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Report of the President

By Keith Jones



I hope everyone is doing well during this spring semester. Hopefully, our campuses will open up more and more as the vaccine rolls out and the weather gets warmer.

As we move into spring, I want to thank the Executive Committee team: Scott Vandervelde (Past President), Christine Early (Vice-President, Academic), Chris Dinkel (Vice-President, Practice), Tina Carpenter (Treasurer), Helen Brown Liburd (Secretary), Mark Taylor (Historian), and Randy Elder (Council Representative). This an outstanding team. They are a pleasure to work with. Each one has the best interest of the Section and its members at heart. I appreciate their energy and wise counsel, particularly as we have had to navigate the pandemic. They have been a great support to me and the Section.

Auditing Section Midyear Meeting, Doctoral Consortium, and Audit Educator's Workshop

I hope you enjoyed the virtual Midyear Meeting as much as I did. Our meeting Co-Chairs Scott Bronson, Tamara Lambert, and Joe Schroeder and Vice-Chairs Lauren Cunningham, Sarah Stein, and Steve Perreault did a masterful job putting together a virtual meeting that was as close to a face-to-face meeting as possible. The Co-Chairs and Vice-Chairs handled 125 submissions and put together an interesting panel. Please thank everyone who so generously gave their time and energy to create this great meeting for us. I also appreciate the team of AAA professionals who handled the details of the virtual meeting. It went off without a hitch. I experienced first-hand how helpful the AAA professionals are.

The Section gave out its annual awards during the business meeting on Friday evening. These awards are chosen by volunteer committees. Thank you to all the committees and congratulations to all the award recipients. You can find the award listings and winners on our web page <http://aaahq.org/AUD/Awards>.

In addition to the events at the MYM, the Section hosted the Doctoral Consortium and the Excellence in Audit Education Workshop. Please join me in thanking Jaime Schmidt (Chair) and Rick Hatfield (Vice Chair) for their leadership of the Doctoral Consortium this year. The Consortium represents a great opportunity for emerging scholars to learn from senior colleagues and to get to know their peers. Jaime

and Rick were very accommodating in a virtual environment. This year's Consortium had 102 attendees, which is double the registration numbers in 2020 and 2019 (50 & 55, respectively).

Also, please join me in thanking Christine Gimbar (Director), Erin Hamilton (Assistant Director), Margot Cella (Expert Practitioner Facilitator), and Chris Dinkel (our Vice-President, Practice) for their leadership of the Excellence in Audit Education Workshop. The Workshop is a great resource for us to maintain currency and learn from front-line auditors how to better prepare the next generation for a changing profession. What a great group of practitioners we had helping us with the workshop as well as the rest of the meeting. Thanks to everyone involved.

Our next midyear meeting will be held in Las Vegas, Nevada at the Sahara on January 13-15, 2022. This year's meeting was originally scheduled for Las Vegas. We were able reschedule next year's meeting to the same venue. I hope to see you all there. Please watch the Section's web page for the latest information. Vice-President, Academic Christine Early will circulate a call for submissions following the AAA Annual Meeting this summer.

Committee Activities

Our committees are always hard at work to fulfill the mission of the Section. Please see our web page for their names and responsibilities <https://aaahq.org/AUD/Officers-and-Committees#comchair>. They all do an outstanding job and are the lifeblood that keeps our Section moving along and excelling. Please contact Christine Early if you would like to serve on a committee in the coming year. She will be filling committees starting in April and May.

Research and Teaching Excellence Opportunities

As you plan your research agenda, don't forget about all of the opportunities afforded you through our various partnerships, including the AAA/CAQ Access to Audit Personnel, CAQ Research Advisory Board, and AICPA Assurance Research Advisory Group grant programs.

Annual Meeting 2021

Planning for the Annual Meeting is well underway. The meeting will be held virtually again in 2021. The theme is "Be Courageous in the Midst of Challenge." I would like to thank the Auditing Section planning committee led by Directors Rob Whited, Quinn Swanquist, Marcy Shepardson and Aaron Saiewitz, and assisted by Vice-Directors Ally Zimmerman, Josh Gunn, Lauren Reid and Andrew Trotman. These individuals have been working hard to coordinate the review process, put together concurrent sessions and panel sessions, and assist the AAA staff in ensuring a valuable experience for all of our members. If you haven't already, please volunteer as a moderator or discussant so that all presenters can receive high quality feedback on their papers.

When you see these individuals over the next few months, please thank them for their effort on this enormous task.

Closing Remarks

In closing, what strikes me about the Auditing Section is the positive energy that each of you bring to the table. I am very grateful to be leading a Section that consists of really wonderful colleagues and friends. Please join me in furthering our Section's mission, which is "To Further the Discipline and Profession of Auditing and Assurance Services Through Education, Research, and Service."

Best wishes,

A handwritten signature in black ink, appearing to read "Keith Jones", with a stylized, flowing script.

Keith Jones

2021 AAA Midyear Auditing Meeting Awards

Distinguished Service Award

Doug Prawitt, Brigham Young University

Notable Contribution to the Auditing Literature

Corporate governance in the post-Sarbanes-Oxley era:

Auditors' experiences

Contemporary Accounting Research

Jeffrey Cohen, Boston College

Dana Hermanson, Kennesaw State University

Ganesh Krishnamoorthy, Northeastern University

Arnold Wright, Northeastern University

Innovations in Audit Education

The EY Innovation Mindset drone cases:

Bryan's Amazing Animals (sheep) and Where's da Beef (cattle)

Catherine Banks, EY

Margaret Christ, University of Georgia

Scott Emett, Arizona State University

Sean Seymour, EY

Scott Summers, Brigham Young University

Russell Taylor, EY

David Wood, Brigham Young University

Audit Midyear Meeting Best Archival Paper

How Does Artificial Intelligence Shape the Audit Industry?

Michael Shen, National University of Singapore

Kelvin Law, Nanyang Technological University

Outstanding Educator

Mike Ettredge, University of Kansas

Audit Midyear Meeting Best Behavioral Paper

Reexamining the Outcome Effect:

Are Auditors Penalized for Exercising Professional Skepticism?

Mary Marshall, Louisiana Tech University

Curtis Mullis, Georgia State University

Kelli Saunders, University of Nebraska

Chad Stefaniak, University of South Carolina

Audit Midyear Meeting Best Behavioral Paper

*Auditing from a Distance: The Impact of Remote Auditing and
Supervisor Monitoring on Analytical Procedures Judgments*

Sudip Bhattacharjee, Virginia Tech University

Sean Hillison, Virginia Tech University

Carissa Malone, Virginia Tech University

AJPT Best Paper Award

*Current practices and challenges in auditing fair value measurements and
complex estimates: Implications for auditing standards and the academy*

Steven Glover, Brigham Young University

Mark Taylor, University of South Florida

Yi-Jing Wu, Texas Tech University

AJPT Reviewer Awards

Pat Hurley, Northeastern University

Tim Bauer, Waterloo University

Nathan Newton, Florida State University

Outstanding Audit Dissertation

*When Does the Internal Audit Function Enhance Audit Committee
Effectiveness?*

Jacob Jaggi, University of Arizona

Preeti Choudhary, University of Arizona – Dissertation Co-Chair

Jayanthi Sunder, University of Arizona – Dissertation Co-Chair

PCAOB Update

By Megan Zietsman and Elena Bozhkova

PCAOB Acting Chief Auditor and PCAOB Assistant Chief Auditor

Introduction

This Update addresses select Public Company Accounting Oversight Board (PCAOB) developments since the Fall 2020 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- CAM Interim Analysis
- Use of Economic Analysis in Standard Setting
- Independence Amendments
- Strategic Plan and Budget
- Megan Zietsman Sworn in as Board Member
- PCAOB Website Redesign
- COVID-19 Spotlight
- Board Member Brown Left the PCAOB
- Conversations with Audit Committee Chairs
- Settled Disciplinary Orders

CAM Interim Analysis

On October 29, 2020, the PCAOB released an interim analysis report and two accompanying white papers providing the PCAOB's perspective on the initial impact of critical audit matter (CAM) requirements and insights learned from stakeholders. The PCAOB also made available the CAM dataset used in the analysis.

Key findings from the staff's analyses include the following:

- Audit firms made significant investments to support initial implementation of CAM requirements.
- Investor awareness of CAMs communicated in the auditor's report is still developing, but some investors are reading CAMs and find the information beneficial.
- The staff has not found evidence of significant unintended consequences from auditors' implementation of CAM requirements for audits of large accelerated filers in the initial year.

The interim analysis report and white papers are part of an ongoing evaluation of the overall effect of the CAM requirements on key stakeholders in the audit process.

The interim analysis report, the white papers, and the CAM dataset are available on the PCAOB website at <https://pcaobus.org/oversight/standards/economic-analysis/pir/post-implementation-review-as-3101-auditors-report-audit-financial-statements-when-auditor-expresses-unqualified-opinion>.

Use of Economic Analysis in Standard Setting

On November 17, 2020, the PCAOB released a Spotlight publication that highlights how the PCAOB implements the strategic objective of better leveraging economic and risk analysis to effectively set standards, rules, and guidance.

The Spotlight provides an overview of how the PCAOB conducts economic analysis and gather stakeholder input. It also includes a “case study” on how the PCAOB has used - and will continue to use - economic analysis and stakeholder input related to the requirement for auditors to determine and communicate critical audit matters in the auditor’s report.

The Spotlight is available on the PCAOB website at <https://pcaobus.org/Documents/PCAOB-Use-Economic-Analysis-Stakeholder-Spotlight.pdf>.

Independence Amendments

On November 19, 2020, the PCAOB adopted amendments to its independence standards and rules. The amendments align the Board’s independence requirements with the SEC’s recent revisions to its auditor independence rules. The amendments were approved by the SEC on January 14, 2021 and will be effective June 9, 2021.

The final rule, a fact sheet, and a staff resource guide are available on the PCAOB website at <https://pcaobus.org/news-events/news-releases/fact-sheet-auditor-independence-conforming-amendments>.

Additionally, a comparison document that shows changes from the previous independence standards and rules is available at https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/rulemaking/docket-047/independence-redline-existing-standards-vs-final-amdts.pdf?sfvrsn=2d202c59_6.

Strategic Plan and Budget

On November 19, 2020, the PCAOB approved its fiscal year 2021 budget and five-year strategic plan. The Board's strategic plan guides the PCAOB's programs and operations and serves as the foundation for the budget.

The PCAOB's 2021 budget—which includes investments in personnel, processes, and technology—will provide the Board with the resources necessary to continue to implement its strategic plan. The budget is \$287.3 million, which would fund 859 positions. It was subsequently approved by the SEC.

The strategic plan and the budget are available on the PCAOB website at <https://pcaobus.org/about/strategic-plan-budget>.

Megan Zietsman Sworn in as Board Member

On November 20, 2020, the PCAOB announced that Megan Zietsman was sworn in as a Board member. The SEC conducted the swearing-in ceremony virtually.

Board Member Zietsman's biography is available on the PCAOB's website at <https://pcaobus.org/about/the-board/board-bios/megan-zietsman>.

PCAOB Website Redesign

On December 1, 2020, the PCAOB announced that it launched a new brand and redesigned website, further advancing one of the Board's key strategic priorities of enhancing transparency and accessibility through proactive stakeholder engagement.

In addition to improving the look and feel of our website, we focused on the following enhancements:

- User-friendly design: The website provides a more user-friendly format, enabling visitors to find the information they need.
- Access to information: The website's revamped search capability helps visitors access PCAOB resources and our AuditorSearch public database, and additional navigation features help users more easily explore the website. New content was added on key topics, and the website consolidates information for audit firms. All of the PCAOB's historical information continues to be available for public reference.
- Stakeholder engagement: The website was redesigned with special attention to stakeholders that the PCAOB interacts with regularly. Beyond the website's information for auditors, we include new or refreshed content and dedicated resource pages for academics, audit committees, investors, and preparers.
- Timeliness: Throughout the website, new sections with "Recent Updates" and "Related Information" have been added to help readers locate the latest from the PCAOB on key topics.

The PCAOB welcomes feedback on the new look and website and invites all interested parties to complete a one-minute survey at https://pcaob.iad1.qualtrics.com/jfe/form/SV_8wylenTxHVM99VH.

COVID-19 Spotlight

On December 2, 2020, the PCAOB released a Spotlight publication, *Staff Observations and Reminders during the COVID-19 Pandemic*, to provide insights from recent PCAOB inspections of reviews of interim financial information and audits.

This publication builds on information provided in the PCAOB's April 2020 Spotlight, *COVID-19: Reminders for Audits Nearing Completion*. Despite the ongoing challenges created by the pandemic, auditors remain responsible for conducting audits in accordance with PCAOB standards and rules, as well as other regulatory and professional standards. Although the staff observations in this publication relate to audits of public companies, many of the reminders, even where the term "public company" is used, may also be applicable to audits of broker-dealers.

This Spotlight and more COVID-19 related updates and information are available on the PCAOB's website at <https://pcaobus.org/about/response-to-covid-19>.

Board Member Brown Leaves the PCAOB

On January 12, 2021, the PCAOB announced that J. Robert Brown, Jr. would conclude his service on the Board by the end of the month.

Brown was sworn in on February 1, 2018, after his appointment by the SEC in December 2017. He served as the Chair of the Investor and Other Stakeholders Working Group of the International Forum of Independent Audit Regulators, which seeks to advance investors' views in the international regulatory community.

Read more about Board Member Brown's service and priorities at the PCAOB in his statement at <https://pcaobus.org/news-events/speeches/speech-detail/statement-by-board-member-j.-robert-brown-jr.-on-his-service-at-the-pcaob>.

Conversations with Audit Committee Chairs

On February 1, 2021, the PCAOB released a publication, *2020 Conversations with Audit Committee Chairs*.

As part of the strategic goal of enhancing transparency and accessibility through proactive stakeholder engagement, in 2020 the PCAOB reached out to the audit committee chairs of most of the U.S. public companies whose audits the PCAOB inspected and offered them the opportunity to speak with PCAOB staff. In total, staff spoke to nearly 300 audit committee chairs.

Summarizing perspectives received through this engagement, the publication focuses on three core topics:

- The auditor and communications with the audit committee;
- New auditing and accounting standards; and
- Emerging technologies.

The publication is available on the PCAOB's website at <https://pcaobus.org/documents/2020-conversations-with-audit-committee-chairs.pdf>.

Settled Disciplinary Orders

The PCAOB posted several settled disciplinary orders.

Settled disciplinary orders are available on the PCAOB website at <https://pcaobus.org/Enforcement/Decisions/Pages/default.aspx>.

AICPA Auditing Standards Board Update

By Audrey Gramling

Oklahoma State University and Auditing Standards Board Member

Since my last report in October 2020, the ASB has continued to meet virtually to work on new and ongoing projects. This report highlights the status of various ASB projects and other ASB developments.

Recently Issued Standards

For current information and additional resources on recently issued Auditing and Attestation standards, go to <https://www.aicpa.org/interestareas/frc/auditattest/auditing-standards-information-and-resources.html>

Review Engagements

In December 2020, the Board issued a standard that focuses on engagements known as review engagements—Statement on Standards for Attestation Engagements (SSAE) No. 22, *Review Engagements*. This Standard supersedes SSAE No. 18, *Attestation Standards: Clarification and Recodification*. Of special note, SSAE No. 22:

- describes the types of procedures a practitioner may perform in a review engagement,
- requires that the practitioner's report include an informative summary of the work performed as a basis for the practitioner's conclusion, and
- permits the expression of an adverse conclusion.

Ongoing Projects

The Board continues to work on a number of projects, including the following proposed standards (some of which are to be discussed at the Board's spring meetings). A summary of currently proposed standards is available at <https://www.aicpa.org/research/exposedrafts/accountingandauditing.html>

Risk Assessment

The Board will continue its ongoing discussion of suggested further refinements to its proposed SAS, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*, that were received through the comment letter process.

The Exposure Draft is available at

<https://www.aicpa.org/content/dam/aicpa/research/exposedrafts/accountingandauditing/downloadabledocuments/20200827a/20200827a-risk-assessment-ed.pdf>

The comment letters are available at

<https://www.aicpa.org/research/exposedrafts/accountingandauditing/comment-letters-on-proposed-auditing-standards-and-risk-assessments.html>

Quality Management

In February 2021, the Board exposed proposed standards intended to convergence with the International Auditing and Assurance Standards Board's (IAASB) recently finalized quality management standards. The proposed standards include a proactive risk-based approach to effective quality management systems within firms. This approach allows for improved scalability of the standards because it promotes a system tailored to the nature and circumstances of the firm and its engagements. The exposure draft, *Proposed Quality Management Standards*, includes three interrelated proposed standards:

- Proposed Statement on Quality Management Standards (SQMS) *A Firm's System of Quality Management*
- Proposed SQMS *Engagement Quality Reviews*
- Proposed Statement on Auditing Standards (SAS) *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*

The Exposure Draft is available at

<https://www.aicpa.org/content/dam/aicpa/research/exposedrafts/accountingandauditing/downloadabledocuments/20210204a/20210204a-quality-mgmt-ed.pdf>

Inquiries of the Predecessor Auditor

The Board issued a proposed SAS, *Inquiries of the Predecessor Auditor Regarding Fraud and NOCLAR*, for public comment in February 2021. The ASB is proposing narrow revisions to current GAAS to require an auditor, once management authorizes the predecessor auditor to respond to inquiries from the auditor, to inquire of the predecessor auditor regarding identified or suspected fraud and matters involving noncompliance with laws or regulation. The proposed new requirements include:

- Auditor required to inquire of predecessor regarding identified or suspected fraud and matters involving NOCLAR.
- Predecessor auditor required to respond fully and timely and to indicate if the response is limited.

The Exposure Draft is available at

<https://www.aicpa.org/content/dam/aicpa/research/exposedrafts/accountingandauditing/downloadabledocuments/20210225a/20210225a-noclar-ed.pdf>

OTHER ASB UPDATES

Jennifer Burns, CPA joined the AICPA as Chief Auditor in January 2021. As Chief Auditor, Burns will serve as the Association's leading expert on U.S. and international auditing and attestation standards. In addition, Burns will be responsible for delivering high-quality, innovative audit, attest, quality control, review, compilation and preparation standards. She will lead and provide strategic direction to the AICPA U.S. Auditing Standards Board (ASB). You can read more about her appointment at <https://www.aicpa.org/press/pressreleases/2020/aicpa-hires-jennifer-burns-cpa-as-chief-auditor.html>.

On a personal note, I had the privilege of working with Jennifer when we were both working in the SEC's Office of Chief Accountant from 2004-2005. I look forward to all that she will accomplish in this new role!

Current Issues in Auditing
Update from the Co-editors
Denise Dickins, Ph.D., CPA, East Carolina University
Keith Urtel, CPA, University of Notre Dame

When we assumed editorial responsibility for *Current Issues in Auditing* on July 1, 2020, our goal was to continue to carry out the Journal's objective of "advancing the dialogue between academics and practitioners on current issues facing the auditing practice community." We believe this objective requires that published articles: (1) investigate topics of interest to practitioners, (2) report the results of rigorous analyses that are easy to understand, and (3) be timely.

To achieve these sub-objectives, we adopted the following practices:

- Refreshed the Editorial Board to include partner-level practitioners. Represented are BDO, EY, Deloitte, and Focal Point. Committed to join the Editorial Board are representatives of PricewaterhouseCoopers and KPMG. All Editorial Board members commit to review up to three submissions each year.
- Issued a Call for Papers encouraging submissions of collaborations between academics and practitioners.
- Before placing submitted articles into the formal review process, asked at least one audit partner-practitioner whether the topic is relevant to practice and whether they would take the time to read the article based on its title and abstract.
- To the extent possible, assigned reviewer teams include both academics and practitioners.

Results have been positive. We received a record number of submissions during 2020 (n = 44, 29 of which were received during the last six months of 2020). Topics of articles out for revision include cybersecurity, cryptocurrency, auditing fair values, and diversity in public accounting firms.

There is still work to do. While not letting up on the submissions pipeline, after publication of *CIIA*'s Spring 2021 issue, we plan to turn our attention to increasing readership. We intend to connect with accounting firms of all sizes and encourage them to periodically share a link to *CIIA*'s home page with their audit partners and employees. With the Editorial Board's membership expanded to include practicing audit partners, we believe *CIIA* is well-positioned to expand its readership. Wish us luck!

Denise and Keith

Have you Seen...?

Lindsay M. Andiola, Virginia Commonwealth University

Candice Hux, Northern Illinois University

Jenna J. Burke, University of Colorado Denver

“The Use and Characteristics of Foreign Component Auditors in U.S. Multinational Audits: Insights from Form AP disclosures.” By Jenna Burke, Rani Hoitash and Uday Hoitash. *Contemporary Accounting Research* 37 (4): 2398-2437.

This study examines the use of foreign audit firms on U.S. public company audits. These foreign audit firms are known as component auditors, and information on their use is now disclosed in PCAOB Form AP. Consistent with regulator concern over the quality of audits using component auditors, the authors find that the amount of work conducted by component auditors is associated with adverse audit outcomes. Specifically, the percentage of audit hours conducted by component auditors is associated with lower audit quality, higher likelihood of non-timely reporting, and higher audit fees. Importantly, the authors find that the adverse outcomes are driven by work performed by less competent component auditors and those facing greater geographic and cultural/language barriers with the U.S. lead auditor. Since the authors report that the use of these auditors is largely structural (i.e., determined by the size and complexity of clients’ multinational operations), they recommend that lead auditors, investors, and other stakeholders be aware of coordination issues and manage accordingly.

“Friends in Low Places: How Peer Advice and Expected Leadership Feedback Affect Staff Auditors’ Willingness to Speak Up.” By Emily Griffith, Kathryn Kadous and Chad Proell. *Accounting, Organizations, and Society* 87: In-press.

This paper uses a series of studies to examine whether and how peer advice influences staff auditors’ willingness to speak up to leaders about potential audit issues and whether leadership feedback practices can mitigate problematic peer advice. Survey results of Study 1 reveal that staff auditors seek informal peer advice, including whether to voice potential audit issues to their superiors. Follow-up experimental studies show that staff auditors underestimate the importance of raising issues compared to their supervisors (Study 2), and when staff auditors provide advice to peers, they rely on social cues that are not diagnostic of issue importance (Study 3). Finally, Study 4 finds that staff auditors tend to follow peer advice when it confirms their initial stance to speak up or not and that an expectation of high-quality supervisor feedback increases their willingness to speak up about potential audit issues. Importantly, when peer advice contradicts auditors’ initial stance, an expectation of high-quality leadership feedback mitigates the problematic peer advice and facilitates speaking up. These results have implications for regulators, practitioners, and research by showing that peer advice among staff auditors can be problematic, but a strong “tone at the top” that creates an expectation of high-quality feedback can improve staff auditors’ upward communication of audit issues.

“The Forewarning Effect of Critical Audit Matter Disclosures involving Measurement Uncertainty.” By Steven Kachelmeier, Dan Rlmkus, Jaime Schmidt and Kristen Valentine. *Contemporary Accounting Research* 37 (4): 2186-2212.

The authors study a recent change in the auditor’s report, specifically the disclosure of critical audit matters (CAMs) in the U.S. and key audit matters internationally. Using a business-savvy participant pool of MBA students, financial analysts, attorneys, Experiment 1 examines how CAM disclosures affect users’ confidence in the financial statement area disclosed in the CAM and the assessments of auditor responsibility for the subsequent misstatement. Results show lower pre-misstatement confidence assessments in the area disclosed as a CAM, consistent with a “forewarning” effect, and lower post-misstatement assessments of the auditor’s responsibility when a misstatement occurs in a CAM-related area. These findings extend our understanding of CAM effects beyond juror settings and studies with relatively inexperienced participants. Experiment 2 helps reconcile recent juror CAM studies by showing varying assessments of the auditor’s fault for the misstatement based on whether the CAM disclosure involves lease classification versus lease measurement uncertainty. Overall, the results suggest that CAMs in areas of high measurement uncertainty can serve as a forewarning to financial statement users, and partially shield auditors from responsibility for subsequent misstatements. These findings provide new insights for regulators and practice and extend our understanding of how different users react to the new CAM disclosures.

“Audit Regulation and Cost of Equity Capital: Evidence from the PCAOB’s International Inspection Regime.” By Phillip Lamoreaux, Landon Mauler and Nathan Newton. *Contemporary Accounting Research* 37 (4): 2438-2471.

This study examines the impact of the PCAOB’s international inspection program on the cost of equity capital in several countries. The PCAOB’s international inspection program allows the U.S. PCAOB to inspect foreign auditors that serve as a lead auditor for foreign companies listed in the U.S. Because countries began allowing PCAOB inspection access at different times, the authors employ a difference-in-difference design to compare the cost of capital for companies whose auditors became subject to PCAOB inspection with the cost of capital for companies that did not experience such a change. The authors find that foreign companies listed in the U.S. whose auditors are subject to PCAOB inspection access have a lower cost of capital than those whose auditors are not subject to PCAOB inspection access. These findings suggest that the improvement in auditor oversight reduces information risk for foreign companies listed in the U.S. and that audit regulation can increase public confidence in auditors.

“Opening Up the “Black Box” of Audit Firms: The Effects of Audit Partner Ownership on Audit Adjustments.” By Clive Lennox, Chunfei Wang and Xi Wu. *Journal of Accounting Research* 58(5): 1299-1341.

This study examines the associations between partner equity ownership and audit adjustments. The authors obtain unique data on partner identity and equity ownership from China’s Securities Regulatory Commission and Ministry of Finance for two types of partners employed by audit firms. The authors predict and find evidence that engagement quality reviewers deliver higher audit quality (i.e., a greater likelihood and higher magnitude of audit adjustment) when they hold greater equity ownership, as the ownership stake motivates them to monitor audit quality more closely. Conversely, the equity ownership of audit engagement partners is either not associated or negatively associated with audit quality, suggesting the ownership stake does not motivate this class of partners in the same way. The result for audit engagement partners is particularly interesting as it highlights the conflicting incentives of audit engagement partners to provide high-quality audits and maintain good relations with their clients.

“Does Emphasizing Management Bias Decrease Auditors’ Sensitivity to Measurement Imprecision?”
By Ben Van Landuyt. *Accounting, Organizations, and Society* 88: In-press.

While mitigating intentional management bias is important for audit quality, this study examines how an imbalanced emphasis on management bias can come at the expense of auditors’ response to measurement imprecision risks that ultimately affect audit effort. Using an experimental economics setting, results of Study 1 show that when managers have relatively weaker incentives for bias, auditors “lower their guard” to a greater extent than when there is a more balanced emphasis on risks of management bias and measurement imprecision. The imbalanced emphasis results in insufficient audit effort. In contrast, when managers have a stronger incentive for bias, auditors exert high effort regardless of emphasis on bias or imprecision. Study 2 shows that in the presence of an imbalanced emphasis on imprecision, auditors’ sensitivity to bias is not reduced (relative to the balanced emphasis on imprecision and bias), suggesting that an imbalanced emphasis on imprecision does not similarly distract auditors from bias. Study 3 provides evidence that practicing auditors become less sensitive to imprecision when environmental factors place an imbalanced emphasis on bias. Overall, these results are important to policymakers and audit practice by showing that a balanced emphasis on management bias and measurement imprecision could help mitigate auditors’ behavioral tendency to neglect risks related to imprecision.

Have You Seen...These Educational Resources?

**By Nate Cannon and Chad Simon
Texas State University and Utah State University**

[Center for Audit Quality \(CAQ\) "Discover Audit" Professor Resource Page](#)

The CAQ has developed a rich collection of resources to help augment instruction in audit classes. Resources include case studies on various auditing topics (including detailed guides on teaching with case studies), professionally produced audit training video vignettes designed to generate class discussion, various toolkits and PDF handouts, and more. The site also includes helpful information about how to access the extensive free teaching materials available at each of the four largest public accounting firms.

["Analyzing An Audit Population Via Either Excel Pivot Tables and/or R Language Cluster Analysis"](#) by **Thomas McKee. *Current Issues in Auditing*. Online Early.**

In this case, background case materials and a large revenue dataset are provided for a self-storage property company. The case is designed to help auditing students improve their critical thinking and data analysis skills in the audit risk analysis and planning stages of an audit. A basic version of the case can be easily implemented using pivot tables in Excel, or for a more advanced implementation, cluster analysis using the R language can be used. Both approaches are designed to have students think critically about how they will analyze and interpret the provided data to identify potential anomalies.

["Planning for Substantive Testing at the Assertion Level: A Training Activity and Mini Case"](#) by **Janice Rummell and Andrea Weickgenannt. *Current Issues in Auditing*. Online Early.**

This is a two-part educational resource. In the training activity portion, students are given hands-on practice in linking specific audit tasks with significant accounts, management assertions, and types of audit procedures necessary to collect the appropriate evidence. In the case portion of this educational resource, students assume the role of auditors on a client engagement and identify key risks of material misstatement. They then identify and document the significant accounts and management assertions related to the risks identified.