



# THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## Report of the President

### Audrey Gramling



As I write my first President's report for the Section, I am reminded of what an outstanding Section this is. I am very pleased to have the opportunity to provide service to the Auditing Section in the role of President. As we go through the upcoming year, I am hopeful that the Executive Committee will find new and creative ways to provide benefits to the Section members and to recognize the many outstanding accomplishments of the Section's members.

### The Executive Committee

Last year, President Mark Peecher and Past President Ray Whittington provided the Section with leadership that has greatly benefited the Section. I also want to recognize the contributions of the other members of the Executive Committee. Our two outgoing officers, Julia Higgs, Secretary, and Trevor Stewart, VP-Practice, have been a pleasure to work with. Both have been very dedicated to the success of the Section. Thank you Julia and Trevor for all of your time and effort! We are very fortunate that they are being replaced by two outstanding Section members – Jay Thibodeau, Secretary, and Shaun Budnik, VP – Practice. As Mark Peecher moves into the role of Past President, Urton Anderson transitions from his role as Historian to VP – Academic. We are very pleased to welcome Jean Bedard to the Executive Committee in the role of Historian.

If you have ideas on how the Auditing Section can help you or ways in which the Section can recognize the many outstanding accomplishments of the Section's members, please send us your ideas.

<b>President</b>	<b>Audrey Gramling</b>
<b>Past President</b>	<b>Mark Peecher</b>
<b>Vice President – Academic</b>	<b>Urton Anderson</b>
<b>Vice President – Practice</b>	Shaun Budnik
<b>Treasurer</b>	Mark Taylor
<b>Secretary</b>	Jay Thibodeau

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### Calls

<b>Historian</b>	Jean Bedard
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### Section Committees

One of the primary reasons that the Auditing Section is successful is because so many of you agree to serve on Section Committees. Thank you to all of you who said "yes" when I sent that email or made that call asking you to provide service to the Section. And especially thanks to those who volunteered even before I asked! I very much appreciate your willingness to serve.

I especially want to recognize those members who have agreed to chair or co-chair a Section Committee. We all appreciate your efforts.

<b>Auditing Section Committee</b>	<b>Chairperson</b>
<b>Annual Meeting Committee 2009</b>	Timothy J. Louwers
<b>Auditing Doctoral Consortium Committee 2009</b>	Mark Zimbelman
<b>Auditing Doctoral Consortium Committee 2010</b>	Brian Mayhew
<b>Auditing Standards Committee</b>	Randal J. Elder
<b>Communications Committee</b>	Jennifer Mueller
<b>CPE Committee</b>	Barbara Arel
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<b>Outstanding Auditing Dissertation Selection Committee</b>	Roger Simnet
<b>Outstanding Educator Award Selection Committee</b>	Mark Peecher
<b>Research Committee</b>	Joe Brazel
<b>Section Photographer</b>	Julia Higgs

Thanks also to those who are involved with the Section's publications:

[Call For Volunteers](#)

[IS Audit and Control Virtual Case](#)

[Call for Papers-  
ISAR 2009](#)

### Spring 2009 Issue Deadline

The deadline for material to be included in the Spring 2009 issue of *The Auditor's Report* is January 30, 2009. The preferred format is a Word file attached to an e-mail message. We also are 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 January 30, 2009, 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](mailto:branddm@auburn.edu)

<b><i>AUDITING: A Journal of Practice &amp; Theory, Editor</i></b>	Ken Trotman
<b><i>The Auditor's Report, Editor</i></b>	Duane Brandon
<b><i>Current Issues in Auditing, Co-Editors</i></b>	Dana Hermanson and Scott Showalter

### **New Awards, Initiatives, and Resources**

One of the goals of the Executive Committee is to find new and creative ways to provide benefits to the Section members and to recognize the many outstanding accomplishments of the Section's members. At the Auditing Section Luncheon at the AAA Annual Meeting we announced the creation of a new award for the best Ph.D. Student Paper submitted to the Midyear Conference. The award winning paper will receive a \$1,000 award, and one student-author of the paper will receive reimbursement of travel costs to cover 3 hotel nights, conference registration costs, and coach airfare up to \$2,000. We also announced that beginning with the 2009 Auditing Midyear Conference, the winner of the Outstanding Dissertation Award will receive a \$2,500 monetary award.

The Section is also exploring the possibility of providing the members with complimentary Webinars throughout the year. Barb Arel and Greg Jenkins are considering possible formats, topics, and presenters. If you have any ideas related to these Webinars please contact Barb ([barel@bsad.uvm.edu](mailto:barel@bsad.uvm.edu)) or Greg ([greg.jenkins@vt.edu](mailto:greg.jenkins@vt.edu)).

Do you teach Information Systems Audit and Control? Or would you like to implement a module on this topic into your auditing course? Sam Hicks at Virginia Tech has available to the Section members a DVD of virtual cases addressing these topics. See his article in this newsletter for more information.

### **2008 AAA Annual Meeting Recap**

I hope that many of you were able to attend the 2008 AAA Annual Meeting in Anaheim, CA. Chris Hogan and Tim Louwers did an outstanding job for the Section in terms of selecting papers for concurrent sessions and the Forum session, as well as organizing panels on emerging issues.

Chris and Tim received 152 papers and teamed up with over 150 reviewers to evaluate these papers. Eighty-nine papers were presented in concurrent sessions, and 26 papers were included in the Forum. The Section also had four panel sessions covering topics related to PCAOB Developments, Stakeholders' Expectations of an Audit, COSO Guidance on Monitoring, and Fair Value Standards.

A highlight for the Section was the Section luncheon address by Shaun Budnik, our newly elected VP – Practice. Shaun provided some very refreshing perspectives on the auditing profession and the relationship between the profession and the academy. Her luncheon address will be available in an upcoming issue of *Current Issues in Auditing*. I encourage you to read her forthcoming article.

Thank you Chris and Tim for an outstanding job! And thanks to the authors, reviewers, discussants, moderators, and panelists for all of your hard work!

## **Looking Towards the 2009 AAA Annual Meeting – Your Opportunity to be Involved**

Tim Louwers will be coordinating the Auditing Section's portion of the 2009 AAA Annual Meeting. We need scholars in the Auditing Section to participate as authors, reviewers, discussants, and moderators. Please look for submission and volunteer information in this newsletter. And whether you are a new or very experienced scholar, we would greatly appreciate if you could provide this service to the Section.

## **Annual Midyear Conference and Doctoral Consortium**

Please mark your calendars for the Fifteenth Annual Midyear Auditing Section Conference that will be held January 15–17, 2009 at the Hilton Bayfront in St. Petersburg, FL. Co-chairs Chris Hogan and Brian Ballou have been working very hard to plan this conference and are in the process of lining up some very interesting plenary speakers and organizing a rich agenda of concurrent sessions and panels. They are receiving invaluable assistance from Vice-Chairs Jennifer Joe and Susan Shu.

Ph.D. students will be happy to learn that Mark Zimbelman, with the assistance of Brian Mayhew, is developing an outstanding Doctoral Consortium to be held in conjunction with the Midyear Conference.

Ray Whittington, in conjunction with the Education Committee, is organizing our second Auditing Education Workshop. Both novice and experienced auditing educators will find this workshop, which will be held on January 15th, to be a wealth of information and resources on topics that can be brought into our auditing classrooms.

I want to extend the Section's appreciation and thanks to The KPMG Foundation and Bernie Milano. The KPMG Foundation continues its financial support for the Section's Midyear Conference and the Auditing Section Doctoral Consortium. The generous financial commitment made by the KPMG Foundation has been a significant factor in ensuring the success of the Section's Midyear Conference and related activities.

## **Upcoming Elections**

This Fall you have an opportunity to participate in the Section's elections. Our nominating committee has put forward four outstanding candidates. The candidates for the position of Vice President – Academic are Steve Glover and Roger Martin. The candidates for the position of Treasurer are Chris Hogan and Karla Johnstone. This Fall you will receive an email asking you to cast your votes. Please exercise your right to vote! Thanks Steve, Roger, Chris, and Karla for agreeing to run.

## **Activities within the Profession**

It is certainly important for section members to stay current on the myriad of activities happening within the auditing profession. I also like to acknowledge our section members who are involved in these activities. I will try to highlight one or more of these activities in each of my reports. If you are involved in some professional activity that you would like to see highlighted, please let me know. This column highlights the final report of the Treasury Department's Advisory Committee on the Auditing Profession.

In September, the Treasury Department's Advisory Committee on the Auditing Profession approved its final recommendations for promoting a sustainable public company auditing profession (see <http://www.treas.gov/offices/domestic-finance/acap/> for details). Auditing Section members Joe Carcello (Chair), Jean Bedard, and Dana Hermanson served as the

AAA's "Treasury Tracking Team" and provided input on the Committee's deliberations through a comment letter (see <http://www.treas.gov/offices/domestic-finance/acap/submissions/06032008/Bedard060308.pdf>), as well as written and oral testimony (Carcello on 12/3/07 and Bedard on 6/3/08) and other communications with the Committee (see <http://www.treas.gov/offices/domestic-finance/acap/agendas/QFRs-6-3-08.pdf>). The Tracking Team members also participated in a panel discussion at the Annual Meeting in Anaheim to present and provide thoughts on the Committee's proposed recommendations.

Thanks Joe, Jean and Dana for your participation in this important process.

### **Concern for our Colleagues Affected by the Recent Hurricanes**

Our thoughts are extended to the Section members who have been affected by the recent hurricanes. We offer encouragement and support to you and your family members. If there is a way that the Section can help you during these difficult challenges, please let us know.

### **Continuing to Communicate**

Please keep the Executive Committee informed of recent developments that affect the profession and the Auditing Section. If there is something occurring that you think we should know about or become involved in, please let us know. We will try to keep you up-to-date on various activities and events through the Section's website and through periodic emails.

I look forward to seeing you in St. Petersburg, FL in January! Please make your plans to attend the 2009 Auditing Section Midyear Conference.





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## Committee Spotlight

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 Standards Committee (ASC) is profiled.

### The Charge of the Committee

The charge of the ASC is to foster interaction between the Auditing Section and auditing standard-setting bodies, including the Public Company Accounting Oversight Board (PCAOB), the Auditing Standards Board (ASB), the International Auditing and Assurance Standards Board (IAASB), and the Institute of Internal Auditors (IIA). To accomplish this charge, the committee will:

1. Issue comment letters on selected proposed audit standards issued by the PCAOB, ASB, IAASB, IIA, and others. The committee will prepare such letters for submission to the appropriate standard-setter, posting on the Section web site, and publication in *The Auditor's Report*.
2. Sponsor a panel session at the Midyear meetings to expose attendees to issues facing auditing standard-setters.
3. Provide input to Section members on the auditing research implications of projects that are on the agendas of these standard-setting bodies.
4. Monitor auditing research for indications of problems with existing auditing standards.
5. Stimulate research activities on issues that are expected to be of interest to these standard-setting bodies.
6. Where possible, provide ad hoc reports at meetings of these standard-setting bodies on research findings that suggest potential changes in standards.
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

### Activities in 2007-2008

The 2007-2008 Committee Members included:

Thomas M. Kozloski, Wilfrid Laurier University (Chair)  
Robert Allen, University of Utah (Past Chair)  
Randy Elder, Syracuse University (Vice Chair)  
Robert J. Ramsay, University of Kentucky  
Sandra Shelton, DePaul University  
Ed O'Donnell, University of Kansas  
Jay Thibodeau, Bentley College

One of the biggest contributions the committee makes is to write comment letters to standard-setters and others that have

issued Exposure Draft documents. During 2007-2008 the ASC wrote the following comment letters, which are available at the Section's website (<http://aaahq.org/audit/asc.htm>):

- ***Comment Letter in Response to “Preliminary PCAOB Staff Views – October 17, 2007. An Audit of Internal Control That is Integrated with an Audit of Financial Statements: Guidance for Auditors of Smaller Public Companies.”***
- ***Comment Letter in Response to “PCAOB Rulemaking Docket Matter No. 025: Proposed Auditing Standard - Engagement Quality Review.”***

*Current Issues in Auditing* has recently announced that the journal will begin to publish ASC comment letters.

The ASC also organized a panel session for the Auditing Section Midyear Meeting. The panel session was held on Friday, January 18, 2008 at the Auditing Section Meeting in Austin, Texas. The panel focused on current and forthcoming standards relating to engagement quality review. The panel session was moderated by Tom Kozloski. Panelists included Greg Scates (PCAOB), David Evans (PricewaterhouseCoopers) and Bill Messier (University of Nevada – Las Vegas).

### **The ASC in 2008 – 2009**

Randy Elder assumed the role of Chair of ASC for this fiscal year. Jim Bierstaker (Villanova University) will be Vice-Chair for the upcoming year and will Chair the ASC in fiscal 2009-2010. Bob Allen, Bob Ramsay, and Jay Thibodeau will rotate off the ASC, and Susan Parker (Santa Clara University), Larry Abbott (University of Memphis), and Steven Firer (Monash University – South Africa) will join the committee.

If you are interested in joining the ASC, please contact Audrey Gramling ([agramli1@kennesaw.edu](mailto:agramli1@kennesaw.edu)). If there are particular exposure drafts that you would like to see the ASC comment on, please let Randy Elder ([Rjelder@syr.edu](mailto:Rjelder@syr.edu)) know of your interest. If you cannot join the committee on a full time basis but would like to participate in the comment letter process for a particular exposure draft, please contact Audrey Gramling ([agramli1@kennesaw.edu](mailto:agramli1@kennesaw.edu)).

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## Snapshots from the Auditing Section Luncheon



**Shaun Budnik (incoming VP-Practice)  
delivering the Auditing Section luncheon speech**





**Attendees listening to Shaun Budnik deliver her luncheon speech**



**Mark Peecher (outgoing President)  
handing over the gavel to Audrey Gramling (incoming President)**



**Julia Higgs (outgoing Secretary)  
and Mark Taylor (incoming Treasurer)**



**Trevor Stewart (outgoing VP-Practice)  
and Urton Andersen (incoming VP-Academic)**



**Mark Peecher thanking Julia Higgs for her service as Secretary**

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## **Fifteenth Annual Midyear Auditing Section Conference**

Plan now to attend the Fifteenth Annual Auditing Midyear Conference (AMC) to be held in St. Petersburg, Florida on January 15-17, 2009. The Conference will be held at the Hilton St. Petersburg Bayfront Hotel, located in the waterfront district of downtown St. Petersburg. Downtown St. Petersburg is home to many of the finest cultural attractions in Florida, all conveniently located just outside the hotel's front doors.

The KPMG Foundation is generously sponsoring the Midyear Conference. The meeting format will be similar to previous years and will consist of keynote plenary speakers and concurrent sessions dealing with a wide variety of contemporary topics related to audit, attestation and assurance practices, education, and research.

This year's program will again include a pre-conference workshop session on Thursday afternoon titled "Audit Education Workshop." The first workshop last year was well received so we are continuing the tradition this year. The purpose of this Workshop is to bring together audit educators and leaders from the accounting profession to discuss emerging issues related to audit education for future generations of audit professionals. Our profession is facing many changes creating significant education challenges that affect not only undergraduate and graduate accounting curricula, but also life-long professional learning. The Auditing Section is hosting this Workshop to create a forum for the exchange of ideas and materials about current and future audit education needs. There is a \$25 registration charge for this Workshop, and there is a limit to the number of participants so pre-attendance registration will be required and limited.

The Friday morning plenary session will feature a presentation by Charles Holm, the Chief Accountant of the Federal Reserve Board's Division of Banking Supervision and Regulation, on the accounting implications of this fall's banking crisis for teaching and research. Mr. Holm advises Federal Reserve Governors and the Board on the implications of key accounting and reporting issues facing the financial industry. He oversees the accounting policy and regulatory report functions of the Division. He also is the senior Federal Reserve Board policy official responsible for domestic and international accounting, auditing, reporting, disclosure, and related internal control issues affecting the banking industry. Mr. Holm oversees the development of Board positions on major accounting and auditing issues and regulatory reporting proposals affecting the banking industry. Charley regularly interacts with senior representatives from accounting and audit standards-setters, bank and securities regulators, the banking industry, and accounting firms. Mr. Holm also serves as the Federal Reserve Board's representative to the Basel Committee's Accounting Task Force. In addition, Charley is a frequent speaker at banking industry conferences.

The Friday afternoon plenary session will feature a presentation by Oliver Halle, Diann Cattani, and Josh Kenyon from CorporateScaredStraight (for more information, see their website at [www.CorporateScaredStraight.com](http://www.CorporateScaredStraight.com)). Their presentation is titled "Taking the Harder Right" and discusses ethics, fraud prevention and anti-corruption based on their first-hand experiences. The conference also will include panel sessions by the Auditing Section's Education Committee, Research Committee, and Standards Committee related to topics such as global convergence of accounting and auditing

standards, how to prepare our students for this convergence, and potential research issues related to these and other changes in the profession. In addition, the Center for Audit Quality and representatives from several audit firms will be participating in a panel session discussing major challenges facing the profession and the Center for Audit Quality's efforts to address these issues.

Thanks to the generous support of the KPMG Foundation, the 10th Annual Auditing Section Doctoral Consortium will be January 15th, preceding the Midyear meeting. 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 (65), and a maximum of four students may attend from any one university. Students are advised to register early. Applicants will be accepted on a first-come basis. For further information on the application process, please see the announcement in this issue of *The Auditor's Report* and the Section's website.

Make plans now to join us in St. Petersburg next January!

Brian Ballou and Chris Hogan  
2009 Auditing Midyear Conference Co-Chairs

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## **2009 Auditing Section Doctoral Consortium In conjunction with the Auditing Section 2009 Midyear Conference**

**January 15, 2009  
Hilton St. Petersburg Bayfront Hotel, St. Petersburg, Florida**

The Auditing Section of the American Accounting Association, through the generous support of KPMG LLP, is sponsoring the Ninth Annual Auditing Section Doctoral Consortium on January 15, 2009. The Consortium will be held in the Hilton St. Petersburg Bayfront Hotel in St. Petersburg, Florida in conjunction with the Auditing Section's Mid-Year Conference (to be held January 16-17, 2009). 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. A maximum of four students may attend from any one university and 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 16-17) that follows the Consortium (January 15), the Midyear Meeting registration fee is \$25. Deadline for consortium and conference registration is **December 15**. 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 Hilton St. Petersburg Bayfront Hotel in St. Petersburg, Florida for Wednesday night (January 15) or (ii) a two-night, double-occupancy accommodation at the Hilton St. Petersburg Bayfront Hotel for Wednesday and Thursday night (January 15-16). 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 15. 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

There is expected to be a wait list. So, 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](mailto:office@aaahq.org)). Midyear Meeting cancellation requests received after December 15 will incur a \$25 cancellation charge. No refunds will be available for cancellations after January 5, 2009, 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](mailto: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 Mark Zimbelman via phone (801-422-1227) or email ([mz@byu.edu](mailto:mz@byu.edu)).

#### ***Auditing Doctoral Consortium***

<b>Time</b>	<b>Event</b>
7:30 am – 8:30 am	Breakfast
8:30 am – 8:45 am	Welcome
8:45 am – 9:45 am	Panel Session on Current Issues in Auditing
9:45 am – 10:30 am	Archival Research in Auditing
10:30 am – 10:45 am	Break
10:45 am – 11:30 am	Behavioral Research in Auditing
11:30 am – 12:15 pm	Experimental Economics Research in Auditing
12:15 pm – 1:15 pm	Lunch
1:15 pm – 2:15 pm	Panel on Issues in Publishing Research
2:15 pm – 3:00 pm	Small Group Breakout Sessions with Scholars
3:00 pm – 3:15 pm	Break
3:15 pm – 4:00 pm	Small Group Breakout Sessions with Scholars
4:00 pm – 5:00 pm	Panel on career advice
6:00 pm – 7:00 pm	Doctoral Consortium Reception
6:30 pm – 8:30 pm	Midyear Meeting Reception

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## ASB Update as of September 2008

**Doug Prawitt, Brigham Young University**  
**Member of the AICPA Auditing Standards Board**

This is my final update as a member of the Auditing Standards Board. Professor Mark Taylor of Creighton University will take my place as the academic board member as I complete my three-year term at the end of October. This has been a truly challenging and fulfilling experience, full of opportunities to network, learn, and grow, and to contribute back to the profession from which we all benefit so greatly as academics. I must say that I have been deeply impressed by the intelligence, integrity, and dedication to the public trust of my colleagues on the board. I congratulate Mark on his appointment, and I encourage others who may be offered the chance to serve on the board in the future to seriously consider the opportunity.

The ASB continues to move forward with an exceptionally ambitious agenda, and has scheduled extra meetings to deal with the demands of the ongoing "clarity project," as well as with a number of other important projects at various stages of development. In addition to providing an overview of some of these projects, in this update I report on some developments that I think will be of special interest to Auditing Section members: the board's proposed new preface to the body of auditing standards, titled *Principles Governing the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards*, and the proposed SAS, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

I would urge you to read these important proposed pronouncements and share your views directly with the ASB through comment letters or by contacting a member of the Auditing Section's Auditing Standards Committee.

### **Clarity Task Force Projects**

The clarity task force has aimed to clarify the SASs by, among other things, establishing an overall objective for each standard, separating requirements from application guidance, including definitions of difficult words in each standard, converging the standards with those issued by the IAASB, and enhancing the formatting to make the standards more readable. As part of this project, the clarity task force has created a proposed preface to the Codification of Statements on Auditing Standards, *Principles Governing an Audit*. I call particular attention to the principles outlined in this proposed preface (discussed below), because they will substantially modify the original 10 Auditing Standards we have all "grown up with." The task force has also drafted a proposed SAS, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards*. The ASB has voted both of these important documents out for exposure. While the implementation date of the proposed preface and SAS is not yet firmly established, the ASB estimates that it will be effective for financial statement audits beginning on or after December 15, 2010.

### **The Preface**

The proposed preface contains the new *Principles Governing an Audit Conducted Under Generally Accepted*

***Auditing Standards***, which will replace the original 10 Generally Accepted Auditing Standards. The original 10 standards are not up-to-date with the most recent changes in auditing standards (e.g., the risk assessment standards), nor are they of a consistent scope. For example, the six general and field work standards are broad in their application, whereas the reporting standards are much more specific. Furthermore, under the clarity project guidelines, each standard will include a statement of the broad, overall objectives of the standard. These objectives are meant to bridge the SAS requirements with the overall objectives of the audit, as laid out in the proposed SAS mentioned above (and discussed further below). Taken together, these statements of objectives are intended to serve the same function as the original 10 standards. However, in the context of the overall objective of the audit and the statement of objective for each SAS, the original 10 standards will be both partially incomplete and partially redundant. Thus, the proposed SAS does not contain the original 10 standards. In view of the continuing need in the legal and academic environments for a clear, concise overall explanation of what an audit is, the ASB developed its proposed ***Principles Governing the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards*** as a preface to the Codification of Statements on Auditing Standards. The principles laid out in this proposed preface include much of what was in the original 10 standards, but more consistently and comprehensively cover the purpose of an audit, the responsibilities of the auditor, the procedures for properly performing an audit, and the process of reporting audit findings.

### ***Proposed "Overall Objectives" SAS***

The proposed SAS, ***Overall Objectives Of The Independent Auditor And The Conduct Of An Audit In Accordance With Generally Accepted Auditing Standards***, would supersede various sections of SAS No. 1, ***Codification of Auditing Standards and Procedure***; SAS 95, ***Generally Accepted Auditing Standards***; and SAS 102, ***Defining Professional Responsibilities in Statements on Auditing Standards***. The SAS is based on the proposed ISA 200 (Redrafted and revised), ***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing***, in line with the ASB's objective of convergence with international standards. The proposed SAS is intended to give auditors a general view of their responsibilities when conducting audits of financial statements in accordance with GAAS. The statement also discusses the scope and authority of the generally accepted auditing standards as well as the auditor's responsibility to comply with those standards in all audits. The proposed SAS was voted out for exposure prior to the board's October meeting.

### ***Proposed SAS 114 (Redrafted)***

Proposed SAS 114 (Redrafted) requires auditors to communicate the risks, scope and timing of the audit with those charged with governance. The statement uses ISA 260 (Revised and Redrafted), ***The Auditor's Communication with Those Charged with Governance***, as a base in order to clarify and align the standard with the IAASB. The exposure period for proposed SAS 114 lapsed June 30 of this year, and the standard has been balloted for issuance as a final standard.

### ***Internal Control***

The ASB has also balloted for issuance final auditing and attestation standards relating to internal control. The proposed SAS will align the definitions of control deficiencies in AU section 325, ***Communicating Internal Control Related Matters Identified in an Audit***, with those in PCAOB's AS No. 5. The SSAE, ***An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements***, will closely align AT 501 with AS No. 5 and will limit its scope to integrated audits of internal controls and financial statements.

### ***Revision of AU 722***

This SAS is designed to amend AU section 722, ***Interim Financial Information*** (AICPA, ***Professional Standards***, vol. 1) because currently this section doesn't apply to the review of nonpublic entities. The SAS extends AU 722 to reviews of interim financial statements made by nonissuers with securities traded under SEC Rule 144A or other private equity exchanges. The amendment will also eliminate the guidance on the review of interim financial statements of issuers, as such guidance is now under the jurisdiction of the PCAOB. The proposed amendment was issued by the ASB as an exposure draft, with the comment period ending on November 3, 2008. The amendment would be effective for the interim



periods starting December 15, 2008.

### **Service Organizations**

The board has worked diligently to align the service organization standards with the International Auditing and Assurance Standard's Board's ISA 402, *Audit Considerations Relating to an Entity Using a Third Party Service Organization*. While the current AU Section 324, *Service Organizations*, includes guidance for both user and service auditors, the board has separated the guidance into a proposed SSAE that would give guidance for auditors providing reports on service organizations and a SAS that would contain guidance for user auditors. In its July meeting, the board voted both the SAS and the SSAE out for exposure.

### **Other Key Projects Not Yet Ready for Exposure**

The ASB is also in the process of considering a proposed SAS on fraud that would revise SAS No. 99, *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 316). The revisions would align the SAS with ISA 240 (Redrafted), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

Finally, the ASB is working on a number of other projects at various stages of development dealing with such issues as the audit risk standards, financial statements that are prepared for use in other countries, supplementary information, laws and regulations, and the auditor's report. Watch for future details as these proposals develop and mature. As always, you can find more specific information on the AICPA's website.

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# THE AUDITOR'S REPORT

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## GAO UPDATE

### Helping a New Administration and Congress with the Job Ahead

GAO is accustomed to supporting the new President, members of Congress, and appointees as a new administration arrives and a new congressional session opens. But the next administration and the 111th Congress take over the reins of governance at a crucial moment in U.S. history. The 2009 presidential transition will be a "critical period for the United States," Acting Comptroller General Gene Dodaro told the Government Oversight Subcommittee of Senate Committee on Homeland Security and Governmental Affairs. In September 2008 testimony before the subcommittee, he said, "Our nation faces a wartime presidential transition for the first time in 40 years. In addition, this will be the first post-9/11 transition, with a relatively new Department of Homeland Security grappling with the threats we face here at home while experiencing its first change in administration."

Mr. Dodaro went on to say that the nation's critical, long-term fiscal challenge is complicated by the turmoil in the housing and financial markets. The crisis has "renewed concerns," he said, "about whether the current system for overseeing and regulating financial institutions and markets is best suited to meet the nation's evolving needs and 21st century challenges." GAO plans to issue a report later this year on the evolution of the current regulatory structure and the challenges introduced by changes in the market. As part of this work, GAO is developing a framework to assist Congress in evaluating alternative regulatory reform proposals.

The core of GAO's contribution to the transition is its synthesis of information gathered and recommendations made in hundreds of audits and the analysis found in audit reports, special reports, and testimonies. A key report, updated with the start of each new Congress, is GAO's High-Risk list, which focuses attention on areas in need of broad-based transformation or susceptible to waste, fraud, abuse, and mismanagement. Also for the new Congress, GAO will develop a set of questions for use in Senate confirmation hearings for presidential appointees. And in briefings and other formats, GAO will emphasize the need for the administration and Congress to develop strategies for the long-term fiscal sustainability of the federal government.

GAO will be launching a Web site, to be mounted shortly after the election, to provide the new administration and Congress with easy access to transition information. The site will offer information on major challenges facing departments and agencies and will list all open recommendations from GAO audits. The site will also contain information on issues that cut across management and programmatic areas. Background information on the nation's long-term fiscal sustainability will be available to help members of Congress and the administration increase their understanding and prepare for action on the challenges facing the nation.

From its federal government-wide body of work, GAO will highlight for Congress and the administration, through multiple formats, certain areas of importance, such as

- improper payments in programs that include Medicaid, food stamps, unemployment insurance, and Medicare,
- DOD cost overruns and excess inventory,

- the long-standing problem that has resisted the efforts of Congress and the IRS—the difference between taxes legally owed and taxes paid on time, commonly known as the “tax gap,”
- on the war front, efforts in Iraq and Afghanistan and the Defense Department’s need to meet competing demands and make sound decisions in its investments as it reassesses the military’s readiness; also, the care of service members and veterans, including those wounded in action, many with multiple serious injuries and post-traumatic stress disorder,
- on the home front, challenges in securing the nation’s borders, enforcing immigration laws, and serving those applying for immigration benefits and in strengthening the nation’s critical infrastructure against acts of terrorism,
- health care and the spread of infectious diseases in the global environment,
- the splintered federal responsibility for food safety,
- the drain on the economy from gridlock in our transportation system and our dependence on fossil fuels, and
- lack of a comprehensive process to assess the nation’s capabilities for responding to manmade and natural disasters.

To address the nation’s multidimensional problems, GAO will call attention to the need for integrated solutions. One such solution is the National Response Plan, which establishes a framework for managing domestic incidents that require the involvement of many levels of government, the private sector, and nonprofit organizations.

In keeping with its truth-telling mission, Mr. Dodaro said, GAO hopes to ease the transition of the Congress and the executive branch with clear facts, constructive options, and suggestions that elected officials can use in making policy choices in a pivotal year.

### **Sharing and Working with Auditors around the World**

In this age of increasing globalization, GAO believes that transparency, accountability, and integrity are important in nations around the world, not just for the good of the individual nations but for all nations, including the U.S. The efficient functioning of the global marketplace requires nations to work together to harmonize standards and practices, and so GAO has for many years reached out to our international counterparts in meetings and discussions here at GAO and abroad.

Hundreds of international visitors come to GAO each year to obtain information on our audit practices and the impact of GAO’s work. Some come as participants in GAO’s International Auditor Fellowship Program, others as visitors. In turn, GAO officials and analysts reach out to their counterparts in other countries.

GAO’s annual International Auditor Fellowship Program, a 4-month intensive study course, is designed to strengthen the ability of supreme audit institutions (SAI) to fulfill their missions and to enhance accountability and governance worldwide. Since the program’s inception in 1979, over 375 mid- to senior-level officials from the SAIs of more than 90 countries have graduated from the program. Many of them have become Auditors General, Deputy Auditors General, or Government Ministers.

The Fellows program includes classroom instruction, on-the-job training, intergovernmental experience, and the development of strategies to implement change in SAIs. The fellows join in dialogues with international financial institutions; federal, state, and local government officials; congressional committee staff; inspectors general; internal auditors; and the media. Finally, a global forum is held for sharing experiences and best practices in auditing. Once the fellows have returned home, GAO continues to support their development with mentoring and post-program follow-up.

Hundreds of other international visitors come to GAO each year for information on audit practices and the results of GAO’s work. The information shared provides a valuable interchange of ideas and helps GAO to develop a wide network of international contacts. Recent visitors include the Auditor General of Japan, Auditor General of Ethiopia and the chair of the Ethiopian Parliament Public Accounts Committee, Inspector General of France, and members of the Swedish Parliament.

GAO staff also go abroad to learn from other countries and to share the U.S. experience. GAO attended a meeting of the European Congress of Auditors in Poland in June at which the President of Poland spoke. The topics of the meeting included enhancing audit quality, conducting audits of programs for the disabled in the workforce, and education.

Luxembourg was the location of a meeting with the European Union Audit Commission where GAO discussed transforming audit organizations for filling a broader accountability role beyond audit. GAO found its quality assurance program of great interest to the Europeans, particularly against the background of the European process, which includes a committee of representatives from 27 member nations.

GAO was also invited to give a presentation on acquisition law under the auspices of the United States Trade Representative in Beijing, China, and visited the Chinese National Audit Office while there. All of these overseas visits were paid for by the sponsoring organizations.

### **Independent Peer Review Teams Cite GAO's Best Practices**

Two independent peer reviews—one conducted by a team of international auditors, the other by one of the nation's leading accounting firms—have given GAO clean opinions on the design and implementation of its quality assurance systems. The international team, lead by the office of the Auditor General of Canada, examined GAO's performance audits. Canada led the audit team, which included Australia, the Netherlands, and the United Kingdom. The accounting firm KPMG LLP focused on GAO's financial audit work and attestation engagements.

Under Generally Accepted Government Auditing Standards, GAO is required to undergo an independent external assessment of its quality assurance systems every three years. The 2004 assessments of GAO's quality assurance system also provided a clean opinion. Those reviews were also led by KPMG and the Office of the Auditor General of Canada—with assistance from counterpart audit institutions in Australia, Mexico, the Netherlands, Norway, South Africa, and Sweden.

The reports from the international peer review and KPMG LLP are posted on the Internet at <http://www.gao.gov/about/review.html>.

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## PCAOB Standards Update

By Gary Holstrum, Thomas Ray, and Gregory Scates\*\*  
Prepared for *The Auditor's Report* (Fall 2008)

This update addresses selected PCAOB standards-setting developments since the [Summer 2008 Update](#) that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments discussed here relate to evaluating consistency of financial statements, engagement quality review, risk assessment, potential standards projects for 2009, input from federal advisory committees, research input to the standards-setting process, and other developments.

**Auditing Standard No. 6—Evaluating Consistency Of Financial Statements:** On September 16 the SEC approved [PCAOB Auditing Standard No. 6, Evaluating Consistency Of Financial Statements and conforming amendments](#) to PCAOB Interim Standards, which were adopted by the Board on January 29. This is the final step in the PCAOB standards-setting process. The new standard and conforming amendments were described in the [Spring 2008 Update](#) and will become effective 60 days after SEC approval. Pursuant to Section 107(b) of the Sarbanes-Oxley Act, a PCAOB standard or other rule that the PCAOB adopts becomes effective only after the SEC has published the item for public comment in the Federal Register, considered the related comments, and subsequently approved the item. [Notice of SEC approval of the standard](#) is available on the SEC website.

**Engagement Quality Review:** On February 26 the Board proposed for public comment a new auditing [standard on engagement quality review](#) and a conforming amendment to the Board's interim quality control requirements, which were described in the [Summer 2008 Update](#). The comment period for the proposed standard ended May 12 (see comments at [Rulemaking Docket 25](#)) and the PCAOB staff is working to complete revisions to the proposal based on comments.

**Risk Assessment:** The PCAOB staff is working on the development of a suite of potential risk assessment standards that in some form will likely address some of the following issues:

- Audit risk in an audit of financial statements
- Identifying and assessing risks of material misstatement
- Auditor's responses to the risks of material misstatement
- Audit planning and supervision
- Considering materiality in planning and performing an audit



- Audit evidence
- Evaluating audit results

**Potential Standards Projects for 2009:** Each year, the October meeting of the PCAOB Standing Advisory Group (SAG) typically addresses priorities for standards-setting projects for the subsequent year. The Board has reserved October 22-23, 2008, for the next SAG meeting. Readers are typically able to listen to live or archived Webcasts of SAG meetings and to view the meeting agenda and related support materials on the PCAOB web site a few days before the meeting. Some of the potential standards-setting projects that may be considered for 2009 include:

- Fair value measurements and the use of specialists
- Confirmations
- Related parties

**Input from Federal Advisory Committees:** On September 26 the U.S. Treasury Department's Advisory Committee on the Auditing Profession adopted its [final report](#), which includes recommendations related to the general areas of human capital, firm structure and finances, and firm concentration and competition as well as more specific recommendations concerning

- Enhancements in the auditor's standard reporting model and other improvements in the auditor's report
- Signing the auditor's report
- Establishing a national center at the PCAOB to provide a forum to share fraud detection experiences and improve audit quality
- Establishing and publishing audit firm audit quality indicators
- Compilation of SEC and PCAOB independence rules

The SEC's Advisory Committee on Improvements to Financial Reporting made a number of recommendations including a proposed framework and guidelines for evaluating judgments made by financial statement preparers and auditors. The proposed framework was discussed at the February 27 SAG meeting and in a related [Briefing Paper](#).

The PCAOB will carefully consider these recommendations because they may have an impact on the Board's oversight of auditors of U.S. public companies.

**Proposal and Roundtable on Reliance on Non-US Auditor Oversight Bodies:** The PCAOB hosted a roundtable on June 25 on a PCAOB proposal regarding the conditions under which it could rely on non-U.S. auditor oversight bodies in inspections of registered firms. Readers may listen to the [Webcast](#) of this roundtable and view the [proposal](#) and related [comments](#) on the proposal on the PCAOB Website.

**Impact of IFRS:** Accounting and auditing educators, students, researchers, practitioners, and financial regulators (including the PCAOB) are affected significantly by the recent decision by the SEC to allow foreign private issuers to file financial statements based on International Financial Reporting Standards (IFRS) without requiring reconciliation to US GAAP as well as its issuance of a proposed timeframe or "roadmap" for moving toward allowing US issuers to file financial statements based on IFRS instead of US GAAP. As an example of the immediate impact, almost 900 non-US firms are currently registered with the PCAOB and about 250 of these firms in over 50 countries audit issuers and are therefore subject to periodic inspections. Now that foreign private issuers are no longer required to reconcile their financial statements to US GAAP, PCAOB inspectors will be reviewing audits based on IFRS alone, which requires extensive training of PCAOB international inspectors. Of course, a move towards IFRS has tremendous implications for accounting and auditing education.

**Research Input to the Standards-Setting Process:** All of the standards-setting projects discussed above have benefitted significantly from organized input through the Auditing Section's PCAOB Research Synthesis Program regarding research that is relevant to each project. The attached report shows the status and publication information for all of the nine research synthesis projects as of September 30, 2008. We encourage readers who have recently completed research that is relevant to any of these projects (and that was not already included in the related research synthesis report) to email a copy of their research paper to the team leader of the related research synthesis team (listed in the status report), along with a brief summary of the implications of the research for the related PCAOB standards project. If you wish, you also may email a copy of these directly to us.

**\*\*Gary Holstrum** is a consultant in the PCAOB Office of Chief Auditor (formerly PCAOB Associate Chief Auditor and Director of Research).

**Thomas Ray** is PCAOB Chief Auditor and Director of Professional Standards.

**Gregory Scates** is PCAOB Deputy Chief Auditor.

Note the hyperlinks to the PCAOB Web site ([www.pcaobus.org](http://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-Setting Update articles in the [Spring 2005](#), [Summer 2005](#), [Fall 2005](#), [Spring 2006](#), [Summer 2006](#), [Fall 2006](#), [Spring 2007](#), [Summer 2007](#), [Fall 2007](#), [Spring 2008](#), and [Summer 2008](#) 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 [holstrumg@pcaobus.org](mailto:holstrumg@pcaobus.org).

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**PCAOB Research Synthesis Teams**  
**(With hyperlinks to published research synthesis reports)**

<b>Project Team</b>	<b>Team Leader</b>	<b>Project Team Members</b>	<b>Project Status (as of 9-30-2008)</b>
1. Audit Confirmations	Randy Elder (Syracuse)	Paul Caster (Fairfield) Diane Janvrin (Iowa State)	Completed report presented at AAA Auditing Section Mid-Year Meeting in January 2007 and conditionally accepted for forthcoming publication in <i>Auditing: A Journal of Practice and Theory</i> .
2. Audit Firm Quality Control	Jean Bedard (Bentley College)	Donald Deis (Texas A&M – Corpus Christi) Greg Jenkins (Va. Tech) Mary Curtis (U of North Texas)	Published 2 research synthesis articles (1) on Firm Culture & Governance in <a href="#">Behavioral Research in Accounting (2008, Volume 20:1)</a> & (2) Risk Monitoring in <a href="#">Auditing: A Journal of Practice and Theory in May 2008</a> .
3. Audit Reporting Model	Bryan Church (Georgia Tech.)	Susan McCracken (U of Toronto) Shawn Davis (Washington U)	Article published in <a href="#">Accounting Horizons in March 2008</a> .
4. Auditor Risk Assessments	Dana Hermanson (Kennesaw)	Bob Allen (Utah) Tom Kozloski (Wilfrid Laurier—Canada) Bob Ramsay (Kentucky)	Article published in <a href="#">Accounting Horizons in June 2006</a> .
5. Communications with Audit Committees	Arnie Wright (Boston College, now at Northeastern)	Jeff Cohen (Boston College) Lisa Gaynor (South Florida) Ganesh Krishnamoorthy (Northeastern)	Article published in <a href="#">Accounting Horizons in June 2007</a> .
6. Engagement Quality Review	Arnie Schneider (Georgia Tech.)	William Messier (Georgia State. Now at UNLV)	Synthesis article in <a href="#">Managerial Auditing Journal (2007, Vol 22, Issue 8)</a> . A related study published in <a href="#">Auditing: A Journal of Practice and Theory in November 2007</a> .
7. Fair Value	Roger Martin (Virginia)	Jay Rich (Illinois State) Jeff Wilks (Brigham Young)	Article published in <a href="#">Accounting Horizons in September 2006</a> .
8. Financial Fraud	Chris Hogan (Michigan State)	Zabi Rezaee (Memphis) Dick Riley (West Virginia) Uma Velury (Delaware)	Article accepted for forthcoming publication in <i>Auditing: A Journal of Practice and Theory</i> in Fall 2008.
9. Related Party Transactions	Elaine Henry (Miami)	Elizabeth Gordon (Rutgers) Tim Louwers (James Madison) Brad Reed (Southern Illinois)	Article published in <a href="#">Accounting Horizons in March 2007</a> . Follow-on study presented at Auditing Section Mid-Year Meeting in January 2007.



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## Have You Seen...?

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

**“Psychological Bonds and Their Impact on Behavioral Loyalty in Auditor-Client Relationships,”** by S. Kuenzel and E. Krolikowska, *Managerial Auditing Journal* (Volume 23, Issue 4, 2008): 328-344.

This paper examines the psychological bond from client executives towards audit firms. Of question is whether these bonds create loyalties with the auditor in the form of auditor continuance, purchasing of non-audit services, and positive word-of-mouth. Using structural equation modeling and information from questionnaires, the authors document a positive association between psychological bonds and the auditor-client relationships. The authors discuss the importance of having a better understanding about these bonds for client management and audit team assignment purposes.

**“The Influence of the Auditor’s Report on Investors’ Evaluations after the Sarbanes-Oxley Act,”** by S. W. Shelton and O. R. Whittington, *Managerial Auditing Journal* (Volume 23, Issue 2, 2008): 142-160.

Using a laboratory experiment, this paper investigates whether auditor opinions about internal control effectiveness influences investment analysts’ assessments about company risk and stock purchase recommendations. The authors investigated three conditions a) auditor’s unqualified opinion on management control assessments and internal control effectiveness, b) auditor’s unqualified report on management control assessments, but an adverse opinion on internal control effectiveness, and c) auditor’s adverse opinions on both management control assessment and internal controls effectiveness. The authors find that auditor’s opinions about internal control effectiveness provide information about investment risk. However, the author’s found no evidence that the auditors’ opinion regarding management’s assessment of internal controls impacted evaluations of investment risks.

**“An Examination of Contextual Factors and Individual Characteristics Affecting Technology Implementation Decisions in Auditing,”** by M. B. Curtis and E. A. Payne, *International Journal of Accounting Information Systems* (Volume 9, Issue 2, 2008): 104-121.

The authors investigate why computer-assisted audit techniques (CAATs) are often underutilized in public accounting, despite having the potential to increase efficiency and effectiveness of audit engagements. The authors assert that misalignment between the firm’s and employee’s goals lead to the underutilization of technology. Using technology acceptance and budgeting theories, the author’s find that the risk averseness of individual auditors increases the negative

impact of budget pressure on implementation of CAATs. However, the authors find that the presence of longer-term budgets and supervisor support mitigates underutilization of CAATs.

**“Audit Quality, Auditor Compensation and Initial Public Offering Underpricing”**, by X. Chang, A.F. Gygax, E. Oon, and H.F. Zhang, *Accounting & Finance* (Volume 48, Issue 3, 2008): 391-416.

This paper examines the impact of audit quality on auditor compensation and initial public offering (IPO) underpricing. Using a sample of Australian firms going public, the authors find that Big 4 audit firms earn higher fees and are positively associated with IPO underpricing. The positive relation is more pronounced for small issues, IPOs underwritten by non-prestigious underwriters, and those that are not backed by venture capitalists.

**“Does Auditor Reputation Matter? The Case of KPMG Germany and ComROAD AG”**, by J. Weber, M. Willenborg, and J. Zhang, *Journal of Accounting Research*, (Volume 46, Issue 4, 2008): 941-972.

This paper examines the stock and audit market effects associated with a widely publicized accounting scandal involving a public company (ComROAD AG) and a large, reputable audit firm (KPMG) in a country (Germany) that has long provided auditors with substantial protection from shareholder legal liability. The authors note that given the absence of a strong insurance rationale for audit quality, Germany permits a relatively clean test of whether auditor reputation matters. The results indicate that KPMG's clients sustained negative abnormal returns at events pertaining to ComROAD, and that a higher number of clients dropped KPMG in the year of the ComROAD scandal. The results provide support for the reputation rationale for audit quality.

**“Culture and Auditor Choice: A Test of the Secrecy Hypothesis”**, by O. Hope, T. Kang, W. Thomas, and Y.K. Yoo, *Journal of Accounting and Public Policy*, (Volume 27, Issue 5, 2008): 357-373.

This paper examines whether firms' auditor choice relates to national culture. The authors construct a novel measure of secretiveness based on cultural factors. Using a sample from 37 countries, the authors find that firms in “more secretive” countries are less likely to hire a Big 4 auditor. These results suggest that managements' auditor choice behavior relates to the national culture of secrecy/transparency.

**“An Examination of Auditor Choice using Evidence from Andersen's Demise”**, by K. Bewley, J. Chung, and S. McCracken, *International Journal of Auditing*, (Volume 12, Issue 2, 2008): 89-110.

This paper uses the Enron/Andersen scandal to examine the role of signaling in auditor choice. The authors examine whether differences exist between the Andersen clients that switched auditors soon after Enron declared bankruptcy versus those that stayed with Andersen until their auditor's license to practice was cancelled. The paper provides evidence that early Andersen switchers were more likely to initiate restatements of their financial statements than the late Andersen switchers. In contrast, the late Andersen switchers had more restatements imposed on them than the early switchers, suggesting their financial statements were of lower quality.

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## Using Articles from *Current Issues in Auditing* in Your Classes

**Dana R. Hermanson and D. Scott Showalter**  
**Co-Editors – *Current Issues in Auditing***

Over the past 18 months, we have been very encouraged by the quality of submissions to *Current Issues in Auditing* (CIIA). To date, we have published 15 papers (see <http://www.atypon-link.com/AAA/loi/cia>) and have four additional papers forthcoming for Issue 2 of 2008. We welcome your submissions and your ideas for commissioned commentaries, and we appreciate the quick and high-quality reviews done by our editorial board members and ad hoc reviewers.

We hope the academic community will appreciate the value of CIIA papers and will use them in their classes. All articles are freely available to anyone, and we believe student exposure to CIIA during their college years will promote increased usage of the journal's content by practitioners in the coming years. In addition, the content in the articles can help to facilitate bringing real world examples and experiences into the classroom. Below we provide a listing of CIIA papers, along with descriptions to help auditing educators identify potential uses of the papers in class.

	Article	Description
1	<b><i>Descriptive Evidence from Audit Practice on SAS No. 99 Brainstorming Activities</i></b> Jodi L. Bellovary and Karla M. Johnstone (2007 – Issue 1)	Based on interviews and observation, highlights actual SAS No. 99 brainstorming activities performed by auditors.
2	<b><i>A Top-Down Approach to Identification and Documentation of Critical Accounting Application Controls</i></b> Jerry L. Turner (2007 – 1)	Presents a model for documenting application controls that is consistent with AS 5's top-down approach.
3	<b><i>SOX Doomsday Predictions in Hindsight: Evidence from Delistings</i></b> Lizabeth A. Austen and Denise Dickins (2007 – 1)	Provides evidence that delistings, especially those attributed to SOX or the cost of being public, have not been very common since the passage of SOX.
4	<b><i>Audit Partner Rotation: Evidence of Changes in Audit Partner Tenure as the Result of Mandatory Regulation in Australia</i></b> Kirsty Ryken, Renee Radich and Neil L. Fargher (2007 – 1)	Examines the impact of mandatory audit partner rotation policies in Australia, with a focus on differences from voluntary practices.
5	<b><i>XBRL: Opportunities and Challenges in Enhancing Financial Reporting and Assurance Processes</i></b> James Gunn (2007 – 1)	Discusses issues related to XBRL adoption, including implications for providers of assurance services.

6	<b><i>The Sarbanes-Oxley Act of 2002—Restoring Investor Confidence</i></b> Michael G. Oxley (2007 – 1)	Provides Congressman Oxley's personal perspectives on the role of SOX in restoring investor confidence after the major accounting scandals.
7	<b><i>Top 10 Wish List for Audit Research</i></b> Edward E. Nusbaum (2007 – 1)	Provides the Grant Thornton LLP leader's views on valuable research topics for auditing academics to pursue; may be especially useful for doctoral students.
8	<b><i>Academic Research on Communications Among External Auditors, the Audit Committee, and the Board: Implications and Recommendations for Practice</i></b> Jeffrey Cohen, Lisa Milici Gaynor, Ganesh Krishnamoorthy and Arnold M. Wright (2008 – 1)	Highlights academic research on communications among auditors, the audit committee, and the board, and offers implications for practitioners.
9	<b><i>Estimating Audit Fees Post-SOX</i></b> Denise E. Dickins, Julia L. Higgs and Terrance R. Skantz (2008 – 1)	Based on interviews with auditors, provides insights into factors considered in audit pricing decisions and how audit pricing has changed since the passage of SOX.
10	<b><i>Human Capital Challenges Facing the Public Company Auditing Profession</i></b> Joseph V. Carcello (2008 – 1)	Discusses the quantity and quality of accounting students and faculty, as well as offers a possible alternative model for auditing education – the professional school of auditing; may be especially useful for doctoral students.
11	<b><i>Conversations with the Big 4 Accounting Firms' Chief Executives</i></b> Ira Solomon (2008 – 1)	Presents a host of insights from interviews with the Big 4 firms' chief executives. Topics include "Auditing, Regulation, and the Firms; the State and Future of the Public Company Auditing Profession; Auditing Practice, Research, and Education; and Personal Reflections"; may be especially useful when discussing the future of the auditing profession.
12	<b><i>Perspectives on the Auditing Profession Part I: The Practicing Profession</i></b> Andrew D. Bailey, Jr. (2008 – 1)	Provides the author's personal reflections on audit practice, including the importance of audit quality and the business model of auditing firms.
13	<b><i>Perspectives on the Auditing Profession Part II: The Academic Profession</i></b> Andrew D. Bailey, Jr. (2008 – 1)	Provides the author's personal reflections on audit academe, including practitioner recommendations to academe and challenges facing the academic community; may be especially useful for doctoral students.
14	<b><i>The Value of Faculty Internships in Auditing</i></b> Terri L. Herron and Marc M. Morozzo (2008 – 2)	Describes the first author's faculty internship from the perspective of the faculty member and the sponsoring firm; may be especially useful for doctoral students or academics considering a faculty-in-residence opportunity.
15	<b><i>Deficiencies in Auditing Related-Party Transactions: Insights from AAERs</i></b> Timothy J. Louwers, Elaine Henry, Brad J. Reed and Elizabeth A. Gordon (2008 – 2)	Examines the role of RPTs in apparent audit failures and concludes that auditor failure is due to limited skepticism and due care rather than deficiencies in auditing standards.
16	<b><i>The SEC's XBRL Voluntary Filing Program on EDGAR: A Case for Quality Assurance</i></b> J. Efrim Boritz and Won Gyun No (2008 – Forthcoming)	Examines XBRL filings under the SEC's Voluntary Filing Program (VFP) and finds "persistent and increasing quality control and assurance issues pertaining to the XBRL-Related Documents furnished under the VFP". The authors provide insights into future steps to promote the reliability of XBRL filings.

17	<b><i>Auditing Standards Committee Comment Letter PCAOB Rulemaking Docket Matter No. 025: Proposed Auditing Standard - Engagement Quality Review</i></b> Thomas M. Kozloski, Robert D. Allen, Randal J. Elder, Ed O'Donnell, Robert J. Ramsay, Sandra Shelton and Jay Thibodeau (2008 – Forthcoming)	This is the first Auditing Standards Committee comment letter to be published in CIIA. Future comment letters will appear in CIIA and may be especially useful in graduate classes where students evaluate proposed auditing standards.
18	<b><i>The Accounting “Circle of Life”</i></b> Shaun Budnik (2008 – Forthcoming)	Provides the Deloitte Foundation President’s views on the interplay between practice and academe, with particular focus on research, the talent pipeline, and regulations.
19	<b><i>Audit Quality in the Post-Sarbanes Audit Environment: What Auditing Students Must Know about the PCAOB Inspection Process</i></b> Richard R. Riley, Jr., J. Gregory Jenkins, Pamela Y. Rousch and Jay C. Thibodeau (2008 – Forthcoming)	Provides a helpful primer for faculty who are preparing to cover the PCAOB inspection process in class.

Thanks to the leadership of the Auditing Section and the AAA for their continuing support of CIIA. If you have any questions about the journal, or if you would like a copy of a forthcoming paper listed above, please feel free to contact us ([dhermans@kennesaw.edu](mailto:dhermans@kennesaw.edu)).

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## Call for Volunteers!

**If you would like to volunteer as a moderator or discussant for the 2009 Auditing Section Midyear Meeting to be held in St. Petersburg, Florida from January 15-17, please send an email to Brian Ballou and Chris Hogan at [AMC2009@bus.msu.edu](mailto:AMC2009@bus.msu.edu). Thank you!**

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## IS Audit and Control Virtual Cases

A major problem in auditing education is giving the student the experience of actually auditing a company. In the IS audit, this experience includes access to a system and auditing of the system. To give the student some real world experience, with the gracious support of the PwC Foundation [which is not responsible for any errors], we developed a group of cases. The purpose is to have the student access client computers, use software to evaluate the controls in place, and write reports of what they found and their evaluation of the controls in place. VMware is used to create virtual personal computers that are part of a virtual system so that the student can operate in a safe environment where any errors will not matter. Virtual systems are commonly used by developers as a test environment for the same reason. If you encounter problems or have comments, let us know and we will attempt to solve the problem. Please direct questions to [isaudit@vt.edu](mailto:isaudit@vt.edu) or to Sam Hicks, at [shicks@vt.edu](mailto:shicks@vt.edu).

The IS Audit & Control DVD includes nine virtual cases. We should note that 110 copies of these cases were distributed at the 2008 AAA Annual Meeting in Anaheim, CA in August, 2008. Also, another 70 DVDs were distributed in September to professors requesting the cases. The cases include the following topics:

- 1) Installation of VMware
- 2) Install/Configure Windows Server 2003 Virtual Machine
- 3) Segregation of Duties
- 4) Change Management
- 5) Auditing Windows Security
- 6) Auditing Linux Security
- 7) Password Auditing
- 8) Compensating Controls
- 9) Web Application Security

If you would like to request a copy, please send an e-mail to Sam Hicks at [shicks@vt.edu](mailto:shicks@vt.edu).

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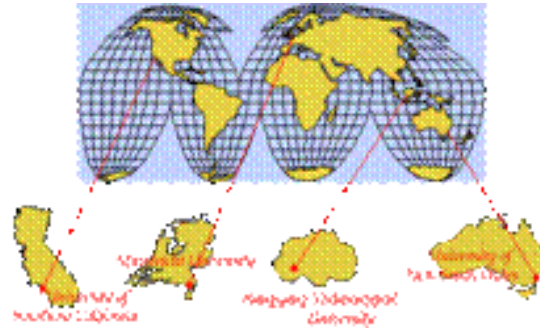




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## Call for Papers-ISAR 2009

**15th Annual International Symposium on Audit Research  
Maastricht, The Netherlands  
June 26 and 27, 2009**

The 15th Annual International Symposium on Audit Research (ISAR) will be hosted by Maastricht University on June 26 and 27, 2009 in Maastricht, The Netherlands. ISAR is jointly organized by the University of Southern California (USA), Maastricht University (Netherlands), Nanyang Technological University (Singapore), and the University of New South Wales (Australia). The symposium will be held at the Crowne Plaza Maastricht.

### 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.

### 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 should be submitted electronically in Adobe Acrobat or Word formats. Papers and, where appropriate, related research instruments must be received by January 31, 2009 and should be sent to: [papers@isarhq.org](mailto:papers@isarhq.org).

### Further Information

If you have questions about paper submission please email to [papers@isarhq.org](mailto:papers@isarhq.org). For questions about the symposium please contact Ted Mock at [tmock@ucr.edu](mailto:tmock@ucr.edu) or Roger Meuwissen at [r.meuwissen@aim.unimaas.nl](mailto:r.meuwissen@aim.unimaas.nl). Further information is also posted on the ISAR website at [www.isarhq.org](http://www.isarhq.org) where you can also register for email updates on ISAR 2009.

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