



GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH: D
ACCOUNTING AND AUDITING
Volume 14 Issue 5 Version 1.0 Year 2014
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Disclosure of Information in Audit Reports

By FláviaVerônica Silva Jacques & Clea Beatriz Macagnan

Universidade Federal do Rio Grande (FURG), Brazil

Abstract- This study aimed to determine if the level of information included in audit reports was related to the average stock value of companies as listed in the Brazilian capital market. Of 255 companies, 44 financial entities were excluded because they operate in regulatory and competitive environments that are different from the other studied companies. The selected companies had at least one audit report over a 5-year period (2005 to 2009), which resulted in a final sample of 33 companies and a total of 165 observations. The study first analyzed the information content in the audit reports, and statistical analyses were then performed to compare the data. The results showed that the disclosure of accounting practices has a positive explanatory effect on the average share price variance.

Keywords: disclosure, audit, audit reports, agency theory.

GJMBR - D Classification : JEL Code : M49



Strictly as per the compliance and regulations of:



Disclosure of Information in Audit Reports

FláviaVerônica Silva Jacques ^α & Clea Beatriz Macagnan ^ο

Abstract- This study aimed to determine if the level of information included in audit reports was related to the average stock value of companies as listed in the Brazilian capital market. Of 255 companies, 44 financial entities were excluded because they operate in regulatory and competitive environments that are different from the other studied companies. The selected companies had at least one audit report over a 5-year period (2005 to 2009), which resulted in a final sample of 33 companies and a total of 165 observations. The study first analyzed the information content in the audit reports, and statistical analyses were then performed to compare the data. The results showed that the disclosure of accounting practices has a positive explanatory effect on the average share price variance.

Keywords: disclosure, audit, audit reports, agency theory.

I. INTRODUCTION

To ensure the quality of information, quality standards are required by regulators in the Brazilian market, primarily via the disclosure of companies' financial statements. To ensure that the information reported by financial statements is truthful, external auditor examinations are conducted. The independent audit of the financial statements provides users with an assessment of the information disclosed by the company, informs their investment decisions, and encourages transparency among the company management (Jensen; Meckling 1976; Chow 1982). In this context, the audit report becomes a source of information that can be used by stakeholders in their decision-making processes. The audit report is also a formal, legal, and unbiased report that validates and ensures the regularity and reliability of the financial statements produced and disclosed by the companies (Araújo 2003).

Therefore, the present study seeks to answer the following question: is a company's variance of the average share price as listed in the Brazilian capital market related to the level of information disclosed in audit reports? The motivation for this research originates from the lack of studies on Brazil's capital market related to disclosure using an independent audit report as a source for analyses.

Author α: Professorat the Federal University of Rio Grande (FURG), Country: Brazil. e-mail: flaviaiceac@yahoo.com.br

Author ο: Professor at the University UNISINOS, Country: Brazil. e-mail: cleabeatrizm@gmail.com

II. BRAZIL'S CAPITAL MARKET

Since the 1990s and due to the economic globalization process, there has been an increase in foreign investors in Brazil's capital market. Additionally, several Brazilian companies have entered foreign markets, listing their shares on foreign stock exchanges, such as the New York Stock Exchange, as American Depositary Receipts (ADRs). These changes have forced Brazilian companies to improve their management practices, including the development of corporate governance.

To encourage better corporate governance practices in the Brazilian market and boost investor confidence, some institutional and governmental initiatives have also been implemented. Notably, corporate law No. 6.404/76, which instituted modern rules to govern publicly listed companies, and law No. 6.385/76, which created the Securities Commission (Comissão de Valores Mobiliários - CVM), were implemented. The creation of the New Market and of Levels 1 and 2 of Corporate Governance by the São Paulo Stock Exchange (Bovespa) represents more milestones in this process.

The CVM operates on matters related to Brazilian corporate law (6.404/76) and is empowered to discipline, regulate, and monitor the activities of the several members of Brazil's securities market: the publicly listed companies, the financial intermediaries, and the investors. Law 6.404/76 (amended by Law 11.638/07) stipulates that at the end of each fiscal year, each company's board will draft financial statements that should clearly express the company's net worth and the changes that occurred in that fiscal year. These statements should be complemented with explanatory notes and the other analytical tools necessary for the clarification of assets and earnings for that period. In addition, "the financial statements of publicly listed companies will follow the regulations implemented by the CVM and will be audited by independent auditors" (art. 177 § 3rd - amendment introduced by Law 11.941/09).

Through the preparation of financial statements, it is possible to obtain information regarding an entity's financial position, assets, earnings, and financial flow, which is useful for a wide range of users to make decisions. These statements should show the management of resources entrusted to the administration, according to CVM resolution No. 488/2005. Disclosure of corporate information in the

capital market, whether voluntary or compulsory, enables the reduction of informational asymmetry between the parties and the economic agents involved.

III. INFORMATIONAL ASYMMETRY IN CORPORATE RELATIONS AND AGENCY THEORY ASSUMPTIONS

Contractual relationships may be considered the essence of a company (Jensen and Meckling 1976). These relationships are made not only with investors, but also with the employees, customers, and suppliers, among other economic agents. The conditions established in these contracts form the basis of the organization (Alchian; Demsetz 1972). Not all of the economic agents possess the same amount of information regarding the company. The uneven access to information gives rise to a situation of information asymmetry between the economic agents (Jensen and Meckling 1976). Considering the capital market environment, the problem lies in the fact that the agent (management) has insights that are hardly observable by the principal (shareholder/investor).

The different levels of information that exist between the economic agents create opportunities and conditions that would limit the market's efficiency (Arrow, 1963). In this context, the informational asymmetry establishes implications for adverse selection (ex ante opportunism) and moral hazard (ex post opportunism) (Macagnan, 2005). The problem of adverse selection occurs before the signing of a contract, in which one of the parties holds more information on the transaction than the other party (Akerlof 1970; Rothschild; Stiglitz 1976; Mishkin 1991; Kreps 1994; Cutler and Zeckhauser 1997). The problem of moral hazard would be an opportunist post-contract consequence related to the difficulty in observing whether the actions of a particular party are aligned with the agreement (Milgrom and Roberts 1992). This type of situation could lead to economic inefficiency in the capital market (Akerlof 1970).

Beginning from the assumption that all economic activity can be reduced to a series of bilateral contracts, which can be made or broken at any time by either party (Jensen; Meckling 1976), the problems of moral hazard and adverse selection could generate costs. These costs include the following: the principal monitoring of the agent; the agent demonstrating that their behavior is line with the behavior desired by the principal; and insurance and residual losses (Jensen; Meckling 1976). To minimize these problems, the agency theory proposes the disclosure of information, as well as the hiring of external auditors, which could improve market transactions (Verrecchia 1999; Healy and Palepu 2001). The agency theory stresses the significance of information disclosure as a way to mitigate both the informational asymmetry between the

principal and the agent, as well as the problems with the high costs of monitoring the agents' actions to ensure that they comply with institutional standards. Corporate disclosure becomes essential in ameliorating the problems related to moral hazard and adverse selection derived from informational asymmetry.

IV. INFORMATION DISCLOSURE TO THE MARKET

The Financial Accounting Standards Board (FASB, 2008) considers relevant information to be information that can "make a difference" in a future decision. In addition, relevant information should allow users to make predictions concerning the outcome of observed events and confirm or correct a previous expectation, which is called the predictive value and feedback value of information. Accordingly, the disclosure of financial, economic, and management information through statements could serve as a decision-making aid, helping to set goals for attracting new resources and risk management, thereby increasing investor confidence. This confidence would raise the likelihood of investors to purchase company shares. Risk reduction also would generate better stock pricing, which in turn encourages new capital openings and strengthens the stock market (Levitt 1998). In particular, the disclosure of information through audited financial statements (external and independent audit) could be regarded as a means of reducing agency costs (Jensen; Meckling 1976; Chow 1982).

The studies of Ball and Brown (1968), Chow and Wong-Boren (1987), Cooke (1989a, 1989b), Raffournier (1995), Patton and Zelenka (1997), Owusu-Ansah (1997), Leventis and Weetman (2000), Piacentini (2004), and Zhang (2008) indicated the significance of disclosure in the market. Furthermore, Firth (1979) and Wallace, Naser, and Mora (1994) noted that audit firms have an influence on the content shown in companies' annual reports. The larger and more recognized the audit firm, the greater this influence. Studies by DeAngelo (1981) and Inchausti (1997) reported that the large audit firms have incentives to provide a higher level of auditing quality through information disclosure in their reports and also that they risk losing their prestige if they are linked to clients with poor disclosure practices. Craswell and Taylor (1992) suggested that the audit firm choice is likely to be associated with the decision to disclose more or less information.

V. INDEPENDENT AUDIT IN THE BRAZILIAN CONTEXT

The examination of financial statements by external auditors promotes the disclosure of information that is sufficient to guide users' decisions (Jensen and Meckling 1976; Chow 1982 and Healy and Palepu 2001). The hiring of external auditors is a way to signal

the good practices of the company's management to foreign investors (Jensen and Meckling 1976). The hiring of these services originates from a market demand to increase the credibility of financial reports (Healy and Palepu 2001).

Regarding the Brazilian market, the goal of an accounting audit is to increase the users' degree of confidence in the financial statements. This process is achieved by an audit report stating that statements meet the regulatory requirements (NBC TA 200 CFC Resolution N. 1.203/09). The audit report would be the end product of the auditor, a formal means of communication that provides information to stakeholders.

The Brazilian Accounting Standard NBC T 11/05 that was promulgated by the Federal Accounting Council (Conselho Federal de Contabilidade – CFC, 2005) states the form and content guidelines for reports issued on the financial statements of organizations by independent auditors and clarifies the main components that must be included. When issuing an opinion, the auditor assumes technical and professional responsibility for the report that will then be directed to shareholders, investors or partners, and the board of directors, or the company equivalent. In certain circumstances, the audit report will be distributed to contracted service providers.

Depending on the nature of the opinions expressed in the audit report, the report is classified as one of the following: a (1) report without caveats; (2) report with caveats; (3) adverse report; and (4) report omitting opinion. In any of the referred reports, the auditor should identify the following information: (a) the financial statements on which the opinion is based; (b) the name of the entity and the dates and periods reported; and (c) if the work is performed by an audit firm, the auditor should indicate the name and the number under which the firm is registered with the Regional Council of Accountancy. The independent audit report essentially consists of 3 parts: (1) identifying the financial statements and defining the responsibilities of the directors and auditors; (2) describing the extent of the work; and (3) expressing the auditor's opinion on the financial statements. Finally, the audit report must be dated and signed by the accountant responsible for the work (noting their registration number with the Regional Council of Accountancy), and the date should correspond to the date of the audit report closure.

VI. METHODOLOGICAL PROCEDURES

The present study is based on the premise that the disclosure of information to the market through audit reports is considered to be a form of informing stakeholders on the legal, financial, and economic situation of the organization, thereby enabling stakeholders to support a company's future plans by the

buying or selling stocks. By examining the variation of prices before or after the report publication, it is possible to determine if the values reflect the type and the degree of information disclosed in the market or if the report does not reflect relevant information. Therefore, the research hypothesis presented in this study is the following:

H1: the information disclosed in the audit report is related to the variation in the average value of company shares.

Therefore, to model estimates, we employed a multiple linear regression model using the ordinary least squares (OLS) method and panel data. The model proposed and tested in the present study was exploratory because it has not been used in similar studies. The econometric model is specified below:

$$MVV_{it} = \beta_0 + \beta_1 ED_{it} + \beta_2 EAP_{it} + \beta_3 EDE_{it} + \beta_4 TA_{it} + \beta_5 NI_{it} + \beta_6 NP_{it} + \beta_7 Eq_{it} + \beta_8 Ind_{it} + \beta_9 Beta_{it} + \beta_{10} GL_{it} + \beta_{11} EX_R_{it} + \beta_{12} GDP_{it} + \beta_{13} Cash-Yield_{it} + \beta_{14} SECTOR_{it} + \epsilon_{it} \quad (1)$$

The dependent variable (MVV_{it}) is the variance of the mean value of the companies' share price. For this variable, the daily share prices of the companies were obtained the official website of the Brazilian stock exchange 60 days before and 60 days after the publication of the audit report. With these daily stock prices, it was possible to obtain the average value for the periods before and after the report release. Preferred and ordinary shares were considered together because their variations were quite similar.

The choice of the period for the event study was based on the audit report publication date for each company's earnings statement. The magnitude of the event was 120 days, beginning 60 days (-60) before the event (0) and ending 60 days (+60) after the event. The days considered when calculating the arithmetic mean were only those days that trading occurred in the Bovespa.

The formula used to calculate the arithmetic mean of the values is as follows:

$$X_a = \frac{\sum Sp(-60)}{N}, \quad (2)$$

$$X_p = \frac{\sum Sp(+60)}{N}, \quad (3)$$

where X_a is the mean share price prior to the event, X_p represents the mean share price after the event, $\sum Sp(-60)$ is the sum of the values of the daily share prices in the period of 60 days immediately before publication of the audit report, $\sum Sp(+60)$ represents the sum of the values of the daily share prices in the period of 60 days immediately after publication of the audit report, and N is the number of days in which the shares were traded within the period of 60 days.

Once the means for companies were calculated for the years analyzed, the next step was to verify the variance in the mean share prices (increase or decrease) after the publication of audit reports. To do so, we used the following formula:

$$MVV = \sum(X_p(ON) + X_p(PN)) - \sum(X_a(ON) + X_a(PN)), \quad (4)$$

where MVV is the mean value variance, $\sum(X_p(ON) + X_p(PN))$ represents the sum of ON and PN share mean value after the event, and $\sum(X_a(ON) + X_a(PN))$ is the sum of ON and PN share mean value before the event.

The explanatory variables, $\beta 1EDit$ (discontinuity indicators), $\beta 2EAPit$ (accounting practices indicators), and $\beta 3EDEit$ (indicators of other events), were developed as described below. First, analyses of the audit report contents were performed to identify the disclosed information and create the respective indicators. To construct these indicators, the primary aspects described by the auditors in their caveats were extracted, as well as all of the content described in the report, including paragraphs on relevant information

presented in the series of caveats. The decision to include these paragraphs was made because the audit report should be analyzed in its entirety and in view of the (impartial) informational content presented because of the significance given to that document by the legislation (Law 6.404/76 and subsequent amendments), regulators (CVM and CFC), and the capital market, which requires it in their own regulations. The starting point for the construction of indicators was the NBC T 11.10 - CFC Resolution N. 1.037/05 (CFC 2005). This resolution dictates the main aspects that are to be noted by the auditors regarding evidence of the audited company's operating discontinuity.

From the content analyses of the audit reports, 37 new indicators were created. In conducting the research, the 19 NBC T 11.10 operational discontinuity indicators and the 37 indicators created were considered together for a total of 55 indicators. After defining the indicators, categories of indicators were created that allowed for the level of information disclosure to be measured. These indexes are illustrated in Figure 1.

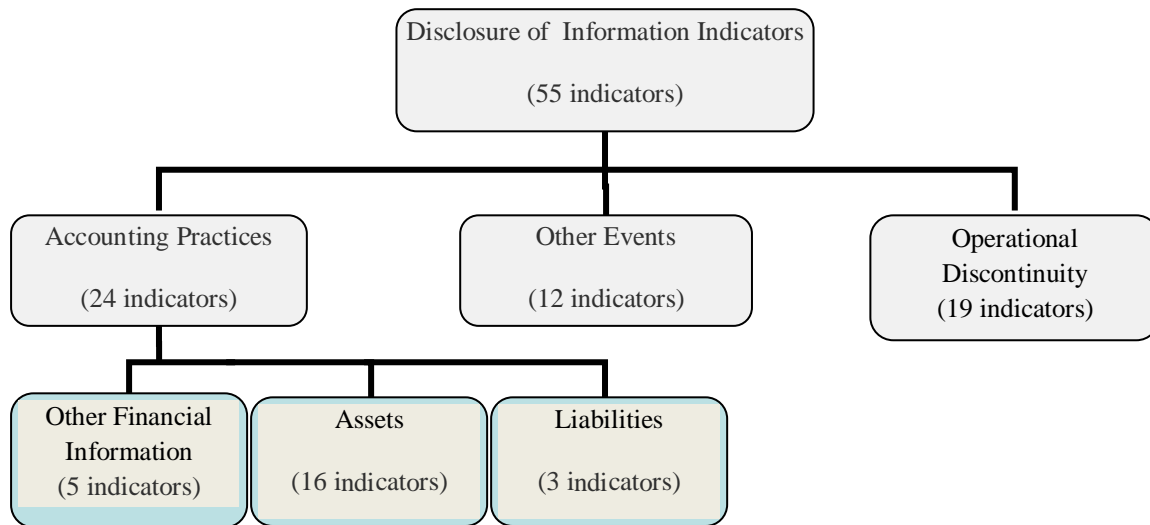


Figure 1: Information disclosure indicator categories

In the category "indicators of accounting practices", we aimed to address the main information disclosed in accounting practices, such as evaluations, bookkeeping, provisions, adjustments, reclassifications, divergences, etc. This category covers information on the assets and liabilities of the companies, as well as on the financial statements and the limitations of audit procedures. There are 16 indicators of information disclosure on the current or non-current assets and 3 indicators of disclosure related to the company's current or non-current liabilities. In addition, a sub-category, "other financial information", was created with 5 indicators. Another category was created to disclose a company's strategic and administrative information and relevant facts that could somehow impact the current or future earning; this category was "disclosure indicators -

other events" and included 12 indicators. After the construction of the indicators, disclosure indices were calculated for each of the 33 companies. The 55 analytical indicators are presented in Appendices I and II.

A set of categories representing the indicators was created to measure the level of information disclosure. These categories are represented with the indexes calculated for each company using the following formula:

$$I_j = \frac{\sum_{i=1}^n x_{ij}}{n_j}$$

where n_j is the number of indicators expected for each company, j is the sub-index of each company,

and i is the number of indicators. If the indicator X_{ij} is disclosed, it assumes a value of 1; otherwise, the value is 0.

Control variables were inserted in the model and were considered to be indicators capable of aiding investment decisions. Therefore, these variables can influence the stock value (increase or decrease). The **control variables** are the total assets ($\beta 4TA_{it}$), net income ($\beta 5NI_{it}$), net profit ($\beta 6NP_{it}$), equity ($\beta 7Eq_{it}$), indebtedness ($\beta 8Ind_{it}$), beta ($\beta 9Beta_{it}$), general liquidity ($\beta 10GL_{it}$), and cash-yield per share ($\beta 13CashYield_{it}$). These values were obtained from the Economática database. The economic control variables were the exchange rate ($\beta 11EX_R_{it}$) and the gross domestic product-GDP growth rate ($\beta 12GDP_{it}$), obtained from the Brazilian Institute of Economics (Instituto Brasileiro de Economia (IBRE)) of the Getúlio Vargas Foundation website. Established in 1951, the IBRE focuses on the production and dissemination of macroeconomic statistics and applied economic research and pioneered calculating the Brazilian GDP. The company's sector of activity ($\beta 14SECTOR_{it}$) was also included as a control variable.

The study population was composed of 255 publicly traded companies with shares traded on Bovespa's traditional market. Of this population, 44

financial entities were excluded because they operate in regulatory and competitive environments that are different from the other companies. Of the remaining non-financial companies, 211 were selected because they disclosed at least one report with caveats over a period of 5 years (2005 to 2009), which resulted in a final sample of 33 companies and a total of 165 observations.

VII. RESEARCH RESULTS

The research results are presented below using two methods of analyses: (1) descriptive and correlation analyses and (2) linear regression.

VIII. DESCRIPTIVE ANALYSES AND CORRELATION ANALYSES

Table 1 reports the descriptive analyses results of the explanatory and control variables in the econometric model. The means of indicators are based on the content analyses of the company's audit reports, XD (indicators of operational discontinuity), XDE (indicators of other events), and XPC (indicators of accounting practices), and also of the control variables, TA, beta, cash-yield, Ind, GL, NP, GDP, Eq, NI, and EXR.

Table 1 : Descriptive analyses of the dependent variables

Explanatory Variables	Mean	Maximum	Minimum	Standard Deviation
XD (Discontinuity)	0.872727	7.0000	0.0000	1.649699
XOE (Other Events)	0.260606	2.0000	0.0000	0.561976
XAP (Accounting Practices)	0.975758	8.0000	0.0000	1.541901
Control Variables	Mean	Maximum	Minimum	Standard Deviation
TA	1720.776	16.111.73	6.860000	3.492.298
Beta	0.627762	4.810000	-59.700	1.295984
Cash-Yield	0.132076	3.980000	0.0000	0.466225
Ind	3.910606	244.3500	0.0000	23.77091
GL	0.821455	16.17000	0.0000	1.325938
NP	9.210182	716.5800	-3,796.100	147.7896
GDP	3.640000	6.100000	-0.200000	2.163043
Eq	162.0234	3163.250	-3333380	914.9999
NI	812.577	10395.450	0.0000	1948.716
EXR	725625.8	740893.0	708,020.0	11677.95

Among the explanatory variables, the disclosure of accounting practices (XAP) has the highest incidence (0.9757), followed by the disclosure of operational discontinuity indicators (0.8727).

The correlation analysis allowed for the opportunity to identify the multicollinearity relationships that occur with 2 or more independent variables, as shown in Table 2: net income (NI) and total assets (TA); disclosure of accounting practices (XAP) with disclosure of operational discontinuity (XD); disclosure of

accounting practices with disclosure of other events (XOE); equity (Eq), and net profit (NP).

Table 2 : Correlation matrix of variables

	1	2	3	4	5	6	7	8	9	10	11	12	13
XD	1.000												
XDE	0.463	1.000											
XPC	0.653	0.598	1.000										
AT	0.176	0.180	0.161	1.000									
BETA	0.061	0.056	0.008	0.232	1.000								
DIV_ACAO	0.066	0.117	0.078	0.413	0.223	1.000							
END	0.084	0.165	0.090	0.074	0.076	0.042	1.000						
LG	0.137	0.117	0.045	0.004	0.056	0.219	0.095	1.000					
LL	0.042	0.123	0.003	0.422	0.254	0.330	0.337	0.125	1.000				
PIB	0.033	0.037	0.018	0.044	0.025	0.065	0.071	0.121	0.005	1.000			
PL	0.128	0.205	0.064	0.578	0.260	0.266	0.522	0.161	0.746	0.004	1.000		
RL	0.141	0.166	0.157	0.864	0.152	0.424	0.063	0.035	0.294	0.012	0.388	1.000	
TC	0.002	0.039	0.053	0.062	0.179	0.106	0.078	0.028	0.069	0.150	0.007	0.021	1.000

The variables excluded from the model were XD (disclosure of operational discontinuity), XOE (disclosure of other events), TA (total assets) and NP (net profit) because they had large P-values (probability). The variables TA and NP, although they were proposed to measure the influence of size, were not included in the regression because they did not contribute to the model.

To achieve a model with significant explanatory variables, a significance level of up to 10% was considered. Under this condition, the following variables were excluded: equity (Eq), indebtedness (Ind), and general liquidity (GL) because they were not significant. However, the only relevant variable continued to be

disclosure of indicators of accounting practices (XAP), and this variable became more significant (near 0.10) when controlling for the sector of activity.

IX. REGRESSION ANALYSES BY ORDINARY LEAST SQUARES

Table 3 shows the results obtained with the regression model using the ordinary least squares method to identify the relationship between the explanatory variables, the level of information disclosure in the audit reports, and the dependent variable, variation in the mean company share price.

Table 3 : Estimating the statistical model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
XPC	0.745436	0.452104	1.648814	0.1014
BETA	-1.191405	0.314032	-3.793896	0.0002
DIV_ACAO	0.973506	0.543986	1.789580	0.0757
PIB	0.267566	0.079854	3.350708	0.0010
TC	7.67E-05	1.32E-05	5.827426	0.0000
C	-55.32696	8.651987	-6.394712	0.0000
R-squared	0.142194	Mean dependent var.		0.520667
Adjusted R-squared	0.009294	S.D. dependent var.		5.814203
S.E. of regression	5.787120	Sum squared resid.		4755688
F-statistic	1.069936	Durbin-Watson		1.556699
Prob(F-statistic)	0.386424			
R-squared	0.142194	Mean dependent var.		0.520667
Sum squared resid	4755688	Durbin-Watson		1.556699

The indicator of disclosure of accounting practices has a coefficient of 0.7454, which indicates that for each unit of the XAP variation, the average value of shares varies 0.7454 (i.e., it explains variance sensitivity between the variable (Y) and the variable (XAP) by 0.7454 or 74.54%). This positive relationship indicates that as companies disclose more information for that indicator, the change in the average value of its shares on the market will be positive, thus confirming the agency theory discussed in this study.

The control variables that remained in the model, beta, cash-yield per share, GDP growth rate and exchange rate, had P-Values of 0.002, 0.0757, 0.0010, and 0.00, respectively. Beta had a negative relationship with the dependent variable, and the other control variables had a positive relationship, as expected from Equation 4.

The negative relationship demonstrated by beta indicates that if this variable increases 1 unit, the variation of the average share price will be -1.19 during the period examined. An increase in the GDP growth rate of 1% per year will be reflected in an increase of 0.2675 units in the calculated mean share price variation. An increase in the exchange rate of 1% per year results in an increase of 7.67 units in the calculated mean share price variation. An increase of one unit in cash-yield per share yields an increase of 0.9735 units in the calculated mean share price variation.

X. FINAL CONSIDERATIONS

The present study aimed to identify if the disclosure of information through independent audit reports is correlated with variation in the mean prices of stocks traded after the disclosure and was based on a sample of traditional companies listed on Bovespa (from 2005 to 2009).

The results suggest that greater disclosure via an audit report and when considering a specific indicator provides investors with a better assessment of the company, which can reduce informational asymmetry and raise the level of confidence in the audited company.

The indicators of operational continuity and other events were not significant to the model and were therefore excluded. Thus, it is not possible to know whether this information has any relevance to users because it did not explain the mean share price of the companies studied.

The research reveals that statistically, the only indicator relevant to the model is the disclosure of accounting practices, and therefore, disclosing such information in the audit reports increases the variation in the mean share price of the companies (listed in the sample) after the audit report is disclosed.

This research does not claim to be a comprehensive review of this subject given Brazil's current regulatory scenario, in which information is

disclosed through financial statements and audit reports to meet the standards that were based on the international market.

REFERENCES RÉFÉRENCES REFERENCIAS

- AKERLOF, G. A. (1970). "The market for "lemons": quality uncertainty and the market mechanism". *Quarterly Journal of Economics*, Oxford, v. 84, n. 3, p. 488-500, Aug. ALCHIAN, A.A.; DEMSETZ, H. (1972). "Production, Information Costs, and Economic Organization". *The American Economic Review*. vol. 62, n. 5, p.777-795, dec.
- ARAUJO, Francisco José. (2003). "Compreensão do parecer do auditor independente no Brasil". *Revista Brasileira de Contabilidade*, v. 139, p. 71-82, jan./fev.
- ARROW, K. J. (1963). "Uncertainty and the welfare economics of medical care". *The American Economic Review*. v. LIII, n.5, p. 941-973.
- BALL, R. J.; BROWN, W. (1968). "An Empirical Evaluation of Accounting Income Numbers". *Journal of Accounting Research*, Chicago, v. 24, n. 1, p. 40-56, Spring.
- BRASIL. Lei n.º 6.385, de 07 de dezembro de 1976 (Dispõe sobre o mercado de valores mobiliários e cria a Comissão de Valores Mobiliários). Disponível em: <http://www.planalto.gov.br/ccivil_03/Leis/QUADRO/1960-1980.htm>. Acesso em: 20 nov. 2010.
- _____. Lei n.º 6.404, de 15 de dezembro de 1976 (Dispõe sobre as Sociedades por Ações). Disponível em: <http://www.planalto.gov.br/ccivil_03/Leis/QUADRO/1960-1980.htm>. Acesso em: 20 nov. 2010.
- _____. Lei n.º 11.638, de 28 de dezembro de 2007 (Altera e revoga dispositivos da Lei no 6.404, de 15 de dezembro de 1976, e da Lei no 6.385, de 7 de dezembro de 1976, e estende às sociedades de grande porte disposições relativas à elaboração e divulgação de demonstrações financeiras). Disponível em: http://www.planalto.gov.br/ccivil_03/_ato2007-2010/2007/lei/l11638.htm. Acesso em: 20 dez. 2010.
- _____. Lei n.º 11.941, de 27 de Maio de 2009 (Altera a legislação tributária federal relativa ao parcelamento ordinário de débitos tributários; concede remissão nos casos em que especifica; institui regime tributário de transição). Disponível em: http://www.planalto.gov.br/ccivil_03/_Ato2007-2010/2009/Lei/L11941.htm. Acesso em: 30 dez. 2010.
- CHOW, C. W. (1982). "The Demand of External Auditing: Size, Debt and Ownership Influences". *The Accounting Review*, Sarasota, v. 52, p. 272-291,
- _____; WONG-BOREN, A. (1987). "Voluntary financial disclosure by Mexican corporations". *The Accounting Review*, Sarasota, v. 62, p. 533-541.

11. COMISSÃO DE VALORES MOBILIARIOS – CVM. Deliberação n. 488, de 3 de Outubro de 2005. Disponível em: <<http://www.portaldecontabilidade.com.br/legislacao/deliberacaoocvm488>>. Acesso em: 20 dez. 2010.
12. CONSELHO FEDERAL DE CONTABILIDADE. Resolução n.º 820, de 1997. Aprova a NBC T 11 – Normas de Auditoria Independente das Demonstrações Contábeis com Alterações e dá outras providências. Disponível em: <<http://www.cfc.org.br>>. Acesso em: 05 jan. 2010.
13. _____. Resolução n.º 1.037, de 23 de agosto de 2005. Aprova NBC T 11.10. Continuidade Normal das Atividades da Entidade. Disponível em: <<http://www.cfc.org.br>>. Acesso em: 05 jan. 2010.
14. _____. Resolução n.º 1.203, de 27 de novembro de 2009 (Aprova a NBC TA 200 – Objetivos Gerais do Auditor Independente e a Condução da Auditoria em Conformidade com Normas de Auditoria). Disponível em: <<http://www.cfc.org.br>>. Acesso em: 05 jan. 2010.
15. COOKE, T.E. (1989). "Disclosure in the corporate annual reports of Swedish companies". *Accounting and Business Research*, [s.l.], n. 19, p. 113-124, a.
16. _____. (1989). "Voluntary corporate disclosure by Swedish companies". *Journal of International Financial Management and Accounting*, [s.l.], n. 1, p. 171-195, b.
17. CRASWELL, A. T.; TAYLOR, S. L. (1992). "Discretionary disclosure of reserves by oil and gas companies: an economic analysis". *Journal of Business, Finance, and Accounting*, [s.l.], n. 19, p. 295-309, Jan.
18. CUTLER, D. M., ZECKHAUSER, R. J. (1997). "Adverse selection in health insurance". Cambridge MA.: National Bureau of Economic Research, 1997. 29p. (NBER Working Paper; n.6107).
19. DeANGELO, L. E. (1981). "Auditor size and audit quality". *Journal of Accounting and Economics*, [s.l.], n. 3, p. 183-99, Dec.
20. FASB – Financial Account Standards Board. <<http://www.fasb.org/st/#cons.>> Acesso em: 20 mai. 2010.
21. FIRTH, M. (1979). "The impact of size, stock market quotation, and auditors on voluntary disclosure in corporate annual reports". *Accounting and Business Research*, [s.l.], n. 9, p. 273-280.
22. HEALY, P.; PALEPU, K. (2001). "Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature". *Journal of Accounting and Economics*, Boston, v. 31, p. 405-440.
23. INCHAUSTI, B.G. (1997). "The Influence of Company Characteristics and Accounting Regulation on Information Disclosed by Spanish Firms". *European Accounting Review*, [s.l.], v. 6, n. 1, p. 45-68.
24. JENSEN, M.C.; MECKLING, W. H. (1976). "Theory of the firm: Managerial behavior, agency costs, and ownership structure". *Journal of Financial Economics*, [s.l.], v. 3, p. 305-360.
25. KREPS, D. (1994). *A course of microeconomics theory*. New York: Harvester Wheatsheaf.
26. LEVENTIS, S.; WEETMAN, P. (2000). "Exploring and Explaining Variations in Voluntary Disclosure in an European Emerging Capital Market: Evidence from the Arhens Stock Exchange". REGIONAL CONFERENCE, 2000, Paper... [s.l.]: University of Aberdeen.
27. LEVITT, A. (1998). "The importance of high quality accounting standards". *Accounting Horizons*, [s.l.], v. 12, p.79-82.
28. MACAGNAN, Clea Beatriz. (2005). "Factores Explicativos de la Revelación de Información de Activos Intangibles de Empresas que Cotizan en España". Tese (Doctorado en Creación, Estrategia y Gestión de Empresas) – Departamento de Economía de la Empresa, Universidade Autonoma de Barcelona, Barcelona.
29. MILGROM, P.; ROBERTS, J. (1992). *Economics, Organizacional & Management*. New Jersey: Prentice-Hall.
30. MISHKIN, F. (1991). "A Multi-Country Study of the Information in the Shorter Maturity Term Structure about Future Inoation". *Journal of International Money and Finance*, [s.l.], n. 10, p. 02-22.
31. OWUSU-ANSAH, S. (1997). "The determinants of voluntary financial disclosure by Swiss listed companies: A comment". *The European Accounting Review*, [s.l.], v. 6, p. 487-492.
32. PATTON, J.; ZELENKA, I. (1997). "An empirical analysis of the determination of the extent disclosure in annual reports of joint stock companies in the Czech Republic". *The European Accounting Review*, [s.l.], v. 6, p. 605-626.
33. PIACENTINI, Neusa. (2004). "Evidenciação Contábil Voluntária: uma análise da prática adotada por companhias abertas brasileiras". Dissertação (Mestrado em Ciências Contábeis)– Programa de Pós-Graduação em Ciências Contábeis, Universidade do Vale do Rio dos Sinos - UNISINOS, São Leopoldo, RS.
34. RAFFOURNIER, B. (1995). "The Determinants of Voluntary Financial Disclosure by Swiss Listed Companies". *The European Accounting Review*, [s.l.], n. 4, p. 261-280.
35. ROTHCHILD, M.; STIGLITZ, J. (1976). "Equilibrium in competitive insurance markets: an essay on the economics of imperfect information". *Quarterly Journal of Economics*, Oxford, v. 90, p. 629-649.
36. VERRECCHIA, R. (1999). "Disclosure and cost of capital: A discussion". *Journal of Accounting and Economics*, Boston, v. 26. p. 271-283.

37. WALLACE, O.; NASER, K.; MORA, A. (1994). "The relationship between the comprehensiveness of corporate annual reports and firm characteristics in Spain". *Accounting and Business Research*, [s.l.], v. 25, n. 97, p. 41-53.
38. ZHANG, J. (2008). "Corporate competitive strategy voluntary disclosure and company characters". *Social Science Research Network*. Mai. Disponível em: <www.ssrn.com>. Acesso em: 12 set. 2010.

Appendix I : Indicators of Operational Discontinuity

Operational Continuity Indicators	Financial Indications	1. Unsecured liability (negative equity)
		2. Negative position of circulating capital (deficiency of circulating capital)
		3. Fixed-term loans with immediate maturities and no realistic prospect of payment or renewal, or overuse of short-term loans to finance long-term assets
		4. Continuously adverse main financial indexes
		5. Continuous substantial operating losses
		6. Lack of debtors' financial capacity to pay their commitments with the entity
		7. Late payments or financial inability to propose and pay dividends
		8. Financial inability to pay creditors on due dates
		9. Difficulty to meet the conditions of loan contracts (such as fulfillment of financial indexes contracted, guarantees or sureties)
		10. Change from credit transactions to cash payment of suppliers
		11. Inability to obtain financing for development of new business products and for investments in increasing productive capacity
	Operational Indications	12. Loss of key personnel in the administration, without replacement
		13. Loss of license, franchise, important market, essential strategic supplier, or strategic financier
		14. Difficulty of maintaining manpower essential to the maintenance of activity or lack of important supplies
	Other Indications	15. Breach of minimum capital requirements or other legal or regulatory requirements, including the statutory
		16. Legal and administrative procedures or contingencies pending against the entity that result in obligations that cannot be met
		17. Changes in legislation or government policy adversely affecting the entity
		18. For the entities subject to control by governmental regulators, such as the CVM, the Central Bank of Brazil (Banco Central do Brasil – BCB), the National Electric Energy Agency (Agência Nacional de Energia Elétrica – Aneel), National Telecommunications Agency (Agência Nacional de Telecomunicações – Anatel), National Health Agency (Agência Nacional de Saúde Suplementar – ANS), Superintendent of Private Insurance (Superintendência de Seguros Privados – Susep), Social Security (Secretaria de Previdência Complementar – SPC), and others, the risk factors inherent in their activities should be considered
		19. Uncertainty about the company's operational continuity

Appendix II : Indicators Created from Content Analysis

Indicators of Accounting Practices	Current and Non-current Assets	1. Lawsuits (labor/civil/tax) moved by the company with or without legal deposit
		2. Accounting adjustments made, including previous years
		3. Acquisition of public debt policies
		4. Fixed assets - evaluation, reclassification, appreciation, depreciation, adjustment
		5. Investments evaluation - evaluation method
		6. Incomplete accounts and/or account reconciliations in progress: bank reconciliations
		7. Accounts receivable subject to value changes due to changes in the law or legal decisions
		8. Leasing contracts
		9. Tax credits

		10. Deferred foreign exchange losses (exchange variation)
		11. Divergence of values of tax debits recorded
		12. Stocks: valuation/control/counting/registry errors
		13. Provisions: losses, contingencies, rollback
		14. Receipt of claims in shares of other companies
		15. Reclassification and/or revaluation of other assets (except fixed assets)
		16. Transactions with related parties with or without provision for losses
Indicators of Accounting Practices	Current and Non-Current Liabilities	17. Payment of debts with shares
		18. Accounting adjustments performed including earlier years
		19. Loans: acquiring new debts, revision of terms and values, adjustments
		20. Incomplete disclosure of mandatory financial statements
	Other Accounting Information	21. Information on related subsidiaries or investees
		22. Limitation of audit procedures - omission/unavailability of accounting records and/or evidentiary documents
		23. Failure to comply with accounting practices and regulations
		24. Accounting systems/internal control - inadequate or inefficient
Indicators of Disclosure - Other Events		25. Accepting contracts/plans/strategies
		26. Split
		27. Creation of retirement/pension plans for employees without actuarial reports or with differing values
		28. Exclusion from tax reduction/installment programs: Refis/Paes/Paex
		29. Inclusion in tax reduction/installment programs: Refis/Paes/Paex
		30. Intervention and/or seizure of documents by fiscal authority/regulatory body
		31. Legal recovery request
		32. Notification of infraction by regulatory body
		33. Reorganization of documents stream
		34. Reporting on explanatory notes without disclosure of caveat content
		35. Trade accounts receivable/non-fulfilled
		36. Absence of opinion