

**MANDATORY EMPHASIS PARAGRAPHS, CLARIFYING LANGUAGE, AND
JUROR ASSESSMENTS OF AUDITOR LIABILITY**

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ABSTRACT

In an attempt to improve the relevance and communicative value of the current audit reporting model, the PCAOB is considering a number of potential changes to the audit report's content and form. However, many commenters suggest that changes to the audit report will increase auditors' liability exposure. This study uses a diverse sample of undergraduate students and individuals called to jury duty in a federal circuit court to examine whether and how two potential changes to the audit report affect jurors' assessments of auditor liability. We predict and find that inclusion of a mandatory emphasis paragraph that identifies and describes a critical audit matter increases jurors' perceptions that the auditors acted negligently. However, we also find that clarifying the meaning of reasonable assurance serves to bridge the gap in jurors' expectations of the assurance provided by the audit with the level of assurance implied by reasonable assurance, thereby reducing the standard by which jurors assess auditor negligence.

Keywords: Audit Report, Auditor Liability, Auditor Negligence, Critical Audit Matter, Reasonable Assurance, Expectations Gap

I. INTRODUCTION

The auditor's report is the primary means by which auditors communicate information regarding the audit of the financial statements, but concerns about the transparency and relevance of the current audit reporting model have prompted the Public Company Accounting Oversight Board (PCAOB) to consider changing the content and form of the standard audit report (PCAOB 2011b; PCAOB 2013). Changes considered include mandating and extending the use of emphasis paragraphs to alert financial statement users to areas of critical importance (PCAOB 2011b; PCAOB 2013) and clarifying the meaning of key concepts such as reasonable assurance in the audit report (PCAOB 2011b).¹ Some have suggested that such changes to the current form of the audit report could result in increased auditor legal liability (PCAOB 2011a). However, extant research provides little empirical evidence regarding this potential effect. This study specifically addresses this void by examining how the inclusion of an emphasis paragraph that describes an area of significant judgment, as well as language that clarifies the level of assurance provided by auditors, in the audit report affect jurors' assessments of auditor negligence.

Financial statement preparers and users, including investors and others, generally agree that auditors possess unique and significant insight into the company and that communication of information specific to each audit would enhance the usefulness of the audit report (Carcello 2012; Church et al. 2008; CFA 2011; Mock et al. 2013). Current auditing standards permit the discretionary use of emphasis paragraphs (AICPA 1995)², but the PCAOB's (2013) proposal

¹A PCOAB concept release (PCAOB 2011b) offers the following examples of *terms* that could be clarified: "reasonable assurance," "auditor's responsibility for fraud," "auditor's responsibility for financial statement disclosures," "management's responsibility for the preparation of the financial statements," "auditor's responsibility for information outside the financial statements," and "auditor independence" (27-29). Asare and Wright (2012) included "reasonable assurance" in the list of terms examined in their study, as well as "test basis," "significant estimates," and "present fairly," (195).

² SAS 79 gives auditors discretion to add language to the auditor's report to emphasize matters that are appropriately disclosed in the financial statements. Examples of matters the auditor could emphasize are (1) that the entity is a component of a larger business enterprise, (2) that the entity has had significant transactions with related parties, (3)

would require their use in all public company audit reports to highlight critical audit matters (e.g., significant management judgments and estimates, areas with significant measurement uncertainty, etc.). The PCAOB's proposal, therefore, reflects the notion that disclosure of the most significant matters that the auditor encounters during the audit within the actual body of audit report will increase the relevance of the audit report.

While the Big 4 audit firms agree that the identification of critical audit matters would provide meaningful information to investors and other financial statement users, they strongly urge the PCAOB to consider the potential increase in auditors' liability exposure associated with this proposed change (PCAOB 2011g; PCAOB 2011i; PCAOB 2011k; PCAOB 2011l). Because auditors are required to document significant findings or issues throughout the entire audit process (AS No. 3 ¶12, PCAOB 2004), jurors in cases of alleged auditor negligence would likely hear testimony and review workpaper evidence related to auditors' identification of, and work performed on, such critical audit matters. Prior research finds that auditors' consideration of these matters (Reffett 2010), as well as their documentation of the audit work to address such matters (Backof 2013) affects jurors' negligence liability assessments. However, what is unclear from prior research, and what this study specifically investigates, is how the disclosure of critical audit matters in the audit report affects auditors' liability.

In addition to requiring the inclusion of critical audit matters in the audit report, the PCAOB considered (PCAOB 2011b) including an expanded explanation of the key concept of reasonable assurance. Current auditing standards require auditors to provide reasonable assurance (as opposed to absolute assurance) that the financial statements are free of material misstatements (AU 230.10; PCAOB 2006). However, the Cohen Commission (AICPA 1978)

unusually important subsequent events, and (4) accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period (AICPA 1995, 3).

concluded that such technical terminology used in the audit report can be easily misinterpreted. Subsequent standards have attempted to clarify other technical terms (e.g., AICPA 1992³), but the lack of a commonly accepted definition of reasonable assurance has led to a persistent “expectations gap” between the level of assurance expected and the actual level of assurance delivered by auditors (Asare and Wright 2012; Hogan et al. 2008; Low and Boo 2012; McEnroe and Martens 2001; Reffett et al. 2012). This expectation gap makes it difficult for auditors to know the level of assurance against which jurors will evaluate auditors’ actions when determining negligence. Despite the call for more information in the audit report about the level of assurance provided by auditors (CFA 2011), the PCAOB omitted this clarifying language in its proposed audit reporting standard (PCAOB 2013). This study provides insight into that decision by examining how clarifying the term reasonable assurance would affect jurors’ perception of the level of assurance auditors provide and, in turn, their assessments of auditor negligence.

To examine these changes to the audit reporting model, we conduct an experiment using a 3 x 2 factorial design in which a diverse group of individuals called for jury duty and undergraduate students assume the role of jurors in a case alleging auditor negligence adapted from Backof (2013).⁴ We manipulated *emphasis paragraph* at three levels. In the *no emphasis* condition, the audit report did not include a critical audit matter paragraph. Given that any modifications to the audit report are useful only when they provide new information that is not available in the financial statements (Mock et al. 2013), we examine whether the disclosure of a

³ SAS 69 was drafted to clarify the meaning of “fairly presents”, and states that the auditor’s “judgment concerning the ‘fairness’ of the overall presentation of financial statements should be applied within the framework of GAAP” (AICPA 1992).

⁴ Our materials were adapted from the alternatives presented and risks linked to procedures condition reported in Backof (2013). We used this condition because jurors are most likely to find auditors negligent (57%), but award the lowest damages (Backof 2013). This provides the strongest setting for testing the effect of the inclusion of the critical audit matter paragraph and clarifying language on auditor negligence.

critical audit matter in the audit report is informative on its own or whether a description of the key audit procedures performed to address that matter is necessary to affect jurors' decision making. In particular, our *emphasis* condition included a paragraph that highlights the risk of material misstatement and why the auditors identified that risk as critical. The same paragraph was included in the *emphasis with procedures* condition, with additional language describing the specific audit procedures performed to address the risk of material misstatement. Our second independent variable, *clarifying language*, was manipulated at two levels. Half of the audit reports clarified that auditors were required to provide high, but not absolute, assurance that may not detect a material misstatement, while the other half of the reports contained no such clarifying language. Importantly, all of the information provided in the emphasis with procedures condition and clarifying condition was also included in the testimony and audit workpapers provided to all of the participants during the experimental trial. Only the audit report (not the information provided) differed across conditions.

Overall, our results indicate that clarifying the term *reasonable assurance* within the audit report significantly influences jurors' assessments of auditor negligence. Specifically, jurors are less likely to find auditors' negligent when the audit report includes clarifying language. This finding is particularly interesting in light of the PCAOB's decision to exclude such clarifying language from its proposed standard (PCAOB 2013). We also find that the degree to which jurors' are influenced by the presence of an emphasis paragraph depends on the type of information that the paragraph discloses. Absent any clarifying language, participants were more likely to perceive the auditors as negligent when the emphasis paragraph not only identified and described a critical matter, but also described the specific audit procedures performed to address the matter. However, this effect is moderated in the presence of clarifying

language. Specifically, when the audit report includes an emphasis paragraph that identifies and describes a critical audit matter, but does not describe specific audit procedures, clarifying the term reasonable assurance does not affect jurors' negligence likelihood assessments of auditors. In contrast, when the paragraph does describe specific audit procedures, the presence (absence) of clarifying language significantly reduces (increases) average negligence likelihood scores, relative to the other two emphasis conditions.

This study provides unique insight into how the information disclosed in the audit report influences jurors during negligence litigation. Our results inform regulators and practitioners regarding the implications of two potential changes to the audit reporting model for auditors' litigation exposure. These implications are important because a change in auditors' litigation risk is likely to have consequences for audit quality, and, thereby, audit fee structure. While this study specifically examines how one subset of audit report users (jurors) are affected by two potential changes to the audit report, our findings raise questions regarding the relevance of these changes to other types of report users. More broadly, we make an important contribution to the audit literature and our understanding of the factors that drive the so-called expectations gap, and how that gap might be bridged.

II. THEORETICAL DEVELOPMENT

Changes to the Standard Audit Report

The audit report is the primary means by which auditors communicate information to external users of the financial statements.⁵ Critics of the current form of the audit report frequently cite users' uncertainty regarding the level of assurance provided by auditors and the

⁵ According to the PCAOB's Chief Auditor and Director of Professional Standards, Martin Baumann, the audit report is "the audit's most visible product," and current efforts to improve the report are "one of the most compelling issues of the day" (Baumann 2013).

lack of specific information related to the audit as limitations to the report's communicative value (Asare and Wright 2012; Carcello 2012; Mock et al. 2012). In order to improve the report's informativeness, the PCAOB is considering a number of potential changes to the content and form of the standard audit report that are "designed to improve communication of the auditor's current responsibilities related to a financial statement audit based on existing auditing standards," (PCAOB 2011b, 12). One of the proposed changes would include language within the body of the audit report to clarify the meaning of reasonable assurance (PCAOB 2011b), while another change would require the inclusion of emphasis paragraphs that identify matters of critical importance (PCAOB 2011b; PCAOB 2013). Although the audit firms believe these changes will improve users' understanding of the audit function and the relevance of the audit report, respectively, they strongly urge the PCAOB to consider the potential for increased litigation risk associated with these changes (PCAOB 2011g; PCAOB 2011i; PCAOB 2011k; PCAOB 2011l). This study specifically addresses these concerns by investigating how the proposed clarifying language and critical audit matter emphasis paragraph affects auditors' liability.

To evaluate auditor negligence, jurors must determine if the auditor had a duty, if the auditor breached that duty, if the plaintiff suffered a loss, and if the auditor's breach of duty was the proximate cause of the plaintiff's loss (Causey and Causey 1991). In other words, legal standards indicate that jurors should evaluate auditors based on the quality of their work. However, jurors hearing an auditor negligence case typically do not have any audit experience (Fulero and Penrod 1990; Zeisel and Diamond 1976). This lack of understanding of the audit process threatens jurors' ability to objectively evaluate allegations of auditor negligence in accordance with prescribed legal standards. The two proposed changes in the audit report

examined in this study have the potential to improve jurors' understanding of the audit of the financial statements by enhancing both the transparency of the audit process and the relevance of the audit report. However, it is unclear how jurors' enhanced understanding of the audit will impact the auditors' litigation risk.

Jurors' Assessments of Auditor Negligence

We rely on the Culpable Control Model (CCM) of blame attribution (Alicke 2000) to predict and test how the proposed changes in the audit report will affect jurors' evaluations of auditor negligence. The CCM captures the cognitive process by which jurors evaluate auditors' negligence (Backof 2013). Consistent with prior literature (e.g., Kadous 2001; Reffett 2010), this model suggests that jurors' negative affective reactions to the details of the case impact their evaluations of auditor negligence (e.g., Kadous 2001; Reffett 2010). However, the incremental utility of the CCM above and beyond theories documented in prior studies of auditor negligence is that this comprehensive model of jurors' decision making explains that jurors' evaluations of auditor negligence are also impacted by their assessments of auditors' personal control over the misstatement. The criteria used to assess personal control over a negative outcome include the actor's intention to avoid the negative outcome, the foreseeability of the outcome, and the actor's causal control over the outcome (Alicke 2000). While this study focuses primarily on whether the inclusion of clarifying language and critical audit matter paragraphs affect jurors' negligence decisions, our study relies on the CCM to develop our hypotheses and explain how these changes affect the underlying cognitive process that leads to jurors' negligence assessments.

Clarifying Reasonable Assurance

The stated purpose of the PCAOB's consideration of clarifying technical terminology within the audit report is to "provide additional explanation about what an audit represents and

the related auditor responsibilities” (PCAOB 2011b, 27).⁶ As stated in the scope paragraph of the current audit report, auditing standards require auditors to provide reasonable assurance that the financial statements are free of material misstatements (AU 230.10; PCAOB 2006). However, the ambiguity surrounding reasonable assurance and other technical language used in the auditor’s report has remained part of the larger debate over the report’s understandability for more than thirty years (Church et al. 2008; Gray et al. 2011). In 1978, the AICPA’s Commission on Auditors’ Responsibilities determined that such language could easily mislead users of financial statements and recommended elimination of its use (AICPA 1978). The literature since the Commission’s 1978 report supports the Commission’s concerns regarding users’ disparate interpretations of technical terms (e.g., Asare and Wright 2012; Gray et al. 2011; Harrington 2003; McEnroe and Martens 2001; Rezaee 2004; Zeff 1992), further finding that the interpretation of such terms also varies greatly among practicing auditors (Asare and Wright 2012; Gray et al. 2011).

While the PCAOB’s 2011 concept release suggested several terms whose meanings could be clarified in the audit report, this study focuses specifically on the effect of clarifying the meaning of reasonable assurance. The auditing standards explain that auditors are only required to provide reasonable, but not absolute, assurance that the financial statements are free of material misstatements, and therefore, an audit conducted according to audit standards may not detect a material misstatement (AU 230.10; PCAOB 2006). However, that clarified meaning of reasonable assurance is currently not included in the audit report, which contributes to potential variability in beliefs about the level of assurance that auditors are required to provide on any

⁶ Despite support from many commenters, including each of the Big 4 audit firms, on the PCAOB’s original concept release regarding inclusion of clarifying language, the proposed audit reporting standard released on August 13, 2013 does not include a proposal to include such language in the report. Nonetheless, we maintain this component of our research design for the reasons described in this section.

given audit (Asare and Wright 2012; Hasan et al. 2005; Hogan et al. 2008; Low and Boo 2012; McEnroe and Martens 2001; Reffett et al. 2012).

Jurors' perception of the required level of assurance on any given audit is particularly important when determining auditors' negligence. Auditors have a duty to exercise due professional care (AU 230.01; PCAOB 2006) by obtaining reasonable assurance about whether the financial statements are free of material misstatement (AU 230.10; PCAOB 2006). Determining whether or not auditors' breached this duty is a key consideration when evaluating auditor negligence (Causey and Causey 1991). However, the ambiguously defined benchmark of reasonable assurance has led to a persistent gap between the level of assurance expected and the actual level of assurance delivered by auditors (Asare and Wright 2012; Hogan et al. 2008; Low and Boo 2012; McEnroe and Martens 2001; Reffett et al. 2012). We argue that jurors' understanding of the limitations of reasonable assurance is an important factor affecting auditors' liability risk because their perceptions of the level of assurance that auditors provide serves as the benchmark of auditors' overall responsibility for detecting and correcting misstatements against which auditors' actions are evaluated.

By clarifying that an audit conducted in accordance with GAAP may not detect a material misstatement because reasonable assurance is not absolute assurance, jurors are notified of the limitations of the audit. This clarifying language supports the defense that compliance with generally accepted auditing standards does not guarantee the detection and correction of all material misstatements. In other words, the limitations of the auditing standards are partly to blame for the misstated financials. Given that "the role of a given cause in producing a given effect is discounted if other plausible causes are also present" (Kelly 1973, 113), we expect that the increased salience of the limitations of reasonable assurance will cause jurors to discount the

role of auditors' actions in causing the misstated financials. This is important because the CCM explains that the actor's (i.e., auditors') causal influence over the adverse outcome is one key determinant of auditors' personal control (Alicke 2000). Therefore, we expect that when the audit report clarifies the meaning of reasonable assurance as described in the auditing standards, jurors will perceive auditors as having less causal control over the misstated financials and, therefore, auditors are less liable for the adverse outcome. Stated formally, we hypothesize the following:

H1: Jurors will assess lower levels of auditors' negligence likelihood when language that clarifies the term reasonable assurance is included within the body of the audit report.

Mandatory Emphasis Paragraph

The PCAOB is also considering mandating the inclusion of an emphasis paragraph that describes matters identified by the auditors as critical to the financial statements taken as a whole (PCAOB 2013). Critical audit matters are those that the auditor addressed during the audit that “(1) involved the most difficult, subjective, or complex auditor judgments; (2) posed the most difficulty to the auditor in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to the auditor in forming the opinion on the financial statements” (PCAOB 2013, 15). In an effort to provide more relevant, specific information related to the audit, the PCAOB would require auditors to identify the critical matter, describe how they reached the conclusion that such a matter was critical, and explicitly highlight the relevant financial statement accounts and disclosures related to the matter in the audit report (PCAOB 2013).

This mandatory emphasis paragraph directly addresses complaints about the lack of company-specific information in the standard audit report (e.g., Asare and Wright 2013; Church et al. 2008). For example, over seventy-seven percent of respondents to a recent survey developed by the PCAOB's Investor Advisory Group (IAG) indicated that the audit report

should disclose the areas that pose the greatest financial statement and audit risk, and describe the audit work performed in those areas.⁷ Similar responses were provided to surveys conducted by the Chartered Financial Analysts Institute (CFA), suggesting that the auditors' report should provide more specific information about how the auditors reach their opinion on whether a company has fairly presented its financial statements in accordance with required financial reporting standards (CFA 2008; 2010; 2011). Thus, the PCAOB's proposal to mandate disclosure of critical audit matters reflects an effort to make the audit process more transparent, and, thereby, reduce the information asymmetry between company management and investors, through the auditor's primary vehicle of communication – the audit report.

In essence, a critical audit matter paragraph would provide new information that cannot be gleaned from the financial statements regarding a specific matter that increases audit risk. Church et al. (2008) note that departures from a standard unqualified audit opinion (e.g., qualified opinion, going concern, material internal control deficiency, etc.) provide relevant information that influences users' decision making. Concurrent studies find that the inclusion of emphasis paragraphs that identify critical audit matters influence users' investment decisions (Christensen et al. 2013; Doxey 2013), as well as their perceptions of management credibility and auditor independence (Doxey 2013). As for the effect of the disclosure of audit-specific information within a standard unqualified audit report on the questioning of auditors' judgments, Kang (2013) finds that audit committee members are less likely to question auditors regarding significant accounting estimates when the audit report includes an additional paragraph identifying the risk of those estimates as critical. Further, the inclusion of the additional

⁷ The survey was distributed to more than 300 investment professionals employed at investment banks, hedge funds, private equity funds, mutual funds, pension funds, and endowments. Many of the respondents held positions of leadership within their respective institutions, such as CEOs, presidents, managing directors, CFOs, controllers, CIOs, equity analysts, portfolio managers, and credit analysts (Carcello 2012).

paragraph in the audit report also increases the likelihood that audit committee members will be more self-protective rather than investor-protective.⁸ While this finding suggests that audit committee members' anticipate that increased transparency in the audit report will increase the company's liability exposure, it is unclear how the disclosure of information regarding company-specific risk will affect auditors' litigation risk in terms of juror assessments of auditor negligence.

Prior research provides insight on how identifying and investigating risks of material misstatements affect auditors' negligence likelihood. Reffett (2010) finds that the likelihood that jurors hold auditors liable for failing to detect fraud increases with the extent to which auditors investigate for fraud. This is because the more work auditors perform to address the specific risk of material misstatement due to fraud, the easier it is for jurors to imagine what auditors could have done differently to prevent the fraud's occurrence. Backof (2013) extends this line of research by examining how the documentation of the audit procedures performed to address the identified risks influences jurors' evaluations of auditor negligence. Holding the audit work constant, jurors perceive the misstatement as more foreseeable when auditors document their consideration of alternative accounting treatments rather than simply documenting the facts consistent with the accounting treatment followed. This, in turn, increases auditors' negligence likelihood. However, when the same documentation is combined with documentation that explicitly links identified audit risks to the specific procedures performed to mitigate those risks, jurors damage awards are the lowest.

We argue that disclosing a critical audit matter in the audit report provides jurors with new information regarding audit risk. In an auditor negligence trial, jurors review the audit

⁸ Kang (2013) defines a *self-protection* perspective as one in which "audit committee members' inclination towards pre-emptive criticism is geared to protecting managers, auditors and, ultimately, themselves, instead of being geared to the fiduciary protection of shareholders" (3).

workpapers that highlight auditors' identification and response to the identified risks of material misstatement (Backof 2013). However, highlighting a specific risk of material misstatement in the audit report increases the salience of that risk and arguably sends a signal that the audit firm is aware that the disclosed critical audit matter poses a significant audit risk. If auditors are willing to publicly acknowledge that this risk exists, it is reasonable to presume that auditors are concerned about the potential for a material misstatement associated with the critical matter disclosed in the audit report. While providing more of this information will increase the relevance and transparency of the audit report, there is the risk that it may also heighten jurors' perceptions of the risk associated with this critical matter. Consequently, when a material misstatement related to a critical audit matter goes undetected, we expect that jurors' perceptions of the foreseeability of the misstatement will increase as the information auditors provide regarding the specific risk of material misstatement in the audit report increases. Therefore, we predict that auditors will be perceived as more negligent as the information provided in the critical audit matter paragraph becomes more specific. Formally stated, we hypothesize the following:

H2: Jurors will assess higher levels of auditors' negligence likelihood when the audit report includes an emphasis paragraph that identifies and describes a critical audit matter.

Interaction of Clarifying Language and Critical Audit Matter Paragraph

The PCAOB's original concept release states that the two proposed alternatives investigated in this study are not mutually exclusive (PCAOB 2011b, 2). Consequently, we also examine the potential moderating effect of the simultaneous inclusion of clarifying language and a mandatory emphasis paragraph describing a critical audit matter on jurors' evaluations of auditor negligence. The theory developed above suggests that clarifying the limitations of reasonable assurance will lower jurors' expectations that all material misstatements will be

detected and corrected in an audit conducted in accordance with generally accepted auditing standards. We argue that this reduction in jurors' perceptions of the assurance that auditors are required to provide will also lower jurors' perceptions of the foreseeability of the misstatement due to the limitations on the amount of work required to be performed in an audit. As such, we expect that the inclusion of language that clarifies the limitations of reasonable assurance will reduce the adverse effect of highlighting a critical audit matter in the audit report on jurors' perceptions of the foreseeability of the misstatement and subsequent negligence assessments. Consequently, we formally hypothesize the following.

H3: Jurors' will assess lower levels of auditors' negligence likelihood when language that clarifies the term reasonable assurance, and an emphasis paragraph that identifies and describes a critical audit matter, are simultaneously included in the audit report, relative to when only an emphasis paragraph is included.

III. RESEARCH DESIGN

Research Participants

We employ a 3 x 2 between-participants factorial design to test our hypotheses. Our sample of research participants is comprised of undergraduate students enrolled in an introductory accountancy course at a large southeastern U.S. public university and individuals called to jury duty a federal circuit court. The undergraduate students volunteered for extra credit worth approximately one percent of their final grade in the introductory accounting course in which they were enrolled at the time the study was conducted.⁹ To solicit participation from individuals called to jury duty at a federal circuit court, we first obtained permission from the presiding chief judge. After obtaining the judge's permission, the jurors completed the

⁹ Students who declined to participate in the study were given an alternative opportunity to receive the same amount of extra credit in the course by completing a voluntary assignment.

experimental instrument while they were waiting to be questioned by the attorneys and were compensated \$10 cash for their participation in our study.

Experimental Materials and Procedures

At the beginning of each experimental session, participants were given a general overview of the study's purpose and how the information collected would be used. Participants were then informed that they would assume the role of a juror in a professional negligence case during the experiment. The participants then received a sealed packet containing the experimental materials, which included a written transcript of the trial, copies of all documents submitted as evidence, an audio player and headphones, and a compact disc containing an audio transcript of the trial.¹⁰

The experimental case was adapted from Backof (2013). The primary accounting issue in the case relates to a lower-of-cost-or market inventory valuation judgment. Specifically, a creditor of the audit firm's client alleges that the audit firm was negligent in its audit of inventory valuation. This alleged negligence resulted in a material overstatement in the inventory account upon which the creditor relied on when making its lending decision. After the misstatement came to light, the company filed bankruptcy and the creditor incurred significant losses.

The proceedings of the trial consisted of the plaintiff's complaint, the defendant's answer, both attorneys' opening statements, testimony from both the plaintiff's and defendant's expert witnesses, cross-examination of both expert witnesses, testimony from both the plaintiff and defendant's damages experts, closing statements from both attorneys, and the judge's instructions to the jury. It is important to note that all jurors heard testimony that both clarified the term "reasonable assurance" and described the process through which risks of material

¹⁰ Jurors in an actual negligence trial would hear the oral testimony, as well as see the actual evidence presented during the trial. Therefore, to enhance the external validity of our experimental design, we provide an audio recording of the trial in addition to the written transcript containing copies of the documents entered into evidence.

misstatement are identified and addressed. In other words, only the audit report entered into evidence differed across conditions. By holding constant the information across all conditions, we are able to capture the pure effects of including clarifying language and/or emphasis paragraphs in the audit report.

After receiving the judge's instructions, the participants proceeded to the deliberation phase of the study. The American Bar Association requires that jurors have access to all exhibits admitted into evidence during the course of the trial during their deliberations (ABA 2005). The booklet provided to participants in this second phase restated the plaintiff's complaint and defendant's answer, the judge's instructions, and the exhibits entered into evidence. This phase of the experiment concluded by asking the participants to rate the likelihood of the auditors' negligence and provide their binary verdict decision. Only those participants who voted "guilty" were asked to provide an amount of monetary damages to be awarded to the plaintiff. During the third and final phase of the experiment, participants responded to a series of general questions about the trial and provided demographic information about themselves.

Independent Variables

We manipulated two variables related to potential changes to the audit report: *emphasis paragraph* and *clarifying language* (See Appendix A). Our first independent variable, *emphasis paragraph*, was manipulated at three levels. In the *no emphasis* condition, the audit report is presented without the inclusion of an emphasis paragraph highlighting the critical audit matter. The *emphasis* condition includes a paragraph that identifies management's lower-of-cost-or-market valuation of ending inventory as a critical audit matter. The same paragraph is included in the *emphasis with procedures* condition, with additional language describing the specific audit procedures performed to address the risk of material misstatement. Our second independent

variable, *clarifying language*, was manipulated at two levels. The participants in the *no clarify* condition reviewed the current wording in the scope paragraph of the standard audit, while the audit report in the *clarify* condition contained an enhanced explanation of reasonable assurance. In an experimental study examining users' understanding of differential assurance levels provided through different types of assurance engagements, Low and Boo (2012) find that providing contrasting statements regarding what level of assurance is and is *not* provided yielded the most appropriate interpretation of the term. Therefore, we follow Low and Boo (2012) and use the following contrasting description of reasonable assurance based on language in existing auditing standards in our *clarify* condition:

Because of the nature of audit evidence and the characteristics of fraud, the auditor is able to obtain reasonable assurance that material misstatements are detected. Reasonable assurance is a high level of assurance, but not absolute. Therefore, an audit conducted in accordance with generally accepted auditing standards may not detect a material misstatement.¹¹

Dependent Variables

The primary purpose of this study is to investigate the effects of the proposed changes in the audit report on jurors' negligence decisions. Therefore, our main dependent variables are participants' ratings of the likelihood that the audit firm acted negligently (0 = Not at all likely, 10 = Extremely likely) and their binary verdict decisions (guilty, not guilty).

In an effort to further understand how these proposed changes will affect auditor negligence, we also gathered several other dependent variables that would allow us to model jurors' decision making process. Following Backof (2013), we measured each of the factors in the Culpable Control Model. Specifically, jurors rated the extent to which auditors' *caused* the plaintiff's loss (0 = Not at all the cause, 10 = Completely the cause), whether the auditors

¹¹ This language was adapted from that provided in AU sec. 230, *Due Professional Care in the Performance of Work*.

intended to conduct a quality risk-based audit (0=Not at all intended, 10 = Completely intended), and the *foreseeability* of the misstatement (0 = Not at all foreseeable, 10 = Completely foreseeable). Consistent with Backof (2013), these three measures load on a single factor that quantifies the latent construct of auditors' *personal control* over the misstatement. To measure jurors' overall feelings about the case, we asked jurors to indicate the direction and strength of their feelings toward (1) the audit firm and (2) the plaintiff (0 = Very negative, 10 = Very positive) after hearing the entire case. We then subtracted their feelings toward the plaintiff from their feelings toward the audit firm to create a measure of jurors' direct spontaneous affective reactions to the case (-10 = Very pro-plaintiff, 10 = Very pro-defendant). To measure jurors' indirect spontaneous affective reactions to the auditors, jurors rated the favorability of their impression of the audit firm (0 = Very unfavorable, 10 = Very favorable). Finally, we captured jurors' perceptions of the level of assurance provided by the audit firm (0 = No assurance, 10 = Absolute assurance), as well as the intensity of their counterfactual thoughts regarding what the auditors could have done differently (0 = Not at all seriously, 10 = Very seriously).

IV. RESULTS

Descriptive Statistics

A total of 267 individuals voluntarily participated in the study, including 24 individuals called to jury duty in a federal district court, and 243 undergraduate students. Of the 267, one participant failed to respond to any of the questions in the experimental materials, leaving 266 usable responses in the final sample. 145 of the participants were male and 105 were female.¹² The average age for the undergraduate and juror participants was 20 and 53, respectively.

¹² Fourteen of the participants failed to provide demographic information at the conclusion of the experiment. We tested those participants' responses to the questions regarding the case and found no significant differences from those who *did* provide demographic information.

Our experimental case included a question specifically designed to assess the extent to which participants understood that the accounting issue underlying the misstatement within the financial statements was driven by the incorrect valuation of inventory, rather than its quantity. The majority of participants (177, or 66.3%) stated that the matter related to valuation, while only 10 participants (3.7%) indicated quantity. 28% of participants stated that the misstatement related to both incorrect valuation and quantity. Results of our primary analyses are substantively similar when we exclude participants who did not indicate that the issue was one of valuation. Therefore, reported results are based on the entire sample of participants, as described above.

Tests of Hypotheses

To test our hypotheses, we estimate an ANOVA model of participants' assessments of auditor negligence likelihood (see Panel B of Table 1). Results of this model indicate that, holding the effects of our emphasis paragraph manipulation constant, the presence of language that clarifies the meaning of reasonable assurance in the audit report significantly influences jurors' determinations of auditors' negligence ($F_{1, 260} = 7.023, p=0.009$, one-tailed). While we fail to find a statistically significant main effect for the inclusion of an emphasis paragraph that describes a critical audit matter, the model does suggest that the presence of clarifying language differentially affects participants' assessments of auditor negligence across the three emphasis conditions ($F_{2, 260} = 2.373, p=0.048$, one-tailed).

[INSERT TABLE 1 HERE]

Test of H1

H1 specifically predicts that clarifying the term reasonable assurance in the audit report will *lower* participants' assessments of auditor negligence. Panel A of Table 1 reports descriptive statistics for participants' assessments of auditors' negligence likelihood, and reveals that, in

support of H1, participants systematically assessed higher levels of negligence likelihood when the audit report failed to clarify the meaning of reasonable assurance (Mean for *clarify* = 4.91, Mean for *no clarify* = 5.63, $t = 2.674$, $p = 0.004$ one-tailed). We also estimate a generalized linear model with a logit link¹³ to determine whether our independent variables affect jurors' binary verdict decisions are influenced by our independent variables (See Panel D of Table 1). Results of this model provide further support for H1, indicating that inclusion (exclusion) of language that clarifies the meaning of reasonable assurance, statistically significantly decreases (increases) the odds that the auditor will be found not guilty (guilty) of professional negligence ($\chi^2 = 8.235$, $df = 1$, $p = 0.004$). Thus, H1 is supported.

Test of H2

H2 predicts that when the audit report contains an emphasis paragraph that identifies and describes a critical audit matter, jurors will assess higher levels of auditors' negligence likelihood relative to when no such paragraph is included. To test H2, we perform a linear contrast (Buckless and Ravenscroft 1990) of cell means and assign a contrast weight of -2 when the audit report does not include an emphasis paragraph, +1 when the report includes an emphasis paragraph that identifies and describes a critical audit matter, and +1 when the emphasis paragraph also describes the specific audit procedures performed to address the critical matter. As hypothesized, participants in the *no emphasis* condition assessed lower levels of auditor negligence likelihood (Mean = 4.98) than in both the *emphasis* (Mean = 5.37) and *emphasis with procedures* condition (Mean = 5.48). While only marginally significant, we find directional support this hypothesis at an alpha level of 0.05 ($t = 1.535$, $p = 0.062$ one-tailed).

[INSERT FIGURE 1 HERE]

¹³ We calculated Hosmer and Lemeshow's Chi-square to assess whether our estimated logistic regression model fit the data sufficiently for statistical inference. Results of this test statistic ($\chi^2 = 1.006$, $df = 4$, $p = 0.909$) indicate "good fit".

Test of H3

While inclusion of an emphasis paragraph that identifies a critical audit matter tends to evoke more severe assessments of auditor negligence liability (H2), clarifying the term reasonable assurance in the audit report lowers those assessments (H1). H3 formally predicts that the clarifying language, when simultaneously included in the report along with an emphasis paragraph, will offset the emphasis paragraph's implications for auditor negligence assessments. Linear contrast test results confirm that while inclusion of an emphasis paragraph does increase the severity of participants' negligence assessments, clarifying the term reasonable assurance does effectively reduce the severity of those assessments ($F_{1, 260} = 4.070, p = 0.023$ one-tailed). Thus, H3 is also supported.

However, as illustrated in Figure 2, this effect is strongest when the emphasis paragraph also describes specific audit procedures. Specifically, when the emphasis paragraph describes audit procedures, inclusion of clarifying language reduces mean negligence likelihood assessments from 6.17 to 4.80 ($F_{1, 260} = 11.132, p < 0.000$ one-tailed). In contrast, when the emphasis paragraph does not describe specific audit procedures performed to address the matter being emphasized, inclusion of clarifying language yielded only a 0.03 difference in mean assessments of auditor negligence likelihood.

[INSERT FIGURE 2 HERE]

Additional Analyses

In an effort to understand how jurors' assessments of auditor negligence are affected by the inclusion of language that clarifies reasonable assurance and emphasis paragraphs that identify and describe critical audit matters in the audit report, we also examine factors specified

by the CCM that contribute to jurors' ultimate negligence decisions (e.g., Backof 2013¹⁴). Backof (2013) demonstrates that jurors' assessments of auditor negligence are influenced by their perceptions of the auditors' *personal control* over the material misstatement. The CCM states that perceptions of personal control are determined by jurors' assessments of the extent to which auditors *caused* the material misstatement, the *foreseeability* of the misstatement, and auditors' *intentions* to conduct a quality risk-based audit.

We develop H1 by predicting that clarifying the term reasonable assurance will reduce participants' assessments of the extent to which the auditors *caused* the material misstatement because, without clarifying that reasonable assurance is not absolute assurance, jurors will infer a higher level of assurance that the financial statements are free of material misstatements than is actually provided by the audit. Participants' responses indicate that the clarification of reasonable assurance does significantly reduce their perceptions of the extent to which auditors *caused* the misstatement (Mean = 5.80 no clarify, Mean = 4.50 clarify, $F_{1, 260} = 19.050, p < 0.000$ one-tailed). As a more direct measure, we also asked participants how much assurance that the financial statements are free of material misstatement the audit firm was responsible to provide (0 = No Assurance, 10 = Absolute Assurance). Responses support our conjecture that perceptions of auditors' causal control, and thereby, assessments of negligence likelihood, are driven by the level of assurance participants' believe the auditors provide. As expected, clarifying reasonable assurance significantly reduces participants' perceptions of the level of assurance that the financial statements are free of material misstatements from 7.353 to 6.028 ($F_{1, 260} = 31.293, p < 0.000$).

¹⁴ Before testing whether our independent variables affect the CCM factors, we replicate Backof (2013)'s structural equation model, and note that our data yielded substantively similar loadings and fit.

In H2, we argue that jurors' assessments of auditors' negligence likelihood will increase with the level of information disclosed in the emphasis paragraph regarding the critical audit matter because the incremental information increases the intensity of their counterfactual thoughts regarding what the auditors could have done differently to prevent the material misstatement, which, in turn, increases perceptions of the misstatement's foreseeability. In addition to directly measuring participants' perceptions of foreseeability, we also ask them how seriously they considered what the audit firm could have done differently to detect the misstatement in the inventory account (0 = Not at all Seriously, 10 = Very Seriously). Results of linear contrasts support our theory. The presence of an emphasis paragraph increased average levels of counterfactual intensity from 6.918 to 7.441 ($t = 2.07, p = 0.0195$ one-tailed). This increase was significant regardless of whether specific audit procedures were disclosed in the emphasis paragraph ($t = 1.68, p = 0.048$ one-tailed) or not ($t = 1.93, p = 0.030$ one-tailed). These findings corroborate those related to the foreseeability measure (See Panel B of Figure 1). Participants' perceptions of the misstatement's foreseeability are increased by inclusion of an emphasis paragraph relative to when no such paragraph is disclosed (Mean = 5.91 vs 4.87, $F_{1, 260} = 4.666, p = 0.016$ one-tailed), and are further increased when specific audit procedures performed to address the critical matter being emphasized are also described (Mean = 6.98, $F_{1, 260} = 18.944, p < 0.000$ one-tailed).

We also predict and find a significant interaction of our *clarify* and *emphasis* manipulations (H3) on auditor negligence judgments. We develop this prediction by theorizing that the increase in perceptions of the misstatement's *foreseeability* resulting from inclusion of the emphasis paragraph will be reduced when the concept of reasonable assurance is clarified. Results of linear contrast tests indicate that the clarifying language systematically reduces the

impact of the emphasis paragraph on participants' assessments of the misstatement's *foreseeability* ($F = 6.334$, $p = 0.006$ one-tailed). However, we also observe that the impact of clarifying language differs across levels of the emphasis condition. When the emphasis paragraph also describes specific audit procedures, clarifying reasonable assurance reduces participants' foreseeability assessments from 6.98 to 5.72 ($F = 6.840$, $p = 0.005$). While participants' foreseeability responses when the emphasis paragraph does not describe specific audit procedures are also lowered by the presence of clarifying language (Mean = 5.91 vs. 5.43), we find only weak statistical evidence in support of this effect's predictability ($F = 0.958$, $p = 0.165$ one-tailed).

V. CONCLUSION

The audit report represents auditors' primary vehicle of communication regarding the audit process and how the audit opinion is reached, yet little is known about whether its content affects juror decisions in cases of alleged auditor negligence. In response to demand for improvement to the audit report's communicative value, the PCAOB is considering a number of potential changes to the report's content and form (PCAOB 2013). Practitioners, scholars, and standard-setters, however, acknowledge that changes to the report could have implications for auditors' liability exposure. This study contributes to our understanding of audit report's relevance to jurors by examining whether and how two potential changes to the reports content and form affect the underlying cognitive process that leads to jurors' assessments of auditor negligence. Specifically, we examine whether inclusion of language that clarifies the meaning of reasonable assurance improves jurors' understanding of the auditor's responsibilities and limitations of the audit process. We also investigate whether an emphasis paragraph that identifies and describes a critical audit matter related to an undetected material misstatement

incrementally informs jurors' decisions above and beyond the information presented throughout the course of the trial.

Our theoretical predictions use the CCM (Alicke 2000) to not only determine whether the proposed changes are relevant to jurors, but also identify what specific factors lead to differential negligence judgments. We predict and find that clarifying the meaning of reasonable assurance within the audit report reduces participants' assessments of auditors' negligence likelihood, while inclusion of a mandatory emphasis paragraph that describes a critical audit matter results in higher negligence assessments. We argue that by explicitly stating that reasonable assurance is a high level but not assurance, users of the audit report are more able to understand that an audit conducted in accordance with generally accepted auditing standards is limited in its ability to detect material misstatements. If jurors do not understand this limitation, jurors might attribute more causal control over the misstatement's occurrence to the auditors for not auditing to the extent necessary to achieve the level of assurance perceived to be implied by reasonable assurance. In other words, when presented with information about an undetected material misstatement, an inflated perception of the level of assurance provided by the audit can be misinterpreted by jurors as a lack of diligence (i.e., unfulfilled responsibilities) by the auditors, thus exacerbating the expectations gap and leading to higher assessments of negligence. Our findings indicate that clarifying what is meant by reasonable assurance directly reduces participants' perceptions of the level of assurance provided by the audit, which, in turn, reduces their assessments of auditors' causal control over the misstatement, and ultimately their beliefs regarding whether the audit was conducted negligently.

We also find that inclusion of an emphasis paragraph that identifies and describes a critical audit matter increases the probability that jurors' will make more severe assessments of

auditors' negligence. Moreover, auditors are perceived to be even more negligent when the paragraph also describes the specific audit procedures performed to address the critical matter. Consistent with prior studies (e.g., Backof 2013; Reffett 2010), this appears to be closely related to the intensity of participants' counterfactual thoughts regarding what the auditors could have done differently to detect the misstatement, as well as the misstatement's foreseeability. However, when clarifying language is simultaneously included in the report, the language effectively intervenes upon the emphasis paragraph's ability to influence jurors' decisions. This finding is of particular importance, as the PCAOB maintains that none of the contemplated changes to the audit report are mutually exclusive (PCAOB 2011b).

This study informs practitioners and standard-setters regarding PCAOB's proposed changes to the audit and potentially unintended consequences related to auditors' liability exposure. We also contribute to the auditor negligence literature by providing further validation of the CCM's ability to effectively model the underlying determinants of jurors' judgments of auditor negligence. Additionally, this study makes an important contribution to the literature addressing the gap in expectations between what financial statement (and audit report) users expect from auditors, and auditors' understanding of their responsibilities, as prescribed by auditing standards. Our results indicate that when a material misstatement related to a critical audit matter goes undetected jurors' perceptions of the foreseeability of the misstatement increase as the information auditors provide in the audit report regarding the specific risk of material misstatement in the audit report increases, thereby increasing jurors' perceptions of the auditors' negligence. In other words, providing more information and transparency regarding the audit process, the stated purpose of the PCAOB's proposal to mandate critical audit matter paragraphs, appears to exacerbate the so-called expectations gap. However, simply clarifying the

meaning of reasonable assurance mitigates this exacerbation. Based on our examination of specific factors described by the CCM that contribute to jurors' ultimate judgments of auditors' negligence, we infer that the dominance of the language effect observed in this study relates to the fact that the concept of reasonable assurance applies to all audits of public companies under generally accepted standards. On the other hand, the PCAOB's proposal to mandate critical audit matter paragraphs reflects the notion that the company- and audit-specific insight that only the auditors possess would be most informative to audit report users. While several studies have addressed the disparate interpretations of audit report terminology among users (e.g., Asare and Wright 2013), few have attempted to reconcile the disparity. Future studies should explore whether clarification of reasonable assurance in the audit report is also useful in aligning the expectations of other types of audit report users (e.g., investors, audit committee members) with the expectations of auditors.

This study is subject to limitations. As previously discussed, this study focuses on one specific subset of audit report users. Thus, future research should examine whether the findings documented in this study generalize to other settings and types of audit report users. Also, the alleged auditor negligence in our experimental case stemmed from the auditors' judgment of an aggressive valuation of the inventory account. There were no allegations of management fraud or misconduct, which leaves the generalizability of our inferences to negligence settings stemming from alleged fraud to future studies. Finally, this study examines the implications of changes to the audit report for jurors' judgments of auditor negligence given an audit failure, and not whether the proposed changes affect the probability of an audit failure, or the frequency with which negligence allegations are brought against an audit firm.

APPENDIX A

Exhibit 1 Smith & Company Audit Report

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Internet-4-All, Inc.:

We have audited the accompanying financial statements of Internet-4-All (the Company), which are comprised of the balance sheet as of December 31, 2012, and the related statements of income, shareholders' equity, and cash flows for the year then ended, and the related notes to the financial statements. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. **[Clarifying Language condition: Because of the nature of audit evidence and the characteristics of fraud, the auditor is able to obtain reasonable assurance that material misstatements are detected. Reasonable assurance is a high level of assurance, but not absolute. Therefore, an audit conducted in accordance with generally accepted auditing standards may not detect a material misstatement.]** Our audit of the financial statements included performing procedures designed to obtain and evaluate, on a test basis, evidence supporting the amounts and disclosures of the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. Our audit also included assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Internet-4-All as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

[Emphasis and Emphasis with Procedures conditions:

Justification of Auditor Assessments

In accordance with the professional standards applicable in the United States, we are required to bring to your attention any critical audit matters. Critical audit matters are matters (1) that involved difficult, subjective or complex judgments, (2) for which it was difficult to obtain sufficient audit evidence, or (3) that posed difficulty to us in forming our opinion on the financial statement. The critical audit matter communicated below did not alter our opinion on the financial statements, taken as a whole.

As discussed in Note 1, *Significant Accounting Policies*, the Company elected to value its ending inventory at cost, rather than market value. Our audit included procedures designed to evaluate the risk of material misstatement associated with management's valuation of ending inventory at cost rather than market value. *[Emphasis with Procedures condition only: Specifically, we tested the Company's procedures for identifying obsolete inventory, considered changes in the inventory turnover rate, and analyzed the facts available at the time of the audit to determine if the market value of the inventory was lower than cost.]* Based on the procedures performed and our analysis of the facts available at the time of the audit, we conclude that the Company's inventory valuation is reasonable and that the related risk of material misstatement is insignificant to the financial statements as a whole.]

/s/ Smith and Company

New York, New York

February 21, 2013

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TABLE 1**Panel A: Negligence Likelihood Mean (standard error) [n] Condition**

	No Emphasis	Emphasis	Emphasis w/ Procedures	
Clarify	4.54 (0.348) [40]	5.40 (0.366) [40]	4.80 (0.304) [47]	4.91 (0.196) [127]
No Clarify	5.35 (0.338) [45]	5.37 (0.352) [47]	6.17 (0.279) [47]	5.63 (0.189) [139]
	4.98 (0.245) [85]	5.37 (0.253) [87]	5.48 (0.217) [94]	

Panel B: Two-Way ANOVA Results for Negligence Likelihood

Factor	df	MS	F	p-value (one-tailed)
Clarify	1	34.06	7.023	0.005
Emphasis	2	6.91	1.42	0.122
Clarify*Emphasis	2	11.51	2.37	0.048
Error	260			

Panel C: Tests of Hypotheses

Planned Contrasts	Mean Difference	Standard Error	p
H1: Clarify < No Clarify	0.62	0.272	0.004
H2: Emphasis > No Emphasis	0.45	0.589	0.062
H3: Clarify*Emphasis < Emphasis	0.72	0.656	0.023

Panel D: Generalized Linear Models (Logit Link, Binomial Distribution) for Verdicts of Auditor Negligence

Source of Variation	df	χ^2	p-value
Clarify	1	8.055	0.005
Emphasis	2	3.022	0.221
Clarify*Emphasis	2	1.033	0.605

Notes:

Clarify: treatment variable manipulated at two levels (*No Clarify* – no clarification of reasonable assurance; *Clarify* – clarifies the meaning of reasonable assurance in the audit report;)

Emphasis: treatment variable manipulated at three levels (*No Emphasis* – No emphasis paragraph included in the audit report; *Emphasis* – emphasis paragraph included in audit report that identifies and describes a critical audit matter; *Emphasis with Procedures* – emphasis paragraph included in the audit report that identifies and describes a critical audit matter, and describes specific audit procedures performed to address the matter)

Panel A summarizes descriptive statistics of participants ratings of the likelihood that the audit firm acted negligently (0 = Not at all likely, 10 = Extremely likely)

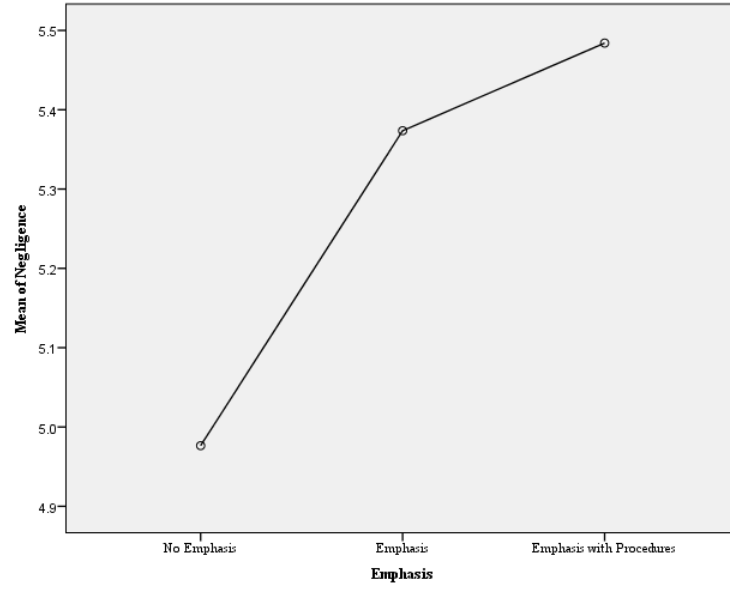
Panel B reports results of the estimated ANOVA model of participants' assessments of auditors' negligence likelihood.

Panel C summarizes results of hypotheses tests.

Panel D presents results of the generalized linear model with a logit link estimated for participants' binary negligence verdict decisions.

Figure 1

Panel A: Mean Negligence Likelihood Assessments



Panel B: Mean Foreseeability Assessments

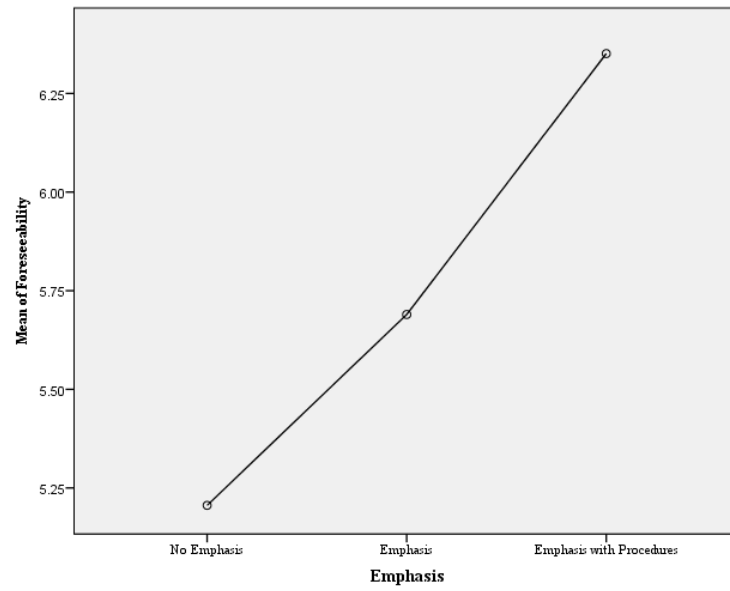


Figure 2

Marginal Means of Negligence Likelihood Assessments

