

AUDIT OPINION: A STUDY OF QUALIFICATION OPINION AND PARAGRAPHS OF EMPHASIS ON THE FINANCIAL STATEMENTS OF BRAZILIAN PUBLIC FIRMS

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ABSTRACT

The economic effects of the qualified report or paragraph of emphasis may indicate problems with the operations of firm, it may consequently affect the allocation of the financial resources of the investors. The research aims to verify if the accounting and non-accounting characteristics have influence on the audit opinions' issuance with qualification opinion and/or paragraph of emphasis, on listed companies in the São Paulo Stock Exchange (Bolsa de Valores de São Paulo - Bovespa). The study is considered a quantitative research and to achieve the objective it was used the logit estimation method. The sample of this work includes 1466 reports of the independent auditors (audit opinion) about the financial reports of the Brazilian public firms within the fiscal of 2006 and 2008. The results evidence that the other audit firms issue more qualification opinions and paragraphs of emphasis than those of the Big Four, even these ones having a bigger market share (60%). The estimated model revealed that some accounting and non-accounting variables, like the market value of firm and financing, have as statistical significance to qualification opinions as to paragraph of emphasis. Finally, it was observed that the higher the market value of the business, the less chance of occurrence of these kinds of changes in the independent auditor's opinion, however, when analyzing the financing, the relation is reversed, in other words, the higher it is, the greater the chance.

Keywords: Audit; Audit opinion; Financial reports.

Área temática: Mercados Financeiro, de Crédito e de Capitais.

1 INTRODUCTION

The Brazilian set of standards on audit was changed face of the process of convergence of the Brazilian accounting standards to the international standards. From January 1st, 2010, the standards issued by the Federal Council of Accountants (Conselho Federal de Contabilidade – CFC) that regulate the procedures of independent audit on the financial reporting are to be represented by the Brazilian Standards of Audit Technical Accounting (BSA TA).

However, according to the Resolution CFC n. 1.279/10, it won't be demanded the adoption of the BSA TA for the audits of financial reporting for periods, completed or intermediary, ending before December 30th 2010, applying, so, the set of current standards. Accordingly, until the end of 2009 just the Brazilian Standard of Technical Accounting 11 (BSTA 11) standardized that performance field of the independent auditor.

That convergence brought changes for the technical terms used previously by the audit. For instance, the final work product of the audit previously called audit report is now referred as independent auditor report on the financial reporting. Another example is that this document, expressing the auditors opinion, first classified in four types, is now allocated in two groups, which can be unmodified (previously known as unqualified report) or modified (consisting of the qualified report, adverse report and report with opinion abstention).

Face to those changes and in the temporal occasion of this research, it was chosen to approach, when appropriate, the current audit standards (BSA TA) with the aim to present some of the main changes brought by the convergence of the local standards issued by the CFC to the international standards. It is worth mentioning that the use of the BSTA 11 and of the BSA TA adopted in this study will not prejudice the comprehension, the construction and the interpretation of the achieved results, since the changes brought by the new standards, considering just the scope of this research, follow the essence of the understanding regarding its previous existing adoption, for the changes concentrates mainly the concerning to the technical terms of the audit.

The economic effects of the qualified report or paragraph of emphasis may indicate, for instance, the possible discontinuity of the operations of firm, making the uncertainty of its investments clear to those interested on the information; and, consequently, it may affect the allocation of the financial resources of the investors. In this context, foreseeing or explaining qualified audit reports or emphasis paragraph(s) could have implications for the internal and external auditors to the company and to the other decision takers (SPATHIS, 2003).

Internationally, the researchers searched, directly or indirectly, to develop models to explain (or to foresee) the modifications on the audit reports using methods as the probit (DOPUCH; HOLTHAUSEN; LEFTWICH, 1987) and the logit (LAITINEN; LAITINEN, 1998; KLEINMAN; ANANDARAJAN, 1999; SPATHIS, 2003; BALLESTA; GARCÍA-MECA, 2005; JOHL; JUBB; HOUGHTON, 2007).

Such researches used accounting variables (understood as those which can be easily visualized in the financial reporting, like the balance sheet and income statements) and non-accounting variables (those which come from accounting informations, for instance the financial economic indexes, and those which refer to the type of audit firm).

Ballesta and García-Meca (2005) declare that, since 1960, and particularly in the last years, accounting researchers have become interested to analyze empirically the explanatory factors and the consequences of the qualifications issued by the auditor. Before the foregoing, having as basis the informations contained in the financial reporting and given the necessity to comprehend the factors that affect the audit report issuance, especially over those which influence the issuance of qualifications and/or emphasis paragraphs, this study has the following question of research:

What is the effect that the accounting and non-accounting characteristics variables have on the issuance of qualified audit opinion and/or paragraph(s) of emphasis in the Brazilian public firms?

Facing to the exposed backdrop and to the research problem, this work aims to verify if the accounting and non-accounting variables (characteristics) have any influence on the issuance of qualified audit opinions and/or emphasis paragraphs about financial reports of Brazilian public firms.

In Brazil there is some bibliographical production on the theme audit opinion, however, many times always discussed in a stratified manner among sectors, not being analyzed all the companies which make public their financial reporting and which operate in the São Paulo Stock Exchange (Bolsa de Valores de São Paulo - Bovespa). It is observed a lack of empiric researches about the theme in Brazil, mainly in what concerns to the approach given in this research. In other words, discussing the audit report using stronger research methods, in order to verify possible effects that accounting and non-accounting variables have on the qualified audit opinion and/or emphasis paragraph(s).

The research aims to contribute with the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários - CVM) and the Federal Council of Accountants (Conselho Federal de Contabilidade - CFC), as well as the audit area and other interested, with the intention to contribute with the discussions concerning the theme. The reported evidences by other researchers (DOPUCH; HOLTHAUSEN; LEFTWICH, 1987; BALLESTA; LAITINEN; LAITINEN, 1998; GARCÍA-MECA, 2005) indicates that the auditors, in similar circumstances to the ones used in those studies, may use the model results to plan the specific audit procedures to assess the potential clients, the scope of an audit, the quality control in the companies, which can be applied to reach an acceptable level of audit risk.

Following, beyond the introductory part already presented, it follows: the theoretical references, with a section concerned to the related researches for the audit opinion, the methodological procedures adopted, the obtained results and, ultimately, the final considerations, as well as the limitations and suggestions for future researches.

2 THEORETICAL REFERENCES

2.1 Audit Opinion

Although the BSTA 11 prevails in the construction of the theoretical and practical understanding of this research, it is considered imperative the knowledge of the new regulation also established by the CFC to the independent auditors, through the BSA TA. The next section will discuss the two standards and comparative relations will be highlighted.

The standards BSTA 11 and BSA TA have some differences regarding to the classification of the report or, simply, audit opinion. Table 1 shows that difference, for a better visualization and understanding.

Depending on the type of modified opinion (qualified, opinion abstention or adverse) or by inclusion of emphasis paragraphs, an alteration of the paragraphs number may occur. The report may have qualifications regarding to what concerns to the consistency of the accounting methods, to the ambit of the audit exam process or to the uncertainty associated with big contingencies not resolved (SUNDER, 1997).

Table 1 – Definitions about the type of audit opinion in accordance with the BSTA 11 x BSA TA

Opinion	Type of report	BSTA 11	BSA TA 700, 705 and 706
No modifications	No qualifications	It shows that the financial reporting of the audited company were elaborated in accordance to the accepted accounting standards and practices.	It is the opinion expressed by the auditor when he/she concludes that the financial reporting are elaborated, for all relevant regards, in accordance to the structure of applicable financial report.
Modified	Qualified	It is entered when the auditor concludes that the effect of any discordance or restriction in the reach of a work can affect the financial reporting.	It occurs: a) when an evidence of appropriate and sufficient audit is obtained, concluding that the distortions, individually or together, are relevant, but non-generalized on the financial reporting; or b) when an appropriate evidence and sufficient of audit to support his/her opinion cannot be obtained, but he/she concludes that the possible effects of non-detected distortions, if there be, on financial reporting could be relevant, but not generalized.
	Adverse	It occurs when the auditor evidences that the financial reporting do not represent properly the current standards and accounting practices.	It occurs when an evidence of sufficient and appropriate audit is obtained, concluding that the distortions, individually or together, are relevant and generalized to the financial reporting.
	Opinion abstention	It occurs when the auditor does not get, through his/her audit works, to issue an opinion for not obtaining confirmation on informations to fundament them.	It occurs when an evidence of appropriate and sufficient audit cannot be obtained to support his/her opinion, concluding that the possible effects of non-detected distortions, if there be, on the financial reporting could be relevant and generalized.
Paragraphs		BSTA 11	BSA TA 700, 705 and 706
Emphasis paragraph		It occurs when there is uncertainty regarding to any relevant fact, whose outcome can affect significantly the financial position of the entity.	It is the paragraph included in the audit opinion regarding to a properly presented made public matter on the financial reporting that, according to the auditor, is so important, that it is fundamental for the understanding by the users of the financial reporting.
Paragraphs about another matters		It does not provide.	It is the paragraph included in the audit opinion that concerns to a non-presented or non-divulgated matter on the accounting matters and that, accordingly to the auditor judgment, is relevant for the users understand the audit, the auditor responsibility or the audit opinion.

Source: Own elaboration.

2.2 Researches about Audit Opinion

Farrugia and Baldacchino (2005) sought to identify the different types of qualifications in audit opinions of the Maltese companies (in the Mediterranean), and any significant relations among these types of qualifications and some specific variables of the companies. After investigating the audit opinions of 419 companies within the period of 1997/2000, the results showed that 19.9% of the sample companies had a report of the

qualified auditor. The most common type of qualification was the delimitation of scope, disagreement with the managing and unsecured net assets. The established relationships among the qualifications found and the variables tested, like: company value, type of company, net global value and share capital, have not proved significant.

However, those studies just quantify the types of reports, not performing a critical analysis for each type of audit opinion. Tests involving the association among modified audit opinions and the stock returns indicate that the investors realize that this type of report has relevant informations, causing negative reactions for the stock prices in the United States (DOPUCH; HOLTHAUSEN; LEFTWICH; 1986; CHOI; JETER, 1992).

In Jordan, opposing the aforementioned researches, Al-Thuneibat, Khanees, Al-Fayoumi (2008) analyzed if the audit opinion had informational content. Investigating the effects of the qualified audit opinion on the prices and stocks returns, the authors concluded that the effect on the stock prices was not significant. They suggested, therefore, that the independent audit opinion does not have relevant information for the financial market of that country.

Just like Dopuch, Holthausen and Leftwich (1986), Choi and Jeter (1992), Al-Thuneibat, Khamees and Al-Fayoumi (2008), Batista et al. (2010) sought to determine how the stocks returns of companies listed in São Paulo Stock Exchange (Bolsa de Valores de São Paulo, hence forward, Bovespa) react to the publishing of the audit opinions, within the period of 1997 to 2007. On the referred research the authors used in the investigation both the qualified and unqualified reports and concluded that there is an indication that the publishing of the audit opinions does not influence the average stocks return in the month after its release for the most years researched.

In Brazil, Assing, Alberton and Avila (2008), verifying on the independent auditors reports if there were qualifications concerning to the event of revaluation of assets when there is any non-conformity in the procedure, they noticed that no company listed on Bovespa with lack of frequency or on the explicative notes, regarding to revaluation of assets, presented qualification on the report, not even some emphasis. According to a study made by the authors, just one company fulfilled all the studied standards, so only this company could have received the unqualified report.

Santos et al. (2009) aimed to identify differences and likenesses in the reports content issued about the financial reporting of the Brazilian companies listed in Bovespa and in the New York Exchange (NYSE), referring to the same period, elaborated according to respective Brazilian and North-American accounting procedures. The study found a high degree of commonality among the Brazilian and North-American reports. Cunha, Beuren and Pereira (2009) verified if the audit opinions of the financial reporting are presented accordingly to the local accounting standards, in the formal and informational aspects, in a sample of 33 companies in operational phase in 2004. The authors concluded that the audit opinions of the financial reporting researched can improve concerning to the formal aspects, according to the established in the local accounting standards.

The researches that sought to develop empirical models to explain the modifications on the audit opinions, mostly, used the logit estimation method as analysis tool. Since the goal of those studies is basically the same, the Table 2 evidences in a succinct way the main researches and their findings. Ireland (2003) mentions that most of the developed models to provide an audit report are made with data from small or big companies or with an approach just about operational continuity of the firms. Those studies used models of discrete choice, in which the dependent variable é dichotomous (IRELAND, 2003).

The choice of the variables used by the researches presented on the Table 2 has relation with the SAS n. 59, because, according to Spathis (2003), the financial problems (especially in short term: solvency, liquidity and indebtedness capacity) and operating

problems (profitability and capacity of cash flow from operations) are part of the guidelines of that standard which also directs other two types of informations, like the negative tendencies (losses), for instance.

In general, the variable classified as financial in those studies is the economic and financial rates, such as: liquidity, profitability, solvency and indebtedness, using as information source the financial reporting and the audit report. In case of the already said non-financial referred to the type of audit firm, litigation (lawsuit), number of employees, personnel loss, good and bad news in the market, consecutive losses, company size, among others.

It is worth to emphasize that the research of Laitnen and Laitnen (1998) included a period before the new audit law in force in Finland since 1995, changing the backdrop of the previously found situation. At that time, the authors identified that the reasons for the qualifications on the audit opinions dealt mainly about: the company reorganization, the bad economic situation and the uncertainty in the asset valuation. The research of Segura and Molina (2001) considered as company size the value of total asset of the companies audited.

The studies presented in Table 2 were the basis for the financial economic variables in order to compose the range of predictor variables of the model (just for purpose of this study they are classified as non-accounting variables), as well as a choice for the binary variable type of audit firm.

Table 2 – Studies that used estimation methods to explain the modifications in the audit opinions

Author(s)	Objective	Sample	Main Variables*	Main Results
Dopuch; Holthausen; Leftwich (1987)	Predict to the auditors' decisions the issuance of audit opinions in situations that involve uncertainties or contingencies.	39	Current losses; industry feedback; variations of participation of third parties over total assets.	The results indicate that the qualifications are systematically related to the financial market variables, in which the most important are the current losses and the change in the indebtedness
Laitinen; Laitinen (1998)	Analyse the qualified audit opinions and develop a logit model to explain qualifications in the audit opinions of the public firms in Finland.	37	NS, NP; TA; ID; numbers of employees; NM.	The results showed that the probability to occur a qualification is bigger: when lower is the company growth, the smaller is the portion of the equity on the balance sheet and lower is the employee number.
Kleinman; Anandarajan (1999)	Examine in what extent the qualitative informations can be used to understand the decision for the author issue a clean report compared to a modified report.	234	TA; NS; TL; ROA; CL; participation of third parties on the total resources; current losses; good and bad news; process of recuperation.	The results indicate that non-financial variables, like the number of bad news, of debts and the number of consecutive years of losses, have relation with the modified report in the presence of continuity uncertainties.
Segura; Molina (2001)	Analyse the relation between the qualified audit report the corporative characteristics.	220	Size of the company; type of audit firm; extraordinary results; losses; ROC; Indebtedness level.	The empiric evidences showed that the loss is more important explanatory fact than the existence of modifications on the report, given the uncertainty of the continuity of the company, the sector of activity, the type of audit firm and the presence of extraordinary negative results showed explanatory power too.
Spathis (2003)	Test the capacity to discriminate between the choices of a qualified audit report or unqualified.	100	Litigation; current losses; CL; relation between working capital and assets; inventory; receivables;TA.	It was observed that companies with lawsuits and with current lawsuits have a bigger probability to have its report modified. The same understanding occurs in companies with low liquidity indexes and with high indebtedness.
Ballesta; García-Meca (2005)	To investigate the role of external audits of corporate governance in the context of the Spanish market.	32	ROA; SR; CL; family members in the board; numbers of directors.	The findings reveal that the presence of family members in the board raises the chance to have a qualified report. Additionally, the Spanish firms get a qualified report when they have a lower profitability and a lower liquidity ratio.
Johl; Jubb; Houghton (2007)	Analyze the behavior of the opinion auditor, in the presence of aggressive earnings management in the context of the Asian economic crisis that affected Malaysia.	596	Type of audit firm; current loss; TA; auditor specialty; abnormal accruals.	The Big 5 auditors in Malaysia seem to qualify more frequently than the non Big 5 auditors when high levels of abnormal accruals are present. However, the interaction between the specialization of the auditor in industry and abnormal accruals are not significant to predict the incidency of qualifications.

*About the column abbreviations: NS = net sales; NP = net profit; TA = total assets; TL = total liabilities; ID = Indebtedness degree; NM = net margin; ROA = return on assets; ROC = return over cash; CL = current liquidity; SR = sales revenue.

Source: Own elaboration.

3 METHODOLOGICAL PROCEDURES

The quantitative approach is given by the using of the logit method to try explaining the qualification and the emphasis paragraph through the variables.

The sample and data collection procedure was divided in two parts:

- a. First part – survey conducted by the Bovespa website where the data about audit report and audit firm were extracted; and the
- b. Second part – survey conducted from database of the Economática.

In the first part, the data were collected by the Bovespa website, including a period between 2006 to 2008 which, incidentally, coincides with the total of the observed years (3 years) in other researches (LAITINEN; LAITINEN, 1998; KLEINMAN; ANANDARAJAN, 1999; SPATHIS, 2003).

The population of this research contemplates the companies listed on Bovespa, corresponding to 482 firms during 2006, 499 during 2007, and 505 during 2008. In the three years, 20 reports were not available on the website, because of the impossibility to download the file, or by realizing that the file has been already analyzed by another company, being, so, doubled (fact occurred in two firms), because of what they were eliminated from the analysis. Therefore, in the final sample there are 1446 reports analyzed.

After the reading of the audit opinions represented in this research sample, it was observed that 647 reports contained qualifications and/or emphasis paragraphs referring to the financial reporting for the fiscal years of 2006 to 2008. It is cautious to specify that in the year of 2008 it was verified a much larger number of emphasis paragraphs due to changes in the Brazilian Law n. 6404/76, introduced by the Brazilian Law n. 11638/07, for the companies presented a standard emphasis paragraph recommended by the Institute of Independent Auditors of Brazil (Instituto dos Auditores Independentes do Brasil - IBRACON), according to the Technical Communication n. 01/2009 approved by the Resolution CFC n. 1155/09. Therefore, in that year, 233 reports contained just standard emphasis paragraphs, whereas those paragraphs were not considered for effects of comparison with the other years analyzed in this work.

In the second part, to obtain accounting data of all the Brazilian public firms, it was used the database of the Economática, also in the same period (2006-2008). From that database were collected the following accounting variables: Total Assets, Revenue, Gross Profit, Net Profit, Short-Term Clients, Fixed Assets, Short-Term Financing, Long-Term Financing, Profit Before Tax, Market Value.

The other variables found on the Economática were excluded due to the lack of informations, to the existence of multicollinearity or by the non-existence of the values in most of the companies, which could prejudice the number of considerations. The firms that didn't present values in the three consecutive years were also excluded of the observations total.

It is important to stress that the aforementioned variables have undergone a transformation so that the estimated coefficients were interpreted better. First, it was observed that the value averages of those companies were concentrated in the thousands. Thus, the transformation was given by the division of all the variables values by the denominator of 1 million. So, a unit in the estimated coefficient will be interpreted as a variation in 1 million Brazilian reais (Brazilian currencies) or, simply, in thousands of Brazilian reais. That interpretation makes more sense, since as, possibly (before the figures submitted by the companies in Bovespa), it would be irrelevant the interpretation that one unit (of Brazilian reais) could increase or decrease the probability of qualification or emphasis paragraph occurrence in the audit opinion.

Additionally, supported by the significance of variables presented by studies that aimed to explain the modifications in the audit opinions (see Table 2), the following

economic-financial variables were included, considered in this research as non-accounting: Current Liquidity, Overall Liquidity, Debt to Asset Ratio, Debt to Equity Ratio and Return On Investment.

3.1 Selection of Variables

The variables originated from the Bovespa are already determined by the initial treatment and are the following: qualification, emphasis paragraph, type of audit firm. The dependent variables to be analyzed by distinct logits are:

- a. Qualification: Binary variable (1 = occurrence of qualification and 0 = otherwise).
- b. Emphasis paragraph: Binary variable (1 = occurrence of emphasis paragraph and 0 = otherwise).

For the selection of the variables contemplated in the Economática database, in order to make part in the estimated model by the logit, it was performed the stepwise method through the backwards elimination in order to indicate the most likely set of the explanatory variables. That methodology is constituted by starting with all the predictors in the model and removing one by one according to statistical criteria (HOSMER; LEMESHOW, 2000). The data were processed with the help of the statistic software Eviews 5.0.

In the end of the database organization already consolidated, the sample corresponded to 236 companies, resulting in 708 observations. The Table 3 presents the number of initial and final observations after the database consolidation.

Table 3 – Number of observations in the period of 2006 and 2008

Database	Initial observations	Resulting observations of the consolidation	Final observations
Bovespa	1466	1017	708
Economática	1977		

Source: own elaboration.

3.2 Empiric Strategy

The logit was used to estimate the probabilities of qualification and emphasis paragraph occurrence. The more practical logistic equation to calculate the probability of the event is given by the equation 1:

$$P(event) = \frac{1}{1 + e^{-(\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_k X_k)}} \quad (1)$$

The research adopted a statistic significance of 5% to evaluate all the parameters and the estimated model. The tests used to verify such significance were: Z statistic, LR statistic (test of likelihood ratio) and Wald test. The Z statistic (normal) was used to verify the statistic significance of each parameter and the LR statistic which tests the null hypothesis, in which all the coefficients of the independent variables equals zero, to evaluate the statistic significance of the model as a whole. The last test to evaluate the statistic significance of the model is the Wald test. That statistic evaluates the hypothesis in which the logistic coefficients are not significantly different of zero.

This research adopted two tests to verify the level of adjustment: the Hosmer and Lemeshow test and the Count R2. The Hosmer and Lemeshow test related the data to their estimated probabilities from the lower to the higher, dividing the number of observations by 10 categories, using the test of Chi-square test to determine if the frequencies observed are close to the frequencies expected (HOSMER; LEMESHOW, 2000; CORRAR; DIAS FILHO, 2009). When lower is the value calculated in that test (H-L value) more adequate is the model.

In the Count R² the regressing from the logit assumes the value of 1 or 0. If the predicted probability of an element of the sample is higher than 0,5 it is classified like 1, and

if it is lower, is classified like 0. Finally, the predicted probability is compared to the reality and the ratio between the number of correct predictions and the total number of observations is calculated.

The resultant variables of the survey conducted by the Económica, removed the necessary exclusions and the exclusions come from the stepwise method by the backward elimination, compose the logit proposed in this research and it is defined as follows:

a) To the analysis of the variable qualification

The probability of the event to occur, i.e., the probability of a report has a qualification regarding to estimated parameters, will be given by the Equation 2:

$$P(RESS) = \frac{1}{1 + e^{-(\beta_0 + \beta_1 TYPEAUDIT + \beta_2 REV + \beta_3 GP + \beta_4 STL + \beta_5 NP + \beta_6 VALUE)}} \quad (2)$$

where:

TYPEAUDIT = dummy variable to indicate the type of audit firm, whether the audit firm is a Big Four, the variable is equal to 1, and 0 in other cases;

REV = net revenues of company i in period t;

GP = variation in company i's net accounting profit (gross profit) from year t-1 to year t;

STL = short-term liabilities of company i in period t;

NP = company i's net accounting profit in period t

VALUE = firm's market value obtaining by multiplication of the stock closing price by the company stock quantity.

b) For analysis of the variable emphasis paragraph

The probability of the event to occur, i.e., the probability of a report has an emphasis paragraph due to the estimated parameters will be given by the Equation 3:

$$P(Emp) = \frac{1}{1 + e^{-(\beta_0 + \beta_1 CL + \beta_2 VALUE + \beta_3 LTL + \beta_4 TYPEAUDIT)}} \quad (3)$$

where:

CL = current liquidity obtaining by division between working assets and current liabilities

VALUE = firm's market value obtaining by multiplication of the stock closing price by the company stock quantity;

LTL = long-term liabilities of company i in period t;

TYPEAUDIT = dummy variable to indicate the type of audit firm, whether the audit firm is a Big Four, the variable is equal to 1, and 0 in other cases;

By other words, the estimated model will show if those variables can be indicators for a report having qualification or emphasis paragraph.

4. ANALISYS OF DATA

4.1 Overview of the Audit Opinions and Firms

As previously mentioned, in the sample based on Bovespa, without the 20 which were not available (1466 = 1486-20) it was observed that some companies did not have available report (18 reports) or they showed report of another company (2 reports). Following, the Table 4 shows the total of listed companies in Bovespa per year, in which it is observed a small raise of the number of companies that started to operate in the stock market.

Table 4 – Total of companies listed in Bovespa per year

Total of companies per year	2006		2007		2008	
	n	%	n	%	n	%
Total of qualified companies	475	98.6	491	98.4	500	99.0
Total of companies with unavailable or undue report	7	1.4	8	1.6	5	1.0
Total of companies in the year	482	100,0	499	100,0	505	100,0

Source: own elaboration.

To evidence the frequency of the audit firms, were considered the ones which audited more than ten companies, and the other companies were dispossessed in just one frequency, according to the shown on Table 5. Following the idea of Richardson (2009), the other audit firms do not show significant number of audited companies, being more viable the grouping of that information.

It is observed that, with all the audit firms, the Deloitte Touche Tohmatsu outstands in the year of 2006, concentrating the higher number of audited companies, representing 25% of the initial sample total. However, in the following years there was a significant decrease of its participation in that market in opposition to the consecutive increase of the audited companies by the other Big Four.

Table 5 – Quantity of audited companies by audit firm

Audit firms	2006		2007		2008	
	n	%	n	n	%	n
Deloitte Touche Tohmatsu	117	24.6	94	19.1	84	16.8
KPMG	71	14.9	95	19.3	98	19.6
Ernest & Young	42	8.8	51	10.4	55	11.0
PricewaterhouseCoopers	42	8.8	53	10.8	62	12.4
BDO Trevisan	44	9.3	44	9.0	55	11.0
Performance	20	4.2	15	3.1	15	3.0
Directa	16	3.4	16	3.3	11	2.2
Terco Grant Thornton	16	3.4	23	4.7	27	5.4
Other audit firms	107	22.5	100	20.4	93	18.6
Overall total of companies with report	475	100,0	491	100,0	500	100,0

Source: own elaboration.

Despite the Big Four firms have a big part of the market, the other companies audit a significant fraction of 40% of the companies, of which the more outstanding companies are: BDO Trevisan Auditores Independentes, Directa Auditores, Performance Auditoria and Consultoria Empresarial S/S and Terco Grant Thornton. Not coincidentally, two of the highlighted companies, among the other audit firms, were acquired by other two companies of the Big Four group. On august 2010, the Ernst & Young acquired the Brazilian operations of Terco Grand Thornton and, on march 2011, the KPMG acquired the operations of BDO in Brazil, naturally, in order to strengthen the consolidation and the participation of those big companies in the market.

From the audit opinions referring to the financial reporting of 2006, 2007 and 2008, respectively, 44%, 39% and 48% had emphasis paragraph(s) and/or qualification. The reports that do not presented qualification or emphasis (clean opinios), or had another kind of opinion, were not analyzed. As exposed previously, for comparison effects among years, the reports that presented only standard emphasis paragraph motivated by the changes introduced by the Brazilian Law n. 11638/07 were not considered in the analysis not to prejudice the comparability among the studied years. The presence of this paragraph in other types of opinions was not considered too, nevertheless, in this case, the opinion is taken into consideration. The standard emphasis paragraph was found in 402 opinions in the year of 2008, of which, 30 were qualified report and with emphasis paragraph(s); 139 were

unqualified, but with emphasis paragraph(s); and, 233 had just the standard emphasis paragraph.

Before the final number of observations (708 – see Table 3), it is presented on the Tables 6 and 7 the ratio between type of object opinion of this study and type of audit firm, with the frequencies referring to the sum of the period between 2006 and 2008. The table 6 shows the frequency of qualified and unqualified opinions issuance, per type of audit firm.

Table 6 – Qualified and unqualified opinion x type of audit firm

Types of opinions	Big Four		Other audit firms		Total of observations
	N	(%)	N	(%)	
Qualified opinion	438	96.9	223	87.1	661
Unqualified opinion	14	3.1	33	12.9	47
Total	452	100.0	256	100.0	708

Source: own elaboration.

It is verified a significant frequency of qualified opinions issued by the other audit firms. The data observed showed that the biggest four, even having a bigger representativeness, issue less qualified opinions. It is not possible to affirm, but one explanation can rely on the fact that the Big Four audited companies with better internal controls, for instance. The Table 7 shows the frequency for the issuance of opinions with or without emphasis paragraph, per type of audit firm.

Table 7 – Opinion with and without emphasis paragraph x type of audit firm

Type of paragraph	Big Four		Other audit firms		Total of observations
	N	(%)	N	(%)	
Opinion with emphasis paragraph	222	48.8	90	35.2	312
Opinion without emphasis paragraph	230	51.2	166	64.8	396
Total	452	100.0	256	100.0	708

Source: own elaboration.

Just like the issuance of qualifications, it is observed that the other audit firms issue more opinions with emphasis paragraph(s).

4.2 Qualification

4.2.1 Estimation of the logit model for qualification

The estimation of the logit model, in this research, has the aim to assess the association of certain characteristics with the existence of qualification in the audit opinions of the companies that work in Bovespa in the years of 2006 and 2008. The Table 8 the ratio among the variables.

Table 8 – Ratio between qualification and independent variables

Variable	Coefficient	Exp(Coef.)	Z Statistic	Prob. (Z)
TYPEAUDIT*	-0.9228	0.3974	-2.5650	0.0103
VER	-1.3184	0.2676	-2.4612	0.0138
GP	2.4956	12.1285	2.3965	0.0166
STL	2.0428	7.7122	2.2842	0.0224
NP	-1.4820	0.2272	-2.0341	0.0419
VALUE	-0.2815	0.7547	-2.0310	0.0423
C	-1.6813	0.1861	-8.4200	0.0000
Prob(LR <i>stat</i>) 0.0000		LR <i>statistic</i> (6 df) 50.6812		

* Binary variable (*dummy*) 0-1.

Source: own elaboration.

The initial interpretation is made according to the impact of each coefficient in the model, always considering the other variables as constants. Thus, a positive variation of one million for the GP value increases the chance of a opinion has a qualification by 12.13 times ($e^{2.4956}$), as exposed by the $\text{Exp}(\text{Coef.})$, keeping the other variables constant. The interpretation of the STL is similar, in this case, the chance of a opinion has a qualification increases by almost 7.71 times. Therefore, the results suggest that when higher is the GP and higher the STL (analyzed separately), higher is the probability of a opinion has a qualification.

The inverse interpretation serves for the negative coefficients. For instance, a positive variation of one million in the REV, NP and VALUE decreases the chance of qualification occurrence by 0.26, 0.23 and 0.75 times, respectively, when analyzed separately. So, when higher is the REV, the NP and the VALUE (analyzed separately), lower is the probability of opinion has a qualification. That is confirmed to what is assumed by the foreign market, for, according to Ireland (2003), the big companies have a higher tendency to have good accounting systems and internal controls, reducing, this way, events inclined to qualifications, like the disagreements and limitations of scope.

The isolated interpretations of the coefficients, especially when analyzed the ones having positive signal, can suggest an initial idea that big companies show a high chance to have their opinions qualified face to the GP size, for instance. However, in practice, the coefficients are analyzed together for the calculation moment of the event occurrence. Therefore, is the set of informations that will show the probability of occurrence of the event? So, is the set of informations that will show the qualification occurrence in a certain company?

As an additional finding, it is noted that there is a difference for the interpretation just in the binary variable TYPEAUDIT, because, in the case it assumes the value of 1 (i.e., if it is audited by a Big Four), the chance of a opinion has a qualification is 0.4 times lower, confirming the previous ratio established on the Table 6.

Differently of other studies in international ambit (DOPUCH; HOLTHAUSEN; LEFTWICH, 1987; LAITINEN; LAITINEN, 1998; KLEINMAN; ANANDARAJAN, 1999; SEGURA; MOLINA, 2001; SPATHIS, 2003; BALLESTA; GARCÍA-MECA, 2005) no economic-financial variables showed statistical significance to the qualification, evidencing that the Brazilian environment can be different from that one, considering the previous context to the total adoption of the international standards.

Thus, if it is the case to have the interest to verify what is the probability of a company to have a qualification in its financial reports, in the analyzed period of this research; it could be estimated by the Equation 4:

$$P(\text{RESS}) = \frac{1}{1 + e^{-(-1.68 - 0.92 \cdot \text{TYPEAUDIT} - 1.92 \cdot \text{REV} + 2.50 \cdot \text{GP} + 2.04 \cdot \text{STL} - 1.48 \cdot \text{NP} - 0.28 \cdot \text{VALUE})}} \quad (4)$$

Therefore, the probability of the event to occur, i.e., the probability of qualification occurrence, can be calculated by the Equation 4. Since there is a binary variable (TYPEAUDIT) the event were calculated in two situations.

In the case that the company is audited by a Big Four, there is the probability of 24% (calculation of the Equation 5, considering the constant variables or equals to 1) for the opinion contains a qualification. On the other hand, if the company is audited by a non-Big Four, there is the probability of 44.4% (calculation of the Equation 10 considering the constant variables or equals to 1, except TYPEAUDIT which is equals to zero) for the opinion contains a qualification.

This finding has also been shown by Martinez (2010), when analyzing the matter of results management. Martinez (2010, p. 88-89) verified that the other audit firms issue

qualified opinions more frequently, in comparison with that ones in the Big Four, what seems to there be some kind of compensation of the type “I stand the management more frequently, but per agreement I realize more qualifications”. The author suggests that it was not possible to understand that question yet, considering it as intriguing and deserving to be further investigated.

4.2.2 Tests of significance of the coefficients and the capacity of the model prediction for qualification

Given that the more important aspect is the statistical significance of the coefficients, that analysis adopted three tests: the Z statistic, LR statistic and the Wald test. The Z test confirmed the statistical significance of the six aforementioned coefficients, evidencing, so, that the variables have a significant influence on the qualification. The LR statistic (test of Likelihood Ratio), used to evaluate the statistical significance of the model as a whole, rejected a null hypothesis that all the coefficients of the independent variables equals zero to a level of 5% of significance, still presenting probability of 0% for the independent variables equals zero.

The Wald Statistic, which corresponds to the t test, tests the null hypothesis that a certain coefficient is not significantly different of zero. The Wald test, described in the Table 9, confirms that the variables present statistical significance, since the probability of the two statistical tests (F-statistic and Chi-square) was significant. In other hands, it can be said that each coefficient takes effect on the probability of a opinion has a qualification being different of zero.

Table 9 – Wald test between qualification and independent variables

Statistical test	Value	Df	Probability
<i>F-statistic</i>	30.4081	(7. 701)	0.0000
<i>Chi-square</i>	212.8571	7	0.0000

Source: own elaboration.

After checking the statistical significance of the parameters, it was sought to evaluate the prevision capacity for the generated model. For that, the tests used were: Hosmer and Lemeshow and Count R2. The Hosmer and Lemeshow test evaluates the hypothesis that there are no significant differences among the results predicted by the model and the observed ones. The Chi-square distribution presented the probability equals to 25.6%, with 8 degrees of liberty, indicating, so, the non-rejection of the null hypothesis of the test, confirming that the model adherence for the data.

The measure of quality of the Count R² adjustment reveals that the exposed model made 661 correct simulations, of the 708 made simulations, representing a percentage of 93.4% correct, considering, so, as a good result.

4.3 Emphasis Paragraph

4.3.1 Estimation of the Logit model for emphasis paragraph

The logit model was estimated considering as an explanatory variable, the existence or not of an emphasis paragraph. The results follow in Table 10.

Here it is observed that the coefficients of CL and VALUE are negative, meaning that, if the value of those variables increase, the chance of emphasis paragraph occurrence (represented by the Exp(Coef.)) decreases 0.67 and 0.96 times, when analyzed individually. The opposite occurs with the variable LTL, meaning that, if this one increases in a million of Brazilian reais, the chance emphasis paragraph occurrence increases 1.22 times or 22%.

Table 10 – Relation between emphasis paragraph and the independent variables

Variable	Coefficient	Exp(Coef.)	Z Statistic	Prob. (Z)
CL	-0,4036	0,6679	-5,9480	0,0000
VALUE	-0,0388	0,9620	-3,5031	0,0005
LTL	0,2000	1,2214	3,3848	0,0007
TYPEAUDIT	-0,4362	0,6465	-2,5642	0,0103
C	1,2652	3,5439	7,2264	0,0000
Prob(LR stat) 0,0000		LR statistic (4 df) 74,7323		

* Binary variable (dummy) 0-1.

Source: own elaboration.

The interpretation of the binary variable TYPEAUDIT indicates that, if the company is audited by a Big Four (TYPEAUDIT = 1), the chance of an emphasis paragraph to occur decreases by 0.64 times, confirming that the previous ratio established in the Table 7, in which it is observed that the other audit firms issue more this type of paragraph.

The probability of a company to have an emphasis in the opinion of its financial reporting, in the period analyzed in this research, can be estimated by the Equation 5:

$$P(Emp) = \frac{1}{1 + e^{-(1,27 - 0,40 \cdot CL - 0,04 \cdot VALUE + 0,20 \cdot LTL - 0,44 \cdot TYPEAUDIT)}} \quad (5)$$

4.3.2 Significance tests of the coefficients and of prevision model capacity for an emphasis paragraph

To verify the statistical significance of the coefficients, three test were used: the Z statistic, the LR statistic and the Wald test. The statistic Prob. (Z) and the LR statistic (74,7) confirm the statistical significance of the presented variable and the model. The Wald statistic, shown in the Table 11, confirms that the variables present statistical significance, by the probability of two specific tests (F-statistic and Chi-Square). In other hands, it can be said that each coefficient takes effect on the probability of a opinion to contain an emphasis paragraph being different of zero.

Table 11 – Wald test between emphasis paragraph and the independent variables

Statistical test	Value	df	Probability
<i>F-statistic</i>	13.30424	(5. 703)	0.0000
<i>Chi-square</i>	66.52120	5	0.0000

Source: own elaboration.

After the verification of the parameters statistical significance, it is intended to evaluate the capacity of the generated model prevision, using the tests: Hosmer and Lemeshow and Count R². The model does not represents the reality in a satisfactory way, not being capable to produce reliable estimative and classifications, because the probability of the Chi-square it just 0.28%, indicating, so, the rejection of the null hypothesis of test on a level of 5%. The Count R² (ratio between the number of correct previsions and the total number of observations, adopting the value of 0.5 as reference) reveals that the exposed model made 396 correct simulations, representing a percentage of 55.9% correct, of the 708 simulations made, being this one a regular result of the model adjustment.

Despite of the statistical significance of the chosen variables in the estimation, the bad adjustment of the model, even though this one of secondary importance, more worthy its statistical significance and/or practice, according to Gujarati (2006), it is not reliable to make

tests or probabilities calculations of emphasis paragraph occurrence in the audit opinion, using the predictor variables of the model.

5 FINAL CONSIDERATIONS

The audit has an important role facing the financial market, expressing, by the auditor report, its opinion about the adequacy in the relevant aspects of the patrimonial and financial position of the financial reporting for the audited company. On the aspect of the audit firms, it was observed a bigger participation of the companies denominated as Big Four, such fact that still occur in other financial markets, such way that it is possible to say that the work audit market in Brazil is similar to other capital markets. In the scope of this research, it was verified that the predominance of the standard-opinions or unqualified opinions, as exposed by Boynton, Johnson and Kell (2002), whereas, in average, just 7.4% of the opinions contain qualifications and 41.4% contain emphasis paragraph.

This study, through the estimated model by the logit, presents empiric evidence that significant effects of accounting and non-accounting variables in the issuance of audit opinions exist, after all, some variables have direct relation to the financial reporting which are the objective of audit analysis. The most significant findings are the ones in which the probability to obtain a qualified audit opinion is related to the company market value, the type of audit firm (if it is a Big Four or not), the volume of short-term financing, the gross profit and the revenue earned by the audited entity. It was observed that, the higher are the company market value, the net profit and the earned revenue by an entity, lower is the probability of qualification occurrence.

The results are consistent with other researches, evidencing, for example, that, the higher is the company market value, more susceptible of finding better internal systems of financial controls and, therefore, lower are the chances to get a qualification (SEGURA; MOLINA, 2001; BALLESTA; GARCÍA-MECA, 2005).

Even without an apparent answer, which also caught the attention of another researcher (Martinez, 2010), it was evidenced that the probability of qualified audit opinion occurrence is lower when issued by the Big Four, requiring a deeper understanding about the fact. By taking into account that those four companies together have, in average, 60% of the market on their “hands”, it is more intuitive the understanding of that relation when confronted to the quantity of qualified opinions issuance in the 708 observations. While the Big Four issued 13, the other audit firms issued 33 qualified opinions in the period of 2006 and 2008.

In relation to the occurrence of emphasis paragraphs, among the economic-financial variables, just the current liquidity was significant. However, despite of the other variables show statistical significance, the model as a whole did not represented a reliable level of adjustment, indicating that the results come from this would not be applicable to the market reality. That eventually indicates that may there be other variables which explain the occurrence of emphasis paragraph.

The estimated qualified model can be used as a quality control tool in the final phase of review or in the analysis about how the changes in specific variables could add or decrease the probability of a qualified opinion occurrence (KLEINMAN; ANANDARAJAN, 1999). Researchers can be capable of using a model which predicts audit opinions to evaluate the extent in which the markets wait a qualified opinion (IRELAND, 2003).

Eventually, a company which wants to acquire another one can evaluate the probability of that last one to get a qualified opinion, given that the probability knowledge that the aim-company can receive may be useful in the formation of the potential acquirer's strategy in the negotiation.

In a general way, the findings of this research may help the information users for a better evaluation and interpretation of the evidences found here. This research is just an initial point with the aim to indicate a new tool to explain or predict the issuance of qualified opinions and/or with emphasis paragraphs. From those findings, the economic agents can use the tool to verify if, in practice, within their daily life, it really occurs some relation between the tested variables and the issuance of the studied reports.

This research presented not known results in Brazil yet. It sought to establish some relation between accounting and non-accounting variables in order to identify the possible that the tested variables would have in case of occurrence of qualification and emphasis paragraph, to bring a new perspective beyond holistic and the approaches already addressed in other studies.

A limitation point and, why not, booster of a new study, is given by the period of analysis of the opinions, given that the current legislation was still previous to the Law n. 11,638/07, not being fully concluded until the year 2010. Therefore, a new research comparing the results reported here can be done. Other researches can contribute and improve the tool used identifying other which explain better the issuance of qualified audit opinion and/or emphasis paragraph.

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