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The Impact Of Disclosing Auditor Independence And Tenure On Non-Professional Investor Judgment And Decision-Making

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THE IMPACT OF DISCLOSING AUDITOR INDEPENDENCE AND TENURE ON NON-PROFESSIONAL INVESTOR JUDGMENT AND DECISION-MAKING

A Dissertation
presented in partial fulfillment of requirements
for the degree of Doctor of Philosophy
in the Patterson School of Accountancy of
The University of Mississippi

by

LONNIE TYLER WILLIAMS

May 2016
ABSTRACT

This study experimentally investigates how disclosing both the auditor’s obligation to remain independent of its client and auditor tenure in the audit report influence non-professional investors’ judgments and decision-making, especially the decision about whether to invest in a particular auditee. In the Auditor’s Reporting Model (ARM) proposal, the Public Company Accounting Oversight Board (PCAOB) asserts that inclusion of additional information in the audit report will improve the informativeness of the audit report for investors and as a result will modify its relevance to investment decisions. Using an experiment, I find that these disclosures positively influence non-professional investor judgments of auditor attributes – specifically auditor independence and auditor competence. Further, I note that the disclosures augment judgments of auditor credibility and audit quality as well as the report’s perceived informativeness. I also find that the disclosure of long tenure has a significant positive effect on consequent investment decisions. The findings of this study are important to informing regulators on how reform to the audit report increases report readers’ sensitivity to the perceptions of the financial statement auditor, which ultimately influences non-professional investor decision-making.
**LIST OF ABBREVIATIONS AND SYMBOLS**

<table>
<thead>
<tr>
<th>AICPA</th>
<th>American Institute of Certified Public Accountants</th>
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<tr>
<td>ANOVA</td>
<td>Analysis of Variance</td>
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<td>ARM</td>
<td>Auditor’s Reporting Model</td>
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<tr>
<td>CAM</td>
<td>Critical Audit Matter</td>
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<td>CAQ</td>
<td>Center for Audit Quality</td>
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<tr>
<td>CPA</td>
<td>Certified Professional Accountant</td>
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<td>EC</td>
<td>European Commission</td>
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<td>FRC</td>
<td>Financial Reporting Council</td>
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<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
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<tr>
<td>IAASB</td>
<td>International Auditing and Assurance Standards Board</td>
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<tr>
<td>IAG</td>
<td>Investor Advisory Group</td>
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<tr>
<td>KAM</td>
<td>Key Audit Matter</td>
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<tr>
<td>MBA</td>
<td>Masters of Business Administration</td>
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<tr>
<td>PCAOB</td>
<td>Public Company Accounting Oversight Board</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
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<tr>
<td>SOX</td>
<td>Sarbanes-Oxley Act of 2002</td>
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<tr>
<td>TURK</td>
<td>Amazon Mechanical Turk</td>
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<td>UK</td>
<td>United Kingdom</td>
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<td>US</td>
<td>United States</td>
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Figure 3  Statistical Diagram of Auditor Characteristics and Audit Quality Moderated-Mediation Analysis
I. INTRODUCTION

I experimentally investigate how disclosures in the audit report explaining auditor independence and divulging the length of auditor tenure affect the judgment and decision-making of non-professional investors. Specifically, I consider whether modifying the audit report to include those disclosures influences non-professional investor judgments of auditor characteristics, such as independence and competence, as well as their judgments about auditor credibility and audit quality. However, the chief purpose of this study is to examine whether and to what extent the disclosures influence related investment decision-making. Examining this question is important because the Public Company Accounting Oversight Board (PCAOB; the Board) has proposed revising the standard audit report model to include these new elements in the language communicated by financial statement auditors to report readers. The PCAOB asserts that the new disclosures in the audit report will provide financial statement users with specific information related to the nature and responsibility of the financial statement auditor, which will enhance the communicative value of the audit report and in turn potentially affect capital allocation (PCAOB 2011).

The Board notes that the proposed new elements in the audit report will reflect characteristics of the auditor and his/her work (PCAOB 2013). Psychology literature suggests that revealing certain information about an information source influences an information user’s perception of the source’s trustworthiness and expertise and as a result the usefulness of the communication from the information source (e.g., Hovland and Weiss 1951; Hovland, Janis, and
Kelley 1953). Similarly, the extant accounting literature suggests that perceptions of two specific auditor attributes, independence and competence, likely influence judgments regarding the credibility of an auditor, the perceived quality of an audit, and the usefulness of auditor conveyed information (e.g., Joyce and Biddle 1981; Abdel-Khalik, Snowball, and Wragge 1983; Bamber 1983; Brown 1983; Plumlee 1985; Schneider 1985; Rebele, Heintz, and Braden 1988; Anderson, Koonce, and Marchant 1994; Hirst 1994; Caster and Pincus 1996; Murphy and Yetmar 1996; Goodwin 1999; Reimers and Fennema 1999; Christensen, Glover, and Wolfe 2014). The information the Board proposes to disclose in the reformed audit report maps directly to auditor characteristics of independence and competence. The focal point of my study is ascertaining whether the proposed disclosures alter judgments of the auditor such that the audit report becomes more informative and useful for non-professional investors’ decisions.

I address my research questions using an experiment. I recruit proxies for non-professional investors through the Amazon Mechanical Turk platform (Koonce, Miller, and Winchel 2015), who review summary financial information as well as the related audit reports for two companies and then complete a questionnaire eliciting their judgments about auditor attributes and their willingness to invest in the two companies. This study adopts a $3 \times (2 \times 2) \times 2$ mixed design. The design first manipulates, between-participants, whether the audit report includes the PCAOB’s proposed independence disclosure, an alternate description of auditor independence, or no disclosure of auditor independence. Exploring alternate definitions of auditor independence is important because independence is typically defined in two parts – “independence of mind” and “independence in appearance.” As evidenced by the language in the PCAOB’s proposed Auditor’s Reporting Model (ARM), which focuses on independence rules (PCAOB 2013), the Board made a decision to describe independence using language much more
aligned with independence in appearance than with independence of mind – while both definitions were viable options.

My design also manipulates, between-participants, whether the audit report discloses the length of the auditor-client relationship and within-participants, whether the length of auditor tenure is long or short. Examining judgments related to the length of the auditor-client relationship is central to studying audit report revision because practitioners, investors, and academicians harbor strong viewpoints either in support of or opposition to revealing this information in the audit report (PCAOB 2014). It is also important because peer regulators of the PCAOB have chosen alternative paths to address auditor tenure regulation.

Finally, I also manipulate, between-participants, whether the audit report includes disclosure of a critical audit matter (CAM) or a disclosure that there is no CAM. A critical audit matter is described by the PCAOB as an account or area of management’s financial statements that the auditor deemed complex or subjective (PCAOB 2013). Although not a focal point of the study, I manipulate this additional disclosure in the audit report to examine whether the independence and tenure disclosures moderate the effect of CAM disclosures on investor judgments about the auditor and investment decisions.

Findings confirm that the PCAOB’s proposed disclosures in the audit report influence non-professional investor judgments about auditor independence and competence, auditor credibility, audit quality, the informativeness of the audit report, and investment decisions. Perhaps most important, evidence from the experiment suggests that disclosing auditor tenure in the audit report positively influences investment when the disclosed tenure is long. Further, results suggest that including an explanation of auditor independence in the audit report also positively influences investment, while both disclosure of auditor independence and disclosure of
auditor tenure positively impact judgments about the audit report’s informativeness as well as auditor characteristics. Specifically, explaining auditor independence in the audit report elicits more positive judgments on auditor independence, auditor competence, audit quality, and auditor credibility than when absent from the report. Similarly, disclosing the length of auditor tenure prompts more positive assessment of auditor independence and audit report informativeness when tenure is short but more positive judgment of auditor competence and more positive investment when tenure is long. Also of note, there are no statistically significant interactions among the treatments on investment decisions; however, the independence disclosure and length of tenure do interact to promote higher auditor competence when independence is present and tenure is long. Together, my findings suggest that the judgement and decision-making processes of non-professional investors are influenced by the PCAOB’s proposed disclosures – suggesting that the Board’s reform endeavors appear to enhance perceptions of the financial statement auditor and the audit report as well as investment in auditees.

I further explore the effects measured variables of auditor independence and auditor competence have on investment decisions as mediated by measurements of auditor credibility and audit quality using a moderated-mediation analysis from Hayes (2013). I discover that judgments of both auditor independence and competence have a significantly positive influence on judgments of both auditor credibility and audit quality. However, I do not find that judgments of auditor independence and auditor competence depend upon one another in enhancing auditor credibility (or audit quality). Rather, each uniquely augments the strength of auditor credibility and audit quality. Most important, evidence suggests that investor judgments about auditor independence, auditor credibility, and audit quality significantly influence investment decision-making. I also observe that the relationships between investment decision-making and auditor
credibility as well as audit quality are positive – indicating that higher perceptions of auditor credibility and audit quality spur more positive investment. This analysis implies that to the extent information provided by the audit report increases non-professional investor confidence in auditor independence, investors view the auditor as more credible as well as the audit of higher quality, and more positive assessments of each result in more positive investment in auditees.

The findings from this study are important specifically to the PCAOB because the results aid in understanding the impact of the regulator’s proposed revisions to the audit report. More specifically, this study provides clarity around many of the pointed regulatory questions sought by the Board of its constituents through its August 2013 audit standard proposal (PCAOB 2013). In addition, the observations of the particular participants recruited for this experiment are important to regulators because regulators often express concern over changes to financial reporting that could influence non-professional investors. This is due to the notion that non-professional investors presumably have limited access to information (in comparison to institutional investors) and to attain additional information for investing purposes is likely time-consuming and cost-prohibitive. Most important, the results of this study advocate that non-professional investors are sensitive to the new information proposed for the audit report.

The remainder of this manuscript is organized as follows: the next section provides a discussion on the regulatory environment and reveals the study’s hypotheses. The subsequent sections explain the experimental design and related participant task. Following those sections, I present results and related statistical analyses. Thereafter, the paper concludes with a discussion of the predicted implications as well as future research.
II. THEORETICAL FRAMEWORK AND HYPOTHESES

Regulatory Environment and Reform to the Audit Report

The public company audit report has undergone very little revision to its content and structure over the last few decades – leading to its scrutiny today by regulators, investors, practitioners, and academicians.¹ By design, the current pass/fail model of the report is structured such that deviation from the model is readily noticeable to report readers; however, critics of the current model argue that the audit report possesses merely symbolic value to financial statement users because the current content limits a report reader’s understanding of the auditor and the audit function (Church, Davis, and McCracken 2008).

In 2011, the PCAOB issued the “Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements” (ARM Concept Release) to solicit constituent feedback on revision to the audit report. The ARM Concept Release received 248 comment letter responses from many different constituent groups. The Board noted that the overarching theme to the feedback suggested that the auditor has significant self-insight as well knowledge of his/her client; thus, the audit report should reflect that understanding to make it useful to investment decision-making (PCAOB 2013). Specifically, the comment letters call for disclosure of additional information in the report, where the pass/fail model is retained but supplemented with discussion about the auditor and the audit of the company’s financial statements. In an effort to address these concerns, the PCAOB proposes that

¹ Two modifications to the audit report are a product of the Sarbanes-Oxley Act of 2002 (SOX), where regulators altered the report by inserting a reference to the PCAOB and establishing reporting guidelines for the integrated audit (PCAOB 2011).
revision to the audit report may increase its relevance for investment decision-making (PCAOB 2011; PCAOB 2013).

As proposed, the ARM standard requires that the auditor include in the audit report explicit statements regarding its obligation to remain independent of its client as well as the length of time served as the company’s financial statement auditor. Further, the PCAOB suggests that disclosing critical audit matters will allow financial statement users to pinpoint areas of management’s financial statements that auditors deem complex or subjective (PCAOB 2013). Working together, the PCAOB suggests these disclosures will “increase the informational value of the auditor’s report to promote the usefulness and relevance of the audit and the related auditor’s report” (PCAOB 2013, 5) and may potentially impact capital allocation (PCAOB 2011). Peer audit regulators such as the International Auditing and Assurance Standards Board (IAASB), Financial Reporting Council (FRC) of the United Kingdom (UK), and the European Commission (EC) are also actively engaged in modifying their respective audit reports. The regulators generally agree on the disclosure of areas of complex auditor judgment (i.e., critical audit matters, key audit matters) in the audit report; however, treatment varies concerning the disclosures related to auditor independence and auditor tenure. The respective audit regulators deviate in how they approach disclosing independence in the audit report (either including or excluding it from the report) but differ tremendously on the regulatory approach surrounding the regulation of auditor tenure. For example, the IAASB elected not to require any form of tenure disclosure in the audit report nor the financial filings (IAASB 2015). Further, while there is no tenure disclosure requirement, the EC mandated audit firm rotation every 10 years beginning in 2016 for publicly traded entities (every twenty-five years for those that engage in retendering).
On the other hand, the PCAOB experienced significant criticism in its failed attempt to introduce discussion of mandatory audit rotation in the United States (US) (Whitehouse 2013).

Some regulators have considered tenure disclosures outside the audit report. For example, the FRC requires that publicly listed companies in the UK provide information on auditor tenure length in the audit committee section of the annual report filing (PCAOB 2013). Similarly, the United States (US) Securities and Exchange Commission (SEC) is currently exploring the option of disclosing auditor tenure in the audit committee report (SEC 2015).

The Big Four accounting firms as well as the Center for Audit Quality (CAQ) have also expressed opinions on the ARM proposal’s revisions to the audit report. Collectively, the Big Four and the CAQ agree that adding statements to clarify auditor independence and describe critical audit matters is appropriate for and relevant to the report. Each describes a laundry-list of changes they believe are requisite for the critical audit matters discussion; however, none suggest a change to the wording of the independence disclosure. At the same time, all five organizations adamantly oppose the disclosure of auditor tenure in the audit report, where each explicitly states the same rationale for its exclusion – empirical evidence does not support a conclusion that longer tenure leads to lower audit quality and thus the disclosure is unnecessary. Further, all submit that the PCAOB should only consider mandating a tenure disclosure in the PCAOB’s Form 2 or in the audit committee’s report, eliminating the chance financial statement users focus on the length of the relationship in the audit report and make potentially unwarranted inferences (CAQ 2013, Deloitte 2013, Ernst and Young 2013, KPMG 2013, PricewaterhouseCoopers 2013).²

² Firms registered with the PCAOB are required to complete an annual assessment of their respective firm structures, known as the PCAOB’s “Form 2.” The form updates the regulator with various firm information including but not limited to the previous year’s billings related to publicly traded companies, firm personnel changes, and client changes.
Effects of Auditor Characteristics on Perceptions of Auditor Credibility and Audit Quality

During a meeting with PCAOB Board members in 2010, members of the Board’s Investor Advisory Group (IAG) specified that more transparency surrounding the auditor and the auditing process would lead to less uncertainty from investors and would likely result in more confidence in the capital market system (PCAOB 2011). In the ARM Proposal, the PCAOB required of constituents whether clarification in the audit report regarding the auditor’s responsibility to remain independent of its client (in addition to maintaining “independent” in the report’s title) would be informative and useful for investors. Constituents affirmed that including a “strong” statement concerning auditor independence in the audit report would be useful in decision-making (PCAOB 2013). Regarding the disclosure of auditor tenure, the Board elected to remain agnostic concerning the impact of the disclosure – the regulator asserts disclosing auditor tenure is an attempt to acquiesce investor requests for the information. However, disclosing this information does satisfy a goal of the PCAOB to provide public company stakeholders with auditor continuance information.

The Board believes that revealing previously undisclosed information about the audit function in the audit report “could lead to more efficient markets and improved allocations of capital,” (PCAOB 2011, 2). In the PCAOB’s ARM proposal, the agency suggests that the proposed new elements in the audit report are in fact “similar to an indication of the character of the auditor’s work,” (PCAOB 2013, A5-4). As demonstrated in the psychology and accounting literature, disclosures that reveal characteristics of independence and competence presumably will influence perceptions of auditor credibility and audit quality and thus will likely impact the decision-making of audit report readers.
Auditor Credibility

First noted by Bentham's theory of evidence in 1827, the credibility of an information source is recognized as an integral part in determining the strength of the source’s communication – where characteristics such as rank, power, or official function add credibility to a source. Principally, source credibility theory suggests that people are more likely to be persuaded by communication from a source that offers itself as credible; here, credibility is noted as the “believability” or “reliability” of the information source (Hovland and Weiss 1951; Hovland, Janis, and Kelley, 1953). In a seminal study on source credibility, Hovland et al. (1953) argue that trustworthiness and expertise are the two primary motivating factors that underpin perceptions of a source’s credibility, where the authors state “in any given case, the weight given a communicator’s assertions by his audience will depend on upon both of these factors” (Hovland et al. 1953, 2). The authors further note that perceptions of objectivity establish a source’s trustworthiness while perceptions of the source’s relative experience convey the expertise of a source. Other credibility studies in the psychology literature further corroborate that information sources that exude strong qualities of trustworthiness and expertise induce stronger positive attitudes toward positions for which they support (e.g., Greenberg and Tannenbaum 1961; Sternthal, Dholakia, and Leavitt 1978; Pornpitakpan 2004).

Specific to accounting research, a host of studies explore the judgment and decision-making processes of accounting information users when certain characteristics related to an information source’s credibility are disclosed. The phenomenon has received extensive consideration in the literature through studies on credibility within the external audit team; between the external auditor and the internal audit function; between the external auditor and client management; and between investors and attestors. Here, studies focus on exploring the
credibility of information sources by manipulating attributes of either *competence* (e.g., Bamber 1983; Rebele et al. 1988; Anderson et al. 1994; Murphy and Yetmar 1996) or *independence* (e.g., Joyce and Biddle 1981; Abdel-Khalik et al. 1983; Plumlee 1985; Caster and Pincus 1996; Goodwin 1999; Reimers and Fennema 1999; Christensen et al. 2014). Regarding the audit team, Bamber (1983) addresses source credibility by exploring the judgment of audit managers on the reliability of audit seniors in relationship to their level of experience. The study suggests that as an audit senior’s competence decreases so does an audit manager’s reliance on the senior’s work, where managers were found to be more likely to rely on the work of seniors with higher technical ability. Similarly, Anderson et al. (1994) notes that external auditors also evaluate audit evidence based on the perceived competence of the client preparing the information, where managers with more formal training and experience were noted as more competent and thus more credible. Manipulating competence in a different manner, Murphy and Yetmar (1996) find that audit supervisors reviewing audit evidence are more likely to assign higher credibility to the conclusions of subordinates who use the assistance of an expert system when assessing audit evidence.

The extant literature also centers on credibility’s *independence* component. Joyce and Biddle (1981) find that when recalculating a client’s accounts receivable allowance, external auditors place significantly more trust in collection information from an independent rating agency than from a management estimate. Further corroborating external auditor’s sensitivity to the independence of provided audit evidence, Goodwin (1999) notes that auditors place more emphasis on audit evidence obtained from an outside source than an inside source (i.e., evidence provided by an external party versus client management). Along the same lines, Abdel-khalik et al. (1983) submits that the reporting structure of the internal audit staff (i.e., controller or audit
committee) and attributed credibility plays the largest role in an external auditor’s audit planning around risky accounts such as accounts receivable and accounts payable. Caster and Pincus (1996) argue that, as perceived independence of the information source increases, information providers are viewed as more credible and as result audit evidence becomes more persuasive to external auditors. Reimers and Fennema (1999) suggest that external auditors assessing management estimates illustrate different sensitivities to the independence and credibility of an information source – depending upon their role in the audit process. Those reviewing audit work are more likely to place a higher emphasis on the independence of an information source than those who initially assess management’s estimates. Last, Christensen et al. (2014) find support that investors attend to negative information more when that information is provided by independent auditors than management because investors perceive external auditors as more credible information providers.

Very few studies have examined both of the credibility components simultaneously (e.g. Brown 1983; Schneider 1985; Rebele et al. 1988; Hirst 1994). Related to the relationship between internal auditors and external auditors, both Brown (1983) and Schneider (1985) observed the perception of the internal audit function’s competence and independence as noted by professional external auditors – with each study finding one of the components more integral than the other to the credibility of a source. For example, Brown (1983) finds that external auditors attribute more credibility to the internal audit function based on the degree of independence from management more so than the previous work experience of the internal auditors. On the other hand, Schneider (1985) suggests that external auditors generally view the experience of internal auditors as more important than the level of independence from management when determining how much reliance to put on the internal audit function.
Similarly, findings from Rebele et al. (1988) suggest that external auditors are more sensitive to the work experience of an information source more so than its degree of independence from management when determining the credibility of the information provider. Hirst (1994) finds that both source competence and independence influence an external auditor’s perception of an information source’s credibility; however, most interesting, the author notes that an interaction exists between the two attributes of the information source. Here, the author finds that audit support is viewed as more diagnostic by external auditors when both the competence and independence of an information source are high while the inferential value of audit evidence decreases when either characteristic is reduced.

Specifically related to investor use of accounting information, investment decision-making is enhanced when a credible intermediary attests to information (Kinney 2000). Mercer (2004) also suggests that investors rely on the credibility of external assurance when making investment decisions, where testimony from auditors augments the reliability of financial information. Other studies suggest that management disclosures receiving auditor attestation are deemed more credible by financial analysts and bankers when making investment decisions (Libby 1979; Hodge 2001). Further, investors have been noted to respond more intensely to the earnings releases of corporations who engage larger international accounting firms for their financial statement audits more so than companies who engage smaller firms – an indicator of the role perceived auditor credibility plays in decision-making (Teoh and Wong 1993). In general, assurance provided by an external auditor induces a sense of credibility for the information which helps to alleviate some uncertainty that an investor might have in processing information (Thayer 2011).
Audit Quality

Knechel, Krishnan, Pevzner, Shefchik, and Velury (2013) suggest that the presence (or absence) of certain auditor attributes, explicitly independence and competence, defines the quality of an external audit. The authors lean on the generally accepted DeAngelo (1981) definition of audit quality as a combination of the auditor’s wherewithal to detect and report a misstatement, where the ability of an auditor detecting a misstatement is linked to its level of competence while subsequently acting on the finding is likened to its degree of independence. Throughout the accounting literature, the primary driver of an auditor’s independence is noted as his/her ability to remain independent of management while the chief catalyst in development of competence is accumulating engagement-specific audit knowledge – both of which are inherently associated with the length of auditor tenure (Knechel et al. 2013).

Regulators often highlight the importance of user confidence in an independent, objective auditing process because it induces higher perceptions of audit quality and also encourages greater confidence in the unqualified audit opinion (Ghosh and Moon 2005). Academic research further advocates that auditors independent of management promote a more robust audit function, largely through enhanced perceptions of objectivity and professional skepticism (DeAngelo 1981; Knechel et al. 2013). Tepalagul and Lin (2015) describe two general views of audit tenure’s effect on audit quality: 1) in a protracted auditor-client relationship, auditors tend to become like-minded with management, which impairs independence and audit quality and 2) lengthy auditor-client relationships increase business acumen and audit expertise, which increases competence and audit quality. Essentially, the tenure-quality debate hinges on a trade-off between professional skepticism and domain specific knowledge (Knechel et al. 2013). Thus, audit quality is purportedly depressed in one of two ways by the length of the audit-client
relationship – reduced expert knowledge of the client (competence) as implied by short tenure or impaired independence as insinuated by long tenure (Johnson, Khurana, and Reynolds 2002).

As previously discussed, a common association with length of auditor tenure and audit quality is attributed to the learning curve that exists between the client and the auditor. Regarding short tenure and expertise, Beck, Frecka, and Solomon (1988) conclude that during the early years of an audit engagement lack of domain specific knowledge reduces the chances of detecting material errors. Further, evidenced by larger abnormal accruals in the first few years following an auditor change, Johnson et al. (2002) determine that audit quality is lower in short audit tenure relationships while Myers, Myers, and Omer (2003) find that discretionary accruals are negatively associated with long tenure. Similarly, Manry, Mock, and Turner (2008) conclude that even long audit partner tenure is negatively associated with discretionary accruals. Related to investor perceptions, Ghosh and Moon (2005) explore how capital market participants view the length of audit tenure as affecting audit quality. The authors analyze the earnings quality judgments of three financial statement users: professional investors, independent rating agencies, and financial analysts. They find evidence advocating that all three groups perceive audit quality as improving with auditor tenure.

Concerning length of tenure and independence, the primary argument for a reduction in audit quality is the development of a personal relationship between the firm and the client, where the relationship is purported to impact the auditor’s independence and related professional skepticism due to establishment of a loyal or emotive bond between the two parties. This type of relationship has a potential negative impact on the judgments made throughout the engagement through actions such as shelving innovative audit procedures, submitting to client pressure, or colluding with management (Carey and Simnett 2006). Abdolmohammadi and Wright (1987)
explore the relationship between auditor experience and the likelihood of an auditor issuing a qualified opinion or proposing an adjustment. The authors find an inverse relationship with tenure for both. Similarly, Dopuch, King, and Schwartz (2003) find that shorter tenure results in auditors that are less willing to issue favorably biased opinions of managements’ financial statements. On the other hand, regarding the reported positive effects of prolonged audit tenure on independence, Solomon, Shields, and Whittington (1999) note that as auditor tenure grows auditors develop robust knowledge of clients. Thus, they rely less on management assessments and become more independent. Also, in reviewing company bankruptcies, Geiger and Raghunandan (2002) find that auditors with long tenure are more likely to issue a going-concern opinion prior to bankruptcy than auditors with short tenure. Further, Bowlin, Hobson, and Piercey (2015) find when auditors are prompted to be more skeptical, more frequent audit rotation results in lower audit quality.

**Auditor Disclosures on Non-professional Investor Judgment and Decision-Making**

The PCAOB proposes introducing new information in the audit report will assist investors when making investment decisions, where the Board acknowledges that the information in the ARM proposal likely characterizes the audit (PCAOB 2013). As noted above, a well-vetted stream of accounting literature suggests that auditing decision-makers rely more on auditing information provided by sources thought to possess higher degrees of competence and independence than those that are perceived as less competent and less independent. This occurs because those perceived to exhibit robust attributes of independence and competence are viewed as more credible. This phenomenon likely extends to investors. Disclosure of the auditor’s obligation to remain independent of its client in the audit report will likely change the level of confidence investors have in an auditor’s independence while a disclosure in the audit report
revealing length of auditor tenure will presumably adjust investor perception of both auditor competence and auditor independence. As a result of altering the perception of an external auditor’s credibility through revealing information about the auditor’s independence and competence, consequent investment decisions are also likely influenced. Along the same lines, accounting research provides that accounting information users appreciate the value of high quality external auditing, where quality is generally dependent upon the level of the auditor’s independence and competence.

Presently, the only independence indicator in the auditor’s report to a financial statement user is in the title of the audit report. Auditor tenure is not currently disclosed in any involuntary capacity. However, as proposed, the ARM standard will reveal these characteristics to investors through the audit report. As a consequence, the disclosures will likely alter an investor’s perception of auditor credibility and audit quality as well as related investment decisions.

**Main Effect of Auditor Independence Disclosure**

Currently, the audit report communicates very little specific information regarding the auditor’s resolve to remain independent of client management. The PCAOB presumes that defining auditor independence in the audit report will enhance a report reader’s understanding and awareness of the auditor’s obligation to remain independent of its client. Again, the Board (as well as its constituents) suggests disclosing auditor independence in the audit report for investors will be relevant to decision-making and could result in improvement of capital costs (PCAOB 2011; PCAOB 2013)

The SEC and the AICPA have promulgated innumerate rulings intended to deter auditor behaviors by describing scenarios where auditors lack independence, but there is no consensus definition of auditor independence (Kinney 1999). The AICPA’s code of professional conduct
explains that the concept of auditor independence consists of two elements – independence of mind and independence in appearance. The organization describes independence through the first element, stating that the independent auditor’s state of mind is “one that permits a member to perform an attest service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism,” (AICPA 2015, 11). The second element, independence in appearance, reminds professional accountants that they should avoid circumstances that may cause an objective party to believe independence of mind is compromised.

Tversky and Koeler (1994)’s Support Theory implies that the judged probability of an event occurring is contingent on the explicitness of the event’s description, where different framing of the event can alter the perceived likelihood of its outcome (Johnson, Hershey, Meszaros, and Kunreuther 1993; Rottenstreich and Tversky 1997; Brenner 2003; Bowlin, Hobson, and Piercey 2015). The theory is underpinned by the supposition that judgmental heuristics such as representativeness and availability impact the salience of an event’s outcome thus influencing impressions and decision-making (Hammersley, Bamber, and Carpenter 2010). For example, in a study on flight insurance policies, Johnson et al. (1993) find that participants are willing to pay more for insurance when the policy contains an explicit list of covered events (e.g., mechanical failure or terrorism) compared to an exhaustive policy that does not describe specific coverage. In sum, the authors hypothesize and discover that participants exposed to explicit outcomes of flight disaster trigger a decision maker’s availability heuristic, which greatly enhances the perceived value of flight insurance.

The addition of a robust independence explanation in the audit report is central to a report reader’s perception of auditor independence (Olazabal and Almer 2001; Kaplan and Mauldin
In its ARM proposal, the PCAOB mandates that the auditor describe its independence obligation in the audit report to financial statement users as remaining “independent with respect to the company in accordance with the United States federal securities laws and the applicable rules of the SEC and the PCAOB,” (PCAOB 2013, A1-4). Judgments of auditor independence are likely impacted by the explanation of the auditor’s obligation to remain independent of its client, where the explicitness of the independence definition in the audit report will likely frame a report reader’s support for available scenarios where an auditor is or is not independent.

I propose the PCAOB’s compliance-oriented “independence in appearance” explanation (compared to the much more implicit conceptual “independence of mind” definition) is more likely to trigger a report reader’s psychological support for scenarios where an auditor was not compliant and thus was not independent – support such as major financial accounting scandals (e.g., Enron, WorldCom, Waste Management, Madoff Investment Securities, etc.). If so, the ARM’s proposed independence disclosure likely undermines the Board’s attempt to increase financial statement users’ perceptions of auditor independence, and it may behoove the PCAOB to explain auditor independence in the audit report through the concept-oriented independence of mind definition.

I expect that to the extent a non-professional investor attends to an independence disclosure, the audit report becomes more informative regarding auditor independence, auditor credibility, audit quality, and consequently investment decisions. Therefore, I anticipate more positive investment will occur when independence is disclosed in the audit report compared to when the disclosure is absent. However, the Support Theory literature suggests that the explicit nature of the PCAOB’s independence definition may cause report readers to draw on scenarios where an auditor may not have been perceived as independent. That said, I expect that a
compliance-oriented “independence in appearance” description of auditor independence will encourage non-professional investors to envision settings where an auditor has broken rules and as a result is perceived as less independent. This will result in less positive investment compared to when participants receive the concept-oriented “independence of mind” definition. Formally, I predict:

**H1a:** The disclosure of the auditor’s obligation to remain independent in the audit report will result in more positive investment by non-professional investors compared to when the disclosure is absent from the report.

**H1b:** A compliance-oriented “independence in appearance” explanation of auditor independence in the audit report will result in less positive investment by non-professional investors compared to a concept-oriented “independence of mind” explanation.

**Main Effect of Auditor Tenure Disclosure**

Constituents advised the PCAOB that revealing “key engagement statistics” about the auditor would provide report readers with a sense of the auditor’s level of expertise as well as the audit team’s accumulated knowledge of the client (PCAOB 2011). Noted among those requested statistics is length of the auditor-client relationship. The crux of the audit tenure debate is how the disclosure will be perceived by report readers and what inferences about auditor independence may develop as a result of revealing this information (Knechel et al. 2013). Francis (2004) suggests that audit firms have strong economic incentives and robust mechanisms to withstand management influence and maintain independence – mandatory rotation of audit partners and managers, engagement quality review partners, audit committee control over continuance, PCAOB inspection and enforcement, and avoidance of reputation damage and
costly litigation. While independence can be monitored and controlled through aforementioned
regulation and audit firms incentives, it is not possible to generate client-specific expertise prior
to engaging a client. Obtaining this knowledge base is integral because it is noted to have
substantial positive effects on the quality of the financial statement audit. For example, increased
auditor competence promotes efficiency in assessment of audit risk, detection of misstatements,
discovery of internal control deficiencies, performance of analytical procedures, and adherence
to professional auditing and accounting standards (Knechel et al. 2013). That said, even if
lengthy audit tenure results in auditors rebuffing their own incentives and mechanisms and
establishing an inappropriate relationship with a client, the impact of lost professional skepticism
is likely offset by accumulated audit knowledge (Lim and Tan 2010).

The PCAOB remains agnostic on how its proposed audit tenure disclosure in the audit
report may benefit the decision-making of investors (PCAOB 2013). Further, inconsistent
evidence in the audit quality literature suggests that a reader may react to tenure length
unpredictably. On one hand, exposure to length of tenure influences how a reader interprets
auditor competence; on the other hand, exposure to length of tenure also affects how a reader
assesses auditor independence. Most likely, length of tenure induces a reader to consider both
auditor attributes simultaneously – resulting in some trade-off between perceived independence
and competence (Knechel et al. 2013). However, the effect the trade-off has on judgments of the
auditor, auditor credibility, audit quality and related investment decisions is not fully
substantiated. Therefore, I make no prediction on the influence variation in tenure length will
have on the investment decisions of non-professional investors.³ Stated in the null, I predict:

³ Length of tenure is manipulated in this study at two levels – 2 and 25 years. For short tenure, 2 years was chosen to
establish continuity of two balance sheet audits. The average tenure length for the largest 100 and 500 publicly
traded companies (based on market capitalization) in the United States is approximately 28 and 21 years
(respectively); thus, 25 years was chosen for long tenure (PCAOB 2011).
**H2:** Variation in the length of tenure in the audit report will have no impact on the investment decisions of non-professional investors.

**Interaction of Auditor Independence and Tenure Disclosures**

Again, in the PCAOB’s ARM proposal, the Board asserts that the new elements to be included in the audit report are in fact “similar to an indication of the character of the auditor’s work,” (PCAOB 2013, A5-4). However, how non-professional investors will respond to simultaneous exposure of the auditor’s responsibility to remain independent and variation in length of auditor tenure is unsubstantiated. Following the findings of Ghosh and Moon (2005), I anticipate that a disclosure explaining auditor independence in the audit report accompanied by a tenure length disclosure will result in non-professional investors viewing the combined disclosures as increasing independence while simultaneously dictating how a non-professional investor views auditor competence. Working together, I expect that a long tenure disclosure will strengthen perception of competence while an accompanying independence explanation will curb any uncertainty a report reader has with long tenure affecting the auditor’s obligation to remain independent of management, which will result in a more positive effect on investment than when short tenure is disclosed alongside an independence explanation. Formally, I predict:

**H3:** Disclosing long tenure alongside an independence disclosure will result in more positive investment by non-professional investors compared to when short tenure is disclosed.

**Interaction of Auditor Independence, Auditor Tenure, and Critical Audit Matters Disclosures**

The PCAOB (as well as other audit regulators) believes that disseminating additional information on subjective, complex auditor judgment will help report readers focus on the financial statement areas that were noted as challenging to the auditor. In turn, the discussion
would allow investors to evaluate more closely the associated financial statement accounts, which should also increase the communicative value of the audit report for investment decisions (PCAOB 2013). Similarly, while each describes a laundry-list of changes they believe are requisite for the critical audit matters disclosure, the Big Four and the CAQ agree that the disclosure is appropriate for and relevant to the audit report.

The PCAOB’s proposed revision to the audit report regarding critical audit matter discussion has two distinct parts. The first part is a paragraph which sets forth that the auditor must communicate his/her requirement to report critical audit matters or otherwise state that there are no critical audit matters. The paragraph then proceeds to describe critical audit matters to report readers as “those matters addressed during the audit that (1) involved the most difficult, subjective, or complex auditor judgments; (2) posed the most difficulty to the auditor in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to the auditor in forming the opinion on the financial statements,” (PCAOB 2013, 15). The second part of the CAM disclosure is a separate paragraph that acknowledges and discusses the critical audit matter or alternatively a statement from the auditor that reports there is no critical audit matter.

Regarding accounting research surrounding the PCAOB’s proposed ARM standard, most of the fanfare has been concentrated on the disclosure of critical audit matters. Backof, Bowlin, and Goodson (2014) find that discussing critical audit matters in the audit report influences jurors insomuch that they are more likely to find that auditors are negligent in an audit when the audit report identifies and discloses procedures that are performed to address critical audit matters. Brasel, Doxey, Grenier, and Reffett (2016) suggest that critical audit matters can actually provide litigation protection to auditors due to enhancing a juror’s ability to recognize a plaintiff’s foreseeability of misstatement. In contrast, while Brown, Majors, and Peecher (2014)
find that critical audit matters do not have an adverse effect on increasing juror damage awards, the authors note that disclosing critical audit matters to jurors reduces their negligence assessments of auditors. Related to non-professional investors, Kachelmeier, Schmidt, and Valentine (2014) find that non-professional investor perception of auditor responsibility and liability for a misstatement is curbed when CAM disclosures match the area of the misstatement. In addition, the authors discover that CAM disclosures result in lower financial statement user confidence in the financial statement area associated with the CAM. Evidence from Christensen et al. (2014) also suggests that the presence of CAMs in the audit report influences the judgment and decision-making of non-professional investors. The authors note that a non-professional investor is less likely to invest in a company when it receives an audit report with a CAM paragraph relative to a CAM explained through a management footnote. Assumptions of the study infer that non-professional investors attribute higher credibility to an auditor as a source of information; as such, when negative information is provided by an auditor (as opposed to management), they attend to the negative information more. This results in a reduction of investment.

Limited accounting research exists to describe how report readers will react to the audit report containing both critical audit matters as well as information that defines the character of the auditor. However, the extant psychology and accounting literature on credibility suggests information sources that exhibit traits of strong independence and competence are noted by information users as more credible. Similarly, the audit quality literature indicates that audit quality is underpinned by robust traits of auditor independence and competence. The PCAOB acknowledges that the disclosures proposed in the ARM reflect characteristics of the auditor and
his/her work (PCAOB 2013). As such, I expect that revealing these characteristics in concert with the communication of a critical audit matter will influence investment decisions.

As previously discussed, the PCAOB presumes that disclosing the auditor’s obligation to be independent in the audit report will enhance a report reader’s understanding and awareness of auditor independence. Christensen et al. (2014) suggest discussing CAMs in the audit report results in non-professional investors reducing their investment – as a result of participants attending to negative information more because the information source is perceived as both more independent and credible. Following exposure to the auditor independence disclosure, I anticipate that non-professional investors will exude greater confidence in auditor independence, auditor credibility, and audit quality. As a result of the auditor appearing more truthful to an investor in reporting information, the critical audit matter will become more salient. As such, I anticipate that the presence of the independence disclosures alongside the CAM disclosure will result in less positive investment compared to when the independence disclosure is absent from the audit report.

Exposure to the auditor tenure disclosure will also likely influence investor judgments of auditor independence, auditor competence, auditor credibility, and audit quality. However, I expect that investors will use length of auditor tenure to assess auditor competence surrounding the critical audit matter and not necessarily to assess auditor independence. I presume that investor attention will focus on auditor competence because an investor may assume an auditor is inherently independent if the auditor discloses a critical audit matter. As such, the relative strength of the auditor competence attribute will likely influence the impact a CAM disclosure has on non-professional investor investment decision-making. I anticipate that long tenure will likely spur higher perception of auditor competence, auditor credibility, and audit quality thereby
reducing the salience of the CAM. In turn, more positive investment will occur when tenure is long compared to when it is short. Formally:

**H4a:** The disclosure of the auditor’s obligation to remain independent in the audit report alongside a critical audit matter disclosure will result in less positive investment compared to when the audit report does not disclose the auditor’s obligation to remain independent.

**H4b:** The disclosure of long tenure in the audit report alongside a critical audit matter disclosure will result in more positive investment compared to when short tenure is disclosed.

**Additional Analyses**

As previously noted, prior psychology and accounting literature suggests that non-professional investor judgments about auditor credibility and audit quality are likely altered if certain auditor characteristics are revealed in the audit report. The PCAOB’s proposed disclosures will map directly to auditor attributes of independence and competence and thus will presumably influence perceptions of the auditor’s credibility and the quality of his/her work. It is important to also examine these potential effects for a variety of reasons. First and foremost, the PCAOB requests feedback on whether or not any unintended consequences may arise as a result of revealing information about the auditor in an effort to inform the Board prior to the finalization (or re-proposal) of the ARM standard. Also, the Big Four and the CAQ specifically insinuate that disclosing auditor tenure in the audit report will negatively impact perceived auditor independence and as a result audit quality. Further, prior accounting literature is mixed on the influence lengthy tenure has on perception of the audit as well as the auditors. The contextual setting of this study allows for an opportunity to explore how judgments of auditor
characteristic link to judgments of auditor credibility and audit quality but ultimately how those judgments directly and indirectly spur investment decisions.

Therefore, after exposure to the treatment conditions, I capture non-professional investor judgments of auditor independence and auditor competence as well as auditor credibility and audit quality. In separate supplemental analyses, I examine the conditional direct effects that judgments of independence and competence have on the extent of investment, where I also examine the conditional indirect effects the judgments of independence and competence have the extent of investment as mediated through judgments of auditor credibility and audit quality. I complete this analysis using Hayes (2013)’s moderated-mediation PROCESS model.⁴

Although not formally hypothesized, I propose that judgments of auditor competence will moderate the direct effect of auditor independence on investment decisions as well as the indirect effect of auditor independence judgments through both auditor credibility and audit quality on investment decisions. Following Ghosh and Moon (2005), I believe the mediating influence of both auditor credibility and audit quality on investment decisions will become more robust for each as judgments of independence and competence grow stronger.

⁴ According to Hayes (2013), using a set of ordinary least square regressions (as employed by Hayes’ PROCESS model) for estimating observed mediation models is as appropriate as using structural equation modeling.
Figure 1
Conceptual Models of Auditor Characteristics, Auditor Credibility, and Audit Quality
Moderated-Mediation Analysis

![Diagram of Conceptual Models]

COMPETENCE

AUDITOR CREDIBILITY

INDEPENDENCE

INVESTMENT DECISION

COMPETENCE

AUDIT QUALITY

INDEPENDENCE

INVESTMENT DECISION
III. RESEARCH DESIGN

Participants

Participants for the study are recruited through Amazon’s Mechanical Turk (TURK) proprietary data collection service. Following prior research using TURK participants as non-professional investors in judgment and decision-making experiments (e.g., Koonce et al. 2015), I filter TURK participants by requiring they affirm that they have: 1) experience in reading financial statements and 2) completed at least two college level accounting and/or finance courses. After being filtered based on these criteria in Qualtrics, participants are routed into the experiment to complete the instrument. Total participants in the study came to 926, and each participant was compensated $1.00 for their participation – resulting in a $5.11 hourly rate.

Experimental Procedure

I employ a $3 \times (2 \times 2) \times 2$ mixed experimental design that manipulates three variables: independence disclosure, tenure disclosure, and critical audit matter disclosure. Specifically, the purpose of this study is to examine whether disclosures regarding financial statement auditor independence and tenure alter non-professional investor judgments of auditor characteristics insomuch that the disclosures influence judgments of the auditor and the audit and consequent

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5 TURK can yield high-quality data collection by custom screening participants for desired attributes (e.g., age, sex, experience). The service is capable of delivering many similar research benefits as using Masters of Business Administration (MBA) students as proxies for non-professional investors (Brandon, Long, Loraas, Mueller-Phillips, and Vansant 2014).

6 Using participants recruited from TURK, Koonce et al. (2015) replicate the results of non-professional investors’ reaction to management’s use of derivatives in Koonce, Lipe, and McAnally (2008), where the authors used MBA students as proxies for non-professional investors. As suggested by Brandon et al. (2014), Koonce et al. (2015) verify that if appropriate screening questions are employed when recruiting from TURK then the participants are reasonable proxies for non-professional investors.
investment decision-making. Therefore, I manipulate whether the audit report includes the PCAOB’s compliance-oriented “independence in appearance” definition, an alternate concept-oriented “independence of mind” definition, or no disclosure regarding the auditor’s requirement to be independent of its client. I also manipulate, between-participants, whether the audit report discloses auditor tenure. In addition, I manipulate the length of auditor tenure within-participants at two levels – long auditor tenure (25 years) or short auditor tenure (2 years). Finally, I manipulate, between-participants, whether the audit report includes disclosure of a critical audit matter or a disclosure that there is no critical audit matter.

The instrument first provides the participants with a short description of the study, its intentions, and the task. Upon accessing the instrument, participants receive basic background information concerning two hypothetical technology companies that are engaged in selling electronics to industrial consumers. Next, I provide specific financial statement information related to both companies – while implying that financial statement auditors would be attentive to these items. After reading the background material, participants receive two audit reports – one for each company. The version of the audit reports depends on the treatment to which each participant has been randomly assigned. The audit reports remain on the screen throughout the remainder of the experiment. Prior to answering the experimental task questions, participants must complete pre-manipulation checks designed to direct attention to the elements of the audit report.

7 The within-participants manipulation of auditor tenure length is counter-balanced in the task materials.

8 Of note, following the approach in Kachelmeier et al. (2014), participants receive relevant information related to the financial statements; however, they do not receive a full set of financial statements. I employ the same approach to create an environment that directs participant attention towards the information in the audit report, while still providing requisite financial statement information.
All versions of the report begin with the standard introductory paragraph; however, the structure of the report is manipulated thereafter. Following the introduction, a disclosure defining auditor independence is inserted and emphasized (absent in the control group) with an appended sentence at the end disclosing auditor tenure of 2 or 25 years (absent in the control group), which is also emphasized. Next, the basis of the opinion and a clean audit opinion are presented, and the opinion is emphasized. Last, additional information in the form of a critical audit matter is presented and emphasized (absent in the control group) preceded by the PCAOB’s language identifying the requirement to communicate the critical audit matter in the audit report.

Participants answer experimental task questions while viewing both audit reports concurrently. These questions are designed to gauge their judgments of the auditor and the audit as well as their investment decision-making process. Questions pertaining to participant demographics follow.

**Manipulated variables**

*Auditor Independence*

I manipulate the *independence disclosure* in the audit report between participants across three conditions: 1) maintaining the current practice indicating an auditor’s independence in the report title only; 2) presenting a compliance-oriented “independence in appearance” disclosure (i.e., as proposed by the PCAOB’s ARM); and 3) presenting a concept-oriented “independence of mind” disclosure (i.e., as described by the AICPA’s Code of Conduct).

The independence definition in the independence in appearance condition is “We are a public accounting firm registered with the Public Company Accounting Oversight Board (‘PCAOB’) (United States) and are required to be independent with respect to the [Company]

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9 See Appendix A for examples of the experimental task.
in accordance with the United States federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission (“SEC”) and the PCAOB.” In the independence of mind condition the verbiage employed is “We are a public accounting firm registered with the Public Company Accounting Oversight Board (“PCAOB”) (United States) and are required to be independent in performing an audit without being affected by influences that compromise professional judgment, thereby allowing the firm to act with integrity and exercise objectivity and professional skepticism.”

**Auditor Tenure**

I manipulate the tenure disclosure between participants across two conditions as follows: 1) maintaining current practice that does not indicate auditor tenure and 2) presenting an audit tenure length disclosure. I also manipulate the length of the tenure across two levels within-participants, such that reported auditor tenure is two and twenty-five years – this manipulation is counterbalanced in the instrument. In the tenure absent condition, the length of tenure is not disclosed in the audit report or otherwise made known to participants. Specifically, in the tenure disclosure present treatment, tenure is disclosed as: “We or our predecessor firms have served as the [Company’s] auditor consecutively since 2013 (1990).”

**Critical Audit Matters**

Following the PCAOB’s language discussing the auditor’s requirement to communicate critical audit matters in the audit report, I manipulate the critical audit matter disclosure between participants under two conditions: 1) presenting a CAM disclosure (e.g., obsolescence of inventory) and 2) presenting a statement that there is no CAM to disclose (e.g., stating that the auditor determined there are no critical audit matters). The Board’s suggested required statement
for non-disclosure of a critical audit matter is “We determined that there are no critical audit matters.” The disclosure of the critical audit matter is presented as follows:

Critical Audit Matter: We determined that our evaluation of the Company’s inventory value was a critical audit matter in the audit of the Company’s financial statement as of and for the fiscal year ended December 31, 2014. Considerations that led to our determination included the following: The Company continues to experience increased competition with its “first generation” products which reduced revenue growth, sales prices and profitability. Because of these considerations, our assessment of the Company’s evaluation of the inventory value: (1) involved subjective auditor judgments in evaluating whether management’s judgments regarding the weight given to evidence of value is appropriate and (2) involved difficult auditor judgments in designing audit procedures to test the data underlying management’s impairment valuation.

Dependent Measures

To assess the influence of the proposed disclosures, I request participants rate their perceptions of auditor independence and competence based on the information communicated in the audit reports. Further, I request that participants make judgments concerning the credibility of the auditor and the quality of the audit. In addition, I ask the participants to opine on the informativeness of the audit report in their investment decisions. Last, I ask participants to make decisions regarding the likelihood they would invest in similar stocks of real companies as well as how they would allocate a hypothetical investment sum of $10,000 between the two respective auditees. Each of these judgments and/or decisions is captured using an 11 point Likert scale.

10 Experimental task questions follow Lowe and Pany (1995).
Pre-Manipulation Checks

In the pre-experimental questionnaire, I ask participants to answer two questions designed to assess their qualifications as a non-professional investor. Following the assessment, participants are required to identify the fiscal years under audit as well as the names of the two hypothetical companies and their respective auditing firms. Participants are then directed to identify the location of the CAM disclosure in the audit report. Depending upon the treatments each participant receives through random assignment, participants next identify the location of the independence disclosure as well as confirm the years of the audit-client relationship disclosed in the respective audit reports. Participants cannot proceed without answering all of the questions correctly.
IV. RESULTS

Demographics

Table 1 presents participant demographics. Of the 926 participants, 57 percent are male, 43 percent are female, and the majority are between the ages of 26 and 44 (59 percent). Over 80 percent of the participants indicate they have obtained a college degree, with 23 percent indicating some post-graduate study. Regarding occupation, 32 percent of participants specify their profession as related to finance or accounting, while 43 percent of participants state that they have 10 plus years of professional experience. In terms of trading activity, 399 of the participants (43 percent) indicate that they actively trade in a brokerage account.\(^\text{11}\)

\(^{11}\) In separate ANOVA tests, no significant relationships are noted between the participants’ provided demographic information and any of the dependent variables of interest.
<table>
<thead>
<tr>
<th>Participants</th>
<th>926</th>
<th>100%</th>
<th>Occupation Description</th>
<th>198</th>
<th>21%</th>
</tr>
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<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td>Accounting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>396</td>
<td>43%</td>
<td>Finance</td>
<td>98</td>
<td>11%</td>
</tr>
<tr>
<td>Male</td>
<td>530</td>
<td>57%</td>
<td>Management</td>
<td>168</td>
<td>18%</td>
</tr>
<tr>
<td>Age (Years)</td>
<td></td>
<td></td>
<td>Marketing</td>
<td>57</td>
<td>6%</td>
</tr>
<tr>
<td>18 – 25</td>
<td>172</td>
<td>19%</td>
<td>Operations/Production</td>
<td>109</td>
<td>12%</td>
</tr>
<tr>
<td>26 – 34</td>
<td>375</td>
<td>40%</td>
<td>Human Resources</td>
<td>53</td>
<td>6%</td>
</tr>
<tr>
<td>35 – 44</td>
<td>175</td>
<td>19%</td>
<td>Customer Service</td>
<td>106</td>
<td>11%</td>
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<tr>
<td>45 – 54</td>
<td>132</td>
<td>14%</td>
<td>Other</td>
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<td>15%</td>
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<tr>
<td>55 – 64</td>
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<td>6%</td>
<td>Active Trader</td>
<td></td>
<td></td>
</tr>
<tr>
<td>65 +</td>
<td>16</td>
<td>2%</td>
<td>Yes</td>
<td>399</td>
<td>43%</td>
</tr>
<tr>
<td>No</td>
<td>527</td>
<td>57%</td>
<td></td>
<td></td>
<td></td>
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<td>Professional Experience</td>
<td>Evaluate financial statements</td>
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<td></td>
<td></td>
<td></td>
</tr>
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<td>Rarely</td>
<td>37</td>
<td>9%</td>
<td></td>
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<tr>
<td>179</td>
<td>19%</td>
<td>Occasionally</td>
<td>118</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>219</td>
<td>24%</td>
<td>Usually</td>
<td>144</td>
<td>36%</td>
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<tr>
<td>142</td>
<td>15%</td>
<td>Always</td>
<td>100</td>
<td>25%</td>
<td></td>
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<tr>
<td>94</td>
<td>10%</td>
<td></td>
<td>48</td>
<td>5%</td>
<td></td>
</tr>
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<td>62</td>
<td>8%</td>
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<td>26</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Over 30</td>
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<td>5%</td>
<td>Evaluate the audit report</td>
<td>108</td>
<td>27%</td>
</tr>
<tr>
<td>Less than College</td>
<td>31</td>
<td>3%</td>
<td>Rarely</td>
<td>108</td>
<td>27%</td>
</tr>
<tr>
<td>Some College</td>
<td>134</td>
<td>14%</td>
<td>Occasionally</td>
<td>141</td>
<td>35%</td>
</tr>
<tr>
<td>College Graduate</td>
<td>550</td>
<td>59%</td>
<td>Usually</td>
<td>93</td>
<td>23%</td>
</tr>
<tr>
<td>Some Postgraduate</td>
<td>47</td>
<td>5%</td>
<td>Always</td>
<td>57</td>
<td>14%</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>164</td>
<td>18%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Consistent with Koonce et al. (2015), of the total 926 participants, all verify that they have experience reading financial statements and have taken at least two college-level accounting or finance classes.

b. Participants indicated that they actively trade in a brokerage account.
Non-professional Investors’ Investment Decision-Making

Tests of H1a and H1b

To present the study’s analysis, the means for all experimental treatments are presented in Table 2; however, for all tests of formal hypotheses, the means are presented in Tables 3 and 5. In H1a and H1b, I predict that the presence of the PCAOB’s proposed independence disclosure in the audit report will result in more positive investment than when it is absent from the report, and also that the PCAOB’s proposed compliance-oriented “independence in appearance” definition will result in less positive investment than that of a concept-oriented “independence of mind” definition of independence. Tables 3 and 4 present the means and related standard deviations as well as the analysis of variance (ANOVA) model tests of the participants’ investment decision-making. In this test, the dependent variable, investment decision, is the likelihood the participant would invest separately in the two companies.¹²

The full ANOVA model in Table 4 indicates that participants do invest more \( (F_{1,918} = 3.56; p = 0.06) \) when exposed to the auditor’s independence disclosure in the audit report \( (\text{mean} = 5.099) \) versus when it is absent \( (\text{mean} = 4.869) \). To further test H1a, I analyze a restricted sample that only includes participant observations unexposed to tenure length and results in Tables 3 and 4 consistently indicate that the presence of the independence disclosure has a significant positive effect on investment decisions \( (F_{1,291} = 5.56; p = 0.02) \) compared to when the disclosure is absent \( (\text{mean} = 5.230 \text{ vs.} 4.599) \). Thus, H1a is confirmed – the presence of an auditor independence disclosure in the audit report results in higher investment versus when the

¹² Two separate investment dependent measures are employed in the study. The first measure “investment likelihood” is observed through the question “If you were approached to purchase company stock, what is the likelihood you would invest in a real company similar to Tracer, Corp. (Magna, Inc.)?” The second measure “investment allocation” is observed via the question “Assume that you are given $10,000 that you must invest. Considering the information contained in the respective audit reports, indicate how much of the $10,000 you would invest between Tracer, Corp. and Magna, Inc.?”
disclosure is absent from the report. This implies that providing information about the auditor’s obligation to remain independent of its client significantly influences an investor’s willingness to invest in an auditee.
TABLE 2
Judgment and Decision-Making: Means (Standard Deviation) by Treatment

<table>
<thead>
<tr>
<th>PANEL A: CAM PRESENT</th>
<th>Independence Disclosure</th>
<th>Independence Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Absent</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td>Tenure Present</td>
<td>Tenure Absent</td>
</tr>
<tr>
<td></td>
<td>Years</td>
<td>2 Years</td>
</tr>
<tr>
<td></td>
<td>n = 107</td>
<td>n = 107</td>
</tr>
<tr>
<td></td>
<td>n = 51</td>
<td>n = 227</td>
</tr>
<tr>
<td></td>
<td>n = 93</td>
<td></td>
</tr>
<tr>
<td>Investment Likelihood(^a)</td>
<td>4.850 (2.558)</td>
<td>4.820 (2.576)</td>
</tr>
<tr>
<td>Investment Allocation(^b)</td>
<td>5.130 (1.615)</td>
<td>-0.529(^h) (2.493)</td>
</tr>
<tr>
<td>Independence(^c)</td>
<td>6.640 (2.295)</td>
<td>6.304 (2.542)</td>
</tr>
<tr>
<td>Competence(^d)</td>
<td>7.230 (2.117)</td>
<td>6.676 (2.114)</td>
</tr>
<tr>
<td>Report Informativeness(^e)</td>
<td>5.830 (2.549)</td>
<td>5.265 (2.450)</td>
</tr>
<tr>
<td>Auditor Credibility(^f)</td>
<td>6.790 (2.342)</td>
<td>6.284 (2.239)</td>
</tr>
<tr>
<td>Audit Quality(^g)</td>
<td>6.930 (2.111)</td>
<td>6.343 (2.106)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PANEL B: CAM PRESENT</th>
<th>Compliance-Oriented &quot;Independence in Appearance&quot;</th>
<th>Concept-Oriented &quot;Independence of Mind&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tenure Present</td>
<td>Tenure Present</td>
</tr>
<tr>
<td></td>
<td>25 Years</td>
<td>2 Years</td>
</tr>
<tr>
<td></td>
<td>n = 138</td>
<td>n = 138</td>
</tr>
<tr>
<td></td>
<td>n = 49</td>
<td>n = 89</td>
</tr>
<tr>
<td></td>
<td>n = 44</td>
<td></td>
</tr>
<tr>
<td>Investment Likelihood(^a)</td>
<td>4.910 (2.691)</td>
<td>5.041 (1.898)</td>
</tr>
<tr>
<td>Investment Allocation(^b)</td>
<td>5.250 (1.418)</td>
<td>0.020 (1.831)</td>
</tr>
<tr>
<td>Independence(^c)</td>
<td>7.050 (2.239)</td>
<td>7.714 (1.837)</td>
</tr>
<tr>
<td>Competence(^d)</td>
<td>7.300 (7.780)</td>
<td>7.643 (1.900)</td>
</tr>
<tr>
<td>Report Informativeness(^e)</td>
<td>6.350 (6.350)</td>
<td>6.235 (1.900)</td>
</tr>
</tbody>
</table>
### Auditor Credibility

<table>
<thead>
<tr>
<th></th>
<th>2.502</th>
<th>(2.561)</th>
<th>(2.907)</th>
<th>(2.719)</th>
<th>(2.537)</th>
<th>(3.020)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.310</td>
<td>7.410</td>
<td>7.408</td>
<td>7.430</td>
<td>7.480</td>
<td>7.773</td>
</tr>
</tbody>
</table>

### Audit Quality

<table>
<thead>
<tr>
<th></th>
<th>2.075</th>
<th>(2.049)</th>
<th>(1.612)</th>
<th>(1.959)</th>
<th>(2.041)</th>
<th>(2.221)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.170</td>
<td>7.270</td>
<td>7.510</td>
<td>7.430</td>
<td>7.250</td>
<td>7.705</td>
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</tbody>
</table>

#### PANEL C: CAM ABSENT

<table>
<thead>
<tr>
<th></th>
<th>Independence Disclosure</th>
<th>Independence Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tenure Present</td>
<td>Tenure Absent</td>
</tr>
<tr>
<td></td>
<td>Tenure Present</td>
<td>Tenure Absent</td>
</tr>
<tr>
<td></td>
<td>25 Years</td>
<td>2 Years</td>
</tr>
<tr>
<td>Independence Disclosure</td>
<td>n = 100</td>
<td>n = 100</td>
</tr>
<tr>
<td></td>
<td>n = 55</td>
<td>n = 197</td>
</tr>
<tr>
<td></td>
<td>n = 96</td>
<td>n = 96</td>
</tr>
<tr>
<td>Investment Likelihood</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Allocation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Independence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Report Informativeness</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditor Credibility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Quality</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### PANEL D: CAM ABSENT

|                         | Compliance-Oriented "Independence in Appearance" | Concept-Oriented "Independence of Mind"
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tenure Present</td>
<td>Tenure Present</td>
</tr>
<tr>
<td></td>
<td>25 Years</td>
<td>25 Years</td>
</tr>
<tr>
<td></td>
<td>2 Years</td>
<td>2 Years</td>
</tr>
<tr>
<td></td>
<td>2 Years</td>
<td>2 Years</td>
</tr>
<tr>
<td></td>
<td>n = 96</td>
<td>n = 96</td>
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<tr>
<td></td>
<td>n = 48</td>
<td>n = 101</td>
</tr>
<tr>
<td></td>
<td>n = 48</td>
<td>n = 101</td>
</tr>
<tr>
<td>Investment Likelihood</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Allocation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Independence</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

40
<table>
<thead>
<tr>
<th></th>
<th>7.720</th>
<th>7.580</th>
<th>7.958</th>
<th>7.530</th>
<th>7.630</th>
<th>7.198</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(2.246)</td>
<td>(2.347)</td>
<td>(1.771)</td>
<td>(2.037)</td>
<td>(1.891)</td>
<td>(2.434)</td>
</tr>
<tr>
<td>Competence$^d$</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Report Informativeness$^e$</td>
<td>6.080</td>
<td>6.010</td>
<td>5.677</td>
<td>5.260</td>
<td>5.480</td>
<td>5.948</td>
</tr>
<tr>
<td></td>
<td>(2.890)</td>
<td>(2.755)</td>
<td>(2.944)</td>
<td>(2.763)</td>
<td>(2.873)</td>
<td>(2.542)</td>
</tr>
<tr>
<td>Auditor Credibility$^f$</td>
<td>7.460</td>
<td>7.410</td>
<td>7.813</td>
<td>7.360</td>
<td>7.300</td>
<td>7.292</td>
</tr>
<tr>
<td></td>
<td>(2.436)</td>
<td>(2.614)</td>
<td>(1.782)</td>
<td>(2.184)</td>
<td>(2.270)</td>
<td>(2.381)</td>
</tr>
<tr>
<td>Audit Quality$^g$</td>
<td>7.400</td>
<td>7.600</td>
<td>7.896</td>
<td>7.310</td>
<td>7.230</td>
<td>6.729</td>
</tr>
<tr>
<td></td>
<td>(2.408)</td>
<td>(2.324)</td>
<td>(1.795)</td>
<td>(2.068)</td>
<td>(2.083)</td>
<td>(2.825)</td>
</tr>
</tbody>
</table>

a. The dependent measure requests that participants provide the likelihood of investing in two real companies similar to the hypothetical companies in the experimental materials.
b. The dependent measure requests that participants allocate an investment sum of $10,000 between the two hypothetical companies.
c. The dependent measure requests that the participants indicate their confidence that the respective auditor was independent in performing the audit.
d. The dependent measure requests that the participants indicate their confidence that the respective auditor was competent in performing the audit.
e. The dependent measure requests that the participants indicate how informative the audit report was in their investment decisions.
f. The dependent measure requests that the participants indicate their confidence that the auditor was a credible information source.
g. The dependent measure requests that the participants indicate their confidence that the audit was of high quality.
h. Means and standard deviations calculated using difference score of repeated measures investment allocation.
TABLE 3  
Investment: Means (Standard Deviation) for H1a, H1b

<table>
<thead>
<tr>
<th>Variables</th>
<th>H1a: Independence Disclosure&lt;sup&gt;c&lt;/sup&gt;</th>
<th>H1b: Independence Definition</th>
<th>Tenure Disclosure&lt;sup&gt;c&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Absent</td>
<td>Present</td>
<td>Compliance</td>
</tr>
<tr>
<td>Investment Likelihood&lt;sup&gt;a&lt;/sup&gt;</td>
<td>4.869 (2.312)</td>
<td>5.099 (2.380)</td>
<td>5.118 (2.442)</td>
</tr>
<tr>
<td>Investment Allocation&lt;sup&gt;b,f&lt;/sup&gt;</td>
<td>0.216 (3.263)</td>
<td>0.196 (2.799)</td>
<td>0.275 (2.777)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variables</th>
<th>H1a: Independence Disclosure&lt;sup&gt;d&lt;/sup&gt;</th>
<th>H1b: Independence Definition&lt;sup&gt;e&lt;/sup&gt;</th>
<th>CAM Disclosure&lt;sup&gt;c&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Absent</td>
<td>Present</td>
<td>Compliance</td>
</tr>
<tr>
<td>Investment Likelihood&lt;sup&gt;a&lt;/sup&gt;</td>
<td>4.599 (2.209)</td>
<td>5.230 (2.198)</td>
<td>5.345 (2.044)</td>
</tr>
<tr>
<td>Investment Allocation&lt;sup&gt;b,f&lt;/sup&gt;</td>
<td>-0.342 (2.753)</td>
<td>0.102 (1.690)</td>
<td>0.052 (1.716)</td>
</tr>
</tbody>
</table>

a. The dependent measure requests that participants provide the likelihood of investing in two real companies similar to the hypothetical companies in the experimental materials.
b. The dependent measure requests that participants allocate an investment sum of $10,000 between the two hypothetical companies.
c. Means and standard deviations calculated using full sample of 926 participant observations.
d. Means and standard deviations calculated using restricted sample (295 participant observations), where tenure is not disclosed to participants.
e. Means and standard deviations calculated using the previous restricted sample, further restricted by the presence of the independence disclosure.
f. Means and standard deviations calculated using difference score of repeated measures investment allocation.
TABLE 4  
ANOVA: Investment Decision-Making for Between-Participants Effects

<table>
<thead>
<tr>
<th></th>
<th>df</th>
<th>Mean Square</th>
<th>F-stat</th>
<th>p-value&lt;sup&gt;c&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence Disclosure</td>
<td>1</td>
<td>19.74</td>
<td>3.56</td>
<td>0.06</td>
</tr>
<tr>
<td>Tenure Disclosure</td>
<td>1</td>
<td>2.51</td>
<td>0.45</td>
<td>0.50</td>
</tr>
<tr>
<td>CAM Disclosure</td>
<td>1</td>
<td>16.79</td>
<td>3.03</td>
<td>0.08</td>
</tr>
<tr>
<td>Independence Disclosure × Tenure Disclosure</td>
<td>1</td>
<td>16.29</td>
<td>2.94</td>
<td>0.09</td>
</tr>
<tr>
<td>Independence Disclosure × CAM Disclosure</td>
<td>1</td>
<td>0.87</td>
<td>0.16</td>
<td>0.69</td>
</tr>
<tr>
<td>Tenure Disclosure × CAM Disclosure</td>
<td>1</td>
<td>1.20</td>
<td>0.22</td>
<td>0.64</td>
</tr>
<tr>
<td>Independence × Tenure × CAM</td>
<td>1</td>
<td>7.32</td>
<td>1.32</td>
<td>0.25</td>
</tr>
<tr>
<td>Error</td>
<td>918</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Investment Likelihood - Restricted Sample (DV)<sup>b</sup>

<table>
<thead>
<tr>
<th></th>
<th>df</th>
<th>Mean Square</th>
<th>F-stat</th>
<th>p-value&lt;sup&gt;c&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence Disclosure</td>
<td>1</td>
<td>26.76</td>
<td>5.56</td>
<td>0.02</td>
</tr>
<tr>
<td>CAM Disclosure</td>
<td>1</td>
<td>10.04</td>
<td>2.09</td>
<td>0.15</td>
</tr>
<tr>
<td>Independence Disclosure × CAM Disclosure</td>
<td>1</td>
<td>4.93</td>
<td>1.02</td>
<td>0.31</td>
</tr>
<tr>
<td>Error</td>
<td>291</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> The dependent measure requests that participants provide the likelihood of investing in two real companies similar to the hypothetical companies in the experimental materials. The results of the first between-participants test are calculated using the experiment's full sample of 926 participant observations.

<sup>b</sup> The results of the second between-participants test are calculated using a restricted sample (295 participant observations) from the experiment, where tenure is not disclosed to participants.

<sup>c</sup> All p-values are two-tailed unless otherwise noted.
In a separate untabulated ANOVA model, I examine the marginal means of the investment decision through pairwise comparisons and find no support for the predicted effect of H1b that a compliance-oriented “independence in appearance” definition will result in a less positive investment than a concept-oriented “independence of mind” definition ($F_{1,605} = 0.32; \ p = 0.57; \ \text{mean} = 5.118 \ \text{vs.} \ 5.076$). This suggests that variation in the audit report’s auditor independence description does not lead non-professional investors to significantly alter their investment decision-making. Thus, I find no support for Support Theory in the experiment by failing to reject H1b.

**Tests of H2**

In H2, I predict that variations in tenure length will have no impact on investment decisions. As reported in Table 6, support from the ANOVA within-participants test leads to rejecting H2 on two different investment dependent variables. The first dependent measure is participants’ assessment of the likelihood they would invest in two real companies similar to the hypothetical companies presented in the experimental materials, which differed in the length of disclosed audit tenure. The results of the ANOVA model report a significant p-value ($F_{1,627} = 3.90; \ p = 0.05$) where cell means in Table 5 indicate longer tenure length is associated with more positive investment likelihood than shorter tenure length (mean: 5.090 vs. 4.970). The second measured investment variable is participants’ allocation of $10,000 between the two hypothetical companies. This allocation also demonstrates a statistically significant effect of tenure length on the investment decision-making process of non-professional investors ($F_{1,627} = 6.98; \ p < 0.01$). Means reported in Table 5 indicate that long tenure has a more positive effect on investment allocation than short tenure (mean = 5.160 vs. 4.840). This finding is of particular importance
because it suggests that companies with longer tenured auditors are a more appealing investment (versus those with shorter tenured auditors) to non-professional investors.
TABLE 5
Investment: Means (Standard Deviation) for H2, H3, H4a, H4b

<table>
<thead>
<tr>
<th>Variables</th>
<th>H2: Tenure Length&lt;sup&gt;c&lt;/sup&gt;</th>
<th>H3: Independence Disclosure Present&lt;sup&gt;c&lt;/sup&gt;</th>
<th>H4b: CAM Disclosure Present&lt;sup&gt;c&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25 years n = 631</td>
<td>25 Year Tenure n = 424</td>
<td>25 Year Tenure n = 334</td>
</tr>
<tr>
<td>Investment Likelihood&lt;sup&gt;a&lt;/sup&gt;</td>
<td>5.090 (2.586)</td>
<td>5.080 (2.620)</td>
<td>4.980 (2.556)</td>
</tr>
<tr>
<td></td>
<td>4.970 (2.529)</td>
<td>5.000 (2.565)</td>
<td>4.920 (2.558)</td>
</tr>
<tr>
<td>Investment Allocation&lt;sup&gt;b&lt;/sup&gt;</td>
<td>5.160 (1.635)</td>
<td>5.120 (1.586)</td>
<td>5.190 (1.479)</td>
</tr>
<tr>
<td></td>
<td>4.840 (1.635)</td>
<td>4.880 (1.586)</td>
<td>4.810 (1.479)</td>
</tr>
</tbody>
</table>

|                                  | 2 years n = 631               | 2 Year Tenure n = 424                        | 2 Year Tenure n = 334                  |

<table>
<thead>
<tr>
<th>H4a: CAM Disclosure Present&lt;sup&gt;d&lt;/sup&gt;</th>
<th>Ind. Absent n = 158</th>
<th>Ind. Present n = 320</th>
<th>Ind. Absent n = 106</th>
<th>Ind. Present n = 189</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Likelihood&lt;sup&gt;a&lt;/sup&gt;</td>
<td>4.741 (2.327)</td>
<td>4.539 (2.073)</td>
<td>4.898 (2.108)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4.969 (2.337)</td>
<td>(2.073) (2.108)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Allocation&lt;sup&gt;b, e&lt;/sup&gt;</td>
<td>0.004 (3.026)</td>
<td>-0.053 (2.493)</td>
<td>-0.009 (1.803)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.307 (2.578)</td>
<td>(2.493) (1.803)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> The dependent measure requests that participants provide the likelihood of investing in two real companies similar to the hypothetical companies in the experimental materials.

<sup>b</sup> The dependent measure requests that participants allocate an investment sum of $10,000 between the two hypothetical companies.

<sup>c</sup> Means and standard deviations calculated using repeated measures investment allocation.

<sup>d</sup> Means and standard deviations calculated using restricted sample (295 participant observations), where tenure is not disclosed to participants.

<sup>e</sup> Means calculated using difference score of repeated measures investment allocation.
## TABLE 6
**ANOVA: Investment Decision-Making for Within-Participants Treatment Effects**

<table>
<thead>
<tr>
<th>Investment Likelihood (DV)&lt;sup&gt;a&lt;/sup&gt;</th>
<th>df</th>
<th>Mean Square</th>
<th>F-stat</th>
<th>p-value&lt;sup&gt;c&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenure Length</td>
<td>1</td>
<td>5.23</td>
<td>3.90</td>
<td>0.05</td>
</tr>
<tr>
<td>Tenure Length × Independence Disclosure</td>
<td>1</td>
<td>0.89</td>
<td>0.66</td>
<td>0.42</td>
</tr>
<tr>
<td>Tenure Length × CAM Disclosure</td>
<td>1</td>
<td>2.04</td>
<td>1.52</td>
<td>0.22</td>
</tr>
<tr>
<td>Tenure Length × Independence × CAM</td>
<td>1</td>
<td>1.78</td>
<td>1.33</td>
<td>0.25</td>
</tr>
<tr>
<td>Error</td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment Allocation (DV)&lt;sup&gt;b&lt;/sup&gt;</th>
<th>df</th>
<th>Mean Square</th>
<th>F-stat</th>
<th>p-value&lt;sup&gt;c&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
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<td>&lt; 0.01</td>
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<tr>
<td>Tenure Length × Independence Disclosure</td>
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<td>1.07</td>
<td>0.30</td>
</tr>
<tr>
<td>Tenure Length × CAM Disclosure</td>
<td>1</td>
<td>0.12</td>
<td>0.02</td>
<td>0.89</td>
</tr>
<tr>
<td>Tenure Length × Independence × CAM</td>
<td>1</td>
<td>15.00</td>
<td>2.81</td>
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<tr>
<td>Error</td>
<td>627</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

<sup>a</sup> The first repeated dependent measure requests that participants provide the likelihood of investing in two real companies similar to the hypothetical companies in the experimental materials.

<sup>b</sup> The second repeated measure dependent variable instructs participants to allocate $10,000 between the two hypothetical companies.

<sup>c</sup> All p-values are two-tailed unless otherwise noted.
Tests of H3, H4a, and H4b

I also predict interactions among the proposed disclosures. In H3, I predict that the independence disclosure will result in a more positive effect on investment by non-professional investors when disclosed tenure is long compared to when it is short. Results in Tables 5 and 6 provide no evidence of a significant interaction on either the investment likelihood dependent measure \( (F:1,627 = 0.66; p = 0.42) \) or the investment allocation dependent measure \( (F:1,627 = 1.07; p = 0.30) \) when tenure length and independence are disclosed together (mean = 5.080 vs 5.000 (investment likelihood); 5.120 vs. 4.880 (investment allocation)). Thus, H3 is not supported. This finding is interesting because it implies that describing auditor independence alongside lengthy auditor tenure (presumably an indicator of both independence and competence) does not induce a significant difference in investing behavior compared to when short tenure accompanies the independence disclosure (presumably a redundant indicator of independence).

In H4a, I predict the interaction between the independence disclosure and the presence of a CAM disclosure will result in less positive investment by non-professional investors than when the audit report does not disclose an independence statement. As noted in Tables 4 and 5, I do not find support that disclosing an independence statement in concert with a CAM in the audit report negatively impacts likelihood of investment significantly more than when an independence statement is absent in either the full \( (F:1,918 = 0.16; p = 0.69; \text{mean} = 4.969 \text{ vs. } 4.741) \) or the restricted sample \( (F:1,291 = 1.02; p = 0.31; \text{mean} = 4.898 \text{ vs } 4.539) \). In H4b, I predict the CAM disclosure will result in more positive investment by non-professional investors when tenure is long compared to when it is short. As presented in Tables 5 and 6, the results for both the investment likelihood measure \( (F:1,627 = 1.52; p = 0.22; \text{mean} = 4.980 \text{ vs. } 4.920) \) as well as the investment allocation measure \( (F:1,627 = 0.02; p = 0.89; \text{mean} = 5.190 \text{ vs. } 4.810) \) indicate
no support for the notion that a critical audit matter disclosure accompanied by disclosure of long
tenure results in a more positive investment compared to when tenure is short, which infers that
coupling negative information from a CAM with disclosures about an auditor’s independence
and competence has no significant impact on related investment decisions.

Non-professional Investor Judgments on Auditor Characteristics, Auditor Credibility, and
Audit Quality

Tables 7, 8, and 9 present the ANOVA models and cell means of the participants’
judgments on auditor independence, auditor competence, audit report informativeness, auditor
credibility, and audit quality. The means suggest that the presence of an independence disclosure
in the audit report has a statistically significant impact on participant judgments of auditor
characteristics regarding auditor independence ($F_{1,918} = 28.79; p < 0.01$) and auditor competence
($F_{1,918} = 15.68; p < 0.01$), where the presence of the independence (versus absence) disclosures
results in more positive assessments of both auditor independence (mean = 7.470 vs. 6.706) and
auditor competence (mean = 7.554 vs. 7.013).

Disclosure of tenure length also influences judgments about auditor independence ($F_{1,627}$
= 19.95; $p < 0.01$) and auditor competence ($F_{1,627} = 8.56; p < 0.01$), where short tenure
(compared to long tenure) results in more positive assessment of auditor independence (mean =
7.320 vs. 6.960) while long tenure (compared to short tenure) results in more positive assessment
of auditor competence (mean = 7.440 vs. 7.310). Further, a significant interaction ($F_{1,627} = 4.13;
p = 0.04$) exists between the presence of the independence disclosure and tenure length on
auditor competence such that the presence of the independence disclosure increases perceptions
of auditor competence more for short tenure (mean = 7.500 (present) vs 6.920 (absent)) than for
long tenure (mean = 7.550 (present) and 7.220 (absent)).
<table>
<thead>
<tr>
<th>Variables</th>
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<th>Tenure Length&lt;sup&gt;f&lt;/sup&gt;</th>
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<td>n = 313</td>
<td>n = 613</td>
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<td>Independence&lt;sup&gt;a&lt;/sup&gt;</td>
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<td>7.470</td>
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<td>(2.261)</td>
<td>(2.052)</td>
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<tr>
<td>Competence&lt;sup&gt;b&lt;/sup&gt;</td>
<td>7.013</td>
<td>7.554</td>
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<td>(2.152)</td>
<td>(1.961)</td>
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<tr>
<td>Report Informativeness&lt;sup&gt;c&lt;/sup&gt;</td>
<td>5.649</td>
<td>5.970</td>
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<td>(2.655)</td>
<td>(2.686)</td>
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<td>Auditor Credibility&lt;sup&gt;d&lt;/sup&gt;</td>
<td>6.840</td>
<td>7.443</td>
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<td>(2.208)</td>
<td>(2.028)</td>
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<tr>
<td>Audit Quality&lt;sup&gt;e&lt;/sup&gt;</td>
<td>6.765</td>
<td>7.361</td>
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<td>(2.193)</td>
<td>(2.061)</td>
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<tr>
<th></th>
<th>Independence Disclosure</th>
<th>25 Year Tenure</th>
<th>2 Year Tenure</th>
<th>25 Year Tenure</th>
<th>2 Year Tenure</th>
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<td>Competence&lt;sup&gt;b&lt;/sup&gt;</td>
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<td>7.500</td>
<td>7.220</td>
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<td>(2.074)</td>
<td>(2.055)</td>
<td>(2.221)</td>
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<td>5.900</td>
<td>6.000</td>
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<td>(2.636)</td>
<td>(2.644)</td>
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<td>6.900</td>
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<tr>
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<td>(2.204)</td>
<td>(2.341)</td>
<td>(2.339)</td>
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<td>7.330</td>
<td>6.890</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>(2.125)</td>
<td>(2.118)</td>
<td>(2.342)</td>
<td>(2.310)</td>
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<tr>
<td>CAM Disclosure Present</td>
<td>25 Year Tenure</td>
<td>2 Year Tenure</td>
<td>Independence Absent</td>
<td>Independence Present</td>
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<td>---------------------</td>
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</tr>
<tr>
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</tr>
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<td>6.601</td>
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<td>(2.253)</td>
<td>(2.112)</td>
<td>(2.264)</td>
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<td>(2.054)</td>
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</tr>
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<td>6.070</td>
<td>6.190</td>
<td>5.652</td>
<td>6.184</td>
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<td>(2.557)</td>
<td>(2.494)</td>
<td>(2.642)</td>
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<td>7.180</td>
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<td>(2.055)</td>
<td>(1.916)</td>
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<td>6.677</td>
<td>7.450</td>
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<tr>
<td>(2.059)</td>
<td>(2.090)</td>
<td>(2.203)</td>
<td>(1.841)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. The dependent measure requests that the participants indicate their confidence that the respective auditor was independent in performing the audit.
b. The dependent measure requests that the participants indicate their confidence that the respective auditor was competent in performing the audit.
c. The dependent measure requests that the participants indicate how informative the audit report was in their investment decisions.
d. The dependent measure requests that the participants indicate their confidence that the auditor was a credible information source.
e. The dependent measure requests that the participants indicate their confidence that the audit was of high quality.
f. Means and standard deviations calculated using repeated measures on all dependent variables.
## TABLE 8
ANOVA: Judgments of Auditor Independence, Auditor Competence, and Audit Report Informativeness

### Panel A: Auditor Independence (DV)\(^a,b\)

<table>
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<tr>
<th></th>
<th>df</th>
<th>Mean Square</th>
<th>F-stat</th>
<th>p-value(^e)</th>
</tr>
</thead>
<tbody>
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<td><strong>Between-Participants</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Independence Disclosure</td>
<td>1</td>
<td>129.72</td>
<td>28.79</td>
<td>&lt; 0.01</td>
</tr>
<tr>
<td>Tenure Disclosure</td>
<td>1</td>
<td>5.91</td>
<td>1.31</td>
<td>0.25</td>
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<td>CAM Disclosure</td>
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<td>7.21</td>
<td>1.60</td>
<td>0.21</td>
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<tr>
<td>Independence Disclosure × Tenure Disclosure</td>
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<td>6.18</td>
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<td>0.24</td>
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<td>Independence Disclosure × CAM Disclosure</td>
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<td>4.27</td>
<td>0.95</td>
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<td>5.42</td>
<td>1.20</td>
<td>0.27</td>
</tr>
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<td>Independence × Tenure × CAM</td>
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<td>12.56</td>
<td>2.79</td>
<td>0.10</td>
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<td>Error</td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Within-Participants</strong></td>
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<td></td>
</tr>
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<td>32.46</td>
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<td>&lt; 0.01</td>
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<td>Tenure Length × Independence Disclosure</td>
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<td>0.50</td>
<td>0.48</td>
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<td>Tenure Length × CAM Disclosure</td>
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<td>0.52</td>
<td>0.32</td>
<td>0.57</td>
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<tr>
<td>Tenure Length × Independence × CAM</td>
<td>1</td>
<td>0.65</td>
<td>0.40</td>
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<tr>
<td>Error</td>
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</table>

### Panel B: Auditor Competence (DV)\(^a,c\)

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<th>Mean Square</th>
<th>F-stat</th>
<th>p-value(^e)</th>
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<td><strong>Between-Participants</strong></td>
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<td></td>
<td></td>
</tr>
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<td>15.68</td>
<td>&lt; 0.01</td>
</tr>
<tr>
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<td>0.38</td>
<td>0.09</td>
<td>0.76</td>
</tr>
<tr>
<td>CAM Disclosure</td>
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<td>2.79</td>
<td>0.68</td>
<td>0.41</td>
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<tr>
<td>Independence Disclosure × Tenure Disclosure</td>
<td>1</td>
<td>3.49</td>
<td>0.85</td>
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<td>Independence Disclosure × CAM Disclosure</td>
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<td>1.19</td>
<td>0.29</td>
<td>0.59</td>
</tr>
<tr>
<td>Tenure Disclosure × CAM Disclosure</td>
<td>1</td>
<td>0.35</td>
<td>0.09</td>
<td>0.77</td>
</tr>
<tr>
<td>Independence × Tenure × CAM</td>
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<td>5.59</td>
<td>1.36</td>
<td>0.25</td>
</tr>
<tr>
<td>Error</td>
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<td><strong>Within-Participants</strong></td>
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</tr>
<tr>
<td>Tenure Length</td>
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<td>8.56</td>
<td>&lt; 0.01</td>
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<td>Tenure Length × CAM Disclosure</td>
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<td>Tenure Length × Independence × CAM</td>
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<td>0.06</td>
<td>0.06</td>
<td>0.81</td>
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Panel C: Audit Report Informativeness (DV)\textsuperscript{a, d}

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<th>F-stat</th>
<th>p-value\textsuperscript{e}</th>
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<td>42.75</td>
<td>6.02</td>
<td>0.01</td>
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<tr>
<td>CAM Disclosure</td>
<td>1</td>
<td>9.19</td>
<td>1.30</td>
<td>0.26</td>
</tr>
<tr>
<td>Independence Disclosure × Tenure Disclosure</td>
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<td>29.19</td>
<td>4.11</td>
<td>0.04</td>
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<td>Independence Disclosure × CAM Disclosure</td>
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<td>3.85</td>
<td>0.54</td>
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<th>F-stat</th>
<th>p-value\textsuperscript{e}</th>
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<td>0.66</td>
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<td>1.72</td>
<td>0.19</td>
</tr>
<tr>
<td>Error</td>
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<td>627</td>
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<td></td>
</tr>
</tbody>
</table>

\textsuperscript{a.} Measured variables of non-professional investor judgment.
\textsuperscript{b.} The dependent measure requests that the participants indicate their confidence that the respective auditor was independent in performing the audit.
\textsuperscript{c.} The dependent measure requests that the participants indicate their confidence that the respective auditor was competent in performing the audit.
\textsuperscript{d.} The dependent measure requests that the participants indicate how informative the audit report was in their investment decisions.
\textsuperscript{e.} Reported p-values are two-tailed unless otherwise noted.
## TABLE 9
ANOVA: Judgments of Auditor Credibility and Audit Quality

### Panel A: Auditor Credibility (DV)\(^{a, b}\)

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<th>F-stat</th>
<th>p-value(^d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence Disclosure</td>
<td>1</td>
<td>83.52</td>
<td>19.11</td>
<td>&lt; 0.01</td>
</tr>
<tr>
<td>Tenure Disclosure</td>
<td>1</td>
<td>0.10</td>
<td>0.02</td>
<td>0.88</td>
</tr>
<tr>
<td>CAM Disclosure</td>
<td>1</td>
<td>8.33</td>
<td>1.91</td>
<td>0.17</td>
</tr>
<tr>
<td>Independence Disclosure × Tenure Disclosure</td>
<td>1</td>
<td>7.43</td>
<td>1.70</td>
<td>0.19</td>
</tr>
<tr>
<td>Independence Disclosure × CAM Disclosure</td>
<td>1</td>
<td>10.26</td>
<td>2.35</td>
<td>0.13</td>
</tr>
<tr>
<td>Tenure Disclosure × CAM Disclosure</td>
<td>1</td>
<td>5.60</td>
<td>1.28</td>
<td>0.26</td>
</tr>
<tr>
<td>Independence × Tenure × CAM</td>
<td>1</td>
<td>5.93</td>
<td>1.36</td>
<td>0.25</td>
</tr>
<tr>
<td>Error</td>
<td>918</td>
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<td></td>
<td></td>
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</tbody>
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<table>
<thead>
<tr>
<th>Within-Participants</th>
<th>df</th>
<th>Mean Square</th>
<th>F-stat</th>
<th>p-value(^d)</th>
</tr>
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<tbody>
<tr>
<td>Tenure Length</td>
<td>1</td>
<td>0.02</td>
<td>0.02</td>
<td>0.89</td>
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<tr>
<td>Tenure Length × Independence Disclosure</td>
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<td>0.12</td>
<td>0.11</td>
<td>0.74</td>
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<tr>
<td>Tenure Length × CAM Disclosure</td>
<td>1</td>
<td>3.92</td>
<td>3.56</td>
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<tr>
<td>Tenure Length × Independence × CAM</td>
<td>1</td>
<td>0.73</td>
<td>0.66</td>
<td>0.42</td>
</tr>
<tr>
<td>Error</td>
<td>627</td>
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</tr>
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</table>

### Panel B: Audit Quality (DV)\(^{a, c}\)

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<tr>
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<th>F-stat</th>
<th>p-value(^d)</th>
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<tbody>
<tr>
<td>Independence Disclosure</td>
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<td>&lt; 0.01</td>
</tr>
<tr>
<td>Tenure Disclosure</td>
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<td>0.57</td>
<td>0.13</td>
<td>0.72</td>
</tr>
<tr>
<td>CAM Disclosure</td>
<td>1</td>
<td>0.88</td>
<td>0.20</td>
<td>0.66</td>
</tr>
<tr>
<td>Independence Disclosure × Tenure Disclosure</td>
<td>1</td>
<td>6.56</td>
<td>1.48</td>
<td>0.23</td>
</tr>
<tr>
<td>Independence Disclosure × CAM Disclosure</td>
<td>1</td>
<td>4.49</td>
<td>1.01</td>
<td>0.32</td>
</tr>
<tr>
<td>Tenure Disclosure × CAM Disclosure</td>
<td>1</td>
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<td>0.07</td>
<td>0.79</td>
</tr>
<tr>
<td>Independence × Tenure × CAM</td>
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<td>10.81</td>
<td>2.43</td>
<td>0.12</td>
</tr>
<tr>
<td>Error</td>
<td>918</td>
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<table>
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<tr>
<th>Within-Participants</th>
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<th>F-stat</th>
<th>p-value(^d)</th>
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</thead>
<tbody>
<tr>
<td>Tenure Length</td>
<td>1</td>
<td>0.36</td>
<td>0.35</td>
<td>0.56</td>
</tr>
<tr>
<td>Tenure Length × Independence Disclosure</td>
<td>1</td>
<td>0.99</td>
<td>0.96</td>
<td>0.33</td>
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<tr>
<td>Tenure Length × CAM Disclosure</td>
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<td>0.27</td>
<td>0.61</td>
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<tr>
<td>Tenure Length × Independence × CAM</td>
<td>1</td>
<td>0.01</td>
<td>0.01</td>
<td>0.93</td>
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<tr>
<td>Error</td>
<td>627</td>
<td>1.10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
a. Measured variables of non-professional investor judgment.
b. The dependent measure requests that the participants indicate their confidence that the auditor was a credible information source.
c. The dependent measure requests that the participants indicate their confidence that the audit was of high quality.
d. Reported p-values are two-tailed unless otherwise noted.
Judgments of the informativeness of the audit report are also statistically significant when both independence ($F_{1,918} = 4.73; p = 0.03$) and auditor tenure ($F_{1,918} = 6.02; p < 0.01$) are disclosed in the audit report. Specifically, higher judgments of informativeness are elicited when independence is disclosed versus absent (mean = 5.970 vs. 5.649) as well as when tenure is disclosed versus absent (mean = 5.985 vs. 5.597, untabulated). In addition, statistically significant interactions between disclosure of independence and auditor tenure ($F_{1,918} = 4.11; p = 0.04$) as well as disclosure of independence and length of tenure ($F_{1,627} = 4.38; p = 0.04$) exist for audit report informativeness, where the presence of both disclosures elicit higher assessment of informativeness versus when either (or both) are absent from the audit report as well as a higher assessment of informativeness when tenure is short and independence is present.

Finally, investor judgments of auditor credibility ($F_{1,918} = 19.11; p < 0.01$) and audit quality ($F_{1,918} = 18.34; p < 0.01$) are higher when the independence disclosure is present in the audit report (as evidenced in Table 9). Comparison of means in Table 7 suggests that the presence of the independence disclosure produces more positive judgments of both auditor credibility (mean = 7.443 vs. 6.840) and audit quality (mean = 7.361 vs. 6.765) than when the disclosure is absent. Also of note, a marginally significant interaction ($F_{1,627} = 3.56; p = 0.06$) exists between tenure length and the presence of a CAM on auditor credibility, where a reversal in the means is noted for long tenure (short tenure) and no disclosure of a CAM (mean = 7.29 vs 7.19, untabulated) and long tenure (short tenure) and disclosure of a CAM (mean = 7.18 vs 7.28).
Moderated-Mediation Analysis

In the hypothesis development section of the paper, I suggest that the presence of auditor independence and tenure disclosures will augment participant judgments about auditor attributes of independence and competence as well as the auditor’s credibility and the audit’s quality – increasing the overall informativeness of the report and thus influencing consequent investment decisions. Results confirm that the presence of an independence disclosure in the audit report produces more positive judgments of auditor independence, auditor competence, audit quality, and auditor credibility. Evidence also indicates that exposure to long tenure results in higher judgments of auditor competence while short tenure results in higher judgments of auditor independence. I further test the effects auditor independence and auditor competence have on investment decisions as mediated by measurements of auditor credibility and audit quality. I perform the analysis using a moderated-mediation model (Hayes 2013). Figures 2 and 3 present the results of the moderated-mediation analysis (and correspond to Tables 10 and 11, respectively).

In the auditor credibility regression model, I find that judgments of both auditor independence (path $a_1$: $t = 4.842; p < 0.01$) and competence (path $a_2$: $t = 12.064; p < 0.01$) have a significantly positive influence on judgment of auditor credibility. However, I do not find that the effects of either measured auditor attribute in relationship to auditor credibility depend upon one another. In other words, judgments of both attributes independently influence judgments of auditor credibility. Most important, evidence suggests that judgments of the auditor attribute independence (path $c_1$: $t = 2.252; p = 0.03$) and judgments of auditor credibility (path $b$: $t = 5.893; p < 0.01$) significantly influence investment decision-making. Additionally, the relationship between auditor credibility and investment decision-making is positive (path $b = 0.350$) – indicating that higher perceptions of auditor credibility spur more positive investment.
TABLE 10
Moderated-Mediation: Judgments of Auditor Independence, Auditor Competence, and Auditor Credibility

<table>
<thead>
<tr>
<th>Panel A: Regression Model of Auditor Credibility</th>
<th>Coefficient</th>
<th>SE</th>
<th>t-stat</th>
<th>p-value&lt;sup&gt;e&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence&lt;sup&gt;a&lt;/sup&gt;</td>
<td>a&lt;sub&gt;1&lt;/sub&gt;</td>
<td>0.240</td>
<td>0.050</td>
<td>4.842 &lt; 0.01</td>
</tr>
<tr>
<td>Competence&lt;sup&gt;a&lt;/sup&gt;</td>
<td>a&lt;sub&gt;2&lt;/sub&gt;</td>
<td>0.597</td>
<td>0.050</td>
<td>12.064 &lt; 0.01</td>
</tr>
<tr>
<td>Independence × Competence&lt;sup&gt;a&lt;/sup&gt;</td>
<td>a&lt;sub&gt;3&lt;/sub&gt;</td>
<td>0.003</td>
<td>0.006</td>
<td>0.527 0.59</td>
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<tr>
<td>Independence Disclosure&lt;sup&gt;b&lt;/sup&gt;</td>
<td>covariate</td>
<td>0.067</td>
<td>0.085</td>
<td>0.792 0.43</td>
</tr>
<tr>
<td>Tenure Disclosure&lt;sup&gt;b&lt;/sup&gt;</td>
<td>covariate</td>
<td>0.025</td>
<td>0.805</td>
<td>0.293 0.77</td>
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<tr>
<td>CAM Disclosure&lt;sup&gt;b&lt;/sup&gt;</td>
<td>covariate</td>
<td>0.002</td>
<td>0.079</td>
<td>0.026 0.98</td>
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<table>
<thead>
<tr>
<th>Panel B: Regression Model of Investment Decision</th>
<th>Coefficient</th>
<th>SE</th>
<th>t-stat</th>
<th>p-value&lt;sup&gt;e&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditor Credibility&lt;sup&gt;a&lt;/sup&gt;</td>
<td>b</td>
<td>0.350</td>
<td>0.059</td>
<td>5.893 &lt; 0.01</td>
</tr>
<tr>
<td>Independence&lt;sup&gt;a&lt;/sup&gt;</td>
<td>c&lt;sub&gt;1&lt;/sub&gt;</td>
<td>0.204</td>
<td>0.090</td>
<td>2.252 0.03</td>
</tr>
<tr>
<td>Competence&lt;sup&gt;a&lt;/sup&gt;</td>
<td>c&lt;sub&gt;2&lt;/sub&gt;</td>
<td>0.039</td>
<td>0.096</td>
<td>0.402 0.69</td>
</tr>
<tr>
<td>Independence × Competence&lt;sup&gt;a&lt;/sup&gt;</td>
<td>c&lt;sub&gt;3&lt;/sub&gt;</td>
<td>-0.008</td>
<td>0.011</td>
<td>-0.733 0.46</td>
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<tr>
<td>Independence Disclosure&lt;sup&gt;b&lt;/sup&gt;</td>
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<td>-0.557 0.58</td>
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<td>0.467 0.64</td>
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<td>CAM Disclosure&lt;sup&gt;b&lt;/sup&gt;</td>
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<td>-1.579 0.11</td>
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<table>
<thead>
<tr>
<th>Panel C: Conditional Direct Effects of Independence on Investment at Competence Value</th>
<th>Competence</th>
<th>Effect</th>
<th>SE</th>
<th>t-stat</th>
<th>p-value&lt;sup&gt;e&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.328</td>
<td>0.160</td>
<td>0.056</td>
<td>2.866</td>
<td>&lt; 0.01</td>
<td></td>
</tr>
<tr>
<td>7.371</td>
<td>0.143</td>
<td>0.055</td>
<td>2.588</td>
<td>&lt; 0.01</td>
<td></td>
</tr>
<tr>
<td>9.414</td>
<td>0.126</td>
<td>0.064</td>
<td>1.985</td>
<td>0.05</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel D: Conditional Indirect Effects of Independence on Investment at Competence Value&lt;sup&gt;d&lt;/sup&gt;</th>
<th>Competence</th>
<th>Effect</th>
<th>SE</th>
<th>LLCI</th>
<th>ULCI</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.328</td>
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<tr>
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<td>0.093</td>
<td>0.0544</td>
<td>0.1442</td>
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</tr>
<tr>
<td>9.414</td>
<td>0.095</td>
<td>0.095</td>
<td>0.0548</td>
<td>0.1510</td>
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</tr>
</tbody>
</table>

a. Measured variables of non-professional investor judgment.
b. Manipulated variables, independence disclosure, tenure disclosure, and CAM disclosure, are covaried in the model.
c. Reported p-values are two-tailed unless otherwise noted.
d. Panel D report the 95% bias-corrected bootstrap confidence intervals based on 10,000 bootstrap samples.
a. Manipulated variables independence disclosure, tenure disclosure, and CAM disclosure are covaried in the model.
Probing further, I explore the conditional direct effects of judged independence and judged competence on investment decision-making. Results suggest that the direct effect of perceived independence on investment decision does not depend upon the participant’s perception of competence; however, the effect of independence is significant and positive at all values of competence beginning with a judged competence value of 5.328 \( (t = 2.866; p < 0.01) \). I also examine the conditional indirect effect of auditor independence and note that the effect is significant and positive at all values of auditor competence through the audit credibility mediator.

Regarding the audit quality regression model, I note that judgments of both auditor independence (path \( a_1: t = 5.423; p < 0.01 \)) and competence (path \( a_2: t = 12.459; p < 0.01 \)) have a significantly positive influence on judgment of auditor quality. However, similar to perceived auditor credibility, I do not find that judgments of either measured auditor attribute in relationship to audit quality are dependent upon one another (path \( a_3: t = -0.070; p = 0.94 \)). In addition, results suggest that judgments of the auditor independence attribute (path \( c_1: t = 2.317; p = 0.02 \)) and audit quality (path \( b: t = 4.734; p < 0.01 \)) significantly influence investment decision-making. Testing the conditional direct effects, evidence indicates that the direct effect of judged independence on investment decision-making is significant and positive as the value of competence increases – illustrating significance \( (t = 3.101; p < 0.01) \) beginning with a judged competence value of 5.328. Further, I also examine the conditional indirect effect of auditor independence and note that the effect is significant and positive at higher values of auditor competence through the audit quality mediator.
### TABLE 11
Moderated-Mediation: Judgments of Auditor Independence, Auditor Competence, and Audit Quality

**Panel A:** Regression Model of Audit Quality

<table>
<thead>
<tr>
<th></th>
<th>Coefficient</th>
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<th>t-stat</th>
<th>p-value&lt;sup&gt;e&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence&lt;sup&gt;a&lt;/sup&gt;</td>
<td>a&lt;sub&gt;1&lt;/sub&gt;</td>
<td>0.271</td>
<td>5.423</td>
<td>&lt; 0.01</td>
</tr>
<tr>
<td>Competence&lt;sup&gt;a&lt;/sup&gt;</td>
<td>a&lt;sub&gt;2&lt;/sub&gt;</td>
<td>0.621</td>
<td>12.459</td>
<td>&lt; 0.01</td>
</tr>
<tr>
<td>Independence × Competence&lt;sup&gt;a&lt;/sup&gt;</td>
<td>a&lt;sub&gt;3&lt;/sub&gt;</td>
<td>-0.0004</td>
<td>-0.070</td>
<td>0.94</td>
</tr>
<tr>
<td>Independence Disclosure&lt;sup&gt;b&lt;/sup&gt;</td>
<td>covariate</td>
<td>0.054</td>
<td>0.634</td>
<td>0.53</td>
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<tr>
<td>Tenure Disclosure&lt;sup&gt;b&lt;/sup&gt;</td>
<td>covariate</td>
<td>0.058</td>
<td>0.682</td>
<td>0.50</td>
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<tr>
<td>CAM Disclosure&lt;sup&gt;b&lt;/sup&gt;</td>
<td>covariate</td>
<td>0.061</td>
<td>0.759</td>
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**Panel B:** Regression Model of Investment Decision

<table>
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<tr>
<th></th>
<th>Coefficient</th>
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<th>t-stat</th>
<th>p-value&lt;sup&gt;e&lt;/sup&gt;</th>
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</thead>
<tbody>
<tr>
<td>Audit Quality&lt;sup&gt;a&lt;/sup&gt;</td>
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<td>0.281</td>
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<td>&lt; 0.01</td>
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<tr>
<td>Independence&lt;sup&gt;a&lt;/sup&gt;</td>
<td>c&lt;sub&gt;1&lt;/sub&gt;</td>
<td>0.212</td>
<td>2.317</td>
<td>0.02</td>
</tr>
<tr>
<td>Competence&lt;sup&gt;a&lt;/sup&gt;</td>
<td>c&lt;sub&gt;2&lt;/sub&gt;</td>
<td>0.073</td>
<td>0.753</td>
<td>0.45</td>
</tr>
<tr>
<td>Independence × Competence&lt;sup&gt;a&lt;/sup&gt;</td>
<td>c&lt;sub&gt;3&lt;/sub&gt;</td>
<td>-0.007</td>
<td>-0.615</td>
<td>0.54</td>
</tr>
<tr>
<td>Independence Disclosure&lt;sup&gt;b&lt;/sup&gt;</td>
<td>covariate</td>
<td>-0.076</td>
<td>-0.500</td>
<td>0.62</td>
</tr>
<tr>
<td>Tenure Disclosure&lt;sup&gt;b&lt;/sup&gt;</td>
<td>covariate</td>
<td>0.064</td>
<td>0.414</td>
<td>0.68</td>
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<tr>
<td>CAM Disclosure&lt;sup&gt;b&lt;/sup&gt;</td>
<td>covariate</td>
<td>-0.241</td>
<td>-1.682</td>
<td>0.09</td>
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**Panel C:** Conditional Direct Effects of Independence on Investment at Competence Value

<table>
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<tr>
<th>Competence</th>
<th>Effect</th>
<th>SE</th>
<th>t-stat</th>
<th>p-value&lt;sup&gt;e&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.328</td>
<td>0.175</td>
<td>0.056</td>
<td>3.101</td>
<td>&lt; 0.01</td>
</tr>
<tr>
<td>7.371</td>
<td>0.161</td>
<td>0.056</td>
<td>2.880</td>
<td>&lt; 0.01</td>
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<td>9.414</td>
<td>0.146</td>
<td>0.064</td>
<td>2.286</td>
<td>0.02</td>
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</table>

**Panel D:** Conditional Indirect Effects of Independence on Investment at Competence Value<sup>d</sup>

<table>
<thead>
<tr>
<th>Competence</th>
<th>Effect</th>
<th>SE</th>
<th>LLCI</th>
<th>ULCI</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.328</td>
<td>0.076</td>
<td>0.020</td>
<td>0.0418</td>
<td>0.1222</td>
</tr>
<tr>
<td>7.371</td>
<td>0.075</td>
<td>0.020</td>
<td>0.0421</td>
<td>0.1257</td>
</tr>
<tr>
<td>9.414</td>
<td>0.075</td>
<td>0.021</td>
<td>0.0412</td>
<td>0.1250</td>
</tr>
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</table>

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<sup>a</sup> Measured variables of non-professional investor judgment.
<sup>b</sup> Manipulated variables, independence disclosure, tenure disclosure, and CAM disclosure, are covaried in the model.
<sup>c</sup> Reported p-values are two-tailed unless otherwise noted.
<sup>d</sup> Panel D report the 95% bias-corrected bootstrap confidence intervals based on 10,000 bootstrap samples.
Figure 3
Statistical Diagram of Auditor Characteristics and Audit Quality Moderated-Mediation Analysis

a. Manipulated variables independence disclosure, tenure disclosure, and CAM disclosure are covaried in the model.
V. CONCLUSION

The reform instituted in the PCAOB’s proposed ARM standard intends to make the audit report more value relevant in the investment decisions of financial statement users. The regulator asserts that including new information in the audit report regarding the auditor will accomplish this feat. Prior psychology and accounting literature illustrates that revealing characteristics about an information source’s independence and competence influences the perception of the information source as well as the persuasiveness of its communication. However, the impact the PCAOB’s proposed disclosures will have on the perception of auditors and how those perceptions relate to investment decisions is currently unsubstantiated. Therefore, I employ a strict yet contextually rich experiment to investigate whether exposure to the proposed disclosures about the auditor alter non-professional investor judgment and decision-making. Specifically, I test whether the disclosures regarding the auditor’s obligation to remain independent of its client and the length of an auditor tenure affect judgments of auditor independence, auditor competence, auditor credibility, audit quality, and consequent investment in an auditee.

Altogether, my analysis suggests that reforming the audit report to include the new disclosures do in fact make it more informative and useful to report readers in both their judgments on auditors and their decisions to invest. Accordingly, the overarching contribution of this study is informing the PCAOB that moving beyond the audit report’s current pass/fail model by adding supplemental information regarding the auditor appears beneficial to audit report
readers – specifically non-professional investors. Another major contribution of this study is that these judgments and decisions stem exclusively from exposure to the audit report, with very little accompanying financial statement information.

Another important contribution of this experiment is that it specifically tests assertions made by constituents of the PCAOB and not just those of the regulator. Investors providing feedback to the PCAOB advocate that including both a strong statement explaining auditor independence in the audit report and disclosing “key engagement statistics” about the audit function (specifically auditor tenure) will be useful to their investment decision-making process (PCAOB 2011; PCAOB 2013). While the Big Four and the CAQ recognize that these proposed disclosures will characterize the auditor and the financial statement, they only acknowledge that the tenure disclosure may give a false impression about the financial statement auditor to report readers. The organizations suggest the disclosure will give “undue prominence” to lengthy audit tenure regarding its relationship with perceived auditor independence and audit quality, where they infer that long tenure will negatively influence both (Deloitte 2013; KPMG 2013; PricewaterhouseCoopers 2013).

Testing those specific constituent statements, evidence from my study suggests that the PCAOB’s proposed disclosures on auditor independence and auditor tenure do appear to alter non-professional investor judgments of auditor attributes, the informativeness of the audit report, and related investment decisions of non-professional investors. While my results confirm practitioner concern that lengthy auditor tenure diminishes perceived auditor independence, evidence also provides that lengthy auditor tenure augments perceived auditor competence. Most important, my findings advise that the disclosure of lengthy auditor tenure in the audit report results in more positive investment compared to when auditor tenure is short – despite a
reduction in perceived auditor independence. Thus, although participants are sensitive to protracted tenure regarding auditor independence, it appears their sensitivity to the impact of lengthy tenure has on auditor competence is the catalyst driving their investment decisions. Additionally, the results of this study provide evidence that non-professional investors are not any more likely to alter their investment decisions when exposed to a disclosure identifying a critical audit matter in the audit report and a simultaneous independence disclosure or auditor tenure disclosure.

My results also contribute to the credibility and audit quality literature. I extend the theory that revealing information regarding the auditor’s obligation to remain independent of its client results in altering judgments of the auditor’s credibility. Evidence also confirms that disclosing an independence statement in the audit report augments perceived auditor quality. This study also provides confirmation that separate conditional indirect paths on investment decisions exist for judgments of auditor independence and auditor competence as mediated by judgments on auditor credibility, where auditor credibility directly impacts investment decision-making. Further, a direct path exists for judgments on auditor independence influencing investment decisions. I also find similar conditional indirect paths for the judgments of auditor independence and auditor competence through the audit quality mediator, where a direct path exists for judged audit quality on investment decision-making. These findings suggest that, to the extent regulators can improve the perception of auditor independence and auditor competence through disclosures in the audit report, the consequences are higher assessments of auditor credibility and audit quality as well as increased usefulness of the audit report to investment decision-making.
Another unique contribution of this study submits that obtaining access to information regarding the auditor’s obligation to remain independent as well as the length of time the auditor has served its client is informative and useful for non-professional investors. This is particularly important because, while institutional investors presumably have access to many auditor data points not available to the general public, this information may be cost-prohibitive for non-professional investors to obtain. I provide evidence that the proposed auditor information is meaningful to these types of investors; thus, to the extent similar disclosures are relatively costless to provide, regulators should consider disclosing additional information regarding the auditor and the audit process.

Inferences made from my study should consider the inherent limitations of the experimental design. First, the manipulations represented inside the audit report were emphasized to the report reader. In a real-world setting, this information would not be emphasized. Therefore, it is possible that the participants attended to information about the auditor in this study in a different manner than they would in a real-world scenario. Also, in a non-experimental setting, the investment decisions of non-professional investors would most likely include analyzing complete sets of financial statement information alongside the accompanying audit report, whereas my study did not include such financial statement information.

Concerning ideas for additional research, the literature would benefit from experimental studies which test the impact all of the PCAOB’s proposed alterations to the audit report may have on investment decisions. For example, the PCAOB also endeavors to reveal the amount and substance of audit work completed by joint auditors. Further, the PCAOB proposes including auditor judgments in the audit report regarding their work around other information in the
financial statements. Also of interest, the disclosures proposed by current PCAOB promulgation will move the audit report from a standard one page report to a document with a considerable amount of additional content. Research surrounding potential unintended consequences of this particular change to the structure of the audit report is equally important as studying how each of the proposed components will work separately to influence investment decisions. Last, those engaged in archival accounting research should consider testing audit report modification after the regulation is finalized.
LIST OF REFERENCES
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APPENDIX
APPENDIX

[CONSENT AND EXPERIMENTAL TASK EXPLANATION IN AMAZON MECHANICAL TURK]

Explanation of Participant Task

Thank you for participating in this task. Your task in this experiment is to make judgments and decisions related to the financial statement audits of two companies based on some general information about the companies as well as their respective auditor's reports. There are no right/wrong or correct/incorrect answers. Use your own judgment to answer the task questions honestly so that I may understand how investors interpret the auditor's report. Although actual investment decisions may be more complex, please base your judgments in this study solely on the information provided. Most participants complete the task in less than 15 minutes.

Your participation is completely voluntary and there are no foreseeable risks or discomforts if you choose to participate in this study. Your responses are anonymous and will be held on a password-protected computer. The results of this study may be published or presented at professional meetings; however, the findings will be summarized and reported in group form (i.e., not on an individual basis).

You will be screened before beginning the task based on responses to some basic questions. If your answers indicate that you do not meet our required characteristics you will be redirected to Amazon Mechanical Turk's website and will not be paid. You must answer all questions completely in order to be paid for your participation. You will be paid $1.00 for completing the task.

Again, thank you for your participation in this experiment.

Institutional Review Board (IRB) Approval

This study has been reviewed by The University of Mississippi’s IRB. The IRB determined that this study fulfills the human research subject protections obligations required by state and federal law and University policies. If you have any questions, concerns, or reports regarding your rights as a participant of research, please contact The University of Mississippi’s IRB at (662) 915-7482.

[PAGE BREAK]
1. Do you have experience reading financial statements?
   ___ Yes
   ___ No

2. Please indicate how many college level courses you have completed in each of the following disciplines:
   ___ Accounting
   ___ Business Administration
   ___ Economics
   ___ Finance
   ___ Management

[REDIRECTED FROM AMAZON MECHANICAL TURK TO QUALTRICS]
Information about two hypothetical companies - Tracer, Corp. and Magna, Inc.

Tracer, Corp. and Magna, Inc. are both large technology companies engaged in selling electronic equipment to industrial consumers. Both companies are publicly traded on a major U.S. stock exchange. Also, both are audited by large international public accounting firms. Tracer, Corp. is audited by ABC Firm while Magna, Inc. is audited by XYZ Firm. Regarding financial performance strength, both perform similar to their peers in the technology industry.

Upon reviewing both Tracer, Corp.’s and Magna, Inc.’s financial statements as well as their management disclosures, you made note of the following three items from both sets of financial statements. A financial statement auditor would also be sensitive to these items.

1. **Bad debt**: Both companies are experiencing a slight slow-down in collections versus the prior year due to a customer filing for bankruptcy. This could impact the ability of the companies to collect receivables in the future, thus negatively impacting the value of the related receivables.

2. **Revenue recognition**: Revenue recognition is highly subjective in the technology industry due to issues surrounding product deliverable arrangements that may extend over a long period of time. In addition, the value assigned to various elements in an arrangement may depend on management's judgment, which can be highly subjective and not easily verifiable.

3. **Inventory valuation**: Both companies may experience obsolescence in inventory and a subsequent impairment of the asset account because they may have overestimated their ability to effectively market a new product due to both customer acceptance issues and the availability of substitutes in the market. As a result, both companies may have overproduced the product.
Both Tracer, Corp. and Magna, Inc. received a standard clean audit opinion from their respective auditing firms. The language of the two audit reports is as follows:

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders

Tracer, Corp.:

We have audited the balance sheets of Tracer, Corp. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Tracer, Corp.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Tracer, Corp.’s financial statements.

We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") (United States) and are required to be independent with respect to Tracer, Corp. in accordance with the United States federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission ("SEC"). We or our predecessor firms have served as Tracer Corp.’s auditor consecutively since 2013.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders

Magna, Inc.:

We have audited the balance sheets of Magna, Inc. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Magna, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Magna, Inc.’s financial statements.

We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") (United States) and are required to be independent with respect to Magna, Inc. in accordance with the United States federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission ("SEC"). We or our predecessor firms have served as Magna, Inc.’s auditor consecutively since 1990.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by
management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tracer, Corp. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

Critical Audit Matter: We determined that our evaluation of the Tracer Corp.’s inventory value was a critical audit matter in the audit of Tracer Corp.’s financial statement as of and for the fiscal year ended December 31, 2014. Considerations that led to our determination included the following: Tracer Corp. continues to experience increased competition with its "first generation" products which reduced revenue growth, sales prices and profitability. Because of these

management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Magna, Inc. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

Critical Audit Matter: We determined that our evaluation of Magna Inc.’s inventory value was a critical audit matter in the audit of Magna Inc.’s financial statement as of and for the fiscal year ended December 31, 2014. Considerations that led to our determination included the following: Magna, Inc. continues to experience increased competition with its "first generation" products which reduced revenue growth, sales prices and profitability. Because of these
considerations, our assessment of Tracer Corp.'s evaluation of the inventory value: (1) involved subjective auditor judgments in evaluating whether management's judgments regarding the weight given to evidence of value is appropriate and (2) involved difficult auditor judgments in designing audit procedures to test the data underlying management's impairment valuation.

ABC Firm
New York, New York
February 28, 2015

considerations, our assessment of Magna, Inc.’s evaluation of the inventory value: (1) involved subjective auditor judgments in evaluating whether management's judgments regarding the weight given to evidence of value is appropriate and (2) involved difficult auditor judgments in designing audit procedures to test the data underlying management's impairment valuation.

XYZ Firm
New York, New York
February 28, 2015

["REPORT WITH COMPLIANCE-ORIENTED INDEPENDENCE, ALTERNATE TENURE, AND NO CAM CONDITION"]

Both Tracer, Corp. and Magna, Inc. received a standard clean audit opinion from their respective auditing firms. The language of the two audit reports is as follows:

<table>
<thead>
<tr>
<th>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</th>
<th>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</th>
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</thead>
<tbody>
<tr>
<td>To the Board of Directors and Shareholders Tracer, Corp.:</td>
<td>To the Board of Directors and Shareholders Magna, Inc.:</td>
</tr>
<tr>
<td>We have audited the balance sheets of Tracer, Corp. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Tracer, Corp.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Tracer, Corp.’s financial statements.</td>
<td>We have audited the balance sheets of Magna, Inc. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Magna, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Magna, Inc.’s financial statements.</td>
</tr>
<tr>
<td>We are a public accounting firm registered with the Public Company Accounting Oversight Board (&quot;PCAOB&quot;) (United States) and are required to be independent with respect to Tracer, Corp. in accordance with the United States federal securities laws and the applicable rules and regulations of the Securities and Exchange</td>
<td>We are a public accounting firm registered with the Public Company Accounting Oversight Board (&quot;PCAOB&quot;) (United States) and are required to be independent with respect to Magna, Inc. in accordance with the United States federal securities laws and the applicable rules and regulations of the Securities and Exchange</td>
</tr>
</tbody>
</table>
Commission ("SEC"). We or our predecessor firms have served as Tracer Corp.’s auditor consecutively since 2013.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tracer, Corp. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the

Commission ("SEC"). We or our predecessor firms have served as Magna, Inc.’s auditor consecutively since 1990.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Magna, Inc. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the
financial statements, taken as a whole. We determined that there are no critical audit matters.

ABC Firm
New York, New York
February 28, 2015

XYZ Firm
New York, New York
February 28, 2015

[*REPORT WITH COMPLIANCE-ORIENTED INDEPENDENCE, NO TENURE, AND CAM CONDITION*]

Both Tracer, Corp. and Magna, Inc. received a standard clean audit opinion from their respective auditing firms. The language of the two audit reports is as follows:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Tracer, Corp.:

We have audited the balance sheets of Tracer, Corp. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Tracer, Corp.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Tracer, Corp.’s financial statements.

We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") (United States) and are required to be independent with respect to Tracer, Corp. in accordance with the United States federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission ("SEC").

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Magna, Inc.:

We have audited the balance sheets of Magna, Inc. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Magna, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Magna, Inc.’s financial statements.

We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") (United States) and are required to be independent with respect to Magna, Inc. in accordance with the United States federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission ("SEC").

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements.
statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tracer, Corp. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

Critical Audit Matter: We determined that our evaluation of the Tracer Corp.’s inventory value was a critical audit matter in the audit of Tracer Corp.’s financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Magna, Inc. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

Critical Audit Matter: We determined that our evaluation of Magna Inc.’s inventory value was a critical audit matter in the audit of Magna Inc.’s financial statement.
Statement as of and for the fiscal year ended December 31, 2014. Considerations that led to our determination included the following: Tracer Corp. continues to experience increased competition with its "first generation" products which reduced revenue growth, sales prices and profitability. Because of these considerations, our assessment of Tracer Corp.'s evaluation of the inventory value: (1) involved subjective auditor judgments in evaluating whether management's judgments regarding the weight given to evidence of value is appropriate and (2) involved difficult auditor judgments in designing audit procedures to test the data underlying management's impairment valuation.

ABC Firm
New York, New York
February 28, 2015

Magna, Inc. continues to experience increased competition with its "first generation" products which reduced revenue growth, sales prices and profitability. Because of these considerations, our assessment of Magna, Inc.’s evaluation of the inventory value: (1) involved subjective auditor judgments in evaluating whether management's judgments regarding the weight given to evidence of value is appropriate and (2) involved difficult auditor judgments in designing audit procedures to test the data underlying management's impairment valuation.

XYZ Firm
New York, New York
February 28, 2015

[*REPORT WITH COMPLIANCE-ORIENTED INDEPENDENCE, NO TENURE, AND NO CAM CONDITION*]

Both Tracer, Corp. and Magna, Inc. received a standard clean audit opinion from their respective auditing firms. The language of the two audit reports is as follows:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Tracer, Corp.:

We have audited the balance sheets of Tracer, Corp. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Tracer, Corp.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Tracer, Corp.’s financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Magna, Inc.:

We have audited the balance sheets of Magna, Inc. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Magna, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Magna, Inc.’s financial statements.
We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") (United States) and are required to be independent with respect to Tracer, Corp. in accordance with the United States federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission ("SEC").

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tracer, Corp. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, unresolvable issues with management as of the audit report date that were (2) integral to our opinion on the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Magna, Inc. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult,
subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

We determined that there are no critical audit matters.

ABC Firm
New York, New York
February 28, 2015

XYZ Firm
New York, New York
February 28, 2015

[*REPORT WITH CONCEPT-ORIENTED INDEPENDENCE, ALTERNATE TENURE, AND CAM CONDITION*]

Both Tracer, Corp. and Magna, Inc. received a standard clean audit opinion from their respective auditing firms. The language of the two audit reports is as follows:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Tracer, Corp.:

We have audited the balance sheets of Tracer, Corp. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Tracer, Corp.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Tracer, Corp.’s financial statements.

We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") (United States) and are required to be independent with respect to Tracer, Corp. in performing an audit without being affected by

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Magna, Inc.:

We have audited the balance sheets of Magna, Inc. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Magna, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Magna, Inc.’s financial statements.

We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") (United States) and are required to be independent with respect to Magna, Inc. in performing an audit without being affected by
by influences that compromise professional judgment, thereby allowing the firm to act with integrity and exercise objectivity and professional skepticism. We or our predecessor firms have served as Tracer Corp.’s auditor consecutively since 2013.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tracer, Corp. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed

influences that compromise professional judgment, thereby allowing the firm to act with integrity and exercise objectivity and professional skepticism. We or our predecessor firms have served as Magna, Inc.’s auditor consecutively since 1990.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Magna, Inc. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed
the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

Critical Audit Matter: We determined that our evaluation of the Tracer Corp.’s inventory value was a critical audit matter in the audit of Tracer Corp.’s financial statement as of and for the fiscal year ended December 31, 2014. Considerations that led to our determination included the following: Tracer Corp. continues to experience increased competition with its "first generation" products which reduced revenue growth, sales prices and profitability. Because of these considerations, our assessment of Tracer Corp.’s evaluation of the inventory value: (1) involved subjective auditor judgments in evaluating whether management’s judgments regarding the weight given to evidence of value is appropriate and (2) involved difficult auditor judgments in designing audit procedures to test the data underlying management's impairment valuation.

ABC Firm  
New York, New York  
February 28, 2015

Critical Audit Matter: We determined that our evaluation of Magna Inc.’s inventory value was a critical audit matter in the audit of Magna Inc.’s financial statement as of and for the fiscal year ended December 31, 2014. Considerations that led to our determination included the following: Magna, Inc. continues to experience increased competition with its "first generation" products which reduced revenue growth, sales prices and profitability. Because of these considerations, our assessment of Magna, Inc.’s evaluation of the inventory value: (1) involved subjective auditor judgments in evaluating whether management’s judgments regarding the weight given to evidence of value is appropriate and (2) involved difficult auditor judgments in designing audit procedures to test the data underlying management's impairment valuation.

XYZ Firm  
New York, New York  
February 28, 2015

[*REPORT WITH CONCEPT ORIENTED INDEPENDENCE, ALTERNATE TENURE, AND NO CAM CONDITION*]

Both Tracer, Corp. and Magna, Inc. received a standard clean audit opinion from their respective auditing firms. The language of the two audit reports is as follows:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
Tracer, Corp.:  
We have audited the balance sheets of Tracer,  

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
Magna, Inc.:  
We have audited the balance sheets of Magna,
Tracer, Corp.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Tracer, Corp.’s financial statements.

We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") (United States) and are required to be independent with respect to Tracer, Corp. in performing an audit without being affected by influences that compromise professional judgment, thereby allowing the firm to act with integrity and exercise objectivity and professional skepticism. We or our predecessor firms have served as Tracer Corp.’s auditor consecutively since 2013.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tracer, Corp. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014.

Magna, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Magna, Inc.’s financial statements.

We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") (United States) and are required to be independent with respect to Magna, Inc. in performing an audit without being affected by influences that compromise professional judgment, thereby allowing the firm to act with integrity and exercise objectivity and professional skepticism. We or our predecessor firms have served as Magna, Inc.’s auditor consecutively since 1990.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Magna, Inc. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014.
year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

We determined that there are no critical audit matters.

ABC Firm
New York, New York
February 28, 2015

We determined that there are no critical audit matters.

XYZ Firm
New York, New York
February 28, 2015

Both Tracer, Corp. and Magna, Inc. received a standard clean audit opinion from their respective auditing firms. The language of the two audit reports is as follows:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders Tracer, Corp.:

We have audited the balance sheets of Tracer, Corp. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders Magna, Inc.:

We have audited the balance sheets of Magna, Inc. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each
of the years in the three-year period ended December 31, 2014. Tracer, Corp.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Tracer, Corp.’s financial statements.

We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") (United States) and are required to be independent with respect to Tracer, Corp. in performing an audit without being affected by influences that compromise professional judgment, thereby allowing the firm to act with integrity and exercise objectivity and professional skepticism.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tracer, Corp. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

of the years in the three-year period ended December 31, 2014. Magna, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Magna, Inc.’s financial statements.

We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") (United States) and are required to be independent with respect to Magna, Inc. in performing an audit without being affected by influences that compromise professional judgment, thereby allowing the firm to act with integrity and exercise objectivity and professional skepticism.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Magna, Inc. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.
The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

Critical Audit Matter: We determined that our evaluation of the Tracer Corp.'s inventory value was a critical audit matter in the audit of Tracer Corp.'s financial statement as of and for the fiscal year ended December 31, 2014. Considerations that led to our determination included the following: Tracer Corp. continues to experience increased competition with its "first generation" products which reduced revenue growth, sales prices and profitability. Because of these considerations, our assessment of Tracer Corp.'s evaluation of the inventory value: (1) involved subjective auditor judgments in evaluating whether management's judgments regarding the weight given to evidence of value is appropriate and (2) involved difficult auditor judgments in designing audit procedures to test the data underlying management's impairment valuation.

ABC Firm
New York, New York
February 28, 2015

Critical Audit Matter: We determined that our evaluation of Magna Inc.'s inventory value was a critical audit matter in the audit of Magna Inc.'s financial statement as of and for the fiscal year ended December 31, 2014. Considerations that led to our determination included the following: Magna, Inc. continues to experience increased competition with its "first generation" products which reduced revenue growth, sales prices and profitability. Because of these considerations, our assessment of Magna, Inc.'s evaluation of the inventory value: (1) involved subjective auditor judgments in evaluating whether management's judgments regarding the weight given to evidence of value is appropriate and (2) involved difficult auditor judgments in designing audit procedures to test the data underlying management's impairment valuation.

XYZ Firm
New York, New York
February 28, 2015
Both Tracer, Corp. and Magna, Inc. received a standard clean audit opinion from their respective auditing firms. The language of the two audit reports is as follows:

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<tr>
<td>To the Board of Directors and Shareholders Tracer, Corp.:</td>
<td>To the Board of Directors and Shareholders Magna, Inc.:</td>
</tr>
<tr>
<td>We have audited the balance sheets of Tracer, Corp. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Tracer, Corp.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Tracer, Corp.’s financial statements.</td>
<td>We have audited the balance sheets of Magna, Inc. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Magna, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Magna, Inc.’s financial statements.</td>
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We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") (United States) and are required to be independent with respect to Tracer, Corp. in performing an audit without being affected by influences that compromise professional judgment, thereby allowing the firm to act with integrity and exercise objectivity and professional skepticism.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements.

We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") (United States) and are required to be independent with respect to Magna, Inc. in performing an audit without being affected by influences that compromise professional judgment, thereby allowing the firm to act with integrity and exercise objectivity and professional skepticism.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements.
financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tracer, Corp. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

We determined that there are no critical audit matters.

**ABC Firm**  
New York, New York  
February 28, 2015

financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Magna, Inc. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

We determined that there are no critical audit matters.

**XYZ Firm**  
New York, New York  
February 28, 2015

[*REPORT WITH NO INDEPENDENCE, ALTERNATE TENURE, AND CAM CONDITION*]

Both Tracer, Corp. and Magna, Inc. received a standard clean audit opinion from their respective auditing firms. The language of the two audit reports is as follows:

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| **ABC Firm**  
New York, New York  
February 28, 2015 | **XYZ Firm**  
New York, New York  
February 28, 2015 |
To the Board of Directors and Shareholders

Tracer, Corp.:

We have audited the balance sheets of Tracer, Corp. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Tracer, Corp.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Tracer, Corp.’s financial statements.

We or our predecessor firms have served as Tracer Corp.’s auditor consecutively since 2013.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tracer, Corp. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors and Shareholders

Magna, Inc.:

We have audited the balance sheets of Magna, Inc. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Magna, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Magna, Inc.’s financial statements.

We or our predecessor firms have served as Magna, Inc.’s auditor consecutively since 1990.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Magna, Inc. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.
The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

Critical Audit Matter: We determined that our evaluation of the Tracer Corp.'s inventory value was a critical audit matter in the audit of Tracer Corp.'s financial statement as of and for the fiscal year ended December 31, 2014. Considerations that led to our determination included the following: Tracer Corp. continues to experience increased competition with its "first generation" products which reduced revenue growth, sales prices and profitability. Because of these considerations, our assessment of Tracer Corp.'s evaluation of the inventory value: (1) involved subjective auditor judgments in evaluating whether management's judgments regarding the weight given to evidence of value is appropriate and (2) involved difficult auditor judgments in designing audit procedures to test the data underlying management's impairment valuation.

ABC Firm
New York, New York
February 28, 2015

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

Critical Audit Matter: We determined that our evaluation of Magna Inc.'s inventory value was a critical audit matter in the audit of Magna Inc.'s financial statement as of and for the fiscal year ended December 31, 2014. Considerations that led to our determination included the following: Magna, Inc. continues to experience increased competition with its "first generation" products which reduced revenue growth, sales prices and profitability. Because of these considerations, our assessment of Magna, Inc.'s evaluation of the inventory value: (1) involved subjective auditor judgments in evaluating whether management's judgments regarding the weight given to evidence of value is appropriate and (2) involved difficult auditor judgments in designing audit procedures to test the data underlying management's impairment valuation.

XYZ Firm
New York, New York
February 28, 2015
Both Tracer, Corp. and Magna, Inc. received a standard clean audit opinion from their respective auditing firms. The language of the two audit reports is as follows:

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<tr>
<td>We have audited the balance sheets of Tracer, Corp. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Tracer, Corp.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Tracer, Corp.’s financial statements.</td>
<td>We have audited the balance sheets of Magna, Inc. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Magna, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Magna, Inc.’s financial statements.</td>
</tr>
<tr>
<td>We or our predecessor firms have served as Tracer Corp.’s auditor consecutively since 2013.</td>
<td>We or our predecessor firms have served as Magna, Inc.’s auditor consecutively since 1990.</td>
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<tr>
<td>Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.</td>
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<tr>
<td>In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations, the shareholders’ equity, and the cash flows for each of the years in the three-year period ended December 31, 2014.</td>
<td>In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations, the shareholders’ equity, and the cash flows for each of the years in the three-year period ended December 31, 2014.</td>
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material respects, the financial position of Tracer, Corp. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

We determined that there are no critical audit matters.

ABC Firm
New York, New York
February 28, 2015

Both Tracer, Corp. and Magna, Inc. received a standard clean audit opinion from their respective auditing firms. The language of the two audit reports is as follows:

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<tr>
<td>To the Board of Directors and Shareholders Tracer, Corp.:</td>
<td>To the Board of Directors and Shareholders Magna, Inc.:</td>
</tr>
<tr>
<td>We have audited the balance sheets of Tracer, Corp. as of December 31, 2014 and 2013, and</td>
<td>We have audited the balance sheets of Magna, Inc. as of December 31, 2014 and 2013, and</td>
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</table>

[*REPORT WITH NO INDEPENDENCE, NO TENURE, AND CAM CONDITION*]
the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Tracer, Corp.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Tracer, Corp.’s financial statements.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tracer, Corp. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period’s financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed

the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Magna, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Magna, Inc.’s financial statements.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Magna, Inc. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period’s financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed
the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

Critical Audit Matter: We determined that our evaluation of the Tracer Corp.'s inventory value was a critical audit matter in the audit of Tracer Corp.'s financial statement as of and for the fiscal year ended December 31, 2014. Considerations that led to our determination included the following: Tracer Corp. continues to experience increased competition with its "first generation" products which reduced revenue growth, sales prices and profitability. Because of these considerations, our assessment of Tracer Corp.'s evaluation of the inventory value: (1) involved subjective auditor judgments in evaluating whether management's judgments regarding the weight given to evidence of value is appropriate and (2) involved difficult auditor judgments in designing audit procedures to test the data underlying management's impairment valuation.

ABC Firm
New York, New York
February 28, 2015

Critical Audit Matter: We determined that our evaluation of Magna Inc.'s inventory value was a critical audit matter in the audit of Magna Inc.'s financial statement as of and for the fiscal year ended December 31, 2014. Considerations that led to our determination included the following: Magna, Inc. continues to experience increased competition with its "first generation" products which reduced revenue growth, sales prices and profitability. Because of these considerations, our assessment of Magna, Inc.'s evaluation of the inventory value: (1) involved subjective auditor judgments in evaluating whether management's judgments regarding the weight given to evidence of value is appropriate and (2) involved difficult auditor judgments in designing audit procedures to test the data underlying management's impairment valuation.

XYZ Firm
New York, New York
February 28, 2015

[*REPORT WITH NO INDEPENDENCE, NO TENURE, AND NO CAM CONDITION*]

Both Tracer, Corp. and Magna, Inc. received a standard clean audit opinion from their respective auditing firms. The language of the two audit reports is as follows:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Tracer, Corp.:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Magna, Inc.:
We have audited the balance sheets of Tracer, Corp. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Tracer, Corp.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Tracer, Corp.’s financial statements.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tracer, Corp. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit.

We have audited the balance sheets of Magna, Inc. as of December 31, 2014 and 2013, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Magna, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on Magna, Inc.’s financial statements.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, appropriate evidence supporting regarding the amounts and disclosures in the financial statements. Our audits also included evaluating assessing the accounting principles used and significant estimates made by management, and as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Magna, Inc. as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit.
that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole.

We determined that there are no critical audit matters.

<table>
<thead>
<tr>
<th>ABC Firm</th>
<th>XYZ Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York, New York</td>
<td>New York, New York</td>
</tr>
<tr>
<td>February 28, 2015</td>
<td>February 28, 2015</td>
</tr>
</tbody>
</table>
Select the names of the audit firms in the study.
___ 123 Firm and 456 Firm
___ LTW Firm and CSP Firm
___ Smith Firm and Jones Firm
___ ABC Firm and XYZ Firm

Where is the critical audit matter discussed in the audit report?
___ Beginning of the audit report
___ Middle of the audit report
___ End of the audit report

Select the names of the companies in the study.
___ Orca, Inc. and Java, Corp.
___ Husk, Corp. and Mark, Inc.
___ Magna, Inc. and Tracer, Corp.

What fiscal years of the companies’ balance sheets were audited by the respective firms?
___ 1990 and 2013
___ 1972 and 1973
___ 2010 and 2011
___ 2013 and 2014

Which paragraph of the audit report contains a statement about the auditor’s obligation to be independent?
___ First paragraph
___ Second paragraph
___ Third paragraph
___ Fourth paragraph

What fiscal years were provided to you in the audit reports to describe the length of the audit-client relationships?
___ 1970 and 1993
___ 1980 and 2003
___ 1990 and 2013
___ 1995 and 2005
EXPERIMENTAL TASK QUESTIONS – DISTRIBUTED TO PARTICIPANTS CONCURRENT WITH AUDIT REPORTS

How confident are you that ABC Firm was independent in performing the audit?

<table>
<thead>
<tr>
<th>0 – NOT CONFIDENT</th>
<th>1</th>
<th>2</th>
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<th>5</th>
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<th>9</th>
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</table>

How confident are you that XYZ Firm was independent in performing the audit?

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</table>

How confident are you that ABC Firm was competent in performing the audit?

<table>
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How confident are you that XYZ Firm was competent in performing the audit?

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How confident are you that ABC Firm was transparent in performing the audit?

<table>
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<tr>
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How confident are you that XYZ Firm was transparent in performing the audit?

<table>
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<tr>
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</tr>
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</table>

How confident are you that the financial statement audit performed by ABC Firm was of high quality?

<table>
<thead>
<tr>
<th>0 – NOT CONFIDENT</th>
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</tr>
</thead>
</table>

How confident are you that the financial statement audit performed by XYZ Firm was of high quality?

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</thead>
</table>

How confident are you that ABC Firm, as an information source, was credible?

<table>
<thead>
<tr>
<th>0 – NOT CONFIDENT</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<th>7</th>
<th>8</th>
<th>9</th>
<th>10 – HIGHLY CONFIDENT</th>
</tr>
</thead>
</table>
How confident are you that XYZ Firm, as an information source, was credible?

| 0 – NOT CONFIDENT | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 – HIGHLY CONFIDENT |

How confident are you that the Tracer, Corp. financial statements are free from misstatements or omissions?

| 0 – NOT CONFIDENT | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 – HIGHLY CONFIDENT |

How confident are you that the Magna, Inc. financial statements are free from misstatements or omissions?

| 0 – NOT CONFIDENT | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 – HIGHLY CONFIDENT |

How confident are you that the audit opinion issued by ABC Firm is reliable?

| 0 – NOT CONFIDENT | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 – HIGHLY CONFIDENT |

How confident are you that the audit opinion issued by XYZ Firm is reliable?

| 0 – NOT CONFIDENT | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 – HIGHLY CONFIDENT |

Rate the influence the evaluation of Tracer, Corp.’s inventory value has on your decision to voluntarily invest in Tracer, Corp.

| 0 – LOW INFLUENCE | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 – HIGH INFLUENCE |

Rate the influence the evaluation of Magna, Inc.’s inventory value has on your decision to voluntarily invest in Magna, Inc.

| 0 – LOW INFLUENCE | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 – HIGH INFLUENCE |

How useful was Tracer, Corp.’s audit report in your investment decisions?

| 0 – NOT USEFUL | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 – HIGHLY USEFUL |
How useful was Magna, Inc.’s audit report in your investment decisions?

<table>
<thead>
<tr>
<th>0 – NOT USEFUL</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<th>8</th>
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</table>

[PAGE BREAK]

If you were approached to purchase company stock, what is the likelihood you would invest in a real company similar to Tracer, Corp.?

<table>
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<tr>
<th>0 – LOW LIKELIHOOD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<th>7</th>
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<th>9</th>
<th>10 – HIGH LIKELIHOOD</th>
</tr>
</thead>
</table>

If you were approached to purchase company stock, what is the likelihood you would invest in a real company similar to Magna, Inc.?

<table>
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</table>

Of your current stock holdings, what percentage would you feel comfortable holding in publicly-traded company stocks similar to Tracer, Corp.?

<table>
<thead>
<tr>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
<th>100%</th>
</tr>
</thead>
</table>

Of your current stock holdings, what percentage would you feel comfortable holding in publicly-traded company stocks similar to Magna, Inc.?

<table>
<thead>
<tr>
<th>0%</th>
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<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
<th>100%</th>
</tr>
</thead>
</table>

How relevant was Tracer, Corp.’s audit report in your investment decisions?

<table>
<thead>
<tr>
<th>0 – NOT RELEVANT</th>
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How relevant was Magna, Inc.’s audit report in your investment decisions?

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[PAGE BREAK]
Assume that you are given $10,000 that you must invest. Considering the information contained in the respective audit reports, indicate how much of the $10,000 you would invest between Tracer, Corp. and Magna, Inc. The total investment allocated between the two companies must sum to 100%.

___ Investment in Tracer, Corp.
___ Investment in Magna, Inc.

How informative was Tracer, Corp.’s audit report to your investment decisions?

\[
\begin{array}{cccccccccc}
0 \text{ – NOT INFORMATIVE} & 1 & 2 & 3 & 4 & 5 & 6 & 7 & 8 & 9 & 10 \text{ – HIGHLY INFORMATIVE} \\
\end{array}
\]

How informative was Magna, Inc.’s audit report to your investment decisions?

\[
\begin{array}{cccccccccc}
0 \text{ – NOT INFORMATIVE} & 1 & 2 & 3 & 4 & 5 & 6 & 7 & 8 & 9 & 10 \text{ – HIGHLY INFORMATIVE} \\
\end{array}
\]

[PAGE BREAK]
**DEMOGRAPHIC QUESTIONS**

Which best describes your age?

___ Under 18  
___ 18-25  
___ 26-34  
___ 35-54  
___ 55-64  
___ 65 or older

Which best describes your gender?

___ Female  
___ Male

Which best describes your highest level of education completed?

___ Less than High School (0-8 years)  
___ Some High School (9-12 years, but did not graduate)  
___ GED or High School Equivalency  
___ High School Graduate  
___ Attended a Vocational or Trade School after High School  
___ Some College (no degree)  
___ 2-year College Degree (Associate’s degree)  
___ 4-year College Degree (BS, BA, or similar)  
___ Some postgraduate (no degree)  
___ Postgraduate (MS, MA, PhD, MD, etc.)

Which best describes your years of professional experience?

___ Under 3  
___ 3 – 5  
___ 6 – 10  
___ 11 – 15  
___ 16 – 20  
___ 21 – 25  
___ 26 – 30  
___ Over 30

Which best describes your employment status?

___ Enrolled in undergraduate program and part time employment  
___ Enrolled in undergraduate program and full time employment  
___ Enrolled in graduate program and part time employment  
___ Enrolled in graduate program and full time employment
___ Part time employment
___ Full time employment
___ Contract employment
___ Retirement
___ Unemployment

Which best describes your occupation?

___ Accounting oriented
___ Auditing oriented
___ Custom service oriented
___ Finance oriented
___ Financial reporting oriented
___ Human resources oriented
___ Management oriented
___ Marketing oriented
___ Operations oriented
___ Production oriented
___ Tax preparation oriented
___ Other

Which best describes your age?

___ Under 18
___ 18-25
___ 26-34
___ 35-54
___ 55-64
___ 65 or older

Which constitutes the largest portion of your equity investments?

___ Participation in an employer's 401(k) retirement plan
___ Participation in an employer's 403(b) retirement plan
___ Investment portfolio held by a non-employment related brokerage house
___ Investment portfolio maintained by a non-employment related financial advisor
___ Investment portfolio actively managed by self

Do you actively trade through a brokerage firm or its website (e.g. Scottrade, Sharebuilder, eTrade, commercial bank, etc.)?

___ Yes
___ No
What percentage of your assets are held by the brokerage firm?

___ 0 - 10%
___ 11 - 25%
___ 26 - 50%
___ 51%+

Of those assets held by the brokerage, how much of the portfolio is comprised of individual stocks?

___ less than 10%
___ less than 25%
___ less than 50%
___ less than 75%
___ greater than 75%

How often do you buy stocks?

___ Daily
___ Weekly
___ Monthly
___ Seasonally
___ Annually

When considering buying a stock, how often do you evaluate the company's financial statements?

___ Rarely
___ Occasionally
___ Usually
___ Always

When considering buying a stock, how often do you evaluate the company's audit report?

___ Rarely
___ Occasionally
___ Usually
___ Always

[PAGE BREAK]

[END OF EXPERIMENT – UNIQUE 4 DIGIT CODE PROVIDED ON NEXT SCREEN]
L. TYLER WILLIAMS

EDUCATION & CERTIFICATION
University of Mississippi – Oxford, MS May 2016
Doctor of Philosophy in Accountancy
University of Mississippi – Oxford, MS May 2006
Master of Accountancy
University of Mississippi – Oxford, MS May 2005
Bachelor of Accountancy, Cum Laude

Certification: CPA (Active) – Texas
Member: American Accounting Association, Texas Society of Certified Public Accountants

PROFESSIONAL EXPERIENCE
Public Company Accounting Oversight Board – Washington, DC Summer 2013
Summer Doctoral Fellow in the Office of Research and Analysis
- Worked with Chief Economist to assess economic costs and benefits of public company audit rules and standards promulgation.
- Participated in discussion, development, and dissemination of current and future organization projects and standards.

Savannah College of Art & Design – Savannah, GA 2010 - 2011
Director of Internal Audit
- Developed Internal Audit Department risk assessment, charter, formal strategic plan, and three-year revolving audit plan.
- Interacted with President, COO, and CFO on a daily basis and presented semi-annual internal audit reports to Audit Committee of Board of Trustees.

JPMorgan Chase & Co. – Dallas, TX 2009 - 2010
PEFS Fund Analyst, Officer
- Researched tax positions and strategies for investment funds of private equity firm clients.
- Prepared GAAP financial statements for investment funds of private equity firm clients.

PricewaterhouseCoopers LLP – Dallas, TX 2006 - 2008
Experienced Associate – Assurance
- Attained significant exposure to the financial services industry primarily through banking, private equity investment, investment management, and real estate clients.
• Participated in entire audit process for investment funds including planning, performing, testing, and issuing the financial statements for engagements.

**RESEARCH**

**Interests:** Auditing / Standard-setting / Regulation / Public Policy (*Behavioral Methodology*)

**DISSERTATION**


**PUBLISHED MANUSCRIPTS**

- Williams, T. and W.M. Wilder, Audit Firm Perspective on Audit Firm Rotation and Enhancing Independence: Evidence from PCAOB Comment Letters; *Current Issues in Auditing* (Forthcoming).

**WORKING PAPERS**


**CONFERENCE AND WORKSHOP PRESENTATIONS**

  - Invited Presentation; *Bentley University*; Waltham, Massachusetts. February 4, 2016.
  - Invited Presentation; *Ball State University*; Waltham, Massachusetts. February 1, 2016.
  - Accepted Paper; *AAA Auditing Section Mid-Year Meeting*; Scottsdale, Arizona. January 16, 2016.
  - Invited Presentation; *Oklahoma State University*; Stillwater, Oklahoma. October 26, 2015.
  - Invited Presentation; *Louisiana State University*; Baton Rouge, Louisiana. October 2, 2015.
  - Accepted Paper; *AAA Southeast Regional Meeting*; Asheville, North Carolina. April 18, 2015.
Accepted Paper; **AAA Annual Meeting**; Atlanta, Georgia. August 4, 2014.
Accepted Paper; **AAA Southeast Regional Meeting**; St. Petersburg, Florida. April 5, 2014.
Seay, R. and T. Williams, The Role of Managerial Ability in Auditor Changes: Does Efficiency Matter?
Accepted Paper; **AAA Auditing Section Mid-Year Meeting**; New Orleans, Louisiana.
January 18, 2013.

**CONFERENCE ATTENDANCE**
- 2016 **AAA Auditing Section Mid-Year Meeting**; Scottsdale, Arizona
- 2015 **Accounting PHD Rookie Recruiting and Research Camp**; Miami, Florida
- 2015 **American Accounting Association Annual Meeting**; Chicago, Illinois
- 2015 **American Accounting Association Southeast Regional Meeting**; Asheville, North Carolina
- 2014 **PCAOB Center for Economic Analysis and JAR Conference on Auditing and Capital Markets**; Washington, DC
- 2014 **Accounting PHD Rookie Recruiting and Research Camp (Observer)**; Miami, Florida
- 2014 **American Accounting Association Annual Meeting**; Atlanta, Georgia
- 2014 **Deloitte Foundation J. Michael Cook Doctoral Consortium**; Westlake, Texas
- 2014 **American Accounting Association Southeast Regional Meeting**; St. Petersburg, Florida
- 2014 **Mid-South Doctoral Consortium**; Starkville, Mississippi
- 2013 **AAA Auditing Section Mid-Year Meeting**; New Orleans, Louisiana
- 2012 **Mid-South Doctoral Consortium**; Memphis, Tennessee
- 2012 **AAA Financial Accounting and Reporting (FARS) Section Midyear Meeting**; Chicago, Illinois

**TEACHING (UNIVERSITY OF MISSISSIPPI)**
Course Assignments (Overall Rating of 4.6 / 5.0)
- Intro to Financial Accounting I (8 sections)
- Intro to Financial Accounting II (2 sections)
- Cost Control (4 sections)
- Becker CPA Review Course (1 section)

**Future Interests:** Auditing, Financial, Managerial

**SERVICE (UNIVERSITY OF MISSISSIPPI)**
- 2015 - 2016 **Graduate School/School of Accountancy Representative, Center for Excellence in Teaching & Learning, Director Search Committee**
- 2013 - 2016 **Graduate School/School of Accountancy Board Member, Center for Excellence in Teaching & Learning**
- 2013 - 2014 **Graduate School/School of Accountancy Representative, Provost Fellow Committee**

**HONORS & AWARDS**
- Awarded Fall 2015 **Graduate School Dissertation Fellowship; University of Mississippi.**
- Nominated for 2014-2015 **Graduate Instructor Excellence in Teaching Award; University of Mississippi.**
• Nominated for 2013-2014 Graduate Instructor Excellence in Teaching Award; University of Mississippi.
• Selected for 2013-2014 Patterson School of Accountancy Doctoral Teaching Award; University of Mississippi.
• Selected for Deloitte Foundation J. Michael Cook 2014 Doctoral Consortium; University of Mississippi.
• Selected for Lambda Sigma Honor Society November 2013 Teacher of the Month; University of Mississippi.
• Selected for 2013 Doctoral Consortium; AAA Auditing Section.
• Selected for 2012 Doctoral Consortium; AAA Financial Accounting and Reporting Section.