosures.

In common with Austria and Germany, Poland has already imposed a more rigorous reporting regime on its statutory auditors than the rest of Western Europe in the form of a requirement to produce a long-form audit report in addition to the short-form report currently provided. The unique feature of the Polish could be used to study the perceived information value of additional disclosures already provided by the auditors in Poland to the users of the audit report. Thus our first research question is as follows:

Q1: How can a Polish extended audit report contribute to the reduction of the expectation and information gap?

The auditors practicing in Poland already have experience in the preparation of an additional, separate report, which provides more information on the scope of the audit than the proposed changes in the UE regulations. Additional insights into the possible additional disclosures and modifications of the format of the audit report could shed more light on the possible ways to enhance the level of transparency on the quality of audit practice. Therefore, the second research question we asked is as follows:

Q2: How might the information value of the audit report be improved in general?

Based on our interview findings, we conclude that the auditors perceive the audit report to be generally useful for its users. However, the analysis of data provides contrasting evidence with regard to the extended audit report. Despite some perceived usefulness related to the

availability of additional space to raise additional issues or concerns, the standard form of the extended audit report as prescribed by the Polish Auditing Standard is providing information that can be found elsewhere, and thus is not found to be useful for its users. Assessing possibilities for improvement in the information and the expectation gaps, the auditors point to a number of possibilities. In the opinion of auditors, disclosure of additional information, which could increase the general understanding of what they are doing, could be very beneficial. Auditors especially point out the possibility of disclosure of additional information about some aspects of the scope of the audit as well as the methodology of conducting the audit.

The remainder of the study proceeds as follow. In section 2, we present the efforts of the regulators to increase the transparency of auditing, and we review the existing literature on the audit reporting model. Section 3 introduces the unique context of the Polish auditing – the experience of more than 25 years in the preparation of two auditor reports. In addition to a standard audit report (a short-form audit report), the auditors have been asked to prepare an additional disclosure report, which is made publically available (a long-form audit report). Section 4 provides information of the research method, and Section 5 presents the main findings from the conducted interviews. In Section 6, we offer our discussion of the findings and a summary.

2. PROPOSAL FOR EXTENDED REPORTING – INSIGHTS FROM ACADEMIC LITERATURE AND REGULATORS

The audit reporting model has become an important issue of the agenda of regulators.

In response to the increasing criticism of the usefulness of the current audit reporting, in 2011 the PCAOB issued a document entitled “Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statement (PCAOB, 2011).

Similarly, in 2011 the IAASB published a consultation paper, “Enhancing the Value of Auditor Reporting: Exploring Options for Change” (IAASB, 2011).

Both documents discuss the issue of the usefulness of the auditor report and emphasize that the PCAOB document admits that the auditor has significant insight into the company and that the auditor’s report should provide additional information based on that insight to make it more relevant and useful (PCAOB, 2011, p. 7). The document proposed four alternatives in relation to the enhancement of audit reporting: (1) The auditor’s discussion and analysis, (2) Required and expanded use of emphasis paragraphs, (3) Auditor assurance on the other information outside the financial statements, and (4) Clarification of language in the standard auditor’s report.

Despite the use of a different language, the IAASB document identifies the same issues as the ones raised by the American regulator (p. 6-7). The two main problems related to the *expectation gap* and the *information gap* lead a further discussion of possible options for change. The *expectation gap* arises because of a difference between what users expect from the auditor and the financial statement audit and the reality of what an audit is. The expectation gap is very often associated with a lack of full disclosure about the nature of an audit, its scope, its objectives, and its inherent limitations (p. 7). The information gap in this context is defined as a difference between the information the users of corporate financial information believe is needed to make informed investment and fiduciary decisions and what is available to them through the entity’s audited financial statements or other publicly available information (p. 8). The documents suggest additional disclosures as a way to narrow the gap and provide a number of possible additional information which could be provided to users through some combination of additional reporting by management or those charged with governance or by the auditor (p. 9).

As announced in the 2010 Green Paper¹ (UE, 2010), in 2011 the EU published a White Paper entitled, “A proposal for a Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities” (EU, 2011). Chapter Four, “The Audit Report,” proposes a number of additional disclosures of what a standard audit report includes (p. 42-43) and requests an additional report to be provided to the auditing committee (p. 44). The proposed EU regulation requires a joint submission of the audit report in the case of more than one auditor or audit firms’ appointment to carry out the statutory audit. In the case of disagreements, each auditor/audit firms should provide their opinions separately.

Academic research on the content, form, and usefulness of an audit report has had a long history. The topic of the audit report has been researched in various contexts and settings.

- A number of researchers suggested additional information to be provided by auditors, including information about the scope of the audit, information about the audit team and engagement statistics, information on the audit process, additional information on the result of the audit, and additional disclosures (Church et al., 2008; McEnroe and Martens, 2001; Gold et al., 2012, Gray et al., 2011, Porter et al., 2009; Hankenbrack and Knechel, 1997; Knechel et al., 2007; Turner et al., 2010; Vanstraelen et al., 2012).
- The academic research provides mixed evidence for the usefulness of audit work to its users. Some authors find evidence that the current form of the audit report is useful to its users (Chen and Church, 1996; Ghicas et al., 2008; Guiral-Contreras et al., 2007, Schneider and Church, 2008; Durandez Gomez-Guillamon, 2008; O’Reilly et al., 2006). Others provide contrasting evidence (Wright and Robbie, 1996; Bartlett and Chandler, 1999; Pucheta Martinez et al., 2004; Innes et al., 1997; Gray et al., 1998; Mc Enroe and Martens, 2001).
- Researchers propose a number of options related to the format of the audit report, ranging from a very short and concise report to a long one covering a long spectrum of information (McEnroe and Martens, 2001; Gray et al., 2011; Church et al., 2008; Turner et al., 2010, Hatherly et al., 1991)

A useful summary of the findings to date can be found in MARC (2011) and Vanstraelen et al. (2012). Table 1 below provides a summary of the various proposals.

¹ Humphrey et al. (2011) provide an extensive analysis of the content of the Green Paper

Table 1: Proposals related to the additional disclosures by auditors and the formal audit report

| Categories which could be included in an extended audit report (MARC, 2011) | Format of the audit report |
|---|---|
| <ol style="list-style-type: none"> 1. Information that clarifies the scope of the audit and language in the audit report to help users understand the purpose of a financial statement audit as well as the limitations of such an audit 2. Information on the audit team and engagement statistics to help users assess and understand the quality of the audit engagement 3. Information on the audit process to help users appreciate the work done by the auditor and relate the auditor’s input to the auditor’s findings 4. Additional information on the results of the auditor’s evaluation of the financial statements, such as the quality of the client’s financial statements, the quality of the client’s internal control system, the likelihood of fraud and illegal acts, the assessment of going concern problems, the assessment of the sustainability of the client’s business, and evidence of the auditor’s communication with those charged with governance 5. Disclosure beyond the scope of the financial statement audit, such as an auditor-provided holistic view of the client’s business; the opinion on qualitative, non-financial indicators; opinions about corporate governance arrangements, business model, system of risk management, ect. | <ol style="list-style-type: none"> 1. Keep the current, existing audit report 2. A one-sentence “pass/fail” audit report 3. A one-sentence audit report containing a scope on the fairness or quality of the financial statements 4. A free-form audit report 5. Supplements to the existing audit report, with expanded emphasis of matters the auditor considers important to explain in further detail 6. Supplements to the existing audit report with a statement of audit approach as a justification of the auditor’s assessment |

Source: Based on Vanstraelen et al., 2012; MARC 2011

3. SETTING UP THE CONTEXT

The Polish regulatory framework governing statutory audit reports

The Polish auditing profession dated back to the after World War I period. Resolution of the Polish President issued in 1928 required audit of the annual financial statements of the stock joint companies and audit of its founder's statement. Notwithstanding lack of the some executive law made that Resolution inactive. The some was with the audit requirements implemented by Commercial Code in 1934 (Plaff, 2007; Krzywda 2012).

After World War II the first accounting and auditing organization was established. During the communist regime, an audit function was preserved (after a short break). A Resolution issued in 1959 on the matter of the financial audit required an annual audit of financial statements by a "state-authorized accountant." These accountants were charged with control functions similar to those exercised by statutory auditors (Jaruga, 1993; Krzywda and Schroeder, 2007). Real revolution in the area of audit in Poland begun in 1989 what was related with the change of the political regime. Growing number of the private companies as well as distinction between the ownership and management has revealed demand for the implementation of the effective financial control system. In 1992 the Audit Act was introduced and as w result the National Chamber of Chartered Accountants was established and temporary auditing standards were issued in 1992.

This policy defined the tasks and the rules of the appointment. The chamber elects its governing bodies every four years and establishes an ethics code and auditing standards based on the auditing standards issued by the International Federation of Accountants (IFAC). For quality control purposes, chamber designees are entitled to review the procedures and audit documentation prepared by an auditor. The NCSA is legally authorized to prescribe the qualification requirements for and grant the title of statutory auditor, establish professional standards for auditors in consultation with the Minister of Finance, set code of professional ethics, supervise the professional conduct of its members, and impose disciplinary penalties for breaches of conduct. The chamber prepares and administers the CPA examination, approves continuing education courses, and has the responsibility of disciplining its members. When the Act on Auditors (1991) was introduced, Certified Independent Accountants were to register as statutory auditors and NCSA members. Some 7,700 out of 11,000 independent accountants have requested such registration. Subsequently, they underwent training in the new rules of taxation, accounting, and auditing. In order to practice auditing, an accountant must belong to the Chamber of Certified Public Accountants.

The next important step in the development of accounting and auditing was the implementation of the "Act of Accountancy" in 1994. That Act regulated accounting rules as well as fundamentals of audit what enabled to create new and more stable auditing standards in 1996. Following changes of auditing standards in Poland took place in 2002 and 2010 and were mainly related with adaptation to the world-wide professional standards and UE regulations.

There are a number of papers outlining the development of the statutory audit in Poland (Jaruga, 1976; Jaruga, 1993; Kosmala MacLulich and Sucher, 2004; Krzywda Schroeder, 1998, Schoreder, 1999).

The Audit Act of 1991 already adopted the legal requirement for a long-form audit report, which was to address the concerns that a few unscrupulous statutory auditors in the emerging transitional economy may be tempted to issue a short-form audit report without troubling themselves with the need to prepare supporting audit working papers (Schroeder, 2007). The

requirement was transferred into the Accounting Acts of 1994 with the goal that the Polish accounting and auditing report should take into account the EU directives. The amended version of the Audit Act of 1994 explicitly defines the need to write the auditor's opinion as well as report (Accounting Act 1994).

Extended audit report – Polish experience

Like Austria and Germany, Poland has imposed a more rigorous reporting regime on its statutory auditors than the rest of Western Europe in the form of a requirement to produce a long-form audit report in addition to the short-form report.

The Polish reporting regime is more transparent, as the long-form report is required to be made available to shareholders prior to the annual general meeting and is not limited in terms of circulation to the supervisory board and management. In fact, the long-form report is publically available together with the short-form report.

The Polish statutory auditing has a unique aspect: the presentation and publication of long-form audit reports for listed entities. The long-form audit report has to be filed with the local tax authorities. "Act of Accountancy" and "National Standards of Auditing 1" defines what kind of information must be included in the "long form report" (Uchwała Nr 1608/38/2010 Krajowej Rady Biegłych Rewidentów z dnia 16 lutego 2010 r.). Additional requirements are in force in regard to the specific companies like for instance financial institutions. The list of items required in the long form of report is included in an appendix 1:

Concurrent to the evolution of the Polish auditing law there were some major changes in the "long form report" content. "Long form reports" issued under the regime of the National Auditing Standards from 1996 obligatory contained detailed characteristics of the balance sheet position with connection to the related profit and loss position (Uchwała nr 144/66/96 Krajowej Rady Biegłych Rewidentów z dnia 16 stycznia 1996 r.). Not infrequently that part of the auditors report provided useful and unique information about the audited company and supplemented financial statement. Beginning from 2002 only those position which lay at the bottom of the qualified opinion must be characterized in the "long form report" (Uchwała nr 538/43/2002 Krajowej Rady Biegłych Rewidentów z 12 listopada 2002 r.). Similarly information about the inventory also were limited from the detailed information to the summary whether inventory was performed according to the Act of Accountancy.

At present it is legitimate to state that "long form report" is highly standardized in Poland. Reports issued by different auditing companies are similar in its content and structure what improve its facilitation by the users. Notwithstanding major part of its content overlap information already provided by the audited companies in the financial statements or management report which are equally available to the "long form report users".

Table 2 below compares the disclosure requirements included in the EU Proposal, Vanstraelen's model (Vanstraelen, et al., 2011), and the Extended Auditing Report as prescribed by the Polish Auditing Standards (2002).

Table 2. Disclosure requirement under various reporting models.

| | EU Proposal | Audit reporting model (Vanstraelen, et al.) | Existing long-form audit reporting model in Poland |
|---------------------------------|--|--|--|
| Audit report addressee | Audit Committee | | The recipients of the report on the audited entity |
| Scope of the audit | List of items audited and, in case of additional reports, auditing the scope of the audit | List of items that are part of the audit, including information on what the national regulator requires to be audited and what the AC is required to audit | Included in the short-form of the audit report |
| Findings of the audit | Auditors conclusion regarding whether the annual financial statements give a true and fair view and have been prepared in accordance with the relevant reporting framework | Auditor conclusion of each item required to be audited | Included in the short form of the audit report |
| Auditor discussion and analysis | <p>Discussion of the methodology used</p> <ul style="list-style-type: none"> • discussion of variances in the weighting of substantive and compliance testing, • details of level of materiality, • going concern analysis, • provision of a statement of analysis • provision of an assessment of internal control system, • indication of any violation of accounting rules • explanation to what extent the statutory audit was designed to detect irregularities, including fraud | Discussion and analysis of the auditor's findings on each of the items to be audited (for instance discussion of critical choices, estimates, and valuation items) | <p>Discussion and analysis of</p> <ul style="list-style-type: none"> • the presentation of the structure of a linked set of ratios • an indication of possible threats to the ability of the entity to continue its operations (going concern analysis) • the correctness of the books of account • the operation of the system of internal control • the nature of individual items included in the balance sheet and the income statement • the completeness and correctness of the data contained in the notes to the account • the completeness and correctness of the data contained in the cash-flow statement • the inclusion in the management report of the items specified in the Act of accounting and the agreement that the data included in the report with the audited financial statements is correct • the occurrence of material breaking of the law during the course of the audit |
| Information on auditor | Declaration of not providing on the non-audit services Declaration on independence, | Information which would help to assess the quality of the auditor. | |

4. METHOD

As discussed in the earlier section, our objective is to determine the opinions of auditors regarding the form and content of the audit report. Qualitative studies, in general, are easier and more accurate when exploring and examining issues that are difficult to investigate when using the quantitative and archival research methods. Qualitative methods facilitate better description of the phenomenon as they permit details that are naturally suppressed in studies of large samples (Silverman, 1985; Patton, 2002). We selected the semi-structured interview method, since it enables us to gain in-depth knowledge of the research subject perception on the existence and the extent of the information gap in auditing and possible improvements.

The primary research was conducted in September and October 2012. The subjects of study were the statutory auditors with experience of auditing accounts of public interest entities listed on the Warsaw Stock Exchange. To gain insights from auditors of smaller companies, we also interviewed the statutory auditors who were auditing financial statements of entities listed on an alternative market of WSE called NewConnect².

Semi-structured, in-depth interviews with members of the AC were conducted. To ensure construct validity (McKinnon, 1988), questions were designed to reflect the key theoretical constructs (Silverman, 1995; Patton, 2002): the information value of audit reporting in Poland and the existence of the information gap in general. The research instrument included a set of 14 questions divided into 2 groups (Appendix 2). In accordance with the standard practices of qualitative research, the interview questions were refined during the fieldwork period based on the existing professional and academic literature, proposals for regulations and discussion papers (Yin, 2003). The respondents were informed about the purpose of the session. Prior to the interview, they were informed that the interview's purpose was to collect their own experiences and, therefore, they should not be afraid of providing a wrong answer to the questions. The auditors interviewed were assured that their responses would be used in strict confidence. They were also asked if they would allow the interview to be recorded. In order to provide a reasonable comfort level related to sensitive data, the interviewees who allowed recording of the session were also instructed that, in the case of disclosure of sensitive information, they may ask the interviewer to switch off the recording device. When such a request was made, the interviewer took notes and recorded a report on the unrecorded portion right after the interview.

In total, 10 interviews were conducted. Most interviews were recorded and transcribed. A draft report was presented to the interviewees to allow for comments on the reliability, validity and overall credibility of the observations and conclusions (Patton, 2002).

Once the data had been collected, collated and transcribed for each stage, the data were manually coded using the key theoretical contracts (Ahrens and Dent, 1998). Patterns and exceptions in the coded data were identified (Ahrens and Dent, 1998). Two independent coders read all materials independently and coded them into the same summary table. Coding differences were discussed and resolved by the two coders. The patterns that emerged from the data were then compared to prior research on the audit committee. The results were documented once this process was completed. This process is consistent with the pattern

² NewConnect is intended for dynamic start-up companies which need a capital injection to leverage their innovative potential and therefore to grow and join the ranks of large, high-value businesses. Companies on NewConnect should fulfill the following:

- be in the start-up phase and in the process of building their business track record,
- be seeking to raise between a few hundred thousand to a few million zlotys or even higher levels of capital,
- be from innovative sectors relying on intangible assets, such as information technology, electronic media, biotechnologies, environment protection, alternative energy, modern services, as well as innovative companies from other sectors,
- have an expected capitalization of up to PLN 20 million,
- have high-growth dynamics,
- have a vision and a chance for a regulated market debut (WSE's main floor) in the future.

matching process described by Ahrens and Dent (1998). The results section of the paper discusses the elements coded in this table.

5. INTERVIEW FINDINGS

Extended audit report as a contribution to the expectation and information gap

According to the auditors' assessment, the information value of the audit report provided in the current form is high. Interviewees indicated that the audit opinion provided in the audit report is of great importance for the users of the financial reports. The auditors see the importance of the audit report for management, audit committees and investors/owners of the company. The audit report, in their view, provides comfort and a feeling of safety that everything reported in the financial statements is correct. The auditors feel that the users of the audit report value the report as a certification of the quality of information provided in the financial reports. This frees them from the effort of making decisions on their own about the quality of provided information, especially in the case of extensive, detailed and lengthy financial reports. The auditors especially stressed the importance of the audit report to the audit committees and the shareholders/owners of the business. However, one auditor mentioned that:

Auditor A:

The audit report may have some value to audit committee, but the auditors are supposed to work with the audit committees throughout a year that the auditor's opinion nor extended report should not be really a surprise to the committee.

The respondents notice also a change over time with regard to how the management of the company could benefit from the audit report, stressing the decrease in the value of the report to the management due to their greater direct involvement and responsibility for the preparation of the financial statements than that of the past.

Contrary to the results regarding the audit report, the auditors expressed that the extended audit report did not add value to the users of the audit report. The minimum content of the extended report is defined in The Polish Auditing Standard No. 1. Chapter XI of this document specifies a list of information to be included in the report. These include additional information about the audited entity, information coming from the previous year's financial statements, identification of the audit firm and the principal auditor, the going concern statement and presentation of the key financial ratios for the current years as well as, if possible, the past two years' assessment of the correctness of the accounting procedures, information about important financial statement positions, information on the completeness and correctness of the financial reports and finally information about current litigation that could have an effect on the financial statements. According to the opinion of the responders, the extended audit report does not reveal any additional information beside that already provided in the financial statements and the notes of the financial statements. So the extended audit report repeats information that is already available to the reader. However, the auditors point out to the possible usefulness of the going concern opinion.

As quoted from one auditor,

Auditor B:

The audit report is the most important. The extended audit report is rarely read. Even if both documents are published the readers of the financial statements are only interested in the auditor's report, especially if there are no recommendations

in the audit report the users will not read the extended audit report. The reason for this lies in the fact that the information covered by the extended audit report is covered in the management report.

Auditors, however, agree that the extended audit report is a useful tool to present information they feel is important for the true and fair picture of the company situation or raise concerns about specific issues, which they did not (or could not) include in the audit report. This could be done directly or indirectly, but is aimed to provide additional important information for the assessment of the company.

Auditor E:

The extended audit report could specify some reasons why a given situation occurred. For instance, let's assume that a company reports a high level of liabilities. In the extended audit report some more details about the causes for such high level of debt could be elaborated. Hence, if this additional information particularize that most of these liabilities are related to transactions within the group could actually change the reader's perception. Therefore it is no longer an apocalypse, since it's hard to imagine that the parent company would want the company in question to go bankrupt. So the extended auditor's report can provide more precise information and provide additional explanation.

Generally, the auditors consider the extended audit report to be time consuming in terms of preparation. Most auditors assess that the preparation on the extended report takes about 70-90% of the time spent on the preparation on the audit report and the extended audit report. In general, they see no added value of the report when it provides standard information as prescribed by the Polish Auditing Standard.

Improvement in the information value of the report

Having experience with the extended version of the audit report prepared in addition to the audit report, most auditors agree that the most preferred format of the report is a standardized format of the report extended by additional/supplementary information. Only a small number of auditors suggest the current solution (the audit report plus the extended audit report is a good solution). However, whichever solution is accepted, the auditors want a space for inclusion of additional, non-typical items they find important to be included and passed on to the readers of the report(s).

Auditor C:

The format of the report does not matter as long as there is a space somewhere to put related information in context, which I think is relevant for the reader of the report.

All auditors object to a single-sentence opinion as well as an option of giving a score. The major concern in the case of a single-sentence opinion is the possibility that the reader would not be able to understand what the auditor is doing and what is being audited. In the case of a single score, the objection is even stronger than in the case of a single-sentence opinion. All auditors do not see how the score would be given and who would set the standards of performance against which the score would be given.

Auditor H:

In my opinion, its either something provides a fair view or not. This is a zero-one game. More fair, more clear ... or more grey. No. The auditor has to be clear in his/her opinion –He/ she loves or hates, not in between. Otherwise if there are doubts about auditors then, others will have doubts too.

This solution, in the opinion of auditors, would create problems of comparability and setting benchmarks.

When asked about additional information, which could be included in the audit report, the auditors point out the possibility of providing extended information for the benefit of the readers. Some auditors agree that additional information about the scope of the audit could improve the information content of the report. Some other auditors point out the possibility of providing information on the auditor's discussion and analyses. They feel that inclusion of such information as audit methodology, accepted materiality levels and methods of testing used could provide additional information for the readers and increase the readers' understanding of what the auditors are doing.

On the other hand, all auditors agree that no value is added to the audit report when information on the audit team and engagement statistics is included. This information can be found already in other report, especially in the compulsory transparency report. The audits also agree that additional information about the findings of the audit would not add additional value to the report.

All auditors strongly point out that, regardless of the accepted format, the content of the report is more important and should give the auditor the possibility for inclusion of additional information, especially in the case of specific, nonstandard information that, in the eyes of the auditor, would provide additional information value to the report's readers.

6. DISCUSSION OF THE FINDINGS

Auditors are appointed, among other things, to provide an independent opinion to shareholders on the truth and fairness of the annual accounts and on whether the annual accounts have been properly prepared in accordance with accounting standards. ICAEW's report (2007) on the shareholders' perception of the audit report documents that shareholders believe that the audit reports are too boilerplate and too standardized. In addition, some shareholders wish for disclosure of more comprehensive information by auditors in the audit report or by other means on material areas of judgment; of difficult, sensitive or contentious matters; and the outcome of discussion that auditors may have had with those charged with governance (p. 17).

The primary addressees of the audit report are the shareholders of the corporation, but other interested stakeholders can use the auditor's report to gain more familiarity and confidence with the information included in the financial reports, which they may find useful. Turner et al. (2010) and Mock et al. (2009) provide evidence that non-professional investors do not use audit reports at all and that analysts pay attention to the existence, but not the form or audit reports. Coram et al. (2011) extend the studies, noting that the "standard nature" of the audit report is the main reason for the analysts' lack of consideration of the audit reports in the corporate valuation analysis. The above research confirms that there is some need for additional information to be included in the audit report.

The debate about audit reporting has gained new momentum and goes well beyond the academic discussion (Turner, et al., 2010, Glover, 2012). Regulators and standard setters, both in the European (EU, 2011) and the American context (PCAOB, 2010, 2011), have

revisited the audit reporting in response to the financial crisis and proposed a new framework for the audit report, which will include additional qualitative information. The main reason for the proposed changes is to narrow not only the audit expectation gap but also a possible information gap. The information gap in this context is defined as the difference between the information that users need to make informed decisions and the information that is publically available to them (Vanstraelen, et al., 2012).

In this study, we use the Polish auditors' experience with the extended audit report to examine to what extent additional information included in the extended audit report can help to decrease the information gap and what information in general, in the opinion of Polish auditors, could be useful in the decision-making process by the users of the audit opinion.

We conclude from our research that the auditors see a need for extended information in order to reduce the information gap. However, the additional information included in the extended audit report as prescribed by the Polish Auditing Standards in general is not found very useful. The auditors see a need to extend information in the audit report by inclusion of some information on the audit methodology. The main argument behind this claim is that it could help to educate users about what the auditors are doing. Polish auditors, however, do not see much additional value in disclosing the additional findings of the audit. This is contrary to the findings documented elsewhere (Vanstraelen, et al., 2012). Yet, the auditors strongly suggest a need for change in the content of the report so there is some space for additional, non-recurring information they feel would be valuable to the users of the report they prepare. Since this additional disclosure is aimed at providing additional information about the audited statements, the auditors want some possibility of adding some additional information about the scope of the audit; however, not in a standardized form, but in non-standardized form and in a cases in which they feel that the information should be fully disclosed.

Consistent with the findings of other research (Vanstraelen, et al., 2012), the Polish auditors do not perceive a single format of the report as the most desirable. They strongly object to a design with a single sentence and a pass/fail assessment as well as the format in which they would need to assign a score. The general feeling is that the format is less important than the content of the report; however, if they were given a choice, they would rather use a single report that would include additional information in a standardized form, rather than two separate reports directed to the same audience.

7. CONCLUSIONS

Today's global complex environment presents new challenges but also new opportunities to auditors. One of the challenges is related to reporting and satisfying the information gap of users. Changes in the audit reporting alone would not add much value without a change in the reporting model of corporations. A recent proposal for integrated reporting could be seen as a possible solution aimed at the reduction of the information gap. This would, however, create additional challenges to the auditing profession in terms of the scope of the audit as well as the way in which auditors report their findings. The research shows that the auditors are already critical about the way they report on their work and the value of the information provided by them to the users of their reports.

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APPENDIX 1: LIST OF REQUIRED ITEMS IN THE LONG-FORM OF REPORT

1. Identification of the entity subject to the audit (name, legal form, business activity, legal basis, ownership capital, management of the entity);
2. Information regarding the prior year financial statement (audit opinion issued to that financial statement, approval by the owners, profit distribution, publication and announcement of the prior financial statements);
3. Information about the audit company and chartered accountant (name, address, registration numbers, time frames of the audit, referrals to the audit agreement and auditor appointment, independence declaration);
4. Statement that there was no restriction to the scope of audit and that management provided all necessary data and information (or description of deficiencies);
5. Fundamental financial data and ratios with special emphasis to those factors which may influence going concern;
6. Assessment, in all major aspects, of the accounting system applied by the company subject to the audit (e.g. existence of the accounting policy, assessment of the accounting policy adopted and its continuity, assessment of the proper documentation, correctness of the inventory, accuracy of the bookkeeping, assessment of data base protection and access to data base protection);
7. Information about important positions of the financial statement although it is underlined that it is not correct to repeat information which is already included in the financial statements;
8. Information about completeness and accuracy of the management report and additional information to the financial statements;
9. Breach of law and company's act which have significant importance, and information provided by the auditor to the management in area of law breach, fraud;
10. Results of the audit of additional matters if such were agreed in the audit agreement and no additional reports were issued;
11. Existence of other fragmentary reports (e.g. internal control reports);
12. Identification of the key chartered accountant and audit company, date of the report, signature.

APPENDIX 2: INTERVIEW QUESTIONS

1. In your opinion, what is the information value of the short and extended form of the audit report?
2. How do you assess the information value of the audit reporting in its present form for:
 - a. Management,
 - b. Auditing committees,
 - c. Investors and
 - d. Stakeholders in general?
3. How much time do you spend on the preparation of the short audit report as a percentage of the total hours spent on the audit?
4. How much time do you spend on the preparation of the extended audit report as a percentage of the total hours spent on the audit?
5. What information included in the auditor report do you think is the most useful for the audit report users?
6. What information included in the auditor report do you think is the least useful for the audit report users?

7. What other information would you like to have included in the extended form of the report?
8. Would you like to have the audit report be a standardized document?
9. In your opinion, would additional disclosures on the following items in the short and extended audit report improve the information value of the audit report?
 - a. Scope of the audit
 - b. Findings of the audit
 - c. Auditor discussion and analysis (audit methodology, level of materiality, reliance on substantive testing and compliance testing and any variation the ratio between them)
 - d. Information on the auditor
10. What type of additional disclosures mentioned above would you be willing to provide without much problem?
11. What type of additional disclosure would you find the most problematic?
12. What type of disclosures (other than above) can improve the information value of the audit report?
13. What is the most appropriate audit report format to offer these additional disclosures?
 - a. The existing form – a short version of the audit report supplemented by the extended version of the audit report in a free form
 - b. The existing form – a short version of the audit report supplemented by the extended version of the audit report in a standardized form
 - c. A one-sentence pass/fail audit report
 - d. The existing short audit report supplemented with additional information in a free form
 - e. The existing short audit report supplemented with additional information in a standardized form
 - f. Any suggestions you may have for a different way of reporting this information
14. How would you rate the fairness of the financial statements (on a scale of 0 to 10) as more informative than the existing pass/fail short audit report?