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Quantitatively immaterial audit misstatements matter qualitatively

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The research aimed to assess whether quantitatively negligible (immaterial) misstatements identified by auditors could offer valuable qualitative information for investors. The objective was to explore the qualitative characteristics of these quantitatively trivial misstatements. Initially, through a literature analysis and expert evaluation, the most significant qualitative characteristics were identified. Subsequently, these characteristics were examined to determine whether any of them, inherent to clearly trivial (quantitatively) misstatements, furnish useful information for investors. A survey questionnaire was employed, and the reliability of the data was assessed using Cronbach's alpha. Randomized response principles were also applied to enhance data reliability. To address the hypotheses, a T-test (criterion) for one sample was conducted. The results confirmed that certain qualitative misstatements, despite their clearly trivial amounts, indeed offer valuable qualitative information for investors.

Key words: Qualitative characteristics, audit, misstatement, financial statement, clearly trivial, audit materiality.

INTRODUCTION

Investors heavily rely on the information presented in financial statements when making economic decisions, underscoring the importance of ensuring the statements are free from material misstatements. Conducting an audit of financial statements is one approach to achieving this goal. However, concerns have been raised by academics about an increasing number of audited companies worldwide facing challenges (Mackevičius and Subačienė, 2018). Both the auditing profession and audit quality have recently come under criticism (Peterson, 2019; Sjam et al., 2020; Athira, 2021), necessitating improvements in audit quality.

A significant challenge faced by auditors lies in evaluating whether identified misstatements are material. Some misstatements may be material, while others may be minor and immaterial, also known as clearly trivial, to the users of financial statements. There are three main levels of quantitative materiality (Jurkonienė and Stašaitytė, 2019): materiality of the financial statements as a whole, typically set as a percentage (based on a rule of thumb) of profit before tax, assets, equity, revenue, or another benchmark (Quick et al., 2023). Operational materiality (tolerable error) is used for audit procedures, and materiality of clearly trivial misstatements helps determine immaterial errors.

While considerable research has focused on materiality applied by auditors, much of it has examined the perspectives of auditors rather than the users of financial statements. Moreover, researchers have predominantly concentrated on materiality of financial statements as a

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whole, with less attention given to operational materiality and even less to materiality of clearly trivial misstatements. To date, there has been limited exploration of the level of materiality of clearly trivial misstatements that would be deemed acceptable specifically by users of financial statements. Auditors typically rely on a rule of thumb (3-5% level from materiality of financial statements as a whole), which has not been sufficiently scrutinized.

In making the assessment, auditors should consider both quantitative (mathematical level of misstatement) and qualitative characteristics. The final decision on the materiality of an identified misstatement relies on the professional judgment of the auditor (Schumaher et al., 2023). However, auditors possess different experiences and abilities, introducing a risk that they may make erroneous decisions or exhibit bias in evaluating the qualitative characteristics of misstatements.

While qualitative misstatement characteristics are not a novel concept, they have not garnered significant attention from researchers thus far. This is particularly noteworthy as the qualitative approach is gaining increasing importance in the modern business environment due to the growing volume of unstructured data (David and Abeysekera, 2021). The risk associated with relying solely on quantitative characteristics and the insufficient assessment of qualitative characteristics has long been acknowledged in the context of audit materiality (Legoria et al., 2013). Moreover, qualitative characteristics have not been explored in conjunction with quantitatively clearly trivial misstatements, differentiating this research from previous studies. It stands as one of the initial attempts to contribute new knowledge on how qualitative misstatements affect immaterial (quantitatively) misstatements.

The significance of this research lies in its challenge to the fundamental principles of audit methodology and practices, which traditionally examine immaterial misstatements primarily on quantitative grounds. This area necessitates investigation, especially when there are indications that quantitatively immaterial misstatements might hold qualitative importance for investors. To contribute fresh insights to this field, the research was undertaken, and the results validated the initial suspicions – quantitatively trivial misstatements do indeed have qualitative significance. The research aims to explore whether quantitatively clearly trivial misstatements can offer valuable qualitative information for investors. The objectives of the research include (1) reviewing the literature related to the research, (2) developing the research methodology, (3) identifying main qualitative characteristics, and (4) investigating them.

LITERATURE REVIEW

Not all errors or misstatements significantly impact the decisions of financial statement users. The primary objective of a financial statement audit, a key method of independently verifying financial statements, is to identify misstatements that could affect decisions made by users of financial statements. In essence, the focus is on identifying material misstatements rather than all misstatements. The concept of materiality, encompassing both quantitative and qualitative characteristics, plays a crucial role in assessing the importance of information, thereby enhancing the reliability of financial statements (Libby and Brown, 2013; David and Abeysekera, 2021). However, the practical application of this concept remains challenging to this day (DeZoort et al., 2019).

Recent research reinforces the notion that the investor's perception of materiality significantly differs from the practices employed by auditors (Camargo et al., 2023), perpetuating the existence of the audit expectation gap in many countries despite ongoing efforts to mitigate it (Massicame et al., 2023). While the joint consideration of quantitative and qualitative characteristics can enhance the quality of financial statement audits and contribute to the overall economy (DeFond and Zhang, 2014), financial statement preparers (Acito et al., 2019) and some auditors (Commerford et al., 2018; DeZoort et al., 2019; Green and Cheng, 2019) often fail to adequately consider qualitative characteristics in determining the relevance of identified misstatements. Limited scientific understanding of how users interpret qualitative characteristics is a primary reason auditors tend to focus more on quantitative aspects and may not give sufficient attention to qualitative characteristics.

The predominant focus of research has been on determining whether auditors apply qualitative characteristics, rather than examining if their application aligns with users' expectations. Scholarly works by researchers (Acito et al., 2019; DeZoort et al., 2019; Commerford et al., 2018; Emby and Pecchiari, 2013; Green and Cheng, 2019; McKee and Eilifsen, 2002; Legoria et al., 2013) have underscored the issue of the inadequate application of qualitative characteristics. To date, only a few studies (Cacho et al., 2012; Corte et al., 2010; Manita et al., 2011) have comprehensively examined the importance of specific qualitative characteristics. However, these studies were not specifically focused on users of financial statements, and the results obtained by researchers contradicted each other. Given the passage of time since these studies were conducted, additional research is warranted in the rapidly changing business environment.

Studies on the materiality of misstatements (Ng and Tan, 2007; Libby and Kinney 2000) indicate that the consideration of qualitative characteristics is particularly relevant when identified misstatements are insignificant from a quantitative standpoint. However, most studies conducted so far have specifically analyzed material misstatements (Choudhary et al., 2019b). It was only around 2008 that accounting and auditing regulators and standard setters began to pay attention to the correction of immaterial misstatements in financial statements (Choudhary et al., 2021). Despite several studies on immaterial misstatements in the literature, the third category of misstatements – clearly trivial misstatements – and their relationship with qualitative characteristics have not yet been explored.

Furthermore, one of the more significant limitations of qualitative studies conducted thus far is the lack of consideration for the users of financial statements, despite the financial statement audit's primary purpose being to identify misstatements relevant to these users. Although the entire concept of materiality is oriented towards investors, there is a gap in the literature regarding the assessment of materiality and decision-making by investors (DeZoort et al., 2019). An important aspect is the limited understanding of the assumptions made by users of financial statements (Schipper, 2007). It poses a paradox that while the purpose of financial statement audits is to enhance users' reliance on financial statements, the judgment on which misstatements are important is primarily made by auditors rather than the users themselves. Investigating and clarifying which information and qualitative characteristics are relevant to financial statement users is crucial, yet most studies have concentrated on the perspectives of auditors or preparers rather than the users.

Additionally, many studies on materiality, including both quantitative and qualitative characteristics, have been conducted in the US (Brennan and Gray, 2005), while in Europe (Raziūnienė and Verbickaitė, 2017), there has been relatively little attention given to addressing these issues. It is evident that excessive reliance on quantitative characteristics and the underestimation of qualitative characteristics may result in the nondisclosure of quantitatively immaterial but qualitatively material misstatements, potentially compromising the quality of financial reporting (Ng and Tan, 2007). Auditing is a complex field that requires further research and an expansion of existing knowledge (Corte et al., 2008; Schumaher et al., 2023). A comprehensive understanding of the qualitative characteristics of misstatements in financial statements would aid in better defining which misstatements are crucial to the economic decisions of financial statement users (Deliu, 2018). Therefore, enhanced scientific knowledge about qualitative characteristics represents a crucial step in improving the quality of audits. A higher quality of audits, in turn, contributes to the higher quality of financial statements, providing investors with information more useful for making economic decisions (Crucean and Hategan, 2019).

RESEARCH METHODOLOGY

Research architecture

The purpose of the empirical research is to determine which (if any) of the most important qualitative characteristics of financial statement misstatements, inherent to clearly trivial (in quantitative terms) misstatements, provide useful information for investors. In order to achieve the purpose of the empirical research, the following research tasks are set:

1) Based on the literature analysis and expert evaluation distinguishes most important qualitative characteristics, that could be used for further analysis.
2) Investigate which of the most important qualitative characteristics (if any) inherent to clearly trivial (in quantitative terms) misstatements provide useful information for investors.

During the initial phase of the research, a content analysis of documents will be conducted. Additionally, an expert survey involving auditors and researchers in the field of auditing will be implemented as part of qualitative research methods. The expert evaluation aims to determine the essential qualitative characteristics. In the second phase, data collected, structured, and analyzed based on the document content analysis method will be utilized.

In the second phase, a questionnaire survey of the primary users of financial statements (small investors) will be carried out, utilizing quantitative research methods. Initially, a pilot study will be conducted to test the questionnaire created for the main quantitative study. Subsequently, a comprehensive survey of small investors will be conducted. In line with the objective of the empirical research, nine hypotheses have been formulated. The research hypotheses and the results of the testing are presented in Table 5.

Expert evaluation method

The sample size in qualitative research is considered sufficient when data saturation is achieved (Grove and Gray, 2017; Rebar et al., 2010; Kumar, 2011). To attain data saturation and taking into account the perspectives of various authors (Rebar et al., 2010; Pridotkienė and Pridotkas, 2012; Boddy, 2016; Vasileiou et al., 2018) on this matter, the expert evaluation study aimed to interview at least 12 experts. The selection of experts was based on their competence and experience relevant to the research question, and they needed to meet qualification requirements in terms of experience and professional recognition. Ultimately, 14 experts agreed to participate in the expert study.

Questionnaire survey methodology

The minimum sample size for the study was established, considering an acceptable error rate of 5 to 105 for social science studies, as noted by Ruževičius (2016). Based on the number of investors in Lithuania, the minimum sample required with a 5% error is 196 subjects, while the highest minimum sample is 397 subjects. With a 10% error, the minimum number of subjects is reduced to 49. The stipulated minimum amount of responses to be collected from survey respondents is 196. Utilizing a 7-point Likert survey scale, which is deemed sufficient for social studies (Cekanavičius and Murauskas, 2014), the questionnaire was designed.

The order in which questions are presented to respondents can influence their answers (McFarland, 1981), posing a risk of potentially unreliable survey data. To mitigate this risk, the

Table 1. Cronbach's alpha results for questionnaire of investors.

Sample of 252. Number of questions per scale – 5.	Cronbach alpha
Question construct related to H1.1	0.972
Question construct related to H1.2	0.985
Question construct related to H1.3	0.931
Question construct related to H1.4	0.978
Question construct related to H1.5	0.982
Question construct related to H1.6	0.963
Question construct related to H1.7	0.975
Question construct related to H1.8	0.978
Question construct related to H1.9	0.966

randomized response technique was employed (Bockenholt, 2009; Emily, 2019). Consequently, two survey questionnaires were created, both containing the same questions but with different orders for essential questions. The data collected from both versions were compared to identify significant differences in respondents' responses, indicating potential unreliability. Such data were not considered in the acceptance/rejection of the hypotheses raised. To assess the usefulness of information provided by qualitative characteristics for small investors, the information usefulness scale developed by Phillips et al. (2014) was applied.

Reliability of the measuring instruments used in the study

The primary investor survey questionnaire underwent testing during the pilot study, which was conducted in Lithuania. The pilot study sample consisted of 20 respondents. Based on the answers and comments received, some statements in the questionnaire were adjusted and clarified. However, no significant corrections were made to the questionnaire. Furthermore, the results of the pilot study revealed that the Cronbach alpha value for the applied scale was over 0.9, indicating minimal variation among different questions. As a result, it is assumed that the questionnaire, with improvements made based on the collected comments, is suitable for conducting the main study.

The Cronbach alpha coefficient, utilized as a measure to assess the internal reliability of the survey scales, was employed to determine whether all questions in the corresponding scale adequately reflected the studied phenomenon. This coefficient is widely used, with a generally accepted threshold for a good value being more than 0.7 (Hair et al., 2019). In all cases, the Cronbach's alpha coefficient exceeded 0.9, indicating high reliability of the scales used, and therefore, the questionnaire can be considered reliable. The Cronbach's alpha results related to the hypotheses raised are presented in Table 1.

The impact of the order of questions on the study results was assessed using Levene's test and one-way ANOVA. The data and the statistical significance of the analysis are presented in Table 2. Upon identifying that some groups were not homogeneous, the research data were not utilized for accepting or rejecting the hypotheses raised.

Methods of analysis of the collected research data and limitations of the study

The data collected from expert interviews were analyzed using the qualitative data interpretation method. During the main study phase, which involved an investor survey, data were collected from 252 small investors. To address the hypotheses, a T-test (criterion) for one sample was conducted. Respondent data were collected using a seven-point Likert scale, where the midpoint (four) indicated that the relevant qualitative characteristic neither provides nor does not provide useful information. Accordingly, the collected data were compared with the average of 4.

Scope and limitations of the research: This study offers a detailed analysis of the most important qualitative characteristics. However, it remains unclear what results might be obtained from a detailed examination of other characteristics. There is also a possibility that the actual actions of investors in deciding to invest could differ.

Identification of main qualitative characteristics

Qualitative characteristics play a crucial role in evaluating misstatements that are challenging or impossible to measure or assess based on their quantitative attributes. These characteristics encompass the circumstances surrounding a company's transactions, events, or their context. Even a small amount of misstatement (or multiple misstatements) in a company's financial statements can influence the economic decisions made by users of the primary financial statements. While a misstatement may be immaterial in quantitative terms, qualitative characteristics can determine the materiality of the misstatement (Park, 2009). Some qualitative characteristics may have an even more substantial impact on users' decisions than the quantitative amount of the misstatement. A misstatement may be quantitatively trivial but could lead to a violation of qualitative characteristics. Misstatements may not affect users of financial statements purely from a quantitative perspective, but due to qualitative characteristics, they can provide additional information to users about the company's financial position or operations (Legoria et al., 2013; Commerford et al., 2018).

Drawing on scientific and practical literature (SAB 99, 1999; ISA 450, 2009; Messier et al., 2005; Betti et al., 2018; Brown, 2009; Rupar, 2017; Altiero et al., 2021; Choudhary et al., 2016; Vilsanoiu and Matei, 2014; Choudhary et al., 2019a; Li et al., 2019; Hamilton, 2016; Eilifsen et al., 2021; Choudhary et al., 2021), 15 essential qualitative characteristics have been identified that should be consistently considered when analyzing the importance of misstatements identified by auditors and their impact on the economic decisions of users of financial statements. The list of the main qualitative characteristics is presented in Table 3. Before using this list for the main survey, it was further investigated with the help of experts.

The results obtained from the expert (5-point Likert survey scale was used based on the Lee et al. (2002) scale) evaluation confirmed the completeness (M = 4.25) and relevance (M =4.32)

Table 2. Distribution of the investor survey groups (questionnaires with different order of questions).

Hypotheses related to question construct	Version of questionnaire	Number of respondents	Average	Std. deviation	Levene			Anova		
					Statistics	Sig.	Homogeneous distribution	F	Sig.	Homogeneous distribution
H1.1	1 version	124	4.54	1.68	5.598	<0.019	×	11.324	<0.001	×
	2 version	128	3.79	1.87						
	Total	252	4.16	1.82						
H1.2	1 version	124	4.40	1.79	0.327	<0.568	✓	10.363	<0.001	×
	2 version	128	3.68	1.75						
	Total	252	4.03	1.80						
H1.3	1 version	124	4.47	1.52	0.051	<0.821	✓	0.052	<0.850	✓
	2 version	128	4.43	1.46						
	Total	252	4.50	1.49						
H1.4	1 version	124	4.37	1.68	5.711	<0.018	×	4.322	<0.039	×
	2 version	128	3.92	1.79						
	Total	252	4.14	1.75						
H1.5	1 version	124	4.68	1.91	0.014	<0.905	✓	1.659	<0.199	✓
	2 version	128	4.98	1.83						
	Total	252	4.83	1.87						
H1.6	1 version	124	3.29	1.50	0.007	<0.935	✓	1.488	<0.224	✓
	2 version	128	3.53	1.61						
	Total	252	3.41	1.56						
H1.7	1 version	124	4.27	1.61	3.302	<0.070	✓	5.063	<0.025	×
	2 version	128	3.80	1.71						
	Total	252	4.03	1.67						
H1.8	1 version	124	3.22	1.69	0.260	<0.611	✓	0.312	<0.577	✓
	2 version	128	3.34	1.71						
	Total	252	3.28	1.70						
H1.9	1 version	124	4.50	1.42	0.003	<0.959	✓	0.276	<0.600	✓
	2 version	128	4.41	1.42						
	Total	252	4.46	1.42						

Table 3. List of the main qualitative characteristics.

Qualitative characteristic	SAB 99, 1999	AS 2810, 2010	SAS 107, 2006	ISA 450, 2009	ISAE 3000, 2014	SAS 122, 2012
Financial characteristics						
Misstatement masks unfulfilled expectations of analysts	✓	✓	✓	✓	✓	
Misstatement masks changes in the financial trends	✓	✓	✓	✓		
Misstatement masks the change of a loss-making activity to a profit-making activity or vice versa	✓	✓	✓			
Requirement characteristics						
Misstatement related to non-compliance with the legislation.	✓	✓	✓	✓	✓	✓
Misstatement related to non-compliance with the regulatory requirements.	✓	✓	✓	✓	✓	✓
Misstatement related to non-compliance with the financial reporting requirements						✓
Misstatement related to non-compliance with the requirements of contractual obligations	✓	✓	✓	✓		
Misstatement related to non-compliance with the General Data Protection Regulation (GDPR)						
Misstatement related to non-compliance with the environmental requirements						
Personal characteristics						
Misstatement related to illegal transactions	✓	✓	✓		✓	
Misstatement leads to higher compensation for the management	✓	✓	✓	✓		
Misstatement related to the related parties				✓	✓	
Other characteristics						
Misstatement related to the breaches of the company's information technology security						
Misstatement is derived from a subjective assessment	✓	✓	✓			
Misstatement that is currently immaterial, but is likely to have a material effect in future periods		✓	✓	✓	✓	

of the list of main qualitative characteristics. The experts also had the opportunity to suggest additional important qualitative characteristics (not included in the list).

None of the interviewed experts specified any additional characteristics. Moreover, the importance of individual qualitative characteristics was evaluated during the expert evaluation.

The evaluation of eight characteristics exceeded 4 points (M = 4). This means the experts agreed that these characteristics should be considered by the auditor when evaluating misstatements. However, considering the large volume of the research questionnaire (and the results of the pilot study), it was decided to include 7 characteristics in the main research questionnaire. The results ranked according to a 5-point Likert scale are presented in Table 4.

RESULTS

The investigation focused on the seven most important qualitative characteristics. Situations were modeled in which investors had to evaluate instances where qualitative characteristics provide useful information even when they are associated only with quantitatively trivial misstatements. The obtained results, including the results of the Cronbach's alpha test and the distribution of investor groups, are provided in the research methodology section.

H1.1 As part of the research, data were collected to determine whether information about unfulfilled expectations (a qualitative characteristic) of analysts regarding the amount of net profit and net earnings per share would be useful for small

Table 4. The results of an expert survey on the consideration of qualitative characteristics in evaluating misstatements.

Qualitative characteristic	Average	Standard deviation	Minimum value	Maximum value
Is (are) the misstatement(s) related to non-compliance with contractual obligations	4.79	0.43	4	5
Do(es) the misstatement(s) mask the change of a loss-making activity to a profit-making activity or vice versa	4.57	0.76	3	5
Do(es) the misstatement(s) lead to higher compensation for the management	4.57	0.51	4	5
Do(es) the misstatement(s) mask unfulfilled expectations of analysts	4.43	0.85	3	5
Is (are) the misstatement(s) related to illegal operations.	4.36	1.08	2	5
Do(es) the misstatement(s) mask changes in the financial trends	4.29	0.83	2	5
Is (are) the misstatement(s) related to non-compliance with financial reporting requirements	4.14	1.03	2	5
Do(es) the misstatement(s) result from subjective evaluation.	4,07	0.73	3	5
Is (are) the misstatement(s) related non-compliance with the legislation	3.93	1.14	1	5
Is (are) the misstatement(s) related to non-compliance with the regulatory requirements	3.93	1	2	5
Is (are) the misstatement(s) related to non-compliance with the environmental requirements	3.93	1.14	2	5
Is (are) the misstatement(s) related to the related parties	3.79	1,12	2	5
Is (are) the misstatement(s) that is currently immaterial likely to have a material effect in future periods	3.79	1.05	1	5
Is (are) the misstatement(s) related to non-compliance with the General Data Protection Regulation (GDPR)	3.64	1.08	2	5
Is (are) the misstatement(s) related to the breaches of the company's information technology security	3.43	1.22	1	5

investors in making an investment decision. It is important to note that two types of questionnaires were administered to the participants in the research. Although the questionnaires contained identical questions, the order of the questions differed. A comparison of the collected data revealed significant differences in the responses between the two sets of questionnaires (Table 3). Consequently, the hypotheses (H1.1) were not evaluated.

H1.3 and H1.4 Small investors were also queried about the utility of audited information indicating changes (downwards) in revenue and net profit growth trends (qualitative changes) for making investment decisions. The data collected from different questionnaires regarding changes (downwards) in the trend of net profit growth showed significant variations. As a result, the hypothesis (H1.4) was not evaluated. A one-sample t-test was conducted to analyze the data on the changes (downward) in income growth trends. The results indicated that the usefulness of information about the decline in income growth trend ($M = 4.45$) was significantly different from the indicator suggesting that the information is neither useful nor useless ($M = 4$) ($t(251) = 4.8$, $p < 0.001$, Cohen's $d = 0.302$). **H1.5** Small investors were queried about the utility of audited information indicating that the company incurred a loss instead of a profit (a qualitative change) for making investment decisions. The quantitative difference, where profit changes to a loss, amounted to EUR 14,000. In quantitative terms, this amount would be classified as clearly trivial misstatements by auditors. A one-sample t-test was conducted, revealing that the usefulness of information about the change from net profit to a loss ($M = 4.83$) was significantly different from the indicator suggesting that the information is neither useful nor useless ($M = 4$) ($t(251) = 7.05$, $p < 0.001$, Cohen's $d = 0.444$).

H1.6 Small investors were inquired about the utility of audited information, revealing that a company did not disclose the average number of employees required to be disclosed (a qualitative misstatement) in its financial statements, resulting in a fine of EUR 14,000. The amount of EUR 14,000 corresponds to the amount of clearly trivial misstatement in quantitative terms. The collected data, based on a 7- point Likert scale, indicated that small investors considered the usefulness of information when the fine amount was EUR14,000 ($M = 3.41$). Since the perceived usefulness of information when the fine amount was clearly trivial (14,000 EUR) from a quantitative

Table 5. Summary of research hypotheses.

No.	Hypothesis	Result
H1.1.	*Qualitative characteristics of clearly trivial (in quantitative terms) misstatement of financial statements,* ***revealing unfulfilled expectations of the analysts on net earnings per share****, is more likely provide useful information to small investors rather than not to provide.*	Not evaluated*
H1.2.	*Qualitative characteristics of clearly trivial (in quantitative terms) misstatement of financial statements,* ***revealing unfulfilled expectations of the analysts on the amount of net profit****, is more likely provide useful information to small investors rather than not to provide.*	Not evaluated *
H1.3.	*Qualitative characteristics of clearly trivial (in quantitative terms) misstatement of financial statements,* ***revealing the downward change in revenue growth trend****, is more likely provide useful information to small investors rather than not to provide.*	Confirmed
H1.4.	*Qualitative characteristics of clearly trivial (in quantitative terms) misstatement of financial statements,* ***revealing the change (downward) in the net profit growth trend,*** *is more likely provide useful information to small investors rather than not to provide.*	Not evaluated *
H1.5.	*Qualitative characteristics of clearly trivial (in quantitative terms) misstatement of financial statements,* ***revealing the change in net profit into loss****, is more likely provide useful information to small investors rather than not to provide.*	Confirmed
H1.6	*Qualitative misstatement of financial statements (****the average number of employees required to be disclosed is not disclosed in the financial statements)*** *along with the clearly trivial (in quantitative terms) financial effects of the misstatement is more likely provide useful information to small investors rather than not to provide.*	Not confirmed
H1.7	*Qualitative misstatement of financial statements (****the requirement of the amount of net profit established in loan agreements is violated****) along with the clearly trivial (in quantitative terms) financial effects of the misstatement is more likely provide useful information to small investors rather than not to provide.*	Not evaluated *
H1.8	*Qualitative misstatement of financial statements (****unaccounted sales revenue)*** *along with the clearly trivial (in quantitative terms) financial effects of the misstatement is more likely provide useful information to small investors rather than not to provide.*	Not confirmed
H1.9	*Qualitative misstatement of financial statements (****misreported earnings leading to management bonus****) along with the clearly trivial (in quantitative terms) financial effects of the misstatement is more likely provide useful information to small investors rather than not to provide.*	Confirmed

*The hypotheses not evaluated due to probable unreliability of the data (bias, fatigue of respondents, their knowledge learned when answering initial questions of the questionnaire, etc.).

perspective was (M = 3.41) and (3.41 < 4), the one-sample t-test was not conducted, and hypothesis H1.6 was not confirmed.

H1.7 Small investors were queried about the utility of audited information indicating that the company violated the net profit earning requirement set in the loan agreements by a margin of EUR 10,000, resulting in a fine of EUR 14,000 for making investment decisions. It was established that the data collected from different questionnaires showed significant differences (Table 3). As a result, research hypotheses H1.7 were not evaluated based on the obtained data.

H1.8 Small investors were also asked about the utility of information indicating that the audit revealed the company did not account for EUR 14,000 of sales revenue that should be included in the financial statements for making investment decisions. The data collected during the survey indicated that small investors considered the usefulness of the information when the unaccounted sales revenue was EUR 14,000 (M = 3.28). Since the perceived usefulness of information when the amount of the unaccounted sales revenue was clearly trivial (14,000 EUR) from a quantitative perspective was (M = 3.28) and (3.28 < 4), the one-sample t-test was not conducted, and hypothesis H1.8 was not confirmed.

H1.9 Small investors were queried about the utility of information indicating that the audit revealed EUR 14,000 of sales revenue was incorrectly recorded in the company's financial statements and that, if this error were corrected, the company's management would not have received a bonus of EUR 14,000 for making investment decisions. The collected data indicated that small investors considered the information useful when the bonus amount was EUR 14,000 (M = 4.46). A one-sample t-test was conducted to examine whether the unaccounted income resulting in a clearly trivial misstatement of EUR 14,000 (in quantitative terms) would provide useful information for retail investors. The results revealed that the usefulness of the information (M = 4.46) was significantly different from the indicator suggesting that the information is neither useful nor useless (M = 4) (t(251) = 5.108, p < 0.001, Cohen's d = 0.322). A summary of the hypotheses confirmed, not confirmed, and not evaluated is presented in Table 5.

DISCUSSION

The obtained results offer significant insights. Auditing standards do not mandate the correction of trivial misstatements, providing auditors and the management of audited companies with the option to forgo rectifying identified misstatements. Some regulators express concerns that this practice could diminish the quality and reliability of financial reporting (Asare et al., 2019). It is noteworthy that, until now, there has been no consensus among researchers regarding the significance of quantitatively small misstatements and whether they merit audit resources. The research conducted in this study contributes to answering this question. It establishes, for the first time, that qualitative characteristics must be examined and assessed not only in the context of material and immaterial misstatements (in quantitative terms) but also that the qualitative characteristics of misstatements are equally important in the context of clearly trivial misstatements. As demonstrated by the research results, there are at least three qualitative characteristics where even clearly trivial misstatements (in quantitative terms) are more likely to provide useful information to small investors than not to provide. However, there are various stakeholder groups (investors, creditors, suppliers, government, etc.) with differing interests. For instance, investors might prioritize company growth, while creditors may place more emphasis on company profitability. Additionally, information crucial to investors might be irrelevant to suppliers, and so on. It would be challenging, if not impossible, to create financial statements that satisfy all the expectations of every stakeholder. Thus, the question arises as to which information should be included in financial statements and what should be excluded. Similarly, auditors must decide which misstatements should be deemed material and which as immaterial. While it can be argued that including too much information in financial statements increases the risk of less important details overshadowing crucial ones, reducing the number of quantitatively trivial misstatements (which might be less material) has one main drawback – time. Dealing with quantitatively trivial misstatements takes more time for auditors and financial statement preparers, potentially leading to increased audit costs. Moreover, the management of the company may also express its opinion on whether identified misstatements are material. Typically, at the end of the audit, negotiations occur between the auditor and the company's management regarding what is considered material and what is not (Commerford et al., 2018). Nevertheless, the primary goal of an audit is to ensure that financial statements are free from material misstatements. Investors can be regarded as one of the main users of financial statements. Therefore, at least the three qualitative characteristics confirmed in this research should be considered by the auditor, even if they might be of less importance to other stakeholders or even if management considers them immaterial.

Additionally, it is important to note that the traditional approach to clearly trivial misstatements does not necessitate the accumulation of such misstatements. However, if qualitative characteristics can offer valuable information to users of financial statements, they can also influence the economic decisions made by these users. Consequently, all misstatements identified during an audit should be accumulated, irrespective of their quantitative size. The confirmed hypotheses in this study support the necessity of accumulating clearly trivial misstatements identified during the audit. This research highlights the usefulness of even clearly trivial misstatements (quantitatively) with certain qualitative characteristics to small investors, suggesting that the current conceptualization is flawed. Closing this existing gap could involve mandating auditors to accumulate all identified misstatements, including those that are clearly trivial. This approach would ensure a more comprehensive consideration of all identified misstatements at the conclusion of the audit, both collectively and individually, without significantly increasing audit costs.

Another perspective to consider is that during the research and questionnaire development, a rule of thumb was used for clearly trivial misstatements, setting them at the 3 to 5% level from the materiality of the financial statements as a whole. Some may argue that using a lower level for clearly trivial misstatements might yield different outcomes. This research, however, suggests that the rule of thumb for clearly trivial misstatements is outdated and must be revised in practice. Other authors also note that a lower materiality threshold is associated with higher audit quality (Goh et al., 2023). It is evident that misstatements identified by auditors during financial statement audits must be evaluated more carefully.

Finally, it is worth considering that three hypotheses out of nine were confirmed, two hypotheses were rejected, and four hypotheses were not evaluated due to potential unreliability of the data (bias, respondent fatigue, knowledge acquired while answering initial questionnaire questions, etc.). Therefore, there is a chance that further investigation of these four characteristics (for example, by expanding the sample size) might reveal their qualitative importance as well.

CONCLUSIONS AND SUGGESTIONS FOR FUTURE RESEARCH

The analysis of the research on the topic reveals that there is still limited knowledge about the materiality of certain qualitative characteristics. Auditors tend to primarily focus on the application of quantitative characteristics, often neglecting the consistent application of qualitative characteristics. Another identified shortcoming in past research is the limited attention given to clearly trivial misstatements, with most researchers concentrating on the study of material misstatements.

The empirical research in this study identified specific qualitative characteristics of misstatements in financial statements that restrict their classification as clearly trivial. These characteristics include (1) revealing a change (decrease) in the income growth trend, (2) disclosing a change (loss) in net income, and (3) misreported earnings leading to management bonuses. Misstatements with these characteristics should not be automatically classified as clearly trivial, as they provide valuable information to small investors.

The study's results, indicating that even quantitatively small misstatements offer useful information to small investors, suggest a recommendation for auditors to consider applying lower thresholds when determining the materiality of financial statements as a whole, operating materiality, and the limit for clearly trivial misstatements.

The research has potential for further development. Future studies could explore other qualitative characteristics not covered in this research. Additionally, considering that the limits of quantitative materiality applied by auditors may be higher than users' expectations, further research should focus on understanding user expectations, the limits of materiality applied by auditors, and finding a balance for audit effectiveness. Examining the perspectives of other stakeholders and their views on what is trivial or not is also an area requiring further investigation. Lastly, the category of clearly trivial misstatements, which is currently under-researched, presents a complex area that researchers could explore to determine if this category is being misused for the profitability of audits.

CONFLICT OF INTERESTS

The author has not declared any conflict of interests.

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