



THE ABO Reporter

ACCOUNTING, BEHAVIOR AND ORGANIZATIONS SECTION

Fall 2009

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ACCOUNTING, BEHAVIOR AND ORGANIZATIONS SECTION

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Greetings from the Editor

Hello ABO Members:

I hope you are having a great semester! The end is in sight. One of the great things about being a professor is that we get a fresh start each semester to try new things, change things that didn't work as well as you thought, watch students grow, and share research insights with colleagues and students.

Welcome to our new Chair **Elizabeth Dreike Almer**! Also welcome to our other officers and committee members for the 2009-10 year. Many thanks to past Chair **Richard Houston** for a great job last year. A complete listing of all officers and committee chairpersons can be seen by clicking on ***ABO – Officers and Committee Chairpersons***.

While I was unable to attend the 2009 ABO Research Conference in Seattle, I heard it was a great success. Be sure to read the message from the Chair about the conference and click on the link to the 2009 ABO Research Conference to see pictures taken by Tom Clausen. As liaison for the Northeast Region, I can report that the regional meeting held November 5-7, 2009 in Boston was great, held in Cambridge, MA along the Charles River across from Harvard. Fifteen ABO papers were submitted.

Other items of interest in this issue include:

- 2009 ABO Doctoral Consortium
- Information about the new Forensic Accounting Section and an article about forensic about, both by Dr. Larry Crumley.
- ***Have You Seen?*** compiled by John Rigsby
- Announcements from BRIA
- Information on upcoming AAA conferences
- Calls for papers

Thank you to all the contributors to the Reporter. They are what makes the Reporter successful and of interest to you. Special thanks to Sonja Langley for getting the ABO Reporter up on the website. And lastly, thank you for being a part of the ABO.

Sincerely,
Don Kent, Editor



THE ABO Reporter

ACCOUNTING, BEHAVIOR AND ORGANIZATIONS SECTION

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Message from the President

Greetings to my fellow ABO members!

As I look back on the last six months, I'm overwhelmed with gratitude for all the tireless efforts of individuals in the section!

Thanks to all the hard work of Damon Flemming and Robin Romanus, 99 papers were shepherded through the Annual Meeting submission process. So thank you also to the 99 members who stepped up to review the papers. Thirty-three ABO papers were presented in traditional concurrent sections in New York, with an additional 31 papers presented in paper dialogs, new scholar sessions, research forums or panels.

Thanks to tireless efforts and organization talents of Frank Hodge and Nathan Stuart, the mid-year meeting in Seattle was also a smashing success. Fifty-four papers were submitted to the meeting, 30 were presented. Despite declining travel budgets, we still had 162 faculty and doctoral students attend the conference! But beyond the numbers, the meeting was a success for the camaraderie and synergy that it fostered. Time and time again I heard participants say this is their favorite meeting because of the overwhelming supportiveness of our membership and the shared focus on doing research aimed at improving some aspect of the world of accounting. A highlight of the meeting was definitely seeing the "generations" of researchers interact. Our section still has active participation by so many of its earliest members, such as our 2009 notable contributions award winner, Ken Trotman. Our section also has a vibrant group of "mid-career" faculty who continue to pursue behavioral research with passion and enthusiasm. But perhaps most importantly, the ABO section is actively supporting the next generation of behavioral researchers.

Thanks to the work of Jane Kennedy and Kim Sawyers, and the financial support of the Deloitte Foundation, the ABO section hosted 50 students for the doctoral consortium prior to the mid-year meeting. Look for Jane's summary of the consortium in this issue of the *ABO Reporter*.

And not to overlook the work of individuals who really distinguished themselves this year, here is our list of our other award recipients.

- ABO Conference Outstanding Manuscript to Lisa Milici Gaynor, Linda McDaniel and Teri Lombardi Yohn for *"Unraveling the Counterintuitive Income Statement Effects of Fair Value Accounting for Liabilities: The Role of Relational versus Informational Disclosures"*

- ABO Emerging Scholar Award to Kirsten Fanning and David Piercey for ***“Managing Managers: Presentation of Accounting Data and Interpersonal Relationships with Internal Auditors”***
- ABO Outstanding Doctoral Dissertation Award to Nicholas Seybert for his dissertation entitled ***“R&D Capitalization and Reputation-Driven Real Earnings Management”*** which was completed at Cornell University under the direction of Bob Libby.

Lastly, I would like to comment on some thoughts stemming from Friday’s luncheon speaker. Our speaker was Tod Leiweke, CEO of Vulcan Sports which owns the Seattle Seahawks and Portland Trailblazers. Tod spoke about his belief that a sports franchise is a stewardship of a public trust. The public puts their financial and emotional support behind a team in exchange for the team’s dedication to the sport and commitment to the community. As a season ticketholder for the Portland Trailblazers this was gratifying to hear, but as an academic it took on another meaning. We as accounting faculty are also stewards of a public trust. Our students, their families, donors and taxpayers all support us in exchange for our commitment to deliver high quality education and research on meaningful issues in accounting using rigorous scientific methods. After seeing vibrancy of our membership and the amazing research they conducted, we can all feel proud of our response to that public trust.

I look forward to seeing many of you next Summer at the annual meeting in San Francisco and at the mid-year meeting October 8-9, 2010 in Denver. In the meantime, please take a look through this outstanding issue of the Reporter put together by Don Kent!

Best,

Elizabeth

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Call for Papers Special Issue of *Behavioral Research in Accounting*

“Sociological Perspectives of Accounting”
Guest Editors: Mark Covalesski and Mark Dirsmith
Submission Deadline: March 1, 2010

Anthony Hopwood has long observed that few field studies have examined accounting in the contexts in which it operates. Indeed, in his 2006 plenary address as the American Accounting Association’s Presidential Scholar, Hopwood concluded that accounting research has become “increasingly detached from the practice of the craft...[as well as] too cautious and conservative, too rigid and traditional, and insufficiently attuned to grapple with the new, and to embrace novel insights and bodies of knowledge” (TAR 2007, 1365). In part, he urged that more innovative field research be conducted, informed by theories derived from sociology and employing qualitative, naturalistic research methods. This special issue of *Behavioral Research in Accounting (BRIA)* is devoted to publishing original papers detailing field studies of accounting in natural organizational and institutional contexts which draw on sociological perspectives and employ qualitative methods.

Webster’s dictionary defines sociology as “the science of society, social institutions, and social relationships: the systematic study of the development, structure, and function of human groups conceived as processes of interaction or as organized patterns of collective behavior.” As such, a sociological perspective of accounting as a form of structure would focus on examining the multiple roles accounting plays in the social constitution of organizations and institutions, or on the social constitution of accounting. On this theme, for example, Fombrun (ASQ 1986) reasoned that forms of structure such as accounting may simultaneously serve as:

- *technological solutions* to the instrumental problems of production;
- *political exchanges* among contending organizational and institutional factions; and
- *social interpretations* within the organization and by its external, institutional constituents.

Although definitely not limited to this framework, this special issue of *BRIA* will be devoted to understanding such multiple, sometimes complimentary, sometimes competing roles of accounting in its natural contexts. Submissions are encouraged from the areas of managerial accounting, auditing, tax and financial accounting.

Submitted papers considered for this special issue will be subject to the standard double blind review process used by

BRIA. As an option, authors are encouraged to recommend three possible reviewers from the accounting, sociology, or management disciplines. In keeping with the intent of encouraging innovation and in order to “grapple with the new, and to embrace novel insights and bodies of knowledge,” the special issue editors Mark Covaleski (mcovaleski@bus.wisc.edu) and Mark Dirmsmith (eu3@psu.edu) would especially value papers exploring sociological perspectives and research methods that have not previously appeared in the accounting literature. Authors should strictly follow *BRIA* submission guidelines which can be found <http://aaahq.org/abo/bria/briahome.htm>.

Submissions are due by March 1, 2010. Papers should be submitted to tlibby@wlu.ca with the words BRIA Special Call in the subject line.

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Announcing the First Annual BRIA Best Paper Award

The *Behavioral Research in Accounting* (BRIA) Best Paper Award has been established by the ABO Section Publications Committee to recognize annually a paper published in BRIA with the greatest impact or potential impact on behavioral and/or organizational research in accounting. Nominations for the award will be accepted from members of the ABO section and self-nominations are allowed.

The winning paper will be selected by the Publications Committee of the ABO section. The author(s) of the winning paper will be recognized with a plaque presented at the ABO Section Midyear Meeting. All papers appearing in print in BRIA in the three years preceding the beginning of the nomination year are eligible. For 2010, the first year of the award, papers appearing in print in BRIA in volumes 19 (2007), 20 (2008), and 21(2009) are eligible. Nominations should include a brief statement (2-3 paragraphs) indicating the perceived potential contribution the paper makes to the literature. **Nominations must be received by (Bryan Church) by email at Bryan.Church@mgt.gatech.edu by April 30, 2010.**

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Report on Annual Doctoral Consortium for the ABO Section

S. Jane Kennedy
University of Washington

The fourth annual doctoral consortium for the ABO section of the AAA was held the morning off October 9, 2009 in the W Hotel in downtown Seattle. The consortium is made possible by the generous support of the Deloitte Foundation. The purpose of the consortium is to help doctoral students get a perspective on behavioral research, to help them learn to evaluate research, to provide them with teaching tips, and to help them understand the academic world and how to cope with its pressures. Finally students have the opportunity to mingle and get to know their future colleagues and to interact with faculty whose research they have likely read.

Approximately 50 students were in attendance from school across the US and the world! The lineup of speakers was exceptional. Kathryn Kadous from Emory University started the program with her talk about the importance of theory in research. Lisa Koonce from the University of Texas at Austin followed with an interesting discussion of why you want to be “behaviorally informed” when you do financial archival research and to be “archivally informed” when doing financial experimental research. Michael Williamson, also from the University of Texas at Austin spoke about his research in Managerial Accounting and how to generate good research ideas. Our last speaker was Brooke Elliott from the University of Illinois at Urbana Champaign. Brooke gave a high energy talk about her strategies for success as an Assistant Professor. Success requires getting research published, performing well in the classroom and balancing your personal life—a significant challenge for most new scholars! By all accounts, the students highly enjoyed the morning and believed it was valuable for them.

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2009 ABO Research Conference



Professor Michael Williamson, University of Texas, Austin, speaking at the Doctoral Consortium



Friday luncheon speaker, Tod Leiweke, CEO Vulcan Sports/Seattle Seahawks



Lori Holder-Webb, Western New England College, Panel on
Agency Theory



Nicholas Seybert, University of Texas, Austin, Outstanding
Doctoral Dissertation Award



Elizabeth Almer, ABO President, Portland State University,
awarding Notable (Lifetime) Contribution Award in
Behavioral Accounting Literature to Ken Trotman,
University of New South Wales.

Lisa Gaynor, University of South Florida,
Outstanding Manuscript Award

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Have You Seen... ?

By John T. Rigsby
Adkerson School of Accountancy
Mississippi State University

I would appreciate hearing from any section member with suggestions for papers you believe would be of interest to other members. Please send citations to jrigsby@cobilan.msstate.edu

Agoglila, C. Hatfield, R., and Brazel, J. (2009), "The Effects of Audit Review Format on Review Team Judgments", *Auditing: A Journal of Practice & Theory*, Vol. 28, No. 1, pp. 95-111.

The authors examine the extent to which review mode (electronic versus face-to-face) affects the quality of documentation in the working papers and whether reviewers are able to discern and compensate for these documentation quality issues. Found that reviewers' judgments are ultimately affected by the form of review expected by their preparer. Suggest that the effect of review mode can persist to the reviewer's judgment through its influence on preparer work paper documentation and the resulting documentation quality assessment gap.

Anandarajan, A., Kleinman, G., and Polmon, D. (2008), "Novice and Expert Judgment in the Presence of Going Concern Uncertainty", *Managerial Auditing Journal*, Vol. 23, No. 4, pp. 345-366.

The purpose of this theoretical study is to examine the extent to which heuristic biases moderate the judgments of experts versus novices by marshalling extant literature on expert and novice judgments and linking these to concepts drawn from the cognitive sciences through the Brunswick Lens Model. The authors conclude that experience mitigates the unintended consequences played by heuristic biases.

Beasley, M. Carcello, J., Hermanson, D., and Neal, T. (2009), "The Audit Committee Oversight Process", *Contemporary Accounting Research*, Vol. 26, No. 1, pp. 65-122.

The authors examine the process used by audit committees as a whole or by individual audit committee members when fulfilling their oversight responsibilities. Conduct 42 in-depth interviews of individuals

actively serving on U.S. public company audit committees. Find evidence of both substantive monitoring and ceremonial action, such that neither agency theory nor institutional theory fully explains results.

Brown, C. (2009), "Order Effects and the Audit Materiality Revision Choice", *Journal of Applied Business Research*, Vol. 25, No. 1, pp. 21-35.

Examines the impact of qualitative information on auditors' willingness to revise materiality threshold subsequent to the completion of audit fieldwork. Found that auditors are in fact willing to revise their materiality judgments given qualitative information and that different levels of inherent risk present in the audit environment also affects these revisions. In addition, the order in which the qualitative information is presented to auditors has a significant effect on the materiality judgment revisions. Significant recent order-effects are identified in the least experienced and most-experienced auditor groups, given high and low levels of inherent risk. The most-experienced auditor group shows the most pronounced order-effect bias.

Burney, L., Henie, C. and Widener, S. (2009), "A Path Model Examining the Relations Among Strategic Performance measurement System Characteristics, Organizational Justice, and Extra- and In-Role Performance", *Accounting, Organizations and Society*, Vol. 34, pp. 305-321.

The authors obtained data from an organization that uses Strategic Performance Measurement System (SPMS) as the basis for the allocation of bonuses and investigate whether characteristics of the SPMS are associated with perceived organizational fairness. They found that the extent to which employees perceive that the SPMS reflects a strategic causal model and the degree to which it is technically valid are positively associated with their perceptions of organizational justice. They also provide evidence that heightened levels of organizational justice are the mechanism through which the perceived characteristics of the SPMS are associated with employee performance.

Chung, J., Cohen, J., and Monroe, G. (2008), "The Effect of Moods on Auditors' Inventory Valuation Decisions", *Auditing: A Journal of Practice & Theory*, Vol. 27, No. 2, pp. 137-159.

The authors investigate the effect of different mood states—specifically positive, neutral, and negative mood—on inventory valuation decisions by conducting an experiment on 102 Australian audit professional, and a follow-up experiment on 170 final-year Australian auditing students. The first experiment found that mood states affect the dispersion and extent of conservatism in the inventory valuation judgment. The second experiment suggests that the effect of moods on judgment may be due to the mood-congruent retrieval of information by the participants.

Earley, C., Hoffman, V., and Joe, J. (2009), "Reducing Management's Influence on Auditors' Judgments: An Experimental Investigation of SOX 404 Assessments", *The Accounting Review*, Vol. 83, No. 6, pp. 1461-1485.

The authors conducted an experiment examining the influence of the summary conclusions of the first mover, the client, on the judgment of the second mover, the auditor. They found that management's first mover influence on auditors' judgment is an unintentional cognitive effect, rather than an intentional use of management's classification. They also found that cognitively restructuring the task mitigates management's first mover influence on auditors' judgments.

Fleming, D., Romanus, R., and Lightner, S. (2009), "The Effect of Professional Context on Accounting Students' Moral Reasoning", *Issues in Accounting Education*, Vol. 24, No. 1, pp. 13-30.

The authors investigate whether the professional context of accounting ethical dilemmas influences accounting students' moral reasoning using four ethical dilemmas faced by either auditors or corporate accountants. Found that students in the audit condition exhibited significantly higher deliberative moral reasoning than students in the corporate accounting condition.

Gold, A., Hunton, J., and Gomaa, M. (2009), The Impact of Client and Auditor Gender on Auditors' Judgments", *Accounting Horizons*, Vol. 23, No. 1, pp. 1-18.

The authors evaluate the influence of client gender and auditor gender on auditors' judgments using an experimental task. They found that both male and female auditors exhibited a male favorability; that is, they were persuaded more by a male than female client to change their initial adjusting journal entry recommendation. Also, female auditors were more influenced by a male client and less influenced by a female client than male auditors. In addition, using an expert panel's consensus opinion as a benchmark for the 'best' solution, they found male auditors were more accurate than female auditors, irrespective of client gender.

Harding, N. and Trotman, K. (2009), "Improving Assessments of Another Auditor's Competency", *Auditing: A Journal of Practice & Theory*, Vol. 28, No. 1, pp. 53-78.

The authors conduct two studies investigating the process by which auditors assess their colleagues competency. They find that the effects of individual-specific outcome feedback and average-group feedback will be contingent on the nature of the relationship between the assessor and the assessee. Specifically, individual-specific outcome feedback is effective in reducing overconfidence when assessing the competence of a colleague with whom the assessor has previously worked, but not an unfamiliar colleague. When assessing the competency of an unfamiliar colleague, they find that average-group outcome feedback is effective in reducing overconfidence.

Martinov-Bennie, N. and Pflugrath, G. (2009), "The Strength of an Accounting Firm's Ethical Environment and the Quality of Auditors' Judgments," *Journal of Business Ethics*, Vol. 87, pp. 237-253.

The authors examine the impact of the strength of an accounting firm's ethical environment on the quality of auditor judgment across different levels of audit expertise. They used an audit scenario requiring participants to make judgments in respect of an inventory write-down. They found no significant differences between the quality of audit judgments made by participants in the stronger ethical environment, though overall results indicate managers are more sensitive to differences in the strength of the ethical environments than seniors. Also found participants possessing greater auditing experience made higher quality technical judgments.

Pinsker, R., Pennington, R., and Schafer, J. (2009), "The Influence of Roles, Advocacy, and Adaptation to the Accounting Environment", *Behavioral Research in Accounting*, Vol. 21, No. 2, pp. 91-111.

The authors experimentally examine how training in specific professional roles (tax and audit) influences advocacy attitudes, and how the elements of the decision environment interact with these attitudes to influence accountants' judgments. They found that attitudes are moderated by the requirements of the specific decision environment, with tax professional more likely than auditors to adapt to the professional requirements (advocacy or skepticism) of the task at hand.

Wang, K. and Tuttle, T. (2009), "The Impact of Auditor Rotation on Auditor-Client Negotiation", *Accounting, Organizations and Society*, Vol. 34, pp. 222-243.

The authors used an experiment to investigate how mandatory audit firm rotation affects auditor-client negotiations. They found that with mandatory rotation auditors adopt less cooperative negotiation strategies, producing assets values that are more in line with the auditor's preferences than with the client's preferences and that there are more negotiation impasses.

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New AAA Section

Forensic and Investigative Accounting (FIA) Section

After a struggle, Larry Crumbley established a Forensic & Investigative Accounting (FIA) section in the American Accounting Association (AAA).

By all accounts, the FIA breakfast on Wednesday, August 5th in New York City was a success. The by-laws were approved and the suggested officers were approved by more than 100 members attending the meeting. They sold 160 tickets for the breakfast. As of July 28, 2009, we had 216 FIA members. The AICPA's Forensic and Valuation Services section and the new CFF group helped sponsor the breakfast and business meeting.

As recommended by the AICPA, Sharyn Maggio, from Eatontown, N.J. introduced our speaker, Ramona R. Farrell. Ms. Sharyn gave a short example of her testimony in Dina M. McGreevy's divorce proceedings against former N.J. Governor James E. McGreevy. Sharyn testified that James E. McGreevy had no celebrity value.

Ramona R. Farrell with Ueltzen & Company in Sacramento spoke to the group about the characteristics and skills of the forensic accountant (FC). Her co-author, Charles Davis helped Ramona deliver the results of a questionnaire sent to attorneys, academics, and CPAs. They found these five essential traits and characteristics of a FC (ranked):

	<u>Attorney</u>	<u>Academic</u>	<u>CPA</u>
Analytical	1	1	1
Detail oriented	2	-	3
Ethical	3	2	3
Inquisitive	-	4	2
Insightful	5	-	-
Intuitive	-	-	5
Persistent	-	5	-
Responsive	4	-	4
Skeptical	-	3	4

Another interesting slide identified the six most frequent reasons why forensic accountants are ineffective:

	<u>Attorney</u>	<u>CPA</u>
Ineffective oral communication	2	3
Ineffective written communication	-	5
Lack of investigative intuitiveness	5	2
Inability to simplify information	1	4
Inability to identify key issues	4	1
Inability to understand the goals of a case	3	-

Forensic accounting issues are important to everyone in the AAA, for we all have a vested interest in enhancing the quality of the forensic and fraud education of accounting students. This section provides a forum that cuts across disciplines, specialty areas and geographic boundaries. As Gordon Brown said, "What the use of finger prints was to the 19th century and DNA analysis was to the 20th, forensic accounting will be to the 21st century."

The FIA Section enables members to share their experiences, providing opportunities for linkage between large and small schools, educators and practitioners, and members worldwide. Use the attached form to apply for membership in the FIA (you must also be a member of the AAA). Mail your application to AAA headquarters (5717 Bessie Drive, Sarasota, FL 34233-2399). Join today and become better connected to your colleagues and your profession.

GIVE THE FORM BELOW TO COLLEAGUES AND ENCOURAGE THEM TO JOIN!

[FIA Membership Application](#)

You may also click below to download the membership brochure:

Download the membership brochure in [PDF](#) or [DOC](#) format.

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So What Is Forensic Accounting?

[D. Larry Crumbley*](#)

Although forensic accounting is not a new discipline, it is one that is rapidly developing and gaining status in the accounting and legal communities. The media have been energetically covering accounting scandals and intrigues, which are often characterized as the forensic accountant's "beat. If the number of articles written on the topic is any indication, readers of such esteemed newspapers as *The Wall Street Journal* and *The New York Times* are captivated by the forensic accounting topic. The good news for accounting professors and students is that if current trends persist, forensic accounting and its many subspecialties will provide some very interesting and lucrative career opportunities.

Forensic Accountants Are Hot!

Accountants, long the butt of bean-counter jokes, are viewed a bit differently these days. Major scandals such as Enron, WorldCom, and Bernard Madoff certainly have tarnished the image of the accountant, but the "forensic accountant is getting a lot of respect. Gordon Brown, the then British Chancellor of the Exchequer, on October 10, 2006, said that "what the use of finger prints was to the 19th century and DNA analysis was to the 20th, forensic accounting will be to the 21st century.

After the terrorist attacks of September 11, 2001, it was determined that a number of the perpetrators used debit cards that had been set up by cash—largely untraceable—brought into the country. There were even some transactions with no moving money, possibly using offsetting receivables and payables, that were still traceable.* The FBI agents employed forensic-type techniques when looking at credit cards, phone records, and interviews with terrorists' neighbors and friends. Shutting down the cash flowing into the terrorists' network was accomplished using financial sleuths.

Accounting also made the big screen, and its new notoriety has been satirized in the popular media. A short film entitled *The Accountant* won an Academy Award in March 2002. The hard-drinking, chain-smoking backwoods movie accountant cynically states that "numbers and facts are already fudged here and there; it's called accounting. A Jack Ziegler cartoon in the March 10, 2002, *New Yorker* magazine shows a couple of women at a bar with one telling the other that "being an accountant gives him that extra aura of danger.* The AICPA now has an online game called "Catch Me If You Can* which allows students and professors to use their skills and smarts to trace the money trail back to the crooks. There is a \$2,000 cash prize plus other prizes.

These may be some unwelcome visions of accounting, but they point out that accounting—and forensic accounting in particular—is not only noteworthy, but newsworthy. In light of the notoriety and scandals, one movie analogy does seem appropriate: Similar to the agents in the film *Men in Black*, the forensic accountant's armory must be equipped with talent to suit every purpose, from detecting cooked books, to kiting, to money laundering. As Al Pacino said in the movie *The Recruit*, "Things are not what you think they are."

Forensic accounting is a challenging discipline that substantially interacts with auditing, economics, finance, information systems, and law. Terry McCarthy, audit partner with Green & Seifter, "likens it to 'CSI' or 'Law & Order,' but instead of figuring out the trajectory of a bullet, you're trying to find out how a transaction occurred."

Defining Forensic Accounting Broadly

Many people believe forensic accounting and fraud auditing are synonymous. They are not. A fraud auditor is an accountant specially skilled in auditing who is generally engaged in auditing with a view toward fraud discovery, documentation, and prevention. A forensic accountant may take on fraud auditing engagements and may in fact be a fraud auditor, but he or she also will use other accounting, consulting, and legal skills in broader engagements. In addition to the accounting and investigative skills that should certainly be present in the fraud auditor, the forensic accountant needs a working knowledge of the legal system and excellent quantitative analysis and communication skills to carry out expert testimony in the courtroom and to aid in other litigation support engagements.

Bruce Dubinsky, a partner in Klausner, Dubinsky & Associates, stresses their broad approach by emphasizing that there are plenty of accountants getting involved who should not be involved in the niche. "The only limit to our size is finding competent professionals." He explains that just being an accountant is no longer enough to do this work—the person has to understand the legal system, and what the law says. How to interrogate and interview people are musts. Tracking leads and obtaining legally usable intelligence is also crucial. "Many accountants think it is simply fraud investigation and it's not. It really is much more than dealing with the numbers. It's no longer just basic fraud work."

Robert Overbaugh, a partner at Pittsburgh-based Sisterson & Co., is more blunt. He asserts that "forensic accounting is often thought of, in somewhat narrow terms, as dealing with the investigations of fraud or financial misconduct. His firm thinks in broad terms and performs engagements in most areas in which attorneys use financial experts in litigation and disputes." To put it another way, a forensic accountant reduces the complexity by distilling information and slicing away deceptions to help a judge or jury to see the essence of a financial dispute.

Forensic accountants provide perspective in situations evaluating whether accounting information is presented fairly without GAAP-based constraints, such as:

- Identification of financial issues.
 - Knowledge of investigating techniques.
 - Knowledge of evidence.
 - Interpretation of financial information.
 - Presentation of finding.

James Edwards, the publisher of the *Journal of Forensic Accounting*, champions this broad definition rather than the narrow fraud examination definition. He believes that forensic accountants are employed to seek, interpret, and communicate transactional and reporting event evidence in an objective, legally sustainable fashion, not only in situations in which there are specific allegations of wrongdoing, but also in situations in which interested parties judge that the risk of loss from wrongdoing is such that proper prudence requires legally sustainable evidence to support the conclusion that no wrongdoing is occurring.

Concisely defined, **forensic accounting** is the use of accounting for legal purposes. Hal Rosenthal gives the modern definition of forensic accounting as “the use of intelligence-gathering techniques and accounting/business skills to develop information and opinion for use by attorneys involved in civil litigation and give trial testimony if called upon.”

Distinction Between Forensic Audit and Financial Audit

A forensic audit is often different than a typical financial audit. A financial audit is generally a sampling activity that does not look at every transaction. Thus, the system can be exploited by someone, such as an executive, who knows how to “cook the books.”

A forensic audit looks at the details of a specific aspect of the records, trying to determine why everything does not or should not add up. Thus, a forensic audit is much more time-consuming and can be significantly more expensive than a regular financial audit. Doug Carmichael, former Chief Auditor for PCAOB, faults auditors for not adopting forensic techniques. He prefers more tests of detail rather than relying on tests of controls.

Ronald L. Durkin suggests the following differences in a forensic audit versus a traditional audit:

- Not limiting the scope of the engagement based upon materiality.
- Not accepting sampling as evidence.
- Not assuming management has integrity.
- Seeking the best legal evidence.
- Melding the requirements of the evidential matter standard with the rules of evidence.

Two practitioners have suggested these additional procedures may be used in a forensic audit:

- Extensive use of **interviews** and leveraging techniques designed to elicit sufficient information to prove or disprove a hypothesis.
- Document **inspection** that may extend to authentication procedures and handwriting analysis.

Forensic Accountants in Novels

In general, forensic accounting can be broken into two broad categories: investigative auditing and litigation services. A series of fictional novels involving the financial and investigative intrigue of fraud portrays a forensic accountant as the hero and illustrate these two broad areas. The novels place Professor Lenny Cramer in exotic locations with colorful characters and surround him with murders and crime. Some of the plots include “track[ing] foreign receipts to uncover a plot to steal Burmese religion treasures...conducting an audit at Coca-Cola [and] uncovering a scheme to steal the company's secret formula...[and using] his forensic accounting skills to solve a series of murders in the New York art world.”

A more recent novel teaching forensic accounting entitled *The Big R: A Forensic Accounting Action Adventure* provides a description of the forensic accountant character called Fred Campbell.*

Now he did more than just disputed divorce-settlement work. His areas included antitrust analysis, general consulting, and cost allocation. Anytime someone had to dig into the books and records, he was available. Super Accountant Campbell! Maybe he should get a special cape to wear like Superman. Or was that batman? He packed a HP 12-X pocket calculator and a notebook computer. He thought of himself like the forensic anthropologist in a Patricia Cornwell or Kathy Reichs novel.

Lenny Cramer shows up in a new novel entitled *Trap Doors and Trojan Horses: An Auditing Action Adventure*. Espionage and fraud place Lenny's life on the line as he uncovers a scheme to steal Coke's secret formula. The story features a variety of settings, from Washington, D.C. to Poland. The suspenseful story combines computer and auditing concepts in a fashion even a novice can understand and enjoy.*

Behavioral Concepts

A key element of a forensic accountant knowledge base is behavioral concepts. Some fraud schemes cannot be effectively detected using data-driven approaches. Corruption schemes such as bribery, kickbacks, and bid-rigging may go undetected using data-driven techniques. Searching relevant transaction data patterns and unexplained relationships often fail to yield results because the information may not be recorded by the system.

Just like an IRS agent, a forensic accountant should be aware of the lifestyles of employees of companies as well. The lifestyle of a taxpayer or employee may give clues as to the possibilities of unreported income. Jack Bologna and Robert Lindquist* refer to this approach of looking at events, transactions, and environments in their covert aspects. They believe that fraud auditing is like an iceberg with many of the behavioral, covert aspects of the fraud below the water line, including:

- Attitudes
- Feelings (fear, anger, etc.)
- Values
- Norms
- Interactions
- Supportiveness
- Satisfaction

Of course, many of the structural, overt aspects are important, but the behavioral aspects below the surface can be extremely important. For example, a great deal of information about fraud can be found by listening, especially around the copy machine or break room (or wherever the employees congregate on breaks). Stakeouts and sifting through garbage may be off-beat ways to gather evidence. Interviewing peers, workers, and neighbors may be helpful. Further, in addition to examining financial documentation, a forensic accountant must focus on the individuals involved by interviewing witnesses and suspects.

Niamh Brennan and John Hennessy state that forensic accounting demands an awareness of motive. "Often a pattern of evidence only becomes apparent and understandable when the forensic accountant considers possible motive."* Robert J. Lindquist states: "You've got to have knowledge of fraud, what it looks like, how it works, how and why people steal. You're the bloodhound much more than the watchdog."* Sandi Smith

says that often a suspect's lifestyle will give him or her away. "Forensic accountants can study computerized banking records, tax records, and the employee's human relations department records to create an individual profile."

Certainly, obvious lifestyle changes may indicate fraud and unreported income:

- Lavish residence
- Expensive cars and boats
- Vacation home
- Private schools for children
- Exotic vacations

However, the investigator must keep in mind that a high-living style may be obtained by going into debt or through "family money" such as gifts and inheritances.

Conclusion

In today's climate all accountants – external, internal, corporate accountants, and yes, the forensic-accounting specialist – must develop forensic competencies. I believe it will only be a matter of times before most accounting majors will take one or two forensic-type courses.

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* Dr. Crumbley, CPA, CFF, CrFA, is KPMG Endowed Professor at Louisiana State University. Portions of this material is adopted from Crumbley, Heitger, and Smith, *Forensic and Investigative Accounting*, Commerce Clearing House, 2007.

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AAA Annual Meeting

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July 31-August 4

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January 6, 2010-January 9, 2010

2010 Management Accounting Section Research and Case Conference and
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Seattle, Washington

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January 7, 2010-January 9, 2010

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Consortium

Clearwater Beach, Florida

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January 8, 2010-January 8, 2010

First Annual Journal of Management Accounting Research Conference

Seattle, Washington

[Call for Submissions](#) - Expires: July 1, 2009

January 14, 2010-January 16, 2010

2010 Auditing Section Midyear Conference

San Diego, California

[Call for Submissions](#) - Expires: August 31, 2009

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Excellence in Audit Education Workshop

San Diego, California

[Meeting Information](#)

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2010 Financial Accounting and Reporting Section Midyear Meeting

San Diego, California

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2010 International Accounting Section Mid-Year Conference

Palm Springs, California

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February 5, 2010-February 5, 2010

2nd Annual Teaching, Learning and Curriculum Online Mid-Year Meeting

[Call for Submissions](#) - Expires: December 1, 2009

February 14, 2010-February 16, 2010

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Albuquerque, New Mexico

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February 18, 2010-February 20, 2010

2010 ATA Midyear Meeting

Denver, Colorado

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Meeting Information

February 19, 2010-February 20, 2010

16th Annual JATA Conference

Denver, Colorado

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March 2, 2010-March 6, 2010

2010 AAA Southwest Region/FBD Annual Meeting

Dallas, Texas

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March 5, 2010-March 6, 2010

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Baltimore, Maryland

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2010 Southeast Region Meeting

Mobile, Alabama

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Arlington, Virginia

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Philadelphia, Pennsylvania

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2010 Western Regional Meeting

Portland, OR

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May 7, 2010-May 8, 2010

1st Annual AAA Forensic and Investigative Accounting Section Research
Conference

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July 31, 2010-August 4, 2010

2010 AAA Annual Meeting

San Francisco, California

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October 7, 2010-October 9, 2010

Accounting, Behavior & Organizations 2010 Research Conference and
Doctoral Consortium

Denver, Colorado

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2010 Northeast Region Meeting

Burlington, Vermont

October 22, 2010-October 23, 2010

2010 Midwest Region Meeting

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Global Thought Leadership

The theme for our 2010 meeting is "Global Thought Leadership." The AAA's strategic plan emphasizes our vision of Thought Leadership. We accomplish this through our research, education, and input on accounting policies and standard setting. Today we need to think more about how we provide accounting thought leadership in a global economy. More and more countries are moving to adopt one global set of financial reporting standards, the largest accounting firms and corporations are multinational, accreditation crosses international borders, and many of our colleges and universities are partnering with schools from other countries. In our 2010 AAA meeting, we will celebrate and explore global thought leadership in accounting.

On July 31-August 4, 2010, the American Accounting Association (AAA) will hold its Annual Meeting in San Francisco, California. The [Program Advisory Committee](#) for the 2010 Annual Meeting of the AAA invites academic and practitioner members from around the world to submit the following:

- [Research Papers](#)
- [Panel Session Proposals](#)
- [Effective Learning Strategies Session Proposals](#)
- [Emerging/Innovative Research Projects](#)
- [CPE Session Proposals](#)
- [Conference on Teaching and Learning in Accounting \(CTLA\) Proposals](#)
- [Reviewer/Moderator/Discussant Volunteers](#)

The Committee is particularly interested in ideas for Concurrent Sessions that are highly innovative and bring fresh perspectives to bear on accounting research and education.

Introduced last year, the well-received [*Paper Dialogue Sessions*](#) will be featured again at the 2010 meeting. These concurrent sessions are designed to be highly interactive, allowing authors to receive direct feedback from audience members.

[*New Scholar Concurrent Sessions*](#) offer an excellent opportunity for new faculty and doctoral students to receive mentoring from senior scholars on promising working papers.

[*Effective Learning Strategies Sessions*](#) offer an interactive opportunity to share innovations supporting learning.

The [*Emerging and Innovative Research Projects Sessions*](#) are designed to highlight new research that is outside the traditional boundaries of accounting research.

The [*Continuing Professional Education*](#) (CPE) sessions comprise full- and half-day workshops, providing opportunities for in-depth attention and study of more complex issues and topics.

The [*Conference on Teaching and Learning in Accounting*](#) (CTLA) is designed for new and experienced faculty looking for opportunities to refine their teaching talents and perfect their craft in teaching accounting.

[*Volunteers*](#) are needed to serve as reviewers, paper discussants, and session moderators. If you are submitting a paper or proposal for the 2010 Annual Meeting, please consider "giving back" to the community by volunteering to serve in one or more of these roles.

Submission Deadlines

Submissions are being accepted online and must be received by midnight eastern time on **Wednesday January 6, 2010**, to be considered for inclusion in the program. Submissions received by midnight eastern time on December 1, 2009 are eligible to win one of three (3) [*Earlybird Cash Prizes*](#). There is no submission fee. All submissions must be submitted electronically and can be submitted online at <http://aaahq.org/AM2010/submit.cfm>, or the links above.

Meeting Registration Requirements

For accepted submissions, all participants will be required to register for the meeting, and pay associated registration fees. This includes presenters, panelists, moderators, and discussants.

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