

A discusión

THE MEASUREMENT OF COMPLIANCE WITH INTERNATIONAL ISA700: THE CASE OF AUDIT REPORTS PUBLISHED BY THE BIG ACCOUNTING FIRMS IN TUNISIA

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ABSTRACT

This article examines the form and content of auditor's report published by Tunisian auditors who represent international auditing firms. It measures the compliance of these reports with elements enumerated by International standard on auditing (ISA700). To reach this objective, an empirical study has been conducted based on an analysis of 42 audit reports published in the Tunisian context. The results show that in Tunisia audit reports issued by the international auditing firms are not equally compliant with five of the twenty-six elements enumerated by International Federation of Accountants (IFAC). This difference of conformity to ISA700 can be explained by characteristics of the Tunisian environment (inefficient stock market and a weak number of large holding corporations, among others), which may induce auditors to disregard some elements followed by the same ISA.

Key words: compliance, form of auditor's report, content of auditor's report, auditing in Tunisia

Clasificación JEL: M00, M40, M490.

1. 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 funds. Because of this development, the network of relations established 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 (Ding *et al.*, 2002).

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 serve the requirements of their customers and tempt to differentiate 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 improvement of audit methodologies followed by such firms was increased. The exhaustive controls used for the full audit have been replaced by the risk approach, which considers the internal control of audited corporation.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 which is 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 and 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 ISA700: "The Auditor's Report on Financial Statements" (IFAC, 1994) was approved in 1994.

In Tunisia, several independent auditors represent the large firms of accounting. In 2002, the Tunisian Institute of Certified Public Accountants adopted the ISA700 (IFAC, 1994). Consequently, its members, who are affiliated to the Big Auditing Firms, are obliged to comply with International standard on Auditor's Report. Their civil responsibility is appreciated according to the respect of the professional standards.

Charron (1993) and Wallage (1993) asserted 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 are dealing with: (a) size of the audit firm, (b) corporation size, and (c) financial market development. In this case, it is 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 if in Tunisia the big accounting firms prepare the audit reports according to the ISA700 (IFAC, 1994). 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 ISA 700 (IFAC, 1994).

The structure of this article is organised as follows. After this introduction, there is a brief summary of auditing harmonisation and presentation of the main elements of the auditor's report enumerated by International Standard on auditing (ISA700). The third section provides a background discussion of the state and the framework of auditing in Tunisia. In the fourth section, we describe the methodology, hypotheses to be tested, and the sample used in the empirical study. In the fifth section the results obtained are presented and analysed and, lastly, in the sixth part the main conclusions drawn are highlighted.

2. International standard on auditing "ISA700" and efforts in the harmonisation of auditor report

Harmonisation of audit reports can alleviate information asymmetries between users of the financial information. In addition, 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 International Federation of Accountant was enrolled in order to realise this harmonisation.

2.1. 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” (IFAC, 1983).

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 (IFAC, 1994):

1. Title;
2. Addressee;
3. 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;
4. Scope paragraph (describing the nature of an audit): a reference to the ISA’s or relevant national standards or practices; a description of the work the auditor performed.
5. Opinion paragraph containing an expression of opinion on the financial statements;
6. Date of the audit report;
7. Auditor's address; and
8. Auditor's signature.

TABLE 1. Elements of the audit reports prepared according to the ISA 700

Elements of Form		ISA700 paragraph
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
6	Report indexed	28
7	Separation among introductory, scope and opinion paragraphs	28
Elements of Content (Introductory Content)		
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
Elements of Content (Scope)		
1	Identification of the relevant national auditing standards or practices	12
2	Statement that the audit was planned to obtain reasonable assurance about whether the financial statements are free from material misstatement	13
3	Statement that the audit was performed to obtain reasonable assurance about whether the financial statements are free from material misstatement	13
4	Description of the audit as examining on test basis evidence to support the financial statement amounts and disclosures	14
5	Description of the audit as assessing the accounting principles used in the preparation of the financial statements	14
6	Description of the audit as assessing the significant estimates made by 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
Elements of Content (Opinion)		
1	Identification of the financial reporting framework	17
2	Identification of the country when financial reporting framework followed is not the IASB framework	17
3	Clear statement of opinion as to whether the financial statements give a true and fair view, or present fairly in all material respects	17
4	Clear statement of opinion as to whether the financial statements are in accordance with the financial reporting framework	17
5	Clear statement of opinion as to whether the financial statements comply with statutory requirements, if applicable	17

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 26 elements provided by this standard. These elements are relating to both form and content of the audit report. Table 1 shows the elements of the audit reports prepared according to the ISA700.

2.2. Literature review

International ISA700 has played an important role in harmonisation of the audit reports. Such harmonisation is important because the report is a primary tool auditor's use to communicate with financial statement users (Gangolly *et al.*, 2002). In order to examine the success of international standardisation of this tool, it is important to analyse the conformity of IFAC's member-countries' standards to ISA 700 (de jure harmonisation) and study the compliance of IFAC's member-countries' reports to the same ISA (de facto harmonisation).

2.2.1 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 (ISA's). 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 between sixteen European standards on audit reports and guideline No. 13: "The auditor's Report on Financial statements". They noted that among these standards, only 4 standards, published in Ireland, Italy, Spain, and United Kingdom, are in perfect harmony with the international report. In the same case, the Fédération des Experts Comptables Européens (2000) elaborated a study dealing with comparison between European and international audit report's standards. This survey shows many differences regarding: (1) scope paragraph of the auditor's report, (2) addressee, (3) opening or introductory paragraph, (4) auditor's address, and (5) 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 report 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 terminology used

(e.g., audit report title) and in the details of the guidelines provided. Unlike ISA 700, which provides guidelines on standardised wording, the language of the Chinese audit report is not standardised.

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 International Federation of Accountants.

More recently in the USA, Gangolly *et al.* (2002) proceeded to an international comparative study between 50 national standards on audit report published in the world and ISA700. They concluded that 86% 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 compare them with IFAC model of audit report. These authors did not find any difference among the normative models published in Hong Kong, United States, United Kingdom, Australia, and Canada.

For the success of audit report's harmonisation, it is 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.

2.2.2 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 verify 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 can find many obstacles and require several adaptations for many contexts.

Previous research carrying on the analysis of respect of the ISA700 by the audit reports of auditors who are represented in the IFAC council are numerous (Hussein *et al.*, 1986; Archer *et al.*, 1989; Wallage, 1993; Bavishi 1995; Jones and Karabhari, 1996; king, 1999; Zeghal *et al.*,

1999; Gangolly *et al.*, 2002). They consider several 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: U.S. Group, U.K. Group, Europe Group, Group Four and Group Five.

- The U.S. Group is composed of Brazil, Canada, Japan, Mexico, Philippines, Taiwan, Thailand, and USA.
- The U.K. Group is composed of Australia, India, Ireland, Malaysia, Netherlands, Singapore, South Africa, and UK.
- The Europe Group is composed of Belgium, Denmark, Finland, France, Norway, Sweden, and Switzerland.
- The Group Four is composed of Italy and Spain.
- 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-ISA 13 reports. The empirical evidence, taken as a whole, shows 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 is 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, United Kingdom, and Holland were in perfect conformity with the international reference.

In the same European context, 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, Netherlands, Portugal, Spain, Sweden, and the United Kingdom are analysed. The analysis uses the basic elements of the auditor's report listed in the ISA700 (IFAC, 1994). Comparability is tested using the chi-square 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 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 (1986). Wallage (1993)'s paper is based on the examination of auditing document of the large accounting firm. The results divided the big firms observed in three groups:

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

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

Bavishi (1995) analysed the content and form of the audit reports prepared by the professionals of 47 countries. The results showed 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) studied the structure and the organisation of 90 audit reports published in 9 countries. These reports were divided in two groups. The first represented the Anglo-American model, which was formed by Australia, Canada, the United States, and United Kingdom. Germany, Belgium, France, Italy, and Japan composed the second group, which concerned the continental model. 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. Contrary 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.

2.3. Limitations for rigorous application of ISA700 elements

Some studies suggest 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 Dopunik (1992) believe that this dichotomy finds its origins in the opposition among legal systems.

In their article, Hussein *et al.* (1986) explained the reasons that can limit the spread application of the international guideline on auditing report (IAG 13). 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, can not 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 (1995)'s position. They recognise diversity among national standards on auditing and accounting. This diversity may be justified by the heterogeneity among domestic economic systems.

3. FRAMEWORK OF AUDITING IN TUNISIA

3.1. 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: (a) qualified opinion, (b) unqualified opinion, or (c) 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 are dealing with: (a) auditor's designation for all commercial companies; (b) improvement of tools used by independent auditors in their mission; and (c) date and presentation of auditor's report.

3.2. Implementation of international accounting firms

Since 1985, several Tunisian's auditors represent many large accounting firms. 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 Big Accounting firms in Tunisian auditing market contributes to the improvement of the level auditor's formation. In table 2 we offer the number of Tunisian auditors that represent international accounting firms and second tier firms.

TABLE 2. Number of Tunisian auditors that represent International accounting firms and the second tier firms

Big Four Accounting Firms	
PWC (PriceWaterhouseCoopers)	4
EY (Ernst & Young)	2
DT (Deloitte & Touch)	1
KPMG Peat Marwick	1
Second Tier Firms	
BDO (Binder Dijker & Otte)	1
GT (Grant Thornton)	1
KI (Kreston International)	1
BI (Bedford International)	1
TOTAL	12

4. Hypotheses, methodology and sample

4.1. 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 international standards on auditing (ISA's) guarantees the quality of these services. Many commentaries and suggestions made by their persons responsible are considered by the International Auditing Practices Committee (IAPC), which has the load to publish standards and directives dealing with practices of auditing.

DeAngelo (1981), Shockley and Holt (1983), Balvers *et al.* (1988), Palmarose (1988), Feltham *et al.* (1991), Knapp (1991) and Hogan (1997) argue that the size of accounting firm is a signal of quality. Their hypothesis was 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), Coulton *et al.* (2001) note 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) found 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 set used by Gangolly *et al.* (2002) provides some evidence that the large accounting firms, with substantial stakes in the harmonisation efforts, issue auditor's reports that adhere closely to IAS 13.

For the audit reports issued by the Tunisian auditors who represent the international accounting firms, we estimate that there are no differences among their adherence frequency to each of the ISA700 elements. Then, we put forward the following hypotheses:

H₀₁: Auditor's report published by the Tunisian auditors who represent international auditing firms are equally compliant with elements of form enumerated by ISA700.

H₀₂: Auditor's report published by the Tunisian auditors who represent international auditing firms are equally compliant with introductory paragraph elements enumerated by ISA700.

H₀₃: Auditor's report published by the Tunisian auditors who represent international auditing firms are equally compliant with scope paragraph elements enumerated by ISA700.

H₀₄: Auditor's report published by the Tunisian auditors who represent international auditing firms are equally compliant with opinion paragraph elements enumerated by ISA700.

4.2. *Sample and methodology*

4.2.1 Study sample

The data used in this study is from 2003/2004 year-end audit reports of two groups of international auditing firms set up in Tunisia. It includes audit reports published by the Big Four Accounting Firms (Price Waterhouse Coopers, Ernst & Young, Deloitte & Touch and KPMG Peat Marwick) and the Second Tier Firms (Binder Dijker & Otte, Grant Thornton, Kreston International and Bedford International).

The most important part of the data was obtained from the 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. Our 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 42 audit reports were obtained. These reports were issued to companies which are in three sectors of activities (Manufacturing, Financial industries and Services industries). Table 3 summarises the number of audit reports included in the sample from each of the international auditing firms.

TABLE 3. Number of auditor’s report from each auditing firms included in the sample

International accounting firms		Activities Sector’s of audited companies			TOTAL
		Manufacturing	Financial industries	Services industries	
Big Four Firms	PWC(PriceWaterhouseCoopers)	1	3	1	5
	EY (Ernst & Young)	4	9	0	13
	DT (Deloitte & Touch)	2	0	0	2
	KPMG Peat Marwick	4	2	0	6
Second Tier Firms	BDO (Binder Dijker & Otte)	3	2	1	6
	GT (Grant Thornton)	0	3	1	4
	KI (Kreston International)	0	4	0	4
	BI (Bedford International)	2	0	0	2
TOTAL		16	23	3	42

4.2.2 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 26 elements listed in table 1. 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 then tabulated for each auditing firm. For each of the 26 elements examined, the results are tabulated in a 2 x 2 contingency table. Row 1 represents the presence of the element examined and row 2 represents the absence of that element. Each of the 2 columns represents the respective firms whose audit reports are analysed.

Our hypotheses are verified using the Chi-squared statistic. This is the test of equality of proportions applied to the tables of contingency. The chi-square is a non-parametric test that also is especially useful in the case of small samples such as in our study. When this test is used, inappropriate conclusions may be reached if 20% of the expected cell frequencies are less than five or if any expected cell frequency is less than one. In this case, Yates correction for continuity was performed. This correction is recommended only for 2 x 2 contingency table. It consists of subtracting 0.5 from the absolute difference between the observed cell frequency and the expected cell frequency in the chi-square formula before squaring.

However, in several cases Yates correction can not be applied for smaller expected cell frequencies. Hence, Fisher exact test, which provided confirming results, was performed. If the result of the application of the test leads to the acceptance of the null hypothesis, it can be concluded that the uniform application of ISA700 elements exists across the auditors who

represent international auditing firms. In contrast, in the cases where the null hypothesis is rejected, the conclusion would be the opposite, i.e. that the auditors indicated have not followed the same level of conformity to the international standard on audit report.

5. Analysis of results

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

The results of conformity to elements related to the form of the auditor's report are analysed in table 4. As can be seen from this table, the first hypothesis of compliance equality with form elements of the auditor's report is accepted only for elements dealing with: (1) title, (2) identification of addressee, (3) date of the audit report, (5) auditor's signature, (6) report indexed, and (7) separation among introductory, scope and opinion paragraphs. In the case of the inclusion of the remainder element regarding (4) Name of specific location where the auditor maintains an office, the first hypothesis is rejected.

The observation of results summarised in table 5 shows that the audit reports published by all auditors are in absolute conformity with elements related to: (a) title, (b) identification of addressee, (c) date of the report and (d) auditor's signature.

For two elements related to the form of the auditor's report (the listing of the location of the auditor's office and separation among introductory, scope and opinion paragraphs), examination of results reveals that they were perfectly followed only by Second Tier Firms. As can be seen from table 5, the majority of auditors who represent international auditing firms did not follow the report indexed.

TABLE 4. Contingency tables of elements related to form of auditor's report

Elements		International Auditing Firms			χ^2	Degree of freedom	p-value	Yates correction		Fisher exact test
		Big Four	Second Tier	Total				χ^2	p-value	P unusual
1. Title.	<i>Compliance</i>	26	16	42	,000 ^{ns}	1	1,000	,000 ^{ns}	1,000	1,000
	<i>Non-compliance</i>	0	0	0						
	<i>Total</i>	26	16	42						
2. Identification of addressee	<i>Compliance</i>	26	16	42	,000 ^{ns}	1	1,000	,000 ^{ns}	1,000	1,000
	<i>Non-compliance</i>	0	0	0						
	<i>Total</i>	26	16	42						
3. Date of the report	<i>Compliance</i>	26	16	42	,000 ^{ns}	1	1,000	,000 ^{ns}	1,000	1,000
	<i>Non-compliance</i>	0	0	0						
	<i>Total</i>	26	16	42						
4. Name of specific location where the auditor maintains an office	<i>Compliance</i>	13	16	29	11,586 ^{**}	1	,001	9,365 ^{**}	,002	,000
	<i>Non-compliance</i>	13	0	13						
	<i>Total</i>	26	16	42						
5. Auditor's signature	<i>Compliance</i>	26	16	42	,000 ^{ns}	1	1,000	,000 ^{ns}	1,000	1,000
	<i>Non-compliance</i>	0	0	0						
	<i>Total</i>	26	16	42						
6. Report indexed	<i>Compliance</i>	1	2	3	1,118 ^{ns}	1	,290	,194 ^{ns}	,659	,547
	<i>Non-compliance</i>	25	14	39						
	<i>Total</i>	26	16	42						
7. Separation among introductory, scope and opinion paragraphs.	<i>Compliance</i>	22	16	38	2,721 ^{ns}	1	,099	1,228 ^{ns}	,268	,280
	<i>Non-compliance</i>	4	0	4						
	<i>Total</i>	26	16	42						

** Significant difference at 5%
ns= Non-significant difference

TABLE 5. Percentage of conformity to elements dealing with form of auditor’s report

Elements		Number of report agreeing with ISA700		Percentage of report agreeing with ISA700	
		Big Four Accounting Firms	Second Tier Firms	Big Four Accounting Firms %	Second Tier Firms %
1. Title.	<i>Compliance</i>	26	16	100%	100%
	<i>Non-compliance</i>	0	0	0	0
	<i>Total</i>	26	16	100%	100%
2. Identification of addressee	<i>Compliance</i>	26	16	100%	100%
	<i>Non-compliance</i>	0	0	0	0
	<i>Total</i>	26	16	100%	100%
3. Date of the report	<i>Compliance</i>	26	16	100%	100%
	<i>Non-compliance</i>	0	0	0	0
	<i>Total</i>	26	16	100%	100%
4. Name of specific location where the auditor maintains an office	<i>Compliance</i>	13	16	50%	100%
	<i>Non-compliance</i>	13	0	(50%)	0
	<i>Total</i>	26	16	100%	100%
5. Auditor’s signature	<i>Compliance</i>	26	16	100%	100%
	<i>Non-compliance</i>	0	0	0	0
	<i>Total</i>	26	16	100%	100%
6. Report indexed	<i>Compliance</i>	1	2	4%	12,5%
	<i>Non-compliance</i>	25	14	(96%)	(87,5%)
	<i>Total</i>	26	16	100%	100%
7. Separation among introductory, scope and opinion paragraphs.	<i>Compliance</i>	22	16	85%	100%
	<i>Non-compliance</i>	4	0	(15%)	0
	<i>Total</i>	26	16	100%	100%

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 6. From this table, the second hypothesis of compliance equality with introductory paragraph elements of the auditor’s report is accepted only in the case of including elements dealing with: (1) identification of the financial statements audited, (2) entity audited identified, (3) identification of the date of 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 thereon. The hypothesis stated above is rejected for the fourth element related to “identification of the period covered by the financial statements”. Examination of such results illustrates the auditor’s conscience of the importance of several introductory paragraph elements.

TABLE 6. Contingency tables of elements related to introductory paragraph

Elements		International Auditing Firms			χ^2	Degree of freedom	p-value	Yates correction		Fisher exact test
		Big Four	Second Tier	Total				χ^2	p-value	p _{unusual}
1. Identification of the financial statements audited	<i>Compliance</i>	8	5	13	,001 ^{ns}	1	,974	,000 ^{ns}	1,000	1,000
	<i>Non-compliance</i>	18	11	29						
	<i>Total</i>	26	16	42						
2. Entity audited identified	<i>Compliance</i>	26	14	40	3,413 ^{ns}	1	,065	1,213 ^{ns}	,271	,139
	<i>Non-compliance</i>	0	2	2						
	<i>Total</i>	26	16	42						
3. Identification of the date of the financial statements	<i>Compliance</i>	18	12	30	,162 ^{ns}	1	,688	,003 ^{ns}	,960	,740
	<i>Non-compliance</i>	8	4	12						
	<i>Total</i>	26	16	42						
4. Identification of the period covered by the financial statements	<i>Compliance</i>	8	0	8	6,081 ^{**}	1	,014	4,250 ^{**}	,039	,016
	<i>Non-compliance</i>	18	16	34						
	<i>Total</i>	26	16	42						
5. Statement that financial statements are management's responsibility	<i>Compliance</i>	25	16	41	,630 ^{ns}	1	,427	,000 ^{ns}	1,000	1,000
	<i>Non-compliance</i>	1	0	1						
	<i>Total</i>	26	16	42						
6. Statement that the auditor's responsibility is to express an opinion thereon	<i>Compliance</i>	25	16	41	,630 ^{ns}	1	,427	,000 ^{ns}	1,000	1,000
	<i>Non-compliance</i>	1	0	1						
	<i>Total</i>	26	16	42						

** Significant difference at 5%
ns= Non-significant difference

The observation of results summarised in table 7 shows that the audit reports published by Second Tier Firms are in perfectly compliance with fifth and sixth elements concerning responsibility of management and that of the auditor. From the same table, we can appreciate that only the element related to the identification of the entity audited has been strictly respected by the Big Four Accounting Firms. As can be seen from table indicated below, except the first and the fourth element, results suggest a high compliance level for all the audit reports observed.

TABLE 7. Percentage of conformity to elements dealing with introductory paragraph of auditor's report

Elements		Number of report agreeing with ISA700		Percentage of report agreeing with ISA700	
		Big Four Accounting Firms	Second Tier Firms	Big Four Accounting Firms %	Second Tier Firms %
1. Identification of the financial statements audited	<i>Compliance</i>	8	5	31%	31%
	<i>Non-compliance</i>	18	11	69%	69%
	<i>Total</i>	26	16	100%	100%
2. Entity audited identified	<i>Compliance</i>	26	14	100%	87,5%
	<i>Non-compliance</i>	0	2		
	<i>Total</i>	26	16	100%	100%
3. Identification of the date of the financial statements	<i>Compliance</i>	18	12	69%	75%
	<i>Non-compliance</i>	8	4	31%	25%
	<i>Total</i>	26	16	100%	100%
4. Identification of the period covered by the financial statements	<i>Compliance</i>	8	0	31%	0
	<i>Non-compliance</i>	18	16	69%	100
	<i>Total</i>	26	16	100%	100%
5. Statement that financial statements are management's responsibility	<i>Compliance</i>	25	16	96%	100%
	<i>Non-compliance</i>	1	0	4%	0
	<i>Total</i>	26	16	100%	100%
6. Statement that the auditor's responsibility is to express an opinion thereon	<i>Compliance</i>	25	16	96%	100%
	<i>Non-compliance</i>	1	0	4%	0
	<i>Total</i>	26	16	100%	100%

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

The detail of the results dealing with elements related to scope paragraph is presented in the table 8. From the empirical evidence shown in this table, the third hypothesis can not be rejected at the 5% significance level. Such results indicate that all Tunisian auditors who represent international auditing firms (Big Four and other firms) are equally compliant with the scope paragraph proposed by ISA700.

TABLE 8. Contingency tables of elements related to scope paragraph

Elements		International Auditing Firms			χ^2	D.F	p-value	Yates correction		Fisher exact test
		Big Four	Second Tier	Total				χ^2	p-value	p _{unusual}
1. Identification of the relevant national auditing standards or practices	<i>Compliance</i>	26	15	41	1,665 ^{ns}	1	,197	,062 ^{ns}	,804	,381
	<i>Non-compliance</i>	0	1	1						
	<i>total</i>	26	16	42						
2. Statement that the audit was planned to obtain reasonable assurance about whether the financial statements are free from material misstatement	<i>Compliance</i>	20	8	28	3,231 ^{ns}	1	,072	2,133 ^{ns}	,144	,098
	<i>Non-compliance</i>	6	8	14						
	<i>total</i>	26	16	42						
3. Statement that the audit was performed to obtain reasonable assurance about whether the financial statements are free from material misstatement	<i>Compliance</i>	20	8	28	3,231 ^{ns}	1	,072	2,133 ^{ns}	,144	,098
	<i>Non-compliance</i>	6	8	14						
	<i>total</i>	26	16	42						
4. Description of the audit as examining on test basis evidence to support the financial statement amounts and disclosures	<i>Compliance</i>	25	15	42	,126 ^{ns}	1	,722	,000 ^{ns}	1,000	1,000
	<i>Non-compliance</i>	1	1	2						
	<i>total</i>	26	16	42						
5. Description of the audit as assessing the accounting principles used in the preparation of the financial statements	<i>Compliance</i>	26	15	41	1,665 ^{ns}	1	,197	,062 ^{ns}	,804	,381
	<i>Non-compliance</i>	0	1	1						
	<i>total</i>	26	16	42						
6. Description of the audit as assessing the significant estimates made by management in the preparation of the financial statements	<i>Compliance</i>	25	12	37	4,226 ^{**}	1	,040	2,450 ^{ns}	,118	,061
	<i>Non-compliance</i>	1	4	5						
	<i>total</i>	26	16	42						
7. Description of the audit as evaluating overall financial statement presentation	<i>Compliance</i>	25	12	37	4,226 ^{**}	1	,040	2,450 ^{ns}	,118	,061
	<i>Non-compliance</i>	1	4	5						
	<i>total</i>	26	16	42						
8. Statement that the audit provides a reasonable basis for the opinion	<i>Compliance</i>	25	13	38	2,553 ^{ns}	1	,110	1,117 ^{ns}	,291	,146
	<i>Non-compliance</i>	1	3	4						
	<i>total</i>	26	16	42						

** Significant difference at 5%
ns= Non-significant difference
D.F= Degree of Freedom

The highest level of compliance with scope paragraph elements is found in the reports published by the Big Four Accounting Firms. These reports are in absolute conformity with elements related to: (1) identification of the relevant national auditing standards or practices and (5) description of the audit as assessing the accounting principles used in the preparation of the financial statements.

As can be seen from the table 9, the results reveal that the Second Tier Firm's reports have the less compliance degree 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 and (3) statement that the audit was performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

The analysis of compliance with elements related to opinion paragraph of the auditor's report is summarised in table 10. As can be seen from this table, the fourth hypothesis is rejected. From the empirical evidence found, auditor's report published by the Tunisian auditors who represent international auditing firms are not equally compliant with elements dealing with: (1) identification of the financial reporting framework, (2) identification of the country when financial reporting framework followed is not the IASB framework and (4) clear statement of opinion as to whether the financial statements are in accordance with the financial reporting framework.

Average percentage compliance as shown in table 11 reveals that the highest level of compliance with opinion paragraph elements is found in the reports published by the Big Four Accounting Firms. A further look at the same table reveals that both Big Four Accounting Firms and Second Tier Firms are in strict conformity to the third and the fifth element of the opinion paragraph.

As can be seen from the table 11, the results reveal that the Second Tier Firm's reports have the less compliance degree with element related to identification of the country when financial reporting framework followed is not the IASB framework.

TABLE 9. Percentage of conformity to elements dealing with scope paragraph of auditor's report

Elements		Number of report agreeing with ISA700		Percentage of report agreeing with ISA700	
		Big Four Accounting Firms	Second Tier Firms	Big Four Accounting Firms %	Second Tier Firms %
1. Identification of the relevant national auditing standards or practices	<i>Compliance</i>	26	15	100%	94%
	<i>Non-compliance</i>	0	1	0	6%
	<i>Total</i>	26	16	100%	100%
2. Statement that the audit was planned to obtain reasonable assurance about whether the financial statements are free from material misstatement	<i>Compliance</i>	20	8	77%	50%
	<i>Non-compliance</i>	6	8	23%	50%
	<i>Total</i>	26	16	100%	100%
3. Statement that the audit was performed to obtain reasonable assurance about whether the financial statements are free from material misstatement	<i>Compliance</i>	20	8	77%	50%
	<i>Non-compliance</i>	6	8	23%	50%
	<i>Total</i>	26	16	100%	100%
4. Description of the audit as examining on test basis evidence to support the financial statement amounts and disclosures	<i>Compliance</i>	25	15	96%	94%
	<i>Non-compliance</i>	1	1	4%	6%
	<i>Total</i>	26	16	100%	100%
5. Description of the audit as assessing the accounting principles used in the preparation of the financial statements	<i>Compliance</i>	26	15	100%	94%
	<i>Non-compliance</i>	0	1	0	6%
	<i>Total</i>	26	16	100%	100%
6. Description of the audit as assessing the significant estimates made by management in the preparation of the financial statements	<i>Compliance</i>	25	12	96%	75%
	<i>Non-compliance</i>	1	4	4%	25%
	<i>Total</i>	26	16	100%	100%
7. Description of the audit as evaluating overall financial statement presentation	<i>Compliance</i>	25	12	96%	75%
	<i>Non-compliance</i>	1	4	4%	25%
	<i>Total</i>	26	16	100%	100%
8. Statement that the audit provides a reasonable basis for the opinion	<i>Compliance</i>	25	13	96%	81%
	<i>Non-compliance</i>	1	3	4%	19%
	<i>Total</i>	26	16	100%	100%

TABLE 10. Contingency tables of elements related to opinion paragraph

Elements		International Auditing Firms			x^2	Degree of freedom	p-value	Yates correction		Fisher exact test
		Big Four	Second Tier	Total				x^2	p-value	P unusual
1. Identification of the financial reporting framework	<i>Compliance</i>	25	7	32	14,994**	1	,000	12,244**	,000	,000
	<i>Non-compliance</i>	1	9	10						
	<i>total</i>	26	16	42						
2. Identification of the country when financial reporting framework followed is not the IASB framework	<i>Compliance</i>	24	4	28	20,192**	1	,000	17,277**	,000	,000
	<i>Non-compliance</i>	2	12	14						
	<i>total</i>	26	16	42						
3. Clear statement of opinion as to whether the financial statements give a true and fair view, or present fairly in all material respects	<i>Compliance</i>	26	16	42	,000 ^{ns}	1	1,000	,000 ^{ns}	1,000	1,000
	<i>Non-compliance</i>	0	0	0						
	<i>total</i>	26	16	42						
4. Clear statement of opinion as to whether the financial statements are in accordance with the financial reporting framework	<i>Compliance</i>	25	8	33	12,531**	1	,000	9,940**	,002	,001
	<i>Non-compliance</i>	1	8	9						
	<i>total</i>	26	16	42						
5. Clear statement of opinion as to whether the financial statements comply with statutory requirements, if applicable	<i>Compliance</i>	26	16	42	,000 ^{ns}	1	1,000	,000 ^{ns}	1,000	1,000
	<i>Non-compliance</i>	0	0	0						
	<i>total</i>	26	16	42						

** Significant difference at 5%

ns= Non-significant difference

TABLE 11. Percentage of conformity to elements dealing with scope paragraph of auditor's report

Elements		Number of report agreeing with ISA700		Percentage of report agreeing with ISA700	
		Big Four Accounting Firms	Second Tier Firms	Big Four Accounting Firms %	Second Tier Firms %
1. Identification of the financial reporting framework	<i>Compliance</i>	25	7	96%	44%
	<i>Non-compliance</i>	1	9	4%	56%
	<i>Total</i>	26	16	100%	100%
2. Identification of the country when financial reporting framework followed is not the IASB framework	<i>Compliance</i>	24	4	92%	25%
	<i>Non-compliance</i>	2	12	8%	75%
	<i>Total</i>	26	16	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	<i>Compliance</i>	26	16	100%	100%
	<i>Non-compliance</i>	0	0	0	0
	<i>Total</i>	26	16	100%	100%
4. Clear statement of opinion as to whether the financial statements are in accordance with the financial reporting framework	<i>Compliance</i>	25	8	96%	50%
	<i>Non-compliance</i>	1	8	4%	50%
	<i>Total</i>	26	16	100%	100%
5. Clear statement of opinion as to whether the financial statements comply with statutory requirements, if applicable	<i>Compliance</i>	26	16	100%	100%
	<i>Non-compliance</i>	0	0	0	0
	<i>Total</i>	26	16	100%	100%

6. Conclusion

This paper examines the respect level of auditor report ISA700 (International Standard on auditing) by Tunisian auditors who represent international accounting firms. The choice of this standard has been motivated by its adoption in 2002 by the Tunisian Institute of Certified Public Accountants.

For this study we divided the sample studied into reports published by auditors whose represent Big four accounting firms and those expressed by auditors whose represent Second Tier Firms. The analysis uses the Chi-square statistic to test four hypotheses dealing with equally conformity to 26 elements of form and content of the audit report.

Except five elements (name of specific location where the auditor maintains an office, identification of the period covered by the financial statements, identification of the financial reporting framework, identification of the country when financial reporting framework followed is not the IASB framework and clear statement of opinion as to whether the financial statements are in accordance with the financial reporting

framework), the equally compliance is verified for the remaining twenty one elements prescribed by International standard on auditing “ISA700”. The results also suggest that the indexed report is the least desirable element by the totality of auditors considered in the survey.

The highest compliance degree of the reports examined with several report ISA elements reveals that Tunisian auditors were conscious of the importance of ISA700 in the improvement of the communication between those perform the audit and those 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, ISA 13 has been revised in several years (in 1989, in 1994 and in 2002). 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 improvement of auditing opinion quality and provide the necessary clarifications of the elements related to content of auditor’s report.

The results of this article can not be interpreted safe from some limitations. First, only 42 auditor’s report 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 belonged to the sectors of activities that are not kept by the sample of the survey. Second, all reports examined are written in French. In order to accomplish the empirical study, these reports was 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 propose several opportunities for the 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 stricter application of ISA prepared by IFAC is wanted to determine the necessary improvement of practices and principles followed in auditor’s mission.

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