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AUSTRALIAN AUDIT REPORTS: 1996–2003

[abstract]

In 1996 Australia revised audit reporting standard AUS 702 to align with many of the concepts in the international audit reporting standard ISA 700. These included preventing auditors issuing a “subject to” qualified opinion, and permitting auditors to modify the audit report in specific circumstances by including an emphasis of matter (EoM) paragraph. This research examines the frequency with which different types of opinions are issued, the circumstances giving rise to the inclusion of an EoM paragraph, and compares the types of opinions issued by the major audit firms and for the various industry sectors over the period 1996–2003.

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The audit report is the principal means of communication between an auditor and the users of financial reports. The entire audit process is aimed at obtaining sufficient appropriate audit evidence to enable the auditor to express an opinion on the financial report. Most audit reports are standard-form unqualified reports. There are two main forms of modification of the audit report (referred to in Australian Auditing Standard AUS 702 *The Audit Report on a General-Purpose Financial Report* as modified reports): the auditor not qualifying but emphasising a matter by including an additional paragraph in the auditor's report (emphasis of matter paragraphs), and/or the auditor having concerns about the financial report leading to an audit qualification (referred to in AUS 702 as qualified reports). Emphasis of matter (EoM) paragraphs draw attention to items considered of importance to the user that the auditor believes are properly disclosed in the financial report. Qualifications provide evidence of limitations on the scope of the auditors' work, conflicts between applicable financial reporting frameworks or disagreements with management which materially affect the financial report. Anything other than an unmodified opinion is normally considered undesirable by the client's management.

Despite the importance of audit opinions, little is known about the types of opinions issued recently in Australia. The aim of this study is to provide information on auditors' opinions in Australia over the period 1996–2003 for companies traded on the Australian Stock Exchange. While the period 1950–79 is covered by Craswell (1986), and 1980–89 is covered by Aitken and Simnett (1991), no review exists for the subsequent period. Such a review is

timely because of a number of changes to factors which influence the auditors' opinion-formulation process. These include the promulgation of accounting and auditing standards and the initiation of legislative backing for accounting standards, and more recently for auditing standards.¹ In particular, AUS 702 was amended in 1996 to bring Australia closer to international audit reporting standards. This included the introduction of an EoM paragraph and removal of the "subject to" qualification from the auditor's modification options. The introduction of the EoM modifications was part of an international initiative to stop auditors "sitting on the fence" by issuing a "subject to" opinion. Auditors are now forced to decide whether they agree with management's disclosure in key areas (especially uncertainties) which are seen as important to the financial report. If they agree, they are able to include an EoM paragraph as an addition to their opinion and draw the user's attention to where this issue is disclosed in the financial report.

A statutory requirement for the company to prepare financial reports in accordance with accounting standards and the inability of the auditor to issue a "subject to" qualification after 1996 removed two of the circumstances which had previously given rise to a number of audit qualifications.² Therefore, a smaller number of qualifications would be expected in the period covered by this study than in earlier periods. An analysis of whether this expectation has been realised since 1996 is timely as Australia again embarks on revisions to bring its audit reporting standards into line with international standards.

Although the introduction of the EoM opinion in 1996 brought Australia closer to international standards, there are differences in requirements as to when the EoM should be issued. Under international auditing standards, the auditor must issue an EoM to highlight a material matter regarding a going-concern problem that is adequately disclosed, must consider issuing an EoM for other significant uncertainties, and is not restricted in using this type of opinion to emphasise any other matters. In Australia, the auditor is restricted to five types of EoM, although there is no systematic evidence about when these are used in practice. This study provides evidence of the types of audit reports issued in Australia (in particular, the types of EoM opinions) since the 1996 move towards international auditing standards. The information presented will be useful to the Australian Auditing and Assurance Standards Board (AUASB) as it considers revisions to the audit reporting standards.

PREVIOUS REVIEWS OF AUDIT REPORTS

Craswell (1986) shows that before 1970 fewer than 5% of audit reports for public companies were qualified. Legislative changes and the introduction of new accounting standards led to an increase in the number of qualifications during the early 1970s. The rate stabilised at between 20% and 25% of all audit opinions issued between 1975 and 1979. Serious qualifications, in the form of adverse opinions and statements of inability to form opinions, accounted for less than 1.5% of qualifications in any observed year.

Aitken and Simnett (1991), in their review of audit reports issued between 1980 and 1989, find that between 15% and 20% of audit reports were qualified, with very few of these qualifications being in the more serious categories of adverse opinion or disclaimer (0.20% to 0.48%). In this period, most qualifications relate to disagreements on balance-sheet values or technical breaches of accounting standards. Differences are identified between the frequency and types of qualifications issued by the individual audit firms.

DATA COLLECTION AND CLASSIFICATION SCHEME

The number of publicly-listed companies whose annual reports were reviewed varied from 1,001 in 1996 to 1,281 in 2003, representing about 90% of all publicly-listed companies over this period.³ To distinguish the types of audit opinion issued, reference was made to AUS 702 (issued in 1996). This standard gives details of the possible types of audit opinions and the circumstances in which these opinions should be issued. For the period covered by this study, this statement imposes professional, rather than statutory, obligations on the auditor. The audit opinions, and guidelines on the circumstances in which they are issued, are contained in paragraph 39 of AUS 702, which is outlined in Appendix 1.

AUS 702 also contains a suggested standard form for most types of modification. To provide a more detailed breakdown of the types of opinions identified in AUS 702, reference was made to the coding scheme used by Aitken and Simnett (1991). The use of this scheme gave us the opportunity to compare our results with those of earlier periods. For this research, the Aitken and Simnett coding scheme was updated to accommodate changes that had occurred during the 1990s, such as the inclusion of EoM circumstances and the deletion of the “subject to” opinion. The coding was undertaken by an independent coder, a graduate with a degree in commerce, who spent one day coding with one of the authors to ensure that the coding scheme was fully understood. In contrast to previous years, most types of opinion were easily identifiable (the revision of AUS 702 in 1996 encouraged much greater use of standard report format and wording and the use of headings to identify qualifications). Any audit opinion that did not fit easily into the coding scheme was determined by agreement between the independent coder and one of the authors. One of the authors then reviewed the coding by a sample check of approximately 15% of the coding, which revealed a very high agreement rate (inter-rater agreement of $p < .001$), confirming the reliability of the coding.⁴

ANALYSIS OF TYPES OF AUDIT OPINIONS

[TABLES 1 AND 2 ABOUT HERE]

Table 1 shows the results of the classification of audit opinions issued over the period of the study. It should be remembered that AUS 702 was amended in 1996 to more closely align Australia with international auditing standards. This included the introduction of the EoM paragraph during 1996, and the removal of the “subject to” opinion. The table reveals that:

- the number of unqualified (unmodified) opinions is reasonably constant over the period 1996–2000, varying between 85.94% and 88.01% but declining between 2001 and 2003 to a level of 80.48% in 2003;
- the number of unqualified (EoM) opinions has been responsible for this decrease, varying between 8.39% and 10.88% over the period 1997–2000, but increasing to between 13.42% and 16.08% over the period 2001–03⁵ (this will be explored in more detail later);
- the number of “except for” opinions is relatively constant at between 2.03% and 3.07% over the period 1996–2003; and
- the most serious forms of qualification, the adverse opinion and disclaimer of opinion, are used very sparingly (in only 0.59% of all audits over the period 1996–2003).

These results support the view that:

- in more than 95% of audits, auditors have been able to secure sufficient and appropriate evidence to issue an unqualified opinion. (In about 12% of the instances where the auditor has issued an unqualified opinion the auditor includes an EoM paragraph to highlight some issues);
- consistent with expectations, the qualification rate of less than 5% over the period of this study is much lower than the rate of qualifications identified in earlier research. Aitken and Simnett (1991) found a qualification rate of around 15% for 1980–89, and this paper shows a qualification rate of 8.49% for 1996 (including 5.59% subject to opinions but not including 4.50% of unqualified EoM paragraphs),⁶ dropping to less than a 4% qualification rate for each of the years after 1996. Based on tests of proportions the decrease in the qualification rate from about 15% for 1980–89 to less than 5% for this study is significant ($z = 24.39$, $p < .001$);
- audit qualifications are clearly and effectively highlighted by the departure from the standard-form unqualified audit report, and so have the potential to be an effective form of communication to financial statement users; and
- because of their infrequent use, all forms of qualification can potentially be viewed by financial report users as indictments of the quality and credibility of the financial report to which they relate.

MAJOR CATEGORIES OF EoM MODIFICATIONS

As noted, Australia developed a unique set of five specific circumstances in which EoM modifications to audit opinions can be issued. These categories were developed through time-consuming deliberations by the then AuASB. The departure from International Auditing Standards was because of a decision by the AuASB to limit the circumstances in which an auditor may emphasise a matter.⁶ However, nothing is known about how often these circumstances result in the issuing of EoMs for the various categories. Table 2 contains a breakdown of EoM

modifications by the five categories. This information is useful because it shows the major types of significant matters and uncertainties giving rise to the inclusion of an EoM paragraph in the audit report. The most interesting result is that there are almost no observations identified for four of the five categories.

The first of the categories, where there are no observed instances of an issued EoM, is “accompanying information is inconsistent with the audited financial report”. This means that the auditor has not required the use of this opinion to draw the user’s attention to the view that information contained in the unaudited section of an annual report (such as the Chairman’s Report or the Directors’ Report) is inconsistent with the information contained in the financial report. Having this type of EoM as a category outlined in the audit reporting standards can, however, still be useful in showing the client the type of opinion that would be required to be issued if inconsistent information remains, thus providing incentive to management to remove the inconsistencies.

The second type of EoM which is hardly observed (only two observations in 1996) is the category “subsequent event creates new conditions which did not exist at reporting date and which render the going-concern basis inappropriate, and this is adequately disclosed”. The fact that this type of EoM is seldom issued in practice is fortunate, as the current accounting standards (Australian IFRS) require the accounts in these circumstances to be prepared on a non-going-concern basis. The inability to issue this type of EoM means that this category of EoM should be removed from AUS 702. The fact that this study shows that this EoM type is not used in practice for listed companies means that its removal is possibly not as urgent as it might otherwise be.

The third type of EoM, which is not observed, is the category “subsequent event results in a new audit report on a revised financial report”. It is not a surprise that we do not observe many of this type of EoM. The revision of financial reports and the re-auditing of these reports is a very rare event under Australia’s continuous disclosure rules, especially in comparison with the practice of restatements in overseas jurisdictions.⁸

The fourth category of EoM, which is observed very infrequently, is the category “additional disclosure with which the auditor concurs”. This is where the auditor concurs with an additional note disclosure contained in the financial report, usually indicating that the following of approved accounting standards will result in a misleading view. The additional note disclosure therefore provides the additional information necessary to give a true and fair view.⁹ Therefore, nearly all of the EoMs relate to the one category “inherent uncertainty (going-concern or other) that is adequately disclosed”. Thus auditors appear to use EoM modifications for this one category. It is this issue for which the International Auditing Standards currently require (for going concern) or require a consideration of (for other inherent uncertainties) issuing an EoM, although they do not specifically outlaw its use in other circumstances.

In addition, over time we also see a growth in the use of EoM paragraphs. From 1997 to 2000 the rate of EoMs is around 10-12%. This increases to 15-18% for the 2001–03 period, and is entirely due to an increase in EoMs issued for going concern reasons. There are also 105 EoM paragraphs included with a qualified opinion and all of these relate to an inherent/significant uncertainty that is adequately disclosed.

AUDIT OPINIONS ISSUED BY VARIOUS AUDIT FIRMS

The number and types of qualifications issued by audit firms are of interest to academics, auditors and clients. In many situations, auditors work in relative isolation and do not know whether the frequency with which they deliver qualifications is any different from that of other audit firms. This does not mean that each case will not be decided on the facts of the situation. However, in such a judgmental area some auditors may have a greater propensity to qualify than others, or to use particular types of qualifications. Factors which may influence the propensity to qualify include an audit firm's characteristics and its client base. The characteristics are likely to be influenced by a firm's training methods, its international affiliations and its partners' ages and backgrounds. Client-base considerations may be affected by the size, age, industry, risk and complexity of clients.

If modified audit opinions are an effective sanction against specific actions by management, audit clients will be interested in information on the frequency of audit qualifications by audit firms. The opinion-shopping literature (for example, Chow and Rice 1982) explores the question of whether audit clients can remove a qualification by replacing an auditor. To do this effectively, the client must be able to identify auditors who do not qualify the accounts in the circumstances they are facing. The client thus looks for information on the frequency and types of qualifications issued by auditors.

[TABLES 3 AND 4 ABOUT HERE]

Table 3 indicates the types of audit reports issued by different audit firms. Only audit firms with more than 150 observations over the eight-year period of the study are included in the table, which shows the following points for the individual firms:

- only PricewaterhouseCoopers issues more than 90% unmodified opinions, a rate which is significantly higher than that contained in the population;
- the modification rate (qualified opinions plus all opinions with EoMs) for the Big N firms differs significantly, ranging from 7.66% for PricewaterhouseCoopers to 21.72% for Arthur Andersen ($z = 8.63$, $p < .01$). The high modification rate for Arthur Andersen is mostly attributable to its clients in the materials sector, which account for more than 50% of the firm's total modifications even though the materials sector accounts for only just over 25% of their total client base over the period of the study;
- there is a significantly higher average modification rate for the non-Big N firms (21.26%) compared with the 11.76% average modification rate for the Big N firms ($z = 12.05$, $p < .01$). The Big N firms generally each had lower average modification rates compared with the non-Big N firms, although the Arthur Andersen modification rate of 21.72% more closely corresponds with the non-Big N average modification rate of 21.26% than it does with the Big N average modification rate of 11.76%;

- of the Big N firms, the percentage of qualifications issued by Ernst and Young (4.21%) is the highest and Arthur Andersen is the lowest (2.16%). This difference in qualification rates is significant ($z = 2.03$, $p < .05$);
- the percentage of qualifications issued by Pannell Kerr Forster (7.10%) is the highest of the individual audit firms;
- the percentage of modifications (qualifications plus all opinions with EoMs) issued by Stanton Partners (34.18%) is higher than those of the other audit firms. One of the reasons for this is that Stanton Partners' client base consists predominantly (about 72%) of smaller clients in the materials (especially mining) sector.

It is also noteworthy that the percentage of serious forms of qualifications given by all firms is very low, with no firm standing out as being more likely to issue this type of qualification.

AUDIT OPINIONS ISSUED FOR THE VARIOUS INDUSTRIES

It is expected that modifications of the audit report will differ according to client characteristics. One of the main characteristics of interest is the client industry classification. To classify by industry, we use the 10-industry grouping of the Global Industry Classification Standard (GICS), which is now widely referred to and is used by the Australian Stock Exchange. Table 4 indicates the types of audit reports issued for the 10 different industry sectors.

The table shows:

- the industry groupings with the highest modification rate are telecommunication services (29.13%), information technology (23.91%) and materials (20.76%). These industries also have the highest rate of unqualified opinions with an EoM (16.39%–22.82%);
- the utilities sector has the lowest rate of qualifications with only one instance of a qualified opinion in 85 audits over the period of the study (1.18%). This is followed by consumer staples (2.42%) and financials (2.52%);
- the industries with the highest rates of qualifications are information technology (7.52%), telecommunication services (6.31%) and energy (5.14%).

CONCLUSION

Since the amendment of the audit reporting standard in 1996, the rate of qualifications for publicly listed companies has fallen to around 4%, much less than the pre-amendment qualification rate of around 15–20%. This shows that the changes to the audit reporting standards have had a significant and the desired effect of improving the disclosure in the financial statements, with which the auditor must concur, rather than resulting in an audit qualification. This desired effect is to draw the emphasis away from issuing qualifications and to encourage an

increased level of disclosure in the financial reports for issues of significance. Auditors who are satisfied with the level of disclosure can issue an unqualified report, and if they wish, bring the users' attention to these issues by emphasising the matter in the audit report. This desired effect is emphasised by the fact that EoM paragraphs have become quite common, and are increasing in their level of use, from around 10%–12% a year for 1997–2000 to 15%–18% a year for 2001–03. In particular, it is apparent that over this time period, going concern modifications have increased substantially. Finally, since 1996, the rate of qualified opinions has remained fairly constant. The “except for” opinions have remained in the 2% to 3% range and the most serious forms of qualification, the adverse opinion and disclaimer of opinion are used sparingly (in only about 0.6% of all audits over the period 1996–2003).

Our paper is the first research to examine the various types of EoMs given. Our results show that for the period 1996–2003, there are no observations identified for two of the five EoM categories (accompanying information is inconsistent with the audited financial report, and subsequent events result in a new audit report on a revised financial report) and very few for two other categories (additional disclosure with which the auditor concurs, and subsequent event creates new conditions which did not exist at reporting date and which render the going-concern basis inappropriate, and this is adequately disclosed). Nearly all the EoMs relate to the one category “inherent uncertainty (going-concern or other) that is adequately disclosed”. Over time, we have also seen a growth in EoMs in this category. From 1997–2000 the rate of EoMs was around 10%–12%. This appears to have increased to 15%–18% a year since 2001, and is entirely due to a significant increase in the EoMs given for going-concern reasons. This could be due to a risk avoidance strategy by the auditing firms, a change in the way in which they issue EoMs (or a combination of these two reasons), or alternatively a change in client risk profiles. This change in qualifications, and the implications for financial report users should be of interest to the AUASB and user groups, and should be the subject of further research.

Significant differences are observed in the rate of EoM modifications and qualifications issued by the various audit firms. Interestingly, of the Big N firms, the highest modification rate (but lowest qualification rate) is issued by Arthur Andersen, before its demise. Overall, the combined EoM and qualification rate issued by the various firms ranges from 7% to 34%. This may be due to either differences in the methods by which (or the nature of the circumstances in which) audit firms issue modifications, or differences in the characteristics of their audit client portfolio. If the differences are due to anything other than differences in client characteristics, then this is an issue of concern, as it means that a client may receive an entirely different audit opinion, dependent on the auditor. This issue is a pertinent subject for future research.

In addition, significant differences are found in the rate of modified audit reports issued for different industry sectors. In particular, the modification rate is highest for the telecommunication services, information technology and materials sectors. These industries also have the highest rate of emphasis of matter paragraphs issued. The industries with the lowest rates of modification are the utilities, consumer staples and financial sectors.

The results in this paper are not only of interest to the auditing firms and the users of financial reports; they are also of interest to standard-setters. In particular, before this research, there is no recent systematic evidence of the types

and frequencies of qualifications that are being issued by individual auditing firms. There is also little evidence of the types of EoM modifications that are currently being issued in Australia. This is important as we move towards convergence with international audit reporting standards. This research shows that some of the areas in which we differ are not so important, as what we observe from practice is that there are virtually no instances of these particular types of EoM paragraphs being issued by Australian auditors.

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APPENDIX 1: CIRCUMSTANCES THAT RESULT IN A MODIFIED AUDIT REPORT.

	Material but not extreme	Extreme cases
Disagreement with management (including inherent uncertainty not adequately disclosed) (AUS 702.44 to .50)	"Except for" opinion	Adverse opinion
Conflict between applicable financial reporting frameworks (AUS 702.51 and .52)	"Except for" opinion	Adverse opinion
Scope limitation (AUS 702.53 to .56)	"Except for" opinion	Inability to form an opinion
Additional disclosure with which the auditor concurs (AUS 702.58 and .59)	Unqualified opinion with an emphasis of matter	
Inherent uncertainty (going concern or other) that is adequately disclosed (AUS 702.60 to .62)	Unqualified opinion with an emphasis of matter	
Accompanying information is inconsistent with the audited financial report (AUS 702.63)	Unqualified opinion with an emphasis of matter	
Subsequent event creates new conditions which did not exist at	Unqualified opinion with an emphasis of matter	

reporting date and which render the going concern basis inappropriate, and this is adequately disclosed (AUS 702.64)	
Subsequent event results in a new audit report on a revised financial report (AUS 702.65)	Unqualified opinion with an emphasis of matter

NOTES

1 As of 1 January 2000, under the CLERP Act 1999, accounting standard-setting powers were removed from the professional body (Australian Accounting Research Foundation) and given to the Australian parliament. Accounting standards thus attained legal backing. Similarly, auditing standards obtained legal backing under the Corporations Act 2001 in 2004, which takes effect for audits beginning after 1 July 2006.

2 These are disagreements between auditors and management regarding application of accounting standards and where the auditor “sits on the fence” by issuing a “subject to” opinion regarding an unresolved uncertainty.

3 The major reason a listed company was not included was that the audit report was signed in an overseas jurisdiction.

4 The only area of coding difficulty encountered was distinguishing between uncertainty on asset valuations and uncertainty as to going concern. This was because some going-concern uncertainty opinions were couched in terms of asset valuation uncertainties. The coding rule used was that where there appeared to be going-concern difficulties which were mentioned in the audit opinion (or a suggestion of an inability to meet future obligations) these were coded as uncertainty as to going concern. This conclusion was reached through consultation between the independent coder and one of the authors.

5 For 1996 there were 4.50% EoM opinions and 5.59% “subject to” opinions, as for a period during this year either opinion was permitted.

6 For a period in 1996 the audit firms were able to issue either a report containing an EoM paragraph or a “subject to” qualification. The issuing of “subject to” qualifications after 1996 was a breach of audit reporting standards and has been brought to the attention of the AUASB.

7 Remembering that the IAASB requires that an auditor issue an EoM to highlight a material matter regarding a going-concern problem that is adequately disclosed and consider issuing an EoM for other significant uncertainties, but is not restricted in using this type of opinion to emphasise any other matters. Internationally this has been an area of divergence with, for example, Canada taking the position of not allowing EoMs on the basis that the issue is properly disclosed in the financial statements, and it unduly draws the user's attention to one issue.

8 It is also possible that the failure to identify the issuing of this type of EoM may be indicative of directors not meeting their obligations under AASB 110 *Events after Balance Date* and/or auditors not being diligent enough in respect of AUS 706 *Subsequent Events* procedures.

9 We have one instance of this for each of the years 1996–98. It is the same company and issue each year, W.H. Soul Pattinson, audited by Ruwald and Evans, and the issue is the accounting standard which requires the consolidation of Brickworks (as it meets the definition of a controlled entity). The additional disclosure with which the auditor concurs is a note which outlines a “True and Fair View excluding Brickworks”.

10 The 105 audit reports which contain both a qualification and an EoM paragraph are included in brackets in the qualified section. The associated EoM for 91 of these relate to going-concern issues.

11 Arthur Andersen ceased operations in Australia in 2002. This partly explains its lower number of audits in comparison with the other large audit firms.

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TABLE 1: CLASSIFICATION OF AUDIT REPORTS BY TYPE OF REPORT FOR AUSTRALIAN AUDIT FIRMS 1996–2003

(For qualified opinions, the number in parentheses is the number of qualified opinions issued with an emphasis of matter.)

		1996	1997	1998	1999	2000	2001	2002	2003	TOTAL
Unqualified										
Unmodified	No.	871	881	938	917	929	995	1007	1031	7569
	%	87.01%	88.01%	86.45%	85.94%	86.90%	83.47%	81.34%	80.48%	(84.72%)
With an emphasis of matter	No.	45	84	118	115	113	160	182	206	1023
	%	4.50%	8.39%	10.88%	10.78%	10.57%	13.42%	14.70%	16.08%	(11.45%)
TOTAL UNQUALIFIED (%)	No.	916	965	1056	1032	1042	1155	1189	1237	8592
	%	91.51%	96.40%	97.33%	96.72%	97.47%	96.90%	96.04%	96.57%	96.17%
Qualified										
Except for (going concern)	No.	6 (1)	5	10	4	3	8	9 (1)	3	48 (2)
	%	0.60%	0.50%	0.92%	0.37%	0.28%	0.67%	0.73%	0.23%	(0.54%)
Except for (other)	No.	18 (3)	22 (6)	12 (7)	22 (10)	20 (6)	21 (14)	29 (17)	35 (16)	179 (79)
	%	1.80%	2.20%	1.11%	2.06%	1.87%	1.76%	2.34%	2.73%	(2.00%)
Subject to	No.	56 (1)	2	2 (1)	1	0	1	0	0	62 (2)
	%	5.59%	0.20%	0.18%	0.09%	0.00%	0.08%	0.00%	0.00%	(0.70%)
Adverse	No.	2 (2)	2 (1)	2 (1)	2	0	0	2 (1)	0	10 (5)
	%	0.20%	0.20%	0.18%	0.19%	0.00%	0.00%	0.16%	0.00%	(0.11%)
Disclaimer	No.	3 (1)	5 (3)	3 (1)	6 (3)	4 (1)	7 (3)	9 (4)	6 (1)	43 (17)
	%	0.30%	0.50%	0.28%	0.56%	0.37%	0.59%	0.73%	0.47%	(0.48%)
TOTAL QUALIFIED	No.	85	36	29	35	27	37	49	44	342(105)¹⁰
	%	8.49%	3.60%	2.67%	3.28%	2.53%	3.10%	3.96%	3.43%	3.83%
TOTAL NO. OF REPORTS		1001(8)	1001 (10)	1085 (10)	1067 (13)	1069 (7)	1192 (17)	1238 (23)	1281 (17)	8934 (105)

TABLE 2: TYPES OF EMPHASIS OF MATTER PARAGRAPHS 1996–2003

(The number in parentheses is the number of emphasis of matter paragraphs issued with qualified opinions.)

	1996	1997	1998	1999	2000	2001	2002	2003	TOTAL
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Additional disclosure with which the auditor concurs	1	1	1	0	0	0	0	0	3
Inherent/significant uncertainty adequately disclosed									
going concern	21 (4)	55 (7)	92 (8)	100 (12)	89 (7)	141 (16)	177 (21)	183 (15)	858 (90)
other	29 (4)	38 (3)	35 (2)	28 (1)	31	36 (1)	28 (2)	40 (2)	265 (15)
Accompanying information is inconsistent with audited financial report	0	0	0	0	0	0	0	0	0
Subsequent event creates new conditions	2	0	0	0	0	0	0	0	2
Subsequent event results in a new audit report	0	0	0	0	0	0	0	0	0
TOTAL	53 (8)	94 (10)	128 (10)	128 (13)	120 (7)	177 (17)	205 (23)	223 (17)	1128 (105)

TABLE 3: TYPES OF AUDIT OPINIONS BY AUSTRALIAN AUDIT FIRMS 1996–2003

FIRM	No. of audits	Unqualified (%)	Unqualified with EoM (%)	Qualified with no EoM (%)	Qualified with EoM (%)	Total Modified (%)
Arthur Andersen ¹¹	465	364 (78.28%)	91 (19.57%)	9 (1.94%)	1 (0.22%)	101 (21.72%)*
PricewaterhouseCoopers	1632	1507 (92.34%)	85 (5.21%)	28 (1.72%)	12 (0.74%)	125 (7.66%)*
KPMG	1324	1178 (88.97%)	106 (8.01%)	31 (2.34%)	9 (0.68%)	146 (11.03%)*
Ernst & Young	1378	1176 (85.34%)	144 (10.45%)	44 (3.19%)	14 (1.02%)	202 (14.66%)
Deloitte Touche						
Tohmatsu	829	741 (89.38%)	67 (8.08%)	12 (1.45%)	9 (1.09%)	88 (10.62%)*
Big N Average		88.24%	8.76%	2.20%	0.80%	11.76%
Stanton	158	104 (65.82%)	49 (31.01%)	2 (1.27%)	3 (1.90%)	54 (34.18%)*
Horwath	205	176 (85.85%)	26 (12.68%)	2 (0.98%)	1 (0.49%)	29 (14.15%)

Grant Thornton	277	226 (81.59%)	43 (15.52%)	4 (1.44%)	4 (1.44%)	51 (18.41%)
BDO	409	318 (77.75%)	76 (18.58%)	11 (2.69%)	4 (0.98%)	91 (22.25%)*
Pannell Kerr Forster	422	317 (75.12%)	75 (17.77%)	15 (3.55%)	15 (3.55%)	105 (24.88%)*
Other	1835	1462 (79.67%)	261 (14.22%)	79 (4.31%)	33 (1.80%)	373 (20.33%)*
Non-Big N Average		78.74%	16.03%	3.42%	1.81%	21.26%
TOTAL	8934	7569 (84.72%)	1023 (11.45%)	237 (2.65%)	105 (1.18%)	1365 (15.28%)

* = significantly different ($p < .05$) to the average modification rate for the rest of the audit firms.

TABLE 4: TYPES OF AUDIT OPINIONS BY INDUSTRY 1996–2003

INDUSTRY	No. of audits	Unqualified and unmodified (%)	Unqualified with EoM (%)	Qualified with no EoM (%)	Qualified with EoM (%)	Total modified (%)
Energy	467	381 (81.58%)	62 (13.28%)	19 (4.07%)	5 (1.07%)	86 (18.42%)
Materials	2702	2141 (79.24%)	451 (16.69%)	83 (3.07%)	27 (1.00%)	561 (20.76%)*
Industrial	1029	926 (89.99%)	74 (7.19%)	15 (1.46%)	14 (1.36%)	103 (10.01%)*
Consumer discretionary	1043	914 (87.63%)	85 (8.15%)	26 (2.49%)	18 (1.73%)	129 (12.37%)*
Consumer staples	431	397 (92.11%)	24 (5.57%)	9 (2.09%)	1 (0.23%)	34 (7.89%)*
Health care	520	439 (84.42%)	65 (12.50%)	12 (2.31%)	4 (0.77%)	81 (15.58%)
Financials	1786	1643 (91.99%)	98 (5.49%)	35 (1.96%)	10 (0.56%)	143 (8.01%)*
Information technology	665	506 (76.09%)	109 (16.39%)	32 (4.81%)	18 (2.71%)	159 (23.91%)*
Telecommunication services	206	146 (70.87%)	47 (22.82%)	6 (2.91%)	7 (3.40%)	60 (29.13%)*
Utilities	85	76 (89.41%)	8 (9.41%)	0 (0.00%)	1 (1.18%)	9 (10.59%)
TOTAL	8934	7569 (84.72%)	1023 (11.45%)	237 (2.65%)	105 (1.18%)	1365 (15.28%)

* = significantly different ($p < .05$) to the average modification rate of the rest of the industries.467