The Auditor’s Speech Act and the Auditor’s Report Re-examined

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ABSTRACT

A combined standard form of the audit report shown by the Public Company Accounting Oversight Board (PCAOB)’s Auditing Standard No. 2 deals with three different subjects, a financial statement, an assessment statement of internal control, and internal control itself, and as a result contains many audit messages of different natures. Perhaps audit reports with lengthy footnotes will emerge in the foreseeable future just as financial statements have developed if an auditor wants to further restrict his/her responsibility. Is increasing the number of messages in the audit report really desirable? Will the increased volume of audit messages lead to an understandable audit report? It may, instead, lessen the meaningful content or informativeness of the combined audit report as a whole. We can easily imagine what will happen when the auditor really wants to convey unusual/material accounting matters to the readers of the financial statements.

The audit report must be prepared in such a way to preserve conciseness as well as understandability as to the general quality of the examination, what the auditor gives assurance to, and the degree to which he/she can give the assurance. The standard audit report itself should be just long enough to be looked at and not take a lot of time to read.

This paper attempts to reform the present/complicated audit report by presenting one possible framework for considering how audit messages of different natures should be treated, with reference to speech act theory in pragmatics.

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1. Introduction

The Sarbanes-Oxley Act of 2002 (the SOX Act) has resulted in a combined, but complicated form of the audit report in which the audit opinion is addressed separately to each of the three different audit subjects: a financial statement, an assessment statement of internal control over financial reporting, and the functioning status of the internal control over financial reporting itself (as required in Section 103.[a][2][A][iii][II] [bb] of the SOX Act). Since a single audit report covers three subjects of different natures, the report inevitably becomes very lengthy and complicated. In particular, the internal control aspects which the auditor must deal with in the report are complex because the auditor expresses his/her opinion not only on the reliability of management's assessment statement of internal control over financial reporting (simply referred to "the internal control assessment statement") but also on the effectiveness of the internal control over financial reporting itself. In other words, two different types of statement audit and the non-statement audit constitute one packaged audit. This framework of one packaged audit is described by the PCAOB's Auditing Standard No.2 [E. p.8] as "an integrated audit of the financial statements and internal control over financial reporting." The author ventures to use the expression "one packaged" because Section 404 (b) of the SOX Act does not allow an independent auditor's internal control evaluation and reporting to be separate from the financial statement audit engagement.

The direct linkage between the financial statement audit and the internal control audit, as introduced by the SOX Act, seems to present an appropriate direction in which the fair presentation audit should eventually proceed. The direction is appropriate because a substantial part of internal control over financial reporting is closely related to the reliability of the underlying accounting data and the custody of corporate assets. Internal control should not be deemed simply as a peripheral area of accounting but an area closely connected with accounting. For instance, the significance of internal control to contemporary accounting practice is that fair value accounting (accounting estimates) are hardly sustainable without the support by well-established internal controls. The supreme importance of internal controls to accounting lies in a rather fundamental relationship: internal control serves as a broad basis for managers to sincerely accomplish their fiduciary duties in relation to stewardship for people which have entrusted them
with economic resources. Bu, the SOX Act still allows for an extreme situation in which
the fair presentation of a financial statement is attainable even if there is no internal
control or there are material weaknesses of internal control, provided that the financial
statement is fully substantiated by the auditor. This is perhaps the reason why the current
audit reporting under the SOX Act has become so complex and so difficult to
understand. As far as a public company is concerned, the extreme situation mentioned
above should not be allowed, although it is a matter of social choice.

2. Potential problems with the present audit report

A big problem which the current combined audit report is its wordiness. The
wordiness, together with different natures of the audit messages, may prevent the readers
from focusing quickly and easily on “where accounting/auditing problems exist.” The
standard form of an audit report, whether combined or not, must be concise and easily
understandable for the readers to know what the auditor intends to convey. A standard
audit report form with sophisticated conciseness must make “unusual accounting/
auditing matters” to which the auditor gives the alarm conspicuous in the audit report.
Otherwise, the readers will gradually get tired of reading and will not pay attention to the
auditor’s alarm message.

Another problem is related to the understandability of the audit report as a whole,
especially when the auditor refers to exceptions (reservations) which are singly (multiply)
associated with material misstatements or material deficiencies of internal control or
both, while at the same time providing their belief message (an audit opinion) that the
internal controls are operating effectively as a whole. Can the readers of the report
understand easily what the auditor really intends to convey? It is obvious that this
problem is caused by the SOX Act’s scheme and the resultant PCAOB’s Auditing
Standard No.2, which require the auditor to deal with three different audit subjects in a
single audit report under one packaged engagement.

The independent audit under Auditing Standard No.2 at least potentially contains
the two problems above, which are related to the nature of the audit communication
should be. The former problem is concerned with how the audit messages of different
natures should be reorganized in the audit report, while the latter is essentially concerned
with how the fair presentation audit of a financial statement should be reconstructed.
The two problems are closely related to each other at the fundamental level of auditing
thought.

This paper presents one possible perspective from which to look at the auditor’s
communicative behavior in the report for the solution of only the first problem, although the problems should ideally be analyzed and discussed at the same time to reform the current audit report. Apart from an approach to reform, however, audit reporting practice needs to produce reports that are simpler and more understandable.

3. The auditor's speech act in the audit report

The audit report is a "receptacle" of messages which the auditor must convey to the readers. Of all the messages in the report, the message directly linked to the audit role is usually known as the "audit opinion." It is the most important message in the report, and is also the message to which the readers will pay the most attention.

An audit opinion is the linguistically expressed belief of the auditor concerning the likelihood with which he/she can establish the truth of the fair presentation proposition and the internal control proposition in an epistemic sense. The audit opinion is the final conclusion which the auditor has reached on the basis of evidence.

From a linguistic point of view, stating an audit opinion in his/her report is considered the auditor's speech act addressed to the financial statement users. In explaining the nature of the speech acts in audit reports, we must carefully consider academic attempts to clarify the world of "saying something" using our ordinary language, based on the idea that giving a message (a statement) is performing a speech act in itself. Such an attempt was pioneered by J. L. Austin, the Oxford philosopher [1962], and was refined by John R. Searle [1969]. The academic position pioneered by the two philosophers is currently dressed as "the Contextualism" by Recanati [2004, p. 90]. Traditionally, philosophers before Austin had distinguished between actions and speaking on the basis that speaking about something was quite different from doing it (Finch [2000, p. 180]). How can the auditors' act of expressing their opinion in the audit report be explained in terms of speech act theory in linguistics?

A brief look at the concept of a speech act

Generally speaking, any expression spoken or written by anyone anywhere is designed to serve a particular function. It may be meant to inform message-receivers, order them to do something, thank them for a gift, warn them, or question them about something. The function it is meant to serve, therefore, is critical to communication. For example, speakers expect listeners to recognize the functions of their statements and to act accordingly. When they ask a question, they expect their listeners to realize that it is a request for information. If the listeners fail to appreciate this intention, they are judged as
having "misunderstood" or "ignored," even though they may have taken in everything else about the utterance. Speech acts are defined as acts performed in uttering expressions (sentences or statements). When theorists began exploring speech acts, they found no appropriate terminology already available for labeling the different types. The terminology comes in large part from the work of Austin and Searle.

According to Austin and Searle, every time speakers utter a statement, they are attempting to accomplish something with their words. Austin explains that "to say something" or "to utter" is simultaneously "to perform something" or "performative" in that it constitutes a type of act, a speech act [1962, pp. 4-7]. Any utterance involves the three different "aspects" of a speech act [1962, pp. 94-107]: the "locutionary," "illocutionary," and "perlocutionary." These aspects are not considered to be performed separately in the single utterance, however; instead, they constitute the totality of a single utterance (Figure 1). They are only analytically discernible.

Under speech act theory, an utterance is a speech act performed by a speaker (a message-sender) in a context with respect to an addressee (a message-receiver). Performing a speech act involves performing (1) a locutionary act, the act of producing a recognizable grammatical utterance in the language, (2) an illocutionary act, the intention on the part of a message-sender to accomplish some communicative purpose, and (3) a perlocutionary act, the intention on the part of a message-sender to create an intended effect on the thoughts, feelings, and actions of the message-receiver resulting from

Figure 1  Constituents of a Speech Act

A Speech Act

Locutionary Aspect

Illocutionary Aspect

Perlocutionary Aspect

23
locutionary or illocutionary acts.

Bach and Harnish (1979, p. 3) distinguish plainly the different aspects of a speech act in the following way:

If S is the speaker, H the hearer, e an expression (typically a sentence) in language L, and C the context of utterance, the main constituents of S's speech act can be schematically represented as follows:

Utterance Act: S utters e from L to H in C.
Locutionary Act: S says to H in C that so-and-so.
Illocutionary Act: S does such-and-such in C.
Perlocutionary Act: S affects H in a certain way.

Audit messages – illocutionary aspect vs. perlocutionary aspect

Illocutionary acts are central to linguistic communication in that our normal communication using language is composed in large part of statements, suggestions, requests, proposals, greetings, and the like. We also perform perlocutionary acts such as persuading or intimidating, but we do so by performing illocutionary acts such as stating.

In making a statement, we usually perform either an illocutionary act or a perlocutionary act or both. Illocutionary acts are acts performed in saying something. We can easily imagine that the independent auditor is doing something in expressing an opinion of either a financial statement or an assessment statement of internal control or both. The auditor is doing something that he/she is expected to perform in saying something. But, the auditor is never expected nor allowed to do something by saying something. For instance, any audit message in the report is never intended to perform a perlocutionary act such as “inducing or persuading investors to buy (sell) stocks of the company under audit,” although the financial statement users may misunderstand (misinterpret) the audit message, whatever it is, and then are under the impression that the auditor is sending an implicit message for them to take a particular economic decision. Recall that the “subject-to opinion” was criticized and abolished partly because it was likely that this reporting practice would accelerate the perlocutionary aspect of expressing an audit opinion.

The auditor's communicative behavior inherently has nothing to do with a speech act of perlocutionary nature. We must realize that the auditor may unexpectedly perform
perlocutionary acts by performing illocutionary acts such as making a statement. As mentioned earlier, since the three aspects constitute the totality of a single utterance or statement and are only analytically discernible, the perlocutionary aspect cannot be separated from the audit message. Therefore, more consideration should be given to the illocutionary aspect of the auditor's speech act.

4. The pragmatic framework of expressing an audit opinion

When a judge passes sentence, he/she performs a formal speech act called “delivering a judgment.” Without his/her utterance, the defendant /the accused would never hear the terms of the sentence, and of course the terms of the sentence would never be carried out. The blessing uttered by a minister or priest during a wedding ceremony, is a speech act that expresses approval for the marriage of the couple. Without this blessing, the marriage would be incomplete. Both the judge and the minister or priest, then, are performing some kind of act here in communicating their message. This act is what was referred to earlier as an “illocutionary act.”

However, the success of these illocutionary acts is not influenced by contingent or causal factors. It is accomplished not only because the acts satisfy the syntactical rules of a statement, but also because their statements obey "institutional rules," or contain "conventional assumptions," which make the statements meaningful.

According to Austin, an illocutionary act must meet the following conditions, among other things, to exhibit the very unique characteristics of some “force” (in other words, communicative intention):

1. the statement obeys certain syntactical rules.
2. the statement is uttered or made under institutional settings.
3. the statements meets felicity conditions (or constitutive rules).

Not all audit messages written in the form of a statement, however, represent the auditor's performative behaviors of an illocutionary nature. Jumping to a conclusion, the audit opinion message meets the above three conditions [for detailed reasons, see Appendix A] and will be the only one which represents an illocutionary act, although the content of the auditor’s illocutionary act has not stayed the same in the long history of financial audits, but has been changing, depending on what society expects the auditor to perform [see Appendix B]. The present content of the auditor's illocutionary act expected
under the federal securities laws is undoubtedly assurance.  

5. A framework of the audit messages

In order to expedite the acceptance of the so-called “integrated audit” as introduced by the SOX Act and not to cause potential confusion resulting from the three different audit subjects which the auditor must deal with under a single audit engagement, a set of receptacles for audit messages of different natures should be designed.

One receptacle of audit messages could be called “an audit report,” as it is currently called. This receptacle should contain only messages related to assurance. It would be very close to the standard form of an audit report, called “a short form of audit report,” which the accounting profession has been using for a long time.

Any message to educate the report readers, to enlighten the integrated audit itself, should move to a different receptacle, which is called in this paper “A Statement of the Auditor’s Responsibility under the Integrated Audit.” This receptacle would contain messages which the auditor considers necessary for the readers of the report to understand (not to misunderstand) the nature of the integrated audit, the roles which the auditor assumes to fully perform, the nature and content of the examinations he/she has performed, and the extent to which the auditor undertakes full responsibility with respect to the roles assumed.

An analysis of the nature of audit messages is not so easy, however, because the current audit messages are outgrowths of the struggle within the accounting profession to respond quickly to audit failures or problems, a struggle in which the profession has sometimes been cornered.

Some audit messages are “inherent” to the audit assurance, while others are “peripheral” to the extent that they are related to the audit assurance or are of an entirely

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2 Assurance and assurance services are different. “Assurance” is the word given to the auditor’s illocutionary act in expressing his/her opinion, while “assurance services” is a general term applied to the major part of CPA services. This paper is concerned with the former, and the Elliott Report [1996] is concerned with the latter. The Elliott Report offers a framework for embodying basic strategies of the service which the accounting profession is now undertaking or is going to undertake. Throughout this paper, the concept of assurance is interlocked with an auditor’s speech act, while Hatherly argues that “this assurance is directly related to the quality of the evidence” under the heading of “The Concept of Assurance” [1980, p. 29].
Audit assurance messages

Any statement audit, regardless of the nature of the statement, ends by conveying the performative message, called "an audit opinion," emphasizing the illocutionary act of "providing assurance." The "force" assumed in the illocutionary act is that of "providing assurance" on the reliability of the statements concerned.

Audit assurance messages are generally defined as those which are associated with the accomplishment of the audit assurance function. They are divided into two categories of audit messages: inherent messages and peripheral messages. Inherent assurance messages (simply referred to "I-Messages") are those which the auditor must include in the report and those without which the audit assurance report itself does not make sense. Some of them are essential to any type of audit report, while others are essential to a particular type of audit report. Table 1 shows examples of the I-M messages appearing in the currently effective U.S. Statements on Auditing Standards (SAS) and the PCAOB's Auditing Standard No.2. Among the audit messages is included the I-Message (the audit opinion) which is associated with the auditor's speech act (an illocutionary act: assurance).
Table 1 Examples of the inherent audit messages (1-Messages)

<table>
<thead>
<tr>
<th>Audit Message</th>
<th>Types of Audit Subject*</th>
<th>Content of the Audit Message</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A, B, C</td>
<td>A statement to identify the audit subject (audit subjects) to which the audit conclusion including an opinion is addressed.</td>
</tr>
<tr>
<td>2</td>
<td>A, B, C</td>
<td>A statement of the general quality of the examination (a summary of the auditing procedures selected and applied).</td>
</tr>
<tr>
<td>3</td>
<td>A, B, C</td>
<td>Restrictions or limitations imposed on the examination/audit procedures.</td>
</tr>
<tr>
<td>4</td>
<td>A, B, C</td>
<td>A conclusion (including an auditor's belief statement) to give explicit assurance (positive or negative) with respect to the audit subject(s) concerned (including unqualified, qualified, and adverse opinions). [SAS No.58, par.8-h]</td>
</tr>
<tr>
<td>5</td>
<td>A, B, C</td>
<td>A conclusion (a disclaimer of opinion) which does not give any (explicit or implicit) assurance with respect to the audit subject(s) concerned. Exceptions or qualifications (matters of disagreement with respect to the audit subject), related reasons for the disagreement, and the monetary effect of the disagreement on the audit subject. [SAS No.58, par.39 and par.52].</td>
</tr>
<tr>
<td>6</td>
<td>A, B</td>
<td>“Going-concerns” message which leads to the issuance of a disclaimer of opinion [SAS No.59, par.12 and footnote 4].</td>
</tr>
<tr>
<td>7</td>
<td>A</td>
<td>Findings (particular facts or situations which the auditor is requested to uncover under the engagement).</td>
</tr>
<tr>
<td>8</td>
<td>A</td>
<td>We believe that our audits provide a reasonable basis for our opinions.</td>
</tr>
</tbody>
</table>

* Consecutive numbers are put on the audit messages throughout the Tables (1-5). 
** For convenience, “A,” “B,” and “C” stand for “a financial statement,” “an assessment statement of internal control over financial reporting,” and “internal control itself over financial reporting,” respectively.

Peripheral audit messages (simply referred to “P-Messages”) are those which do not constitute the essential part of the audit report but make the audit report more informative in that they make the nature and scope of the examinations which the auditor is engaged in more understandable to the readers. As already understood, this category of audit messages was introduced by Statement of Auditing Standards No. 58 (1988) as a part of the so called “expectation gap” project. But, it turns out to have set fire to the creation of a lengthy audit report. The SOX Act, together with Auditing Standard No.2, has spurred the lengthening of the audit report, typically the combined audit report of the integrated audit. Tables 2 and 3 show examples of the P-Messages appearing in the currently effective U.S. Statements on Auditing Standards (SAS) and in Auditing Standard No.2, respectively.
Table 2 Examples of the peripheral audit messages (P-Messages) of a financial statement audit report

<table>
<thead>
<tr>
<th>Audit Message</th>
<th>Types of Audit Subject</th>
<th>Content of the Audit Message</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>A</td>
<td>A statement that the financial statements are the responsibility of the Company's management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit.</td>
</tr>
<tr>
<td>11</td>
<td>A</td>
<td>A statement that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.</td>
</tr>
<tr>
<td>12</td>
<td>A</td>
<td>A statement that an audit includes — (1) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessing the accounting principles used and significant estimates made by management; (3) evaluating the overall financial statement presentation.</td>
</tr>
</tbody>
</table>

Table 3 Examples of the peripheral audit messages (P-Messages) of an internal control assessment statement audit report

<table>
<thead>
<tr>
<th>Audit Message</th>
<th>Types of Audit Subject</th>
<th>Content of the Audit Message</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>B, C</td>
<td>A company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting.</td>
</tr>
<tr>
<td>14</td>
<td>B, C</td>
<td>Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audits.</td>
</tr>
<tr>
<td>15</td>
<td>B, C</td>
<td>Those standards require that we plan and perform the audits to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.</td>
</tr>
<tr>
<td>16</td>
<td>B, C</td>
<td>Our audit of internal control over financial reporting included obtaining and understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of control, and performing such other procedures as we considered necessary in the circumstances.</td>
</tr>
</tbody>
</table>

Non-audit assurance messages

It may well be said that the audit report need not have included, by nature, any non-audit assurance message (simply referred to "N-Messages" because the auditor's communicative intention is not so clear and therefore the auditor may unexpectedly
become more involved in a perlocutionary aspect of the message. Non-audit assurance messages have nothing to do with assessing and giving assurance to the reliability of the statement concerned. Some N-Messages are educational, enlightening the readers about the meaning of a word used in the report; some are complementary in order for the auditor to convey information which was not referred to in the financial statements; and others may be intended to give a warning of some kind to the readers. In general, it is difficult to identify what kind of speech act the auditor is performing including such messages in the report.

Non-audit assurance in the audit report emerged as a result of SAS No. 58 introducing the so-called explanatory paragraph. Positively looking at non-audit assurance messages, they were needed in order for the accounting profession in 1980s to put a patch on the framework of the financial statement audit which had lasted since the enactment of the federal securities laws but had started to exhibit a torn seam. Tables 4 shows examples of the N-Messages appearing in the currently effective U.S. Statements on Auditing Standards (SAS). Table 5 shows example of the N-Messages, all of which are

<table>
<thead>
<tr>
<th>Audit Message</th>
<th>Types of Audit Message</th>
<th>Content of the Audit Message</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>A</td>
<td>The “going concern” message conveyed in the explanatory paragraph of the unqualified audit report [SAS No.58, par.11-d].</td>
</tr>
<tr>
<td>18</td>
<td>A</td>
<td>An &quot;emphasis of a matter&quot; which includes — (1) that the entity is a component of a larger business enterprise, (2) that the entity has had significant transactions with related parties, (3) unusually important subsequent events, (4) accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period.</td>
</tr>
<tr>
<td>19</td>
<td>A</td>
<td>A statement that can be discretionarily added to the report as the auditor deems necessary.</td>
</tr>
</tbody>
</table>

*** As far as Statements on Auditing Standards are concerned, no explicit statement allows an independent auditor to release in his/her report any additional or discretionary message beyond management’s representations in the financial statements. However, auditors have been inclined proactively engage in giving interpretative or expository messages in the audit report, in particular with respect to the going concern issue of the company, even when they issued an unqualified opinion. Such communicative behavior obviously goes beyond the framework of assurance.

In the Oil City Petroleum case [1993], for example, the audit message included a monetary amount which had not been presented in the audited financial statements and was also not traceable to amounts presented in those statements.
Table 5  Examples of the non-audit assurance messages (N-Messages) of an internal control assessment statement audit report

<table>
<thead>
<tr>
<th>Audit Message</th>
<th>Types of Audit Subject</th>
<th>Content of the Audit Message</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>B, C</td>
<td>A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.</td>
</tr>
<tr>
<td>21</td>
<td>B, C</td>
<td>A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.</td>
</tr>
<tr>
<td>22</td>
<td>B, C</td>
<td>Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.</td>
</tr>
</tbody>
</table>

educational in nature, appearing in the PCAOB's Auditing Standard No.2

6. A new set of independent auditor's reports

Messages #17-19 (in Table 4) do not contribute to the auditor's assurance to any degree. Besides, it is difficult to identify what kind of speech act the auditor is performing in providing the readers with such messages. Or do we understand that he/she is stressing a certain perlocutionary act by including such messages? Does the auditor intend or expect the readers to take some action or change some behavior through his/her messages? Probably not, because auditing itself is not aimed at influencing the receivers of the message to behave or not behave in certain ways.

Current audit reporting practice has posed two very difficult problems. One is related to the different natures of audit messages in a single audit report, and the other is related to the length and complexity of the audit report, which will make it difficult for the readers to easily identify the accounting/auditing points on which to focus.

An independent auditor should be responsible only for performing an illocutionary
act in expressing his/her evidential belief on the presentation of management's statements, although a particular perlocutionary act may be carried out on the basis of the illocutionary act (but not vice versa). It is certainly true that some audit messages, like message #6 (in Table 1), may influence the behavior of the readers of the report, but expressing an opinion in itself does not intend to produce a particular response or a particular effect.

An independent auditor should not be involved to any degree in performing a perlocutionary speech act. Any message should be interlocked with the process of forming an opinion, and must be consistent within the framework of the auditor's illocutionary act, assurance. An audit message, whatever it may be and wherever it may be included in the audit report, once it has lost its consistency with that framework, turns out to be like a kite flying loose in the sky. Non-assurance messages (#17-19 in Table 4) such as a “supplementary” message, an “emphasis of a matter” message, and even an “auditor's doubt” message concerning the company's ability to continue as a going concern, presented in the explanatory paragraph in an unqualified audit report, possibly belong to this category. They lose their consistency with the auditor's illocutionary speech and therefore run the risk that an auditor may convey an additional message which is misunderstood as “perlocutionary” by the readers. Current Statements on Auditing Standards allow an independent auditor to provide additional non-assurance messages. This activity, which can be referred to as “information-added,” may create a complicated communication problem between the auditor and the users of the financial statements. This problem lies in the unclearness of the speech act. The components of current audit reports are becoming increasingly complicated in that “assurance messages” and “non-assurance messages” coexist in the same report. It is obvious that the former messages are concerned with the reliability of the financial statements. The same is not true of the latter, however. The latter messages may be provided to increase the financial statement's relevance to the users.

An effort should be made to improve the wording of the audit report in order to strengthen the assurance function, but such an effort should not get involved in the auditor's “information-added” function. The AICPA has exhibited a stronger inclination than before to use “explanatory” and “emphasis on a matter” paragraphs in the audit report, in order for the auditor to properly carry out his/her role, that is “to inform the users of the financial statements” [SAS No.59]. But the mixture of messages of different natures in the audit report is the most difficult problem to come to grips with in a contemporary theory of the financial statement audit. This problem, however, has drawn
It is crucial for audit report readers to understand the financial statements audit in detail if communication between the auditor (the message-senders) and the readers (the message-receivers) is to be effective: The audit report must be informative for the readers, so that they can understand what has actually happened during the audit. This will certainly be true in the case of the integrated audit.

The current audit report provides some educational messages about what an independent auditor does. However, most of these descriptive messages are so fundamental and stylized that they must be provided before the readers of the financial statements read the report. But, “making the audit report more informative” needs to be distinguished from “including in the audit report many messages of a varied nature.”

The new set of audit statements under the integrated audit comprises two separate statements, assuming that the independent auditor is simultaneously pursuing different roles under the single audit engagement:

- The statement of An Independent Auditor’s Responsibilities
- The Independent Auditor’s Assurance Report

The Statement of An Independent Auditor’s Responsibilities (Exhibit 1) explains (1) the roles which the auditor has undertaken in expressing his/her opinion on the presentations of the financial statements and of the internal control assessment statement, and (2) the scope of responsibilities he/she has assumed under the integrated audit. The current audit messages in the “introductory” (#10, #13-14), “scope” (#11-12, #15-16), “definitions” (#20-21), “limitations” (#22) paragraphs and in the explanatory paragraph (#17-19), except the statement that the audit was conducted in accordance with generally accepted auditing standards (#2), should be reassigned to the Statement of An Independent Auditor’s Responsibilities. The messages in that statement should then be standardized.

The Independent Auditor’s Assurance Report (Exhibit 2) is an auditor’s statement of the assurance which the independent auditor can provide under the integrated audit with respect to the financial statements and the internal control statement which management has prepared. It can be presented in the standard/short form of an audit report used for a long time prior to the issuance of SAS No.58. But, there must be a clearer distinction between the scope section and the opinion section, unlike now where so often audit reports are issued with no separation between these two sections and they
merge into one paragraph. These two sections are of distinct natures, and they should therefore be clearly separated: The scope section is a statement of fact about what the auditor did, while the opinion section is a statement of belief communicating the auditor's conclusion, which is effectively an illocutionary act of assurance.
Exhibit 1 An example of a "Statement of An Independent Auditor's Responsibilities" to be issued as part of the integrated audit

The Independent Auditor's Responsibilities

The purpose of this statement is to clarify, for the convenience of readers, certain fundamental issues with respect to the audit of the financial statements and that of the internal control assessment statement of X Company, both of which we undertook based on the single contract dated XX, 20X3 between the Company and us.

The main purpose of the above statements audits which we undertook is to give reasonable assurance as to (1) the reliability of the financial statements of the Company by ascertaining that they are free from significant fraud or errors leading to material misstatements and that they are free from materially misleading statements and (2) the reliability of the assessment statement of the internal control over financial reporting of the Company by evaluating the overall effectiveness of the system of internal control over financial reporting of the Company during the process of our verification, firstly to determine that the transactions underlying the accounting books and records are properly approved and performed by an authorized person, secondly to determine the accounting books and records underlying the financial statements were accurately prepared and maintained in a reasonable manner, and thirdly to determine that the corporate assets underlying the accounting books have been reasonably prevented from misuse or misappropriation.

The above statements were prepared by the management of the Company, who exercised their own judgment in and who assume full responsibility for that preparation. The financial statements included reasonable estimates and projections made by management as appropriate to the nature of the transactions concerned. The financial statements were prepared in accordance with generally accepted accounting principles in the United States and are based on the accounting books and records of the Company which has been accurately maintaining through the internal control over financial reporting.

We conducted the financial statements audit in accordance with generally accepted auditing standards (the Auditing standards of the Public Company Accounting Oversight Board [United States] and the professional standards
of the American Institute of Certified Public Accountants), and applied such auditing procedures as we considered necessary in the circumstances. Our examinations were performed on a test basis, the extent of which was reasonably determined in consideration of materiality, the relative risk of the items being examined, and the effectiveness of the internal control of the company under audit. We have determined that the extent of our testing provides a reasonable basis for expressing an audit opinion on the financial statements. The financial statements which we have audited were prepared based on an accounting assumption that the company under audit will operate as a going concern for a foreseeable period of time. Many of the accounting principles and procedures adopted by the management of the company are only justified on that assumption. Our audit role, in expressing our audit opinion, is to determine, in accordance with generally accepted accounting standards, whether or not the above accounting assumption holds.

We also evaluated the reliability of the management’s assessment of the internal control over financial reporting of the Company, based on “criteria established in internal control – Integrated Framework issued by the Committee on Sponsoring Organizations of the Treadway Commission (COSO).” Any material deficiency in the internal control over financial reporting uncovered during the audit, together with the related proposed improvements, has been communicated to the board of directors, the audit committee, and the executive officers of the Company, who are principally responsible for the maintenance of effective internal control. Our evaluation of the internal control over financial reporting is made as of the closing date of the accounting period (December 31, 20X3) of the Company.
An Independent Auditor's Assurance Report

We have audited the accompanying balance sheets of X Company as of December 31, 20X3 and 20X2, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 20X3. We also have audited the accompanying statement of management's assessment that X Company maintained effective internal control over financial reporting as of December, 20X3. We conducted our examinations of the financial statements and the internal control statement in accordance with generally accepted auditing standards in United States, and applied such auditing procedures as we considered necessary in the circumstances. We believe that our examinations provide a reasonable basis for our opinions on the above two management's statements.

In our opinion, (1) the financial statements referred to above present fairly, in all material respects, the financial position of X Company as of December 31, 20X3, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States, and (2) the above statement of management's assessment that the Company's internal control over financial reporting is effectively maintained as of XX, 20X3, is fairly presented, in all material respects, based on "criteria established in internal control – Integrated Framework issued by the Committee on Sponsoring Organizations of the Treadway Commission (COSO)."

7. In Conclusion

One concept, emerging in the 1970s and probably originating from Carmichael's paper [1974a], has come to govern the substantive part of CPA services, and that is "assurance." It seems that the concept "assurance" has not only completely swallowed the terms "certification" and "attest function" (Bevis [1962, p.28]), or "attestation" (ASOBAC [1973, p.6]), often used with respect to the financial statement audit in the past, but has also obliterated even the term "audit." In contrast, another phenomenon, "audit explosion" (Power [1997]), has emerged. The concept of auditing can certainly therefore be said to be expanding, although ironically it is simultaneously becoming
diluted.

The financial community has come to expect an independent auditor to become more involved in a variety of ways with information quality assurance. The author is also convinced that such expectation or demand can only get stronger as our society becomes ever more information-oriented.

This expectation might have been the underlying economic reason the accounting profession's search for a new framework for CPA services that corresponds to the varying levels of assurance required or requested. Therefore, from that perspective, searching for such a new framework logically follows defining the framework for the "financial statements audit" itself.

It is reasonable for the accounting profession as a business strategy, to expand the degree of CPA involvement even for non-accounting statements in line with the level of assurance expected or required. This strategy should have been proactively taken before the enactment of the SOX Act to incorporate the internal control audit into the framework of the financial statements audit. We must carefully look at the important and inherent role which internal control has played in preparing the financial statements, or more essentially in the accounting itself. We must also keep in mind that historically the word "auditing" has never been distinguished from "detecting the misappropriation of assets." Auditing at any times has been more or less involved with ascertaining the sincerity of a person (an agent) entrusted with economic resources.

The SOX Act opened the first page of the process of converging the financial statement audit and the internal control audit into the so-called "integrated audit," and at the same time has brought about a lengthy and complicated form for an independent audit. Ideally, the convergence of the different audit roles into the integrated audit should be sought within the framework of the fair presentation of a financial statement. In a framework in which the meaning of the fair presentation of a financial statement must be explicated in terms of the social context as well as the accounting context, an independent report of audit assurance would be more concise with a more focus on unusual accounting/auditing matters. More importantly, the accounting profession will be able to concentrate its resources only on "information quality assurance," tactically separating from the so-called "direct reporting" of the effectiveness of internal control over financial reporting.

Mautz and Sharaf recognized the concept of "fair presentation" as one of the most basic concepts in auditing. Ijiri asserts that "fairness is, therefore, the fundamental goal that the accounting system strives to achieve" [1983, p.80]. Fair presentation is therefore
the fundamental goal that the financial statements audit should strive to achieve, also.

Quite apart from investors who have made their own risk assessment and invested money in particular companies, corporate failures caused by management fraud, material misstatements of the financial statements, or poor internal control, as well as audit failures, are simply intolerable to those who, as a result, lose their job or lose large amounts of irreplaceable assets. The financial statements audit is the key to success in protecting corporate society as a whole from management malpractice. The author believes that the financial statements audit will ultimately outgrow its conventional framework and be replaced by a financial statements audit of a more integrated nature. The author cannot help but think that the SOX Act just started to move the framework of the financial statement audits (Rosenfield [1974], SAS 5 [1975], SAS 69 [1992]) which has been standing as firm as a rock within the framework of "the conformity with generally accepted accounting principles,"
Appendix A. How does the audit opinion message meet the conditions to be a clear illocutionary act?

This appendix explains how the audit opinion message meets the three conditions for the intended illocutionary act to be clearly performed.

1. The certain syntactical rules which the statement meets

An audit opinion statement must meet certain syntactical rules. According to Austin [1962, pp.61-62], a performative utterance (an illocutionary act) must follow a certain syntactical form of a statement with “a first person/singular/present tense/indicative, and performative (speech act) verb. It is interesting to find that among the group of the so called “performative verbs” is identified the verb “opine” (Alston [1964, p.35]; Ballmer and Brennenstuhl [1981, p.149]), although the phrase “in our opinion” is instead used in the audit report. Since the message-sender is at the same time the person who performs a certain act, the subject of the main clause must be the first person singular, that is, “I.” The syntactical form of the audit opinion exactly meets the first condition.

2. Institutional settings where the statement is made or uttered

Institutional settings include (1) who utters the statement and (2) the communicative environments where a performative message is conveyed. Referring to the examples in the text, the same utterances by people other than the judge or the minister/priest will be contrary to the “institutional rules.” Nobody would accept such utterances. We can easily imagine what will happen if a non-CPA auditor expresses his/her opinion on the statements which management has prepared, or if even a CPA auditor who has not registered at the PCAOB expresses the opinion. An illocutionary act will be more clearly understood by the message-receiver if the statement is made by only a qualified person.

An illocutionary utterance is inseparable from the existence of an institution which gives

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1 The first person plural pronoun “We” instead of the first person singular pronoun “I” is commonly used as the subject of the audit opinion in the report. Since an auditor as the sender of an opinion, must be the person who has accomplished his/her established role, the “first person plural” can be taken as the equivalent to the “first person singular” subject. Leech said the subject of the main clause must be the first person. But, he does not exclude “first person plural pronouns” [1983, p.183]. Also see Austin [1962, p.57].
meaning to the utterance. Obviously, the audit opinion is uttered under the institutional setting (1). These institutions include any social relations between a message sender and a message receiver. What speaks is not the language but the “auditor” as the whole social person.

The institutional setting (2) is related to the communicative environments where the auditor’s performative message (an audit opinion with an intended illocutionary act) is uttered. There will be no trouble with the accomplishment of a particular illocutionary act if the meaning of the statement is fully shared between the message-senders and the message-receivers. Some difficulty will remain, however, if the meaning is not well-shared among the persons. A big difference between the readers’ interpretation of the audit opinion and the meaning intended by the auditor may be caused partly by ambiguity in the auditor’s opinion message itself. This has opened the possibility for multiple interpretations of the phrase “fair presentation of financial statements.” But, far more important is the fact that the readers may expect the auditor to play a role, different from the role they formally accepted, and try to interpret the audit opinion while associating it with such a role, instead of interpreting its message literally. Different perspectives in looking at audit roles such as “a reliability-assurance role,” “a fraud-detection role,” “an information-added role,” “an alarm-raising role,” or even “a general watch-dog role” based on a variety of audit conventions and probably their mixtures may have showered different and sometimes conflicting expectations on the auditor.

Such a situation may prevent the auditor and the readers of the report from sharing the meaning of the audit opinion, in particular when the auditor failed to uncover management fraud (assets misappropriation) which resulted in material misstatement of a particular account of the financial statements. Besides, there may be disagreement as to the scope and the degree to which the auditor undertakes responsibility for the illocutionary act, even though the readers understand what the auditor’s illocutionary act is. The Cohen Commission Report has already recognized the possibility of

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2 In particular, there have been differences of opinion among interested persons in terms of how to interpret the meaning of the above auditor’s statement, and how to relate it to the expression “in conformity with generally accepted accounting principles.” In that sense, without doubt, the problem of the fair presentation of the financial statements is a problem of “ambiguity.” Carmichael [1974, pp. 83-87] was perhaps the first to point out the communicative problem attached to the audit opinion.
communicative problems occurring as follows:

The reader comes to rely on his implicit understanding of the nature of the audit function in interpreting the meaning and significance of an auditors' report rather than on the description of the audit function that is contained in the report. [1978, p. 73]

The above quotation, which demonstrates the insightfulness of the Cohen Commission Report, indicates the importance of the illocutionary aspect inherent in the auditor's speech act known as "expressing an opinion." Therefore, it is not possible to ascribe to the auditor all the problems involved in communication. The problem occurs because what we can transmit is basically "a message" and not "its meaning" (ASOBAC [1973, p. 46]). Further, when the message is "a general statement" like "the proposition of the fair presentation of a financial statement," the gap between the intended meaning and its interpretation by users may be amplified.

The American Institute of Certified Public Accountants (AICPA: 1987) recognized that the audit report should include more information about the auditor's examination. Increasing the underlying information of a financial statement audit surely serves to improve the communicative environments for the auditor's illocutionary act to be performed successfully. In this sense, the current standard form of an audit report may better state what a financial statement audit is and what an internal control statement audit is, but its effect will be minimal in that the accounting profession is not fully relieved from the problems arising from a very lengthy/complicated combined audit report. The condition related to the institutional setting (2) is still not fully satisfied, showing there is still room for improvement in the current standard form of an audit report.

3. Felicity conditions (constitutive rules) which the statement meets

According to Austin's observation, the truth of a factual statement can be questioned. Since a performative utterance is not a statement of fact but a performance of a particular act, however, its truth cannot be questioned. It can only be said to be "happy" (felicitous) or "unhappy" (infelicitous), depending on whether or not "the conventional assumptions" needed to successfully carry out a particular act are completely met (Austin [1962, pp.12-14]). Austin discussed the felicity conditions that must be met for the success of an illocutionary act [1962, pp. 14-15]. Searle[1965, p.223-224] further refined Austin's argument by explaining "constitutive rules," which
correspond to the felicity conditions identified by Austin.

It is interesting that Searle discusses and differently clarifies the contents of these conditions depending on the type of illocutionary act in question. Since the auditor’s act of expressing his/her opinion is defined as an expression of his/her belief about the likelihood that the proposition as to the fair presentation of the financial statements holds true, the auditor’s speech act of giving an opinion or “opining” could be identified as falling into the “representative” category according to Searle’s categorization.³

Searle proposed that speech acts are subject to four kinds of rules, which correspond to Austin’s concept of felicity conditions: the propositional content rule, the preparatory rule, the sincerity rule, and the essential rule [1969, p.63]. For example, Searle’s rules [1969, p. 66] for the “representative” type referred to above follow:

1. **Propositional content rule**: the person performing the speech act has a proposition (statement) “p.”
2. **Preparatory rule**: preparatory conditions do not define the speech act, but are necessary in the sense that if they do not hold, the act has not been performed. In the case of representative speech acts, the person performing the act must have evidence (reasons, etc) to support the truth of statement “p.”
3. **Sincerity rule**: for sincerity conditions to be met, the person performing the act must have an appropriate belief about proposition “p.”
4. **Essential rule**: essential conditions basically define the act being carried out. For a representation, the sender of a message must intend that the utterance

³ Searle [1975, pp. 354-361] proposes that all speech acts are divided into five main types as follows:

*Representatives*: the sender of a message intends to express his/her opinion to the receiver on whether the expressed proposition is true or not.

*Directives*: the sender of a message intends to induce or order the receiver to perform a particular act.

*Commissives*: the sender of a message intends to make a commitment to the receiver to take a particular action in the future.

*Expressives*: the sender of a message intends to express his/her psychological attitude toward a presupposed state of affairs to the receiver.

*Declarations*: the sender of a message intends to actualize the content of a spoken or written message or to bring about a change in reality.
count as a guarantee of the truth of proposition “p.”

The above rules are satisfied in the case of an auditor's speech act in expressing an opinion (opining). First, the auditor is required to express his/her opinion on the proposition, X, relating to the fair presentation of the financial statements. This satisfies the propositional content rule. Secondly, the auditor has evidence which enables him/her to express a belief about proposition X: This satisfies the preparatory rule. Thirdly, the auditor has a belief about proposition X based on reasonable evidence gathered by the auditor himself/herself: This is the sincerity rule. Finally, through the expression of an opinion, the auditor provides assurance that proposition X is true. This satisfies the essential rule. This is also true of proposition, Y, relating to the management's assessment of internal control over financial reporting.
Appendix B Historical Perspectives on the illocutionary act of an auditor's expressing an opinion

Generally speaking, it would not be appropriate for us to understand the auditor's illocutionary act in expressing his/her opinion in terms of only one form of "force." It would be better understood as a compound form of "forces," as identified by Austin and Searle, which involves "representative," "commissive," "verdictive," and even "exercitive" forces with varying emphasis depending on the circumstances (conventional conditions) in which the auditor finds himself/herself. The auditor's illocutionary act can be said to have strongly revealed "exercitive" or "declarative" force when the auditor is concerned with a particular human action.

From a historical perspective, the illocutionary act of expressing an audit opinion would best be categorized as "exercitive," using Austin's terminology [1962, pp. 154-155]. For example, in the Middle Ages in England, an auditor engaged in the accounting of manor houses, the English Exchequer, or craft guilds had quite strong power. Persons such as local government officials, manor house clerks etc., in charge of the financial activities at the institution being audited ran the risk of being investigated for failure to discharge their responsibilities and being fined or even imprisoned (Boyd [1905, pp. 76-81], Baxter [1994, pp. 223-227]). This power was largely due to the fact that the auditor was concerned with "a particular human action." Chatfield states that "[a]uditing as it existed to the sixteenth century was designed to verify the honesty of persons charged with fiscal responsibilities. In other words, the early audit tested the personal integrity of stewards, not the quality of their accounts. Proof of bookkeeping accuracy and fairness were sought only insofar as they might indicate the existence of fraud" [1974, pp.111-112]. At that time, some audit reports were given orally. Or in some cases, a symbol such as "pbt" (or "probatum") was used to mean "examined" (Boyd [1905, p. 75]). This symbol represented no more than an illocutionary act which confirmed the auditor's approval.

It seems, however, that in the process of the shift from the "human action audit" to the "accounting statement audit," the expression of the audit opinion started to move away from the "exercitive" nature of that earlier period. This "exercitive" aspect was gradually replaced by the "representative" aspects, as an auditor came to be concerned with the statement made by the person rather than the human action. For example, under the balance sheet audit required by the British Companies Act of 1862, and also under the so-called "balance sheet audit" which was prevalent in the United States.
from the end of the 19th century until the 1920's, an auditor was required to provide assurance on the reliability of the balance sheet through examining whether the balance sheet was adequately prepared.

The role of the auditor up until the 1920's was to provide an assurance or certify that the balance sheet was correct. But, a delicate problem would occur if the auditor was faced with material accounting treatments to which he/she did not agree, forcing him/her to issue an opinion that “the balance sheet is not correct.” The refusal by an auditor to sign a balance sheet which he/she considered to be incorrect would bring about loss or trouble for the company and the company's shareholders. The British Companies Act of 1862 provided a practical solution for when the auditor’s judgment did not coincide with that of management. An auditor could either sign the balance sheet or issue an auditor’s certificate, subject to the submission of an audit report to the shareholders in which he/she presented the matters and/or problems (currently referred to as “exceptions”) on which his/her opinion differed from that of management (Pixley [1881, p. 158]). Since, in this case, the audit opinion and “exceptions” were communicated separately using different receptacles, an auditor’s certificate issued under the British Companies Act of 1862 contained no other type of message than an assurance message (an audit opinion) which represented the auditor’s illocutionary act of giving assurance on the correctness of the balance sheet.

In the balance sheet audit prevailing in the United States up to the 1920’s, based on the idea of a free contract between the management of a company as a borrower and the bank as a lender, American auditors began seeking a new form of audit report that would avoid any adverse effect upon the client, except when serious restrictions on auditing procedures were imposed by the client (Robert Morris Associates [1922, p.26]). The auditor did not directly associate disagreements with his/her opinion itself. The auditor's reaction was to come up with a form which would minimize the potentially negative effect on the client by adding an expression such as “subject to........,” by referring to the monetary effect on the financial statements of the matters in question, by using the expression “except for........, the balance sheet properly presents the financial position of the company,” or by using such expressions as “in light of the information set forth in Note X” (Olin Oil & Gas Corporation [1958]) and “taking into consideration the comments in the preceding paragraph” (Mississippi River Power Company [1945]). This shift in audit reporting practice can be considered the prototype for the current audit report, which may contain several different messages relating to the fair presentation of the financial statements.
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