The Evolution of Audit Reporting

D. R. Carmichael
American Institute of Certified Public Accountants

Alan J. Winters
Academic Fellow, American Institute of Certified Public Accountants

Words are, of course, the most powerful drug used by mankind.
—Rudyard Kipling

The words the auditor dispenses are a powerful drug. They influence resource allocation in our society. Thus, the auditor's report represents a drug that should be dispensed and used with great care. Its purpose and limitations should be understood by users and they should be made aware of undesirable side effects and the dangers of misuse.

Like all drugs the auditor's report should be subjected to continuous scrutiny to evaluate its effectiveness over time. Perhaps steady use creates a tolerance that reduces the report's potency. Perhaps it has uses beyond its primary purpose.

Indeed the auditor's report has been evaluated and revised. Since the first authoritative guidance for audit report wording was given in 1917, the report has been revised seven times. This represents, on the average, a revision every 10.6 years. Averages are deceiving, however. The last revision occurred 33 years ago in 1949. What this statistic tells us is the report revision occurred much more frequently in the early days of the profession and much less frequently as the profession matured. A crucial question is why.

The auditor's report also has been used for purposes other than to assist in the allocation of resources. The report has been used to stimulate change in professional practice and to influence the auditor's legal liability. A crucial question is how, if at all, these ancillary uses have affected the primary use.

This paper traces the evolution of audit reporting in the United States and identifies the major forms of the auditor's standard report and the pivotal events and circumstances leading to the development of those reports. It also explains the evolutionary process that has shaped present reporting practice, created reporting controversies, and that may influence future reporting developments. The paper is organized around what we consider to be the landmarks in audit report evolution, with discussion of what we consider to be the primary environmental influences leading to the landmarks.

Landmark I—1917 Federal Reserve Bulletin

Until 1917 there were no authoritative accounting or auditing standards established in the United States. In addition, no generally recognized standards