



THE AUDITOR'S REPORT

Volume 33, No 1
Fall 2009

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Report of the President

Urton Anderson



It is an honor to serve as President of the Auditing Section for 2009-2010. My commitment to you as members is to work diligently to continue the progress the Section has made under the terrific leadership of Audrey Gramling, Mark Peecher, Ray Whittington and the many other outstanding individuals who have served the Section in this role.

2009 Annual Meeting

Many of you joined the thousands of AAA members attending the Annual AAA Meeting in New York. It was a great event for the AAA and the Auditing Section. Tim Louwers and Kenny Reynolds did a fantastic job coordinating the Auditing Section's program. This year there were 182 papers submitted to the Auditing Section – a 20% increase from 2008 – with 104 being selected for presentation in concurrent sessions. The Section also accepted proposals for five panel sessions. In addition to the panelists and paper presenters, the Section's part of the program involved the work of 32 moderators, 80 discussants, and several hundred reviewers. Thanks to all for their efforts.

In conjunction with the AAA meeting in New York, The Center for Audit Quality (CAQ) held a half-day symposium on Sunday, August 2. The symposium was attended by some 60 people – half auditing researchers

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and half partners responsible for the audit practice and methodology from most of the nations largest 10 audit firms. The symposium had three main objectives:

- To help reverse the declining degree of dialogue and collaboration between leading audit practitioners and audit researchers.
- To provide a venue for academic researchers to share the results of their studies and explore with leadership-level practitioners how those results apply to audit practice.
- To demonstrate the commitment and leadership that will be necessary to help ensure that audit practitioners and audit researchers collaborate on issues that drive improvements in audit practice and quality.

Based on the success of this symposium, the Center for Audit Quality and the Section are planning to hold another symposium in conjunction with the 2010 AAA Meeting in San Francisco.

Audit Boot Camp

In June the Section conducted its first "Audit Boot Camp" The 3 day event was designed with two types of faculty members in mind: recent doctoral graduates who do not have auditing experience, but will be teaching auditing courses at their new university and faculty members who currently teach auditing courses who do not have recent auditing experience. The purpose was to give participants and opportunity to be come acquainted with the basics of current audit practice, particularly where practice has been changing. Coverage included various topics including audit planning, client acceptance, internal controls, risk, materiality and substantive testing. The program was extremely successful, enrollment, which was capped at 40, quickly filled and a number had to be turned away. Those that attended gave the program excellent evaluations and reviews.

Based on the first Boot Camps success, the section with offer another Boot Camp this coming June. Watch for the announcements this Spring.

Webinars

This past year the Section explored the possibility of providing webinars to Section members. Two webinars were conducted. The first was conducted by Mark Beasley, who spoke on COSO's Project on Monitoring Internal Controls; the second was by Joe Carcello discussed his recent PCAOB activity from his perspective as a member of the PCAOB's Standing Advisory Group.

The section has now received approval from NASBA to award CPE credit for all future webinars delivered by the section. The first webinar for which CPE was available was conducted this fall by Pamela R. Murphy on Research and Teaching Opportunities on Fraud Prevention and Detection. The plan going forward is to conduct five to six webinars per year. If you

Calls and Announcements

[Call for Papers -
ISAR 2010](#)

[19th Symposium
on Audit Research](#)

[PDF Version of
Newsletter
\(for printing\)](#)

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Spring 2010 Issue Deadline

The deadline for material to be included in the Spring 2010 issue of The Auditor's Report is February 28, 2010. The preferred format is a Word file attached to an e-mail message. We are also open to any proposals for materials that anyone would like to submit. Please send all material and proposals to the Editor at the address below by the stated deadline to ensure timely publication of the issue:

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Auburn University
301 Lowder Business
Building
Auburn, AL 36849
Phone: (334)844-6215
Email: branddm@auburn.edu

have an interest in conducting one of these webinars contact Susan B. Hughes, chair of the CPE committee, shughes@uvm.edu or Jeffrey Cohen, chair of the Research Committee, cohen@bc.edu.

KPMG Continues its Generous Support

We recently received the news that the KPMG Foundation Trustees have approved a three year extension of the Foundation's support of the Section's Mid-Year Conference and Auditing Doctorial Consortium. This support for the 2011, 2012, and 2013 Conferences and Consortia provides a critical financial basis to for the Section to continue fulfill its mission of fostering excellence in the teaching, research and practice of auditing and assurance services. Thanks to KPMG, the KPMG Foundation Trustees, and Bernie Milano, President of The Foundation, for this vote of continued confidence in the Section.

San Diego 2010

[Register now](#) for the 2010 Auditing Section Mid-Year Conference to be held January 14-16 at the Westin Hotel in San Diego. Jennifer Joe and Susan Shu have arranged an excellent selection of plenary speakers, panels, and paper presentations for the conference. Plenary speakers include Christopher Cox, Past Chairman of the SEC, and Dr. Arnold Schilder, the Chair of the International Auditing and Assurance Standards Board.

This year's pre-conference workshop continues the Excellence in Audit Education theme of our past two pre-conference workshops. This year the workshop has been coordinated by Mark Peecher and is entitle *Equipping Audit Students to Make Professional Judgments*. This is one of the most significant issues facing the auditing and accounting profession today as changes in the accounting framework requires an ever increase amount of judgment as is discussed by Guy Moore, Senior Advisory Partner with Deloitte, in the "Views from the Profession" column in this issue of The Auditor Report. The column provides a great introduction to the topic. The workshop begins at 12:30 Thursday January 14.

We continue our tradition of holding a [Doctoral Consortium](#) prior to the conference. Brian Mayhew, the Consortium chair, has an exciting program planned for January 14 that PhD students working in auditing and related areas will not want to miss.

Looking forward to seeing you in January in San Diego.



THE AUDITOR'S REPORT

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Using Professional Judgment

By Guy Moore, Senior Advisory Partner for Professional Practice,
Deloitte & Touche LLP*

The meaning of professional judgment and its application in an audit environment continue to be subjects of interest and discussion by auditing and accounting faculty, students, standard setters, regulators and auditing professionals alike. As accounting frameworks continue to call for increased judgment by preparers of financial statements, the auditor assessing those judgments will in turn need to apply his or her professional judgment. What follows is one "view from the profession" about the meaning and importance of professional judgment, as well as one approach that may be employed when applying professional judgment.

The phrase "professional judgment" is not new to the accounting and auditing profession; however, there has been an increased emphasis on the importance of professional judgment as a result of regulation, standard setting, inspections, and a move toward more principles-based accounting and auditing standards. In its [recent report**](#), the Advisory Committee on Improvements to Financial Reporting recognized the "need for a cultural shift towards the acceptance of more judgment" and recommended that both the SEC and PCAOB issue statements of policy articulating how the reasonableness of accounting and auditing judgments is evaluated. So while professional judgment may not be a new concept, its use is becoming increasingly more vital to the appropriate application of accounting and auditing standards.

Defining Professional Judgment

Professional judgment is a process used to reach a well-reasoned conclusion that is based on the relevant facts and circumstances available at the time of the conclusion. A fundamental part of the process is the involvement of individuals with sufficient knowledge and experience. Professional judgment involves the identification, without bias, of reasonable alternatives; therefore, careful and objective consideration of information that may seem contradictory to a conclusion is key to its application. In addition, both professional skepticism and objectivity are essential to the process and to reaching an appropriate conclusion.

Professional judgment is not an arbitrary decision, a substitute for professional skepticism, or a method to rationalize a particular result. Performing the process in "form" without focusing on the substance does not constitute well-reasoned professional judgment.

Professional judgment is critical to efficiently and effectively planning, performing, and concluding in an audit. Auditors use professional judgment to focus on the most important aspects of an audit; to determine the nature, timing, and extent of audit procedures; and to appropriately challenge the accounting, reporting, and other conclusions reached and financial statement assertions made by management.

Applying Professional Judgment

Because of the nature of the auditor's professional responsibilities and the regulatory environment, the auditor's judgments will most likely be challenged. Knowledgeable, experienced, and objective persons can reach different conclusions in applying professional standards despite similar facts and circumstances. This does not necessarily mean that one conclusion is right and the other is wrong. Appropriate questioning to understand the procedures performed and basis for conclusions reached is to be expected.

Contemporaneous documentation of professional judgments is important. Documentation demonstrates that a sound process was followed and helps the development of a well-reasoned conclusion. When professional judgment is challenged, contemporaneous documentation shows the analysis of the facts, circumstances, and alternatives considered as well as the basis for the conclusions reached. The extent of documentation and the effort expended in the process will vary with the significance and complexity of an issue.

When the professional judgment process is appropriately applied and contemporaneously documented, it is much easier to support and defend the conclusions reached. Conversely, decisions that appear to be arbitrary; not supported by the facts, evidence, or professional literature; or not well-reasoned or documented are difficult to support.

The sample framework that follows is an example of a common sense approach to reaching judgments based loosely on the work of the Advisory Committee on Improvements to Financial Reporting. It certainly is not the only approach to applying professional judgment, as there are multiple paths to reaching appropriate decisions and judgments.

Considerations When Applying Professional Judgment

IDENTIFY ISSUE: Identify the accounting or auditing issue requiring the use of professional judgment. Consider the following:

- Has the issue been sufficiently framed?
- Are there any related issues that need to be considered in the process?

GATHER THE FACTS: Objectively obtain a thorough understanding of the relevant facts and information available concerning the transaction, event, or situation. Consider the following:

- Have source documents and other materials been examined, knowledgeable client personnel interviewed, and other available sources of information considered?
- Were the appropriateness and reliability of the assumptions and data to be used in the analysis of the transaction or situation sufficiently assessed, tested, and objectively challenged by obtaining sufficient competent evidence?

REVIEW RELEVANT LITERATURE: Identify the accounting or auditing literature (or other standards and rules) relevant to the issue, keeping in mind the various authoritative pronouncements in the GAAP hierarchy and the different sources of professional auditing and attestation pronouncements. Consider the following:

- Has the relevant accounting or auditing standard been identified and reviewed, recognizing that reference to more than one authority may be appropriate to address the issue?
- Have the underlying principles in the relevant accounting or auditing literature been considered?
- To the extent that one particular authority does not address the issue directly, have other pronouncements or literature, by analogy, been considered as appropriate?

ANALYZE ISSUE: Apply the applicable accounting or auditing literature to the relevant facts and other information concerning the transaction, event, or situation and assess the most appropriate accounting treatment or auditing approach under the circumstances. Consider the following:

- Do the individuals addressing the issue have sufficient knowledge, experience, and objectivity for the matter being evaluated?
- Do additional resources need to be involved in addressing the issue?
- Have the reasonable alternatives been identified?
- Have the reasonable alternatives been analyzed, including the pros and cons of each alternative? For example, has all evidence been considered, including potentially contradictory evidence, and whether any negative evidence was outweighed by positive evidence?
- Has preferability or diversity in practice been considered?
- Has the business purpose and the form and substance of the transaction been analyzed?
- Have the audit risks and potential responses to those risks been analyzed? For example, if assessing the inherent risk of material misstatement of an account balance or assertion have the potential errors relevant to the account and the factors that could reasonably increase the likelihood of a material misstatement (by error or fraud) been analyzed?
- Has consideration been given as to whether the treatment that results from applying the relevant literature has been applied consistently to similar transactions, events, or situations?

Conclude and Document: Contemporaneously document the conclusion reached, with specific discussion of the issue; applicable facts and evidence gathered; relevant literature, policies, and guidance; individuals consulted; alternatives considered; analysis performed; and basis for the conclusion reached.

- Was the rationale for the alternative selected (including the reason why the selected alternative is preferred to other alternatives or reasons why the preferred alternative was not selected) documented?
 - Has an assessment been made as to whether the effort spent in the process and the extent of documentation are consistent with the significance and complexity of the professional judgment reached?
-

****The *Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission*, issued on August 1, 2008, addressed the use of “reasonable judgments” in the accounting and auditing profession.**

*** This article contains general information only and Deloitte & Touche LLP is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services**

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Committee Spotlight

By Jeffrey Cohen

The Auditing Section of the AAA is successful because of the many members who agree to serve on one or more of the Section's committees. This new column will profile the activities of one of the Section's committees. In this issue of *The Auditor's Report*, the Auditing Research Committee is profiled.

The Charge of the Committee includes the following:

Structure: Members appointed for three-year terms, with one-third of committee membership rotating on/off each year. Chair appointed for two-year term.

Charge:

1. Investigate and promote opportunities for auditing and assurance research.
2. Foster innovations in auditing and assurance research.
3. Facilitate the communication of auditing and assurance research findings to members of the practice community.
4. Complete research-related projects assigned by the Section President and/or Executive Committee.
5. Interact with the AAA Research Advisory Committee.
6. Interact with the Auditing Standards Committee concerning their research activities.
7. Communicate the progress and results of Committee activities to Auditing Section members in appropriate ways, including but not limited to the presentation of a brief report at the Section's annual business meeting.

The 2008-2009 Committee Members include:

Jeff Cohen (Chair), Boston College

Jack Krogstad, Creighton University

Greg Jenkins, Virginia Tech

Marshall. K. Pitman, University of Texas at San Antonio

Jaime Schmidt, University of Texas at Austin

Uma Velury, University of Delaware

Marshall. K. Pitman, University of Texas at San Antonio

Targeted Activities of the Committee

The primary goals of the Committee are to promote research opportunities to our section's members. To accomplish these goals, the Committee is focused on a number of activities such as the following:

1. One primary objective of the committee is to develop a strategy to elevate the status of the section's journal **AJPT**. We will present a plan of action to the executive committee at the 2010 Midyear Audit conference. If anyone has some suggestions on the matter, please email Jeff Cohen at the following email address: cohen@bc.edu
2. The Committee is working to have a research panel at the midyear audit conference on the topic of fraud. Details will be forthcoming.
3. The Committee is working with the CPE committee to plan and deliver a webinar during the Fall of 2009. Our presenter will be Pam Murphy of Queens University who will discuss the state of fraud research. Although the focus of the webinar will be on research, Pam will also present some teaching opportunities on the topic of fraud. Details will be forthcoming.

The Committee will organize a panel discussion at the 2010 Annual Meeting. Suggestions for topics are welcome and should be sent to cohen@bc.edu

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Sixteenth Annual Midyear Auditing Section Conference

We hope that you are planning to attend the Sixteenth Annual Auditing Midyear Conference (AMC) to be held in San Diego, California on January 14-16, 2010. The Conference will be held at the Westin San Diego, an AAA 4 Diamond property, located in the heart of downtown San Diego. The hotel is within walking distance of the Seaport Village, Little Italy, the San Diego Gaslamp Quarter, and a variety of dining and shopping options. San Diego is home to many renowned attractions such as the San Diego Zoo, Sea World, Balboa Park, the USS Midway and many beautiful parks and beaches, which are all convenient to the hotel. A limited number of rooms have been reserved at the special conference rate of \$189 per night inclusive of internet access, single or double.

Please make your reservations before December 14, 2009 to take advantage of this special room rate.

The KPMG Foundation is generously supporting the 2010 Midyear Conference. Similar to previous years, the meeting will include two keynote plenary speakers and concurrent sessions dealing with a wide variety of contemporary topics related to audit and assurance research, practice, and education.



The Friday morning plenary session will feature a presentation by Christopher Cox, Past Chairman of the Securities and Exchange Commission (SEC) from 2005 to 2009. We anticipate a lively discussion as many significant events occurred during his tenure. Mr. Cox was a leader in the effort to integrate U.S. and overseas regulatory policies in this era of global capital markets. Prior to his appointment to the SEC, he served in the U.S. House of Representatives for the State of California. During his seventeen years in congress, he served in a leadership capacity on several committees with jurisdiction over U.S. capital markets, including the Energy and Commerce Committee, the Financial Services Committee, the Joint Economic Committee, and the Budget Committee. He also authored the Private Securities Litigation Reform Act. In 1994, President Clinton appointed Cox to the bipartisan commission on entitlement and tax reform.

Prior to his time in Congress, Cox served as senior associate counsel to Ronald Reagan and specialized in venture capital and corporate finance with Latham & Watkins. Cox has a M.B.A. and a J. D. from Harvard University, where he was an Editor of the Harvard Law Review.



The Saturday plenary session will feature a presentation by Dr. Arnold



Schilder, the Chair of the International Auditing and Assurance Standards Board (IAASB) at New York. As Chair, Prof. Schilder leads the IAASB in its initiatives in setting high quality auditing and assurance standards and facilitating the convergence of international and national standards. He is a past member of the Managing Board of the De Nederlandsche Bank NV (DNB) as Executive Director in charge of prudential supervision of financial institutions. He held seats on the Basel Committee on Banking Supervision (and served as the Chairman of its Accounting Task Force from 1999-2006), the Committee of European Banking Supervisors (CEBS) and until July 2008 the Public Interest Oversight Board (PIOB) as well as being Chairman of the European Interim Working Committee on Financial Conglomerates (IWCFC). In addition, he is a part-time professor of auditing

at the University of Amsterdam and is a past President of the Koninklijk Nederlands Instituut van Registeraccountants, IFAC's member body in the Netherlands. Previously, he was a senior international audit partner in PricewaterhouseCoopers (PwC) in the Netherlands and worked for PwC and predecessor firms from 1972 to 1998.

Once again the program will include a pre-conference education workshop titled “*Equipping Audit Students to Make Professional Judgments*” on Thursday afternoon beginning at 12:30 PM. The workshop will feature three exciting and interactive sessions. Two common threads across these three sessions are a focus on developing audit students’ professional judgment and a substantial opportunity for you to participate and contribute to the workshop. There will be an interactive teleconference with higher-education specialist and best-selling author Ken Bain. Dr. Ken Bain is the author of ***What the Best College Teachers Do***. A team of Deloitte professionals will lead a session on developing skills that enhance auditors’ skepticism and judgment. The third session will be led by a team of accomplished audit scholar-educators that will focus on the synergistic use of audit research to improve audit students’ classroom learning experience and on incorporating students in audit research. There is a \$30 registration fee for this Workshop. The Workshop will only accommodate a limited number of participants so pre-registration will be required. Mark Peecher (peecher@illinois.edu) is this year’s Workshop coordinator.

Thanks to the generous support of KPMG LLP, the 11th Annual Auditing Section Doctoral Consortium will be held on January 14th, preceding the Midyear meeting. The chair of this year’s Consortium is Brian Mayhew. The purpose of the Consortium is to stimulate students’ research by exposing them to the latest ideas from leading researchers in auditing, and by providing opportunities for networking with other Ph.D. students interested in auditing, established auditing researchers, and journal editors. The Consortium is open to all Ph.D. students who have an interest in auditing research. Students may be at any stage in their program. There is a limit on the total number of students who can attend the Consortium, and a maximum of four students from any one university may attend. Applications will be accepted on a first-come basis via the registration forms on the Section’s website. Students are advised to register early. For further information on the application process, please contact Brian Mayhew via phone (608-262-2714) or email (bmayhew@bus.wisc.edu).

Make plans now to join us in San Diego next January!

Jennifer Joe and Susan Shu
2010 Auditing Midyear Conference Co-Chairs

Urton Anderson
Auditing Section President

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Auditing Standards Board Update Fall 2009

Mark H. Taylor
Weatherhead School of Management, Case Western Reserve
University
Cleveland, OH

Since the last update, the ASB has had three additional meetings. It has been a very busy summer of standards setting activities. The meetings were held in June (Boston), July (San Diego), and August (Nashville). As noted in previous updates, the meetings run from Monday through Thursday afternoon and are open to the public. The agenda for each of these meetings was ambitious. A highlight of special note to Auditing Section members is that three additional academic research teams presented the results of their research to the ASB. This update summarizes those findings (presented at the June and July meetings). It also summarizes the overall content and outcomes of the June, July, and August meetings. A number of proposed SASs were voted to ballot. Recall that in the ASB update I provided in the Spring 2009 Issue of *The Auditor's Report*, I summarized the existing ASB task forces and their objectives. If more information about the existing ASB Task Forces is required, please refer to the ASB update in the Spring 2009 issue. Once again, I encourage members of the section to contribute to the work of the ASB by developing comment letters related to any of the numerous exposure drafts. If you have any questions regarding any of the ASB activities, please contact me at mt@case.edu.

June 2009 (Boston)

Compliance Audits

George Rippey, Chair of the Compliance Auditing Task Force, led the ASB in a discussion of significant comments received during exposure of a proposed SAS entitled *Compliance Audits* and the Task Force's revised draft of the proposed SAS. Among other things, the ASB recommended revising definitions of key terms in the proposed SAS, clarifying the auditor's period of obligation for performing audit procedures, and providing examples of tests of details in a compliance audit. The Task Force agreed to return with revisions at a future ASB meeting.

Engagement Representations

John Fogarty, Chair of the Engagement Representations Task Force, led a discussion of the proposed SASs *Terms of Engagements* and *Written Representations*. Highlights from the *Terms of Engagements* proposed SAS include the ASB requesting the Task Force to include the required and related

application material similar to that found in ISA 210, to assess whether to revise requirements for an engagement letter every year (that is, permit “evergreen letters”), and agree that the proposed SAS should include reference to the “inherent limitations of an audit” in the engagement letter. The ASB also requested the Task Force to consider whether proposed SAS *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* contains the requirements regarding *Regulatory or Contractual Basis of Accounting—Other Matters Affecting Acceptance* and accordingly, whether those paragraphs can be omitted from the proposed SAS. With respect to *Written Representations*, the ASB requested the Audit Issues Task Force to discuss whether to allow the representation letter to be dated as of the date of the auditor’s report, but physically provided to the auditor after the report date but before the release date. The Task Force agreed to return to a future ASB meeting with revisions.

Service Organizations

Walt Conn, Chair of the Service Organizations Task Force, led the ASB in a discussion of comments on the ED of proposed Statement on Standards for Attestation Engagements (SSAE), *Reporting on Controls at a Service Organization*, and issues related to a revised draft of the proposed SSAE. The ASB is converging the proposed SSAE with proposed International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Service Organization*. The ASB agreed with the Task Force that the proposed SSAE should not be applicable when reporting on controls other than controls related to financial reporting. The ASB requested the Task Force to revise the proposed SAS to require the service auditor to give substantive thought to the nature and cause of any deviations identified as a result of performing the procedures noted in paragraph 38, and to draft application material stating that the risks and control objectives encompass intentional and unintentional acts that threaten the achievement of the control objectives. The Task Force agreed to return to a future ASB meeting with revisions.

Estimates/Fair Values

Megan Zietsman, Chair of the Accounting Estimates Task Force (the Task Force), led the discussion of a proposed SAS, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*. The ultimate aim of the discussion was to request the ASB to vote to ballot the proposed SAS for exposure. The draft document was previously discussed at the April and January 2009 meetings. However, after addressing some fairly broad issues associated with AU 332, *Auditing Derivatives* (rescinding it due to redundancy with other standards, moving portions of it to Audit Guide, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*, etc.), the ASB requested the Task Force to perform further analysis of AU section 332 to identify those requirements and related guidance that warrant retention in a stand-alone SAS. Among others, the discussion then addressed the following topics: 1. Retrospective Review of Accounting Estimates—the ASB requested the Task Force to add additional application material to explain that the auditor’s procedures in this regard are a matter for professional judgment, and 2. Communications about the entity’s process for formulating sensitive accounting estimates, including fair value estimates—the ASB agreed to make a conforming change to AU 380 to move this requirement and add an application guidance paragraph in this proposed SAS to refer auditors to AU section 380. The ASB voted unanimously to ballot the proposed SAS for exposure.

Auditor’s Reports – 700 Series

Dan Montgomery, Chair of the Auditor’s Report Task Force, led a discussion of proposed SASs: *Forming an Opinion and Reporting on Financial Statements*. After finalizing a number of changes to the proposed SAS, the ASB unanimously voted to ballot the proposed SAS for exposure. The Chair also

led a discussion of *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements Related to Audited Financial Statements*. The ASB requested the Task Force to consider a number of changes and to return to the August meeting with a revised proposed SAS.

Auditor's Reports – Special Reports

Susan Jones, Chair of the Special Reports Task Force, led a discussion of the following proposed SASs: *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*; *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, and *Engagements to Report on Summary Financial Statements*.

Special Purpose Frameworks

The ASB reconfirmed its agreement to align the reporting for special purpose financial statements prepared in accordance with a regulatory basis of accounting with the extant requirements. That is, if the financial statements and auditor's report are intended for general use, a dual-opinion on GAAP and the special purpose framework would be required. Otherwise, a single opinion on the framework would be issued, along with (a) an alert that the regulatory basis is a basis other than GAAP, and (b) a report restriction for use by the specified parties. The ASB also requested the Task Force to consider the alignment of the requirements pertaining to auditor's reports prescribed by law or regulation that are contained in the proposed SAS, Compliance Audits, and other things.

Single Financial Statements & Elements

The ASB agreed with the Task Force to add a requirement and related guidance to address the auditor's responsibilities related to interrelated items, and requested the Task Force to (1) clarify the requirement not to "issue" the report on the single financial statement or specific element when the presentation of the single financial statement or of the specific element does not differentiate it sufficiently from the complete set of financial statements, and (2) clarify the auditor's responsibility to determine materiality in an audit of a single financial statement, and to provide additional guidance with regard to disclosures, and highlight this matter in the Explanatory Memorandum.

Summary Financial Statements

The ASB agreed with the Task Force to allow the auditor's report on the summary financial statements to be dated later than the auditor's report on the audited financial statements (provided the auditor's report was modified to clearly indicate the auditor's responsibilities for the summary financial statements and for subsequent events), and to align the proposed SAS with International Standards on Auditing and SAS 116, Interim Financial Information, by permitting the audited financial statements to be made "readily available," in lieu of requiring the audited financial statements to accompany the summary financial statements.

Auditor's Report Research Task Force

That the ASB, in connection with the IAASB, sponsored four academic research projects has been mentioned in previous updates. The ASB has been anxious to hear the reports of the research teams this summer. As I now Chair the Auditor's Report Research Task Force, I introduced the second of these teams to present their results to the ASB, Brenda Porter, School of Business and Economics Exeter University, United Kingdom; Ciaran Ó hÓgartaigh, Michael Smurfit Graduate School of Business,

UCD, Ireland; and Rachel Baskerville, School of Accounting and Commercial Law, Victoria University, Wellington, New Zealand. This team examined the structure, composition, and extent of the audit expectation-performance gap in the United Kingdom (UK) and New Zealand (NZ) in 2008 and how this differed from the gap which existed in NZ in 1989, 1999 and 2008, and in the UK in 1999 and 2008. They also investigated financial statement users' understanding of the message(s) conveyed in standard unqualified audit reports and changes to the format and wording of auditors' reports desired financial statement users.

They found that although the structure and composition of the audit expectation-performance gap in the UK and NZ in 2008 were similar, the gap was significantly wider in NZ than in the UK. In 1999, the extent of the gap in the two countries was essentially the same, but between 1999 and 2008 the gap in the UK narrowed substantially, while that in NZ widened slightly. Their findings suggest that this difference may result from differences in the monitoring of auditors' performance in the UK and NZ, and/or from greater societal awareness of, corporate and financial reporting issues in the UK due to greater publicity. They also found that notwithstanding the use of the long form audit report as an educational tool for nearly two decades, financial statement users' (and other interest groups') misunderstanding of auditors' responsibilities and the audit function persists. This finding is supported by a further finding that the content of a standard auditor's report has little impact on financial statement users' understanding of the messages conveyed in the report. For a copy of this team's research report contact Brenda Porter at porterbr@xtra.co.nz.

Overall Objectives and Proposed Preface

John Fogarty, Chair of the Clarity Task Force, led a discussion of Proposed Preface to the Codification of Statements on Auditing Standards, *Principles Governing an Audit Conducted in Accordance With Generally Accepted Auditing Standards*, and Proposed Statement on Auditing Standards, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, and the changes to the proposed documents based on comments received during exposure. The ASB recommended some changes to the proposed documents, and expressed willingness, subject to evaluating the changes suggested by the ASB, to vote the proposed documents for issuance as final standards. The Task Force agreed to return to the August meeting to present changes.

Audit Evidence – Selected Items

Art Winstead led the discussion of the proposed SAS *Audit Evidence*^{3/4} *Specific Considerations for Selected Items*. As part of this discussion the ASB agreed with the Task Force to rescind AU section 901, *Public Warehouses*, because the content in that section is covered in other standards and is not a major practice issue. The ASB also agreed to add the content of interpretation AU 9508 *Report of an Outside Inventory-Taking Firm as an Alternative Procedure for Observing Inventories* as application in this proposed SAS, and to retain content related to segment information, while retaining the content of AU section 337 that addresses the ABA treaty in the U.S. Further, the ASB discussed the requirement in paragraph 11 of the proposed SAS which would allow auditors to perform alternative procedures if an attorney letter is not received. Under extant AU 337, this situation would be a scope limitation. The ASB questioned what the alternatives procedures are contemplated under this requirement, and how practicable alternative procedures could be given that attorneys are the only party privy to all of the communications pertaining to the legal matters of the entity. The ASB raised the concern that this requirement would have the unintended consequence of prompting attorneys not to reply to the attorney letter request because auditors would have other ways to obtain the audit evidence. The ASB concluded that if, based on the risk assessment procedures, the auditor decides to request an attorney

letter of confirmation then the auditor is required to follow up on the request.

July 2009 (San Diego)

Auditor's Report Research Task Force

The third and fourth research teams presented the results of their research to the ASB at the July meeting. I introduced Professors Arnie Wright, Northeastern University and Stephen Asare, University of Florida on Monday, July 27. Arnie and Steve then presented the results of their research. They evaluated the extent to which communication gaps exist among auditor and user groups in their understanding of the macro (i.e., objectives and limitations) and micro (technical terms) implications of the standard audit report (SAR). They used a controlled automated internet-based experiment, in which auditors, bankers and investors reviewed background information on a hypothetical private company that had received a SAR. Participants then answered a series of questions that focused on the objectives, limitations, and technical terms in the SAR. The authors classified between group differences as being consistent with one of three patterns: (i) the user groups differ from the auditor group ("type I gap"); (ii) one user group and the auditor group differ from the other user group ("type II" gap); and (iii) the user groups differ from each other as well as from the auditor group ("type III gap").

They found that users consider the SAR to be relatively more important in assessing that the financial statements are free from material fraud than auditors. They also found that the SAR leads users to have a higher level of confidence about company management, investment soundness of a company, whether the company is likely to meet its strategic goals, and the likelihood that auditors have detected material fraud in the financial statements. Finally, they found that although auditors assess the likelihood that material frauds have been detected at about 60%, users assess a relatively lower likelihood of detection at 44%. Investors found the SAR to be of higher importance for making investing decisions than auditors and bankers did, but the investors also had relatively lower confidence that the presence of SAR would assure viability. With respect to the micro focus, they found one type I gap (auditors indicated they should use a relatively lower percent of net income for materiality than the users), 6 type II gaps, with bankers and auditors having shared meanings, and 1 type III gap. Taken together, the results of their study show that the current SAR results in important type I communication gaps, and there remains an absence of shared meaning on the objectives and limitations of the SAR. A potential vehicle for narrowing these type I communication gaps is to add a statement in the SAR that the audit does not address governance risk, strategic risk, or investment soundness risk. The prevalence of type II gaps in the micro-analysis suggests potential for opportunistic interpretation of the technical terms, which suggests less urgency in revising or eliminating those terms. For a copy of their final report, please contact Stephen Asare at stephen.asare@cba.ufl.edu.

Later in the meeting I introduced the fourth research team, Professors Anna Gold, Rotterdam School of Management, Erasmus University, The Netherlands, Ulfert Gronewold, Ruhr University Bochum, Germany, and Christiane Pott, University of Muenster, Germany. Ulfert presented the results of his team's research, which had three objectives. The first objective was to investigate whether financial statement users, as compared to experienced auditors, ascribe relatively more responsibility to the *auditor* than to *management*, and whether such a disconnect still holds under the revised version of ISA 700. Their second objective was to investigate the difference between experienced auditors' and financial statement users' perceptions concerning the reliability of audited financial statements. Furthermore, they investigated whether providing a complete auditor's report versus a short-form opinion-only version affects the expectation gap. The issuance of an unqualified audit opinion means that the auditor believes that the financial statements provide a true and fair view in accordance with the applicable financial reporting framework. Prior research demonstrates that financial statement users

(such as investors and analysts) often associate an absolute level of assurance when they read such messages, potentially resulting in often naïve or unreasonable expectations. The authors implemented an experiment, in which experienced auditors and users (i.e., financial analysts as sophisticated users and students as unsophisticated users) read a brief company description, a summary of the firm's financial statements, and an audit report, the latter of which we manipulated as being either the complete auditor's report according to the revised ISA 700 or a short-form audit opinion-only version. They found strong evidence for a persisting audit expectation gap between auditors and financial statement users under the revised ISA 700 auditor's report. Their results are robust in indicating that the detailed explanations of the ISA 700 auditor's report of auditor versus management responsibilities and the task and scope of the audit are *not* effective in reducing this expectation gap, and partially even have a detrimental effect. For a copy of their report, please contact Anna Gold at agold@rsm.nl.

Group Audits

Robert Dohrer, Chair of the Group Audits Task Force, led the ASB in a discussion of proposed SAS, *Audits of Group Financial Statements (Including the Work of Component Auditors)*. As a result of the discussion, the ASB requested the Task Force to make a number of changes, including modifying the proposed SAS to explicitly state that the auditor should not make reference to the audit of a component auditor unless the component's financial statements are prepared using the same financial reporting framework as the group financial statements, and the component auditor has performed an audit in accordance with GAAS. The ASB believes that these requirements were implicit in extant AU section 543, and to add application material to address financial statements prepared in accordance with GASB with components using a different financial reporting framework. The Chair recommended that the ASB consider the use of an impact assessment to assist respondents in assessing the overall impact of the proposed new standard. The impact assessment is intended to communicate the impact of the incremental difference between the extant and proposed new standard, not between current and future practice. The impact assessment would be summarized in a template based on one prepared by the IAASB. The ASB agreed to pilot the use of the impact assessment template in the exposure draft of this proposed SAS. The ASB voted unanimously to ballot the draft for exposure.

Financial Statements Prepared in Accordance with a Financial Reporting Framework Generally Accepted in Another Country

Walt Conn, Chair of the AU 534 Task Force (Task Force), led the discussion of *Reporting on Financial Statements Prepared in Accordance with a Financial Reporting Framework Generally Accepted in Another Country*. The objective of the Task Force is to redraft AU Section 534, *Financial Statements Prepared for Use in Other Countries*, in accordance with the clarity conventions. At the April 2009 meeting, the ASB discussed whether an unqualified opinion on foreign GAAP financial statements (unaccompanied by a modified opinion relative to U.S. GAAP) for use in the U.S. violates Rule 203. A discussion with legal counsel determined that such an opinion would violate Rule 203. If financial statements are prepared in accordance with a financial reporting framework generally accepted in another country (i.e., from a standard setter not designated by the AICPA Council to set accounting standards), that will have more than limited use in the United States, the auditor should report using a modified opinion because of departures from U.S. GAAP. The Task Force agreed to add an illustrative auditor's report to the SAS, for situations when the financial statements prepared in accordance with a financial reporting framework generally accepted in another country will have more than limited use in the United States, modified as appropriate (qualified or adverse), because of departures from U.S. GAAP. The ASB unanimously voted to ballot the proposed SAS for exposure.

Service Organizations

Walt Conn, Chair of the Service Organizations Task Force, led the ASB in a discussion of a draft of Proposed SAS, *Audit Considerations Relating to an Entity Using a Service Organization*, which will replace the guidance in AU section 324, *Service Organizations*, for auditors of the financial statements of entities that use a service organization. The ASB issued an exposure draft of the proposed SAS in November 2008 which is based on ISA 402, *Audit Considerations Relating to an Entity Using a Third Party Service Organization*. The changes made to the ED included changes in response to comments on the ED as well as changes to conform with revisions to the final version of ISA 402, which was issued in April 2009. The ASB requested the Task Force to make a number of revisions, and return at a future ASB meeting.

Related Parties

George Fritz, Chair of the Related Parties Task Force (Task Force), led a discussion of the draft proposed SAS, *Related Parties*. Mr. Fritz explained that ISA 550, *Related Parties* and the proposed SAS are structured to address financial reporting frameworks such as US GAAP and IFRS, and special purpose frameworks as discussed in the proposed SAS, *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*. The applicability of some objectives, requirements, and definitions in ISA 550 and the proposed SAS depend on whether a framework “establishes” related party requirements; other objectives and requirements apply irrespective of whether the framework establishes such requirements. ISA 550 was drafted in such a manner because certain financial reporting frameworks do not include a definition of related parties and the IAASB concluded that it would not be appropriate to force preparers of financial statements in accordance with those financial reporting frameworks to use GAAP definitions. Since financial statements prepared in accordance with special purpose frameworks include disclosures substantially equivalent to those in GAAP financial statements, the proposed SAS need not include related party definitions and other references to financial reporting frameworks that are necessary in the ISA. The Task Force prepared an alternative SAS which would be completely framework neutral – that is, the applicability, objectives, and requirements of the proposed SAS are the same, irrespective of the financial reporting framework in accordance with which the financial statements being audited were prepared. The ASB considered the separate presentations and concluded that the proposed SAS should be drafted to be framework neutral. The ASB unanimously voted to ballot the proposed SAS for exposure.

Auditor’s Reports – Special Reports

Susan Jones, Chair of the Special Reports Task Force, returned from the June meeting to lead a discussion of the following proposed SASs: *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*; *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; *Engagements to Report on Summary Financial Statements*. For *Special Purpose Frameworks*, the ASB agreed with the Task Force’s inclusion of Exhibit A to supersede Interpretation 14, *Evaluating the Adequacy of Disclosure and Presentation in Financial Statements Prepared in Conformity With an Other Comprehensive Basis of Accounting*, and provides additional guidance on the adequacy of disclosures based on that Interpretation. The ASB also requested certain editorial revisions. For *Single Financial Statements & Elements*, the ASB confirmed its decision to modify the extant requirement to perform an audit of the complete financial statements when a specified element, account, or item is, or is based upon, an entity’s net income or stockholders’ equity or equivalent. In the case of an audit of a specific element that is, or is based upon, the entity’s stockholders’ equity or net income (or equivalents), the ASB agreed to require the auditor to perform procedures necessary to obtain sufficient appropriate audit evidence to enable the auditor to express an opinion about financial position, or financial position and results of operations, respectively, because of the interrelationship between the element and the

balance sheet accounts and the income statement accounts. For *Summary Financial Statements*, the ASB agreed with the factors included in paragraph 8(a) of the proposed SAS that will serve as the basis for determining whether the applied criteria are acceptable. The Task Force was asked to make a number of other changes, and based on those, unanimously voted to ballot the proposed SASs for exposure.

RSI/OSI/OI Task Force.

Jeff Markert, Chair of the RSI/OSI Task Force, led a discussion of the significant issues raised in the comment letters on the exposure draft of the proposed *Statements on Auditing Standards, Required Supplementary Information* (the "RSI SAS"), *Other Supplementary Information in Documents Containing Audited Financial Statements* (the "OI SAS"), and *Supplementary Information in Relation to the Financial Statements as a Whole* (the "IRT SAS"). The ASB discussed the applicability of each of the proposed SASs and concluded that each of the applicability paragraphs were clearly stated and appropriately referenced the other SASs. For the proposed RSI SAS, the ASB discussed the draft

The ASB discussed the draft proposed OI SAS and concluded that the effective date of the proposed SAS should be consistent with other clarified SASs. However, the ASB determined that early application should be permitted so that auditors can implement the proposed SAS simultaneously with the proposed RSI and IRT SASs. The ASB discussed the draft proposed IRT SAS and requested the Task Force to consider a new term which would encompass RSI, OI, and any other information upon which an auditor may express an in relation to opinion, and to bring a revised draft of the proposed IRT SAS to the August 2009 ASB meeting for further discussion.

Risk Assessments

Darrel Schubert, Chair of the Risk Assessments Task Force (Task Force) led the discussion of the proposed Risk Assessment Standards. The focus of the discussion was the content of comment letters received in connection with the exposure draft released in January 2009. With respect to the comment that it would be helpful if the ASB consider content in the PCAOB proposed Risk Assessment standards for inclusion in the proposed SASs, the ASB noted that there are instances where AT 501 addresses the same matters. In those cases, the proposed SASs should be consistent with AT 501 rather than with the proposed PCAOB standards. With respect to the comments received about the use of the term "performance materiality," the GAO continues to be concerned about the use of term, and believes that the changes made to address the comments are not sufficient. The suggestion was made that more guidance is needed to help auditors apply the concept. The Chair noted that consistent with ISA 315, the proposed SAS *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* contains a conforming amendment that establishes a requirement of the auditor to obtain an understanding of the entity's internal audit function. The Chair reviewed proposed SAS *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, and proposed SAS *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*. The ASB requested the Task Force to provide a revised proposed SASs to the ASB in October for final issuance.

August 2009

Auditor's Report – 700 Series

Dan Montgomery, Chair of the Auditor's Report Task Force, led a discussion of *Modifications to the Opinion in the Independent Auditor's Report; Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, and *Reporting on Compliance With Aspects of*

Contractual Agreements or Regulatory Requirements in Connection with Audited Financial Statements. The ASB unanimously voted to ballot both of these proposed SASs following discussion and agreement on final changes.

Engagement Terms and Written Representations

John Fogarty, Chair of the Engagement Representations Task Force, led a discussion of the proposed SASs *Terms of Engagements* and *Written Representations*. For *Terms of Engagements* the ASB again discussed the use of “evergreen” and multi-year engagement letters, and discussed whether the proposed SAS should require a new engagement letter each year. The ASB concluded that the proposed SAS should contain a requirement (in paragraph 11) for the auditor to remind, not – as in the ISA – to assess *whether to* remind, the entity of the existing terms of the engagement, and that that communication should be documented. The ASB requested the Task Force to add application material applicable to this change. The ASB requested the opportunity to see the revisions associated with this change before voting to ballot for exposure. For *Written Representations*, the ASB agreed with the redrafted language in paragraph A27, subject to certain editorial changes requested at the meeting. The ASB also requested the Task Force to add the guidance that is in ISA 580 regarding the use of fair values in estimates to paragraph A14, and to make changes to reflect the ASB’s belief that only fair presentation frameworks are used in the U.S. (see agenda item 5, *Overall Objectives*). The ASB voted unanimously to ballot the proposed SAS *Written Representations* for exposure.

AU section 625 Redrafted

Tom Ratcliffe, Chair of the AU Section 625 Task Force (Task Force), led the discussion for proposed SAS *Reports on the Application of the Requirements of an Applicable Financial Reporting Framework*. The Task Force has been charged with redrafting AU Section 625, *Reports on the Application of Accounting Principles*, in accordance with the clarity conventions. There is no ISA that corresponds to AU Section 625. The ASB discussed the concept of an advisory accountant and how it differs from a reporting accountant. The ASB requested the Task Force to include the criteria that a reporting accountant serving in an advisory role is required to overcome the presumptive requirement of consulting with the continuing accountant, in the requirements section. The ASB also discussed the effective date and concluded the determining factor for the effective date should be the accountant’s action (that is, providing the written report or oral advice), not the entity’s action (that is, the transaction). Accordingly, the effective date paragraph was revised to state that the proposed SAS will be effective for reports and advice provided by a reporting accountant on or after December 15, 2010. The Task Force was requested to bring a revised draft to the ASB in October 2009.

Compliance Audits

George Rippey, Chair of the Compliance Auditing Task Force, led the ASB in a discussion of significant comments on, and a revised draft of, the proposed SAS *Compliance Audits* that would supersede SAS No. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance* (AU sec. 801). Based on the discussion, the ASB requested the Task Force to make a number of changes to the draft and voted to ballot the proposed SAS for issuance as a final SAS.

Overall Objectives

John Fogarty, Chair of the Clarity Task Force, led a discussion of the Proposed Preface to the Codification of SASs, *Principles Governing an Audit Conducted in Accordance With Generally Accepted Auditing Standards*, and Proposed SAS *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, and the changes to the

proposed documents based on direction received from the ASB at its June 2009 meeting. Based on the discussion, the ASB requested the Task Force to make a number of changes, including changing references to the financial statements being “*prepared*, in all material respects, in accordance with the applicable financial reporting framework’ to “*presented fairly, ...*” to be consistent with the wording of the auditor’s report in proposed SAS *Forming an Opinion and Reporting on Financial Statements*. The ASB also requested the Task Force to make changes to reflect the ASBs assumption that only “fair presentation” frameworks are used in the U.S. The ASB unanimously voted to ballot the proposed Preface and SAS for issuance as a final standard.

Analytical Procedures

Walt Conn, Chair of the Analytical Procedures Task Force (Task Force), led a discussion of the issues with respect to the drafting of a SAS that is intended to be in convergence with ISA 520, *Analytical Procedures*. As a result of the discussion, the ASB requested the Task for to effect a number of changes to the draft, including, as noted by the Task Force, the language in paragraph 5(c) of ISA 520 could reasonably lead an auditor to conclude that he or she cannot use substantive analytical procedures as audit evidence when the analytical procedures are less precise than tolerable error – even if such analytical procedures supplement other audit procedures. The ASB requested the Task Force to revise the draft and to bring a revised draft to the ASB in October 2009 for a vote to ballot for exposure.

Internal Control

Keith Newton, Chair of the Internal Control Task Force, led the ASB in a discussion of a proposed SAS *Communicating Internal Control Related Matters Identified in an Audit* (Redrafted) and related issues. The proposed SAS represents the redrafting of SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, for clarity and convergence with certain aspects of ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance*. The ASB requested the Task Force to retain the definitions of the various kinds of deficiencies, guidance for evaluating such deficiencies, and indicators of a material weakness currently in SAS No. 115 so that the proposed SAS will be aligned with SSAE No. 15, *An Examination of an Entity’s Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*. The ASB also requested the Task Force to draft the SAS by starting with ISA 265 as a base, to incorporate the requirement in ISA 265 for the auditor to communicate “other deficiencies” to management, and to communicate the use of judgment in determining which other deficiencies should be communicated. The ASB requested the Task Force to return to a future ASB meeting with a revised draft.

Specialists

Darrel Schubert led the discussion of the proposed SAS, *Using the Work of a Specialist*, and the proposed SAS, *Using the Work of a Management Specialist*. The objective of the presentation was to discuss the draft of the proposed SASs. The Chair explained that the Task Force’s original plan was to replace AU section 336, *Using the Work of a Specialist*, with two SASs. One SAS would converge with ISA 620, *Using the Work of an Auditor’s Expert*, and would address auditor’s specialists. The other SAS would address management’s specialists and would be based on the IAASB’s conforming amendment to ISA 500, *Audit Evidence*. The Chair also explained that the Task Force reconsidered this decision and recommended the Audit Evidence SAS be amended instead.

Letters for Underwriters

Phil Wedemeyer, Chair of the Comfort Letter Task Force led the discussion of the proposed SAS, *Letters for Underwriters and Certain Other Requesting Parties*. The Task Force was charged with

redrafting AU section 634, *Letters for Underwriters and Certain Other Requesting Parties*, in accordance with the clarity conventions. The ASB discussed whether, the alternatives of obtaining a legal letter or obtaining a requesting party's representation should be equally acceptable, regarding requesting parties that have, or are believed to have, a statutory due diligence defense under section the SEC Acts. The ASB also discussed whether the wording of the representation letter should be revised. The ASB expressed concern that the proposed SAS will be perceived as changing the existing practice. The Task Force agreed to consult with AICPA legal counsel, ASB members, and firm experts in comfort letters, and return with results at a future ASB meeting.

Specific Items

Megan Zietsman and Art Winstead led the discussion of issues related to proposed SAS *Audit Evidence—Specific Considerations for Selected Items*. As requested by the ASB at its June 2009 meeting, the Estimates Task Force (Task Force) reviewed AU 332, *Auditing Derivative Instruments, Hedging Activities and Investments in Securities*. While much of the content of AU 332 will be addressed by the Audit Guide *Auditing Derivative Instruments, Hedging Activities and Investments in Securities*, the Task Force identified requirements of AU 332 that are incremental to, and not duplicative of, requirements in other standards, including the risk assessment standards, and proposed SAS *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*, and therefore not specifically addressed elsewhere in GAAS. After discussion, the ASB agreed to include in the proposed SAS *Audit Evidence—Specific Considerations for Selected Items* the incremental requirements identified by the Task Force, as modified to reflect the comments received from ASB members.

GAAP Hierarchy – Withdrawal of SAS No. 69

Harold Monk led a discussion of the materials for Agenda Item 11, *GAAP Hierarchy*. The objective of this agenda item is to vote to ballot the withdrawal of SAS No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*, as amended (AICPA, *Professional Standards*, vol. 1, AU sec. 411), from the auditing literature. The GAAP hierarchies of nongovernmental, state, local, and federal reporting entities have resided in SAS No. 69 in the auditing literature. With the issuance of recent pronouncements by the FASB, GASB, and FASAB to incorporate their respective GAAP hierarchies into their respective authoritative literature, the ASB believes that specifying GAAP hierarchies in GAAS is no longer necessary or appropriate. Because the ASB did not direct that Auditing Interpretation No. 3, "The Auditor's Consideration of Management's Adoption of Accounting Principles for New Transactions or Events," of SAS No. 69 (AICPA, *Professional Standards*, vol. 1, AU sec. 9411.11–.15) be retained and moved elsewhere within the literature, the interpretation will be withdrawn automatically when SAS No. 69 is withdrawn. The ASB voted unanimously to withdraw the SAS. The effective date of the withdrawal will be September 2009, by which time the standards issued by the FASB, GASB and FASAB will all be effective.

RSI/SI/OI

Jeff Markert, Chair of the RSI/OSI Task Force (Task Force), led a discussion of the revisions made to the proposed SAS, *Supplementary Information in Relation to the Financial Statements as a Whole* (the "IRT SAS") as a result of issues raised by the ASB at its July 2009 meeting. At that meeting, the ASB requested the Task Force to consider a new term which would encompass RSI, OI, and any other information upon which an auditor may express an in relation to opinion. The Task Force developed a definition of *supplementary information*. The Chair stated that the term *supplementary information* is advantageous, as it is already well known and understood. However, the Chair noted that the term conflicts with GASB's use of the same term. The ASB concluded that it agrees with the Task Force's use of the term *supplementary information* but requested that it develop application guidance to make

clear that the term is defined differently in the GASB literature. Based on additional ASB requests for revisions, the Task Force will bring drafts of the proposed SASs, *Required Supplementary Information, Other Information in Documents Containing Audited Financial Statements* and the IRT SAS to the October 2009 ASB meeting for a vote to ballot those proposed SASs as final standards.

Concluding Comments

As is clear from this update, the overall summer schedule for the ASB was rigorous, as were each of the agendas for the three meetings in June, July, and August. The ASB members are dedicated to making a positive improvement in auditing standards with an aim to increase audit quality. It has been a busy but rewarding summer participating in moving the work of the ASB forward. Again, if you require additional information about the ASB and its activities, please contact me at mt@case.edu.

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Volume 33, No 1
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THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

GAO Update

by Jeanette Franzel and Maxine Hattery**

GAO Hosts INTOSAI Global Task Force Meeting

The global financial crisis was the recent focus of national comptrollers general and their equivalents from around the globe. The task force, chaired by Acting Comptroller General Gene Dodaro, was formed last year by the International Organization of Supreme Audit Institutions (INTOSAI) to study the contribution that national audit offices can make to help their countries respond to the global financial crisis. GAO hosted the meeting at its Washington, D.C., headquarters June 29-July 1.

In establishing the task force the board explained: "The current financial crisis presents many challenges to countries around the world, including supreme audit institutions (SAI). It demands even greater efforts by SAIs to help provide accountability and lessons learned for their governments. Although SAIs differ in their legal authorities and mandates, SAIs are generally well positioned to provide independent and objective analysis of these events and can contribute much to efforts to address them."

The purpose of the first in-person meeting of the task force (the first meeting, a teleconference, was held in February) is to build members' knowledge of financial and economic matters related to the crisis and encourage a sharing of knowledge among SAIs to help governments and the global community respond to the crisis.

Members met to exchange views and hear from experts in the fields of finance, economics, public policy, international development, and public sector audit and accounting. Guest speakers included representatives of the National Economic Council, the World Bank, and other bodies. Former Comptroller General Charles Bowsher moderated a panel discussion on reforms, transparency, and accountability.

Delegates representing 24 of the task force's 25 members—Austria, Canada, Chile, China, Cyprus, Denmark, Estonia, Finland, Hungary, Indonesia, Italy, Japan, Korea, Mexico, Morocco, Netherlands, Poland, Russia, Saudi Arabia, Slovakia, Sweden, United Kingdom, United States, and Venezuela—gave presentations on and discussed a range of issues related to the globalization of mortgage finance; causes of the global downturn; attempts to avert and actions taken to minimize the current crisis; financial reforms, transparency, and accountability; the impact of accounting standards on financial statements and international standard-setting; economic recovery; challenges to SAIs; and SAI international engagement.

For additional information, please email spel@gao.gov or consult Muriel Forster, in the office of Strategic Planning and External Liaison, 202-512-8970.

GAO Adds Postal Service's Financial Condition to "High-Risk" List

The financial condition of the U.S. Postal Service has been added to GAO's High-Risk List of federal areas in need of attention by Congress and the executive branch to achieve broad-based transformation.

With challenging economic conditions and a changing business environment, GAO told Congress in a committee hearing, mail volume is dropping substantially and revenues are declining. Mail volume fell by 4.5% in fiscal year 2008, down to a total of 203 billion pieces and is projected to fall almost 14% in fiscal year 2009 to a total of 175 billion pieces. USPS expects mail volume and revenue to continue declining next year, and flat or continued volume decline over the next 5 years.

USPS projects a net loss of \$7 billion this fiscal year, with outstanding debt increasing to over \$10 billion, and a cash shortfall of about \$1 billion. USPS also expects that its projected losses will continue in fiscal year 2010.

USPS has relied on growth in mail volume to help sustain its operations. During the past decade, however, businesses and consumers have increasingly turned from traditional mail delivery to electronic communication alternatives.

GAO recommended that USPS consider consolidating operations, closing unneeded facilities, and reducing its workforce. The long-term challenge is to restructure USPS operations, networks, and workforce to reflect changes in mail volume, revenue, and use of mail.

A more detailed description of GAO's action can be found [here](#). For more information, consult Chuck Young, Managing Director of Public Affairs, at (202) 512-4800.

High Risk Series: Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability, [GAO-09-937SP](#), July 28, 2009

U.S. Postal Service: Restructuring Urgently Needed to Achieve Financial Viability, [GAO-09-958T](#), August 6, 2009

U.S. Postal Service: Broad Restructuring Needed to Address Deteriorating Finances, [GAO-09-790T](#), July 30, 2009

Keep in Touch with GAO

Students, professors, journalists, and fans can now learn about the work of the federal government's accountability watchdog on GAO's YouTube site and follow GAO's latest publications on Twitter.

YouTube. On the video-sharing service, YouTube, GAO has so far posted 30 videos (<http://www.youtube.com/user/usgao>) covering such topics as the Recovery Act, GAO's High Risk Series, and the presidential transition. The most-viewed to date is a recruitment video, "More Than Numbers," based on news coverage of GAO's work. It ends with Sen. Joseph Lieberman calling GAO "the closest thing we have to Paul Revere."

A June 2009 CNN report, "Inside the GAO," gives a journalist's view. Other videos are extracted from GAO Web pages or online versions of GAO reports. One video illustrates a GAO investigation of

security measures at federal-government buildings. It begins with a covert investigator being let through and continues, in actual time and slow motion, with explosions of the IEDs that could be put together from materials like those the investigators carried through security gates.

Twitter. Through the networking and microblogging service, Twitter, GAO alerts subscribers when a GAO product is issued. There are currently two Twitter feeds, one for reports and testimony (<https://twitter.com/usgao>) and another for legal products (<https://twitter.com/usgaolegal>). To follow GAO work, users can go to one of these links, set up their own Twitter account, and then automatically receive notices whenever GAO releases a product.

Homeland Security: Preliminary Results Show Federal Protective Service's Ability to Protect Federal Facilities Is Hampered By Weaknesses in Its Contract Security Guard Program, GAO-09-859T, July 8, 2009; <http://www.gao.gov/products/GAO-09-859T>.

Dacey Named Outstanding CPA in Government

As anyone who has been the beneficiaries of his sage advice and insight will know, it is no surprise that GAO Chief Accountant Bob Dacey has been named Outstanding CPA in Government for 2009 by the AICPA in recognition of his achievements in improving financial and information security management throughout the federal government.

“He has taken on some of the most daunting challenges in federal government accounting and auditing and has led the way to better and more accountable government,” Acting Comptroller General Dodaro said in nominating Mr. Dacey for the award. “He has the ability to target, among the myriad financial management challenges that government faces, those where action can produce results that make a real difference in the effectiveness of our government”.

The award specifically recognizes Mr. Dacey for his role in leading the first financial audits of the consolidated financial statements of the United States. His work on the governmentwide audit led to the development of the Citizens Guide, first issued in 2007, to provide Congress and the public with easy-to-understand summary financial information about the government.

Mr. Dacey developed financial and information security audit methodologies used throughout the government audit community. His efforts have also contributed to the passage of key management improvement legislation. Dacey has also played a key role in enhancing accounting and auditing standards both domestically and internationally.

Find more about Bob Dacey and the award on [AICPA's Web site](#)

Assessing the Reliability of Computer-Processed Data

GAO has updated guidance on assessing the reliability of computer-based data in financial and performance audits. The guidance provides a flexible, risk-based framework for data reliability assessments that can be geared to the specific circumstances of each engagement. The guidance is based on five fundamentals (1) using all information; (2) conducting a minimal level of data testing; (3) doing only work necessary for the audit's purposes; (4) maximizing professional judgment; and (5) bringing the appropriate people, including management, to the table at key decision points. The guide leads the auditor through decisions and planning, from whether an assessment is necessary, through the steps of the assessment itself, to report language. Appendixes offer advice on collecting information and sample interview questions.

Assessing the Reliability of Computer-Processed Data (Supersedes GAO-03-273G), GAO-09-680G, July 1, 2009.

San Francisco Office Gives Students Lessons on What It's Like to Work for GAO
GAO's San Francisco office recently gave students a realistic look at what it's like to work at GAO. Continuing an 8-year partnership, the office welcomed a group of 30 undergraduates from the Public Policy and International Affairs (PPIA) Summer Fellows Program at the University of California, Berkeley.

On their day at GAO, the students got a brief overview of the engagement process before breaking into small workshop groups facilitated by analysts and beginning with a mock request letter based on an actual GAO report. The day ended with a panel on GAO's Professional Development Program for new auditors and analysts joining GAO.

Similar PPIA programs are sponsored by the University of Michigan, Carnegie Mellon, Princeton, and the University of Maryland. The goal of the program is to increase the representation of underrepresented groups in public service.

GAO is looking at extending opportunities like the one in San Francisco to other university PPIA programs. And for PPIA graduates from Berkeley, GAO internship opportunities will be posted on a Berkeley electronic bulletin board.

For more information, consult Becky Cash at cashr@gao.gov or 202-512-5607.

**Jeanette Franzel, Managing Director, Financial Management and Assurance;
Maxine Hattery, Financial Management and Assurance; U.S. Government
Accountability Office

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PCAOB Standards Update

By Martin F. Baumann*, Gregory Scates and Dima Andriyenko
Prepared for *The Auditor's Report* (Fall 2009)

Introduction

This update addresses selected PCAOB developments since the Summer 2009 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments discussed include a PCAOB report on the first year implementation of Auditing Standard No. 5, PCAOB's new Investor Advisory Group, staff questions and answers on references to accounting guidance in PCAOB Standards, new auditing standard on engagement quality review, and a concept release on signing the audit report. Additionally, this update includes information about the upcoming meeting of the PCAOB's Standing Advisory Group and change in leadership at the PCAOB.

October 2009

Meeting of the PCAOB Standing Advisory Group: The next meeting of the PCAOB's Standing Advisory Group (SAG) is scheduled for Wednesday and Thursday, October 14-15, 2009. The SAG will discuss the Board's current standard-setting agenda, as well as standards-related activities during the past year. In addition, the Board will seek input from SAG members on standard-setting projects pertaining to fair value measurements, accounting estimates, and the use of specialists; communications with audit committees; and related parties.

The meeting will be held at 1201 15th Street N.W., Washington, D.C., and is open to the public. It will be Webcast live on the Board's Web site and available later by podcast. The public portion of the meeting on October 14 takes place from 9 a.m. to 2:30 p.m., and on October 15, from 8:30 a.m. to 3:15 p.m.

The meeting agenda and briefing papers can be found on the Board's web site [HERE](#)

September 2009

Report on First Year Implementation of Auditing Standard No. 5: On September 24, 2009, the PCAOB issued a report on the first year of implementation of Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AS No. 5).

This report is based on PCAOB inspections that examined portions of approximately 250 audits of

internal control over financial reporting (ICFR) conducted by the eight largest domestic registered firms in 2007 and 2008. The PCAOB's 2008 inspections of ICFR audits were focused on whether auditors were effectively transitioning to AS No. 5, and were designed to assess the quality of the firms' AS No. 5 implementation in the following areas: risk assessment; fraud risk; using the work of others; entity-level controls; the nature, timing, and extent of controls testing; and evaluating and communicating deficiencies.

This report focuses on audits performed by the eight domestic firms that the Board has inspected annually in each year since 2004. Four of these firms audit public companies that represent approximately 98 percent of total U.S. market capitalization. In this report, the Board is not changing or proposing to change any existing standard, nor is the Board providing any new interpretation of any existing standards.

The report is available on the Board's web site [HERE](#)

PCAOB Announces Members of Inaugural Investor Advisory Group: On September 17, 2009, the PCAOB announced the 19 members of the inaugural Investor Advisory Group. The Investor Advisory Group membership represents a broad spectrum of the investment community and consists of individuals who have a demonstrated history of commitment to investor protection. The list of members of the PCAOB Investor Advisory Group can be found on the Board's web site [HERE](#). The purpose of the advisory group is to provide a forum for the Board to obtain the views of, and advice from, the broader investor community on matters affecting investors and the work of the PCAOB. The Board established the Investor Advisory Group in July and sought nominations for its membership at that time. Board Member Steven B. Harris will serve as the chair. More information about the PCAOB Investor Advisory Group can be found on the Board's web site [HERE](#).

Staff Questions and Answers on References to Authoritative Accounting Guidance in PCAOB Standards: On September 2, 2009, the PCAOB published staff questions and answers about references to authoritative accounting guidance in PCAOB standards.

The series of questions and answers is a reminder that auditors should look to the FASB Codification and the rules of the U.S. Securities and Exchange Commission for authoritative U.S. GAAP guidance for SEC registrants, even though PCAOB standards may contain descriptions of and references to U.S. GAAP. The questions and answers are available on the Board's web site [HERE](#).

The PCAOB publishes staff questions and answers to help auditors implement, and the Board's staff administer, the Board's standards. The statements contained in the staff questions and answers are not rules of the Board, nor have they been approved by the Board.

New Standard on Engagement Quality Review: On July 28, 2009, the PCAOB adopted Auditing Standard No. 7, *Engagement Quality Review (EQR)*. The standard, if approved by the U.S. Securities and Exchange Commission, will become effective for both the EQR of audits and the EQR of interim financial information for fiscal years beginning on or after December 15, 2009. The Sarbanes-Oxley Act of 2002 directs the Board to include in its auditing standards a requirement that each registered public accounting firm "provide a concurring or second partner review and approval of [each] audit report (and other related information), and concurring approval in its issuance, by a qualified person (as prescribed by the Board) associated with the public accounting

firm, other than the person in charge of the audit, or by an independent reviewer (as prescribed by the Board)." The Board initially proposed the auditing standard on EQR on February 26, 2008, and repropoed it on March 4, 2009.

The EQR standard provides a framework for the engagement quality reviewer to objectively evaluate the significant judgments made and related conclusions reached by the engagement team in forming an overall conclusion about the engagement. AS No. 7 applies to all audit engagements, and engagements to review interim financial information, conducted pursuant to the standards of the PCAOB. The standard supersedes the Board's quality control standard, *SECPS Requirements of Membership*, Section 1000.08(f); 1000.39, Appendix E. The adopting release and the standard can be found on the Board's web site [HERE](#)

Concept Release Requiring the Engagement Partner to Sign the Audit Report: On July 28, 2009, the PCAOB voted to issue a Concept Release on requiring the engagement partner to sign the audit report.

The Board was seeking comment on the Concept Release to consider the effects of a potential requirement for the engagement partner to sign the audit report. Any such requirement would be in addition to the existing requirement for the audit firm to sign its name on the audit report. The comment period for this Concept Release ended on September 11, 2009. The comments are posted on the Board's web site [HERE](#).

Change of Leadership at the PCAOB: On July 27, 2009, Daniel L. Goelzer was named Acting Chairman of the PCAOB by the Securities and Exchange Commission, effective August 1, 2009. Mr. Goelzer's appointment follows the announcement of the resignation of PCAOB Chairman Mark W. Olson, effective July 31, 2009.

Daniel L. Goelzer has been a Board Member of the PCAOB for six years and is currently serving his second term. He was appointed by the SEC as a founding member of the Board in October 2002. In 2007, the SEC unanimously reappointed him to serve an additional term of five years.

NOTE: Note the hyperlinks to various items on the PCAOB Web site (www.pcaobus.org) and to the Auditing Section web site. A convenient history of PCAOB standards-setting activity and related briefing papers are available through the hyperlinked previous PCAOB Standards Update articles in the [Spring 2005](#), [Summer 2005](#), [Fall 2005](#), [Spring 2006](#), [Summer 2006](#), [Fall 2006](#), [Spring 2007](#), [Summer 2007](#), [Fall 2007](#), [Spring 2008](#), [Summer 2008](#), [Fall 2008](#), [Spring 2009](#), and [Summer 2009](#) issues of *The Auditor's Report*. The views expressed in this article are those of the authors and not necessarily those of the PCAOB, individual Board members, or other PCAOB staff. Responses to the article or related research may be emailed to scatesg@pcaobus.org.

* Martin F. Baumann is PCAOB Chief Auditor and Director of Professional Standards
Gregory Scates is PCAOB Deputy Chief Auditor
Dima Andriyenko is PCAOB Associate Chief Auditor

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Have You Seen...?

Pennie Bagley, Texas Tech University
Albert Nagy, John Carroll University
Gary Peters, University of Arkansas

“When Auditors Err: How Mistake Significance and Superiors' Historical Reactions Influence Auditors' Likelihood to Admit a Mistake,” by C. Stefaniak and J. C. Robertson, *International Journal of Auditing* (Forthcoming).

This study examines the impact of reviewer reactions to staff auditor's work. The authors note the importance of procedures performed by staff auditors and the potentially critical impact the procedures can have on audit opinions. Despite this importance, audit staff may be reluctant to admit mistakes to protect their professional image and avoid negative reactions from superiors. The authors examine these conflicts by investigating the impact of the significance of the mistakes and superiors' historical reactions to mistakes. In sum, they find an interaction suggesting that staff auditors are more likely to admit errors when their superiors have reacted positively, regardless of error significance. However, when audit staff have experienced prior negative reactions, they are less likely to admit apparently insignificant errors.

“The Effect of Goals on Auditors' Judgments and Their Perceptions of and Conformity to Other Auditors' Judgments,” by S. K. Asare and A. M. Cianci, *Managerial Auditing Journal* (Volume 24, Issue 8): 724-742.

The authors investigate the impact of explicit and competing goals on the calibration and conformity of auditors' judgments. The authors consider the competing goals of accuracy and client agreement. The authors measure conformity as the degree of consistency between the auditor's judgment and the judgments they perceive other auditors will make. Calibration represents the extent to which these perceived judgments agree with actual judgments of the other auditors. Using an experiment involving inventory write-offs, the authors find that auditors with accuracy goals are more likely to recommend write-offs than in other goal conditions; and auditors with both goals are more likely to recommend a write-off. However, while auditors' judgments are well calibrated, mixed evidence of conformity is found.

“Information and Communications Technology and Auditing: Current Implications and Future Directions,” by K. Omoteso, A. Patel, and P. Scott, *International Journal of Auditing*.

(Forthcoming).

The authors collect evidence from interviews and questionnaires to document how information and communications technology (ICT) tools and techniques are impacting audit tasks, auditors (internal and external) and organizations. The authors consider several attributes of the audit function including coordination, control, authority and structure. Their findings have implications for the increasing prominence of continuous auditing, artificial intelligence and CobiT. They also observe the current need for new software development to help auditors match the complexity of their clients' information systems.

“Can Audit Reforms Affect the Information Role of Audits? Evidence from the German Market,” by J. Gassen and H. Skaife, *Contemporary Accounting Research* (Volume 26, Number 3): 867-898.

This study investigates whether audit reforms enhance the information role of audits in a setting where audits traditionally serve a statutory reporting function. The authors' setting includes the audit reforms mandated by the German government in the Act on Control and Transparency of Enterprises. Specifically the authors test the association between the reforms and differences in the types of audit reports issued, the information content of first-time going-concern audit opinions, and the demand for dominant audit suppliers. In sum, their results suggest that the audit reforms improved the information role of German audits and that German firms responded to the improvement in audit reporting by increasing their demand for dominant audit suppliers.

“Are Fully Independent Audit Committees Really Necessary?” by S. N. Bronson, J. V. Carcello, C. W. Hollingsworth, and T. L. Neal, *Journal of Accounting and Public Policy* (Volume 28, Issue 4): 265-280.

The authors highlight the debate and gap in prior literature concerning the importance of a 100% independent audit committee. The paper addresses whether the regulatory requirements of a completely independent audit committee are necessary to obtain the monitoring benefits related to audit committee independence that have been documented in prior literature. Overall the authors find that the beneficial impact of audit committee independence is achieved only when all members of the audit committee exhibit independence.

“Using Nonfinancial Measures to Assess Fraud Risk,” by J. F. Brazel, K. L. Jones and M. F. Zimbelman, *Journal of Accounting Research* (Volume 47, Issue 5): 1135-1166.

This study considers whether prior correlations between nonfinancial measures and financial measures can signal increases in fraud risk. Namely, the authors find that differences from these patterns are significantly greater for firms that committed fraud than for their nonfraud competitors. Their results provide evidence consistent with the ability of auditors to effectively use nonfinancial measures (NFMs) to assess the reasonableness of financial performance and the risk of fraud.

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"Have You Seen These Instructional Resources?"

By the 2009-2010 Education Committee of the Auditing Section of the AAA

Jay Rich, Chair – Illinois State University

Jason MacGregor – Baylor University

Mark Peecher – University of Illinois

Paul Polinski – University of Illinois

Richard Riley - West Virginia University

Ray Whittington – Depaul University

Format	Title	Date	Source	Description	How to Obtain
Book	The Guide to Investigating Business Fraud	2009	AICPA	Developed by the seasoned fraud investigation team at Ernst & Young in cooperation with the AICPA, The Guide to Investigating Business Fraud provides a clearly defined framework for approaching a fraud investigation. Each chapter is written by subject matter experts in the issue under discussion. The chapters are designed so that they may be read individually as self-contained reference guides for specific topics of interest, or together as a holistic overview of a fraud investigation	http://www.cpa2biz.com

Format	Title	Date	Source	Description	How to Obtain
Book	Financial Statement Fraud: Prevention and Detection (2nd Edition)	2010	John Wiley and Sons	This book articulates best practices in financial statement fraud prevention, deterrence, detection and investigation, by thoroughly examining some of the “how it was done” most notorious frauds of the last 25 years – Enron, WorldCom, Adelphia, Bernard Madoff, Stanford Financial, Satyam and even Al Capone; by carefully examining the roles and responsibilities of the major players in the corporate governance fabric; and by describing best practice tools and techniques.	ISBN: 978-0-470-45570-8
Web Document	CONCEPT RELEASE ON REQUIRING THE ENGAGEMENT PARTNER TO SIGN THE AUDIT REPORT	July 28 th , 2009	PCAOB web site	A request for comment from the PCAOB on a potential standard to require the auditor with 'final responsibility' for the engagement to sign the audit report.	Download from: http://www.pcaobus.org/Rules/Docket_029/2009-07-28_Release_No_2009-005.pdf

Format	Title	Date	Source	Description	How to Obtain
Web Document	RULES ON PERIODIC REPORTING BY REGISTERED PUBLIC ACCOUNTING FIRMS	August 14 th , 2009 (announcement that requirement begins on October 12 th)	PCAOB web site	New reporting requirements (the first requirements, as the dialog is ongoing about further requirements) for registered firms under SOX	Download from: http://www.pcaobus.org/Rules/Docket_019/2008-06-10_Release_No_2008-004.pdf
Web Document	REPORT ON THE FIRST-YEAR IMPLEMENTATION OF AUDITING STANDARD NO. 5	September 24 th , 2009	PCAOB web site	An assessment of the eight largest firms' application of AS no. 5; where the firms applied the standard effectively or ineffectively	Download from: http://www.pcaobus.org/Inspections/Other/2009/09-24_AS5_4010_Report.pdf
Book	Creating Significant Learning Experiences	2003	Author: L. Dee Fink Publisher: Jossey-Bass	Fink starts with the proposition: What do you want your students to know several years from now? The book provides practical insights on how to structure our course around learning objectives.	ISBN: 978-0787960551
Web Document	PCAOB Adopts New Auditing Standard On Engagement Quality Review And Issues Concept Release on Requiring the Engagement Partner to Sign the Audit Report	July 28, 2009	PCAOB	Brief discussion of AS7	Download from: http://pcaob.org/News_and_Events/News/2009/07-28.aspx

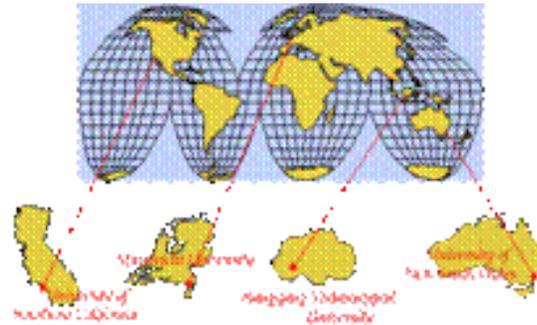
Format	Title	Date	Source	Description	How to Obtain
Web Document	Auditor Independence Education Materials	Spring 2009	Deloitte & Touche LLP, in conjunction with the University of Illinois Center for Professional Responsibility in Business and Society	<p>These materials will help facilitate your students' learning about core concepts, real-world applications, and prevailing rules related to auditor independence. The materials are designed to create a greater awareness among students about why independence is important to our profession as well as the capital markets.</p> <p>These materials are available free of charge and include a video program and discussion questions, an in-class laboratory market game, five case studies, suggested solutions, and teaching notes. Portions of the education materials can be used for undergraduate and graduate courses and may be particularly useful for introductory accounting, auditing, and advanced auditing courses.</p>	<p>Download from: http://www.business.illinois.edu/responsibility/aiem/</p>



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Call for Papers-ISAR 2010 **16th Annual International Symposium on Audit Research** **Singapore 24 and 25 June, 2010**

The 16th Annual International Symposium on Audit Research (ISAR) will be hosted by Nanyang Technological University on 24 and 25 June, 2010 in Singapore. ISAR is jointly organized by Nanyang Technological University, the University of Southern California (USA), Maastricht University (Netherlands), and the University of New South Wales (Australia). The symposium will be held at the Marina Mandarin hotel, Singapore.

Scope of Topics

The scope of ISAR is intended to be broad and includes research papers and panels that deal with all aspects of auditing, attestation and assurance. Papers that utilize any of a broad range of research methodologies will be considered.

ISAR 2010 will coordinate with the World Continuous Auditing & Reporting Symposium [WCARS] to present research that focuses on information technology and continuous auditing. Papers in this area are to be submitted to ISAR as indicated below, and subject to regular review.

ISAR 2010 will also be preceded immediately by a by-invitation ACCA/IAAER mini-conference in conjunction with the ACCA/IAAER call for academic research proposals [<http://www.iaaer.org/research>] that support the work of the International Auditing and Assurance Standards Board. During the mini-conference, proposal winners will present their research designs and preliminary results.

Submission of Papers

To be eligible for presentation, manuscripts must follow the style guidelines of [Auditing: A Journal of Practice & Theory](#). Please pay particular attention to the format and length requirements – the body of the manuscripts should not exceed 7,000 words or approximately 20-25 double-spaced pages. Please submit a single document with a title page which includes author(s) affiliation(s), and the contact author's email address. Accepted papers will not be published in formal proceedings and thus may be submitted to any appropriate journal for publication.

Paper Submission Deadline and Requirements

Papers including the title page should be submitted electronically in Adobe Acrobat or Word formats. Papers, and where appropriate, related research instruments must be received no later than 31 January 2010, and should be sent to: papers@isarhq.org.

Further Information

If you have questions about paper submission please email to papers@isarhq.org. For questions about the symposium please contact Hun Tong Tan at AHTTAN@ntu.edu.sg or Ted Mock at tmock@ucr.edu. Further information is also posted at the ISAR website at www.isarhq.org where you can also register for email updates on ISAR 2010.

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19th Symposium on Audit Research

The University of Illinois' 19th Symposium on Audit Research will be on October 14-16, 2010 in Champaign, IL near campus.
A call for papers will be made soon.

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Report of the President

Urton Anderson



It is an honor to serve as President of the Auditing Section for 2009-2010. My commitment to you as members is to work diligently to continue the progress the Section has made under the terrific leadership of Audrey Gramling, Mark Peecher, Ray Whittington and the many other outstanding individuals who have served the Section in this role.

2009 Annual Meeting

Many of you joined the thousands of AAA members attending the Annual AAA Meeting in New York. It was a great event for the AAA and the Auditing Section. Tim Louwers and Kenny Reynolds did a fantastic job coordinating the Auditing Section's program. This year there were 182 papers submitted to the Auditing Section – a 20% increase from 2008 – with 104 being selected for presentation in concurrent sessions. The Section also accepted proposals for five panel sessions. In addition to the panelists and paper presenters, the Section's part of the program involved the work of 32 moderators, 80 discussants, and several hundred reviewers. Thanks to all for their efforts.

In conjunction with the AAA meeting in New York, The Center for Audit Quality (CAQ) held a half-day symposium on Sunday, August 2. The symposium was attended by some 60 people – half auditing researchers and half partners responsible for the audit practice and methodology from most of the nations largest 10 audit firms. The symposium had three main objectives:

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[Have you Seen These Educational Resources?](#)

Calls and Announcements

- To help reverse the declining degree of dialogue and collaboration between leading audit practitioners and audit researchers.
- To provide a venue for academic researchers to share the results of their studies and explore with leadership-level practitioners how those results apply to audit practice.
- To demonstrate the commitment and leadership that will be necessary to help ensure that audit practitioners and audit researchers collaborate on issues that drive improvements in audit practice and quality.

Based on the success of this symposium, the Center for Audit Quality and the Section are planning to hold another symposium in conjunction with the 2010 AAA Meeting in San Francisco.

Audit Boot Camp

In June the Section conducted its first "Audit Boot Camp" The 3 day event was designed with two types of faculty members in mind: recent doctoral graduates who do not have auditing experience, but will be teaching auditing courses at their new university and faculty members who currently teach auditing courses who do not have recent auditing experience. The purpose was to give participants and opportunity to be come acquainted with the basics of current audit practice, particularly where practice has been changing. Coverage included various topics including audit planning, client acceptance, internal controls, risk, materiality and substantive testing. The program was extremely successful, enrollment, which was capped at 40, quickly filled and a number had to be turned away. Those that attended gave the program excellent evaluations and reviews.

Based on the first Boot Camps success, the section with offer another Boot Camp this coming June. Watch for the announcements this Spring.

Webinars

This past year the Section explored the possibility of providing webinars to Section members. Two webinars were conducted. The first was conducted by Mark Beasley, who spoke on COSO's Project on Monitoring Internal Controls; the second was by Joe Carcello discussed his recent PCAOB activity from his perspective as a member of the PCAOB's Standing Advisory Group.

The section has now received approval from NASBA to award CPE credit for all future webinars delivered by the section. The first webinar for which CPE was available was conducted this fall by Pamela R. Murphy on Research and Teaching Opportunities on Fraud Prevention and Detection. The plan going forward is to conduct five to six webinars per year. If you have an interest in conducting one of these webinars contact Susan B. Hughes, chair of the CPE committee, shughes@uvm.edu or Jeffrey Cohen, chair of the Research Committee, cohen@bc.edu.

KPMG Continues its Generous Support

We recently received the news that the KPMG Foundation Trustees have approved a three year extension of the Foundation's support of the Section's Mid-Year Conference and Auditing Doctorial Consortium. This support for the 2011, 2012, and 2013 Conferences and

**Call for Papers -
ISAR 2010**

**19th Symposium on
Audit Research**

[Auditor's Report Archive](#)

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**Spring 2010 Issue
Deadline**

The deadline for material to be included in the Spring 2010 issue of The Auditor's Report is February 28, 2010. The preferred format is a Word file attached to an e-mail message. We are also open to any proposals for materials that anyone would like to submit. Please send all material and proposals to the Editor at the address below by the stated deadline to ensure timely publication of the issue:

Duane Brandon, Editor
Auburn University
301 Lowder Business Building
Auburn, AL 36849
Phone: (334)844-6215
Email: branddm@auburn.edu

Consortia provides a critical financial basis to for the Section to continue fulfill its mission of fostering excellence in the teaching, research and practice of auditing and assurance services. Thanks to KPMG, the KPMG Foundation Trustees, and Bernie Milano, President of The Foundation, for this vote of continued confidence in the Section.

San Diego 2010

[Register now](#) for the 2010 Auditing Section Mid-Year Conference to be held January 14-16 at the Westin Hotel in San Diego. Jennifer Joe and Susan Shu have arranged an excellent selection of plenary speakers, panels, and paper presentations for the conference. Plenary speakers include Christopher Cox, Past Chairman of the SEC, and Dr. Arnold Schilder, the Chair of the International Auditing and Assurance Standards Board.

This year's pre-conference workshop continues the Excellence in Audit Education theme of our past two pre-conference workshops. This year the workshop has been coordinated by Mark Peecher and is entitle *Equipping Audit Students to Make Professional Judgments*. This is one of the most significant issues facing the auditing and accounting profession today as changes in the accounting framework requires an ever increase amount of judgment as is discussed by Guy Moore, Senior Advisory Partner with Deloitte, in the "Views from the Profession" column in this issue of The Auditor Report. The column provides a great introduction to the topic. **The workshop begins at 12:30 Thursday January 14.**

We continue our tradition of holding a [Doctoral Consortium](#) prior to the conference. Brian Mayhew, the Consortium chair, has an exciting program planned for January 14 that PhD students working in auditing and related areas will not want to miss.

Looking forward to seeing you in January in San Diego.



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Using Professional Judgment

**By Guy Moore, Senior Advisory Partner for Professional Practice,
Deloitte & Touche LLP***

The meaning of professional judgment and its application in an audit environment continue to be subjects of interest and discussion by auditing and accounting faculty, students, standard setters, regulators and auditing professionals alike. As accounting frameworks continue to call for increased judgment by preparers of financial statements, the auditor assessing those judgments will in turn need to apply his or her professional judgment. What follows is one "view from the profession" about the meaning and importance of professional judgment, as well as one approach that may be employed when applying professional judgment.

The phrase "professional judgment" is not new to the accounting and auditing profession; however, there has been an increased emphasis on the importance of professional judgment as a result of regulation, standard setting, inspections, and a move toward more principles-based accounting and auditing standards. In its [recent report**](#), the Advisory Committee on Improvements to Financial Reporting recognized the "need for a cultural shift towards the acceptance of more judgment" and recommended that both the SEC and PCAOB issue statements of policy articulating how the reasonableness of accounting and auditing judgments is evaluated. So while professional judgment may not be a new concept, its use is becoming increasingly more vital to the appropriate application of accounting and auditing standards.

Defining Professional Judgment

Professional judgment is a process used to reach a well-reasoned conclusion that is based on the relevant facts and circumstances available at the time of the conclusion. A fundamental part of the process is the involvement of individuals with sufficient knowledge and experience. Professional judgment involves the identification, without bias, of reasonable alternatives; therefore, careful and objective consideration of information that may seem contradictory to a conclusion is key to its application. In addition, both professional skepticism and objectivity are essential to the process and to reaching an appropriate conclusion.

Professional judgment is not an arbitrary decision, a substitute for professional skepticism, or a method to rationalize a particular result. Performing the process in "form" without focusing on the substance does not constitute well-reasoned professional judgment.

Professional judgment is critical to efficiently and effectively planning, performing, and concluding in an audit. Auditors use professional judgment to focus on the most important aspects of an audit; to determine the nature, timing, and extent of audit procedures; and to appropriately challenge the accounting, reporting, and other conclusions reached and financial statement assertions made by management.

Applying Professional Judgment

Because of the nature of the auditor's professional responsibilities and the regulatory environment, the auditor's judgments will most likely be challenged. Knowledgeable, experienced, and objective persons can reach different conclusions in applying professional standards despite similar facts and circumstances. This does not necessarily mean that one conclusion is right and the other is wrong. Appropriate questioning to understand the procedures performed and basis for conclusions reached is to be expected.

Contemporaneous documentation of professional judgments is important. Documentation demonstrates that a sound process was followed and helps the development of a well-reasoned conclusion. When professional judgment is challenged, contemporaneous documentation shows the analysis of the facts, circumstances, and alternatives considered as well as the basis for the conclusions reached. The extent of documentation and the effort expended in the process will vary with the significance and complexity of an issue.

When the professional judgment process is appropriately applied and contemporaneously documented, it is much easier to support and defend the conclusions reached. Conversely, decisions that appear to be arbitrary; not supported by the facts, evidence, or professional literature; or not well-reasoned or documented are difficult to support.

The sample framework that follows is an example of a common sense approach to reaching judgments based loosely on the work of the Advisory Committee on Improvements to Financial Reporting. It certainly is not the only approach to applying professional judgment, as there are multiple paths to reaching appropriate decisions and judgments.

Considerations When Applying Professional Judgment

IDENTIFY ISSUE: Identify the accounting or auditing issue requiring the use of professional judgment. Consider the following:

- Has the issue been sufficiently framed?
- Are there any related issues that need to be considered in the process?

GATHER THE FACTS: Objectively obtain a thorough understanding of the relevant facts and information available concerning the transaction, event, or situation. Consider the following:

- Have source documents and other materials been examined, knowledgeable client personnel interviewed, and other available sources of information considered?
- Were the appropriateness and reliability of the assumptions and data to be used in the analysis of the transaction or situation sufficiently assessed, tested, and objectively challenged by obtaining sufficient competent evidence?

REVIEW RELEVANT LITERATURE: Identify the accounting or auditing literature (or other standards and rules) relevant to the issue, keeping in mind the various authoritative pronouncements in the GAAP hierarchy and the different sources of professional auditing and attestation pronouncements. Consider the following:

- Has the relevant accounting or auditing standard been identified and reviewed, recognizing that reference to more than one authority may be appropriate to address the issue?
- Have the underlying principles in the relevant accounting or auditing literature been considered?
- To the extent that one particular authority does not address the issue directly, have other pronouncements or

literature, by analogy, been considered as appropriate?

ANALYZE ISSUE: Apply the applicable accounting or auditing literature to the relevant facts and other information concerning the transaction, event, or situation and assess the most appropriate accounting treatment or auditing approach under the circumstances. Consider the following:

- Do the individuals addressing the issue have sufficient knowledge, experience, and objectivity for the matter being evaluated?
- Do additional resources need to be involved in addressing the issue?
- Have the reasonable alternatives been identified?
- Have the reasonable alternatives been analyzed, including the pros and cons of each alternative? For example, has all evidence been considered, including potentially contradictory evidence, and whether any negative evidence was outweighed by positive evidence?
- Has preferability or diversity in practice been considered?
- Has the business purpose and the form and substance of the transaction been analyzed?
- Have the audit risks and potential responses to those risks been analyzed? For example, if assessing the inherent risk of material misstatement of an account balance or assertion have the potential errors relevant to the account and the factors that could reasonably increase the likelihood of a material misstatement (by error or fraud) been analyzed?
- Has consideration been given as to whether the treatment that results from applying the relevant literature has been applied consistently to similar transactions, events, or situations?

Conclude and Document: Contemporaneously document the conclusion reached, with specific discussion of the issue; applicable facts and evidence gathered; relevant literature, policies, and guidance; individuals consulted; alternatives considered; analysis performed; and basis for the conclusion reached.

- Was the rationale for the alternative selected (including the reason why the selected alternative is preferred to other alternatives or reasons why the preferred alternative was not selected) documented?
- Has an assessment been made as to whether the effort spent in the process and the extent of documentation are consistent with the significance and complexity of the professional judgment reached?

**The *Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission*, issued on August 1, 2008, addressed the use of “reasonable judgments” in the accounting and auditing profession.

* This article contains general information only and Deloitte & Touche LLP is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services

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THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Committee Spotlight

By Jeffrey Cohen

The Auditing Section of the AAA is successful because of the many members who agree to serve on one or more of the Section's committees. This new column will profile the activities of one of the Section's committees. In this issue of *The Auditor's Report*, the Auditing Research Committee is profiled.

The Charge of the Committee includes the following:

Structure: Members appointed for three-year terms, with one-third of committee membership rotating on/off each year.
Chair appointed for two-year term.
Charge:

1. Investigate and promote opportunities for auditing and assurance research.
2. Foster innovations in auditing and assurance research.
3. Facilitate the communication of auditing and assurance research findings to members of the practice community.
4. Complete research-related projects assigned by the Section President and/or Executive Committee.
5. Interact with the AAA Research Advisory Committee.
6. Interact with the Auditing Standards Committee concerning their research activities.
7. Communicate the progress and results of Committee activities to Auditing Section members in appropriate ways, including but not limited to the presentation of a brief report at the Section's annual business meeting.

The 2008-2009 Committee Members include:

Jeff Cohen (Chair), Boston College
Jack Krogstad, Creighton University
Greg Jenkins, Virginia Tech
Marshall. K. Pitman, University of Texas at San Antonio
Jaime Schmidt, University of Texas at Austin
Uma Velury, University of Delaware
Marshall. K. Pitman, University of Texas at San Antonio

Targeted Activities of the Committee

The primary goals of the Committee are to promote research opportunities to our section's members. To accomplish these goals, the Committee is focused on a number of activities such as the following:

1. One primary objective of the committee is to develop a strategy to elevate the status of the section's journal **AJPT**. We will present a plan of action to the executive committee at the 2010 Midyear Audit conference. If anyone has some suggestions on the matter, please email Jeff Cohen at the following email address: cohen@bc.edu
2. The Committee is working to have a research panel at the midyear audit conference on the topic of fraud. Details will be forthcoming.
3. The Committee is working with the CPE committee to plan and deliver a webinar during the Fall of 2009. Our presenter will be Pam Murphy of Queens University who will discuss the state of fraud research. Although the focus of the webinar will be on research, Pam will also present some teaching opportunities on the topic of fraud. Details will be forthcoming.

The Committee will organize a panel discussion at the 2010 Annual Meeting. Suggestions for topics are welcome and should be sent to cohen@bc.edu

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THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Sixteenth Annual Midyear Auditing Section Conference

We hope that you are planning to attend the Sixteenth Annual Auditing Midyear Conference (AMC) to be held in San Diego, California on January 14-16, 2010. The Conference will be held at the Westin San Diego, an AAA 4 Diamond property, located in the heart of downtown San Diego. The hotel is within walking distance of the Seaport Village, Little Italy, the San Diego Gaslamp Quarter, and a variety of dining and shopping options. San Diego is home to many renowned attractions such as the San Diego Zoo, Sea World, Balboa Park, the USS Midway and many beautiful parks and beaches, which are all convenient to the hotel. A limited number of rooms have been reserved at the special conference rate of \$189 per night inclusive of internet access, single or double.

Please make your reservations before **December 14, 2009** to take advantage of this special room rate.

The KPMG Foundation is generously supporting the 2010 Midyear Conference. Similar to previous years, the meeting will include two keynote plenary speakers and concurrent sessions dealing with a wide variety of contemporary topics related to audit and assurance research, practice, and education.



The Friday morning plenary session will feature a presentation by Christopher Cox, Past Chairman of the Securities and Exchange Commission (SEC) from 2005 to 2009. We anticipate a lively discussion as many significant events occurred during his tenure. Mr. Cox was a leader in the effort to integrate U.S. and overseas regulatory policies in this era of global capital markets. Prior to his appointment to the SEC, he served in the U.S. House of Representatives for the State of California. During his seventeen years in congress, he served in a leadership capacity on several committees with jurisdiction over U.S. capital markets, including the Energy and Commerce Committee, the Financial Services Committee, the Joint Economic Committee, and the Budget Committee. He also authored the Private Securities Litigation Reform Act. In 1994, President Clinton appointed Cox to the bipartisan commission on entitlement and tax reform. Prior to his time in Congress, Cox served as senior associate counsel to Ronald Reagan and specialized in venture capital and corporate finance with Latham & Watkins. Cox has a M.B.A. and a J.D. from Harvard University, where

he was an Editor of the Harvard Law Review.



The Saturday plenary session will feature a presentation by Dr. Arnold Schilder, the Chair of the International Auditing and Assurance Standards Board (IAASB) at New York. As Chair, Prof. Schilder leads the IAASB in its initiatives in setting high quality auditing and assurance standards and facilitating the convergence of international and national standards. He is a past member of the Managing Board of the De Nederlandsche Bank NV (DNB) as Executive



Director in charge of prudential supervision of financial institutions. He held seats on the Basel Committee on Banking Supervision (and served as the Chairman of its Accounting Task Force from 1999-2006), the Committee of European Banking Supervisors (CEBS) and until July 2008 the Public Interest Oversight Board (PIOB) as well as being Chairman of the European Interim Working Committee on Financial Conglomerates (IWCFC). In addition, he is a part-time professor of auditing at the University of Amsterdam and is a past President of the Koninklijk Nederlands Instituut van Registeraccountants, IFAC's member body in the Netherlands. Previously, he was a senior international audit partner in

PricewaterhouseCoopers (PwC) in the Netherlands and worked for PwC and predecessor firms from 1972 to 1998.

Once again the program will include a pre-conference education workshop titled “*Equipping Audit Students to Make Professional Judgments*” on Thursday afternoon beginning at 12:30 PM. The workshop will feature three exciting and interactive sessions. Two common threads across these three sessions are a focus on developing audit students’ professional judgment and a substantial opportunity for you to participate and contribute to the workshop. There will be an interactive teleconference with higher-education specialist and best-selling author Ken Bain. Dr. Ken Bain is the author of ***What the Best College Teachers Do***. A team of Deloitte professionals will lead a session on developing skills that enhance auditors’ skepticism and judgment. The third session will be led by a team of accomplished audit scholar-educators that will focus on the synergistic use of audit research to improve audit students’ classroom learning experience and on incorporating students in audit research. There is a \$30 registration fee for this Workshop. The Workshop will only accommodate a limited number of participants so pre-registration will be required. Mark Peecher (peecher@illinois.edu) is this year’s Workshop coordinator.

Thanks to the generous support of KPMG LLP, the 11th Annual Auditing Section Doctoral Consortium will be held on January 14th, preceding the Midyear meeting. The chair of this year’s Consortium is Brian Mayhew. The purpose of the Consortium is to stimulate students' research by exposing them to the latest ideas from leading researchers in auditing, and by providing opportunities for networking with other Ph.D. students interested in auditing, established auditing researchers, and journal editors. The Consortium is open to all Ph.D. students who have an interest in auditing research. Students may be at any stage in their program. There is a limit on the total number of students who can attend the Consortium, and a maximum of four students from any one university may attend. Applications will be accepted on a first-come basis via the registration forms on the Section’s website. Students are advised to register early. For further information on the application process, please contact Brian Mayhew via phone (608-262-2714) or email (bmayhew@bus.wisc.edu).

Make plans now to join us in San Diego next January!

Jennifer Joe and Susan Shu
2010 Auditing Midyear Conference Co-Chairs

Urton Anderson
Auditing Section President

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THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Auditing Standards Board Update Fall 2009

Mark H. Taylor

**Weatherhead School of Management, Case Western Reserve University
Cleveland, OH**

Since the last update, the ASB has had three additional meetings. It has been a very busy summer of standards setting activities. The meetings were held in June (Boston), July (San Diego), and August (Nashville). As noted in previous updates, the meetings run from Monday through Thursday afternoon and are open to the public. The agenda for each of these meetings was ambitious. A highlight of special note to Auditing Section members is that three additional academic research teams presented the results of their research to the ASB. This update summarizes those findings (presented at the June and July meetings). It also summarizes the overall content and outcomes of the June, July, and August meetings. A number of proposed SASs were voted to ballot. Recall that in the ASB update I provided in the Spring 2009 Issue of *The Auditor's Report*, I summarized the existing ASB task forces and their objectives. If more information about the existing ASB Task Forces is required, please refer to the ASB update in the Spring 2009 issue. Once again, I encourage members of the section to contribute to the work of the ASB by developing comment letters related to any of the numerous exposure drafts. If you have any questions regarding any of the ASB activities, please contact me at mt@case.edu.

June 2009 (Boston)

Compliance Audits

George Rippey, Chair of the Compliance Auditing Task Force, led the ASB in a discussion of significant comments received during exposure of a proposed SAS entitled *Compliance Audits* and the Task Force's revised draft of the proposed SAS. Among other things, the ASB recommended revising definitions of key terms in the proposed SAS, clarifying the auditor's period of obligation for performing audit procedures, and providing examples of tests of details in a compliance audit. The Task Force agreed to return with revisions at a future ASB meeting.

Engagement Representations

John Fogarty, Chair of the Engagement Representations Task Force, led a discussion of the proposed SASs *Terms of Engagements* and *Written Representations*. Highlights from the *Terms of Engagements* proposed SAS include the ASB requesting the Task Force to include the required and related application material similar to that found in ISA 210, to assess whether to revise requirements for an engagement letter every year (that is, permit "evergreen letters"), and agree that the proposed SAS should include reference to the "inherent limitations of an audit" in the engagement letter. The ASB also requested the Task Force to consider whether proposed SAS *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* contains the requirements regarding

Regulatory or Contractual Basis of Accounting—Other Matters Affecting Acceptance and accordingly, whether those paragraphs can be omitted from the proposed SAS. With respect to *Written Representations*, the ASB requested the Audit Issues Task Force to discuss whether to allow the representation letter to be dated *as of* the date of the auditor's report, but physically provided to the auditor after the report date but before the release date. The Task Force agreed to return to a future ASB meeting with revisions.

Service Organizations

Walt Conn, Chair of the Service Organizations Task Force, led the ASB in a discussion of comments on the ED of proposed Statement on Standards for Attestation Engagements (SSAE), *Reporting on Controls at a Service Organization*, and issues related to a revised draft of the proposed SSAE. The ASB is converging the proposed SSAE with proposed International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Service Organization*. The ASB agreed with the Task Force that the proposed SSAE should not be applicable when reporting on controls other than controls related to financial reporting. The ASB requested the Task Force to revise the proposed SAS to require the service auditor to give substantive thought to the nature and cause of any deviations identified as a result of performing the procedures noted in paragraph 38, and to draft application material stating that the risks and control objectives encompass intentional and unintentional acts that threaten the achievement of the control objectives. The Task Force agreed to return to a future ASB meeting with revisions.

Estimates/Fair Values

Megan Zietsman, Chair of the Accounting Estimates Task Force (the Task Force), led the discussion of a proposed SAS, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*. The ultimate aim of the discussion was to request the ASB to vote to ballot the proposed SAS for exposure. The draft document was previously discussed at the April and January 2009 meetings. However, after addressing some fairly broad issues associated with AU 332, *Auditing Derivatives* (rescinding it due to redundancy with other standards, moving portions of it to Audit Guide, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*, etc.), the ASB requested the Task Force to perform further analysis of AU section 332 to identify those requirements and related guidance that warrant retention in a stand-alone SAS. Among others, the discussion then addressed the following topics: 1. Retrospective Review of Accounting Estimates—the ASB requested the Task Force to add additional application material to explain that the auditor's procedures in this regard are a matter for professional judgment, and 2. Communications about the entity's process for formulating sensitive accounting estimates, including fair value estimates—the ASB agreed to make a conforming change to AU 380 to move this requirement and add an application guidance paragraph in this proposed SAS to refer auditors to AU section 380. The ASB voted unanimously to ballot the proposed SAS for exposure.

Auditor's Reports – 700 Series

Dan Montgomery, Chair of the Auditor's Report Task Force, led a discussion of proposed SASs: *Forming an Opinion and Reporting on Financial Statements*. After finalizing a number of changes to the proposed SAS, the ASB unanimously voted to ballot the proposed SAS for exposure. The Chair also led a discussion of *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements Related to Audited Financial Statements*. The ASB requested the Task Force to consider a number of changes and to return to the August meeting with a revised proposed SAS.

Auditor's Reports – Special Reports

Susan Jones, Chair of the Special Reports Task Force, led a discussion of the following proposed SASs: *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*; *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and *Engagements to Report on Summary Financial Statements*.

Special Purpose Frameworks

The ASB reconfirmed its agreement to align the reporting for special purpose financial statements prepared in accordance with a regulatory basis of accounting with the extant requirements. That is, if the financial statements and auditor's report are intended for general use, a dual-opinion on GAAP and the special purpose framework would be required. Otherwise, a single opinion on the framework would be issued, along with (a) an alert that the regulatory basis is a basis other than GAAP, and (b) a report restriction for use by the specified parties. The ASB also requested the Task Force to consider the alignment of the requirements pertaining to auditor's reports prescribed by law or regulation that are contained in the proposed SAS, Compliance Audits, and other things.

Single Financial Statements & Elements

The ASB agreed with the Task Force to add a requirement and related guidance to address the auditor's responsibilities related to interrelated items, and requested the Task Force to (1) clarify the requirement not to "issue" the report on the single financial statement or specific element when the presentation of the single financial statement or of the specific element does not differentiate it sufficiently from the complete set of financial statements, and (2) clarify the auditor's responsibility to determine materiality in an audit of a single financial statement, and to provide additional guidance with regard to disclosures, and highlight this matter in the Explanatory Memorandum.

Summary Financial Statements

The ASB agreed with the Task Force to allow the auditor's report on the summary financial statements to be dated later than the auditor's report on the audited financial statements (provided the auditor's report was modified to clearly indicate the auditor's responsibilities for the summary financial statements and for subsequent events), and to align the proposed SAS with International Standards on Auditing and SAS 116, Interim Financial Information, by permitting the audited financial statements to be made "readily available," in lieu of requiring the audited financial statements to accompany the summary financial statements.

Auditor's Report Research Task Force

That the ASB, in connection with the IAASB, sponsored four academic research projects has been mentioned in previous updates. The ASB has been anxious to hear the reports of the research teams this summer. As I now Chair the Auditor's Report Research Task Force, I introduced the second of these teams to present their results to the ASB, Brenda Porter, School of Business and Economics Exeter University, United Kingdom; Ciaran Ó hÓgartaigh, Michael Smurfit Graduate School of Business, UCD, Ireland; and Rachel Baskerville, School of Accounting and Commercial Law, Victoria University, Wellington, New Zealand. This team examined the structure, composition, and extent of the audit expectation-performance gap in the United Kingdom (UK) and New Zealand (NZ) in 2008 and how this differed from the gap which existed in NZ in 1989, 1999 and 2008, and in the UK in 1999 and 2008. They also investigated financial statement users' understanding of the message(s) conveyed in standard unqualified audit reports and changes to the format and wording of auditors' reports desired financial statement users.

They found that although the structure and composition of the audit expectation-performance gap in the UK and NZ in 2008 were similar, the gap was significantly wider in NZ than in the UK. In 1999, the extent of the gap in the two countries was essentially the same, but between 1999 and 2008 the gap in the UK narrowed substantially, while that in NZ widened slightly. Their findings suggest that this difference may result from differences in the monitoring of auditors' performance in the UK and NZ, and/or from greater societal awareness of, corporate and financial reporting issues in the UK due to greater publicity. They also found that notwithstanding the use of the long form audit report as an educational tool for nearly two decades, financial statement users' (and other interest groups') misunderstanding of auditors' responsibilities and the audit function persists. This finding is supported by a further finding that the content of a standard auditor's report has little impact on financial statement users' understanding of the messages conveyed in the report. For a copy of this team's research report contact Brenda Porter

Overall Objectives and Proposed Preface

John Fogarty, Chair of the Clarity Task Force, led a discussion of Proposed Preface to the Codification of Statements on Auditing Standards, *Principles Governing an Audit Conducted in Accordance With Generally Accepted Auditing Standards*, and Proposed Statement on Auditing Standards, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, and the changes to the proposed documents based on comments received during exposure. The ASB recommended some changes to the proposed documents, and expressed willingness, subject to evaluating the changes suggested by the ASB, to vote the proposed documents for issuance as final standards. The Task Force agreed to return to the August meeting to present changes.

Audit Evidence – Selected Items

Art Winstead led the discussion of the proposed SAS *Audit Evidence*^{3/4}*Specific Considerations for Selected Items*. As part of this discussion the ASB agreed with the Task Force to rescind AU section 901, *Public Warehouses*, because the content in that section is covered in other standards and is not a major practice issue. The ASB also agreed to add the content of interpretation AU 9508 *Report of an Outside Inventory-Taking Firm as an Alternative Procedure for Observing Inventories* as application in this proposed SAS, and to retain content related to segment information, while retaining the content of AU section 337 that addresses the ABA treaty in the U.S. Further, the ASB discussed the requirement in paragraph 11 of the proposed SAS which would allow auditors to perform alternative procedures if an attorney letter is not received. Under extant AU 337, this situation would be a scope limitation. The ASB questioned what the alternatives procedures are contemplated under this requirement, and how practicable alternative procedures could be given that attorneys are the only party privy to all of the communications pertaining to the legal matters of the entity. The ASB raised the concern that this requirement would have the unintended consequence of prompting attorneys not to reply to the attorney letter request because auditors would have other ways to obtain the audit evidence. The ASB concluded that if, based on the risk assessment procedures, the auditor decides to request an attorney letter of confirmation then the auditor is required to follow up on the request.

July 2009 (San Diego)

Auditor's Report Research Task Force

The third and fourth research teams presented the results of their research to the ASB at the July meeting. I introduced Professors Arnie Wright, Northeastern University and Stephen Asare, University of Florida on Monday, July 27. Arnie and Steve then presented the results of their research. They evaluated the extent to which communication gaps exist among auditor and user groups in their understanding of the macro (i.e., objectives and limitations) and micro (technical terms) implications of the standard audit report (SAR). They used a controlled automated internet-based experiment, in which auditors, bankers and investors reviewed background information on a hypothetical private company that had received a SAR. Participants then answered a series of questions that focused on the objectives, limitations, and technical terms in the SAR. The authors classified between group differences as being consistent with one of three patterns: (i) the user groups differ from the auditor group ("type I gap"); (ii) one user group and the auditor group differ from the other user group ("type II" gap); and (iii) the user groups differ from each other as well as from the auditor group ("type III gap"). They found that users consider the SAR to be relatively more important in assessing that the financial statements are free from material fraud than auditors. They also found that the SAR leads users to have a higher level of confidence about company management, investment soundness of a company, whether the company is likely to meet its strategic goals, and the likelihood that auditors have detected material fraud in the financial statements. Finally, they found that although auditors assess the likelihood that material frauds have been detected at about 60%, users assess a relatively lower likelihood of detection at 44%. Investors found the SAR to be of higher importance for making investing decisions than auditors and bankers did, but the investors also had relatively lower confidence that the presence of SAR would assure viability. With respect to the micro focus, they found one type I gap

(auditors indicated they should use a relatively lower percent of net income for materiality than the users), 6 type II gaps, with bankers and auditors having shared meanings, and 1 type III gap. Taken together, the results of their study show that the current SAR results in important type I communication gaps, and there remains an absence of shared meaning on the objectives and limitations of the SAR. A potential vehicle for narrowing these type I communication gaps is to add a statement in the SAR that the audit does not address governance risk, strategic risk, or investment soundness risk. The prevalence of type II gaps in the micro-analysis suggests potential for opportunistic interpretation of the technical terms, which suggests less urgency in revising or eliminating those terms. For a copy of their final report, please contact Stephen Asare at stephen.asare@cba.ufl.edu.

Later in the meeting I introduced the fourth research team, Professors Anna Gold, Rotterdam School of Management, Erasmus University, The Netherlands, Ulfert Gronewold, Ruhr University Bochum, Germany, and Christiane Pott, University of Muenster, Germany. Ulfert presented the results of his team's research, which had three objectives. The first objective was to investigate whether financial statement users, as compared to experienced auditors, ascribe relatively more responsibility to the *auditor* than to *management*, and whether such a disconnect still holds under the revised version of ISA 700. Their second objective was to investigate the difference between experienced auditors' and financial statement users' perceptions concerning the reliability of audited financial statements. Furthermore, they investigated whether providing a complete auditor's report versus a short-form opinion-only version affects the expectation gap. The issuance of an unqualified audit opinion means that the auditor believes that the financial statements provide a true and fair view in accordance with the applicable financial reporting framework. Prior research demonstrates that financial statement users (such as investors and analysts) often associate an absolute level of assurance when they read such messages, potentially resulting in often naive or unreasonable expectations. The authors implemented an experiment, in which experienced auditors and users (i.e., financial analysts as sophisticated users and students as unsophisticated users) read a brief company description, a summary of the firm's financial statements, and an audit report, the latter of which we manipulated as being either the complete auditor's report according to the revised ISA 700 or a short-form audit opinion-only version. They found strong evidence for a persisting audit expectation gap between auditors and financial statement users under the revised ISA 700 auditor's report. Their results are robust in indicating that the detailed explanations of the ISA 700 auditor's report of auditor versus management responsibilities and the task and scope of the audit are *not* effective in reducing this expectation gap, and partially even have a detrimental effect. For a copy of their report, please contact Anna Gold at agold@rsm.nl.

Group Audits

Robert Dohrer, Chair of the Group Audits Task Force, led the ASB in a discussion of proposed SAS, *Audits of Group Financial Statements (Including the Work of Component Auditors)*. As a result of the discussion, the ASB requested the Task Force to make a number of changes, including modifying the proposed SAS to explicitly state that the auditor should not make reference to the audit of a component auditor unless the component's financial statements are prepared using the same financial reporting framework as the group financial statements, and the component auditor has performed an audit in accordance with GAAS. The ASB believes that these requirements were implicit in extant AU section 543, and to add application material to address financial statements prepared in accordance with GASB with components using a different financial reporting framework. The Chair recommended that the ASB consider the use of an impact assessment to assist respondents in assessing the overall impact of the proposed new standard. The impact assessment is intended to communicate the impact of the incremental difference between the extant and proposed new standard, not between current and future practice. The impact assessment would be summarized in a template based on one prepared by the IAASB. The ASB agreed to pilot the use of the impact assessment template in the exposure draft of this proposed SAS. The ASB voted unanimously to ballot the draft for exposure.

Financial Statements Prepared in Accordance with a Financial Reporting Framework Generally Accepted in Another Country

Walt Conn, Chair of the AU 534 Task Force (Task Force), led the discussion of *Reporting on Financial Statements Prepared in Accordance with a Financial Reporting Framework Generally Accepted in Another Country*.

The objective of the Task Force is to redraft AU Section 534, *Financial Statements Prepared for Use in Other Countries*, in accordance with the clarity conventions. At the April 2009 meeting, the ASB discussed whether an unqualified opinion on foreign GAAP financial statements (unaccompanied by a modified opinion relative to U.S. GAAP) for use in the U.S. violates Rule 203. A discussion with legal counsel determined that such an opinion would violate Rule 203. If financial statements are prepared in accordance with a financial reporting framework generally accepted in another country (i.e., from a standard setter not designated by the AICPA Council to set accounting standards), that will have more than limited use in the United States, the auditor should report using a modified opinion because of departures from U.S. GAAP. The Task Force agreed to add an illustrative auditor's report to the SAS, for situations when the financial statements prepared in accordance with a financial reporting framework generally accepted in another country will have more than limited use in the United States, modified as appropriate (qualified or adverse), because of departures from U.S. GAAP. The ASB unanimously voted to ballot the proposed SAS for exposure.

Service Organizations

Walt Conn, Chair of the Service Organizations Task Force, led the ASB in a discussion of a draft of Proposed SAS, *Audit Considerations Relating to an Entity Using a Service Organization*, which will replace the guidance in AU section 324, *Service Organizations*, for auditors of the financial statements of entities that use a service organization. The ASB issued an exposure draft of the proposed SAS in November 2008 which is based on ISA 402, *Audit Considerations Relating to an Entity Using a Third Party Service Organization*. The changes made to the ED included changes in response to comments on the ED as well as changes to conform with revisions to the final version of ISA 402, which was issued in April 2009. The ASB requested the Task Force to make a number of revisions, and return at a future ASB meeting.

Related Parties

George Fritz, Chair of the Related Parties Task Force (Task Force), led a discussion of the draft proposed SAS, *Related Parties*. Mr. Fritz explained that ISA 550, *Related Parties* and the proposed SAS are structured to address financial reporting frameworks such as US GAAP and IFRS, and special purpose frameworks as discussed in the proposed SAS, *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*. The applicability of some objectives, requirements, and definitions in ISA 550 and the proposed SAS depend on whether a framework “establishes” related party requirements; other objectives and requirements apply irrespective of whether the framework establishes such requirements. ISA 550 was drafted in such a manner because certain financial reporting frameworks do not include a definition of related parties and the IAASB concluded that it would not be appropriate to force preparers of financial statements in accordance with those financial reporting frameworks to use GAAP definitions. Since financial statements prepared in accordance with special purpose frameworks include disclosures substantially equivalent to those in GAAP financial statements, the proposed SAS need not include related party definitions and other references to financial reporting frameworks that are necessary in the ISA. The Task Force prepared an alternative SAS which would be completely framework neutral – that is, the applicability, objectives, and requirements of the proposed SAS are the same, irrespective of the financial reporting framework in accordance with which the financial statements being audited were prepared. The ASB considered the separate presentations and concluded that the proposed SAS should be drafted to be framework neutral. The ASB unanimously voted to ballot the proposed SAS for exposure.

Auditor's Reports – Special Reports

Susan Jones, Chair of the Special Reports Task Force, returned from the June meeting to lead a discussion of the following proposed SASs: *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*; *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; *Engagements to Report on Summary Financial Statements*. For *Special Purpose Frameworks*, the ASB agreed with the Task Force's inclusion of Exhibit A to supersede Interpretation 14, *Evaluating the Adequacy of Disclosure and Presentation in Financial Statements Prepared in Conformity With an Other Comprehensive Basis of Accounting*, and provides additional guidance on the adequacy of disclosures based on that Interpretation. The ASB also requested certain editorial

revisions. For *Single Financial Statements & Elements*, the ASB confirmed its decision to modify the extant requirement to perform an audit of the complete financial statements when a specified element, account, or item is, or is based upon, an entity's net income or stockholders' equity or equivalent. In the case of an audit of a specific element that is, or is based upon, the entity's stockholders' equity or net income (or equivalents), the ASB agreed to require the auditor to perform procedures necessary to obtain sufficient appropriate audit evidence to enable the auditor to express an opinion about financial position, or financial position and results of operations, respectively, because of the interrelationship between the element and the balance sheet accounts and the income statement accounts. For *Summary Financial Statements*, the ASB agreed with the factors included in paragraph 8(a) of the proposed SAS that will serve as the basis for determining whether the applied criteria are acceptable. The Task Force was asked to make a number of other changes, and based on those, unanimously voted to ballot the proposed SASs for exposure.

RSI/OSI/OI Task Force.

Jeff Markert, Chair of the RSI/OSI Task Force, led a discussion of the significant issues raised in the comment letters on the exposure draft of the proposed Statements on Auditing Standards, *Required Supplementary Information* (the "RSI SAS"), *Other Supplementary Information in Documents Containing Audited Financial Statements* (the "OI SAS"), and *Supplementary Information in Relation to the Financial Statements as a Whole* (the "IRT SAS"). The ASB discussed the applicability of each of the proposed SASs and concluded that each of the applicability paragraphs were clearly stated and appropriately referenced the other SASs. For the proposed RSI SAS, the ASB discussed the draft

The ASB discussed the draft proposed OI SAS and concluded that the effective date of the proposed SAS should be consistent with other clarified SASs. However, the ASB determined that early application should be permitted so that auditors can implement the proposed SAS simultaneously with the proposed RSI and IRT SASs. The ASB discussed the draft proposed IRT SAS and requested the Task Force to consider a new term which would encompass RSI, OI, and any other information upon which an auditor may express an in relation to opinion, and to bring a revised draft of the proposed IRT SAS to the August 2009 ASB meeting for further discussion.

Risk Assessments

Darrel Schubert, Chair of the Risk Assessments Task Force (Task Force) led the discussion of the proposed Risk Assessment Standards. The focus of the discussion was the content of comment letters received in connection with the exposure draft released in January 2009. With respect to the comment that it would be helpful if the ASB consider content in the PCAOB proposed Risk Assessment standards for inclusion in the proposed SASs, the ASB noted that there are instances where AT 501 addresses the same matters. In those cases, the proposed SASs should be consistent with AT 501 rather than with the proposed PCAOB standards. With respect to the comments received about the use of the term "performance materiality," the GAO continues to be concerned about the use of term, and believes that the changes made to address the comments are not sufficient. The suggestion was made that more guidance is needed to help auditors apply the concept. The Chair noted that consistent with ISA 315, the proposed SAS *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* contains a conforming amendment that establishes a requirement of the auditor to obtain an understanding of the entity's internal audit function. The Chair reviewed proposed SAS *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, and proposed SAS *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*. The ASB requested the Task Force to provide a revised proposed SASs to the ASB in October for final issuance.

August 2009

Auditor's Report – 700 Series

Dan Montgomery, Chair of the Auditor's Report Task Force, led a discussion of *Modifications to the Opinion in the Independent Auditor's Report, Emphasis of Matter Paragraphs* and *Other Matter Paragraphs in the*

Independent Auditor's Report, and Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection with Audited Financial Statements. The ASB unanimously voted to ballot both of these proposed SASs following discussion and agreement on final changes.

Engagement Terms and Written Representations

John Fogarty, Chair of the Engagement Representations Task Force, led a discussion of the proposed SASs *Terms of Engagements* and *Written Representations*. For *Terms of Engagements* the ASB again discussed the use of “evergreen” and multi-year engagement letters, and discussed whether the proposed SAS should require a new engagement letter each year. The ASB concluded that the proposed SAS should contain a requirement (in paragraph 11) for the auditor to remind, not – as in the ISA – to *assess whether to* remind, the entity of the existing terms of the engagement, and that that communication should be documented. The ASB requested the Task Force to add application material applicable to this change. The ASB requested the opportunity to see the revisions associated with this change before voting to ballot for exposure. For *Written Representations*, the ASB agreed with the redrafted language in paragraph A27, subject to certain editorial changes requested at the meeting. The ASB also requested the Task Force to add the guidance that is in ISA 580 regarding the use of fair values in estimates to paragraph A14, and to make changes to reflect the ASB's belief that only fair presentation frameworks are used in the U.S. (see agenda item 5, *Overall Objectives*). The ASB voted unanimously to ballot the proposed SAS *Written Representations* for exposure.

AU section 625 Redrafted

Tom Ratcliffe, Chair of the AU Section 625 Task Force (Task Force), led the discussion for proposed SAS *Reports on the Application of the Requirements of an Applicable Financial Reporting Framework*. The Task Force has been charged with redrafting AU Section 625, *Reports on the Application of Accounting Principles*, in accordance with the clarity conventions. There is no ISA that corresponds to AU Section 625. The ASB discussed the concept of an advisory accountant and how it differs from a reporting accountant. The ASB requested the Task Force to include the criteria that a reporting accountant serving in an advisory role is required to overcome the presumptive requirement of consulting with the continuing accountant, in the requirements section. The ASB also discussed the effective date and concluded the determining factor for the effective date should be the accountant's action (that is, providing the written report or oral advice), not the entity's action (that is, the transaction). Accordingly, the effective date paragraph was revised to state that the proposed SAS will be effective for reports and advice provided by a reporting accountant on or after December 15, 2010. The Task Force was requested to bring a revised draft to the ASB in October 2009.

Compliance Audits

George Rippey, Chair of the Compliance Auditing Task Force, led the ASB in a discussion of significant comments on, and a revised draft of, the proposed SAS *Compliance Audits* that would supersede SAS No. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance* (AU sec. 801). Based on the discussion, the ASB requested the Task Force to make a number of changes to the draft and voted to ballot the proposed SAS for issuance as a final SAS.

Overall Objectives

John Fogarty, Chair of the Clarity Task Force, led a discussion of the Proposed Preface to the Codification of SASs, *Principles Governing an Audit Conducted in Accordance With Generally Accepted Auditing Standards*, and Proposed SAS *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, and the changes to the proposed documents based on direction received from the ASB at its June 2009 meeting. Based on the discussion, the ASB requested the Task Force to make a number of changes, including changing references to the financial statements being “*prepared*, in all material respects, in accordance with the applicable financial reporting framework” to “*presented fairly, ...*” to be consistent with the wording of the auditor's report in proposed SAS *Forming an Opinion and Reporting on Financial Statements*. The ASB also requested the Task Force to make changes to reflect the ASBs assumption that only “fair presentation” frameworks

are used in the U.S. The ASB unanimously voted to ballot the proposed Preface and SAS for issuance as a final standard.

Analytical Procedures

Walt Conn, Chair of the Analytical Procedures Task Force (Task Force), led a discussion of the issues with respect to the drafting of a SAS that is intended to be in convergence with ISA 520, *Analytical Procedures*. As a result of the discussion, the ASB requested the Task Force to effect a number of changes to the draft, including, as noted by the Task Force, the language in paragraph 5(c) of ISA 520 could reasonably lead an auditor to conclude that he or she cannot use substantive analytical procedures as audit evidence when the analytical procedures are less precise than tolerable error – even if such analytical procedures supplement other audit procedures. The ASB requested the Task Force to revise the draft and to bring a revised draft to the ASB in October 2009 for a vote to ballot for exposure.

Internal Control

Keith Newton, Chair of the Internal Control Task Force, led the ASB in a discussion of a proposed SAS *Communicating Internal Control Related Matters Identified in an Audit* (Redrafted) and related issues. The proposed SAS represents the redrafting of SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, for clarity and convergence with certain aspects of ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance*. The ASB requested the Task Force to retain the definitions of the various kinds of deficiencies, guidance for evaluating such deficiencies, and indicators of a material weakness currently in SAS No. 115 so that the proposed SAS will be aligned with SSAE No. 15, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*. The ASB also requested the Task Force to draft the SAS by starting with ISA 265 as a base, to incorporate the requirement in ISA 265 for the auditor to communicate "other deficiencies" to management, and to communicate the use of judgment in determining which other deficiencies should be communicated. The ASB requested the Task Force to return to a future ASB meeting with a revised draft.

Specialists

Darrel Schubert led the discussion of the proposed SAS, *Using the Work of a Specialist*, and the proposed SAS, *Using the Work of a Management Specialist*. The objective of the presentation was to discuss the draft of the proposed SASs. The Chair explained that the Task Force's original plan was to replace AU section 336, *Using the Work of a Specialist*, with two SASs. One SAS would converge with ISA 620, *Using the Work of an Auditor's Expert*, and would address auditor's specialists. The other SAS would address management's specialists and would be based on the IAASB's conforming amendment to ISA 500, *Audit Evidence*. The Chair also explained that the Task Force reconsidered this decision and recommended the Audit Evidence SAS be amended instead.

Letters for Underwriters

Phil Wedemeyer, Chair of the Comfort Letter Task Force led the discussion of the proposed SAS, *Letters for Underwriters and Certain Other Requesting Parties*. The Task Force was charged with redrafting AU section 634, *Letters for Underwriters and Certain Other Requesting Parties*, in accordance with the clarity conventions. The ASB discussed whether, the alternatives of obtaining a legal letter or obtaining a requesting party's representation should be equally acceptable, regarding requesting parties that have, or are believed to have, a statutory due diligence defense under section the SEC Acts. The ASB also discussed whether the wording of the representation letter should be revised. The ASB expressed concern that the proposed SAS will be perceived as changing the existing practice. The Task Force agreed to consult with AICPA legal counsel, ASB members, and firm experts in comfort letters, and return with results at a future ASB meeting.

Specific Items

Megan Zietsman and Art Winstead led the discussion of issues related to proposed SAS *Audit Evidence—Specific Considerations for Selected Items*. As requested by the ASB at its June 2009 meeting, the Estimates Task Force

(Task Force) reviewed AU 332, *Auditing Derivative Instruments, Hedging Activities and Investments in Securities*. While much of the content of AU 332 will be addressed by the Audit Guide *Auditing Derivative Instruments, Hedging Activities and Investments in Securities*, the Task Force identified requirements of AU 332 that are incremental to, and not duplicative of, requirements in other standards, including the risk assessment standards, and proposed SAS *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*, and therefore not specifically addressed elsewhere in GAAS. After discussion, the ASB agreed to include in the proposed SAS *Audit Evidence—Specific Considerations for Selected Items* the incremental requirements identified by the Task Force, as modified to reflect the comments received from ASB members.

GAAP Hierarchy – Withdrawal of SAS No. 69

Harold Monk led a discussion of the materials for Agenda Item 11, *GAAP Hierarchy*. The objective of this agenda item is to vote to ballot the withdrawal of SAS No. 69, The Meaning of *Present Fairly in Conformity With Generally Accepted Accounting Principles*, as amended (AICPA, *Professional Standards*, vol. 1, AU sec. 411), from the auditing literature. The GAAP hierarchies of nongovernmental, state, local, and federal reporting entities have resided in SAS No. 69 in the auditing literature. With the issuance of recent pronouncements by the FASB, GASB, and FASAB to incorporate their respective GAAP hierarchies into their respective authoritative literature, the ASB believes that specifying GAAP hierarchies in GAAS is no longer necessary or appropriate. Because the ASB did not direct that Auditing Interpretation No. 3, “The Auditor’s Consideration of Management’s Adoption of Accounting Principles for New Transactions or Events,” of SAS No. 69 (AICPA, *Professional Standards*, vol. 1, AU sec. 9411.11–.15) be retained and moved elsewhere within the literature, the interpretation will be withdrawn automatically when SAS No. 69 is withdrawn. The ASB voted unanimously to withdraw the SAS. The effective date of the withdrawal will be September 2009, by which time the standards issued by the FASB, GASB and FASAB will all be effective.

RSI/SI/OI

Jeff Markert, Chair of the RSI/OSI Task Force (Task Force), led a discussion of the revisions made to the proposed SAS, *Supplementary Information in Relation to the Financial Statements as a Whole* (the “IRT SAS”) as a result of issues raised by the ASB at its July 2009 meeting. At that meeting, the ASB requested the Task Force to consider a new term which would encompass RSI, OI, and any other information upon which an auditor may express an in relation to opinion. The Task Force developed a definition of *supplementary information*. The Chair stated that the term *supplementary information* is advantageous, as it is already well known and understood. However, the Chair noted that the term conflicts with GASB’s use of the same term. The ASB concluded that it agrees with the Task Force’s use of the term *supplementary information* but requested that it develop application guidance to make clear that the term is defined differently in the GASB literature. Based on additional ASB requests for revisions, the Task Force will bring drafts of the proposed SASs, *Required Supplementary Information, Other Information in Documents Containing Audited Financial Statements* and the IRT SAS to the October 2009 ASB meeting for a vote to ballot those proposed SASs as final standards.

Concluding Comments

As is clear from this update, the overall summer schedule for the ASB was rigorous, as were each of the agendas for the three meetings in June, July, and August. The ASB members are dedicated to making a positive improvement in auditing standards with an aim to increase audit quality. It has been a busy but rewarding summer participating in moving the work of the ASB forward. Again, if you require additional information about the ASB and its activities, please contact me at mt@case.edu.

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THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

GAO Update

by Jeanette Franzel and Maxine Hattery**

GAO Hosts INTOSAI Global Task Force Meeting

The global financial crisis was the recent focus of national comptrollers general and their equivalents from around the globe. The task force, chaired by Acting Comptroller General Gene Dodaro, was formed last year by the International Organization of Supreme Audit Institutions (INTOSAI) to study the contribution that national audit offices can make to help their countries respond to the global financial crisis. GAO hosted the meeting at its Washington, D.C., headquarters June 29-July 1.

In establishing the task force the board explained: "The current financial crisis presents many challenges to countries around the world, including supreme audit institutions (SAI). It demands even greater efforts by SAIs to help provide accountability and lessons learned for their governments. Although SAIs differ in their legal authorities and mandates, SAIs are generally well positioned to provide independent and objective analysis of these events and can contribute much to efforts to address them."

The purpose of the first in-person meeting of the task force (the first meeting, a teleconference, was held in February) is to build members' knowledge of financial and economic matters related to the crisis and encourage a sharing of knowledge among SAIs to help governments and the global community respond to the crisis.

Members met to exchange views and hear from experts in the fields of finance, economics, public policy, international development, and public sector audit and accounting. Guest speakers included representatives of the National Economic Council, the World Bank, and other bodies. Former Comptroller General Charles Bowsher moderated a panel discussion on reforms, transparency, and accountability.

Delegates representing 24 of the task force's 25 members—Austria, Canada, Chile, China, Cyprus, Denmark, Estonia, Finland, Hungary, Indonesia, Italy, Japan, Korea, Mexico, Morocco, Netherlands, Poland, Russia, Saudi Arabia, Slovakia, Sweden, United Kingdom, United States, and Venezuela—gave presentations on and discussed a range of issues related to the globalization of mortgage finance; causes of the global downturn; attempts to avert and actions taken to minimize the current crisis; financial reforms, transparency, and accountability; the impact of accounting standards on financial statements and international standard-setting; economic recovery; challenges to SAIs; and SAI international engagement. For additional information, please email spel@gao.gov or consult Muriel Forster, in the office of Strategic Planning and External Liaison, 202-512-8970.

GAO Adds Postal Service's Financial Condition to "High-Risk" List

The financial condition of the U.S. Postal Service has been added to GAO's High-Risk List of federal areas in need of

attention by Congress and the executive branch to achieve broad-based transformation.

With challenging economic conditions and a changing business environment, GAO told Congress in a committee hearing, mail volume is dropping substantially and revenues are declining.

Mail volume fell by 4.5% in fiscal year 2008, down to a total of 203 billion pieces and is projected to fall almost 14% in fiscal year 2009 to a total of 175 billion pieces. USPS expects mail volume and revenue to continue declining next year, and flat or continued volume decline over the next 5 years.

USPS projects a net loss of \$7 billion this fiscal year, with outstanding debt increasing to over \$10 billion, and a cash shortfall of about \$1 billion. USPS also expects that its projected losses will continue in fiscal year 2010.

USPS has relied on growth in mail volume to help sustain its operations. During the past decade, however, businesses and consumers have increasingly turned from traditional mail delivery to electronic communication alternatives.

GAO recommended that USPS consider consolidating operations, closing unneeded facilities, and reducing its workforce. The long-term challenge is to restructure USPS operations, networks, and workforce to reflect changes in mail volume, revenue, and use of mail.

A more detailed description of GAO's action can be found [here](#). For more information, consult Chuck Young, Managing Director of Public Affairs, at (202) 512-4800.

High Risk Series: Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability, [GAO-09-937SP](#), July 28, 2009

U.S. Postal Service: Restructuring Urgently Needed to Achieve Financial Viability, [GAO-09-958T](#), August 6, 2009

U.S. Postal Service: Broad Restructuring Needed to Address Deteriorating Finances, [GAO-09-790T](#), July 30, 2009

Keep in Touch with GAO

Students, professors, journalists, and fans can now learn about the work of the federal government's accountability watchdog on GAO's YouTube site and follow GAO's latest publications on Twitter.

YouTube. On the video-sharing service, YouTube, GAO has so far posted 30 videos (<http://www.youtube.com/user/usgao>) covering such topics as the Recovery Act, GAO's High Risk Series, and the presidential transition. The most-viewed to date is a recruitment video, "More Than Numbers," based on news coverage of GAO's work. It ends with Sen. Joseph Lieberman calling GAO "the closest thing we have to Paul Revere."

A June 2009 CNN report, "Inside the GAO," gives a journalist's view. Other videos are extracted from GAO Web pages or online versions of GAO reports. One video illustrates a GAO investigation of security measures at federal-government buildings. It begins with a covert investigator being let through and continues, in actual time and slow motion, with explosions of the IEDs that could be put together from materials like those the investigators carried through security gates.

Twitter. Through the networking and microblogging service, Twitter, GAO alerts subscribers when a GAO product is issued. There are currently two Twitter feeds, one for reports and testimony (<https://twitter.com/usgao>) and another for legal products (<https://twitter.com/usgaolegal>). To follow GAO work, users can go to one of these links, set up their own Twitter account, and then automatically receive notices whenever GAO releases a product.

Homeland Security: Preliminary Results Show Federal Protective Service's Ability to Protect Federal

Facilities Is Hampered By Weaknesses in Its Contract Security Guard Program, GAO-09-859T, July 8, 2009; <http://www.gao.gov/products/GAO-09-859T>.

Dacey Named Outstanding CPA in Government

As anyone who has been the beneficiaries of his sage advice and insight will know, it is no surprise that GAO Chief Accountant Bob Dacey has been named Outstanding CPA in Government for 2009 by the AICPA in recognition of his achievements in improving financial and information security management throughout the federal government.

“He has taken on some of the most daunting challenges in federal government accounting and auditing and has led the way to better and more accountable government,” Acting Comptroller General Dodaro said in nominating Mr. Dacey for the award. “He has the ability to target, among the myriad financial management challenges that government faces, those where action can produce results that make a real difference in the effectiveness of our government”.

The award specifically recognizes Mr. Dacey for his role in leading the first financial audits of the consolidated financial statements of the United States. His work on the governmentwide audit led to the development of the Citizens Guide, first issued in 2007, to provide Congress and the public with easy-to-understand summary financial information about the government.

Mr. Dacey developed financial and information security audit methodologies used throughout the government audit community. His efforts have also contributed to the passage of key management improvement legislation. Dacey has also played a key role in enhancing accounting and auditing standards both domestically and internationally.

Find more about Bob Dacey and the award on [AICPA's Web site](#)

Assessing the Reliability of Computer-Processed Data

GAO has updated guidance on assessing the reliability of computer-based data in financial and performance audits. The guidance provides a flexible, risk-based framework for data reliability assessments that can be geared to the specific circumstances of each engagement. The guidance is based on five fundamentals (1) using all information; (2) conducting a minimal level of data testing; (3) doing only work necessary for the audit's purposes; (4) maximizing professional judgment; and (5) bringing the appropriate people, including management, to the table at key decision points. The guide leads the auditor through decisions and planning, from whether an assessment is necessary, through the steps of the assessment itself, to report language. Appendixes offer advice on collecting information and sample interview questions.

Assessing the Reliability of Computer-Processed Data (Supersedes GAO-03-273G), GAO-09-680G, July 1, 2009.

San Francisco Office Gives Students Lessons on What It's Like to Work for GAO

GAO's San Francisco office recently gave students a realistic look at what it's like to work at GAO. Continuing an 8-year partnership, the office welcomed a group of 30 undergraduates from the Public Policy and International Affairs (PPIA) Summer Fellows Program at the University of California, Berkeley.

On their day at GAO, the students got a brief overview of the engagement process before breaking into small workshop groups facilitated by analysts and beginning with a mock request letter based on an actual GAO report. The day ended with a panel on GAO's Professional Development Program for new auditors and analysts joining GAO.

Similar PPIA programs are sponsored by the University of Michigan, Carnegie Mellon, Princeton, and the University of Maryland. The goal of the program is to increase the representation of underrepresented groups in public service.

GAO is looking at extending opportunities like the one in San Francisco to other university PPIA programs. And for PPIA graduates from Berkeley, GAO internship opportunities will be posted on a Berkeley electronic bulletin board.

For more information, consult Becky Cash at cashr@gao.gov or 202-512-5607.

**Jeanette Franzel, Managing Director, Financial Management and Assurance;
Maxine Hattery, Financial Management and Assurance; U.S. Government
Accountability Office

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THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

PCAOB Standards Update

By **Martin F. Baumann***, **Gregory Scates** and **Dima Andriyenko**
Prepared for *The Auditor's Report* (Fall 2009)

Introduction

This update addresses selected PCAOB developments since the Summer 2009 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments discussed include a PCAOB report on the first year implementation of Auditing Standard No. 5, PCAOB's new Investor Advisory Group, staff questions and answers on references to accounting guidance in PCAOB Standards, new auditing standard on engagement quality review, and a concept release on signing the audit report. Additionally, this update includes information about the upcoming meeting of the PCAOB's Standing Advisory Group and change in leadership at the PCAOB.

October 2009

Meeting of the PCAOB Standing Advisory Group: The next meeting of the PCAOB's Standing Advisory Group (SAG) is scheduled for Wednesday and Thursday, October 14-15, 2009. The SAG will discuss the Board's current standard-setting agenda, as well as standards-related activities during the past year. In addition, the Board will seek input from SAG members on standard-setting projects pertaining to fair value measurements, accounting estimates, and the use of specialists; communications with audit committees; and related parties.

The meeting will be held at 1201 15th Street N.W., Washington, D.C., and is open to the public. It will be Webcast live on the Board's Web site and available later by podcast. The public portion of the meeting on October 14 takes place from 9 a. m. to 2:30 p.m., and on October 15, from 8:30 a.m. to 3:15 p.m.

The meeting agenda and briefing papers can be found on the Board's web site [HERE](#)

September 2009

Report on First Year Implementation of Auditing Standard No. 5: On September 24, 2009, the PCAOB issued a report on the first year of implementation of Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AS No. 5).

This report is based on PCAOB inspections that examined portions of approximately 250 audits of internal control over financial reporting (ICFR) conducted by the eight largest domestic registered firms in 2007 and 2008. The PCAOB's 2008 inspections of ICFR audits were focused on whether auditors were effectively transitioning to AS No. 5, and were designed to assess the quality of the firms' AS No. 5 implementation in the following areas: risk assessment; fraud risk; using the work of others; entity-level controls; the nature, timing, and extent of controls testing; and evaluating and communicating

deficiencies.

This report focuses on audits performed by the eight domestic firms that the Board has inspected annually in each year since 2004. Four of these firms audit public companies that represent approximately 98 percent of total U.S. market capitalization. In this report, the Board is not changing or proposing to change any existing standard, nor is the Board providing any new interpretation of any existing standards.

The report is available on the Board's web site [HERE](#)

PCAOB Announces Members of Inaugural Investor Advisory Group: On September 17, 2009, the PCAOB announced the 19 members of the inaugural Investor Advisory Group. The Investor Advisory Group membership represents a broad spectrum of the investment community and consists of individuals who have a demonstrated history of commitment to investor protection. The list of members of the PCAOB Investor Advisory Group can be found on the Board's web site [HERE](#).

The purpose of the advisory group is to provide a forum for the Board to obtain the views of, and advice from, the broader investor community on matters affecting investors and the work of the PCAOB. The Board established the Investor Advisory Group in July and sought nominations for its membership at that time. Board Member Steven B. Harris will serve as the chair. More information about the PCAOB Investor Advisory Group can be found on the Board's web site [HERE](#).

Staff Questions and Answers on References to Authoritative Accounting Guidance in PCAOB Standards: On September 2, 2009, the PCAOB published staff questions and answers about references to authoritative accounting guidance in PCAOB standards.

The series of questions and answers is a reminder that auditors should look to the FASB Codification and the rules of the U. S. Securities and Exchange Commission for authoritative U.S. GAAP guidance for SEC registrants, even though PCAOB standards may contain descriptions of and references to U.S. GAAP. The questions and answers are available on the Board's web site [HERE](#).

The PCAOB publishes staff questions and answers to help auditors implement, and the Board's staff administer, the Board's standards. The statements contained in the staff questions and answers are not rules of the Board, nor have they been approved by the Board.

New Standard on Engagement Quality Review: On July 28, 2009, the PCAOB adopted Auditing Standard No. 7, *Engagement Quality Review (EQR)*. The standard, if approved by the U.S. Securities and Exchange Commission, will become effective for both the EQR of audits and the EQR of interim financial information for fiscal years beginning on or after December 15, 2009.

The Sarbanes-Oxley Act of 2002 directs the Board to include in its auditing standards a requirement that each registered public accounting firm "provide a concurring or second partner review and approval of [each] audit report (and other related information), and concurring approval in its issuance, by a qualified person (as prescribed by the Board) associated with the public accounting firm, other than the person in charge of the audit, or by an independent reviewer (as prescribed by the Board)." The Board initially proposed the auditing standard on EQR on February 26, 2008, and repropose it on March 4, 2009.

The EQR standard provides a framework for the engagement quality reviewer to objectively evaluate the significant judgments made and related conclusions reached by the engagement team in forming an overall conclusion about the engagement. AS No. 7 applies to all audit engagements, and engagements to review interim financial information,

conducted pursuant to the standards of the PCAOB. The standard supersedes the Board's quality control standard, *SECPS Requirements of Membership*, Section 1000.08(f); 1000.39, Appendix E. The adopting release and the standard can be found on the Board's web site [HERE](#)

Concept Release Requiring the Engagement Partner to Sign the Audit Report: On July 28, 2009, the PCAOB voted to issue a Concept Release on requiring the engagement partner to sign the audit report.

The Board was seeking comment on the Concept Release to consider the effects of a potential requirement for the engagement partner to sign the audit report. Any such requirement would be in addition to the existing requirement for the audit firm to sign its name on the audit report.

The comment period for this Concept Release ended on September 11, 2009. The comments are posted on the Board's web site [HERE](#).

Change of Leadership at the PCAOB: On July 27, 2009, Daniel L. Goelzer was named Acting Chairman of the PCAOB by the Securities and Exchange Commission, effective August 1, 2009. Mr. Goelzer's appointment follows the announcement of the resignation of PCAOB Chairman Mark W. Olson, effective July 31, 2009.

Daniel L. Goelzer has been a Board Member of the PCAOB for six years and is currently serving his second term. He was appointed by the SEC as a founding member of the Board in October 2002. In 2007, the SEC unanimously reappointed him to serve an additional term of five years.

NOTE: Note the hyperlinks to various items on the PCAOB Web site (www.pcaobus.org) and to the Auditing Section web site. A convenient history of PCAOB standards-setting activity and related briefing papers are available through the hyperlinked previous PCAOB Standards Update articles in the [Spring 2005](#), [Summer 2005](#), [Fall 2005](#), [Spring 2006](#), [Summer 2006](#), [Fall 2006](#), [Spring 2007](#), [Summer 2007](#), [Fall 2007](#), [Spring 2008](#), [Summer 2008](#), [Fall 2008](#), [Spring 2009](#), and [Summer 2009](#) issues of *The Auditor's Report*. The views expressed in this article are those of the authors and not necessarily those of the PCAOB, individual Board members, or other PCAOB staff. Responses to the article or related research may be emailed to scatesg@pcaobus.org.

* Martin F. Baumann is PCAOB Chief Auditor and Director of Professional Standards

Gregory Scates is PCAOB Deputy Chief Auditor

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THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Have You Seen...?

Pennie Bagley, Texas Tech University
Albert Nagy, John Carroll University
Gary Peters, University of Arkansas

“When Auditors Err: How Mistake Significance and Superiors' Historical Reactions Influence Auditors' Likelihood to Admit a Mistake,” by C. Stefaniak and J. C. Robertson, *International Journal of Auditing* (Forthcoming).

This study examines the impact of reviewer reactions to staff auditor's work. The authors note the importance of procedures performed by staff auditors and the potentially critical impact the procedures can have on audit opinions. Despite this importance, audit staff may be reluctant to admit mistakes to protect their professional image and avoid negative reactions from superiors. The authors examine these conflicts by investigating the impact of the significance of the mistakes and superiors' historical reactions to mistakes. In sum, they find an interaction suggesting that staff auditors are more likely to admit errors when their superiors have reacted positively, regardless of error significance. However, when audit staff have experienced prior negative reactions, they are less likely to admit apparently insignificant errors.

“The Effect of Goals on Auditors' Judgments and Their Perceptions of and Conformity to Other Auditors' Judgments,” by S. K. Asare and A. M. Cianci, *Managerial Auditing Journal* (Volume 24, Issue 8): 724-742.

The authors investigate the impact of explicit and competing goals on the calibration and conformity of auditors' judgments. The authors consider the competing goals of accuracy and client agreement. The authors measure conformity as the degree of consistency between the auditor's judgment and the judgments they perceive other auditors will make. Calibration represents the extent to which these perceived judgments agree with actual judgments of the other auditors. Using an experiment involving inventory write-offs, the authors find that auditors with accuracy goals are more likely to recommend write-offs than in other goal conditions; and auditors with both goals are more likely to recommend a write-off. However, while auditors' judgments are well calibrated, mixed evidence of conformity is found.

“Information and Communications Technology and Auditing: Current Implications and Future Directions,” by K. Omoteso, A. Patel, and P. Scott, *International Journal of Auditing*. (Forthcoming).

The authors collect evidence from interviews and questionnaires to document how information and communications technology (ICT) tools and techniques are impacting audit tasks, auditors (internal and external) and organizations. The authors consider several attributes of the audit function including coordination, control, authority and structure. Their findings

have implications for the increasing prominence of continuous auditing, artificial intelligence and CoBIT. They also observe the current need for new software development to help auditors match the complexity of their clients' information systems.

“Can Audit Reforms Affect the Information Role of Audits? Evidence from the German Market,” by J. Gassen and H. Skaife, *Contemporary Accounting Research* (Volume 26, Number 3): 867-898.

This study investigates whether audit reforms enhance the information role of audits in a setting where audits traditionally serve a statutory reporting function. The authors' setting includes the audit reforms mandated by the German government in the Act on Control and Transparency of Enterprises. Specifically the authors test the association between the reforms and differences in the types of audit reports issued, the information content of first-time going-concern audit opinions, and the demand for dominant audit suppliers. In sum, their results suggest that the audit reforms improved the information role of German audits and that German firms responded to the improvement in audit reporting by increasing their demand for dominant audit suppliers.

“Are Fully Independent Audit Committees Really Necessary?” by S. N. Bronson, J. V. Carcello, C. W. Hollingsworth, and T. L. Neal, *Journal of Accounting and Public Policy* (Volume 28, Issue 4): 265-280.

The authors highlight the debate and gap in prior literature concerning the importance of a 100% independent audit committee. The paper addresses whether the regulatory requirements of a completely independent audit committee are necessary to obtain the monitoring benefits related to audit committee independence that have been documented in prior literature. Overall the authors find that the beneficial impact of audit committee independence is achieved only when all members of the audit committee exhibit independence.

“Using Nonfinancial Measures to Assess Fraud Risk,” by J. F. Brazel, K. L. Jones and M. F. Zimbelman, *Journal of Accounting Research* (Volume 47, Issue 5): 1135-1166.

This study considers whether prior correlations between nonfinancial measures and financial measures can signal increases in fraud risk. Namely, the authors find that differences from these patterns are significantly greater for firms that committed fraud than for their nonfraud competitors. Their results provide evidence consistent with the ability of auditors to effectively use nonfinancial measures (NFMs) to assess the reasonableness of financial performance and the risk of fraud.

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"Have You Seen These Instructional Resources?"

By the 2009-2010 Education Committee of the Auditing Section of the AAA

Jay Rich, Chair – Illinois State University

Jason MacGregor – Baylor University

Mark Peecher – University of Illinois

Paul Polinski – University of Illinois

Richard Riley - West Virginia University

Ray Whittington – Depaul University

Format	Title	Date	Source	Description	How to Obtain
Book	The Guide to Investigating Business Fraud	2009	AICPA	Developed by the seasoned fraud investigation team at Ernst & Young in cooperation with the AICPA, The Guide to Investigating Business Fraud provides a clearly defined framework for approaching a fraud investigation. Each chapter is written by subject matter experts in the issue under discussion. The chapters are designed so that they may be read individually as self-contained reference guides for specific topics of interest, or together as a holistic overview of a fraud investigation	http://www.cpa2biz.com

Format	Title	Date	Source	Description	How to Obtain
Book	Financial Statement Fraud: Prevention and Detection (2nd Edition)	2010	John Wiley and Sons	This book articulates best practices in financial statement fraud prevention, deterrence, detection and investigation, by thoroughly examining some of the “how it was done” most notorious frauds of the last 25 years – Enron, WorldCom, Adelphia, Bernard Madoff, Stanford Financial, Satyam and even Al Capone; by carefully examining the roles and responsibilities of the major players in the corporate governance fabric; and by describing best practice tools and techniques.	ISBN: 978-0-470-45570-8
Web Document	CONCEPT RELEASE ON REQUIRING THE ENGAGEMENT PARTNER TO SIGN THE AUDIT REPORT	July 28 th , 2009	PCAOB web site	A request for comment from the PCAOB on a potential standard to require the auditor with 'final responsibility' for the engagement to sign the audit report.	Download from: http://www.pcaobus.org/Rules/Docket_029/2009-07-28_Release_No_2009-005.pdf

Format	Title	Date	Source	Description	How to Obtain
Web Document	RULES ON PERIODIC REPORTING BY REGISTERED PUBLIC ACCOUNTING FIRMS	August 14 th , 2009 (announcement that requirement begins on October 12 th)	PCAOB web site	New reporting requirements (the first requirements, as the dialog is ongoing about further requirements) for registered firms under SOX	Download from: http://www.pcaobus.org/Rules/Docket_019/2008-06-10_Release_No_2008-004.pdf
Web Document	REPORT ON THE FIRST-YEAR IMPLEMENTATION OF AUDITING STANDARD NO. 5	September 24 th , 2009	PCAOB web site	An assessment of the eight largest firms' application of AS no. 5; where the firms applied the standard effectively or ineffectively	Download from: http://www.pcaobus.org/Inspections/Other/2009/09-24_AS5_4010_Report.pdf
Book	Creating Significant Learning Experiences	2003	Author: L. Dee Fink Publisher: Jossey-Bass	Fink starts with the proposition: What do you want your students to know several years from now? The book provides practical insights on how to structure our course around learning objectives.	ISBN: 978-0787960551
Web Document	PCAOB Adopts New Auditing Standard On Engagement Quality Review And Issues Concept Release on Requiring the Engagement Partner to Sign the Audit Report	July 28, 2009	PCAOB	Brief discussion of AS7	Download from: http://pcaob.org/News_and_Events/News/2009/07-28.aspx

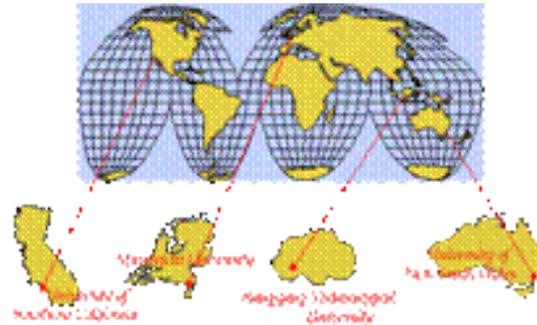
Format	Title	Date	Source	Description	How to Obtain
Web Document	Auditor Independence Education Materials	Spring 2009	Deloitte & Touche LLP, in conjunction with the University of Illinois Center for Professional Responsibility in Business and Society	<p>These materials will help facilitate your students' learning about core concepts, real-world applications, and prevailing rules related to auditor independence. The materials are designed to create a greater awareness among students about why independence is important to our profession as well as the capital markets.</p> <p>These materials are available free of charge and include a video program and discussion questions, an in-class laboratory market game, five case studies, suggested solutions, and teaching notes. Portions of the education materials can be used for undergraduate and graduate courses and may be particularly useful for introductory accounting, auditing, and advanced auditing courses.</p>	<p>Download from: http://www.business.illinois.edu/responsibility/aiem/</p>



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Call for Papers-ISAR 2010 **16th Annual International Symposium on Audit Research** **Singapore 24 and 25 June, 2010**

The 16th Annual International Symposium on Audit Research (ISAR) will be hosted by Nanyang Technological University on 24 and 25 June, 2010 in Singapore. ISAR is jointly organized by Nanyang Technological University, the University of Southern California (USA), Maastricht University (Netherlands), and the University of New South Wales (Australia). The symposium will be held at the Marina Mandarin hotel, Singapore.

Scope of Topics

The scope of ISAR is intended to be broad and includes research papers and panels that deal with all aspects of auditing, attestation and assurance. Papers that utilize any of a broad range of research methodologies will be considered.

ISAR 2010 will coordinate with the World Continuous Auditing & Reporting Symposium [WCARS] to present research that focuses on information technology and continuous auditing. Papers in this area are to be submitted to ISAR as indicated below, and subject to regular review.

ISAR 2010 will also be preceded immediately by a by-invitation ACCA/IAAER mini-conference in conjunction with the ACCA/IAAER call for academic research proposals

[<http://www.iaaer.org/research>] that support the work of the International Auditing and Assurance Standards Board. During the mini-conference, proposal winners will present their research designs and preliminary results.

Submission of Papers

To be eligible for presentation, manuscripts must follow the style guidelines of *Auditing: A Journal of Practice & Theory*.

Please pay particular attention to the format and length requirements – the body of the manuscripts should not exceed 7,000 words or approximately 20-25 double-spaced pages. Please submit a single document with a title page which includes author(s) affiliation(s), and the contact author's email address. Accepted papers will not be published in formal proceedings and thus may be submitted to any appropriate journal for publication.

Paper Submission Deadline and Requirements

Papers including the title page should be submitted electronically in Adobe Acrobat or Word formats. Papers, and where appropriate, related research instruments must be received no later than **31 January 2010**, and should be sent to: papers@isarhq.org.

Further Information

If you have questions about paper submission please email to papers@isarhq.org. For questions about the symposium please contact Hun Tong Tan at AHTTAN@ntu.edu.sg or Ted Mock at tmock@ucr.edu. Further information is also posted at the ISAR website at www.isarhq.org where you can also register for email updates on ISAR 2010.

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THE AUDITOR'S REPORT

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19th Symposium on Audit Research

The University of Illinois' 19th Symposium on Audit Research will be on October 14-16, 2010 in Champaign, IL near campus. A call for papers will be made soon.

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American Accounting Association

2010 Auditing Section Mid-Year Conference

January 14-16, 2010

The Westin San Diego Hotel | San Diego, California

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| [Doctoral Consortium](#) |

Meeting Information

Registration Information

The registration fee includes meals and receptions as outlined in the preliminary program, name badge (required for admittance to meeting events), meeting program, and attendance list.

Auditing Section Member (on or before December 14, 2009)	\$ 195
Auditing Section Member (after December 14, 2009)	\$ 225
Non-Member of Auditing Section	\$ 235
Student	\$ 25
Audit Education Workshop	\$ 30

[Preregister Online](#)

Members can pre-register online for the meeting. You will be prompted to log in by entering your AAA user ID and password. Note: payment can be made by VISA or MasterCard only. Non-members should follow Mail/Fax Registration instructions below.

If you have forgotten your user ID and password, you may retrieve them by entering your email address on the login retrieval form located [HERE](#). (Note that the email address you enter must be the same email address contained in your AAA member record.) If you do not receive an email message containing your login information, please contact the American Accounting Association at office@aaahq.org or (941) 921-7747.

Mail/Fax Registration

Registrations paid by check should be made payable to the American Accounting Association. Mail registration form and payment to:

American Accounting Association
5717 Bessie Drive

Sarasota, FL 34233-2399

Registrations paid by credit card can be faxed to 941-923-4093.

Cancellation Policy

All cancellations must be received in writing at the AAA in order to be processed (email Office@aaahq.org). Cancellations received after December 14, 2009 will incur a \$50 cancellation charge. No refunds will be available for cancellations after January 4, 2010, or for no-shows.

Americans with Disabilities Act

The American Accounting Association intends to comply fully with the Americans with Disabilities Act (ADA). Any members planning to attend this meeting who have special needs, as covered by the ADA, are requested to notify Debbie Gardner at the American Accounting Association, debbie@aaahq.org or (941) 556-4101 to facilitate identification and accommodation of these needs by the Association.

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American Accounting Association



2010 Auditing Section Doctoral Consortium “Good Science in Auditing”

In conjunction with the
Auditing Section 2010 Midyear Conference

January 14, 2010

The Westin San Diego Hotel | San Diego, California

[| Meeting Information](#) | [About the Conference](#) | [Hotel Information](#) | [Program](#) |
[| Online Registration](#) | [Registration Form \(PDF\)](#) |
[| Doctoral Consortium](#) |

Consortium Information, [Registration](#), and [Program](#)

The Auditing Section of the American Accounting Association, through the generous support of KPMG LLP, is sponsoring the Annual Auditing Section Doctoral Consortium on January 14, 2010. The Consortium will be held in the Westin San Diego in San Diego, California in conjunction with the Auditing Section's Mid-Year Conference (to be held January 14-16, 2010). The purpose of the Consortium is to stimulate students' research by exposing them to the latest ideas from leading researchers in auditing, and by providing opportunities for networking with other Ph.D. students interested in auditing, established auditing researchers, and journal editors.

Doctoral Student Eligibility

The Consortium is open to all Ph.D. students who have an interest in auditing research. Students may be at any stage in their program. There is a limit on the total number of students who can attend the Consortium. Applicants will be accepted on a first-come basis. Students who attend the Consortium will receive up to two years of complimentary membership in the Auditing Section and the AAA.

Doctoral Student Registration Information

The Auditing Section Doctoral Consortium is free. Any student wishing to attend must complete the registration process. For those students who would like to attend the Auditing Section Midyear Meeting (January 14-16) that follows the Consortium (January 14), the Midyear Meeting registration fee is \$25. Deadline for consortium and conference registration is December 14. **Complete the PDF** registration form and fax to 941-923-4093. NOTE: if registering for the Doctoral Consortium only, indicate on the form you are attending the Consortium only.

Hotel Accommodations and Information

Students who attend the Auditing Section Doctoral Consortium are eligible to receive either (i) a complimentary one-night, single-occupancy accommodation at Westin San Diego in San Diego, California for Wednesday night (January 13) or (ii) a two-night, double-occupancy accommodation at the Westin San Diego for Wednesday and Thursday night (January 13-14). The room night(s) will be reimbursed **AFTER** the conference provided you *attend the consortium* for the full day and stay at the conference hotel. Students should make their reservation directly with the hotel and will need to provide a credit card number to the hotel. A maximum of two students can stay in one hotel room. NOTE: students who share a room should provide

both names when making hotel reservations. The deadline for hotel reservations is December 14. We cannot guarantee that any additional rooms will be available in the hotel once our block of rooms is sold out, even if the block is sold out before the cut off date. If you are unable to attend the meeting, be sure to cancel hotel reservations to avoid a cancellation penalty.

Meeting Cancellation Policy

Please cancel your registration if you are not able to attend. This will allow another who is wait-listed to attend the Consortium. Email your cancellation to the AAA (office@aaahq.org). **Midyear Meeting cancellation requests received after December 14 will incur a \$25 cancellation charge. No refunds will be available for cancellations after January 4, 2010, or for no-shows.**

Americans with Disabilities Act

The American Accounting Association intends to comply fully with the Americans with Disabilities Act (ADA). Any members planning to attend this meeting who have special needs, as covered by the ADA, are requested to notify Debbie Gardner at the American Accounting Association, debbie@aaahq.org or (941) 556-4101 to facilitate identification and accommodation of these needs by the Association.

Auditing Doctoral Consortium Program Schedule and Other Meeting Information

Breakfast and lunch will be provided during the Consortium, and there will be a reception in the evening following the Consortium. The Auditing Section Midyear Meeting also provides breakfast and lunch for attendees, with a reception in each evening. For additional information about the Auditing Section Doctoral Consortium contact Brian Mayhew via phone (608-262-2714) or email (bmayhew@bus.wisc.edu).

Auditing Doctoral Consortium Tentative Schedule

Time	Event
7:30 – 8:30 am	Breakfast
8:30 – 8:45 am	Welcome remarks
8:45 – 9:45 am	Panel on Issues in Publishing Research
9:45 – 10:30 am	Archival Research in Auditing
10:30 – 10:45 am	Break
10:45-11:30 am	Behavioral Research in Auditing
11:30 – 12:15 pm	Experimental Economics Research in Auditing
12:15 am – 1:15 pm	Lunch
1:15-2:15 pm	Panel on Career Advice
2:15 – 3:00 pm	First Q&A breakout with scholars
3:00 – 3:15 pm	Break
3:15 – 4:00 pm	Second Q&A breakout with scholars
4:00 – 5:00 pm	Panel on Current Auditing Issues: How to Get Your Research to Have the Right Mix of Theory and Practical Problems
6:00 – 7:00 pm	Doctoral Consortium Reception
7:00 – 9:00 pm	Auditing Section Reception

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