The Role of the Auditor in Managing Public Disclosures: Potentially Misleading Information in Documents Containing Audited Financial Statements

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Abstract

We investigate empirically the incidence of auditor modification of audit reports for misleading information included in other documents containing audited financial statements. Professional standards (specifically, SAS No. 8) require modification of the auditor's report for annual report information considered to be materially inconsistent in content or in manner of disclosure with information contained in the financial statements. Exhaustive data base key-word searches for phrases that would be associated with such report modifications did not reveal a single instance in which other information accompanying audited financial statements was considered materially misleading since the implementation of SAS No. 8 (1975). Despite this finding, numerous examples from recent research identify what appear to be potentially misleading disclosures in annual reports. Using examples from these studies, we surveyed CPAs and financial statement users and found that four of the five issues presented were seen as misleading. More authoritative guidance and/or more awareness on the part of auditors may be in order.

Keywords: Auditor reports; Misleading information.

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