

Changes to the Auditor's Report and the effects for the bank lenders in the Austrian financial market

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Abstract

The existing literature suggests that the audit has value for the users of financial statements but the usefulness of the auditor's report itself should be increased. Because of criticism from different groups the current auditor's report is subject to change. The IAASB issued an Invitation to Comment: Improving the Auditor's Report. Those changes should provide the readers of the auditor's report with more information, give clarifications to the audit and provide assurance to other information outside of the audited financial statements.

This study will analyse the bank lenders' perception of the current auditor's report and the proposed changes to the auditor's report and what changes bank lenders would like to see in the auditor's report. To gather primary data a case study methodology was adapted. Four Austrian bank lenders were included in this research to answer those research objectives.

The bank lenders included in the research had varied perceptions on whether the current auditor's report influences the lending process or not. The research shows that the higher informative value of the proposed auditor's report will increase the relevance of the auditor's report for the lending process. The interviewees proposed a few minor changes but the proposed changes by the IAASB are already a step in the right direction.

1 Introduction

1.1 Research background

After the financial crisis banks, rating agencies, hedge funds and central banks have been criticised for the roles they played. Auditors, who also played an important part, only received limited attention. For example, several banks reported huge losses in the years before and during the crisis but still received a clean or a so called unqualified audit opinion. In some cases auditors approved financial statements shortly before companies failed. This raises the question if the current auditing legislation is still adequate and appropriate. (European Commission, 2010)

The primary goal of an audit is to provide an external independent opinion whether the financial statements give a true and fair view and if they are prepared and presented in accordance with the appropriate accounting legislation. In the auditor's report the auditor expresses his opinion about the company's financial statements to the stakeholders of the company. The current report is a standard format and only shows the result of the audit but does not include any specific information about the findings for each company. (House of Commons, 2009)

The question of the appropriateness and efficiency of the audit regulation and audit reporting is because of high criticism from government agencies, regulators, professional groups, users and auditing overseers under scrutiny. It is a highly discussed topic between regulators and has led to calls for changes. For example research that shows that the auditor's report is not providing sufficient information for users was conducted by the Chartered Financial Analyst (CFA) Institute. It released a report in 2010 which states that 94% of the respondents would like additional information in the auditor's report. The Public Company Accounting Oversight Board's (PCAOB) Investor Advisory Group also conducted a survey. Their findings show that only 23% agree that the level of information provided in the auditor's report is sufficient. (Carcello, 2012)

Due to the concerns raised, standard setters worldwide are working on the preparation of a new standard to improve the auditor's reporting model. In the US the PCAOB issued a concept release on possible revisions to the audit reporting standards (PCAOB, 2011), in the UK the Financial Reporting Council (FRC) issued a consultation paper which revised the auditing standards and should expand the communication and reporting responsibilities for the auditors (FRC, 2012) and the International Auditing and Assurance Standard Board (IAASB) issued an Invitation to Comment: Improving the Auditor's Report which should increase the information content of the auditor's report (IAASB, 2012).

The proposal which was consulted in this research was the Invitation to Comment from the IAASB. This Invitation to Comment should supply more information for users, should provide clarifications about the audit and give assurance on other information besides the audited financial statements. The standard setter is in an early stage of creating revised audit reporting standards. The anticipated date of publication for the final revised auditing standard is June 2014. It is important to understand the effects and relevance of the changes for different stakeholder groups. (Mock et al., 2013)

There are different user groups of the audited financial statements. The researched user group in this dissertation is bank lenders. Financial information is an important basis for bankers on deciding whether or not to grant a loan to an organisation. Furthermore they also require updated financial statements during the loan period to manage their outstanding loans. Because bank lenders are highly reliant on those statements they need an independent validation that the financial statements are providing a true and fair view of the company's current financial position. (Kim, 2009)

1.2 Aims and objectives

This research is intended to answer the question of in what way do bank lenders use the auditor's report in the lending process and lending decision. Moreover it explores if the identified improvements to the auditor's report will meet the Austrian bank lenders' demand for a greater transparency of the audit of financial statements and also if the value of the auditor's report for the lending process can be increased through the changes. Furthermore it should not only explore what the bank lenders think of the current changes but also what changes the bank lenders would prefer to see in the auditor's report.

1.3 Approach to the research

The existing regulations and the changes to the regulations were analysed in terms of how they influence the lending process. To get deep and insightful information of the bank lenders' perception to the auditor's report four Austrian bank lenders were interviewed. This information was then used to build a framework to answer the previously outlined research objectives.

1.4 Dissertation organisation

The first chapter following the introduction is the literature review. It describes the currently existing literature and studies in the area of the auditor's report and bank lending. In the next chapter a detailed outline of the research methodology is included to present the approach that was followed to answer the research questions. The analysis and findings section is the next chapter. It includes the findings which were gathered during the case studies. The following

chapter is the conclusion. Based on the data in the analysis and findings section a conclusion for the research questions was drawn. The next chapter provides recommendations for future research topics related to this area. The last chapter is the self-reflection. This chapter outlines in detail the process of completing this dissertation from start to finish as well as the impact this process had on the researcher.

1.5 Scope and Limitations

The dissertation was finished under a time constraint. This limitation has forced the researcher to make some compromises. This research focuses only on the bank lenders' perception even though many other stakeholders are affected by the auditor's report and its changes. Moreover, this study focuses only on Austrian bank lenders.

1.6 Major Contributions

According to the ACCA there is little publicly available global research into the value of audit. (ACCA, 2010) Therefore this research focuses on investigating the value of the auditor's report for bank lenders and the effects the changes to the auditor's report will have on bank lenders. The findings of this research should improve the understanding of regulators about the value of the auditor's report for bank lenders in the Austrian financial market.

1.7 Researcher suitability

The researcher of this study is suited for this topic because of her educational background in accounting and finance. Furthermore the researcher has successfully finished all courses of the MSc programme at Dublin Business School and was able to apply the gained knowledge from these courses to this dissertation.

1.8 Recipients of the research

The recipients of this dissertation will be Dublin Business School and Liverpool John Moores University because it was finished as part of the MSc International Accounting and Finance degree. The primary recipient will be Mr Cormac Kavanagh as the supervisor of this dissertation. As this research is intended to investigate the bank lenders' perception semi-structured face-to-face interviews were conducted with bank lenders. Most of the interviewees have shown interest in the findings of this research. A copy of this dissertation will be sent to them.

2 Literature Review

2.1 Auditor's report

Directors are required by company law to prepare annual financial statements. Shareholders, who are the owners of a company, as well as investors and creditors, cannot check the accounts and the annual financial statements on an individual basis. Therefore they hire an independent, external auditor to examine the financial statements, the underlying accounting records and the key assumptions and estimates made during the process of preparing the financial statements. With the auditor's report the stakeholders receive an independent opinion whether the financial statements give a true and fair view about the company's financial situation and whether it complies with legal and other regulatory requirements. (Atrill and McLaney, 2011)

The audit report is the only observable outcome that the auditor produces for outside stakeholders. It is a source of information about the audit process and the auditor's conclusion about the company's financial statements. (Asare and Wright, 2012)

§268 UGB (Austrian Commercial Code) determines the general framework for the companies that need to be audited in Austria. It states that all limited companies need to be audited. This does not apply to small private limited companies unless they fulfil the legal requirements to install a supervisory board. Whether a company is classified as a small, medium or large company depends on the turnover, balance sheet total and number of employees.

2.1.1 Current Standard Auditor's Report

If the company's financial statements comply with the applicable legislation and give a true and fair view about the company's financial situation the auditor will provide an unqualified or clean opinion. (Gray and Manson, 2008) On the other hand if the auditor is not satisfied with the contents of the financial statement a qualified opinion can be issued if appropriate. An auditor can have two reasons to be dissatisfied with the presentation of the financial information. First, the scope of the auditor's examination can be limited. Second, the auditor disagrees with the company's treatment or disclosure of an item in the financial statements. If the item is material and therefore prevents the financial statements from giving a true and fair view then the auditor will issue a qualified auditor's opinion. However, qualified opinions are rarely issued. This is because before issuing a qualification the auditor will discuss the problem with the directors of the company and will provide them with the possibility to correct the contentious item. (O'Regan, 2006)

Circumstances	Limitation of scope	Disagreement
Form of qualification	Except for	Except for
	Disclaimer	Adverse

Figure 1: Forms of qualification matrix
Source: Gray and Manson, 2008, p. 616

Figure 1 shows the three options an auditor can choose from to express a qualification. A limitation of scope exists if it is not possible for the auditor to access all information needed to finish the audit, for example documents have been destroyed in a fire or the company is not willing to provide all necessary documents. If the limitation of scope relates to only one item or a small number of items which do not affect the whole financial statement an except for opinion will be issued. If the scope is materially limited and the auditor is not able to form an opinion a disclaimer of opinion will be issued. A disagreement arises if the auditor has all the necessary documents to form an opinion but the auditor's opinion differs from the company's opinion. An except for opinion will be issued if the effect of the disagreement is material but the financial statement does not give a misleading picture. (Gray and Manson, 2008) If the disagreements are so material that the financial statements are misleading or incomplete the auditor will issue an adverse opinion. An adverse opinion is the opposite of an unqualified opinion. An adverse opinion means that the financial statements do not give a true and fair view. (Porter, Simon and Hatherly, 2008)

2.1.2 Content of the current auditor's report

The currently existing auditor's report is a standard format. In Austria the auditor's report is based on the regulations of §274 UGB (Austrian Commercial Code) and is supplemented by regulations of the International Standards on Auditing (ISA) 700 *The auditor's reports on financial statements* in order to increase the information content of the auditor's report and to increase the understanding of the duties and responsibilities of the auditor. Those two standards define the context and form of the auditor's report. Appendix 10.2 shows a sample of a current unqualified auditor's report. The layout and content are the same for every company. It consists of the title and addressee, a scope paragraph and identification of subject matter of report, responsibilities paragraphs, an opinion paragraph and a paragraph about the management report. (KWT, 2010)

The scope paragraph and identification of subject matter of report define what parts of the annual report are included in the audit. (Gray and Manson, 2008)

The responsibilities paragraphs of the auditor's report state that it is the auditor's responsibility to form an opinion on the financial statements and report that opinion to the receivers of the report. It is outlined clearly that the preparation of the financial statements,

which are the basis for the audit, is the responsibility of the directors. It also gives a description on how the auditing work has been done and how an opinion has been formed. It states that the auditor's work has been conducted in accordance with auditing standards. It should give the reader an indication that the auditor has followed a well established framework while carrying out the audit. (Porter, Simon and Hatherly, 2008)

As the title already states, in the opinion paragraph the auditor expresses an opinion about the financial statements of the company. It is only an opinion and not a guarantee because during the audit the auditor has to rely on judgements and has to evaluate the appropriateness of alternative accounting treatments. (Gray and Manson, 2008)

The paragraph about the management report shows that the auditor agrees that the statements in the management report are in accordance with the financial statements and do not give an unrealistic picture of the company. (KWT, 2010)

2.1.3 Problems with the current auditor's report

Research indicates that users of financial statements considered the audit to have value but they also expressed concerns about the usefulness and the content of the current auditor's report. For example a survey was conducted by the Maastricht Accounting, Auditing and Information Management Research Centre which shows that the users of the financial statements are more confident with the numbers in the financial statements if they are audited by an independent party. (Deumes et al., 2010) Gray et al. (2011) conducted a focus group to discuss the current auditor's report. The results also show that stakeholders value the audit of companies but users only check if the audit opinion for the company is unqualified. The rest of the report is boilerplate and most of the time stakeholders do not read it. Coram et al. (2011) also published a study which shows that the auditor's report is relevant for users of financial statements because financial statements that are audited are more reliable than unaudited statements. But again the research shows that users have little interest in the specifics contained within the auditor's report. It is only used to determine whether the opinion is unqualified or not. Another survey was conducted by the CFA Institute showing similar results. It states that 72% of the respondents agree that the auditor's report is important for their analysis and the use of the financial statements but 94% agree that more additional information is needed in the auditor's report. (CFA Institute, 2010)

The current auditor's report is criticized for not providing sufficient information needed in the current global business environment and the more and more complex reporting obligations. Some users believe that a more informative auditor's report could help to provide richer information about the entity and about the auditing process itself. But there are also opponents

to this argument. They see the publication of entity-specific information as a problem for the separation between the entity's responsibilities and the responsibilities of the auditor. (Hodge and Murray, 2012)

There are also users of financial statements that see enough value from the current auditor's report as a survey from the PCAOB's Investor Advisory Group (IAG) shows. 23% of the respondents stated that the auditor's report provides sufficient information in its current form, 32% were neutral and 45% said that the current auditor's report does not provide valuable information. The opinion paragraph attracts the most attention in the auditor's report. 40% of the respondents to the IAG questionnaire were not interested in changing the currently existing pass/fail model. The current pass/fail model has value for the investors because the standardised language makes the opinion easier to read and easily comparable. (Hodge and Murray, 2012; Carcello, 2012) In the current model the reader gets an objective opinion from the auditor about whether the accounts give a true and fair view or they do not. If this objective opinion were to be replaced with one that includes a degree of subjectivity the reader could get confused or be overly optimistic or pessimistic about a company. (Sawers, 2013)

As can be seen from this review, most of the existing literature about the relevance of the auditor's report for users of financial statements is empirical. The predominantly used method to gather empirical data in this area are surveys, and therefore mostly quantitative information is available. (Coram et al., 2011) Antonio Duréndez (2003) writes that the reason for the high portion of surveys in the existing research is the possibility to extrapolate the results to the population of the research subject. This review shows that there is a gap for qualitative research therefore qualitative methods will be used in this research to gather empirical data.

2.1.4 Proposed changes by the IAASB

Due to all the critique and demand for a better auditor's report the IAASB published the *'Invitation to Comment: Improving the auditor's report'* in June 2012. The IAASB has published an example of the proposed auditor's report which can be found in section 10.3. The main goal of the proposal is the improvement of the information output of the auditor's report without interfering with the audit quality. The ideas for the proposed changes in that document are arising from the feedback received from the consultation paper *'Enhancing the Value for Auditor Reporting: Exploring Options for Change'*. (Mastracchio and Lively, 2013, p. 31) The next course of action is the publication of the exposure draft in June 2013 and the final stage will be the agreement on the revised audit standard in June 2014. (Hodge and Murray, 2012)

The IAASB has proposed a few adjustments to the current auditor's report. The changes to the auditor's report should give investors more confidence in the presented financial statements. In the current form they are just indicating a direction for the future auditor's report. Right now the proposed changes need to be discussed with the users of the financial statements and the arising effects, positive or negative, need to be explored and understood. (Sawers, 2013)

The first and probably most significant change is the preparation of a so called Auditor Commentary. With this narrative, users of the auditor's report should be provided with additional information about the most important issues detected during the audit to create a better understanding of the financial statements and the audit. (Jones, 2012) Under the current ISA the auditor has the opportunity to express additional information which is extremely important to the users of the annual report without modifying the auditor's opinion. This information can be presented in an emphasis of matter paragraph if it concerns information which is disclosed within the financial statements. If the information relates to matters outside the financial statements it can be expressed in an other matters paragraph. (Porter, Simon and Hatherly, 2008) However, the usage of emphasis of matters paragraphs is rare. The International Standards on Auditing note that a regular use of those paragraphs would reduce the effectiveness of the auditor's communication of those matters. Therefore auditors currently only use that form of communication in their report if they are required to. However, users of the annual reports stated that these paragraphs give a good indication about the most important components in the financial statement and the carried out audit for those areas. The new Auditor Commentary should follow the same outline as the existing emphasis of matter and other matter paragraph. In the current form the IAASB proposed to include information from the following areas to the Auditor Commentary: information about material management judgements and estimates, the occurrence of material or unusual transactions during the fiscal year, contentious matters that were found during the audit and other issues that were discussed with the management and which required a significant audit.

In the current form the IAASB is still discussing for which companies an Auditor Commentary should be published. The current plan is to give the auditor the possibility to include an Auditor Commentary for all companies when he deems it necessary. Primarily the issuance of an Auditor Commentary was discussed to be compulsory for only listed companies but the IAASB is reflecting about widening the application area because the provided information in an Auditor Commentary is relevant for all users of financial information and not only just certain companies. (IAASB, 2012)

Users of financial reports have different opinions about the proposed Auditor Commentary. Opponents of the idea are afraid that the publication of possibly sensitive information about the company could interfere with the trust and openness between the auditor and management of the company. Information could be withheld by the company because they fear that it could eventually become public. (Sonnellitter, 2012) The current standard auditor's report uses a standardised language which makes it easy for the readers to compare it with other companies and it provides the readers with clarity. But it could also be seen as being boilerplate and not giving any information about the audit process and the quality of the audit. In the opinion of Hodge and Murray the entity-specific information in the Auditor Commentary would make the report more relevant for every user group. (Hodge and Murray, 2012)

Another proposed change by the IAASB is a conclusion from the auditor on how adequate the management's going concern assumption is and whether any material uncertainties exist which could threaten the going concern assumption. (Hodge and Murray, 2012) For readers of the auditor's report information about the future viability of a company has significance. Therefore further disclosures in this area could be an improvement for users. To determine whether there exists any material uncertainties or not involves a lot of judgement from the management as well as the auditor and furthermore the term material uncertainties, which derives from the IFRS, is not yet clearly defined. In the proposed auditor's report the IAASB plans to point out that future events cannot be predicted with certainty and that the auditor's statement about the non existence of material uncertainties does not give a guarantee of the future viability of the company in order not to raise an unrealistic expectation in the reader's mind. (IAASB, 2012)

A further improvement of the auditor's report should be a statement about the existence of any inconsistencies between the audited financial statements and other information provided in the annual report. (Jones, 2012) Other information can be any financial or non-financial information which is included in the annual report other than the audited financial statements and the auditor's report. That information can either address historical events or future prospects for the company. So far a statement would be expected to be helpful for investors because it would increase the transparency of the auditor's work in this area. In some countries it is already included in the auditor's scope. (IAASB, 2012) According to the Austrian Commercial Code the auditor only checks for inconsistencies between the management report and the audited financial statements. This audit activity does not expand to all other information included in the annual report. (KWT, 2010)

Also the auditor's opinion and other company specific information should be presented at a more eye-catching position in the auditor's report. The IAASB suggested placing the opinion at the first position of the proposed auditor's report. The IAASB gives further minor suggestions on how to improve transparency about the performed audit. (IAASB, 2012)

Hodge and Murray (2012) raised the fear that the proposed changes could have more content but it will not be more informative because there is a chance that the auditors will start using the same language for every client and therefore the report will be boilerplate again. They also assumed that the costs will be increased especially through the Auditor Commentary which could substantially increase the workload for the auditor. Also through the more complex process of preparing the report it takes longer to finish the auditor's report and therefore the publication of the annual report will be pushed back. Furthermore it is feared that the Auditor Commentary and the associated higher reporting effort will be a hurdle for small companies. They have fewer resources available than large companies to provide all the information required by the auditor. (Glover and Reidenbach, 2012)

2.1.5 Sought for Changes

The ACCA held a series of worldwide roundtables on the topic of the value of audit. Those discussions showed that audit provides value for the users but it also showed that frustration exists because the auditors could do more. The respondents want to receive more information than the currently existing pass or fail in an auditor's report. The bottom line is that shareholders are paying for an audit so it would not be unreasonable for them to ask to receive more information. The participants were asking to receive information which is currently only presented to the board and the audit committee. Furthermore participants of the round table stated that the currently audited numbers are only focusing on the past. More focus on forward looking information would be helpful for users of the audited financial statements. Another downside of the current auditor's report is that no information about the company's risk situation is included. Finally, the narrative reporting is always getting more important in the annual report and the respondents wanted some kind of verification so they can have more trust in those narrative reports. (ACCA, 2010)

Houghton, Jubb and Kend (2011) conducted a research about the reporting on materiality levels. His findings show that users would react positively to more information about the materiality level used during the audit.

2.2 Bank lending

The main tasks of commercial banks are to provide retail banking services like acceptance of deposits, granting of loans and financial guarantees; trade financing facilities like letters of credit, shipping guarantees and Banker's Acceptance; treasury services; cross-border payment services and custody services. (bin Ghuslan, Muhammad and Abidin, 2010) This research will only focus on the banks' function of granting loans to non-financial companies. The lending function in general is assumed to be the most important way to generate funds for the banking industry. The highest gross profit is earned from loans, therefore the management of the loan portfolio has a high influence on the bank's profitability. The prime reason for bank failures is the high number of non-performing loans. (Wei-Shong and Kuo-Chung, 2006)

2.2.1 Bank lending process

The whole bank lending process can be divided into eight stages. Those are '*application, credit analysis, decision, document preparation, closing, recording, servicing, and administration and collection.*' (bin Ghuslan, Muhammad and Abidin, 2010, p. 42) First the borrowers introduce themselves to the bank lender. This should help to establish an honest and trustworthy relationship between the lender and borrower and a loan application will be submitted. In the next step, the credit analysis, this application is reviewed by the bank lender. All the information that is available and required should be checked. The purpose of the review is to predict the client's default risk on the loan and the willingness to repay the loan. In this stage hard facts should be tested and estimations should be left out. The information required from the loan applicant depends on the circumstances, but usually to apply for a loan a detailed business presentation is necessary. This presentation includes the audited financial statements and updates about major events that happened between the reporting date and the application date for the loan, cash flow forecasts, management accounts, budgets and general details about the company. After the hard facts are adequately examined and the bank lender approves then soft facts will also be included in the credit analysis step, such as personal characteristics of the management, product range, competitors etc. (Rouse, Bell and Graham, 2011)

Berger and Udell (2006) defined four methods to predict the risk of a loan default. Those are financial statement lending, asset-based lending, credit scoring and relationship lending. The first three categories are using quantitative methods to assess the risk of default. Therefore bank lenders base their decisions on hard financial data which is relatively easy to obtain from the credit application. In the financial statement lending technique the statement of financial position, statement of comprehensive income and cash flow statement are the core elements of the lending decision process. It is important for that information to be verified by an independent auditor to be reliable. The asset-based lending technique bases the granted credit

amount on the existing company's assets which are used as collaterals for the credit. In the case of a default on the credit the bank uses the collaterals as a financing source to repay the loan. (Berger and Udell, 2006) To assess the credit risk in the credit scoring technology the bank lender uses a manual scorecard or risk-measuring software. The relevant information is primarily hard information about the company and the client. It is analysed through those systems and gives the bank lender an indication whether to approve the loan or not. (Trönnberg and Hemlin, 2012) The loan decision process in relationship lending is based on soft facts. Soft facts include the personal characteristics of the borrower and further information which cannot be found in the company's financial statements. In order to use this method to assess the risk of a loan a long relationship between the borrower and the bank officer must exist. This form of lending is mostly used for small companies. (Peltoniemi and Vieru, 2013)

The described initial lending decision is an important part of the lending cycle but even if a well informed decision was made things can go wrong during the credit period. Therefore a bank will arrange in the loan agreement to receive regular updated financial information. These can include performance figures, audited financial statements, budgets, monthly reports and even regular site visits and meetings with the client. This accompanying information will be compared to the initial information received at the time the loan was granted. (Richard et al., 2008) An important monitoring tool for commercial clients are covenants. In the facility letter the bank lender can determine conditions that must be fulfilled during the credit period. Those conditions are usually a range of accounting ratios. If the borrower fails to achieve those conditions the bank can require an immediate repayment or a renegotiation of the loan. Through that instrument the bank can protect itself against a negative change. (Christensen and Nikolaev, 2012)

As can be seen from the different methods to determine the credit risk, commercial bankers are major users of financial information. For their lending decisions they rely on hard financial data. (Kim, 2009) A bank lenders' main task is to assess the likelihood of the repayment of a possible bank loan. Therefore a bank lender needs to forecast future cash flows which are available for the loan repayment. The Basel Committee on Banking Supervision even requires banks to look in the future for 12 months and also 5 years to predict the so called Probability of Default. (Rouse, Bell and Graham, 2011)

2.2.2 Auditor's report and bank lending

Bank lenders were chosen for this research because the changes to the auditor's report were initiated by users of the auditor's report and this research should investigate if the changes have really increased the user's satisfaction with the report and the relevance of the report.

(IAASB, 2012) Furthermore bank lenders are in constant contact with the various types of auditor's reports and they represent an important element for their work. Also, finance providers are reliant on the financial information presented by the company and therefore require an audit to ensure the accuracy of the obtained information. (Antonio Duréndez, 2003)

There are different studies that acknowledge the importance of the auditor's report for the bank lenders. For example Asare and Wright conducted a survey which indicates that the auditor's report is important when making a lending and investment decision. The study further shows that bank lenders see the report as less important than other investors because financial providers do not only rely on publicly available information. Bank lenders have options to request information from the borrower personally. (Asare and Wright, 2012) Antonio Duréndez published a research that shows similar results. The conclusion of the research was that the auditor's report has value for bank lenders. The type of the audit opinion has an influence on the lending process. The respondents further confirmed that the type of opinion has an effect on the lending decision but to a lesser extent than on the lending process. (Antonio Duréndez, 2003) The ACCA published a report about the value of the auditor's report. Their findings were that banks see audits as being valuable because the financial information is an important part in the decision making process and if the information is verified by an independent party it has more value. (ACCA, 2010) These studies only look at the value of the current standard auditor's report for bank lenders. This dissertation will further explore how the IAASB's changes to the auditor's report will affect the bank lenders' decision making process and the assessment of the auditor's report for lending decisions.

The currently conducted research about the value and usage of the current standard auditor's report for lending decisions was researched in different contexts (in Spain by Antonio Duréndez, 2003, in Australia by Coram et al, 2011, in the USA by Carcello, 2012 and by Asare and Wright, 2012 and in the Netherlands, Germany and the UK by Deumes et al., 2010) but even though bank lending is an important financing form for Austrian companies there is, to the best of the author's knowledge, no existing research for this topic for Austrian bank lenders.

2.2.3 Austrian financial market

The Austrian corporate landscape consists of 99.7% of small- and medium-sized corporations (SMEs). (European Commission, 2012) The access to external finance for SMEs is almost completely restricted to debt financing because the hurdles for financing over the stock market and thus the access to equity are too high. (Austrian National Bank, 2007) Therefore bank lending in Austria is an important financing opportunity.

The Austrian Financial Market Authority (FMA) is the supervisory authority of the Austrian financial market. It is responsible for the observation of credit institutions, insurance companies, pension funds, staff provision funds, investment funds, securities-related services enterprises, entities listed on the stock exchange and the stock exchange itself. Currently 824 credit institutions are under the control of the Austrian FMA. (Financial Market Authority, 2012)

	2000	2001	2002	2003	2004	2005	2006
Funding in billion €	18.5	16.6	14.7	16.3	12.9	18.6	19.8
bank loan	9.8	5	-1.9	3	3.8	4.5	5.7
loan from the state and abroad	7.3	6.3	8.1	2.8	1.1	2.1	0.3
securities issues	2.1	0.6	-0.4	4.3	2.9	4.3	2.6
equity financing	1.6	4.9	7.8	3.6	4.6	7.2	10.4
trade credits and other liabilities	-2.3	-0.2	1.1	2.7	0.6	0.6	0.7

Figure 2: Financing of companies (in billion €)
Source: Austrian National Bank, 2007

The table above shows the source of financing for Austrian companies from 2000 to 2006. It can be seen that the importance of equity financing was growing up to the financial crisis, but the director of the Austrian National Bank Mr Zöllner stated that the Austrian financial market will be reliant on debt financing because legal and financial requirements for an IPO limit equity financing for the predominantly existing small and medium corporate business structure in Austria. (Austrian National Bank, 2007)

As a result of the financial crisis, bank lending to non-financial companies started to rise again. In the first half of 2012 29% of external financing for non-financial entities was provided by domestic and foreign banks. In the same period financing through equity almost came to a halt. Only 0.3% of the external financing for non-financial entities was raised through the stock exchange. There were no new listings and only small capital increases on the Austrian stock exchange in the first six months in 2012. When taking other equity instruments like unquoted stocks into account only a little over 10% of the external financing was raised in the form of equity. (Financial Stability Report, 2012)

2.3 Conclusion on Literature Review

The current auditor's report is a standard format. Currently existing research shows that the audit function in general provides value for the users but the usefulness of the content of the standard auditor's report is questionable. Further studies show that the current standard report

is important for the bank lenders but to a lesser extent than for other users because bankers have access to information which is not publicly available. It is important because the financial information used in the lending process is verified by an independent party. The report influences both the lending process as well as the lending outcome, but the outcome to a lesser extent. The audit opinion is seen as the most relevant paragraph in the auditor's report. In the standard auditor's report the audit opinion is a pass/fail model.

The IAASB proposed changes to the standard auditor's report. The four changes are a narrative report called Auditor Commentary, a statement of the auditor's assessment of the appropriateness of the managements going concern assumption, a statement about any inconsistencies between the audited financial statement and other information included in the annual report and a more prominent position of the audit opinion in the auditor's report. Fears that arose because of the proposed changes are that auditors will use the same language in any Auditor Commentary and the report will become boilerplate again, the preparation of the report takes longer, the hurdle for small companies is higher and the extensive publication requirements could interfere with the trust between the auditor and the management.

The existing studies primarily research the reactions to the current standard auditor's report. Only little research was done about the proposed changes to the auditor's report and the most sought for changes to the auditor's report. This research will explore what Austrian bank lenders expect from the proposed changes by the IAASB and furthermore what changes they think should be made.

3 Research Questions

The goal of the research is to explore the value of the auditor's report for the lending process and the effects that will occur due to the changes to the auditor's report. The following research questions will be answered:

1. How is the current standard auditor's report used for the lending process and the lending decision by bank lenders?

Bank lenders rely on financial information provided by companies for their lending decisions. Therefore it is important that an independent auditor verifies that it gives a true and fair view. Several existing studies show that the auditor's report is important for bank lenders. But this research is not intended to only show if the auditor's report is important but also how it is used, what parts are relevant and are providing value for the bank lenders and why.

2. How will the different proposed changes to the auditor's report influence its usage in the lending process?

The purpose of this question is to evaluate the effects of the changes to the auditor's report for bank lenders. Changes like the Auditor Commentary, the auditor's evaluation of the appropriateness of the management's going concern assumption, a statement about any inconsistencies between the audited financial statements and other information in the annual report and a more prominent position of the auditor's opinion will be researched. It should show how effective those proposed changes really are and if they would cause any changes to the lending process.

3. What is the change to the auditor's report that bank lenders are seeking the most?

The changes proposed by the IAASB were made because of criticism raised by users of financial statements. The objective of this question is to explore changes that would be most helpful to bank lenders in their loan decision process and which are not considered in the currently proposed changes.

4 Methodology

4.1 Introduction

The intention of this research is to investigate how satisfied bank lenders are with the proposed changes to the auditor's report by the IAASB or what changes they would think are most important for them. The topic to be researched and the research questions are the main influencing factors for the methodology. In this chapter the methodology that was used throughout the research will be described step by step.

4.2 Research Philosophy

The research methodology was influenced by the research philosophy. There are different positions on the research philosophy which can be described in the following way: *'It is the interpretation of explanation [...], and how explanation can be gained through the study of the empirical world, that divides researchers. Opposing positions in this debate are characterized by alternative philosophical assumptions about the nature of human action (ontological assumptions) and about how this nature can be revealed through research (epistemological assumptions)'* (Wass and Wells, 1994, p. 2)

The researcher's ontological assumptions influence the epistemological assumptions which in turn influence the chosen methodology. Research ontology can be divided into subjectivism and objectivism. Researchers who choose objectivism believe that there exists an objective reality. Therefore things exist independent of a person's mind. In this research the researcher studies the bank lenders' satisfaction with the changes to the auditor's report. This research goal is abstract and no single reality exists for this research topic because every bank lender will have a different opinion. As a result objectivism is rejected as the research ontology. (Cameron and Price, 2009) Therefore the chosen research ontology is subjectivism. The researcher accepts that reality differs from person to person. Thus the researcher expects every bank lender to have a different view about the changes to the auditor's report and the effects on the bank lending process. The goal of this research is to explore and understand the reasons why and how bank lenders got to their point of view. (Holden and Lynch, 2004)

The adopted research epistemology gives important assumptions about how the researcher sees the world. Those assumptions substantiated the way the research was conducted. The research epistemology will be described in depth using Saunders, Lewis and Thornhill's (2009) research onion.

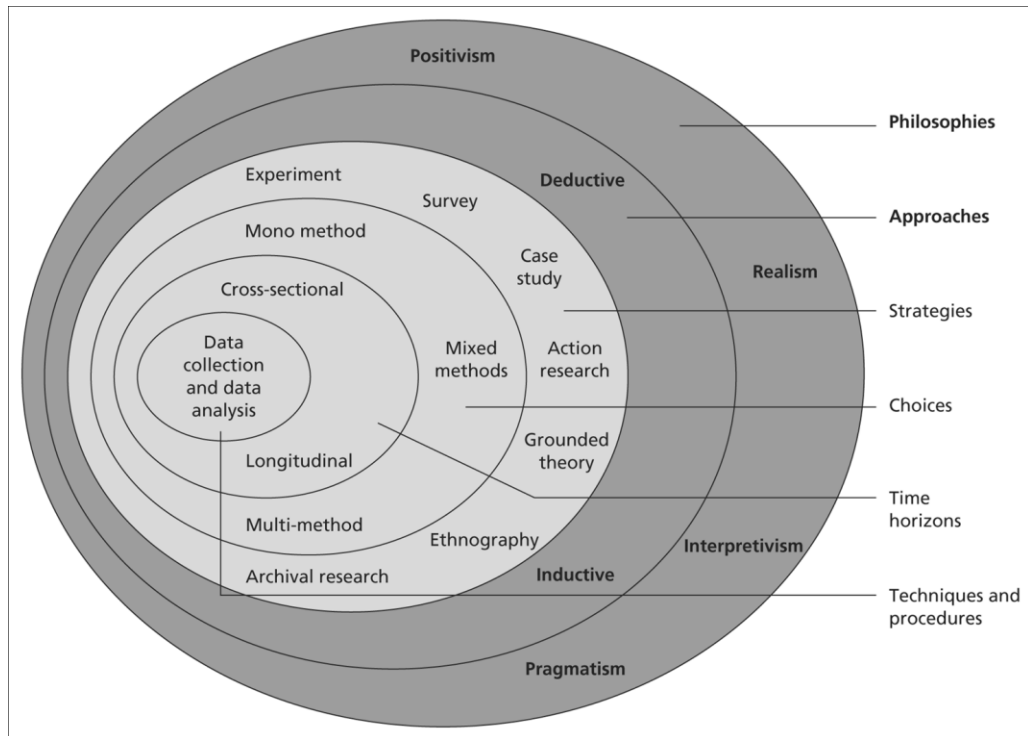


Figure 3: Research Onion

Source: Saunders, Lewis and Thornhill, 2009, p. 108

Research philosophy, the outer layer of the research onion, consists of three areas: positivism, interpretivism and realism.

A positivist researcher focuses on observable and measurable variables in a certain controllable environment. From the existing theory the researcher produces hypotheses that will be tested during the research. When collecting the data the researcher is independent and the data collected is objective. The hypotheses will either be rejected or accepted and they will always be revised until it gives a sufficient prediction of the reality. The reason for positivist research is to predict outcomes of the research and to be able to control those outcomes in the future. The positivism approach is not suitable for this research because through this philosophy the understanding of how and why bank lenders arrived at their viewpoints cannot be increased.

Realism is quite similar to positivism. Both philosophies are a scientific approach of generating knowledge. The idea behind realism is that what our mind shows us as reality is the truth. In a realist's opinion a reality exists independent of the human mind. In this research it was accepted that every bank lender has their own truth about the effects that will be generated through the changes to the auditor's report and therefore realism is also not a suitable approach.

Interpretivism requires the researcher to understand the behaviour of the researched people who have experience in the researched field on a daily basis. The researcher in the interpretivism field has to enter the world of the bank lenders and understand the rationale for their point of view. Interpretivism is argued to be highly suitable for business and management research. This is because business situations are complex and unique and many different individuals are coming together at the same time. Therefore the epistemological position in this research was interpretivism. This research aimed to understand the behaviour of bank lenders rather than explain it. The goal of the research was to highlight why the auditor's report is important for bank lenders and why they are reacting in a certain way to the changes of the auditor's report. (Saunders, Lewis and Thornhill, 2009)

4.3 Research Approach

The second layer in the research onion describes the research approach. The research approach can be differentiated between the deductive and the inductive approach.

The deductive approach is used when the creation of a hypothesis from the existing literature is the starting point and the research strategy is designed to test this hypothesis. The inductive approach consists of first collecting the primary research data and then using the information to develop a theory which can be used to explain the results.

Due to the nature of the topic the inductive approach was a more suitable method for this research. This research followed the process of gathering empirical data from bank lenders through interviews and observations, translating those into findings and in the last step establishing a theory about how the changes to the auditor's report will affect the bank lenders decision making process. Therefore the collection of the primary data was the starting point of the research. In general the extent of the knowledge about the research topic at the beginning of the research also is an influencing factor for the research approach. The inductive approach was the best fit for the research because the proposed changes to the auditor's report and the effects on the bank lenders is currently not a highly researched topic. (Ghauri and Grønhaug, 2005)

4.4 Research Strategy

The next layer in the research onion is the research strategy. Saunders and Lewis (2011) give different options to gather data for the research, for example through an experiment, survey, case study, action research, grounded theory, ethnography or archival research.

For this research a case study was used. Robson (2002, p.178) defines a case study as: *'a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence.'* The reason for choosing a case study strategy is that it gives the researcher the opportunity to take a broader view at the problem, whereas with surveys or experiments the research addresses a well defined and narrow problem. Because of the broader approach it gave the researcher the chance to find new patterns or explanations that were not anticipated or expected at the start of the research. A case study is suitable to build a theory inductively which was the intended approach for this research. (Blumberg, Cooper and Schindler, 2011) Furthermore a case study was the best fit for this research because multiple data collection techniques were used to answer the research questions, in particular interviews, observations and a researcher diary. Because of the use of more data collection methods, the collected information was richer and created a more complete picture. (Eisenhardt and Grabner, 2007) As opposed to a survey which answers questions of who, what, where, how much, and how many, a case study focuses on the questions why, what and how. With this research the questions that should be answered are how is the current auditor's report used during the lending decision, what do bank lenders think of the changes to the auditor's report and how and why they got to their opinion and what would be the most sought for changes. Therefore the research objective already clearly showed that a case study was the best fit. (Saunders and Lewis, 2011)

A multiple case study was used in this research. Four Austrian financial institutions were included in this research. The theory about the effects of the changes to the auditor's report for bank lenders was developed through the identification of relationships within the cases and between the cases through a so called comparative design. A comparison between the cases showed what was common between those cases and what was unique in each case. (Eisenhardt and Graebner, 2007)

4.5 Research Choice

A researcher has several research choices: mono method, mixed method and multi method. A mono-method describes the approach when a researcher only uses a single data collection technique and a corresponding analysis procedure. Multiple methods, which are mixed methods and multi methods, use more than one data collection technique and analysis procedure. A multi method research choice refers to combinations where more than one data collection technique with the corresponding analysis procedure is used but those are within either the quantitative or qualitative research. A mixed method approach mixes quantitative and qualitative data collection techniques and analysis procedures to answer the research questions.

To answer these particular research questions only qualitative data is needed. Qualitative data tends to be descriptive and produces non-numerical information to explain a phenomenon rather than confirm a hypothesis. It provides the researcher with an understanding as to why bank lenders think about an issue in the way they do. (Mack et al., 2005) More than one qualitative research method was used, therefore the research choice for this research was multi method. Interviews were conducted with four bank lenders in Austria, observations were made during the interviews and during the research process a researcher diary was kept. (Saunders, Lewis and Thornhill, 2009)

4.6 Research Time Horizon

Two types of time dimension for the completion of the research project can be defined: cross-sectional or longitudinal research. A cross-sectional research gives a snapshot of a particular research setting at a particular time. This approach is used if the researcher is time constrained in the finalisation of the research project. A longitudinal research design tracks events over time. In difference to the cross-sectional research project it is possible to study change and development over time. (Saunders and Lewis, 2011) A cross-sectional research was considered appropriate for this research. The goal of this research was to give a snapshot about the current expectations of bank lenders for the changes to the auditor's report and it did not study the changes of the expectations over time. Furthermore the research was carried out under a time constraint of only 12 weeks. (Kumar, 2011)

4.7 Data collection

4.7.1 Primary Data Collection

For this research interviews were used to collect rich and insightful primary data to answer the research questions. An interview can have different formats: structured, semi-structured and unstructured. A highly structured interview is used by a quantitative researcher when he or she goes through a questionnaire with the interviewee face to face. The structure is inflexible. The interviewer has predetermined questions and answers that the interviewee can choose from. The high standardisation is followed to assure validity and reliability of the measurements. (Bryman and Bell, 2007) In a totally unstructured interview the interviewer has a defined set of broad topics that are covered during the interview giving the interviewee the opportunity to respond freely. An unstructured interview shows characteristics of a normal conversation. A semi-structured interview lies between those already mentioned interview styles. The researcher has predetermined questions which can be changed around or new questions can be added during the interview in order to create a better understanding or obtain more details about the interviewee's perception. (Cameron and Price, 2009)

In this research the goal was to generate qualitative data in order to answer the research questions. Interviews were the appropriate tool because the goal was to get deep and insightful data about the effects to the bank lenders' decision making process when the regulations for the auditor's report will change. The format of the interviews was semi-structured because the research questions already created a focus at the beginning, namely on the changes of the auditor's report and the arising effects for the bank lenders. In this research a multiple case study was used. If the researcher undertakes a multiple case study a structure helps the researcher to compare the different cases. (Bryman and Bell, 2007) Also semi-structured interviews give the researcher flexibility during the process. During an interview especially important and interesting points can be further investigated through follow-up questions. This makes it possible to explore the bank lenders' perceptions. (Robson, 2002)

Furthermore, observations were a data collection tool. During this research a behavioural observation was performed. Behavioural observation can be divided in four groups, non-verbal behaviour, linguistic behaviour, extra linguistic behaviour and spatial relationships. Non-verbal behaviour focuses on body movements, facial expressions and eye contact. This is the most important form of behavioural observation and was the main focus during this research. During a linguistic observation the researcher pays attention to the usage of filling words or other disturbing sounds. In the observation of extra linguistic behaviour the rate of speaking, the steadiness of the voice and the usage of vocabulary are under scrutiny. In the last category, spatial behaviour, the space that a person keeps between him and the other person is observed. The last three categories were considered during the research but to a minor degree compared to the non-behavioural observation. (Cooper and Schindler, 2008) When undertaking observations the researcher does not only produce a transcript of the interview but also notes on how the interviewee behaved during the interview. Observations gave the researcher the advantage to get information that would otherwise not be readily available and create more insightful data. (Blumberg, Cooper and Schindler, 2011)

Finally, a researcher's diary was kept throughout the project. The goal of a researcher's diary was to record the researcher's ideas and to reflect on those. It can provide evidence on how the ideas have developed over time and be an important tool during the analysis process. (Saunders, Lewis and Thornhill, 2009)

4.7.2 Secondary Data Collection

Secondary data can be described as data that was not collected for this research in particular. Secondary data sources were books, journal articles, previous studies and company reports. All of those sources were used in the course of this dissertation. (Saunders and Lewis, 2011)

4.8 Data Analysis

A considerable amount of data was produced during the research process. All the interviews were audio recorded and in the next step transcribed. Observations of the non-verbal communication during the interview were captured and also included in the transcripts. During the research process a researcher diary was maintained and it helped to inform the researcher during the analysis about the developments and generations of ideas.

Zhang and Wildemuth (2009) describe the goal of data analysis of qualitative data '*to identify important themes or categories within a body of content, and to provide a rich description of the social reality created by those themes/categories as they are lived out in a particular setting.*' The final result of the analysis should help to develop new theories and models and give a thick description about a particular problem in a particular context. (Zhang and Wildemuth, 2009, p. 318)

In order to prepare the primary data for analysis it was transcribed in the first step. In this stage the actual words of the respondents were used and the non-verbal communication was also considered. The transcribed data was then summarised, coded and structured. (Cameron and Price, 2009) Software packages exist that would help to code qualitative data. But those analysis systems do not know what the researcher is looking for in the project. The researcher wanted to keep the advantage of being responsible for the analysis of the qualitative data. Therefore a manual coding process was undertaken. (Quinton and Smallbone, 2006)

Three steps of coding, open coding, selective coding and axial coding, are defined in the literature. Through the process of coding the researcher tries to identify categories, themes and ideas in order to analyse the transcripts. Open coding was the first stage of analysis. The key issues brought forward by the bank lenders were labelled. A whole list of labels was created and for similar ideas the same label was given. Before a new code was created the list of already existing codes was looked through to find an appropriate label. The main goal in the first step was to go through the transcript word for word and highlight the most important messages from the interview. The next step was axial coding. In this stage relationships between the established open codes were determined. The aim was to find concepts to group the found codes from the previous open coding process and in the same step the concepts were pulled together to form categories. (Cameron and Price, 2009) In the process of selective coding, the last step, the defined categories were put together to form the results. This was possible through the determination of the main core code where all other categories can be related to. Therefore in this step the relationship between the central concept and all other

categories was mapped. Through the process of coding the huge amount of narrative text was reduced to the most important issues. (Douglas, 2003)

4.9 Sampling

Saunders and Lewis (2011) distinguish between probability and non-probability samples. In this research a non-probability sampling technique was used because the researcher was not able to obtain a complete list of all commercial bank lenders in Austria. Without a sampling frame probability sampling cannot be used.

There are different methods available that can be used to create a non-probability sample: quota sampling, purposive sampling, snowball sampling, self-selection sampling and convenience sampling. In this research the purposive sampling method was used. The researcher was actively choosing the bank lenders participating in the research and did include those bank lenders in the sample who were having the best background to give a lot of information and are able to answer the research questions. Bank lenders that were contacted to participate in the research were all head of the corporate lending department in one of the biggest banks in Austria. A purposive sampling is usually used to collect qualitative data from a small sample size, which were the characteristics of this research. (Saunders and Lewis, 2011) 824 credit institutions operate in Austria. (Financial Market Authority, 2012) Out of those banks four were included in the research. From every chosen bank one bank lender was interviewed.

4.10 Practical Efforts

To conduct this research, different practical efforts were required. An interview guide was established. The complete interview guide is included in the appendix (section 10.1). Bank lenders were contacted at the beginning of June via e-mail. The e-mail addresses of the contacted commercial bank lenders were found on the websites of the biggest Austrian banks. The e-mail sent out to the bank lenders included a brief introduction about the researcher's background and the dissertation topic. Before the interviews, interview packs were put together which included the interview guide, the current standard auditor's report, the proposed auditor's report by the IAASB and a confidentiality agreement for the interviewee. Also audio-recording equipment was bought and tested before the interviews were conducted. In order to prepare for the interviews possible follow up questions were prepared. After the interview the recordings were transcribed and translated into English. The interview transcripts were coded and a concept based on the findings was developed.

4.11 Researcher Bias

In a qualitative research the interviewer is part of the research. Therefore a researcher bias could interfere in the process of conducting interviews. During the interview process the interviewee could be influenced by the way how questions are asked by the researcher. Not only is the wording of the questions important, but also non-verbal communication can lead the interviewee. During this research no leading questions were asked and no judgemental comments were made during the interview. (Easterby-Smith, Thorpe and Jackson, 2008)

Furthermore, qualitative research is criticised as being subjective. The way the findings are reached is part of this critique. It depends on the researcher's judgement to decide what is important and significant and what not. For the reader of the findings it is hard to see how the researcher drew up the conclusions. It is not apparent how the analysis of the raw data took place. A quantitative researcher has a clear set of techniques available to analyse the empirically gathered data to generate objective findings. For the analysis of qualitative data the existing guidelines are not clear and structured. (Bryman and Bell, 2007) Therefore the interpretation and analysis of the results of the interview can be influenced through the researcher's expectations and past experience. There exists the threat that the researcher only acknowledges those arguments that confirm his or her opinion. During the analysis of the data special care needed to be taken that the researcher did not change the meaning of the bank lenders' statements and all opinions were taken into account. (Douglas, 2003)

4.12 Limitations

The chosen sampling method was a non-probability method. Therefore the interview respondents were picked through the researcher's judgement. This bias made some members in the population more likely to be chosen than others.

Qualitative research, which was used for this research, usually only studies a small sample size, in this case four bank lenders in Austria. The collected data went in depth and not in breadth like in quantitative research. The findings are dependent on the context and it cannot be assumed that the findings will hold in another context. Therefore the goal was to generate a thick description. The thick description should make it possible to transfer the findings from this research context to another context but its goal was not to generate generalisable findings. Therefore external validity, which is a concept that shows whether the results of the research can be translated to other contexts and to what extent this would be possible, was not achieved. (Bryman and Bell, 2007)

External reliability was not realized in this research. External reliability shows whether the same results could be generated if the research would be carried out again or conducted by another researcher. For qualitative research this is not possible because the social settings and the circumstances in which the study was produced will change. (Quinton and Smallbone, 2006)

The respondents for the interviews can be another limitation. The interviewees need sufficient knowledge and experience in the lending business to provide valuable information. Because of a lack of time bank lenders are sometimes not willing to participate in interviews. Especially during the summer months and therefore holiday season it was hard to reach potential respondents and make an appointment. Furthermore during the interviews bank lenders were asked about examples and experience from their work life. If the interviewees did not feel comfortable they could refuse to answer questions during the interview which were important to answer the research questions. (Saunders, Lewis and Thornhill, 2009)

4.13 Research Ethics

Ethics are an important factor in any research. The researcher's ethical stance in this research was situation ethics. This ethical perspective states that in some circumstances the researcher has no choice but to not disclose all of the information in order to receive sufficient information.

Participants were informed in advance about the purpose of the research in detail and could therefore decide whether to participate in the study or not. Bryman and Bell (2007, p. 728) define informed consent as *'a key principle in social research ethics. It implies that prospective research participants should be given as much information as might be needed to make an informed decision about whether or not they wish to participate in a study.'* In order to keep the natural flow of the conversation the participants were not informed that the non-verbal communication during the interview was observed.

This research did not harm the participants in any way. If required by the respondents anonymity could be provided when the data was reported and analysed. Furthermore the interviewees had the opportunity to sign a confidentiality agreement to ensure the participants that the data was kept private and safe. The participants were notified that the information from the interview was quoted in the dissertation.

The right of privacy was also respected during the research. Respondents had the opportunity to withdraw from the participation in the study and did not have to answer any questions which they felt uncomfortable answering. The researcher took care that the participants were taking part in the research voluntarily and that the information about the respondent and the company were treated confidentially. (Bryman and Bell, 2007)

5 Analysis and Findings

In this chapter the data gathered empirically will be analysed and the most significant findings from each interview will be outlined. The empirical data was gathered through semi-structured interviews with four bank lenders from different banks in Austria. Two of the interviewees are working in the commercial lending department and two interviewees are working in the analysis department. The bank lenders' names are anonymised but the author is allowed to name the banks involved in this research. The following list gives an overview of the participants in the research:

Name	Bank
Interviewee 1	Raiffeisenlandesbank Niederösterreich-Wien
Interviewee 2	Sparkasse Oberösterreich
Interviewee 3	Erste Bank
Interviewee 4	BAWAG PSK

The purpose of the interviews was to answer the research questions outlined in section 3. The researcher wanted to understand and investigate how the bank lenders use the current auditor's report in the bank lending process, how the proposed changes to the auditor's report would influence the lending process and what value they have for bank lenders and what would be the most sought for information which is not included in the proposal and the current auditor's report.

It should be pointed out, as was already outlined in the methodology section, that the statements made by the interview participants cannot be generalised for all bank lenders. This is because the sample size is small and not representative of the entire banking industry. The answers are subjective and may not reflect the opinions of the other bank lenders and even the interviewees had different opinions about some points. One respondent indicated that his answers are just his personal opinion and every other bank lender would probably have answered those questions differently. Even though the responses may not be uniform across the whole banking sector the interview partners are the head of their respective field and draw on many years of experience in their work which makes them reliable interview partners. Also this research does not only depend on the people interviewed but it is also dependent on the context where people act in, which in this research are commercial bank lenders in Austria.

This chapter will not include any references because all the information used in this section was gathered by the researcher during the interviews with the bank lenders. The statements between the bank lenders can contradict each other, however this is acceptable because the researcher wanted to investigate the personal opinions of the bank lenders.

To receive insightful data and be able to answer the research questions the four interviewees were asked a series of questions. This section will analyse the findings that were received during the interviews structured in a way that through the interview questions the research questions are answered.

5.1 Research Question 1

How is the current standard auditor's report used for the lending process and the lending decision by bank lenders?

The intention of this question was to determine if the auditor's report is important for the bank lenders in making their decision, how it is used and what parts of the auditor's report are relevant and are used.

What sources are included in the lending process?

To assess the credit risk of a client the bank lenders agreed they need information about the economic situation of the company both for the current timeframe and also for the future outlook. All interview partners agreed that hard facts and soft facts are included in the lending process and lending decision. Some named examples of hard facts are the most recent financial statements in audited form if possible, forecasts, accompanying information during the year, investment plans, liquidity ratios and information, all other information that is produced in the accounting and controlling department and if needed external expertise. In the soft fact rating the personality of the manager, the organization of the documents, dependency on customers or suppliers, collaterals, different types of risk and chances and more are included.

In what way does the auditor's report influence the lending process?

The interviewees had contradicting opinions whether the auditor's report influences the lending process or not. The two interviewees from the commercial lending department answered that they see the auditor's report as a critical factor. They explained it is important because the numbers which are the basis for the decision are qualitatively monitored. The whole report is read and they search for any negative statements that may be included in the report which are then questioned and scrutinized by the bank lender. Furthermore the publication date was named as an influencing factor by both of the interviewees. An early publication date, such as three months after the balance sheet date influences the lending process in a positive way because the audited numbers can be included earlier in the credit assessment and it also shows that the accounting department is well organized. Conversely, the publication of the auditor's report nine or ten months after the balance sheet date has a negative impact. An interviewee pointed out: 'this could mean the accounting department is

sloppy, they found ways to prolong the audit or they want to hide something.’ The commercial bank lenders opinion and their explanations coincide with the existing research outlined in the literature review.

The other two interviewees, who are working in the analysis department, immediately denied any influencing effect of the auditor’s report on the lending process. The only way they see it to be included in the lending process is that the numbers which are included in the rating process need to be the audited numbers but the report itself has no immediate influence. The two interviewees had different reasons for their answer. One interviewee argued that the number of Austrian companies actually having an auditor’s report is rather small. He stated: ‘the percentage of companies with an auditor’s report could probably not be higher than 10% of all companies in Austria. It is a nice feature to have but it does not influence the whole lending process.’ The other interviewee justified his opinion with his distrust of the auditors. He explained his doubts through the auditor’s dependency on the company. An auditor cannot risk losing a company and therefore he cannot afford to offend the client by issuing a qualified opinion. A further argument was that the auditors cannot be held liable and therefore they can sign whatever they want without fearing any consequences. As an example the interviewee named the financial scandal of a large Austrian bank in 2006. Up to the time when the financial scandal became public the bank always received an unqualified auditor’s opinion. The two auditors that signed the report were indicted on criminal charges but both were acquitted ultimately.

The other interviewees did not have such a strong negative opinion about the auditors but as one interviewee stated: ‘one has to be careful because through previous cases it is obviously apparent that an auditor is not delivering 100% quality.’ All of the interviewees mentioned scandals that happened during the last few years to show that relying only on the auditor’s report is not appropriate.

One interviewee suggested that the difference in these answers could be the employment in different departments. The analysis department is a speciality department that has a different focus than the commercial lending department. Bank lenders in the analysis department are primarily focusing on the economic side of the client whereas a commercial bank lender has to consider what happens in the client’s environment, check what the client means for the bank and also how the client fits in his portfolio structure. One interviewee from the analysis department put it this way: ‘for our job the current auditor’s report is not satisfying but we have a specific job. For many others the report is good enough because it gives a certain formal security and I have an external party behind it that reviewed the numbers.’

Could you explain if the auditor's report also has an influence on the lending outcome?

The interviewees came to an understanding of how the auditor's report influences the lending decision. Two interviewees stated that there is no immediate influence because there are so many diverse sources of information used for the lending decision and the auditor's report only represents a small part of that. The other two interviewees said the auditor's report only has an influence on the lending decision if it includes a negative statement and only if the negative statement has economic reasons and therefore is relevant for the bank lender. Even those two interviewees acknowledged that qualifications or exceptions are happening so rarely that they are not even worth mentioning. But one interviewee pointed out that conversely an unqualified opinion does not automatically mean a positive credit approval is made, that conclusion cannot be made.

What parts of the auditor's report are not important and could be left out without influencing the lending process?

All interview subjects agreed that the auditor's report is read. The first glance goes to the audit opinion to find out whether the report is qualified or unqualified. There seems to be an understanding between the subjects interviewed that the current auditor's report cannot be shortened. Quite the opposite, one interviewee noted positively that the report includes more information nowadays than it did years ago. It was mentioned from other interviewees that even though it is a standard format and many of the comments are self-explanatory and meaningless it is important to know what was audited, who performed the audit and the responsibilities of the auditor and company. One interviewee noted that auditors would never agree to shorten the report because in a way they use it to disclaim their liability.

How much value does the current pass/fail model for bank lenders have?

As the interviewees pointed out and as can be seen from the literature review the audit opinion attracts the most attention. Therefore the researcher wanted to investigate if the current pass/fail model in the audit opinion has value for the bank lenders. The interviewees' opinions did not coincide in that matter. One interviewee could see advantages in the current pass/fail model because it gives a clear decision from an external source that does not leave any room for interpretation and this gives security. Two interviewees disagreed with that opinion. They justified their negative opinion with the very low information content in the pass/fail model. Furthermore what happens with the companies that are situated in the middle? It is a subjective opinion whether it is still an unqualified or a qualified opinion. But they acknowledged that there has to be some kind of clear decision because if an auditor would present his own interpretation the whole report would be very vague and not helpful either. One interviewee added that the best way would be if this grey area was filled with a note.

Then the reader could decide for himself what that information means for his area. One interviewee declined to provide an answer to this question.

5.2 Research Question 2

How will the different proposed changes to the auditor's report influence its usage in the lending process?

In the literature review the proposed changes were explained and also some expected effects that will arise because of the changes to the auditor's report were already laid out. The interviews explored how the bank lenders truly feel about the changes, what their perceptions are, how the changes will influence the lending process and what intended or unintended effects could arise.

All interview subjects were unaware of the proposed changes to the auditor's report by the IAASB. The interviewees heard about the changes the first time from the researcher during the interview.

What would be the additional value arising from the Auditor Commentary for the bank lending process?

As already pointed out in the literature review the four points included in the Auditor Commentary are material management judgements and estimates, the occurrence of material or unusual transactions during the fiscal year, contentious matters that were found during the audit and other issues that were discussed with the management and which required a significant audit. Those points were presented to the interviewees. There seemed to be an understanding between the interviewees that the proposed points which should be included in the Auditor Commentary would be interesting and helpful. But the interview partners also had points of critique for that proposal. The majority of the interviewees criticised the first two points, material management judgements and estimate and the occurrence of material or unusual transactions during the fiscal year because as one interviewee put it: 'those would be interesting points but then we come back to the discussion what is material and what is not material.'

One interviewee said that all the points are interesting but as a bank they expect to receive most of the information that should be included in the Auditor Commentary anyways from the client and for an important credit decision a bank will also request a talk with the auditor personally or at least over the phone and it is not necessary to receive that information from an intermediary instead. Conceivably, if a bank lender talks to the client it would be possible that he would get that information earlier than to wait for the auditor's report to be published.

Other interviewees put that statement into perspective. It was pointed out in the literature review that banks have the chance to receive more information from their clients than other users. The interviewees agreed with this statement but one interviewee explained it is only partially possible to receive information on all of the proposed points now. He stated: ‘big companies have loans from more than one bank and the current questionnaires that are sent out to the bank’s clients about the annual financial statements are about two to three pages long. To receive all the information a bank would want a company would have to employ one person only to answer a bank’s questions. That is not possible. A bank would probably lose clients when a too extensive investigation is made.’

It was also mentioned that auditors have access to all the information in the company and they have an extensive knowledge about the company. It would help all users if some of that knowledge is passed on to the public like it is proposed in the Auditor Commentary.

In the way the Auditor Commentary is presented now it would influence the lending process in a positive way. An interviewee from the commercial lending department who is responsible for smaller companies said: ‘it could maybe simplify the decision process and the more work that is done for us could shorten the research process but for a large amount credited the bank is making a more thorough investigation anyways.’ The interviewees from the analysis department stated that even if all the proposed information is included in the Auditor Commentary it would never be a replacement for their work. They see it as a help to prepare their analysis about the company and all the points raised in the Auditor Commentary would be discussed again with the client. It would present a starting point for the analysis of the financial statements.

What do you think about the suggestion to publish the Auditor Commentary only for listed companies?

Right now, as already described in the literature review, the Auditor Commentary should only be published for listed companies but the IAASB is discussing to widen the application area. There seemed to be an understanding between the subjects interviewed that the currently discussed idea to publish the Auditor Commentary only for listed companies is not a good criterion especially in Austria where not a lot of listed companies exist. There are also a lot of not listed but large companies that have the same influence on the economy, unemployment rate, insolvency statistic and consequential effects on suppliers.

All interviewees agreed that the circle of companies that have to present an Auditor Commentary should go beyond the criterion of a listing on the stock exchange. But most of the interviewees agreed that it should not be required for all companies. A criterion needs to exist because it could be a cost issue and for small companies that just fell in the category for a mandatory audit it could get too expensive. A lot of different suggestions for other criteria were named. One interviewee mentioned that the existence of other capital or bonds that were placed should be a criterion because a larger creditor interest exists for those companies. Other suggestions were the size of the company, the importance and impact on the economy or the number of employees. One interviewee even thought of making it a quality characteristic like it was done with corporate social responsibility in the last few years. He thought that if a company includes an Auditor Commentary in its annual report it shows that they really strive to report transparently and to give banks and other users a great picture of the risk situation in the company.

What influence would an evaluation from the auditor about the appropriateness of the management's going concern assumption have on the lending process?

Most interviewees saw this as a really interesting point. Only one interviewee could not see a huge improvement because in his opinion it is the manager's decision whether he wants to continue the company or he does not want to. He explained: 'a statement is included in the notes anyways whether the going concern assumption is followed or not. When a company is in really bad shape it needs a continuance forecast to receive an auditor's statement.' In his opinion that change is not vastly important because the question of going concern has to be asked anyways every time and if going concern cannot be assumed a statement is included anyways. Also it would only be an interesting point for a small number of companies, namely companies which are in a bad shape.

All other interviewees agreed that it would be an interesting point especially if the auditor issues a negative statement to this point. As one interviewee put it: 'if the auditor issues a negative statement a positive credit decision will be hard to achieve.' The interviewees agreed that this change could constitute a problem for the auditors. For good companies it will not be an issue for the auditor to form a decision but for bad companies it will be hard for the auditor to make an objective decision whether the company will survive or not. This is a sensitive topic. The auditor will be aware that a negative statement could kill the company immediately and that a false statement could have a devastating effect for the company. But most of the interviewees thought it would definitely be a helpful change for bank lenders because a credit decision is basically nothing different than a going concern assumption.

An interesting point would be when the auditor's report includes a negative statement about the going concern assumption which bank receives the report first. As one interviewee mentioned: 'if one bank receives the report a week earlier than every other bank, the first bank has already locked its credit lines and reclaimed its money before the other banks are doing anything. It will be an issue of what bank gets its money back first.'

What influence would an auditor's statement about possible inconsistencies between other information included in the annual report and the audited financial statement have?

The majority of the interviewees agreed that this statement would add value. Interviewees stated that other information in the annual report is used to receive a description to the numbers, it shows and explains the strategy of the company and it provides a link on how the risk might change in the future. But it was pointed out that of course a lot of marketing information is included in the annual report and it will be hard for the auditor to question that information. A commercial bank lender could see a possible problem arising for small companies because small companies might not have appropriate instruments installed to support their statements. The interviewed bank lenders think if that change would really be possible, the other information included in the annual report could be seen as being more objective and it would reduce discussions about other information included in the annual report during the lending process.

One interviewee stated he cannot see any added value from that statement because the other information in the annual report is read carefully by the bank lenders and the analysts and they should find any existing discrepancies anyways. But the other interviewees did not share that opinion, one said the more information that is included in the auditor's report the easier it will be for a bank.

Would a more prominent position of the audit opinion influence the decision making process?

All interviewees agreed that this change would not have any influence on the lending process. It is just a formal change and they know where they can find the audit opinion in the current auditor's report.

What problems or unanticipated side effects could arise from those changes?

Interviewees can see problems or unexpected adverse reactions arising from the changes proposed by the IAASB for banks itself, companies and auditors.

All bank lenders would see more information as helpful and important but it would also lengthen and complicate the process because the report is longer and more time is needed to read it and analyse it. As a consequence the lending process would be more expensive. Furthermore additional points are brought forward by the auditors that need to be discussed with the client but that is only true, especially for the Auditor Commentary, if informative statements are included and it does not end up to be a standard text again. But as one interviewee mentioned, if on the other hand the whole report would include all the issues that were discussed in full length during the audit and in the end the auditor would not come to a conclusion it would only lead to endless discussions and make the bank lenders feel insecure.

All bank lenders mentioned at some point during the interview that all the proposed changes are important but as one interviewee put it: 'it would be way more important that the report is presented earlier and is available for the public.' Interviewees feared that the changes could even prolong the duration of the preparation of the auditor's report because it could lead to more discussions between the auditor and the company or the auditor needs longer to prepare the report because it is not simply a standard format.

There was an understanding between all interviewees that the companies would also be highly influenced by the changes because banks can be really sensitive to these topics. It will be especially hard for weaker companies if they need to present additional information about their actual situation. As an effect, interviewees were afraid that companies could start not being as honest with their auditors anymore because they just do not want everyone to read about their problems. Another mentioned unexpected reaction could be that companies stay small on purpose so that they only operate in a size in which they are not subject to an audit. For smaller companies that just fall in the category where an audit is required, the audit could get too expensive and massive and they might not have sufficient personnel capacities to finish an audit. A type of avoidance scheme by companies could be created which is not the goal.

All those changes could also have a massive impact on the auditor. Interviewees mentioned that it could be a liability issue especially with the Auditor Commentary when more meaningful statements should be included. It is questionable if auditors are more liable in the future because more information than in the previous report is included. Interviewees see no problem in finding out what the auditor included in the report and what he left out because all the documents which were demanded from the company and all e-mails that were sent during the audit need to be saved by the auditor.

Overall which one of those two reporting models would you prefer, the existing one or the proposed one?

All interviewees agreed that the new system if it is implemented the way it was presented now would be preferable over the currently existing system because it includes more valuable information compared to the existing report and therefore is more relevant. But the interviewees feared that after all negotiations and at the publication of the final law it will not be anything more than a reformulation of the currently existing standard text.

5.3 Research Question 3

What is the change to the auditor's report that bank lenders are seeking the most?

The IAASB has already proposed changes which were discussed in the literature review and in the previous section. This question should investigate what other information bank lenders would wish for in the auditor's report.

The interview subjects tended to have difficulties answering this question directly but points were made while answering other questions and nonetheless some useful information could be gathered.

What other information would be important for the bank lending process in a narrative report like the Auditor Commentary?

The interviewees agreed that the proposed changes are already a step in the right direction. They came up with different suggestions of other information which should be included in a narrative report like the Auditor Commentary. First of all what is really important to them is that the wording will ultimately not be a standard text again. One interviewee said: 'every additional piece of information with a meaningful statement would be a clear improvement over the status quo. The four points already included make a good start and should just be expanded by a few more points.'

Both interviewees from the commercial lending department mentioned that all the information presented in the auditor's report is referring to the past. But what is really important for the lending decision is forward looking information because as bank lenders they want to know how the company's situation will change in the future and if the borrower is able to repay the loan in the future. Therefore one interviewee stated: 'it would be great if the auditor could include information about the future of the company in the report. Right now the auditor is looking at current and future developments during the audit but essentially all that is audited is the previous year.'

Furthermore another interviewee mentioned that in the currently proposed Auditor Commentary no economic aspects are included. Examples of economic information which should be included in a narrative report and which were mentioned during the interviews are information about the risk situation and the management of this risk, for example a dependency on a supplier or a customer or an extreme export focus on dangerous markets or problems that could arise in the future for the company. The 10Q or 10K files that companies listed at the US stock exchange have to file with the Securities and Exchange Commission were cited as good examples. These documents include a long and comprehensive explanation of all different kinds of risk in the company. It would give a clear picture of what could happen in the worst case scenario.

Also interviewees would wish to include more information about particular central statements from the financial statements. It will differ from company to company what a particular central statement is depending on what industry the company works in. One interviewee said: ‘only positions should be included in a narrative report that influence the profit and the going concern of a company.’ Examples that were named that are always a point of discussion are the valuation of stock and work in progress and goodwill. Any valuation process is highly subjective and the interviewed bank lenders find it hard to reproduce the valuation process. In this area the interviewed bank lenders thought it was important to know what valuation principle was used, what spot checks were made by the auditor and what the auditing process looked like. This piece of information would be important for the interviewed bank lenders because a different valuation could have a massive impact on a company’s profit. For the goodwill the interviewee suggested a specific statement about to what percentage the goodwill projections from the last goodwill impairment test were met up to now. Right now bank lenders can see an impairment test was made and no need for an impairment accrued. According to the interviewee that is not enough information. He would prefer if it is stated clearly that the projections assumed during the last impairment test were met up to now by for example 95%. The interviewee observed: ‘it would increase the clarity and the trustworthiness of the process of impairment testing.’

Especially important for a bank are liquidity issues. The interviewees agreed that right now there is hardly any useful information included about the company’s liquidity situation. One interviewee said: ‘the auditor does not concern himself with how liquidity might change or get scarce in the future. Right now the audit opinion always ends: the consolidated financial statements comply with legal requirements and give a true and fair

view of the financial position of the Group as of ... and of its financial performance and its cash flows for the fiscal year from ... to ... in accordance with IFRS. This is just a phrase and no real information can be read out of it.' The interviewees complained that the report does not show where the real problems are and how liquidity might change in the future.

The auditor has the opportunity to access all information available in the company. No other user has such great and in-depth knowledge about the company. Interviewees would find it helpful if more of that knowledge is transferred.

If you could make any changes to the auditor's report to improve it what would that be?

All interviewees had an understanding that they cannot rely solely on the auditor's report. They supported their statement with the current major Austrian bankruptcy cases, which are the construction company, Alpine and the grocery store chain, daily. Both companies received an unqualified audit opinion in their most recent financial statements. The image and the trustworthiness of the auditors are currently not at a high level. For the interviewees it is really frustrating that the auditors cannot be held liable. An interviewee commented that this can create the impression that auditors can sign anything without being worried about the consequences.

One interviewee suggested changing the auditor's report in such a way that it will prevent bankruptcies. This would allow bank lenders and every other reader to assume that in reality at least within the next one or two years after the auditor's report was issued the company will not go bankrupt. The interviewee sees that as the best way to change the auditor's report so it is most useful for bank lenders. But the interviewee also mentioned that unfortunately this is not possible and it is only wishful thinking. His explanation was: 'auditors have another approach compared to bank lenders. The auditor confirms that formally everything is correct whereas bank lenders have to assess the economical risk that is apparent in this company. Furthermore it would probably be a liability issue that auditors will not accept.'

The current auditor's report states: the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated 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 Group's internal control. One interviewee indicated it would be helpful if the internal control system would be subject to an audit because a bank receives accompanying information during the year from the company either to help prepare a lending decision or to monitor a loan. An audit of the internal control system would make those numbers more reliable.

5.4 Conclusion on Analysis and Findings

The interviewees had different opinions of whether the auditor's report influences the lending process. The commercial bank lenders thought the auditor's report is a critical factor because the numbers are verified and from the publication date they can draw conclusions on the organisation of the accounting department. Interviewees from the analysis department said the auditor's report is not relevant for the lending process because the number of companies having an auditor's report is small, they distrust the auditor and auditors cannot be held liable. All interviewees agreed that the lending outcome is hardly influenced by the auditor's report. The most important part of the auditor's report for bank lenders is the audit opinion but not all of the interviewees agreed that the current pass/fail model in the audit opinion is helpful.

Overall the bank lenders would already see an improvement in the proposed changes. It is really important for them that it is not a standard text again. The inclusion of the narrative text is seen as positive but it is also feared that in the end no meaningful information is included in the report. Further mentioned downsides of the changes were higher costs of the lending process because of the higher amount of material to analyse, a later publication of the annual report, high impact on weaker companies which could interfere with the openness between the auditor and company and problems for small companies for which the audit is too massive.

6 Conclusion

This chapter will discuss the conclusions which can be drawn from the combination of the currently existing and previously described literature and the qualitative research findings for the previously outlined research questions.

The objective of this research was to explore the bank lenders' perceptions for both the current auditor's report and the changes to the auditor's report discussed by the IAASB as well as the changes that bank lenders are seeking the most and are not included in the proposal.

Research Question 1: How is the current standard auditor's report used for the lending process and the lending decision by bank lenders?

As studies in the currently existing literature show, audits provide value for its users but the usefulness and the content of the auditor's report are under critique. (Deumes et al., 2010, Coram et al., 2011) Further research that explicitly covered the importance of the auditor's report for bank lenders shows that the report is important and has value for them even though it was found that bank lenders used the auditor's report to a lesser extent than other users because bank lenders have the opportunity to receive information about the company that is not publicly available. (Asare and Wright, 2012) Two interviewees, the commercial bank lenders, agreed with the existing research that the auditor's report is a critical factor because the numbers which are the basis for the decision are qualitatively monitored. Furthermore they mentioned that the information in the auditor's report is less important for them than for other users because they have the opportunity to request more information from the client than other users can demand. Their statements match the findings from the currently existing literature. However not all interviewees agreed with the existing literature. Interviewees from the operational analysis department could not see how the auditor's report influences the lending process. First of all they criticised that auditors can sign anything without being held liable for a wrong statement. Second, they distrust the auditor because auditors are dependent on the company. Third, companies in Austria which actually have an auditor's report are a rather small percentage. It is a nice feature to have and it gives security that the numbers are formally correct but the standard auditor's report itself does not provide any valuable information which influences the lending process according to the operational analysts. A possible explanation of the different perceptions could be the occupation in different departments. Not every credit application is forwarded to the operational analysts department. Generally the only cases which are forwarded are complicated and discerning cases or applications for a very high credit amount.

All interviewees agreed that an unqualified opinion has no influence on the lending decision. A qualified opinion could under certain circumstances have an influence but only if the qualification has an economic effect and therefore is relevant for bank lenders. Thus, only economical qualifications, which are a small amount of the total, influence the lending decision. It can be concluded that the influence of the auditor's report on the lending decision is rather small. The existing research shows that the auditor's report is important for the lending decision but to a lesser extent than for the lending process. (Antonio Duréndez, 2003) The interviewees do not entirely agree with Antonio Duréndez's conclusion because they do not think the auditor's report is important in general, rather only a small amount of the total reports is relevant for the lending decision.

The interviewees agreed that the auditor's report is read but the most important part which attracts the most attention in the report is the audit opinion. This finding coincides with the research laid out in the literature review. The currently existing research shows that users of the auditor's report are divided on whether the pass/fail model is a good model. It was noted in the literature review that less than half of the respondents of the IAG survey were satisfied with the current model in the audit opinion. (Carcello, 2012) The interviewees also had different points of view on this topic. The advocates like it because it gives a clear statement from an external independent party whereas opponents think it does not give enough information and can be seen as being subjective because the reader of the report cannot see what influenced the audit opinion and how the auditor got to his standpoint. To improve the model a note should be included to fill this grey area.

Research question 2: How will the different proposed changes to the auditor's report influence its usage in the lending process?

The IAASB proposed changes to the auditor's report. The four points of modification were discussed in the literature review. To summarise, the changes were: Auditor Commentary, the auditor's assessment of the appropriateness of the managements going concern assumption, a statement about inconsistencies between other information included in the annual report and the audited financial statement and a more prominent position of the audit opinion. Besides the change of the position of the audit opinion, which is a purely formal alteration, the changes proposed by the IAASB are overall seen as being helpful and important by the interviewed bank lenders and the changes would increase the relevance of the auditor's report.

The Auditor Commentary is seen as a positive change because it provides entity-specific information which is currently not included in the auditor's report. The subjects interviewed can imagine that for small companies a simplification of the lending decision is possible

because more information is provided by the auditor and for large credit decisions the information could present a starting point for the analysis of the company and help to prepare for the talk with the company because all the points brought forward in a narrative report will be analysed more carefully and discussed with the client.

The auditor's statement of the management's going concern assumption is seen as useful. Only one interviewee disagreed but his explanations showed that the interviewee already expects a comment in the current auditor's report if there are any problems with the going concern assumption. There was an understanding between the interviewees that this statement would only have an influence if the auditor issued a negative statement.

A statement about inconsistencies between other information included in the annual report and the audited financial statement was described as helpful by the interviewees because the information in the annual report would be more objective but it would not replace the critical reading of the other information included in the annual report by the bank lenders.

The IAASB proposed to issue the Auditor Commentary only for listed companies but is currently discussing whether the circle of companies should be widened. The interviewees clearly agreed that the Auditor Commentary should be presented not only for listed companies. Especially in Austria the number of listed companies is not high and it would be interesting to receive the information included in the Auditor Commentary from more companies. Better criteria that were brought forward are the size of the company, the number of employees, the influence on the economy or whether the company has bonds placed on the market. If the Auditor Commentary would only be presented for listed companies it would primarily focus on informing shareholders but other stakeholders like banks would also be interested in receiving the information included in an Auditor Commentary from other companies.

The interviewees also had points of critique for the proposal. The already mentioned points of criticism in the literature review, the narrative report could be boilerplate again, the report could be published later, small companies could stay small to avoid an audit and the openness between the auditor and the company could be threatened, were shared by the interviewed bank lenders. Further worries were expressed, such as that the lending process could be lengthened and as a result the costs for the lending process could increase because more information needs to be read and analysed. The interviewees also had a concrete complaint about the first two points in the Auditor Commentary, a statement about material management judgements and estimates and the occurrence of material or unusual transactions during the

fiscal year, because the term materiality is not clearly defined. If the term materiality would be clarified these two points would also be interesting according to the interviewed bank lenders. These statements coincide with the literature review that a better explanation of the term materiality is needed. (Houghton, Jubb and Kend, 2011)

The proposed changes would increase the relevance of the auditor's report for bank lenders if they come into effect the way they were presented now. Especially positively highlighted was that the report will include meaningful statements. If a qualitative report will not be included in the final auditor's report, either because the auditors will not approve of the change or after the introduction the wording will be vague and the same for every company, the value of the auditor's report will not be enhanced. Therefore it can be concluded that the bank lenders are especially interested in narrative and entity-specific information.

Research question 3: What is the change to the auditor's report that bank lenders are seeking the most?

An extensive research about the changes to the auditor's report that bank lenders are seeking the most does not exist. Only a few changes were mentioned in the literature review, like information about the risk situation in the company, forward looking information and entity-specific information as it is presented to the board and audit committee. The interviewees also mentioned those suggestions and added a few more, such as an audit of the internal control system, more in-depth information about the company's liquidity issues and more information about particular central statements, for example the used valuation principle, what spot checks were made by the auditor and what the auditing process looked like. One interviewee suggested that the most helpful way for bank lenders would be if the audit was conducted in such a way that no bankruptcies will be possible in the near future. The last point is not enforceable because it would present a liability issue for auditors.

Most important are narrative and entity-specific information so that bank lenders can make a picture about the company themselves and do not rely on the auditor's perception.

A positive remark is that all interview partners agreed that the audit has value and could not be eliminated. It is only the report which has value to enhance but the proposed changes are already a step in the right direction if they are introduced in the way they are proposed in the IAASB's Invitation to Comment.

7 Recommendations for future research

Unfortunately the research was conducted under unavoidable limitations and therefore it cannot be concluded that the found information is externally reliable and valid. Through the research definitely helpful data could be gathered that increased the understanding about the bank lenders' point of view. However a follow up research that is not under a time constraint and therefore can include more interviewees in the process would increase the reliability and validity of the research outcome.

In this research bank lenders were the research subject. However there are many other user groups for whom the auditor's report is important. Bank lenders have a very close relationship to their clients. Much more information is included in the lending process other than just the auditor's report and the bank is in a position to demand more information directly from the client. This can result in different perceptions of the auditor's report and the changes to the auditor's report in comparison to other users. Other possible research subjects could be auditors, companies or investors.

In the current study the proposed changes from the Invitation to Comment: Improving the Auditor's Report were analysed. The final law should be published in 2014. A future study could compare the actual changes that were made to the auditor's report and the currently investigated changes. Furthermore, currently the bank lenders were unaware of the changes to the auditor's report and were not informed until the interview about those changes. This research could be done again once the law has been implemented and the bank lenders can report the experiences they have made with the changed auditor's report.

8 Self-Reflection

8.1 Reflection on process and sources

In the first step a topic needed to be found which was worth analysing, which was in the stream of my studies, which researched new aspects that did not exist in the current literature, which did arouse my attention and interest and where I had access to empirical information. The process of finding a research topic started with extensive reading. Current articles from online databases like EBSCOhost and Emerald, as well as online research about current topics in the accounting and auditing area were critically read to identify gaps in the current literature. The databases EBSCOhost and Emerald were used because they are available through the DBS library and they have an extensive range of business articles.

The ideas I came up with after the study of the existing literature were checked if they are really feasible, for example can the research problem be answered through primary research subjects, is the topic too narrow or too broad. Finally, for the last three ideas which were not ruled out a more detailed secondary research was done. In this stage also books from the library were included. In the first step of the idea generation only online resources were used because they are usually covering more recent topics, like the changes to the auditor's report. Furthermore throughout the idea generating and writing process the newspaper, like Financial Times, was read to know whether there was any related news to my chosen topic.

The literature review was started during the Scientific Research Methods module and ended with the submission of this dissertation. To gather and organise this vast amount of secondary information was a difficult task but it helped to build a concept and the basis for my primary research.

To locate interview partners e-mail addresses from the managers of commercial lending departments were found on Austrian bank websites. Twelve e-mails were sent and four responses were received. In two banks I was referred to the analysis department. The scheduling of the interviews was slowed down due to the holiday season. In two cases I had to wait until the interviewees were back from their holiday break. The interview partners were really helpful and understanding that students need the support from people who are already working and it is hard for students to get that support.

Transcribing the interviews was an easy task whereas translating the transcripts from German into English was more challenging and a more time consuming task. The interviewees used long and complicated sentences or the sentences were not completed. Special care had to be taken that the meaning of the sentences was not changed after the transcripts were translated.

One interviewee did not agree to audio record the interview. This made the preparation of a transcript more challenging. A lot of notes were taken during that interview and the transcript was written at the same day as the interview.

The start of the analysis of the interviews was challenging. There was an overwhelming amount of information available from the interviews and it was important to structure the available data. Some questions, specifically the question to the changes that are most sought for, were not answered directly but points were made while answering other questions. This made the analysis process even more complicated.

After the feedback for my first draft some sources in the literature review had to be replaced with newer sources because the majority of the included sources in the Literature Review should not be older than five to six years. So even though the sources looked promising at the first glance, they did not fulfil the requirements for a useful source. For the methodology section information had to be found outside of my stream. The used articles were from the psychology area.

8.2 Reflection on dissertation formulation

The found secondary sources were needed to complete the literature review and also to lay out the gaps in the literature. It also built the basis for the creation of the interview guide. The literature was easy to find and enough information was found in articles from diverse databases and books.

With the current auditor's report in the early phase of being changed it is not getting a lot of attention other than from regulators as can be seen from the interviewees who heard about the changes for the first time during the interview. I thought it was already important in this stage to discuss the consequences of the changes with the bank lenders to explore what their perceptions of the auditor's report are. As can be seen from the literature review a few authors have thought of some general consequences that could arise from the changes to the auditor's report. This research investigated the consequences specifically for bank lenders and their perceptions.

Furthermore this research looked at changes to the auditor's report that Austrian bank lenders would suggest in order to increase the relevance of the auditor's report. In this area there is little existing literature. The interviewees' suggestions were not all realisable and would probably fail to be implemented because auditors would not accept higher levels of liability. But still useful information was gathered through the interviews and a good insight in their thinking was gained.

8.3 Reflection on own learning

Kolb (1984, p. 38) defined learning as: *'the process whereby knowledge is created through the transformation of experience.'*

Different factors are influencing the personal learning style, for example personality type, education, specialisation and professional career. There is not just one learning style that exactly describes one's preferences. Usually it is a combination of the defined learning styles. (Osland et al., 2007) Honey and Mumford determined four learning styles that are based upon the work of Kolb. Those four distinct learning styles are: activist, reflector, theorist and pragmatist.

Activists are open-minded, like new experiences, start a task with a lot of energy but easily get bored. Reflectors tend to look at a problem from different perspectives before coming to a conclusion and are avoiding hasty decisions. Theorists tackle an arising problem in a logical way, set up basic assumptions and prefer a rational approach. Pragmatists like new theories but only if they can see how they are practically relevant and find ways of doing things in a better way. (Cameron, 2007)

I would categorise myself as a pragmatist and activist. The research topic was influenced by my pragmatist learning style because it explored what bank lenders actually thought of the auditor's report and the changes to the auditor's report. It investigated how the auditor's report is used in practice and if and how the changes to the auditor's report will modify the usage and relevance of the auditor's report. Furthermore another aspect of the research was to explore what improvements bank lenders would seek to make the auditor's report more relevant.

An activist characteristic that could be observed was that the whole task of writing the dissertation was started with a lot of enthusiasm but the energy level decreased throughout the process. Another activist characteristic that was important for this dissertation was to keep an open mind for the different points of views from bank lenders. Furthermore I enjoyed making a lot of new experiences, for example conducting interviews and writing this comprehensive dissertation in English, which is my second language.

I was missing the reflectors attitude to view an issue from all different angles before making a decision, for example I started writing my literature review before thinking about the whole structure and as a result the literature review had to be changed around again. For an

upcoming research or other long reports more thinking about the different aspects of the topic will be made beforehand.

Different skills were developed and strengthened during the process of finishing this dissertation. Critical thinking was a really crucial part of this dissertation. Already at the start when the dissertation topic had to be found, the existing literature was critically read and analysed. Also during the analysis part when the results of the interviews were compared with each other and with the existing theory described in the literature review, a critical point of view had to be taken.

Furthermore my communication and interpersonal skills definitely benefited from finishing this dissertation. It started with contacting bank lenders and making appointments with my interview partners. Conducting one-to-one interviews was a new experience for me. First of all to prepare for the interview was a hard and thought-provoking process. I did not know the interviewees and their knowledge in this area. The formulation of the questions took a long time. Closed question were avoided as much as possible because otherwise the answer would only be a yes or no and no insightful data could be gained. Also leading questions needed to be avoided. A lot of research was done before the interviews so I had already formed my own opinion and it was hard not to try to get the interviewees to confirm my personal opinion.

The interviews were one of the most interesting parts of the whole process but it is definitely a part where I would need to learn more about it and get more practical experience. I doubt that I will be doing qualitative interviews again in the near future, but it definitely gave me experience in talking to experts about theoretical problems. Furthermore written communication skills were trained. I am not an English native speaker and I have not finished my primary degree in English, therefore writing this dissertation was definitely one of the most challenging and longest workings I have completed during my studying career. My writing skills were enhanced during the process however there is still room for improvement.

A project of this size and length requires adequate time management skills. All tasks involved in finishing this project needed to be clearly understood and outlined. Because of the holiday season from June to August the interview partners had to be contacted early in order to secure an appointment before they went on their holiday break or right after they came back from their vacation. Making those appointments was a long process. It took time before the contacted bank lenders replied and because of their busy schedule it took additional time until a suitable date and time could be arranged. Even though a timetable was laid out it was really

important to stay flexible during this whole process because it happened that an interview was rescheduled in the last minute.

The process of finishing a dissertation involves a lot of personal management. I was responsible and had to take the initiative for the whole process. The supervisor was providing input when problems or questions occurred but no one forced me to keep my personally set schedule.

In the preparation module for the dissertation technical knowledge about the research tools was taught. Throughout the process of the dissertation only qualitative research tools were used. Therefore I have no experience in preparing a questionnaire or using software like SPSS to analyse the findings. In the process of analysing the primary qualitative data no software package was used therefore I have no experience in using any of these software packages either. The only software used during this dissertation was Microsoft Word. This dissertation definitely gave me more experience in formatting and structuring a long document using Microsoft Word.

I was never asked before to write a reflection on my process for any of my projects so far. Writing this dissertation was a long and complex task. This reflection helped to reveal more clearly how this research has increased my academic abilities and my personal management skills.

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10 Appendix

10.1 Interview Guide

Date:

Start-Time:

Company:

Finish-Time:

Years in commercial lending:

Interviewee:

1. Could you please describe in a short way the procedure of bank lending in your bank?
2. What sources of information are included in the lending process and where do you get them from?
3. What differences occur in the bank lending process between small and large companies especially because small companies do not have an auditor's report?
4. In what way does the current auditor's report influence the bank lending process?
5. Could you explain if the auditor's report also has an influence on the lending outcome?
6. What parts of the auditor's report are important in your opinion? (Show interviewee unqualified auditor's report of company)
7. What parts are not important and could be left out without influencing the lending process?
8. Did/Would you ever invest in a company with a qualified auditor's opinion? If yes, why?
If no, never saw a qualified auditor's opinion or did you reject the credit application?
Example
9. Is it an influencing factor which auditing firm performed the audit?
10. Right now the auditor's report has a pass/fail model. Either the auditor agrees that the annual financial statements give a true and fair view or they do not. How much value does a model like this have?
11. In your opinion did the financial crisis have any influence on the value of the auditor's report?

12. Can you give reasons why you think the auditor's report needs to be changed?
13. The IAASB is discussing changes to the auditor's report. One change would be the inclusion of an Auditor Commentary in the auditor's report. It is a narrative report that includes information about
 - a. material management judgements and estimates,
 - b. the occurrence of material or unusual transactions during the fiscal year,
 - c. contentious matters that were found during the audit and
 - d. other issues that were discussed with the management and which required a significant audit.

What would be the additional value arising from that change for the bank lending process?
14. Are those proposed points in the Auditor Commentary important or would other information influence the bank lending process more? What would the other information be?
15. Is it the right answer to the critique to more entity-specific information?
16. Right now the preparation of the Auditor Commentary is only discussed for listed companies. Do you think this suggestion is valid? If yes, why? If no, what criteria would you suggest should be used for the preparation?
17. A further change should be the assessment by an auditor of the appropriateness of the managements going concern assumption. What influence would an evaluation from the auditor about the appropriateness of the management's going concern assumption have on the lending process?
18. Furthermore the IAASB plans to include a statement of the auditor about possible inconsistencies between other information included in the annual report and the audited financial statements. Are other information used in the lending process? Would this change have any influence on the lending process?
19. Would a more prominent position of the audit opinion influence your decision making process?

-
20. Overall could you give me your opinion if those changes would improve the auditor's report for the bank lending process?
 21. Which one of those changes do you think is the most important?
 22. What problems or unanticipated side effects can you see arising from those changes?
 23. Overall which one of those two reporting models would you prefer, the proposed one or the existing one?
 24. If you could make any changes to the auditor's report to improve it what would that be?
 25. How should those changes be presented?
 26. How would those changes affect the bank lending process?
 27. What additional information should be provided by auditors to have a positive impact on the bank lending process?
 28. Would there be any system that would be better than auditing?
 29. Do you have any other thoughts on that topic?

Thank you for your time and cooperation.

10.2 Auditor's Report

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of company XYZ, for the fiscal year from January 1, 20X1 to December 31, 20X1. These consolidated financial statements comprise the consolidated balance sheet as of December 31, 20X1, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended December 31, 20X1, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of December 31, 20X1 and of its financial performance and its cash flows for the fiscal year from January 1, 20X1 to December 31, 20X1 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate. In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Address, Date

Name of Auditing Firm

Signature

10.3 Proposed Auditor's Report

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Financial Statements

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, (or give a true and fair view of) the financial position of ABC Company (the Company) as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs). The financial statements comprise the statement of financial position as at December 31, 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Basis for Opinion

We have audited the accompanying financial statements in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report. In performing our audit, we complied with relevant ethical requirements applicable to financial statement audits, including independence requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

Use of the Going Concern Assumption

As part of our audit of the financial statements, we have concluded that management's use of the going concern assumption in the preparation of the financial statements is appropriate.

Material Uncertainties Related to Events or Conditions that May Cast Significant Doubt on the Company's Ability to Continue as a Going Concern

Based on the work we have performed, we have not identified material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern that we believe would need to be disclosed in accordance with IFRSs. Because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

The responsibilities of management with respect to going concern are described in a separate section of our report.

Auditor Commentary

Without modifying our opinion, we highlight the following matters that are, in our judgment, likely to be most important to users' understanding of the audited financial statements or our

audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures.

Outstanding Litigation

The Company is exposed to various claims and contingencies in the normal course of business. We draw attention to Note 9, which describes the uncertainty related to an environmental claim regarding a business that was sold by the Company in 20X0.

Goodwill

As disclosed in Note 3, in 20X0, the Company acquired a significant operation in [location]. Goodwill attributable to this acquisition is XXX, which is material to the financial statements as a whole. The annual impairment test, as described in the Company's summary of significant accounting policies, is complex and highly judgmental. Due to the current economic conditions as discussed on page X of Management Commentary, there is significant uncertainty embedded in the future cash flow projections used in the impairment calculation. The Company performed this testing as at [date]. No impairment was recognized because the recoverable amount of the unit to which the goodwill was allocated marginally exceeded its carrying value at that date. The Company has disclosed that a decline of Y% in the fair value of this unit would, all other things being equal, give rise to an impairment of the goodwill in the future and such an impairment would have a material negative effect on the Company's statement of financial position and statement of comprehensive income, but would not impact its cash flow from operations.

Valuation of Financial Instruments

The Company's disclosure with respect to its structured financial instruments is included in Note 5. Due to the significant measurement uncertainty associated with these instruments, we determined that there was a high risk of material misstatement of the financial statements related to the valuation of them. As part of our response to this risk, our firm's valuation specialists developed an independent range for purposes of evaluating the reasonableness of management's fair value estimate, which was determined through its use of a model. Management's recorded amount fell within our range.

Audit Strategy Relating to the Recording of Revenue, Accounts Receivable, and Cash Receipts

During the year, the Company implemented a new system to record revenue, accounts receivable, and cash receipts, which involved the introduction of new accounting software. The new system centralizes processes and related internal control for five of the Company's seven operating segments. These processes and controls are significant to our audit of the financial statements because they affect a number of material financial statement accounts. We discussed the effect of the new system implementation on our audit strategy with those charged with governance, including our consideration of the work that had been performed on

the new system by the Company's internal audit function. Our audit strategy included supporting our understanding of the design of the new system through discussion with relevant personnel; testing the effectiveness of key controls; and testing the transfer of balances to the new accounting ledgers.

Involvement of Other Auditors

At our request, other auditors performed procedures on the financial information of certain subsidiaries to obtain audit evidence in support of our audit opinion. The work of audit firms with which we are affiliated constituted approximately [*percentage of audit measured by, for example, audit hours*] of our audit and the work of other non-affiliated audit firms constituted approximately [*percentage of audit measured by, for example, audit hours*] of our audit. Our responsibilities for the audit are explained in the *Auditor's Responsibility* section of our report.

Other Information

As part of our audit, we have read [*clearly identify the specific other information read, e.g., the Chairman's Statement, the Business Review, etc.*] contained in [*specify the document containing the other information, e.g., the annual report*], for the purpose of identifying whether there are material inconsistencies with the audited financial statements. Based upon reading it, we have not identified material inconsistencies between this information and the audited financial statements. However, we have not audited this information and accordingly do not express an opinion on it.

Respective Responsibilities of Management, [Appropriate Title for Those Charged with Governance], and the Auditor

Responsibility of Management and [Those Charged with Governance] for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. [Those charged with governance] are responsible for overseeing the Company's financial reporting process.

Management's Responsibilities Relating to Going Concern

Under IFRSs, management is responsible for making an assessment of the Company's ability to continue as a going concern when preparing the financial statements. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Under IFRSs, the Company's financial statements are prepared on

a going concern basis, unless management either intends to liquidate the Company or to cease trading, or has no realistic alternative but to do so.

IFRSs also require that, when management is aware of material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, management disclose those uncertainties in the financial statements.

Auditor's Responsibility

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism through the planning and performing of the audit. We also:

- ✧✧ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ✧✧ Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- ✧✧ Obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the group to express an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the group audit engagement and remain solely responsible for our audit opinion.
[Bullet applicable for group audits only]
- ✧✧ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ✧✧ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ✧✧ Communicate with [those charged with governance] regarding, among other matters, the planned scope and timing of the audit, the significant audit findings, and any significant deficiencies in internal control that we identify during our audit. We also communicate

with them regarding all relationships and other matters that we believe may reasonably be thought to bear on our independence. [Last sentence for listed entities only]

Report on Other Legal and Regulatory Requirements

The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. Depending on the matters addressed by other law, regulation or national auditing standards, national auditing standard setters may choose to integrate reporting on these matters with reporting as required by the ISAs (shown in the Report on the Financial Statements section).

The engagement partner responsible for the audit resulting in this report is [*name*].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Address]

[Date]